TEACHERS' PENSION PLAN ONTARIO

AN EVOLVING PLAN

2012 ANNUAL REPORT

About Ontario Teachers' Pension Plan

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

Ontario > TEACHERS'™ PENSION PLAN ONTARIO < OTF Your Voice. Your Strength. Ontario Teachers' Federation

WHAT DO THE SPONSORS DO?

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

WHAT DOES TEACHERS' DO?

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

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2012 Highlights

As demographic and economic factors continue to drive recurring funding shortfalls, the sponsors' filing of a balanced 2012 valuation and their commitment to study solutions to long-term funding issues demonstrated the plan's determination to evolve to ensure members' pensions are sustainable and affordable. In 2012, Teachers' was again recognized as a global leader in long-term pension investment and service performance.

STATE OF THE PLAN

$5.1 billion – Gap between projected assets and liabilities

97%

Long-term plan funding status at January 1, 2013

INVESTMENTS

$129.5 billion

Net assets at December 31, 2012

13.0%

Rate of return for 2012

9.6%

10-year annualized return

$14.7 billion

Investment income for 2012

MEMBERS

Service satisfaction rating

9.1/10

Members served:

Active 179,000

Retired 124,000

Report from the Chair

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

It is a pleasure to open my annual report message this year with the news that the sponsors have made a decision to file a balanced valuation as of January 1, 2012. The changes that result and the further work they have committed to undertake represent a major step forward in assuring the plan's long-term funding stability.

The 2012 filing brought the plan's assets and liabilities into balance with a more flexible approach to the inflation protection guarantee. This change is two-fold: first, for service earned after December 31, 2013, inflation protection will be 100% conditional on the affordability of the benefit, based on the plan's funding position. With that step taken, the second step was to determine what level of protection can be offered to bring the plan into balance as of January 1, 2012. To balance the funding valuation, the sponsors reduced inflation payments for service earned after 2009 to 50% beginning January 1, 2014, and 45% for service earned after 2013, beginning January 1, 2015.

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

Additional plan changes required

The sponsors and the plan have established a task force to study, and recommend possible solutions to, the demographic issues facing the plan. Dr. Harry Arthurs, professor at York University and former chair of the Ontario Expert Commission on Pensions, is facilitating the task force's deliberations. Members will be surveyed in 2014 to determine what changes they would prefer to see as the plan evolves to address these issues.

In considering the issue of demographics, we have to look at how the increasing longevity of pensioners affects the younger generation of teachers. Intergenerational risk is the funding risk posed by the plan's mature demographic profile. This risk is borne by newer teachers, as most of their service is in the future, when benefits to be earned could be lowered and the contribution rate they pay could increase. The plan needs to identify ways to reduce costs created by the current imbalance between years worked and years on pension, due to increased longevity – members now contribute to the plan for 26 years on average and are retired for approximately 31 years. Our plan is not alone in this demographic reality. We just happen to be at the leading edge of the issue.

With the changes implemented to facilitate the 2012 filing, the sponsors are helping to better manage the plan's risks. These decisions are all the more laudable, occurring as they did in a period of considerable political and economic uncertainty.

Rate of return and service excellence continue

Congratulations also are due to plan employees for their excellent 2012 rate of return and service results. Net assets have now surpassed $129.5 billion, driven by a 13% rate of return, and service levels continue to lead the global pension plan community.

It is our responsibility as board members to ensure that the plan is managed in the best interests of all members – retired, working and future.

Teachers' has an excellent track record of good results. But past achievements do not guarantee future success. With that in mind, in 2012 our CEO Jim Leech led the development of the next phase of Teachers' long-term strategy. This intensive exercise, in which board members and senior management were fully engaged, produced a clear plan setting out what Teachers' needs to accomplish over the next five years to continue to support ongoing pension security.

Strong risk management remains the board's top priority. We have approved changes to our asset mix and risk systems that have enabled the investment team to diversify and protect assets as much as possible after 2008, while still seeking new investment opportunities that fall within the plan's risk tolerance. We are pleased to see a high level of collaboration across the organization, which reduces risk and underscores a recognition that working together leads to better long-term performance.

Board members are making every effort to ensure we understand growing and latent risks in the world today, and how the pension plan could be affected by them. Our strong international brand has positioned us as thought leaders on such issues as service and investment innovation, responsible investing and funding sustainability. This leadership enables the board to attract world-class resources to address us and further cultivate our understanding. For example, in 2012 we welcomed investment experts from China and India to give us a clearer picture of the risks and opportunities inherent in these emerging markets as the world's economic power balance shifts.

Continuing to build for tomorrow

Our governance priorities are clear, and the plan is well managed and prepared for the future; we are working hard to insulate plan members from large risks that exist within the plan and in the economic environment today.

Board members are strongly encouraged by the sponsors' commitment to work through two key issues still facing the plan: the added cost caused by the imbalance between years worked and years on pension, and intergenerational risk. While the preliminary valuation as of January 1, 2013, shows that the plan is 97% funded, the next filing is not required until 2016 and it will be based on the valuation at that time.

With the 2012 filing, the sponsors have recognized that an evolved defined benefit pension plan is the most logical model for today and one that offers our members continued pension security. Management and board members are pleased to work with them to ensure the plan's sustainability far into the future, and look forward to continued productive discussions in the coming year.

Report from the CEO

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

The pension plan performed well in 2012. Service satisfaction ratings by our members reached their highest level since 2005. We ended the year with a Quality Service Index (QSI) score of 9.1 out of 10.

The investment team navigated significant risks and turmoil in the global economy to earn an excellent 13% rate of return. Investment income totalled $14.7 billion and net assets grew to $129.5 billion. Our performance exceeded our fund benchmark by two percentage points, or $2.2 billion. These extra returns directly support the goal of pension security. Our 10-year annualized return is 9.6%.

Jim Leech, MBA, ICD.D
President and Chief Executive Officer

Our investment and service performance were both recognized again as world leading in a survey by CEM Benchmarking Inc., an independent authority on pension fund benchmarking. The plan's 10-year total returns rank highest among global fund peers, and we were number one in value added for the same period. We also ranked first among our international peers for exceptional pension service.

Dedicated to pension security and service

Our success at Teachers' comes from a commitment to our members that we will be the best in our industry by doing the right things every day to enhance pension security and service. In keeping with our commitment, we refined our corporate strategy last year, ensuring that every division, department and individual at Teachers' is aligned to our mission: *Outstanding service and retirement security for our members – today and tomorrow.*

With input from board members, senior leaders and teams across the organization, we envisioned what our business should look like in the future and what it will take to enable our teams to move ahead without adding undue risk to the plan's operations. As a result, we aligned our investment, service and operational strategies into one integrated five-year plan.

We have deliberately increased our focus on Enterprise Risk Management in recent years, including plan-wide education programs for all employees. And with the Enterprise Risk Management framework that has been formalized and refined since the 2008 financial crisis, everyone at Teachers' is accountable for risk management.

Our heritage as the birthplace of the Canadian pension plan model serves us well at home and globally. Our unique governance structure enables our direct investing success. It has allowed us to assemble a team of in-house investors that is second to none, which scours the world for the best investments for Teachers'. While the competition for quality assets and employees has never been tougher, our resolve to attract and win both has never been stronger. A disciplined adherence to a series of investment beliefs that the team has long held is a large part of this success.

As I noted earlier, our pension administration business also continues to turn in excellent results. This was an outstanding achievement during a challenging year characterized by a 26% increase in retirements, the implementation of reduced inflation protection for post-2009 service, and the implementation of numerous plan and regulatory changes. You might think the team would be content with this success; on the contrary, they have adopted a new strategy to build client service programs focused on Simplicity, Insight and Personalization, to ensure that they maintain this excellence on behalf of members.

An evolved pension model

The milieu in which we operate our businesses has changed significantly over the years. One of the biggest changes in Canada's pension landscape is the decline in the number of defined benefit (DB) pension plans. This is unfortunate and in many ways short sighted, because it shifts the burden of risk onto the employee. At Teachers', we believe that evolved DB pensions are the best vehicle for providing adequate and predictable retirement income at a reasonable cost, especially as life expectancy increases. At the same time, we also recognize that the model must be sustainable – that the cost of benefits must be equal to affordable contributions plus realistic expectations for investment returns – and that it needs to be able to deal with major economic downturns and changing factors that affect pension costs. In other words, we believe the DB model is the best, but it needs to evolve to remain relevant as economic and demographic conditions change.

With this in mind, our sponsors took a major step forward in ensuring our plan's evolution and ongoing viability with the changes they announced in filing the balanced 2012 valuation. They added flexibility and committed to studying and recommending solutions to other outstanding funding issues – the cost of the imbalance between years worked/retired and intergenerational risk. In so doing they pave the way for changes for the better: an affordable and viable plan, equipped to meet the evolving needs of our membership.

We look forward to working together for continued success and progress.

Management's Discussion & Analysis

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

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

PLAN OVERVIEW

The Ontario Teachers' Pension Plan (Teachers') administers the pension benefits of Ontario's 179,000 elementary and secondary school teachers and 124,000 pensioners. A pension plan was created for Ontario's educators in 1917. It was administered by the Teachers' Superannuation Commission of Ontario until 1990. At that time, the Ontario government established the Ontario Teachers' Pension Plan Board as an independent organization. At Teachers' inception in 1990, the pension plan was primarily invested in non-marketable Province of Ontario debentures. The new organization was given authority to diversify the plan's holdings and administer the plan. Today, we have more than 900 employees in Toronto, Ontario and London, U.K.; and an office in New York City. Plans are underway to open an office in Hong Kong in mid-2013.

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

- the benefits the plan will provide;
- the contribution rate paid by working teachers, which is matched by the government and designated employers; and
- how any funding shortfall is addressed and any surplus is used.

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

Mission

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

Senior Management

VISION AND VALUES

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

This means being:

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

We are guided by our core values:

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

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

MANAGEMENT'S ROLE

The employees of the pension plan have three responsibilities:

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

Fulfilling our responsibilities requires highly skilled and experienced investment professionals and pension experts who understand risks and how to manage them. We must set the right long-term strategies that take pension demographics and economics into account.

We consider a number of factors, including the needs of plan sponsors, as we set our long-term strategies for investments and member services.

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

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

State of the Plan

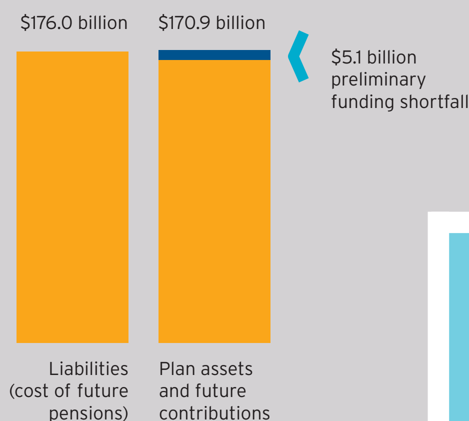
We measure our assets against our liabilities looking out more than 70 years to calculate the annual preliminary funding valuation. While the sponsors addressed the $9.6 billion 2012 preliminary deficit, primarily by adjusting future inflation protection, we began 2013 with an estimated shortfall of $5.1 billion.

Recurring funding deficits are primarily due to demographic and economic factors, which increase projected liabilities. The ratio of working-to-retired members is decreasing, and increased longevity means many members are collecting a pension for more years than they worked. Low interest rates require the plan to set aside more money for future pensions, and uncertain markets can lead to volatile investment returns.

As part of the 2012 filing, the plan sponsors committed to studying potential solutions to recurring deficits and assuring long-term funding stability.

YEARS WORKED COMPARED TO YEARS ON PENSION
(average)

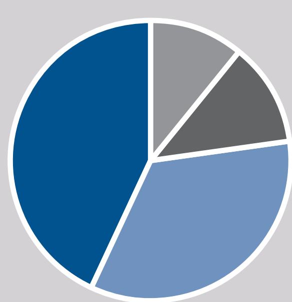
PRELIMINARY FUNDING VALUATION
(as at January 1, 2013)



13.1%
Member salary contribution rate beginning in 2014

$4.9 billion
in benefits paid to members in 2012

PENSION FUNDING SOURCES SINCE 1990



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

*Includes 1% original plan deficit funding.

PROTECTING RETIREMENT SECURITY

The plan is designed to deliver pension benefits to retired members for life. Achieving this goal requires collaboration and consensus between OTF and the Ontario government. As sponsors of the pension plan, OTF and the government are responsible for funding decisions, including the plan's contribution rates and benefits.

Since 1990, members' pensions have been 77% funded by investment income generated by the plan.

Pension plan sustainability

The pension plan has been facing recurring funding shortfalls since 2003. Despite strong investment returns, future pension costs are growing faster than plan assets, due primarily to low interest rates and increasing life expectancy.

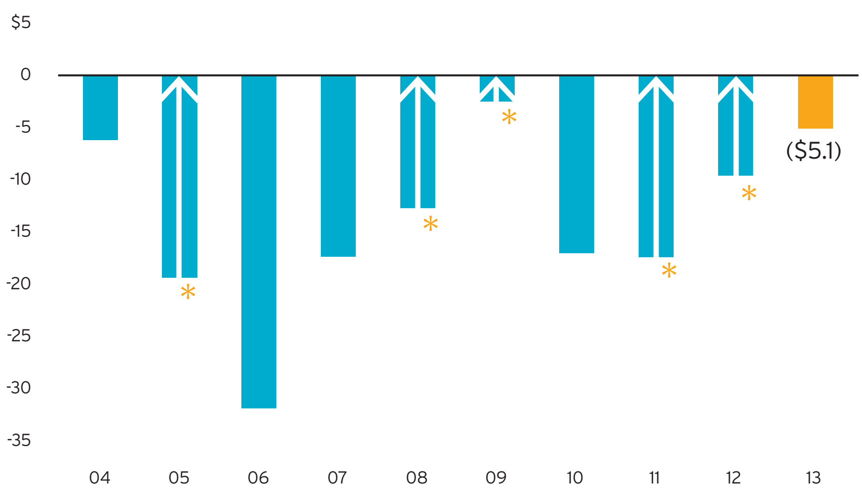
The pension plan is also affected by plan maturity – a high proportion of retirees to working teachers. In this situation, contribution increases become less effective as an instrument for absorbing funding shortfalls and investment losses, should they occur. This, in turn, restricts the amount of risk the plan's investment managers can take to earn returns.

The pension plan must continue to adapt to these demographic and economic realities to remain sustainable, at affordable contribution rates, over the long term. The sponsors' decision in early 2013 to make inflation protection for future pension credit fully conditional on the plan's funded status represents a significant step in assuring the plan's long-term funding stability.

Keeping pension benefits fully funded

Balancing plan assets and the cost of future benefits is an ongoing objective for OTF and the Ontario government. Funding valuations are conducted each year to assess the plan's long-term financial health. The valuation shows whether the plan has a surplus, a shortfall or sufficient assets to cover future pensions for all current members.

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



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

Pension plan evolution

Teachers' has co-produced a video documentary that examines how pension plans around the world are changing to stay ahead of challenges. It is available on otpp.com.

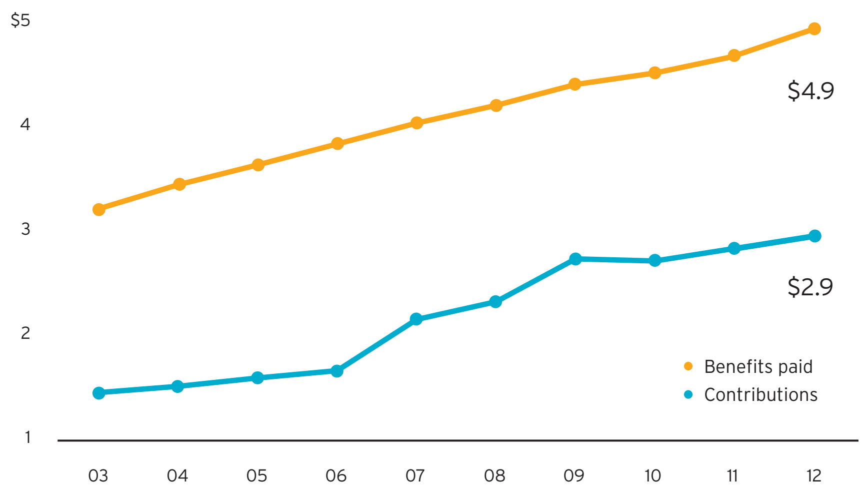
Despite contribution and benefit changes and strong asset growth, funding shortfalls have been recurring for many years.

Benefit payments exceeded contributions from members, the government and designated employers by $2 billion in 2012.

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

A funding valuation must be filed with Ontario's pension regulator at least every three years. If a funding shortfall is projected, OTF and the Ontario government must address it before submitting a valuation to the regulator. OTF and the government jointly decide how to address funding shortfalls and whether to file the plan's funding valuations in those years when a filing is not mandatory.

CONTRIBUTIONS VS. BENEFITS PAID
(for the years ended December 31) ($ billions)



CALCULATING THE PLAN'S FUNDING POSITION

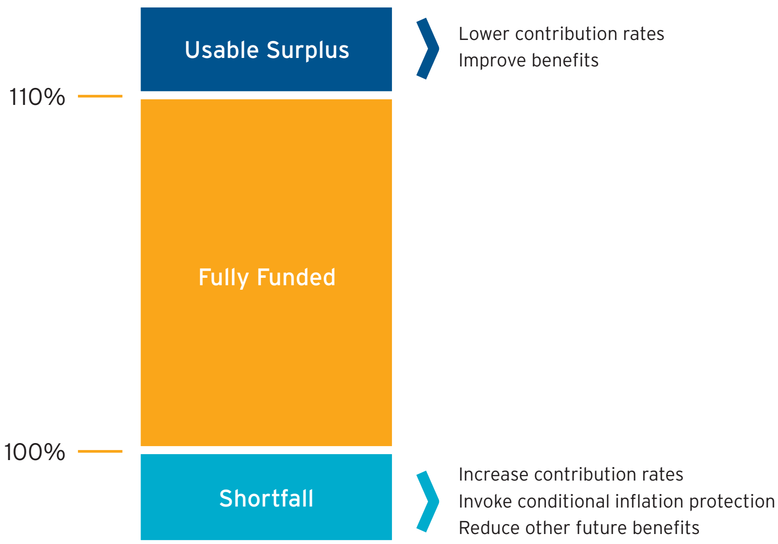
The plan sponsors adopted a Funding Management Policy in 2003 to guide decisions on when to use surplus funds and how to address funding shortfalls. If plan assets are equal to, or up to 10% greater than, the cost of future benefits, plan changes are not required. The 10% threshold is intended to create a buffer in good times to cushion the plan when economic conditions are less favourable. When assets exceed future benefits by more than 10%, the surplus can be used to lower contribution rates, improve benefits, or a combination of the two.

When the cost of future benefits is greater than plan assets, the plan has a funding shortfall. To address a shortfall and rebalance the plan, the sponsors can:

1. increase contribution rates;
2. adjust inflation protection for pension credit earned after 2009;
3. reduce other future benefits; or
4. use a combination of these three measures.

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

The value of accrued pension benefits is protected under current Ontario law. Accordingly, the plan sponsors' Funding Management Policy contemplates changes to future benefits only. The current maximum contribution rate in the Funding Management Policy is 15% of members' base earnings above the Canada Pension Plan (CPP) limit. The CPP limit is $51,100 in 2013. Member contributions are matched by the government and designated employers.



What is a funding valuation?

- An independent actuary's assessment of the plan's long-term health (70+ years)
- Using assumptions, it projects whether the pension plan has sufficient assets to cover the cost of future pension benefits for all current members
- Plan sponsors use funding valuations to set contribution and benefit levels

FUNDING STATUS

2012 funding shortfall resolved

OTF and the Ontario government jointly decided to file the plan's 2012 funding valuation, two years earlier than required. The $9.6 billion preliminary funding shortfall projected at January 1, 2012, was subsequently increased primarily due to changes in mortality assumptions, and then reduced by the impact of the two-year salary freeze imposed by Bill 115. The sponsors resolved this shortfall and their action left the plan with a $200-million surplus. The earlier filing was made in the best interests of members and taxpayers because projected low interest rates were expected to result in larger future shortfalls that would require potentially larger plan changes.

The plan sponsors made two changes to resolve the 2012 preliminary funding shortfall:

1. They eliminated the guarantee of inflation protection for pension credit earned after 2013.
2. They set slightly smaller annual inflation increases for pensioners who retired after 2009.

In response to the change in the inflation provision, the resulting reduction in funding risk and the sponsors' agreement to continue efforts to address demographic and intergenerational risk challenges, the board increased the discount rate assumption used in the filed valuation. The increase reflected the board's recognition that future pensioners will be subject to the new provisions and will share the risk with working teachers. The higher discount rate reduces the current estimate of future liabilities, thereby improving the plan's current funded status.

Zero to 100% inflation protection introduced

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

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

Inflation protection is now based on three periods of credit:

The cost of living is measured by changes in Statistics Canada's consumer price index (CPI). The new inflation provision gives the sponsors increased flexibility to manage funding shortfalls when they arise.

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

Providing smaller pension increases for recent retirees

The plan sponsors set the annual level of inflation protection for pensioners for post-2009 credit, based on the plan's funded status.

As part of the 2012 shortfall agreement, OTF and the government set the level of inflation protection at:

- 50% of the CPI increase for pension credit earned during 2010–2013; and
- 45% of the CPI increase for pension credit earned after 2013.

The Ontario government and designated employers will make extra payments to the pension plan equal to the total annual inflation increases that retirees forgo up to 50% of actual inflation. No extra payments will be made for forgone inflation increases below the 50% level.

If the plan is in a surplus position in the future, the plan sponsors can restore inflation protection on a go-forward basis to reflect previously unrecognized inflation.

Discount rate increased

The discount rate assumption plays a key role in determining whether the pension plan has enough assets to meet its future pension obligations. It is derived from the expected rate of return on investments. From this are subtracted the cost of running the plan along with provisions for major adverse events, such as the 2008 financial crisis and the tech bubble in 2001.

The pension plan board used a 3.1% discount rate assumption for the 2012 funding valuation which was filed with the provincial pension regulator. It had assumed a 2.85% discount rate in the 2012 preliminary valuation. Increasing the discount rate by 0.25% lowered the estimated current value of the plan's future liabilities and reflected, in part, the reduced funding risk resulting from the sponsors' decision to remove guaranteed inflation protection for future pension credit.

The plan sponsors can request independent reviews of the board's discount rate assumption. Donald Smith, an actuary with Western Compensation and Benefits Consultants, was appointed by the sponsors and the board as the Hearing Officer to review the 2.85% discount rate used in the 2012 preliminary funding valuation. He found that the board's assumption was acceptable and recommended a discount rate no higher than 2.95%, based on current benefit guarantees and the plan's risk profile.

The Hearing Officer further recommended the board adjust the discount rate if the sponsors made inflation protection for future pension credit fully conditional on the plan's funded status. The board adopted this recommendation in the 2012 filed valuation after the sponsors' decision.

The board's discount rate has been independently reviewed three times in the past five years, and each time was confirmed to be valid and reasonable.

Other filing agreement changes

The 2012 filing agreement between OTF and the Ontario government also includes a commitment to work together to address the plan's continued demographic challenges by:

- finding ways to reduce the costs related to the imbalance between the average years members work (26) versus collect a pension (31);
- surveying teachers in early 2014 to determine preferences for additional pension changes required to address this demographic challenge; and
- researching ways to mitigate intergenerational risk.

Dr. Harry Arthurs, professor and past-president of York University, and former chair of the Ontario Expert Commission on Pensions, will facilitate these deliberations. Dr. Arthurs is familiar with the sponsors and the plan, having facilitated the Sustainability Working Group in 2009-10.

A history of plan funding decisions is found on page 107.

FUNDING VALUATION SUMMARY
(as at January 1) ($ billions)

	2012 Preliminary	2012 Filed	2013 Preliminary
Net assets available for benefits	$ 117.1	$ 117.1	$ 129.5
Smoothing adjustment	(3.0)	(3.0)	(8.2)
Value of assets	**$ 114.1**	**$ 114.1**	**$ 121.3**
Future basic contributions	37.6	35.4	37.0
Future special contributions	3.6	3.3	3.5
Future matching of CIP benefit reduction	6.8	7.3	9.1
Total assets	**$ 162.1**	**$ 160.1**	**$ 170.9**
Cost of future pensions	(178.5)	(167.6)	(185.7)
Reduction in cost due to less than 100% indexing	6.8	7.7	9.7
(Deficit)/surplus	**$ (9.6)**	**$ 0.2**	**$ (5.1)**
Assumptions (percent)			
Rate of return	5.05	5.30	5.00
Inflation rate	2.20	2.20	2.25
Discount rate	2.85	3.10	2.75

Funding valuation assumptions

Funding valuations use a number of assumptions to project the value of future pension plan liabilities. The plan's independent actuary must make assumptions about the future inflation rate, salary increases, age at retirement, life expectancy and other factors.

Valuation assumptions change over time. While actual experience tracks most assumptions closely, annual fund returns typically fluctuate significantly compared to the assumptions. The plan's demographic assumptions were reviewed and revised in 2012, including the adoption of an updated teacher mortality table that captures the recent experience of Ontario teachers.

The above table shows assumptions used in the 2012 preliminary valuation, the 2012 filed valuation and the 2013 preliminary valuation. Only valuations filed with the Ontario pension regulator require action to keep the plan balanced.

Funding shortfall projected at January 1, 2013

The plan's funding valuation showed a preliminary shortfall of $5.1 billion at January 1, 2013. Net assets increased in 2012 on the strength of a 13% investment return, but because the interest rates used to forecast future investment returns went down, the estimated pension liabilities increased. As such, the board set a 2.75% discount rate assumption. The projected cost of future benefits was estimated at $176.0 billion, while assets (including smoothing and future contributions) were estimated at $170.9 billion. This means the plan had 97% of the assets required to meet future pension liabilities at the start of 2013.

The shortfall emerged, as expected, despite strong investment returns and plan changes introduced to resolve the 2012 shortfall. The plan sponsors' commitment to research ways to reduce pension costs by better balancing the years teachers work and the years they collect pensions should help return the plan to the stability it had before recurring shortfalls began in 2003.

FUNDING CHALLENGES AND OUTLOOK

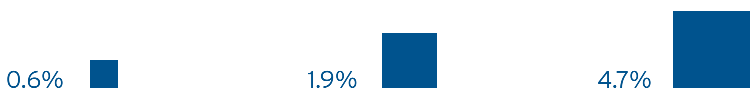
Plan maturity and intergenerational risk

The plan grows more mature each year. This means that the proportion of working members is declining relative to the growing number of retired members. The shrinking ratio of active members to retirees means that overcoming funding shortfalls with contribution rate increases alone is more difficult when markets fall or the plan's investments underperform.

RATIO OF WORKING-TO-RETIRED MEMBERS

Currently, there are 1.5 working teachers for each retiree in the plan. We expect a further decline to 1.3:1 by 2020.

INCREASE IN CONTRIBUTION RATE FOR A 10% DECLINE IN ASSETS



For plan members, the impact of plan maturity depends on their stage of life. The plan has more than $129.5 billion today to pay pension benefits and invest for future pensions. However, younger teachers are exposed to considerable funding risk because of the plan's mature demographic profile, and, as most of their service is in the future, the benefits to be earned in those years can be lowered while the contribution rate they pay can increase. This situation raises the issue of intergenerational equity, which is the goal of providing the same level of pension benefits for a roughly equivalent cost to all generations of plan members.

Pensioners and teachers near retirement have already earned all or most of their pensions. Under current Ontario law, accrued pension benefits cannot be reduced to offset funding shortfalls. In comparison, younger teachers have many years ahead of them in which to pay into the plan and earn pension credit. When the plan has a funding shortfall or is hit by a large negative shock – such as the 2008 investment loss – only contributions and future benefits can be changed to keep the plan fully funded over the long term. Accordingly, working teachers, especially younger teachers, absorb funding risk for the entire pension plan. The Ontario government matches teachers' contributions and shares responsibility for the decisions relating to plan funding risk.

Quick facts:

- Contribution rate is scheduled to reach 13.1% on earnings above CPP limit in 2014 compared to 8.9% paid between 1990 and 2006
- Conditional inflation protection applies to pension credit earned after 2009; it will take many years to grow in and have a meaningful impact on funding risk
- Pensioners who retired before 2010 have full inflation protection

The plan's mature demographic profile raises two primary issues. The first is intergenerational equity – which aims to provide the same level of pension benefits for a roughly equivalent cost to all generations of plan members. The plan sponsors have introduced plan changes five times since 2005 to address recurring funding shortfalls. Plan maturity increases the difficulty of finding fair and appropriate solutions as funding challenges continue, particularly in the context of the current legal framework.

The other issue caused by plan maturity is increased funding risk. The more mature the pension plan, the higher the risk that it could become unaffordable, and therefore unsustainable, if economic conditions are unfavourable.

Given the funding risks and challenges explained in this report, it may become necessary at some point to equip the plan to spread funding risk equitably across all plan members. Other pension plans around the world and in some Canadian jurisdictions have already moved in this direction.

PLAN FUNDING RISKS

Teachers' is a mature and maturing plan as we have relatively few active members for each retiree and the ratio is expected to continue to decrease. The amount the plan pays out each year in pension benefits is nearly double what we collect in contributions – and we expect it to grow every year as the number of pensioners climbs. The plan, as currently designed, may be sustainable under favourable market and economic conditions, but we must assume that downturns or other unexpected events will occur periodically. Key plan funding risks are described below.

1. Increased life expectancy without increase in working years

Life expectancy is high for members of this plan compared to the general population and it continues to increase. The average retirement age for members is 59, and life expectancy is age 90.5 for females and 88 for males. Members are eligible for unreduced pensions when their age plus service equals 85. The combined effect of early retirement rules and increased longevity now means that a teacher typically receives a pension for a greater number of years than he or she worked. At the board's request, the University of Waterloo updated the plan's mortality tables in 2012 and provided them to the Demographic Task Force, which included representatives from the plan's sponsors and the pension plan. The study found that life expectancy continues to increase. This risk could be manageable if there were also an increase in the number of years worked.

2. Low real interest rates increase future pension costs

Long-term real interest rates (after inflation) are used to estimate the cost of providing pensions because they are a predictor of economic growth. When interest rates are low, the plan needs to set more money aside to earn the amount required to pay future pensions. The real interest rate was 0.4% at the end of 2012, compared to an average of 1.7% over the last 10 years. Interest rates are expected to remain low for the foreseeable future.

It costs more to secure a typical $40,000 pension when the real interest rate is low.

ASSETS REQUIRED FOR A TYPICAL $40,000 PENSION

Real Interest Rate	Amount Required
1.0%	$985,000
1.5%	$915,000
2.0%	$850,000
3.0%	$740,000
4.0%	$655,000
5.0%	$580,000

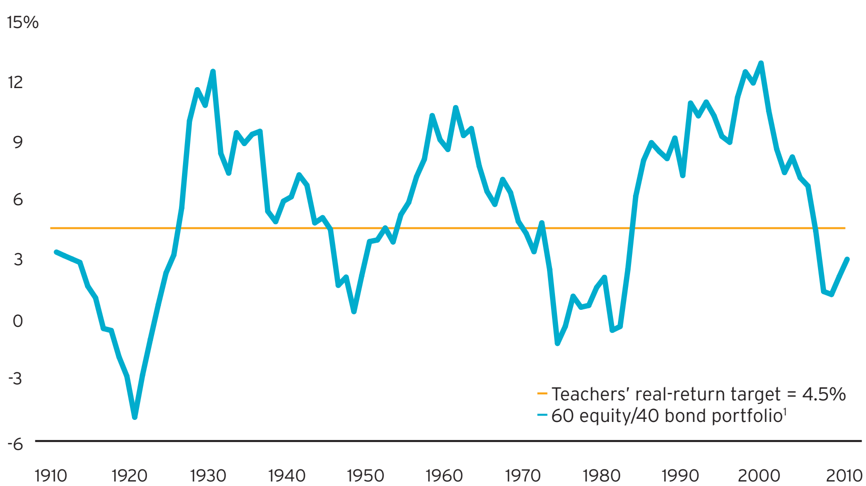
3. Large investment losses and modest outlook for returns

The plan absorbed the final portion of its 2008 investment loss in 2012 due to the effect of smoothing. Smoothing is a common practice that spreads investment gains or losses over a few years to reduce volatility. The 2008 financial crisis proved that market losses can exceed expectations that are based on recent experience. The plan must remain invested in global capital markets to earn returns; however, we are aware that the potential for catastrophic market losses or severe economic events poses a considerable risk to the plan. Plan maturity leaves little flexibility to recover from such events.

Also, our outlook for investment returns remains modest as global economic growth sputters, and interest rates are expected to remain low for a long period.

There have been a number of prolonged periods of low returns in the past century.

HISTORICAL LONG-TERM PERFORMANCE OF 60/40 (EQUITY/BOND) PORTFOLIO
(10-year annualized real return)



[1] Historical sample: 1900–2011. Equity (60%) includes U.S., Canada and EAFE. Bond (40%) is long-term Government of Canada bonds.

FINANCIAL STATEMENT VALUATION

The financial statement valuation, which measures the fair value of the plan's net assets available for benefits and pension liabilities at a point in time, is prepared annually for accounting purposes.

- Unlike the funding valuation, the financial statement valuation does not either assume future contributions or project the cost of benefits that current members will earn in the future. As such, the plan design change, where all indexing in respect of service after 2013 is conditional based on the funded status of the plan, does not impact the 2012 financial statement valuation.
- The net assets available for benefits is a key component of both funding and financial statement valuations and is derived from the plan's consolidated financial statements.
- The financial statement valuation is not considered an indicator of the long-term sustainability of the plan and as such is not an input for decisions relating to changes in contribution rates and benefit levels.

Methods and assumptions used for the financial statement valuation

The financial statement valuation is prepared in accordance with guidance from the Canadian Institute of Chartered Accountants (CICA). The pension liabilities, which are calculated by an independent actuary, take into account pension credit earned to date by all plan members and contributions already received by the plan. Use of valuation techniques and estimates are described further in Notes 1c, 1e and 1i and Note 4 to the consolidated financial statements.

Plan management reviewed the development and selection of critical accounting estimates with the Audit & Actuarial Committee of the board. The primary economic assumptions are the discount rate, salary escalation rate and inflation rate. The non-economic assumptions include plan member mortality, withdrawal and retirement rates. With the exception of the discount rate, the actuarial assumptions used in determining the pension liabilities reflect best estimates of future economic and non-economic factors proposed by management and approved by the board. The discount rate for the financial statement valuation is based on the market rate of long-term Government of Canada bonds, which have characteristics similar to the plan's liabilities, plus a spread to reflect the credit risk of the Province of Ontario. The plan's actual experience typically differs from these assumptions, and the differences are recognized as experience gains and losses in future years.

For this valuation, the pension liabilities include the minimum inflation protection benefit as described in Note 4b. Financial statement valuations prepared after 2013 will reflect the recent plan design change where all indexing in respect of service after 2013 is conditional based on the funded status of the plan.

Financial statement valuation as at December 31, 2012

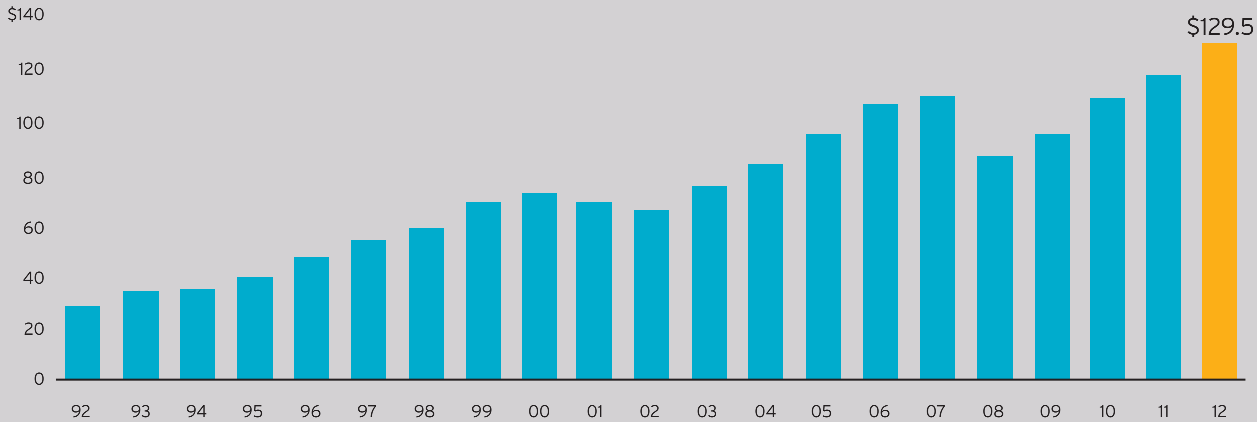
The plan ended 2012 with a financial statement deficit of $36.5 billion. This compares to a financial statement deficit of $45.5 billion for 2011. The deficit at the end of 2012 represents the difference between net assets of $129.5 billion and the pension liabilities of $166.0 billion. The discount rate used was 3.40% (3.40% in 2011). The financial position of the plan is presented in the consolidated financial statements starting on page 66.

Investments

Teachers' investment portfolio earned a strong 13% return in 2012, surpassing the fund benchmark by 2%. Benchmarks enable us to evaluate the effectiveness of our investment strategies and activities relative to the risks taken. Risk management of both assets and liabilities is the foundation of our investment performance.

Since Teachers' inception in 1990, the investment program has generated 77% of the plan's income. Active management has accounted for 34% of total income and, with compounding, has added $60.5 billion to plan assets above benchmark returns.

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

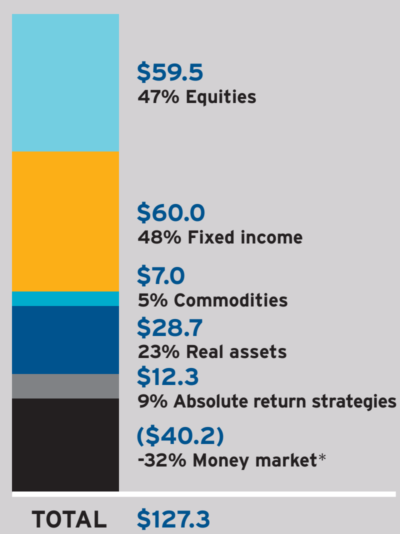


INVESTMENT PERFORMANCE

(percent)	**2012**	2011	4-Year	10-Year	Since Inception
Total return	**13.0**	11.2	12.9	9.6	10.1
Benchmark	**11.0**	9.8	9.8	7.6	7.9
Return above benchmark ($ billions)	**$2.2**	$1.4	$11.1	$16.8	$26.9

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

ACTUAL PORTFOLIO
($ billions)



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

OBJECTIVES AND STRATEGIES

The objective of Teachers' investment program is to help the plan meet its long-term funding needs, which in turn contributes to pension security, contribution rate stability and long-term sustainability.

Our integrated strategies begin with determining an appropriate level of risk. The activities underlying our strategies constantly evolve to reflect: i) the plan's maturing demographics, which reduce the level of investment volatility we can accept in the short run to deliver our long-term objective; ii) the need to continuously adapt to business cycles, changing global investment environments and competition for assets among other large pension plans and sovereign wealth funds; and iii) the increasing complexity associated with managing a fund with diverse risks that now has more than $129.5 billion of net assets.

Investment beliefs

Teachers' investment beliefs define our philosophy for earning superior risk-adjusted returns. These beliefs, codified in 2012 and available on our website (otpp.com), support the plan's mission, vision and values. Our investment strategies are also driven by, and consistent with, our beliefs.

Determining appropriate risk

Risk affects both the plan's investment assets and its estimated liabilities. The largest liability risk is a decrease in projected future investment returns as reflected in a decrease in real or after-inflation interest rate projections. When real rates fall, the estimated current value of future liabilities increases. Asset risk includes the risk that the value of our investments declines, such as if equities returns are below expectation due to low growth in developed markets or a prolonged recession in Europe, for example.

As a result, we allocate considerable resources to understanding, quantifying and mitigating risks and to ensuring the investment risks we take are appropriate for the plan's maturing demographics and the impact on its liabilities. In practical terms, our investment managers are limited in how much risk they can take to generate returns and are as concerned about the potential for loss from an investment as they are about how much might be earned.

We measure investment risk against the plan's liabilities and benchmarks. We use risk budgeting to spread active risk across the plan's asset classes and generate superior risk-adjusted returns. We monitor and report the observed risk values against those budgeted on a daily basis through the plan's risk systems. For investment planning purposes, we also maintain a comprehensive asset-liability model to understand long-term dynamics.

Overall, we believe investment returns are a consequence of detailed risk management and good judgment.

Proactive risk management

Proactively managing risks requires substantial attention by our board members and the investment department. The Investment Committee of the board, which comprises all board members, reviews and approves the risk budget and asset-mix policy annually, monitors overall investment risk exposure and reviews and approves risk management policies that affect the total portfolio.

Management provides the dedicated focus needed to understand plan funding risks through its Investment Risk Committee, comprising investment, economics, finance and legal professionals. A number of management committees that report to the Investment Risk Committee monitor and manage fund-wide risk including liquidity, emerging-market exposures, counterparty credit exposures and regulatory matters.

Management also operates an Investment Committee, comprising senior investment executives, to manage investments within appropriate risk tolerances. We believe this total-fund management approach allows for: i) better portfolio construction and the facilitation of improved investment risk management across the fund in order to effectively diversify risk across asset classes; ii) improved ongoing assessment of asset-mix decisions to enhance our long-term investment success; and iii) improved communication and collaboration among diverse asset classes.

Risk management tools and culture

Sophisticated tools and processes that we have developed and advanced support our daily risk measurement and management. The data in our risk system is updated continually and includes extreme market events.

Risk system

Our risk system provides consolidated, coordinated views of the entire fund. Its global focus supports collaboration across portfolios such that we are able to measure potential for loss in several ways:

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

Understanding that broad diversification is our most important risk management tool, we focus on risk diversification across the total fund, ensuring we construct the portfolios without inadvertent risk duplication.

Our integrated system allows us to manage data on a holistic basis. We view data as an asset that needs to be governed to ensure timeliness, accuracy and completeness for even the most complex financial products.

Our organization has a risk-conscious culture. Our investment beliefs state that we champion risk awareness and accountability across our investment teams.

Selecting an appropriate asset mix

Asset-mix selection is the primary driver of the plan's long-term investment performance. Our asset-mix policy calls for a diversified portfolio, including equities, fixed income, commodities and real assets (real estate, infrastructure and timberland).

Teachers' board members approve the asset-mix policy annually, making modifications throughout the year when required. The board members give management discretion to increase or decrease asset weightings to take advantage of investment opportunities as they arise.

Ensuring adequate liquidity

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

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

At year end we held $35.0 billion in unencumbered government bonds and $4.0 billion in treasury bills, compared to $27.3 billion and $2.8 billion respectively at year-end 2011. Our liquidity position supports our larger asset base and generally allows the plan to: i) adjust the asset mix in response to market movements; ii) avoid selling high-quality long-term assets to meet short-term funding needs at inopportune times; iii) meet short-term, mark-to-market payments embedded in the plan's derivative exposure; and iv) facilitate the allocation of risk to illiquid assets such as real estate, infrastructure, timberland and private equity.

Ontario debentures retired

Our portfolio marked a significant milestone in 2012 with the maturity of the last of our non-marketable Ontario debentures. Provincial debentures of approximately $19 billion were the foundation of our investment program at Teachers' inception in 1990. Because they were non-transferable, non-assignable and non-negotiable, investment staff used them to diversify the fund's asset mix and reduce risk by entering into derivatives, options, futures and swaps – all novel strategies at that time.

Actively managing assets to add value

Active management is a hallmark of the plan's investment success. It involves selecting investments that we believe are undervalued and employing both fundamental and quantitative strategies to optimize risk-adjusted returns. The objective is to exceed the returns available from passively investing in indices at asset-mix policy weights. We refer to such outperformance as "value added" and the relevant indices as benchmarks.

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

Several strategies are used to maximize returns within our risk limits and outperform the markets in which we invest, starting with our total-fund management approach.

MANAGING INVESTMENTS

Responsible investing

We seek to achieve the best risk-return trade-off for our members by applying our responsible investing methodology in choosing and managing assets.

Responsible investing at Teachers' has several dimensions:

- evaluating investments against financial and non-financial factors, including risks associated with environmental, social and governance (ESG) issues, that can have a material impact on investment value;
- continuing to be effective stewards for as long as we own an asset, which includes exercising our right to vote all public company shares we hold in a manner consistent with our Corporate Governance Principles and Proxy Voting Guidelines and in the best long-term economic interests of shareholders;
- using our position and influence as large investors to advance good governance and encourage value creation and responsible behaviour; and
- working collaboratively with leading organizations, like-minded peers, market regulators and researchers around the world to advance the understanding of responsible investing.

We also assess investments based on the risk they pose to Teachers' reputation. Our reputation gives us credibility with regulators and market participants and access to investment opportunities.

Our responsible investing activities are consistent with our efforts to exercise diligence and manage risks when investing on behalf of members.

While responsible investing does not preclude ownership of assets that some plan members may find objectionable, it does mean we consider all material ESG risks and opportunities. In addition, we are signatories to the United Nations-backed Principles for Responsible Investment and contribute to a number of the organization's initiatives. We are also members of various groups and associations of global institutional investors that focus on responsible investing, including the improvement of corporate governance practices in markets around the world.

Corporate governance activities

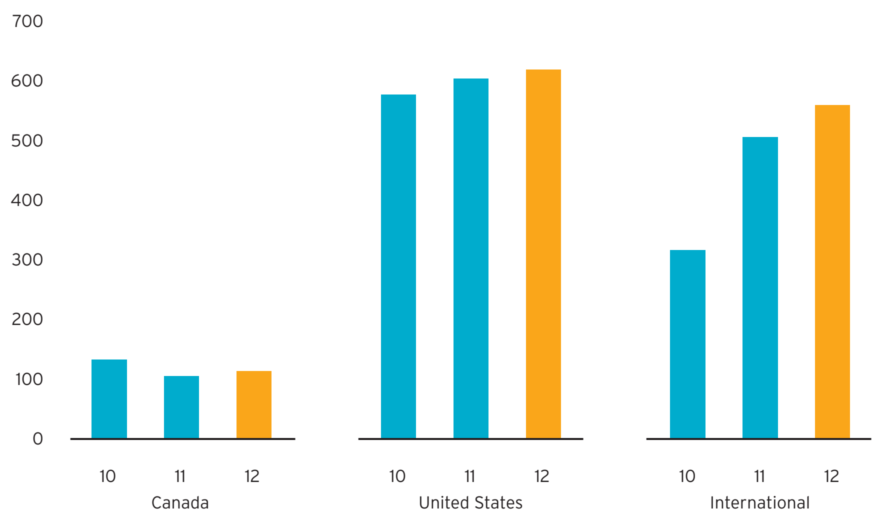
As part of our responsible investing approach, we vote our shares in the public companies we own from a total-plan perspective, which requires considerable collaboration among departments. In 2012, we voted at 1,290 shareholder meetings, a 6% increase over 2011.

During 2012, we voted against 234 equity compensation plans as they exceeded our thresholds for dilution and burn rate and/or they allowed for automatic vesting on a change of control. We were presented with 26 advisory votes on so-called golden-parachute severance packages and voted against 22 of them because the terms were inconsistent with our Proxy Voting Guidelines.

We take a thoughtful and well-researched view in voting. We updated our Corporate Governance Principles and Proxy Voting Guidelines (available on otpp.com under Responsible Investing) for 2013 to clearly articulate the principles that are the foundation of our governance efforts as well as to better reflect our responsible investing approach and new corporate governance developments.

The increasingly global nature of our investments and a growing weight given to direct investing mean that we vote in more shareholder meetings and in more international meetings each year.

PROXY VOTING
(for the years ended December 31)



Internal talent development

Developing Teachers' own investment talent has given us the intellectual capital and expertise that are fundamentally important in generating fund returns, and innovating in areas such as risk management, private capital and emerging markets while containing costs.

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

We recognize, however, that there are markets where it is more advantageous for us to invest through externally managed funds. We use external managers to target investments that require local or specialized expertise.

Long-term planning and priorities

Teachers' investment and liability risks change over time. Rather than relying on past experience or historical data alone, we engage in thorough long-term planning and proprietary research as a means of positioning the plan for expected macro trends in the global economy. For example, we model the likely impact of various economic scenarios on expected asset-class performance, we forecast how demographic changes may affect the future investment climate and we aggregate in-country insights from our portfolio managers to develop a macro or "top-down" investment thesis. The growth of our investment activities around the world has greatly assisted our long-term planning process, which we believe is one of Teachers' advantages.

As part of our planning, we have taken note of the fact that we are living in an environment where debt deleveraging has become a key priority for consumers, businesses and governments. Unlike an inventory-driven downturn, which can be quickly rectified once factory inventories are reduced, debt deleveraging is fraught with difficult policy decisions and the ever-present fear of creating (or deepening) recessionary conditions. Due to the extent of the debt problem and the difficulty in developing a political consensus, the developed world is likely to continue to experience a period of slow growth and volatile markets with low interest and inflation rates over the near term.

On the positive side, the U.S. housing market is showing signs of recovery and American consumers are well on their way to reducing personal debt to a more sustainable level. It will take some time, however, for consumer balance sheets to become strong enough for spending to reach pre-recession levels.

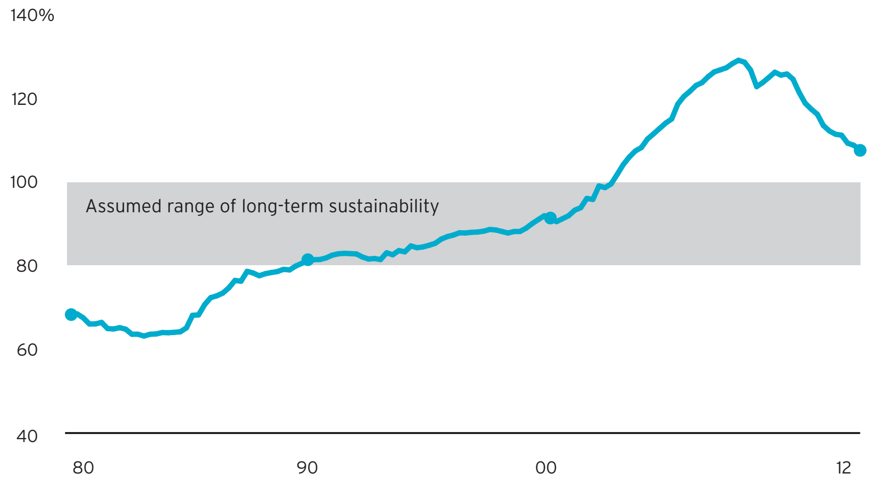
Overall, our long-term planning takes all of these factors into account, including the likelihood that policy decisions will continue to have an outsized influence on economic outcomes and capital market volatility in the foreseeable future.

New Asia market presence

Following extensive planning in 2012, we plan to open an office in Hong Kong to manage our growing investment portfolio in Asia, and develop stronger ties to local private capital and public equity markets as a means of better identifying risk and opportunity for the plan. When it opens in mid-2013, this will be Teachers' second regional office. The first was opened in London in 2007 to assist Teachers' Private Capital with its strategy for Europe, the Middle East and Africa.

Deleveraging supports outlook for a period of slow growth and volatile markets, with low interest and inflation rates.

U.S. HOUSEHOLD DEBT TO INCOME
(percent of disposable income)



Source: Federal Reserve, IMF, OTPP

Long-term priorities

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

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

PERFORMANCE

Measuring performance

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

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

Benchmarking is important because it enables us to evaluate the effectiveness of our investment strategies and activities relative to the risks taken. In each case, we seek to outperform benchmark rates of return, and when we do, this is described as value added.

Establishing appropriate benchmarks is a complex task, and for that reason we have a benchmarking committee chaired by the CEO that provides oversight. The committee uses a rigorous process for recommending and adjusting benchmarks. Board members oversee all changes to plan benchmarks.

Benchmarking enables us to evaluate the effectiveness of our investment strategies and activities relative to the risks taken.

BENCHMARKS USED TO MEASURE PLAN PERFORMANCE

	Benchmark
Fixed income	Custom Canada Bond Universe Custom Canada Long Bond Universe Custom Provincial Long Bond Custom Ontario Debentures Barclays Capital U.S. Treasury 15+ Index Custom Canada Real Return Bond Custom U.S. Treasury Inflation Protected Securities DEX 91 Day T-Bill
Canadian equities	S&P/TSX 60 Custom Long Term Canadian Equity
Non-Canadian equities	S&P 500 MSCI EAFE+EM MSCI All Country World ex Canada MSCI Emerging Markets MSCI Emerging Markets ETF Custom Non-Canadian National Indices Custom MSCI Global Index* Custom Long Term Non-Canadian Equity
Commodities	S&P GSCI S&P GSCI 3-Month Forward Custom Commodities Hedge
Real assets	IPD Canada Capital Growth plus 5.0% (Real Estate) DEX BBB Real Estate Debt Local CPI plus 4% plus country risk premium (Infrastructure and Timberland)
Total fund	Custom Canadian CDOR Index Custom U.S. LIBOR Index Custom U.S. T-Bill Index Custom Canadian OIS Index Custom U.S. OIS Index

* Previously the Custom Global Private Capital benchmark.

RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	1-Year Actual	1-Year Benchmark	4-Year Actual	4-Year Benchmark
Equities	**14.2**	**13.1**	**11.0**	**7.9**
Canadian equity	5.2	8.1	9.1	10.2
Non-Canadian equity	16.5	14.5	11.5	7.1
Fixed income	**5.1**	**4.5**	**10.3**	**9.2**
Real-return products	4.8	4.8	10.4	10.6
Bonds	5.5	4.3	10.5	7.2
Real assets	**14.7**	**10.6**	**10.9**	**8.1**
Real estate	19.4	15.5	15.3	12.6
Infrastructure	8.4	8.0	6.6	5.3
Timberland	3.4	3.5	(3.2)	0.6
Commodities	**(1.9)**	**(1.1)**	**(1.2)**	**(0.8)**
Total plan[1]	**13.0**	**11.0**	**12.9**	**9.8**

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

Teachers' receives top marks for performance

CEM Benchmarking Inc., an independent authority on pension fund benchmarking, once again ranked Teachers' number one for 10-year investment returns and number one for value added in its surveys of more than 300 international pension funds in 2010 and 2011.

Investment costs

Managing a successful investment program involves costs such as salaries, benefits, fees, commissions and research. The plan is committed to cost effectiveness and views certain expenditures as necessary to achieve long-term performance requirements. In 2012, total investment costs were $302 million or 25 cents per $100 of average net assets, compared to $289 million or 27 cents per $100 in 2011. This primarily reflects a continued effort to create efficiency and manage costs.

2012 markets in review

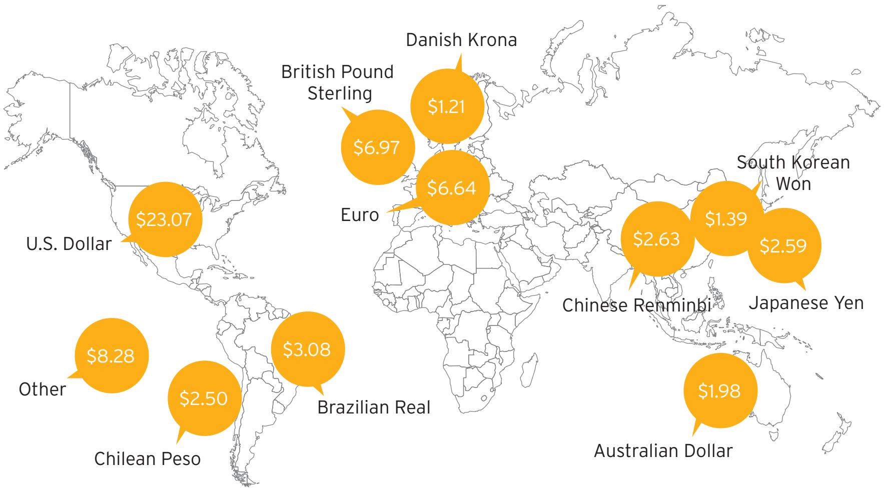
Financial markets remained volatile in 2012 as the global economy experienced its third mid-cycle slowdown in as many years and investors reacted swiftly to fiscal and monetary policy developments. During the first half of the year, the global economy lost momentum as slowing demand across most emerging markets, as well as Europe and the United States, weighed heavily on international trade and manufacturing and created fears of a global recession. While many parts of Europe re-entered recessionary conditions, and the sovereign debt crisis alternated between Spain, Italy and Greece, markets responded positively to European Central Bank President Mario Draghi's comments in July that the bank would do "whatever it takes to preserve the euro." This appeared to stem the risk of a European-led global economic contagion.

In the second half of the year, economic activity, employment and income growth in the U.S. modestly rebounded and new lending and money supply growth ticked upward in China, with hopes that the world's two largest economies could sustain positive momentum in spite of Eurozone weakness. The year ended with U.S. policymakers embroiled in what appear to be recurring "fiscal cliff" negotiations.

Against this turbulent backdrop, equity markets in many countries delivered strong performance. In comparison to the previous three years, bond market returns on a one-year basis were modest and bond yields remained at record lows. In Canada, as in the United States, the inflation rate remained below long-term averages, supporting a continuation of central banks' low interest rate policies.

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

NET CURRENCY EXPOSURES
(as at December 31, 2012) ($ billions)

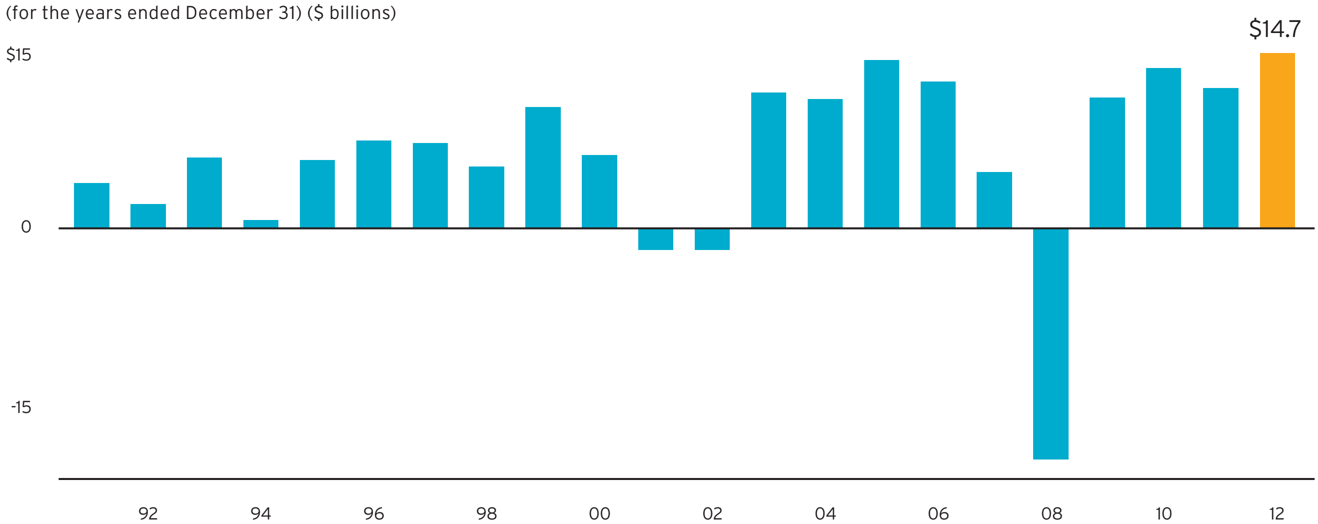


Total return

The fund posted a 13% return in 2012, generating $14.7 billion in investment income. Net assets were $129.5 billion compared to $117.1 billion at the end of 2011.

The total return exceeded the composite benchmark return of 11% by two percentage points. This added $2.2 billion in value above the benchmark. Value-added returns were broadly generated across asset classes. The total plan has an annual growth of 12.9% over the past four years, outperforming the composite benchmark by three percentage points for $11.1 billion in value added. Since Teachers' inception in 1990, the fund has generated a 10.1% rate of return.

INVESTMENT INCOME EARNED
(for the years ended December 31) ($ billions)



Wayne Kozun, MBA, CFA, ICD.D
Senior Vice-President,
Public Equities

ASSET-CLASS REVIEW

Equities

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

The value of the plan's equity investments (both public and private) totalled $59.5 billion at year end compared to $51.7 billion at December 31, 2011, as additional capital was deployed to manage the asset mix.

On a one-year basis, equities returned 14.2% compared to a benchmark return of 13.1% for total value added of $0.6 billion. On a four-year basis, equities generated an 11.0% annualized return compared to the four-year benchmark of 7.9% for total value added of $4.7 billion. The asset-class benchmark is a composite of Canadian and international indices.

After posting poor performance in 2011, equity markets in most countries rebounded in 2012 and produced double-digit one-year returns, although Canada was an exception with a return of 7%. Dividend yields in North America remained well above inflation and bond yields, and dividends added $1.3 billion to our one-year performance.

Non-Canadian equities

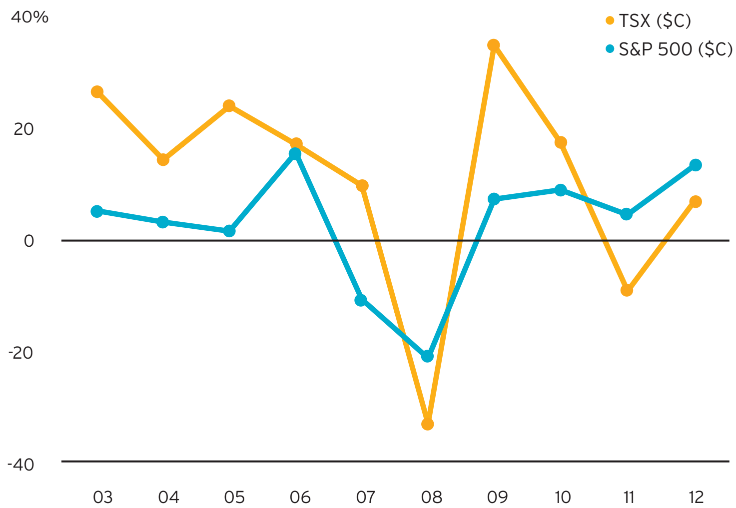
Non-Canadian equities (both public and private) totalled $48.1 billion at year end compared to $41.1 billion at December 31, 2011, and returned 16.5% compared to a benchmark return of 14.5% for total value added of $0.9 billion. On a four-year basis, non-Canadian equities generated an 11.5% annualized return compared to the four-year benchmark return of 7.1% for total value added of $5.3 billion.

The German DAX provided the world's best one-year return of 29%. European markets shrugged off the sovereign credit crisis in the summer and ended the year with performance in line with other parts of the globe. Japan showed some life in the fourth quarter, when it was up 17%. The MSCI EAFE Index, which measures the performance of European, Australasian, and Eastern Asian markets, was ahead 17% on a one-year basis.

The S&P 500, measured in Canadian dollars, was up 13.4% year over year, outpacing the performance of Canada's main index for the second year running, as the graph illustrates.

Performance in Latin America was uneven, with Mexico's exchange up 18% on a one-year basis and Brazil's exchange up 7%. In addition to being the world's sixth largest economy, Brazil represents our largest emerging market exposure. Bifurcation was also the story with the Asian markets, as China eked out a barely positive return of 3% whereas India roared ahead with a return of 26%.

10-YEAR CANADIAN/U.S. MARKET INDEX COMPARISON



Canadian equities

Canadian equities (both public and private) totalled $11.4 billion at year end compared to $10.6 billion at December 31, 2011, and returned 5.2% compared to a benchmark return of 8.1% for total value added of -$0.3 billion. On a four-year basis, Canadian equities generated a 9.1% annualized return, compared to the four-year benchmark of 10.2% for underperformance of -$0.5 billion.

Canadian market returns in 2012 were modest by global standards and continued to reflect the preponderance of natural resource companies on the main index and commodity performance that drove lower returns than other markets.

Teachers' Private Capital

The performance of private equities managed by Teachers' Private Capital (TPC) is consolidated within the Canadian and non-Canadian segments noted above. However, due to the unique risk and liquidity profile of private equities, TPC results are segregated here for reference.

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

Formed in 1991, TPC invests directly in private companies, either on its own or with partners, and indirectly through private equity and venture capital funds managed by third parties. Today, it is one of the largest investment pools of its kind in the world and is a member of the Dow Jones Private Equity Hall of Fame. Since its inception, TPC's core portfolio (direct investments, co-investments and private equity funds) has generated an internal rate of return of 19.2%.

Private equity investments totalled $12.0 billion at year end compared to $12.2 billion at December 31, 2011, and returned 18.6% compared to a benchmark return of 13.3%. It was an extraordinary year for TPC with $5.0 billion in gross realizations and reinvestment of $3.0 billion in new and existing investments. TPC generated $0.5 billion in value added above a very strong benchmark return of $1.5 billion. TPC invested in 13 new direct investments in 2012, eight new and existing buyout funds, and four venture capital and growth equity funds.

On a four-year basis, TPC assets generated a 12.5% annualized return, compared with the four-year benchmark return of 7.8%.

TPC PORTFOLIO
(as at December 31, 2012)

Ron Mock, MBA
Senior Vice-President, Fixed Income and Alternative Investments

Fixed income

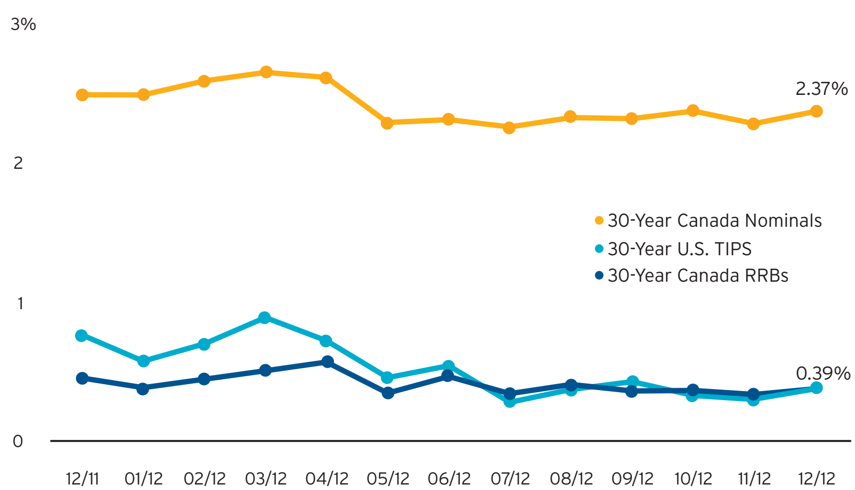
Our fixed income investments are used to provide investment security and steady income and, more generally, to stabilize fund returns and counteract the impact of interest rate changes on plan liabilities.

We own a diversified portfolio of Government of Canada bonds, provincial bonds, real-return bonds and inflation-linked bonds. Real-return bonds provide returns that are indexed to inflation, as measured by the consumer price index, and include debt issued primarily by the Canadian and U.S. governments.

Fixed income assets totalled $60.0 billion at year end compared to $55.8 billion at December 31, 2011, and returned 5.1% compared to a benchmark return of 4.5% for $0.3 billion in added value. On a four-year basis, fixed income generated a 10.3% annualized return, outperforming the benchmark by 1.1% for $1.4 billion in value added.

Interest rates decreased from 2011, reaching record lows at mid-year, due to general weakness in the global economy during most of 2012. Rates were held low by the U.S. Federal Reserve's continued commitment to quantitative easing and ongoing concerns over the European fiscal situation.

GOVERNMENT BOND YIELDS



Commodities

Our commodity investments play an important role in hedging against the cost of paying inflation-protected pensions and provide the additional benefit of low correlation to traditional asset classes such as stocks and bonds. Commodity prices protect against inflation over long-term investment horizons, while over shorter horizons, prices are impacted by both changes in inflation and imbalances in supply and demand. We obtain exposure to commodities by investing in the S&P GSCI commodity index.

Investments in commodities totalled $7.0 billion at year end compared to $5.7 billion at December 31, 2011. The portfolio returned -1.9% compared to a benchmark return of -1.1%. On a four-year basis, these assets generated a -1.2% annualized return compared to -0.8% for the benchmark.

For our commodities portfolio and the benchmark, 2012 was another year of low inflation and significant price volatility. Since commodity prices exhibit more volatility than the inflation rate in the short term, performance is most accurately measured over longer time horizons.

Teachers' created a Natural Resources asset class within the Tactical Asset Allocation group at the beginning of 2013. The new asset class brings together management of commodity derivatives plus physical assets including timberland (previously part of the infrastructure group) and new opportunities in oil and gas, agriculture and water.

Michael Wissell, MBA, CFA, ICD.D
Senior Vice-President,
Tactical Asset Allocation

Real assets

Investments in this category – real estate, infrastructure and timberland – are good long-term investments for the pension plan because they provide returns that are linked to changes in inflation and therefore also act as a hedge against the cost of paying inflation-protected pensions. Over the past 10 years, these investments have played an increasingly important role in helping us to meet our performance objectives and minimize risk.

In aggregate, real assets totalled $28.7 billion at year end compared to $25.8 billion at year-end 2011 and returned 14.7% compared to the benchmark return of 10.6% for value added of $0.6 billion. On a four-year basis, real assets generated a 10.9% annualized return compared to the benchmark return of 8.1% for value added of $1.7 billion.

REAL ASSETS
(as at December 31, 2012)

- **59%** Real Estate ($16.9 billion)
- **33%** Infrastructure ($9.6 billion)
- **8%** Timberland ($2.2 billion)

John Sullivan, MBA
President & CEO,
Cadillac Fairview

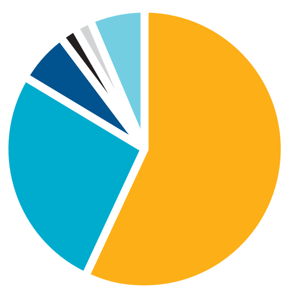
Real estate

Real estate fits our plan because it provides strong, predictable income. Our portfolio is managed by The Cadillac Fairview Corporation Limited. This wholly owned subsidiary maintains a well-balanced portfolio of retail and office properties designed to provide dependable cash flows. Portfolio highlights in 2012 include the buyout of three Sears stores and the related commitment to Nordstrom department stores in four Canadian retail properties. There were a number of dispositions including Georgian Mall in Barrie, Ontario, and a 50% interest in the RBC Centre in Toronto. New developments initiated in the past year included office towers in Calgary and Montreal and a major expansion at Sherway Gardens in Toronto.

The real estate portfolio returned 19.4% compared to a benchmark return of 15.5% for the year ended December 31, 2012, for $0.5 billion in value added. On a four-year basis, the real estate portfolio generated a 15.3% annualized return, compared to the four-year benchmark of 12.6% for value added of $1.6 billion. The portfolio earned operating income of $1.0 billion in 2012, primarily from retail and office properties. At year end, the retail occupancy rate was 94% (94% in 2011), while the office occupancy rate was 95% (92% in 2011) with improvement occurring in Toronto properties.

The net value of the real estate portfolio totalled $16.9 billion at year end compared to $15.0 billion at December 31, 2011. This performance reflected valuation growth in North American properties. There was also a significant increase in the value of our investment in Multiplan, a large publicly traded real estate company in Brazil.

REAL ESTATE PORTFOLIO
(as at December 31, 2012) (based on total assets)



- **56%** Canadian Retail
- **26%** Canadian Office
- **8%** U.S. Retail/Office
- **1%** U.K. Office
- **1%** Other (condos and hotel)
- **8%** Investments

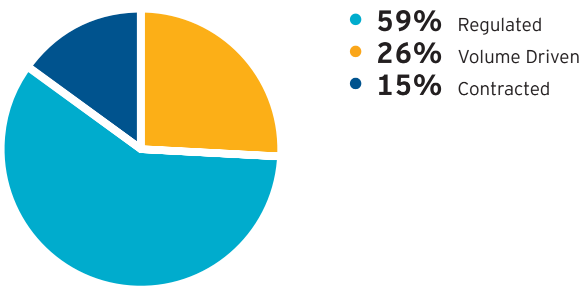
Infrastructure

We invest directly in infrastructure because these assets generally offer stable long-term cash flows linked to inflation. Our portfolio includes investments in airports, electrical power generation, water and natural gas distribution systems, container terminals, pipelines, a high-speed rail link and a desalination facility. The majority of these assets are located outside Canada, which generates currency fluctuations on the infrastructure portfolio's value and returns when translated into Canadian dollars.

The infrastructure portfolio totalled $9.6 billion at year end compared to $8.7 billion at December 31, 2011, due to year-end valuations and the acquisition of the Sydney Desalination Plant lease. Infrastructure assets returned 8.4% compared to a benchmark return of 8.0% for $0.1 billion in value added. On a four-year basis, the annualized return was 6.6%, compared to the four-year benchmark of 5.3%.

Overall we seek to build a portfolio which will steadily increase in value, provide predictable cash flow and correlate to inflation. We segment the portfolio into three general categories: volume-driven assets whose fundamentals are tied directly to throughput and more indirectly to macroeconomic conditions, including GDP; regulated companies whose revenues are explicitly linked to formal regulatory regimes; and contracted assets with a significant percentage of revenues tied to long-term contracts.

INFRASTRUCTURE PORTFOLIO
(as at December 31, 2012)



Timberland

Timberland investments correspond to, and are compatible with, the plan's lengthy investment horizon because they are long-lived assets and serve as a hedge against long-term inflation. While the value of timberland assets changes with the demand for wood and paper, if left in the ground, trees continue to grow, increasing their yield and value over time, unlike other extractive industry assets such as metals and minerals. To control risk, we invest in managed plantations that use proven techniques to grow, maintain, harvest and regenerate stock.

Timberland investments totalled $2.2 billion at year end, compared to $2.1 billion at December 31, 2011, and delivered a one-year return of 3.4% compared to a benchmark return of 3.5%. On a four-year basis, timberland generated a -3.2% annualized return compared to the four-year benchmark of 0.6% for value added of -$0.4 billion.

At the beginning of 2013, timberland investments were moved to the newly created Natural Resources asset class within the Tactical Asset Allocation group.

Absolute return strategies and money market

We use absolute return strategies to generate positive returns that are constructed to be uncorrelated to the returns of our other asset classes. Our internally managed absolute return strategies generally look to capitalize on market inefficiencies. We also use external hedge fund managers to earn uncorrelated returns, accessing unique strategies that augment returns and diversify risk.

Assets employed in absolute return strategies totalled $12.3 billion at year end, unchanged from December 31, 2011. Money-market activity provides funding for investments in all asset classes, and is comparable to a treasury department in a corporation. Derivative contracts and bond repurchase agreements have played a large part in our investment program since the early 1990s. For efficiency reasons, we often use derivatives to gain passive exposure to global equity and commodity indices instead of buying the actual securities. We use bond repurchase agreements to fund investments in all asset classes because it is cost effective and allows us to retain our economic exposure to government bonds.

NET INVESTMENTS BY ASSET CLASS

(as at December 31, 2012) ($ billions)	2012	2011
Canadian equities	**11.4**	10.6
Non-Canadian equities	**48.1**	41.1
Bonds	**28.9**	26.5
Real-rate products	**31.1**	29.3
Commodities	**7.0**	5.7
Real estate	**16.9**	15.0
Infrastructure	**9.6**	8.7
Timberland	**2.2**	2.1
Absolute return strategies	**12.3**	12.3
Money market	**(40.2)**	(35.0)
Total	**127.3**	116.3

Net investments are defined as investments of $174.7 billion minus investment-related liabilities of $47.4 billion, as noted in the consolidated statements of financial position (page 69).

NOTABLE 2012 TRANSACTIONS

We publish a complete list of individual investments that exceeded $100 million at year-end 2012, beginning on page 102 of this report. We are pleased to highlight below some notable transactions from the past year.

Helly Hansen Group AS: Teachers' Private Capital acquired a 72% stake in Helly Hansen, the iconic Norwegian designer and marketer of high-performance outdoor apparel. Headquartered in Oslo, Norway, Helly Hansen's strong commitment to innovation and design positions it for international growth.

Kyobo Life Insurance Company: In the spring of 2012, we made our first direct investment in South Korea by purchasing a significant equity stake in Kyobo Life Insurance Company, a provider of insurance and financial products to more than 4.5 million retail customers. This transaction was led by our Relationship Investing team.

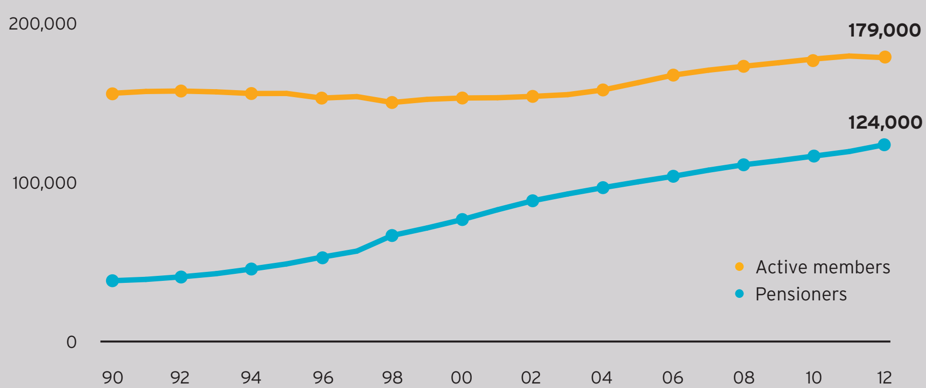
Sydney Desalination Plant: Teachers', along with Hastings Funds Management, acquired the lease to the Sydney Desalination Plant (SDP) in Australia. The 50-year lease, granted by the government of New South Wales, provides the partners with access to a high-quality asset that provides stable, inflation-protected returns. The transaction, led by our Infrastructure team, was awarded Deal of the Year for the Asia-Pacific region by Project Finance International.

Member Services

Teachers' continues to be recognized as a leader in pension services by members and by independent international surveys of peer plans. To maintain and build on this position, we proactively adapt to the changing needs of our members and the demands of our operating environment. In 2012, we evolved our service strategy to provide members with information and services that are simple, personal and insightful.

In the past year, our representatives and secure website together managed an average of 1,200 member interactions every day. As the number of members grows, we will continue to balance service and cost by focusing on improvements that are valued by plan members.

ACTIVE MEMBERS AND PENSIONERS
(as at December 31)



The number of pensioners grew by 4,000 while the number of active members (teachers) decreased by 1,000 from the prior year.

107

Pensioners 100 years of age or older

56%

Members surveyed in 2012 who rated service at 10/10

CLIENT INTERACTIONS
(for the years ended December 31) (thousands)

Quick facts:

- Number of pensioners has tripled since 1990
- 58% of pensioners are under age 70
- Oldest pensioner was 109 at the end of the year
- Average new unreduced pension starting in 2012 was $48,000

OBJECTIVE AND MANAGEMENT STRATEGIES

The Member Services division delivers pension services directly to plan members and interacts with school boards and designated employers. This team takes in and processes billions of dollars of contributions and millions of pieces of personal information every year while administering one of Canada's largest payrolls – $4.9 billion in annual pension and benefit payments – to 124,000 retirees and their survivors.

Our objective is to deliver outstanding service to all plan members at a reasonable cost. We consistently earn high service ratings from plan members and place at or near the top in annual rankings of international pension plans. We believe our members deserve timely, reliable service and pension information that is accurate and relevant to them at different stages of their careers.

Clarity strategy moves ahead

In 2012, we evolved our strategy to meet the needs of our members' growing service demands and an ever-changing operating environment. To maintain our position as a global leader in pension services, we introduced "Clarity," a new strategy that is designed to remove complexity for our members, while making use of insight to create personalized service experiences.

Over the next several years, we intend to make things easier for members by continuing to improve our communications and processes, and by gathering greater insights into what members need and how they expect to be served in the future. We will continue to balance service and cost by focusing on improvements that are valued by plan members.

There are three aspects of our Clarity strategy.

Simplification: Pension benefits and plan rules are complex, and decisions made by individuals can have long-term ramifications. A large part of our job is helping members understand what the plan provides and how it works. We are committed to simplifying information and streamlining our processes to make it easier for members to understand and navigate the pension plan and make well-informed decisions. We also work with the plan sponsors – OTF and the Ontario government – to simplify the plan rules.

Personalization: We serve more than 300,000 working teachers and pensioners who have diverse needs throughout their careers and retirement. Members' expectations also change over time according to their experiences with other service organizations and their use of technology in their daily lives. We strive to make pension services more meaningful by providing members with relevant and consistent information across all channels.

Insight: Making pensions simple and providing personalized service requires insight into members' needs and an understanding of how developing technologies intersect with their evolving expectations. We use member data and trend indicators from across the service industry to help us anticipate what members value and plan our use of technology.

We measure our strategic progress on delivering outstanding service through the Quality Service Index (QSI), which is described on page 45. The QSI uses feedback from member surveys conducted by a third party to measure satisfaction with our services and communication.

MEMBERSHIP FACTS AND TRENDS

Plan membership grows every year

The number of members has grown every year since 1917, when the first pension plan for Ontario teachers was created. The total membership reached 372,000 members at the end of 2012, including working teachers, pensioners and inactive members (former teachers who have an entitlement in the pension plan but are not currently contributing or receiving benefits). The plan continues to mature as the proportion of retirees grows compared to working teachers. (See page 17 for information on plan maturity.)

MEMBER PROFILE
(as at December 31, 2012)

179,000	+	69,000	+	124,000	=	372,000
Active members		Inactive members		Pensioners		Total members

TRENDS

Average age of teachers retiring last year	59	Average age at retirement is increasing slowly
Number of new retirements last year (retirement and disability pensions)	5,300	Number of retirements increased by 26% from 2011 after several years of being below expectations
Number of teachers entering or returning to the teaching profession	6,300	New and returning teachers have been declining in the last five years due to a smaller student population
Average years retirees are expected to collect pensions	31	Members are, on average, retired for five years longer than they worked
Typical years of credit at retirement	26	

The average age of teachers is 42 years.

The average age of pensioners is 70 years. 107 pensioners are 100 years of age or older.

TEACHERS AND PENSIONERS BY AGE

179,000 ACTIVE MEMBERS

124,000 PENSIONERS

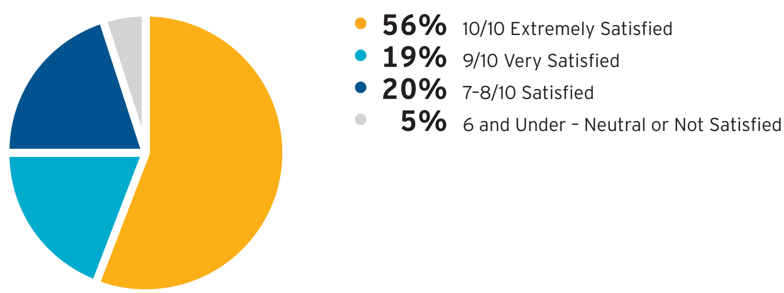
MANAGING SERVICE COMPLEXITIES

Our operating environment changes continually. Plan membership is dynamic, and new pension regulations and plan changes are frequently introduced. We must balance service with cost and strategy with regulation. We rely on highly trained staff, on developing technology and on data quality from employers to meet our service obligations and execute our strategy.

Balancing service and cost

Members consistently rate our services very highly, and the majority of service requests are completed within one day. We have to raise the bar every year to maintain this high rating as expectations and work volumes increase due to the growing membership. We aim to strike the right balance between service and cost by considering improvements that are cost effective and valuable for members. We believe expenditures related to service improvements must create long-term value for our members.

SERVICE SATISFACTION ACCORDING TO SURVEYS
(for the year ended December 31, 2012)



Growing service demands and channels

The number of pensioners increases every year – as does the total number of members we serve – and expectations change over time. We offer services by telephone, by mail and e-mail, in person, and electronically through our secure member website, *i*Access™ Web. Members' usage of online services grows every year, and we regularly add new web capabilities. Investing in technology helps us keep pace with growth in service demand. Our goal is to maintain service quality across all channels.

We introduced social media communications this year by establishing a Facebook page for plan members. We use this channel to build engagement with our members by highlighting current and relevant information and listening to the comments and feedback they provide about their pensions. Plan members responded positively, and we plan to further expand our social media engagement across other platforms in 2013.

Quick facts:

- 439,000 web and personal interactions with members in 2012
- Total interactions up 11% from prior year
- Majority of service requests are answered on the same day

How we serve members

Member interactions totalled 439,000 in 2012, up 11% from the prior year. We completed 184,000 personal member requests, compared to 181,000 the year before, and responded to 63% within one day.

The proportion of total service provided to members through our secure website continues to grow. Members logged on for 260,000 web sessions last year, compared to 218,000 in 2011. Pension estimates and updates to personal information were the most frequently accessed online services.

Providing members with proactive service continues to be a priority. For example, last year we used employer data to determine when leaves of absence had occurred and we then reached out to 25,000 members with buyback information. Many of these members would not otherwise have known that buying back credit in the plan was an option.

Our systems and employees now handle an average of 1,200 member interactions a day, 365 days a year.

SELF-SERVICE ACTIVITIES ON *i*Access™ WEB
(for the year ended December 31, 2012)

- **109,200** Pension Estimates
- **46,700** Changes in Personal Information
- **41,300** E-statement Interactive Viewings

Service principles

In 2012, Member Services went through a comprehensive exercise to design a set of service principles to support our new strategy. These principles guide our decision-making processes.

Trusted	• We leverage our expertise to provide quality information • We keep our commitments and make things right when they go wrong • We ensure our members' privacy is protected
Caring	• We put the best interest of our members first • We simplify experiences and reduce hassles • We personalize our service to meet the needs of our customers
Resourceful	• We continuously improve our services and processes • We use insight to help people make the best decisions • We are cost conscious and use resources wisely
Proactive	• We anticipate our customers' needs • We look for ways to go above and beyond in every interaction • We develop innovative solutions

Plan and regulatory compliance

We are dealing with an unprecedented number of plan and regulatory changes that must be implemented, communicated and understood. They affect our systems, processes and staff training needs, and challenge us to find ways to keep members informed with information that is relevant to them. Changes prescribed in regulations often make plan rules more complex.

Regulatory compliance consumed considerable resources in 2012. In addition to reforms, plan and legislative changes summarized on page 54, we implemented the first phase of contribution increases scheduled for 2012, 2013 and 2014 that are required to resolve a previous plan funding shortfall, as well as new rules and reporting processes for teaching after retirement and the first implementation of a lower inflation adjustment for the post-2009 portion of pensions under the plan's conditional inflation protection provision.

As one of the largest defined benefit (DB) pension plans in Ontario, we provide input to policy-makers as legislation and regulations are developed. We believe reforms should benefit members of all Ontario DB plans in meaningful ways without placing undue and costly compliance burdens on plan administrators.

Receiving accurate employment data allows us to provide more complete and proactive services to members.

Employment data quality

Our ability to deliver outstanding service is largely dependent on getting accurate, up-to-date employment information from 175 school boards and designated employers. We use this information to calculate benefits, respond to members' requests promptly, and anticipate their needs for service. We work closely with employers to ensure they understand pension reporting requirements. We support their staff with workshops and hands-on technology assistance. Annually, we ask school board finance officers to certify that the contributions and service information delivered to us are correct. This has proven invaluable in receiving accurate data.

Training

We have 45 pension benefit specialists who interact directly with plan members through our contact centre. In order to meet the complex service needs of our clients, new specialists go through extensive classroom and one-on-one training for the first year of employment. To underscore our commitment to service quality, ongoing coaching and feedback are provided to all front-line specialists.

PERFORMANCE

We take a comprehensive approach to measuring our performance using key service satisfaction and cost measurements, daily key performance indicators and other measurements of our overall service delivery levels.

Quality Service Index

The Quality Service Index is our primary performance measurement. We frequently ask members to rate our services through a third-party telephone survey. An independent company surveys a statistically valid membership sample in order to gauge the quality of our service and communications several times each year. Members are randomly selected to participate after they interact with us for a specific service. We developed the survey protocol in the early 1990s and continually review and refine it to reflect current services and communications.

The QSI measures service satisfaction based on member surveys. This is the second time since 2005 that we have reported a 9.1 out of 10 rating.

We ended the year with an overall QSI score of 9.1 on a 10-point scale, and 56% of respondents awarded us 10 out of 10. As shown in the table below, members rate us in terms of direct service and communications. Direct service represents 85% of the overall score. We will be challenged to improve on these already high ratings.

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

	2012	2011
Total QSI	**9.1**	9.0
Service QSI (85%)	**9.2**	9.0
Communications QSI (15%)	**8.9**	8.8

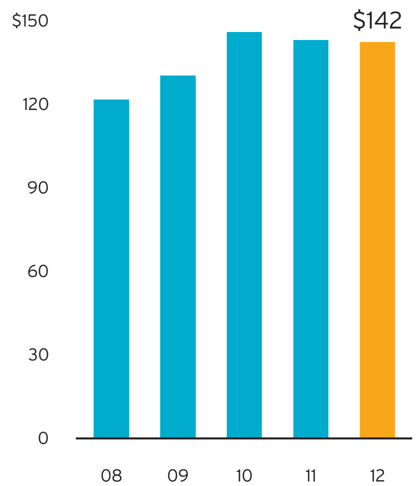
Service cost and expense management

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

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

We measure our annual service cost per member to manage costs effectively. The cost per member in 2012 was $142 compared to $143 the previous year. We maintained costs within our allocated budget while complying with plan changes and investing in the technology and people required to build and maintain the increasingly automated environment needed to evolve our service model.

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



CEM Benchmarking Inc.

We placed first internationally and in our peer group in the most recent ranking by CEM Benchmarking Inc. We have earned top spot in the international standing twice in the last five years.

We measure our services against those of 40 leading pension plans worldwide by participating in surveys conducted by CEM Benchmarking Inc. Our ranking in this evaluation helps us better understand whether we are striking the right balance between service and cost.

For 2011, we placed first for pension service internationally and also earned the top spot among 12 peer pension plans in North America. Our total service score was 91 out of 100, versus the peer average score of 79. Teachers' also ranked first internationally for call centre service and first for mass communication service. The latter category includes websites, newsletters, personal statements of benefits and other communications. Our 2012 ranking will be released in mid-2013.

CEM BENCHMARKING RESULTS – SERVICE LEVEL SCORE COMPARISON

	2011	2010	2009	2008
Ontario Teachers' Pension Plan	91	91	91	89
CEM world average	75	75	75	74
Peer group average	79	78	79	78
Canadian participants – average	71	71	72	70

Source: CEM Benchmarking Inc.

Key performance indicators

Performance indicators change to reflect evolving service delivery approaches. For example, the Same-Day Service indicator will likely become less important as use of online services predominates. Our results demonstrate that we are improving performance for targeted aspects of service delivery every year.

Other performance indicators

We monitor several other performance indicators to help us understand how well we are meeting members' expectations and increased demand for services. Other data indicates which services members are using and how well our broad strategies are working. As our interactions with members grow across our service platforms, we use a number of measurements to ensure that service quality is not only maintained, but continuously improved.

Plan Governance

As an investor, we believe that good governance is good business because it helps companies deliver long-term shareholder value. As a plan administrator, we measure ourselves against standards for governance, internal controls and Enterprise Risk Management that reflect corporate best practices and high standards of stewardship.

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

STRONG GOVERNANCE PRACTICES

Teachers' governance structure plays a crucial role in the organization's success. Since its inception in 1990, Teachers' has been overseen by independent board members – business professionals with financial and other relevant expertise – who have consistently set the tone from the top for an innovative and successful investment program and for excellence in service delivery. Their knowledgeable counsel is an invaluable resource for good decision making and effective management of the pension plan. Over the years, strong governance practices have contributed to building Teachers' global reputation as an investment pioneer and top performer for asset management and pension services.

Board composition and independence

The pension plan is overseen by nine board members. Four board members are appointed by each of the plan's two sponsors – the Ontario government and Ontario Teachers' Federation (OTF). The two sponsors jointly appoint the board's chair. Board members are appointed for staggered two-year terms and may be re-appointed for up to a maximum of four consecutive terms. This process ensures that the plan sponsors consider the qualifications and effectiveness of individual board members on an ongoing basis.

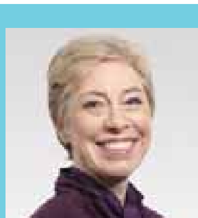
Board members act independently of the plan sponsors and management to make decisions in the best interest of all beneficiaries of the plan. The structure of the board, and the process for appointing its members, ensures that board members are able to operate independently of management. For example, the roles of the Chair and the Chief Executive Officer (CEO) are separated and no member of management can be a board member. The board members meet regularly without management present and, when needed, obtain advice from external advisors in order to foster independent views on key board decisions. The board is required to retain external professional firms to provide actuarial and audit services.

Board member qualifications

Board members have extensive experience in a wide range of the disciplines necessary to oversee a complex pension plan. They are drawn from the fields of business management, finance and investment management, economics, education and accounting. Teachers' supports ongoing director education through programs offered by the Institute of Corporate Directors (ICD) and the Rotman International Centre for Pension Management (ICPM) at the University of Toronto. Board Chair Eileen Mercier is a leader in Canada's corporate governance community and is a Fellow of the ICD. The ICD annually confers Fellowship Awards on individuals who bring exceptional corporate governance leadership to boardrooms throughout the country.

BOARD MEMBERS

Board and committee meeting attendance was 98% in 2012. For more information on board members and board committees, please see our website (otpp.com).



Eileen Mercier, Chair
FICB, F.ICD

Appointed 2005; Chair since 2007

Attendance 100%

Board member, CGI Group Inc., Intact Financial Corporation, Teekay Shipping Corporation and University Health Network

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

Rod Albert

Appointed 2010

Attendance 100%

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

Benefits Adjudication* and Audit & Actuarial Committees

Patricia Anderson

Appointed 2012

Attendance 88%

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

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

Audit & Actuarial and Governance Committees

Hugh Mackenzie
ICD.D

Appointed 2007

Attendance 100%

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

Human Resources & Compensation* and Governance Committees

Barbara Palk
CFA, ICD.D

Appointed 2012

Attendance 100%

Board member, TD Asset Management USA Funds Inc.; Chair of the board of trustees and Member of Investment Committee at Queen's University

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

Benefits Adjudication**, Audit & Actuarial and Governance Committees

Sharon Sallows
ICD.D

Appointed 2007

Attendance 100%

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

Former Senior Vice-President, Bank of Montreal

Human Resources & Compensation and Governance* Committees

David Smith
CFA, ICD.D

Appointed 2009

Attendance 100%

Chair, Government of Canada's Audit Committee

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

Audit & Actuarial* and Human Resources & Compensation Committees

Daniel Sullivan
ICD.D

Appointed 2010

Attendance 100%

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

Human Resources & Compensation and Governance Committees

Jean Turmel

Appointed 2007

Attendance 95%

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

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

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

*Committee Chair, ** Committee Vice-Chair

BOARD MEMBER RESPONSIBILITIES

Board members are responsible for overseeing the management of the pension plan. They delegate the day-to-day investment of the plan's assets to the CEO, who has the authority to sub-delegate. Board members review progress against management's stated objectives and confirm that management's strategies and decisions are in the best interests of all pension beneficiaries. Board members approve management's strategic plans and budgets, investment policies, risk appetite and asset mix, benchmarks, performance and compensation planning, and succession plans, and also monitor enterprise-wide risks.

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

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

EFFECTIVE OVERSIGHT AND CONTROLS

Board members are highly engaged in all aspects of plan oversight. They oversee all aspects of the plan through five committees: Investment, Audit & Actuarial, Human Resources & Compensation, Governance and Benefits Adjudication. All board members serve on the Investment Committee. The board also establishes task forces or special committees to examine specific issues. The board's mandate, committee structure and terms of reference, as well as Teachers' Code of Conduct, are available on our website (otpp.com). Board member remuneration is discussed on page 65.

Board members met seven times in 2012 for board and Investment Committee meetings. In addition, the Governance Committee met twice; the Human Resources & Compensation Committee met four times; the Audit & Actuarial Committee met eight times; and the Benefits Adjudication Committee held two general meetings. All regularly scheduled meetings of the board, the Audit & Actuarial Committee and the Human Resources & Compensation Committee included sessions without management present.

The board has established a Succession Committee, led by the board chair, to manage all aspects of preparing the board to select a CEO to replace Jim Leech at the time of his retirement. The committee met six times in 2012.

Management uses board members' time and talents efficiently by providing vital information and valuable reporting. For example, reports on enterprise risks inform board members of rapidly growing or critical risks. This supports good decision making, allowing sufficient time for board members to challenge management's thinking and probe for emerging or growing enterprise risks. In addition to regular 2012 board meetings, board members participated in an in-depth discussion on management's five-year strategic plan at a day-and-a-half-long meeting held offsite. Their questions and input helped management hone the alignment of enterprise-wide direction and activities over the next five years to Teachers' paramount goal: *Outstanding service and retirement security for our members – today and tomorrow.*

Experts on investment- and economic-related topics are invited to speak to board members regularly to ensure they are well briefed on matters of key importance. In 2012, the board met with several international experts as Teachers' investment program continues to expand its global reach. Additional experts are planned in 2013.

Board members also help ensure that management can attract and retain the best available staff. The more senior the management position, the more directly involved the board members are in their recruitment. For example, a committee of board members has been engaged in the CEO succession plan since 2011. In addition, reflecting the strategic importance of information technology to the organization, Patricia Anderson has assumed board-level oversight responsibility for that function.

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

Enterprise Risk Management (ERM)

The pension plan is exposed to a number of risks that have the potential to result in losses or other undesirable outcomes. The purpose of ERM is to ensure that risks are managed effectively. It provides a framework to identify and assess risks (investment and non-investment) facing the organization and to employ risk mitigating strategies, when appropriate, to address them.

The importance of risk awareness is embedded in Teachers' Mission, Vision and Values statements, which highlight "accountability and risk consciousness" as one of seven core values for all employees. An ERM policy establishes a process through which employees across the organization identify, manage, measure and report risks. It is Teachers' primary governance framework.

The ERM framework is implemented by an executive-level committee that is chaired by the CEO and includes the heads of all divisions. It is supported by a cross-organizational working committee that communicates and implements Teachers' ERM activities across the organization.

A formal annual risk assessment of the organization's risks is delivered to board members, with a mid-year update on top risks. Top risks are also reported to all employees to increase risk awareness.

We continue to strengthen our ERM framework. We have built the capability to identify risk events more precisely and have clarified and educated staff on protocols for escalating risks. In 2012, we considered new and emerging risks, and completed an extensive update of our policies, which are automatically reviewed at regular intervals. We also created a new, director-level staff position dedicated to coordinating ERM activities and advancing the program.

Regular employee surveys include questions on risk management and give employees opportunities to raise issues that can be addressed with specific programs, process changes or system updates. Our focus on operational excellence is aimed at reducing operational risk by improving our organizational coordination and data governance. This initiative oversaw 19 multi-year system improvement and renewal projects underway in 2012.

We have active programs in business continuity, disaster recovery and crisis management. Plans are documented and maintained, as appropriate, and tested at least once per year for Investments and Member Services. Based on feedback from our tests, as well as insight gained from others, we prioritize improvements and review residual risks with ERM representatives.

Disclosure controls and procedures, and internal control over financial reporting

Although not required by law, we voluntarily comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, issued by the Canadian Securities Administrators as part of our commitment to good governance practices.

The President and CEO, and the Senior Vice-President and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures, and internal control over financial reporting. We have designed disclosure controls and procedures to provide reasonable assurance that material information related to the plan is gathered and reported to management in order to allow timely decisions regarding public disclosure. We evaluated our disclosure controls and procedures and concluded as at December 31, 2012, that they are effective.

We have also designed internal controls over financial reporting, using the Integrated Framework issued by the Treadway Commission's Committee of Sponsoring Organizations (the COSO Framework), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have evaluated the effectiveness of the plan's internal controls over financial reporting and concluded they are effective as at year end. There were no changes in our internal controls over financial reporting in 2012 that materially affected, or are reasonably likely to materially affect, our financial reporting.

Protecting audit integrity

Teachers' and other corporate governance advocates have expressed concern over the years about accounting firms that audit public companies and also earn substantial revenue from those companies for non-audit consulting services. We believe that such consulting fees can compromise, or at least appear to compromise, the integrity of the audit function. As such, we have a policy governing the nature and extent of non-audit consulting fees for the plan, its subsidiaries and joint ventures, with oversight by the Audit & Actuarial Committee.

We strive to minimize our own use of consulting services involving the plan's auditors, and we always disclose the total amount paid for such services. In 2012, fees paid to Deloitte Touche Tohmatsu Limited (of which the Canadian firm is the plan's auditor), totalled $6.1 million ($7.7 million in 2011), of which $5.6 million was for audit activities and $500,000 was for non-audit services. Of the $500,000 paid for non-audit services, approximately $250,000 related to the plan, $150,000 related to subsidiaries audited by Deloitte and the balance of $100,000 was for subsidiaries not audited by Deloitte. Of the $150,000 paid by the subsidiaries, $90,000 was paid to Deloitte (Canada) and $60,000 was paid to Deloitte firms outside of Canada, which is considered to have lower risk of impairing the independence of the plan auditors.

Transparent reporting

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

We strive to keep plan members and stakeholders fully informed by undertaking the following communication activities:

- In addition to publishing this annual report, an annual performance summary for plan members and annual pension statements, Teachers' delivers pension-related news electronically to members as it happens and provides regular newsletters to active teachers and pensioners. Through these channels, we inform members of plan provisions and services, and update them on plan changes, funding challenges, investment news and other important information.
- Teachers' corporate website (otpp.com) details plan governance practices, recent news, and facts about our investment strategy, major portfolios, responsible investing, and service initiatives. A Facebook page was initiated in 2012. A separate website – FundingYourPension.com – was developed in 2010 in partnership with the plan sponsors to explain the plan's persistent funding challenges.
- Teachers' holds an annual meeting each April that is open to the plan sponsors and all plan members. It will be held in Toronto on Thursday, April 11, 2013, at 5 p.m. A live and archived webcast will be available for the convenience of members who live outside the Toronto area.
- The board chair and other board members address the OTF Board of Governors three times annually. Board members also had two additional meetings with the sponsors in 2012.

New website launched

At the end of 2012, we introduced a new otpp.com. The site, which averages nearly 50,000 unique visitors each month, provides a fresh take on how information is organized and displayed, and is also much friendlier to mobile devices.

- Management has regular meetings with the Partners' Committee and the Partners' Consultative Committee on matters related to plan funding, and takes part in discussions with the plan's and sponsors' actuaries. The Partners' Consultative Committee was reconstituted with broader representation after the Sustainability Working Group concluded its work in 2010. This process keeps representatives of both plan sponsors informed of the plan's evolving funding status throughout the year. The Funding Communications and Education Group works with the Partners' Consultative Committee to ensure consistent communication about funding. The Demographic Task Force is a tri-party group that proposed changes to the demographic assumptions of the plan in 2012 as well as reviewed proposed plan design changes. The Technical Group, which consists of the board's external actuary, plan management and actuarial and other technical staff engaged by the sponsors, discusses best-estimate, non-economic assumptions related to the preliminary valuation.

LEGISLATIVE UPDATE

Our compliance and advocacy activities have increased as plan and regulatory changes have become more frequent and complex.

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

The pace of legislative change and an increasingly complex regulatory environment since the 2008 financial crisis have highlighted the importance of Teachers' advocacy efforts on proposed laws and regulations. We strongly support ongoing efforts at the federal and provincial levels to achieve needed and productive pension reforms in Canada. We provide comments on proposed legislation to explain how reforms affect this pension plan, and to advocate for sensible and effective regulation. Advocacy is an important activity supporting our ability to execute our long-term strategy.

Plan changes and amendments to the Pension Benefits Act (PBA)

The Ontario government amended the PBA to implement family law reforms pursuant to the Family Statute Law Amendment Act, 2009 (Bill 133) and passed related regulations, effective January 1, 2012. This change impacts our operations significantly because it gives pension administrators greater responsibility for the division of pension assets in marital breakdown situations. We supported the government's efforts to simplify the complex rules for pension division and to harmonize aspects of the PBA and the Family Law Act, and sought clarifications for some provisions that would make the new pension division regime easier to administer.

Further compliance activities related to pension reforms in recent years were carried out last year. Various amendments to the PBA arising from Bill 236 (2010), Bill 120 (2010), Bill 173 (2012) and Bill 55 (2012) were implemented. Among other changes, these amendments include immediate vesting of pension benefits, certain changes to pre- and post-retirement survivor benefits, expanded ability to cash-out small pension amounts, and greater disclosure and communication requirements for plan members regarding their pension benefits.

On June 22, 2012, the Ontario government enacted Regulation 164/12 under the PBA, which exempted listed plans, including Teachers', from the requirement to file a reference valuation, also known as a benefit allocation method valuation. On November 1, 2012, the Ontario government enacted Regulation 329/12 under the PBA, which provided a further extension for regulatory valuation filings to February 28, 2013.

The Ontario government also passed Bill 115, effective September 1, 2012. This legislation imposed a wage freeze and changed certain conditions in collective agreements for teachers. The plan was amended to comply with the legislation and other changes related to collective agreements reached in 2012.

Subsequent to year end, the sponsors announced an agreement that provides contribution stability for the next five years. Contribution rates cannot increase until 2017 and the next mandatory filing is January 1, 2016. The agreement was reached through the Jointly Sponsored Pension Plan (JSPP) consultations.

In addition to implementing changes arising from new legislation, we often initiate amendments with the plan sponsors to keep the plan current with broader policy issues and to simplify the plan rules where possible. The plan sponsors adopted several amendments in 2012, including simplifying purchases of credit under the plan, changing re-employment rules for retired teachers, and recognizing the integrated contribution rate for members over age 65 who continue to contribute to the Canada Pension Plan.

Advocacy efforts

Among other advocacy efforts concerning legislation developed for labour trusts (Bill C-377) and pension investment rules, Teachers' and other pension plans are supporting an application to seek leave to appeal an Ontario Court of Appeal decision regarding pre-retirement death benefits to the Supreme Court of Canada.

COMPENSATION DISCUSSION & ANALYSIS

The Compensation Discussion & Analysis explains Teachers' approach to compensation, the various elements of our pay programs and the remuneration paid to our named executive officers. In fiscal 2012 our named executives were:

Jim Leech, President and CEO;

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

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

Ron Mock, SVP, Fixed Income and Alternative Investments; and

Wayne Kozun, SVP, Public Equities.

Our compensation framework

Compensation philosophy and objectives

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

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

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

Benchmarking process

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

Design principles

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

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

Independent advisors

In 2012, we retained the services of Handfield Jones Inc. to support the board members with CEO succession planning.

Elements of our compensation program – Overview

During 2012, salaries, incentives and benefits for 925 employees were $207.9 million.

Compensation structures for bargaining unit staff have been negotiated into the collective agreement. The current four-year agreement runs through to December 31, 2013.

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

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

Mix of pay

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

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

Base salary

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

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

Annual Incentive Plan (AIP)

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

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

Deferred Incentive Plan (DIP)

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

Long-term Incentive Plan (LTIP)

Our LTIP is designed to reward participating employees for delivering total-fund net value added (after expenses) and positive actual returns, net of costs, over the long term. When total-fund net value added (after expenses) is positive, participants share in the positive gains; conversely, when total-fund net value added (after expenses) is negative, participants share in the loss. Each year, a small percentage of the year's total-fund net value added (after expenses) will fund an LTIP pool, which is allocated to participating employees' notional accounts. For these purposes, annual total-fund net value added (after expenses) can be positive or negative. There is no upper or lower limit on total-fund net value added (after expenses). In years when total-fund net value added (after expenses) is negative, participating employee accounts will be reduced accordingly; individual employee accounts cannot be reduced below zero. Individual LTIP accounts are adjusted annually based on the total-fund actual rate of return. For employees who participate in a previous LTIP (pre-2010), payments from the last remaining cycle will be transferred into the individual account as they crystallize at the end of the performance cycle. Each April, following the allocation related to the previous performance year, 25% of individual account balances are paid to eligible employees.

Benefits and other compensation

Teachers' provides a competitive benefit program that includes life insurance, disability, health and dental benefits, vacation and other leave policies and an Employee Assistance Program. Teachers' retirement benefit for employees is a defined benefit pension plan described on page 64.

Executive employment contracts

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

Compensation decisions made in 2013 reflecting 2012

How decisions are made

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

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

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

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

2012 performance results

Teachers' overall performance – Annual Incentive Plan

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

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

As illustrated in the scorecard below, for 2012, we were able to meet or exceed target goals for each of the enterprise objectives. The result is above-target performance with an incentive multiplier of 1.85 out of 2.

Objective	Measure	Goal	Actual	Achieved
Customers				
Outstanding service to members	Quality Service Index	8.6–8.8	9.1	Above target
Retirement security	Value-added returns	$720 million[1]	$1.95 billion[1]	Above target
	Absolute returns	3.4% real returns	12.96%	Above target
	Desensitizing to real interest rates	Real interest rate sensitivity hedge >10%	12.1%	Above target
Informed partners	Executive assessment of actual to plan	Annual consultation process, member survey, propose solutions to demographic issues	Completed	Above target
Financial				
Cost effectiveness	Actual costs to budget	Meet approved budget	7% below budget	Target
Operations				
Operational excellence	Organizational alignment Proactive risk management Process improvement Data governance	Deliver according to plan	Complete	Above target
Manage enterprise risk	Enterprise Risk Management scores	Reduce gap by 10%	10% reduction	Target
	Risk Management Maturity Survey result	Improve risk management maturity	Complete	Target
Learning and Growth				
Engaged employees	Employee Pulse Survey results	Improve two-way communication index	Index improved by 12%	Above target

[1] Net of expenses.

Two-year total-fund investment performance

The table below summarizes, at the total-fund level, the net value added (after expenses) performance for 2011 and 2012 relative to the return on risk targets less cost allowance. For 2011 and 2012, we outperformed our target total-fund net value added (after expenses) of $1.44 billion by $1.72 billion, resulting in the maximum performance multiplier of 2.0x target.

Year	Total-Fund Net Value Added	Target[1]	Above Target[2]	Multiplier
2011	$1.21 billion	$0.72 billion	$1.44 billion	1.67x
2012	$1.95 billion	$0.72 billion	$1.44 billion	2.72x
2011 and 2012	$3.16 billion	$1.44 billion	$2.88 billion	2.00x (maximum)

[1] Target total-fund investment performance for 2012 is 8.2% return on risk less a cost allowance of 17 basis points.

[2] Above-target total-fund investment performance for 2012 is 16.5% return on risk less a cost allowance of 34 basis points.

Two-year investment department performance

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

Year	Public Equities	Private Capital	Infrastructure and Timberland	Fixed Income and Alternatives	Tactical Asset Allocation
2011 and 2012	Target	Significantly exceeds	Target	Above target	Below target

Investment performance – Long-term Incentive Plan

In 2012, the total-fund net value added performance (after expenses) was equal to $1.95 billion, resulting in an aggregate LTIP pool for distribution of $49.9 million. Notional deposits were made to eligible participants effective January 1, 2013.

Year	Total-Fund Net Value Added	Performance	Aggregate LTIP Notional Deposits
2011	$1.21 billion	Above target	$33.1 million
2012	$1.95 billion	Above target	$49.9 million

Executive compensation

The compensation table represents disclosure of base salary, annual incentive, long-term incentive and other compensation earned in 2010, 2011 and 2012 by the CEO, the CFO and the three other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	Year	Base Salary A	Annual Incentive B	Long-Term Incentive Allocation C	Long-Term Incentive Paid[1] D	Other[2] E	Change in Pension Value	**Total Direct Compensation[3] A+B+C**	Total Compensation[4] A+B+D+E
Jim Leech	2012	$545,385	$1,546,900	$2,160,000	$3,321,700	$785	$533,500	**$4,252,285**	$5,414,770
President and CEO	2011	523,077	1,470,800	1,350,000	2,381,000	2,938		**3,343,877**	4,377,815
	2010	500,000	1,400,000	3,500,000	2,011,900	10,440		**5,400,000**	3,922,340
David McGraw	2012	322,692	348,500	440,000	650,300	464	230,600	**1,111,192**	1,321,956
SVP and CFO	2011	311,538	315,000	290,000	477,700	466		**916,538**	1,104,704
	2010	300,058	285,000	670,000	394,700	7,075		**1,255,058**	986,833
Neil Petroff	2012	436,539	1,268,500	1,850,000	2,722,500	628	971,600	**3,555,039**	4,428,167
EVP, Investments	2011	419,231	1,180,000	1,250,000	1,896,000	627		**2,849,231**	3,495,858
	2010	400,192	1,120,000	3,000,000	1,645,200	651		**4,520,192**	3,166,043
Ron Mock	2012	310,385	788,400	1,300,000	1,896,600	447	456,200	**2,398,785**	2,995,832
SVP, Fixed Income	2011	295,385	743,400	800,000	1,405,300	442		**1,838,785**	2,444,527
and Alternative Investments	2010	280,192	696,400	2,400,000	1,232,800	449		**3,376,592**	2,209,841
Wayne Kozun	2012	313,654	667,300	1,030,000	1,984,100	451	672,200	**2,010,954**	2,965,505
SVP, Public	2011	305,769	509,500	700,000	1,465,600	458		**1,515,269**	2,281,327
Equities	2010	300,216	729,200	2,300,000	1,296,700	480		**3,329,416**	2,326,596

[1] A new LTIP program was introduced in 2010. Effective January 1, 2013, amounts payable for the final prior LTIP performance cycle 2009–2012 were added to the participants' notional account balances under the new program. Each participant is eligible for a payment equal to 25% of his or her account under the new program in April 2013.

[2] Other compensation includes one or more of the following: group term life insurance, automobile allowance and unused vacation cashout. The automobile allowance was discontinued in April 2011.

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

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

Notional account balances

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

Notional Account Activity

Name and Principal Position	Opening Balance	2012 Rate of Return	January 1, 2013 Allocation	Transfer from Prior LTIP	2013 Payment	Balance
Jim Leech President and CEO	$7,143,000	12.96%	$2,160,000	$3,057,900	$3,321,700	$9,965,100
David McGraw SVP and CFO	1,433,000	12.96%	440,000	542,500	650,300	1,951,000
Neil Petroff EVP, Investments	5,688,000	12.96%	1,850,000	2,614,700	2,722,500	8,167,400
Ron Mock SVP, Fixed Income and Alternative Investments	4,215,800	12.96%	1,300,000	1,524,100	1,896,600	5,689,800
Wayne Kozun SVP, Public Equities	4,396,700	12.96%	1,030,000	1,939,700	1,984,100	5,952,100

Retirement benefits

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

Employees with 2012 pensionable earnings in excess of $198,000 also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). This plan provides non-indexed retirement benefits equal to 2% of the employee's pensionable earnings times the number of years of service, less the initial annual pension to which the employee is entitled under the PSPP and PSSP, combined. For roles at the vice-president level or above, a portion of their annual incentive may be included as pensionable earnings.

The total liability for the SERP increased by a net amount of $5.2 million in 2012 for a total accrued SERP liability of $32.5 million as at December 31, 2012.

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

Name and Principal Position	Projected Years of Service at Age 65	Estimated Total Annual Pension Benefit at Age 65	Present Value of Total Pension at January 1, 2012	2012 Compensatory Annual Change in Pension Value	2012 Non-Compensatory[2] Annual Change in Pension Value	Present Value of Total Pension at December 31, 2012
Jim Leech President and CEO	11[1]	$281,900[1]	$3,478,100	$470,900	$62,600	$4,011,600
David McGraw SVP and CFO	17	169,400	812,700	107,100	123,500	1,043,300
Neil Petroff EVP, Investments	32	835,400	4,629,000	237,500	734,100	5,600,600
Ron Mock SVP, Fixed Income and Alternative Investments	17	206,000	1,596,400	275,700	180,500	2,052,600
Wayne Kozun SVP, Public Equities	36	677,500	2,355,600	109,000	563,200	3,027,800

[1] Reflects service beyond age 65 to December 31, 2012.

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

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

Board and committee member remuneration

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

Board members are reimbursed for normal expenses for travel, meals and accommodation, as required. For 2012, these expenses totalled $47,000.

Board Member		Board Meetings	Committee Meetings	2012 Total Remuneration
Eileen Mercier	Chair of the Board	7	14	$165,000
Rod Albert	Chair, Benefits Adjudication Committee	7	10	$84,650
Patricia Anderson[1]		6	9	$66,092
Hugh Mackenzie	Chair, Human Resources & Compensation Committee	7	6	$88,350
Barbara Palk[2]	Vice-Chair, Benefits Adjudication Committee	7	12	$71,518
Sharon Sallows	Chair, Governance Committee	7	6	$85,000
David Smith	Chair, Audit & Actuarial Committee	7	12	$86,200
Daniel Sullivan		7	6	$65,000
Jean Turmel	Chair, Investment Committee	7	11	$80,000

[1] Patricia Anderson was appointed in January 2012.

[2] Barbara Palk was appointed in February 2012.

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgments. The accounting policies followed in the preparation of these consolidated financial statements conform to Canadian accounting standards for pension plans. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization.

Ultimate responsibility for the consolidated financial statements rests with the members of the Board. The Board is assisted in its responsibilities by the Audit & Actuarial Committee (the Committee), consisting of 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 consolidated financial statements and recommends them for approval by the Board.

The Plan's external auditors, Deloitte 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 consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator.

JIM LEECH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MARCH 7, 2013

DAVID McGRAW
SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

Auditor’s Report to the Administrator

We have audited the accompanying consolidated financial statements of Ontario Teachers’ Pension Plan Board which comprise the consolidated statements of financial position as at December 31, 2012, and the consolidated statements of changes in net assets available for benefits, consolidated statements of changes in accrued pension benefits and consolidated statements of changes in deficit for the year then ended and a summary of significant accounting policies and other explanatory information.

MANAGEMENT’S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR’S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Teachers’ Pension Plan Board as at December 31, 2012, and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
MARCH 7, 2013

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Ontario Teachers' Pension Plan Board (the Board) to perform an actuarial valuation of the going concern liabilities of the Ontario Teachers' Pension Plan (the Plan) as at December 31, 2012, for inclusion in the Plan's consolidated financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at August 31, 2012;
- 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 bonds at the end of 2012;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events; and
- information obtained from the Ontario Ministry of Labour and other published data on wage rate changes for the 2012/2013 and 2013/2014 school years.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan on December 31, 2012 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Pension Benefits Act (Ontario)*), which establishes a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements represent the Board's best estimate of future events and market conditions at the end of 2012, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

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

SCOTT CLAUSEN, F.C.I.A., F.S.A
MARCH 7, 2013

LISE HOULE, F.C.I.A., F.S.A

Consolidated Statements of Financial Position

as at December 31 (Canadian $ millions)	2012	2011
Net assets available for benefits		
Assets		
Cash	**$ 344**	$ 435
Receivable from the Province of Ontario (note 3)	**2,831**	2,717
Receivable from brokers	**125**	39
Investments (note 2)	**174,731**	156,563
Premises and equipment	**27**	37
	178,058	159,791
Liabilities		
Accounts payable and accrued liabilities	**270**	542
Due to brokers	**796**	1,847
Investment-related liabilities (note 2)	**47,468**	40,305
	48,534	42,694
Net assets available for benefits	**$ 129,524**	$ 117,097
Accrued pension benefits and deficit		
Accrued pension benefits (note 4)	**$ 166,009**	$ 162,587
Deficit	**(36,485)**	(45,490)
Accrued pension benefits and deficit	**$ 129,524**	$ 117,097

On behalf of the Plan Administrator:

CHAIR

BOARD MEMBER

Consolidated Statements of Changes in Net Assets Available for Benefits

for the year ended December 31 (Canadian $ millions)	2012	2011
Net assets available for benefits, beginning of year	**$ 117,097**	$ 107,535
Investment operations		
Investment income (note 6)	**14,752**	11,735
Administrative expenses (note 11a)	**(301)**	(289)
Net investment operations	**14,451**	11,446
Member service operations		
Contributions (note 9)	**2,944**	2,823
Benefits paid (note 10)	**(4,924)**	(4,663)
Administrative expenses (note 11b)	**(44)**	(44)
Net member service operations	**(2,024)**	(1,884)
Increase in net assets available for benefits	**12,427**	9,562
Net assets available for benefits, end of year	**$ 129,524**	$ 117,097

Consolidated Statements of Changes in Accrued Pension Benefits

for the year ended December 31 (Canadian $ millions)	2012	2011
Accrued pension benefits, beginning of year	**$ 162,587**	$ 146,893
Increase in accrued pension benefits		
Interest on accrued pension benefits	**5,531**	5,944
Benefits accrued	**5,095**	4,409
Changes in actuarial assumptions and methods (note 4a)	**–**	9,819
Changes in plan provisions	**107**	6
Experience losses (note 4c)	**286**	179
	11,019	20,357
Decrease in accrued pension benefits		
Benefits paid (note 10)	**4,924**	4,663
Changes in actuarial assumptions and methods (note 4a)	**2,673**	–
	7,597	4,663
Net increase in accrued pension benefits	**3,422**	15,694
Accrued pension benefits, end of year	**$ 166,009**	$ 162,587

Consolidated Statements of Changes in Deficit

for the year ended December 31 (Canadian $ millions)	2012	2011
Deficit, beginning of year	**$ (45,490)**	$ (39,358)
Increase in net assets available for benefits	**12,427**	9,562
Net increase in accrued pension benefits	**(3,422)**	(15,694)
Deficit, end of year	**$ (36,485)**	$ (45,490)

Notes to Consolidated Financial Statements

for the year ended December 31, 2012

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act (Ontario)* (the TPA) as amended.

(a) General

The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members, represented by Ontario Teachers' Federation (OTF) (the co-sponsors). The terms of the Plan are set out in Schedule 1 to the TPA.

The Plan is registered with the Financial Services Commission of Ontario (FSCO) and under the *Income Tax Act (Canada)* (the ITA) (registration number 0345785) as a Registered Pension Plan which is not subject to income taxes in Canada. The Plan may be liable for taxes in other jurisdictions where full tax exemptions are not available.

The Plan is administered and the investments are managed by the Ontario Teachers' Pension Plan Board (the Board). Under the TPA, the Board is constituted as a corporation without share capital to which the *Corporations Act (Ontario)* does not apply.

(b) Funding

Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and are matched by either the Province or designated employers. The determination of the value of the accrued pension benefits and required contributions is made on the basis of periodic actuarial valuations.

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 50. An unreduced retirement pension is available at 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. For credited service earned between January 1, 2010 and December 31, 2013, the minimum indexation level is set at 50% of the change in the Consumer Price Index. There is no minimum level of inflation protection for credited service earned after 2013. The indexation level stated in the most recent funding valuation filing remains in effect until a subsequent filing updates the amount. Inflation protection of up to 100% for credited service earned after 2009 can be restored on a go-forward basis, depending on the Plan's funded status.

(g) Retirement Compensation Arrangement

Restrictions in the ITA and its regulations on the payment of certain benefits from the registered pension plan for periods of service after 1991 may impact some Plan members. To address affected members, the Retirement Compensation Arrangement (the RCA) was established by agreement between the co-sponsors as a supplementary plan to provide for these benefits. Examples of these benefits include: (1) members of the Plan who retired with average earnings above $142,990 (CPP-exempt members $132,334) in 2012 and $137,979 (CPP-exempt members $127,611) in 2011; and (2) members whose pensions would require a larger reduction for early retirement to comply with the ITA limitations than the Plan would impose. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits and deficit of the RCA are not included in these consolidated financial statements.

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements are prepared in Canadian dollars, the Plan's functional currency, in accordance with the accounting standards for pension plans in Part IV of the 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.

The Plan's real estate portfolio is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly-owned subsidiary. During 2012, the Plan was more actively involved with CFCL and as a result, the Plan now consolidates CFCL. As such, the fair value of the assets and liabilities of CFCL and the investment holding companies managed by CFCL are consolidated as at December 31, 2012. The consolidation of the real estate portfolio increases both investments and investment-related liabilities with no impact on the net assets available for benefits. Comparative information is presented on a non-consolidated basis. Real estate investment income represents the operating income (net of interest expense) earned from the real estate portfolio in both 2012 and 2011. The Plan continues to consolidate investment holding companies that are managed by the Plan. Investment holding companies that are managed by external parties are recognized as the Plan's investment assets. Under Section 4600, investment assets, including those over which the Plan has control or significant influence, are measured at fair value and presented on a non-consolidated basis.

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue through a resolution of the Board on March 7, 2013.

(b) 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, 2012. 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 investment income when adopting these new standards.

(c) Investments

Valuation of investments

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

Fair values of investments are determined as follows:

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

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

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

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

e. Real estate, private equities, infrastructure and 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.

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

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

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

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

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

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

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

Fair value hierarchy

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

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

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

Trade-date reporting

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

Investment income

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

Transaction costs

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

Management fees

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

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within net realized and unrealized gains on investments in investment income.

(e) Accrued pension benefits

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by Mercer (Canada) Limited, an independent firm of actuaries. The valuation is made annually as at 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 is conditional, depending on the Plan's funded status. For the financial statement valuation, the Plan accrues the minimum guaranteed inflation protection benefits and discloses accrued pension benefits with inflation protection assumed at the 100% level in note 4b.

(f) Contributions

Contributions from the members, the Province and designated employers are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(g) Benefits

Benefit payments to members and others, commuted value payments and refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in accrued pension benefits.

(h) Premises and equipment

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

(i) Use of estimates

In preparing these consolidated financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities, and related income and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances. The effect of a change in an estimate or assumption is recognized in the period in which the estimate or assumption is revised, 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 1c explains how estimates and assumptions are used to derive the fair value of investments and investment-related receivables and liabilities.

(j) Contingencies

A contingent liability is a possible obligation that depends on the occurrence or non-occurrence of one or more future events not controlled by the Plan. Contingent liabilities are not recognized but the nature and extent are disclosed in the notes to the consolidated financial statements. A provision for a present obligation is recognized when a reliable estimate can be determined and the settlement of the obligation is probable.

NOTE 2. INVESTMENTS

The Plan invests, directly or through derivatives, in fixed income, equities 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 $258 million (December 31, 2011 – $270 million), before allocating the effect of derivative contracts:

as at December 31		2012		2011
(Canadian $ millions)	**Fair Value**	**Cost**	Fair Value	Cost
Fixed income				
Debentures	**$ –**	**$ –**	$ 662	$ 635
Bonds	**37,555**	**34,494**	31,033	27,806
Short-term investments	**9,176**	**9,240**	7,545	7,562
Alternative investments[2]	**7,048**	**6,259**	5,821	5,482
Canadian real-rate products	**21,963**	**15,105**	19,766	13,109
Non-Canadian real-rate products	**8,798**	**7,138**	9,066	7,210
	84,540	**72,236**	73,893	61,804
Equity				
Publicly traded				
Canadian	**4,895**	**4,987**	5,188	5,325
Non-Canadian	**28,423**	**26,210**	28,934	29,752
Non-publicly traded				
Canadian	**1,496**	**1,529**	2,280	1,422
Non-Canadian	**12,390**	**11,708**	10,252	10,507
	47,204	**44,434**	46,654	47,006
Real assets				
Real estate[3] (note 5)	**21,227**	**12,979**	14,960	8,660
Infrastructure	**9,646**	**8,077**	8,709	7,460
Timberland	**2,173**	**2,092**	2,166	2,092
	33,046	**23,148**	25,835	18,212
	164,790	**139,818**	146,382	127,022
Investment-related receivables				
Securities purchased under agreements to resell	**7,200**	**7,193**	7,245	7,219
Cash collateral deposited under securities borrowing arrangements	**1,167**	**1,167**	841	841
Derivative-related, net	**1,574**	**675**	2,095	1,141
	9,941	**9,035**	10,181	9,201
Investments	**$ 174,731**	**$ 148,853**	$ 156,563	$ 136,223

[1] For additional details, refer to the schedule of Investments over $100 million on pages 102–105.

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

[3] The real estate portfolio is presented on a consolidated basis as described in note 1a.

as at December 31		2012		2011
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Investment-related liabilities				
Securities sold under agreements to repurchase	**$ (35,674)**	**$ (35,775)**	$ (35,088)	$ (35,112)
Securities sold but not yet purchased				
Fixed income	**(4,713)**	**(4,766)**	(2,076)	(2,048)
Equities	**(1,193)**	**(1,101)**	(847)	(826)
Real estate[3] (note 5)	**(4,371)**	**(3,952)**	–	–
Cash collateral received under credit support annexes	**(263)**	**(263)**	(458)	(458)
Derivative-related, net	**(1,254)**	**(541)**	(1,836)	(532)
	(47,468)	**(46,398)**	(40,305)	(38,976)
Net investments (note 2d)	**$ 127,263**	**$ 102,455**	$ 116,258	$ 97,247

[3] The real estate portfolio is presented on a consolidated basis as described in note 1a.

(b) Fair value hierarchy

The schedule below presents the Plan's investments and investment-related liabilities within the fair value hierarchy as outlined in note 1c:

				December 31, 2012
(Canadian $ millions)	Level 1	Level 2	Level 3	**Total**
Fixed income	$ 66,815	$ 6,612	$ 11,113	**$ 84,540**
Equity	31,144	878	15,182	**47,204**
Real assets	1,191	361	31,494	**33,046**
Net investment-related receivables/(liabilities)	(4,831)	(31,043)	(1,653)	**(37,527)**
Net investments	$ 94,319	$ (23,192)	$ 56,136	**$ 127,263**

				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

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.

					2012
(Canadian $ millions)	Fixed income	Equity	Real assets	Net investment-related receivables/ (liabilities)	**Total**
Balance, beginning of year	$ 10,195	$ 13,572	$ 24,774	$ 294	**$ 48,835**
Purchases	3,123	4,928	5,309	9,752	**23,112**
Sales	(2,697)	(4,819)	(4,626)	(9,801)	**(21,943)**
Transfers in[4]	–	–	4,228	(4,228)	**–**
Transfers out[5]	–	–	–	2,592	**2,592**
Gains/(losses) included in investment income					
Realized	16	1,295	12	224	**1,547**
Unrealized	476	206	1,797	(486)	**1,993**
Balance, end of year	$ 11,113	$ 15,182	$ 31,494	$ (1,653)	**$ 56,136**

[4] The real estate portfolio is presented on a consolidated basis as described in note 1a.

					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[5]	253	–	–	(9)	244
Transfers out[5]	(170)	(259)	–	27	(402)
Gains included in investment income					
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

[5] 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 1c Fair Value Hierarchy.

(c) Derivative contracts

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

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

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

Swaps

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

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

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

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:

			2012		2011
(Canadian $ millions)		Notional	Fair Value	Notional	Fair Value
Equity and commodity derivatives					
Swaps		**$ 21,840**	**$ 240**	$ 22,496	$ (178)
Futures		**6,720**	**19**	10,003	(97)
Options: Listed	– purchased	**252**	**5**	158	3
	– written	**353**	**(3)**	149	(3)
OTC	– purchased	**3,623**	**74**	5,271	423
	– written	**2,179**	**(78)**	4,059	(111)
		34,967	**257**	42,136	37
Interest rate derivatives					
Swaps		**27,936**	**61**	26,557	5
Futures		**120,436**	**1**	92,951	24
Options: Listed	– purchased	**2,222**	**–**	–	–
	– written	**989**	**–**	7	–
OTC	– purchased	**4,538**	**27**	1,815	76
	– written	**9,416**	**(24)**	4,384	(80)
		165,537	**65**	125,714	25
Currency derivatives					
Swaps		**1,856**	**7**	274	5
Forwards[6]		**51,305**	**46**	38,177	20
Futures		**104**	**–**	62	–
Options: OTC	– purchased	**11,824**	**140**	5,660	30
	– written	**9,506**	**(114)**	5,526	(31)
		74,595	**79**	49,699	24
Credit derivatives					
Credit default swaps	– purchased	**7,199**	**(3)**	8,510	300
	– written	**4,058**	**(138)**	1,729	(308)
Total return swaps		**4**	**–**	10	1
		11,261	**(141)**	10,249	(7)
Other derivatives					
Statistic swaps		**4,533**	**(41)**	4,147	(61)
Dividend swaps		**404**	**(13)**	439	(37)
		4,937	**(54)**	4,586	(98)
		291,297	**206**	232,384	(19)
Net cash collateral paid under derivative contracts		**–**	**114**	–	278
Notional and net fair value of derivative contracts		**$ 291,297**	**$ 320**	$ 232,384	$ 259

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

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

(Canadian $ millions)	2012	2011
Derivative-related receivables	**$ 1,470**	$ 2,025
Cash collateral paid under derivative contracts	**169**	307
Derivative-related liabilities	**(1,264)**	(2,044)
Cash collateral received under derivative contracts	**(55)**	(29)
	$ 320	$ 259

(d) Investment asset mix

The Plan had a policy asset mix of 45% equities, 48% fixed income, 5% commodities, 25% real assets and (23%) money market as at December 31, 2012. 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:

	2012		2011	
	Effective Net Investments at Fair Value ($ millions)	**Asset Mix %**	Effective Net Investments at Fair Value ($ millions)	Asset Mix %
Equity				
Canadian	**$ 11,395**	**9%**	$ 10,636	9%
Non-Canadian	**48,116**	**38**	41,034	35
	59,511	**47**	51,670	44
Fixed income				
Bonds	**28,866**	**23**	26,500	23
Real-rate products	**31,145**	**25**	29,291	25
	60,011	**48**	55,791	48
Commodities	**6,974**	**5**	5,645	5
Real assets				
Real estate (note 5)	**16,856**	**13**	14,960	13
Infrastructure	**9,646**	**8**	8,709	7
Timberland	**2,173**	**2**	2,166	2
	28,675	**23**	25,835	22
Absolute return strategies				
Internal absolute return strategies	**6,659**	**5**	7,679	7
Alternative investments	**5,611**	**4**	4,652	4
	12,270	**9**	12,331	11
Money market	**(40,178)**	**(32)**	(35,014)	(30)
Net investments	**$ 127,263**	**100%**	$ 116,258	100%

(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 for maintaining the liquidity positions in accordance with the Plan's policies on liquidity. The Finance Division independently measures the investment risk exposure and the liquidity position of the Plan and provides the information to the Investment Division and the Investment Committee of the Board.

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

The senior representatives from each investment department form the Investment Risk Committee (IRC) which focuses on managing investment risks at a total fund level. The Chief Financial Officer attends all meetings of the committee as an observer. This committee brings together the experience, investment and operational business judgment required for assessing and managing market, credit and liquidity risks on a regular basis. It monitors the currency positions, interest rate risk and liquidity risk at the total fund level. The committee meets every other week, or more frequently as required. Reporting to the IRC are the Investment Division 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 an investment grade credit rating), or by the Government of the United States of America, the Plan's total investment in securities of a single issuer across all asset classes shall not exceed 3% of the market value of the total fund without the approval of the Board. Debt exposure to a single issuer or with a single guarantor shall not exceed 2% of the market value of the Plan without approval of the Board. Further, not more than 10% of the market value of the Plan may be made up of non-investment grade or unrated investments.

The Plan enters into agreements with counterparties to limit its exposure to credit losses. An International Swaps and Derivatives Association (ISDA) Master Agreement is executed with most OTC derivative counterparties, which allows both parties to settle obligations on a net basis when termination or other pre-determined events occur. The Plan also negotiates collateral agreements known as Credit Support Annex (CSA) with key counterparties to further mitigate counterparty credit risk. A CSA gives the Plan the power to realize collateral posted by counterparties in the event of a default by such counterparties.

Since collateral is an important mitigant of counterparty credit risk, the Plan routinely obtains collateral from its counterparties, not only under OTC derivative contracts but also under reverse repurchase agreements. Note 2i provides further details on securities collateral.

The Plan has a credit risk assessment process to approve prospective new counterparties and to monitor authorized counterparties for derivative contracts, repurchase and reverse repurchase agreements, prime broker relationships and futures and options clearing. The Plan deals primarily with counterparties that have an investment grade credit rating. Policies are in place to limit the maximum exposures to any individual counterparty for derivative contracts or repurchase and reverse repurchase agreements, prime broker relationships and futures and options clearing.

Maximum exposure to credit risk before collateral held

The following table presents the maximum exposure as at December 31, 2012 and December 31, 2011 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.

as at December 31 (Canadian $ millions)	2012	2011
On balance sheet:		
Cash	**$ 344**	$ 435
Receivable from the Province of Ontario	**2,831**	2,717
Receivable from brokers	**125**	39
Fixed income		
Debentures	**–**	662
Bonds	**37,555**	31,033
Short-term investments	**9,176**	7,545
Canadian real-rate products	**21,963**	19,766
Non-Canadian real-rate products	**8,798**	9,066
Securities purchased under agreements to resell	**7,200**	7,245
Derivative-related receivables	**1,470**	2,025
Total on balance sheet	**$ 89,462**	$ 80,533
Off balance sheet:		
Guarantees	**$ 324**	$ 2,867
Loan commitments	**10**	33
Risk participation agreements	**28**	113
Notional amount of written credit derivatives	**4,058**	1,729
Total off balance sheet	**4,420**	4,742
Total maximum exposure	**$ 93,882**	$ 85,275

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.

To monitor credit risk, the Plan produces, on a quarterly basis, a concentration report by credit rating of all credit sensitive financial securities.

Counterparties are assigned a credit rating as determined by recognized credit rating agencies. If the agencies disagree as to a security's credit quality, the most conservative rating is used.

The fair value of debt investments exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements as at December 31, is as follows:

			2012
Credit rating (Canadian $ millions)	Bonds and Short-Term Investments	Real-Rate Products	Loans and Private Debt
AAA/R-1 (high)	$ 32,518	$ 17,508	$ –
AA/R-1 (mid)	7,123	9,850	–
A/R-1 (low)	2,308	3,098	–
BBB/R-2	1,075	23	–
Below BBB/R-2	1,287	–	–
Unrated[7]	2,420	282	2,932
Total	**$ 46,731**	**$ 30,761**	**$ 2,932**

			2011
Credit rating (Canadian $ millions)	Bonds and Short-Term Investments	Real-Rate Products	Loans and Private Debt
AAA/R-1 (high)	$ 29,710	$ 15,333	$ –
AA/R-1 (mid)	3,164	10,115	–
A/R-1 (low)	1,577	3,070	–
BBB/R-2	539	23	–
Below BBB/R-2	896	–	–
Unrated[7]	2,692	291	2,696
Total	$ 38,578	$ 28,832	$ 2,696

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

Credit risk concentrations

As at December 31, 2012, 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 $45.4 billion (December 31, 2011 – $42.1 billion), U.S. Treasury issued securities of $8.7 billion (December 31, 2011 – $9.6 billion), Province of Ontario bonds of $4.1 billion (December 31, 2011 – $2.9 billion), receivable from the Province of Ontario (see note 3) of $2.8 billion (December 31, 2011 – $2.7 billion), non-marketable Province of Ontario debentures – nil (December 31, 2011 – $0.7 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 26 years of market data. When sufficient historical data is not available, proxies and statistical methods are used to complete the data series.

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

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

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

(Canadian $ billions)[8]	2012	2011
Equity		
Canadian	**$ 4.5**	$ 4.0
Non-Canadian[9]	**16.0**	12.5
Fixed income		
Bonds	**2.0**	2.0
Real-rate products	**5.0**	4.5
Commodities	**4.0**	3.5
Real assets		
Real estate	**1.0**	1.5
Infrastructure	**1.5**	1.5
Timberland	**0.5**	0.5
Absolute return strategies	**1.5**	1.0
Money market	**4.5**	4.5
Total Asset Risk ETL Exposure[10]	**$ 26.5**	$ 21.5

[8] Rounded to the nearest $0.5 billion.

[9] The increase from 2011 to 2012 for Non-Canadian equity is mitigated by a model change in 2012, which if implemented in 2011 would have seen an increase by up to an estimated $1.0 billion.

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

Interest rate risk

Interest rate risk refers to the effect on the market value of the Plan's assets and liabilities due to fluctuations in interest rates. The value of the Plan's assets is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates as well as expectations for salary escalation.

The Plan manages the interest rate risk by using interest rate derivatives as detailed in note 2c to the consolidated financial statements. After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2c, a 1% increase in nominal interest rates would result in a decline in the value of the Plan's investments in fixed-income securities of 6% or $1.8 billion (December 31, 2011 – 6% or $1.7 billion). Similarly, a 1% increase in real interest rates would result in a decline in the value of the Plan's investments in real-rate products of 17% or $5.2 billion (December 31, 2011 – 17% or $4.8 billion).

As at December 31, 2012, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 21% or $35.3 billion (December 31, 2011 – 21% or $33.9 billion).

Foreign currency risk

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

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

(Canadian $ millions)	2012	2011
Currency	Net Exposure	Net Exposure
United States Dollar	**$ 23,065**	$ 22,877
British Pound Sterling	**6,970**	5,759
Euro	**6,644**	4,684
Brazilian Real	**3,078**	3,021
Chinese Renminbi	**2,634**	1,892
Japanese Yen	**2,590**	2,538
Chilean Peso	**2,496**	1,968
Australian Dollar	**1,983**	1,495
South Korean Won	**1,392**	1,011
Danish Krona	**1,211**	720
Other	**8,277**	4,923
	$ 60,340	$ 50,888

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 $603 million as at December 31, 2012 (December 31, 2011 – $509 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 1.25% of its assets in unencumbered Canadian treasury bills. The Plan also manages its liquidity by holding additional unencumbered Government of Canada securities (bonds, treasury bills and real-rate bonds) and U.S. Government securities that are available for repurchase agreements so that the Plan is able to withstand the liquidity effects of 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 $54,072 million as at December 31, 2012 (December 31, 2011 – $51,695 million). The Plan also has publicly traded equities of $33,318 million (December 31, 2011 – $34,122 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, real estate liabilities, investment-related liabilities, due to brokers, accounts payable and accrued liabilities. Due to brokers, accounts payable and accrued liabilities are all due within one year. As the Plan may settle derivatives at fair value before contractual maturity, they are considered to mature within one year.

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

(Canadian $ millions)				**2012**
	Within One Year	One to Five Years	Over Five Years	**Total**
Securities sold under agreements to repurchase	$ (30,661)	$ (5,013)	$ –	**$ (35,674)**
Securities sold but not yet purchased				
Fixed income	(4,713)	–	–	**(4,713)**
Equities	(1,193)	–	–	**(1,193)**
Real estate	(539)	(1,597)	(2,235)	**(4,371)**
Cash collateral received under credit support annexes	(263)	–	–	**(263)**
Derivative-related, net	(1,254)	–	–	**(1,254)**
Total	$ (38,623)	$ (6,610)	$ (2,235)	**$ (47,468)**

(Canadian $ millions)			2011
	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)

(i) Securities collateral

Canadian and U.S. government securities with a fair value of $808 million (December 31, 2011 – $1,260 million) have been either deposited or pledged with various financial institutions as either collateral or margin. Generally, additional collateral is provided if the value of the securities falls below a predetermined level. The securities transferred are recognized as assets when the Plan retains substantially all risks and rewards, including credit risk, settlement risk and market risk. The Plan is not allowed to either pledge the same securities with other financial institutions or to sell them to another entity unless the Plan could substitute such securities with other securities that the counterparties accept.

At the end of the reporting period, securities transferred as collateral for securities sold under agreements to repurchase amounted to $35,986 million (2011 – $36,507 million) with an associated liability of $35,674 million (2011 – $35,088 million). Securities transferred as collateral or margin for derivative-related liabilities amounted to $800 million (2011 – $1,251 million) with the associated liability is $1,264 million (2011 – $2,044 million).

Canadian and U.S. government securities with a fair value of $938 million (December 31, 2011 – $1,838 million) have been received from various financial institutions as collateral. The collateral is not recognized as the Plan's asset since the risks and rewards of the ownership remain with the counterparties. The Plan holds the collateral received as long as the Plan is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to either sell or repledge the collateral in the absence of default by the owner of the collateral but it has neither sold nor repledged any collateral as of December 31, 2012 and 2011.

NOTE 3.
RECEIVABLE FROM THE PROVINCE OF ONTARIO

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

as at December 31 (Canadian $ millions)	2012	2011
Contributions receivable	**$ 2,777**	$ 2,663
Accrued interest receivable	**54**	54
	$ 2,831	$ 2,717

The receivable as at December 31, 2012 from the Province of Ontario consists of $1,393 million, which was received in January 2013, and an estimated $1,438 million to be received with interest in January 2014. The receivable as at December 31, 2011 from the Province consisted of $1,344 million, which was received in January 2012, and an initial estimate of $1,373 million to be received in January 2013. 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 $166,009 million (December 31, 2011 – $162,587 million) reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, the salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada bonds, which have characteristics similar to the Plan's liabilities, plus a spread to reflect the credit risk of the Province of Ontario. The 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 as at December 31 between the Government of Canada and the Province of Ontario long-term nominal bonds. As the change in accounting estimate was applied prospectively beginning January 1, 2011, the change in accrued benefits for 2012 was not affected (2011 – $12,397 million decrease).

A summary of the primary economic assumptions is as follows:

as at December 31	2012	2011
Discount rate	**3.40%**	3.40%
Salary escalation rate	**3.00%**	3.05%
Inflation rate	**2.00%**	2.05%
Real rate	**1.40%**	1.35%

The primary economic assumptions were changed as a result of changes in capital markets during 2012 and the legislated salary freeze noted below. These changes resulted in a net decrease in the value of accrued pension benefits of $5,699 million (December 31, 2011 – $22,284 million increase).

The primary economic assumptions also incorporated the Province of Ontario's two-year legislated teachers' salary freeze for 2012 and 2013. The accrued pension benefits as at December 31, 2012 would increase by $4.3 billion if the salary freeze had not been reflected. There is an outstanding court challenge by the Elementary Teachers' Federation of Ontario and the Ontario Secondary School Teachers' Federation to this legislation and it is not possible to assess the probable outcome until the court decides and/or the parties settle.

The non-economic assumptions were updated in 2012 to reflect recent experience of Plan members related to retirement, termination and mortality rates and expected rates of improvement in future mortality. Changes in non-economic assumptions and the valuation methods increased the accrued pension benefits by $3,026 million (December 31, 2011 – $68 million decrease). The changes in economic and non-economic assumptions resulted in a net decrease in the value of accrued pension benefits of $2,673 million (December 31, 2011 – $9,819 million increase).

(b) Plan provisions

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

Conditional inflation protection was initially invoked in 2011, resulting in the level of inflation protection being set at 60% of the change in the CPI for the post-2009 credited service. The provision has been revised based on the filed funding valuation as at January 1, 2012. Effective January 1, 2014, inflation protection has been revised to be 50% of the change in the CPI for credited service earned between 2010 and 2013 and 45% for credited service after 2013. The level of inflation protection may be updated based on the Plan's funded status when a subsequent funding valuation is filed. Pension legislation prescribes the timing of periodic valuations but the co-sponsors can elect to file a funding valuation at an earlier date.

For the financial statement valuation at December 31, 2012, the Plan accrues the minimum amount of inflation protection benefits for credited services earned by members until 2012. With respect to the credited service earned between 2010 and 2012, the minimum inflation protection benefits are 60% of CPI for payments in 2013 and 50% of CPI for payments after 2013. The indexation percentage for credited service earned before 2010 remains at 100% for all future year payments.

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 $2,414 million (December 31, 2011 – $1,620 million) to $168,423 million (December 31, 2011 – $164,207 million). The present value of the maximum extra contributions the Plan will receive from the Ontario government and designated employers will be $2,414 million (December 31, 2011 – $1,620 million).

Effective July 1, 2012, the Ontario pension regulations were amended, providing for immediate vesting of accrued benefits for members who terminate on or after July 1, 2012. The changes to plan provisions resulted in an increase in the value of accrued pension benefits of $107 million as at December 31, 2012.

(c) Experience gains and losses

Experience losses on the accrued pension benefits of $286 million (December 31, 2011 – $179 million) arose from differences between the actuarial assumptions and actual results.

NOTE 5.
INVESTMENT IN REAL ESTATE

The Plan's real estate portfolio is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited (CFCL), a wholly-owned subsidiary. As the Plan is now more actively involved with CFCL, the Plan now consolidates the fair value of the assets and liabilities of CFCL and the investment holding companies managed by CFCL. Investment holding companies and investment entities, including the joint ventures, managed by external parties, are recognized as the Plan's investments measured at fair value and presented on a non-consolidated basis. The consolidation of the real estate portfolio in 2012 and the non-consolidation of the real estate portfolio in 2011 have no impact on the net investment in real estate. The operating income (net of interest expense) earned from the real estate portfolio continues to be recorded as the Plan's real estate investment income.

The tables below provide information on the real estate portfolio. Intercompany transactions and balances are eliminated upon consolidation in 2012. The first table presents major components of the net investment in real estate including, as at December 31, 2011, the non-consolidated liabilities. The second table presents major components of net real-estate income.

as at December 31		2012		2011
(Canadian $ millions)	Fair Value	Cost	Fair Value	Cost
Assets[1, 2]				
Real estate properties	**$ 18,320**	**$ 11,259**	$ 18,866	$ 12,593
Investments	**2,681**	**1,513**	1,234	869
Other assets	**226**	**207**	306	268
Total assets	**21,227**	**12,979**	20,406	13,730
Liabilities[1, 2]				
Long-term debt	**3,704**	**3,457**	4,665	4,527
Other liabilities	**667**	**495**	781	543
Total liabilities	**4,371**	**3,952**	5,446	5,070
Net investment in real estate	**$ 16,856**	**$ 9,027**	$ 14,960	$ 8,660

1 As at December 31, 2012, U.S. Dollar and British Pound Sterling net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,143 million (December 31, 2011 – $915 million) with a combined fair value of $4 million (December 31, 2011 – ($43) million).

2 Joint ventures managed by external parties hold real estate properties and have liabilities. As at December 31, 2012, the net asset value of these joint ventures is included in investments, representing assets of $1,897 million and liabilities of $920 million. As at December 31, 2011, the proportionate share of assets and liabilities in these joint ventures of $1,675 million and $787 million were included in assets and liabilities respectively.

(Canadian $ millions)	2012	2011
Revenue		
Rental	**$ 1,678**	$ 1,804
Investment and other	**96**	77
	1,774	1,881
Expenses		
Property operating	**746**	793
General and administrative	**39**	37
Other[3]	**13**	47
	798	877
Operating income	**976**	1,004
Interest expense	**(148)**	(176)
Income (note 6)	**828**	828
Net investment gain[4, 5]	**2,064**	1,545
Net real estate income	**$ 2,892**	$ 2,373

[3] Includes transaction costs of $13 million (2011 – $24 million).

[4] Includes unrealized net gain of $1,529 million (2011 – $1,337 million).

[5] These amounts are included in net realized and unrealized gains on investments shown in note 6.

NOTE 6.
INVESTMENT INCOME

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

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

(Canadian $ millions)	2012	2011
Fixed income interest		
Debentures	**$ 31**	$ 99
Short-term investments	**(87)**	(124)
Bonds	**1,485**	1,334
Net repo interest expense	**(104)**	(166)
Net swap interest expense	**(91)**	(154)
Canadian real-rate products	**460**	428
Non-Canadian real-rate products	**164**	171
	1,858	1,588
Equity dividend income		
Canadian equity	**148**	179
Non-Canadian equity	**1,121**	979
	1,269	1,158
Real assets		
Real estate (note 5)	**828**	828
Infrastructure	**469**	201
Timberland	**68**	60
	1,365	1,089
	4,492	3,835
Net realized and unrealized gain on investments[1, 2]	**10,792**	8,233
Management fees	**(216)**	(218)
Transaction costs	**(316)**	(115)
Investment income	**$ 14,752**	$ 11,735

[1] Includes net foreign currency gains of $53 million (2011 – losses of $546 million).

[2] Includes unrealized net gains of $5,797 million (2011 – gains of $5,284 million).

(b) Investment income/(loss)

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

(Canadian $ millions)	2012	2011
Fixed income	**$ 3,738**	$ 9,306
Canadian equity	**740**	(267)
Non-Canadian equity	**6,623**	(248)
Commodities	**(59)**	(46)
Real assets	**3,710**	2,990
	$ 14,752	$ 11,735

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:

	2012		2011	
(percent)	**Investment Returns**	**Investment Benchmark Returns**	Investment Returns	Investment Benchmark Returns
Fixed income	**5.1%**	**4.5%**	19.9%	19.5%
Canadian equity	**5.2**	**8.1**	(5.0)	(9.1)
Non-Canadian equity	**16.5**	**14.5**	0.2	(4.4)
Commodities	**(1.9)**	**(1.1)**	(2.3)	(1.5)
Real assets	**14.7**	**10.6**	13.2	13.3
Total Plan	**13.0%**	**11.0%**	11.2%	9.8%

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

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

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

NOTE 8.
STATUTORY ACTUARIAL VALUATIONS

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. Active members are currently required to contribute 10.8% (2011 – 10.4%) of the portion of their salaries covered by the CPP and 12.4% (2011 – 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 consolidated financial statements. The statutory actuarial valuations use a valuation method which takes into account future benefits to be earned and future contributions to be made by members of the Plan as at the valuation date.

The most recent statutory actuarial valuation that has been filed with regulatory authorities was prepared as at January 1, 2012 by Mercer (Canada) Limited and disclosed a funding surplus of $209 million, after adopting conditional inflation protection of 60% for post-2009 to be paid in 2013, 50% for 2010 to 2013 service to be paid after 2013, and 45% for post-2013 service to be paid after 2014, as well as the contribution increases summarized above which will be payable over the 15-year period commencing January 1, 2012.

NOTE 9.
CONTRIBUTIONS

(Canadian $ millions)	2012	2011
Members		
Current service	**$ 1,418**	$ 1,352
Optional credit	**28**	25
	1,446	1,377
Province of Ontario		
Current service	**1,395**	1,345
Interest	**39**	40
Optional credit	**24**	21
	1,458	1,406
Other employers	**28**	26
Transfers from other pension plans	**12**	14
	40	40
	$ 2,944	$ 2,823

NOTE 10.
BENEFITS PAID

(Canadian $ millions)	2012	2011
Retirement pensions	**$ 4,550**	$ 4,329
Death benefits	**287**	259
Disability pensions	**29**	29
Commuted value transfers	**45**	33
Family law transfers	**6**	–
Transfers to other plans	**6**	10
Refunds	**1**	3
	$ 4,924	$ 4,663

NOTE 11.
ADMINISTRATIVE EXPENSES

(a) Investment expenses

(Canadian $ millions)	2012	2011
Salaries, incentives and benefits	**$ 179.7**	$ 180.6
Premises and equipment	**35.3**	31.5
Professional and consulting services	**41.3**	37.0
Information services	**16.4**	14.9
Communication and travel	**13.4**	12.0
Custodial fees	**9.0**	8.0
Statutory audit fees	**1.7**	1.6
Board and committee remuneration	**0.7**	0.6
Other	**4.0**	3.2
	$ 301.5	$ 289.4

(b) Member services expenses

(Canadian $ millions)	2012	2011
Salaries, incentives and benefits	**$ 28.2**	$ 28.6
Premises and equipment	**8.9**	8.8
Professional and consulting services	**4.4**	3.5
Communication and travel	**1.1**	1.7
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 Members, the Executive Team and the Senior Vice-Presidents of the Investment Division.

The compensation of the key management personnel is included in the administrative expenses of the Plan. There are no other related party transactions between the key management personnel and the Plan.

The compensation of the key management personnel[1] as at December 31 is summarized below:

(Canadian $ millions)	2012	2011
Short-term employee benefits	**$ 12.4**	$ 12.0
Post-employment retirement benefits	**3.6**	3.1
Other long-term benefits	**17.0**	23.5
Total	**$ 33.0**	$ 38.6

[1] The table does not include compensation of either officers or directors of CFCL.

(d) Employees' post-employment retirement 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 pensionable earnings times the number of years of service, less the initial annual pension to which the employee is entitled under the PSPP and PSSP, combined. The contributions expensed by the Plan during the year were $12.7 million (2011 – $10.1 million). Contributions are included in the salaries, incentives and benefits expenses.

NOTE 12.
CAPITAL

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

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

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

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

NOTE 13.
RETIREMENT COMPENSATION ARRANGEMENT (RCA)

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

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

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

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Plan by members, the Province and designated employers. The portion is based on a limit on contributions to the Plan with contributions above the limit being remitted to the RCA. The limit is determined annually by the Plan's independent actuary such that the RCA contributions are expected to be sufficient to pay the benefits over the next 12 months. At the beginning of 2013, the actuary determined that the limit should decrease from $15,000 to $14,200. Due to the funding policy adopted by the co-sponsors, the net assets available for benefits will continue to be substantially less than the accrued benefits.

In addition, because it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and contributions raised in order to fund the payments that are due under the RCA.

The RCA financial statements are in compliance with Section 4600 and IFRS. A summary of the financial statements for the RCA as at December 31 is as follows:

as at December 31 (Canadian $ thousands)	2012	2011
Statements of financial position		
Net assets available for benefits		
Assets	**$ 18,912**	$ 17,152
Liabilities	**(1,744)**	(1,595)
	$ 17,168	$ 15,557
Accrued benefits and deficit		
Accrued benefits	**$ 380,095**	$ 391,835
Deficit	**(362,927)**	(376,278)
	$ 17,168	$ 15,557
Statements of changes in net assets available for benefits		
Contributions	**$ 7,693**	$ 6,142
Investment income	**70**	49
	7,763	6,191
Benefits paid	**6,060**	5,917
Expenses	**92**	86
	6,152	6,003
Increase in net assets	**$ 1,611**	$ 188

The actuarial assumptions and the accrual of conditional inflation protection used in determining the value of accrued benefits are consistent with the Plan except that the assumed discount rate has been adjusted to reflect the effect of the 50% refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant effect on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

NOTE 14.
COMMITMENTS

The Plan has committed to enter into investment and other transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2012, these commitments totalled $6,940 million (December 31, 2011 – $4,962 million).

NOTE 15.
GUARANTEES AND INDEMNIFICATIONS

The Plan provides guarantees to third parties related to certain companies the Plan invests in and will be called upon to satisfy the guarantees if the companies fail to meet their obligations. The Plan expects most guarantees to expire unused. No payments have been made by the Plan in either 2012 or 2011 under these guarantees.

The Plan guarantees three debentures issued by a real estate trust in 2011. The debentures are comprised of $1.25 billion 3.24% Series A Debentures maturing on January 25, 2016, $0.75 billion 4.31% Series B Debentures maturing on January 25, 2021 and $0.6 billion 3.64% Series C Debentures maturing on May 9, 2018. The debentures 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, 2012 (December 31, 2011 – $2,635 million).

As the Plan now consolidates real estate liabilities, these debentures are included in real estate investment-related liabilities in note 2 in 2012. In 2011, the debentures were included in net investment in real estate.

The Plan guarantees loan and credit agreements which will expire between 2013 and 2014. The Plan's maximum exposure is $139 million as at December 31, 2012 (December 31, 2011 – $149 million). The companies have drawn $128 million under the agreements (December 31, 2011 – $127 million).

The Plan guarantees lease agreements for a subsidiary with expiry dates ranging from 2013 to 2059. The Plan's maximum exposure is $84 million as at December 31, 2012 (December 31, 2011 – $83 million). There were no default lease payments in either 2012 or 2011.

The Cadillac Fairview Corporation Limited manages the real estate investments and has provided guarantees relating to the completion of the construction of certain residential developments. The term of these guarantees spans the lives of the development projects, which range from one to three years. The maximum exposure cannot be determined because the projects are not yet complete. These guarantees amounted to $101 million as at December 31, 2012 and have not been recognized in the real estate liabilities.

Indemnifications

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

NOTE 16.
LITIGATION

In 2007, the Board on behalf of the Plan made an equity commitment in respect of a proposed transaction pursuant to which a corporation (the Purchaser) organized by several investors was proposing to acquire BCE Inc. (BCE). The transaction was terminated in 2008 because not all of the conditions required under the definitive agreement could be satisfied. In connection with the BCE transaction, the Board was named as a defendant in the following cases:

Break fee litigation

BCE made a claim for the reverse break-up fee of $1.2 billion, which was payable in certain circumstances, under the BCE acquisition agreement. Certain of the investors, including the Board, were parties to a limited guarantee of this reverse break-up fee. This action was settled in 2012 as part of the acquisition of an investment called Q9 Networks.

Proposed class actions

A proposed class action was commenced in the Province of Saskatchewan in 2008 regarding the non-payment of second and third quarter common share dividends by BCE. A certification motion has not been scheduled. At this time, it is premature to estimate the Board's liability, if any.

A proposed class action was commenced in the Province of Ontario in 2011 by a former holder of BCE call options, claiming damages of $30 million and punitive damages of $5 million. The plaintiff alleges that certain statements reported anonymously in a news article misrepresented the status of the negotiations that eventually led to the definitive agreement between BCE and the Purchaser. At this time, it is premature to estimate the Board's liability, if any.

Major Investments

(as at December 31, 2012)

FIXED INCOME AND SHORT-TERM INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Government of Canada bonds	2013–2045	0.75–9.25	$ 20,642	$ 17,553
Canada treasury bills	2013–2013	0.00–0.00	7,251	7,238
Securities purchased under agreements to resell	2013–2013	-0.75–1.08	7,200	7,193
Provincial bonds	2016–2044	0.00–9.50	5,555	5,218
International corporate bonds	2013–2099	0.00–22.07	2,762	3,031
U.S. government agency bonds	2014–2017	0.38–5.00	2,572	2,566
Canadian corporate bonds	2013–2085	0.00–14.00	1,993	2,017
International sovereign debt	2013–2025	2.00–9.91	392	376
U.S. treasury bills	2013–2013	0.00–0.00	137	137
Bank notes	2013–2013	0.00–0.05	103	103
Securities sold under agreements to repurchase	2013–2013	0.10–1.35	(35,674)	(35,775)

REAL-RETURN INVESTMENTS OVER $100 MILLION

Type ($ millions)	Maturity	Coupon (%)	Fair Value	Cost
Real-return Canada bonds	2021–2044	1.50–4.25	$ 17,508	$ 12,804
U.S. treasury inflation protection	2014–2042	0.50–3.88	8,605	6,956
Real-return provincial bonds	2013–2036	2.00–4.50	2,222	1,333
Real-return Canadian corporate bonds	2016–2046	0.00–5.33	2,078	839
Index-linked mortgages	2023–2030	4.63–5.53	155	129

CORPORATE SHARES/UNITS OVER $100 MILLION

(as at December 31, 2012) (millions)

Security Name	Shares	Fair Value
iShares MSCI Emerging Markets Index	56.8	$2,507.0
Multiplan Empreendimentos Imobiliarios S.A.	52.1	1,541.6
Hitachi, Ltd.	117.5	682.1
Canadian Natural Resources Limited	17.0	487.9
Michael Kors Holdings Limited	9.2	465.0
Nippon Telegraph and Telephone Corporation	7.8	324.8
ACE Limited	3.9	310.8
Wells Fargo & Company*	9.4	292.9
Toronto-Dominion Bank, The	4.1	286.5
Royal Bank of Canada	4.6	276.4
Transocean Ltd.	6.1	269.1
Grupo BTG Pactual	16.6	239.0
TMX Group Limited	4.6	235.6
European Aeronautic Defence and Space Company N.V.	6.1	235.2
JPMorgan Chase & Co.*	5.5	232.6
Microsoft Corporation	8.4	223.3
CSX Corporation	10.8	212.6
MMX Mineracao e Metalicos S.A.	124.1	210.1
Sprint Nextel Corporation	37.2	209.9
Bank of Nova Scotia	3.6	206.4
Google Inc.	0.3	205.3
Goldcorp Inc.	5.6	203.7
Kroger Co., The	7.9	203.6
Nestlé S.A.	3.1	198.8
Royal Dutch Shell plc	3.2	194.0
Barrick Gold Corporation	5.5	193.2
3M Company	2.1	191.5
Lafarge S.A.	3.0	188.5
Akzo Nobel N.V.	2.9	188.1
PNC Financial Services Group, Inc.*	3.8	181.9
Daiwa Securities Group Inc.	31.0	169.8
Ivanplats Ltd.	4.2	168.9
The Walt Disney Company	3.4	166.6
Credit Suisse Group AG	6.8	164.0
Novartis AG	2.6	162.9
DaimlerChrysler AG	3.0	162.5
UBS AG	10.2	158.8
Apple Inc.	0.3	157.4
MacDonald, Dettwiler and Associates Ltd.	2.8	155.3
Toyota Motor Corporation	3.3	150.4
CVS Caremark Corporation	3.1	150.2

Security Name	Shares	Fair Value
Total S.A.	3.2	$148.6
Unilever N.V.	3.9	148.5
SunTrust Banks, Inc.*	5.3	146.3
Exxon Mobil Corporation	1.7	146.2
FedEx Corporation	1.6	146.1
LLX Logistica S.A.	124.1	144.9
The Bank of New York Mellon Corporation	5.6	143.7
News Corporation	5.7	143.7
Intel Corporation	6.9	142.1
Applied Materials, Inc.	12.5	142.0
Cemex, S.A. de C.V.	22.0	141.1
Canadian Imperial Bank of Commerce	1.8	140.1
Metlife, Inc.	4.3	138.9
Pfizer Inc.	5.5	137.1
HSBC Holdings plc	12.5	131.3
Bank of Montreal	2.2	131.2
Chow Tai Fook Jewellery Company Limited	81.0	130.0
Oracle Corporation	3.8	126.2
NuVista Energy Ltd.	21.5	126.0
Koninklijke (Royal) Philips Electronics N.V.	4.8	125.9
Continental AG	1.1	123.7
Portugal Telecom, SGPS, S.A.	24.8	121.8
Shriram Transport Finance Company Ltd.	8.8	121.3
Canadian National Railway Company	1.3	120.4
General Mills, Inc.	2.9	118.0
TripAdvisor, Inc.	2.8	117.8
Enbridge Inc.	2.8	116.2
Viacom Inc.	2.2	114.6
TransCanada Corporation	2.4	113.5
Sampo Oyj	3.5	113.4
Chesapeake Energy Corporation	6.8	112.7
Idea Cellular Limited	58.8	110.9
Potash Corporation of Saskatchewan Inc.	2.7	109.7
Rockwell Collins, Inc.	1.9	108.0
Aurizon Holdings Limited	27.6	106.9
International Business Machines Corporation	0.6	106.0
Cisco Systems, Inc.	5.3	103.5
Cheung Kong (Holdings) Limited	6.8	103.3
Republic Services, Inc.	3.5	102.1
Woodside Petroleum Ltd.	2.9	101.2
Ferrovial, S.A.	6.9	100.8
Itaú Unibanco Holding S.A.	6.1	100.3

* Includes fair market value of warrants and subscription receipts.

REAL ESTATE INVESTMENTS OVER $100 MILLION

(as at December 31, 2012)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Regional Shopping Centres		
Champlain Place, Dieppe	731	100%
Chinook Centre, Calgary	1,382	100%
Fairview Mall, Toronto	875	50%
Fairview Park Mall, Kitchener	746	100%
Fairview Pointe Claire, Montreal	1,050	50%
Le Carrefour Laval, Montreal	1,357	100%
Les Galeries D'Anjou, Montreal	1,200	50%
Les Promenades St. Bruno, Montreal	1,135	100%
Lime Ridge Mall, Hamilton	810	100%
Market Mall, Calgary	972	50%
Markville Shopping Centre, Markham	896	100%
Masonville Place, London	687	100%
Pacific Centre, Vancouver	1,440	100%
Polo Park Mall, Winnipeg	1,232	100%
Richmond Centre, Richmond	773	50%
Rideau Centre, Ottawa	1,389	100%
Sherway Gardens, Toronto	992	100%
Shops at Don Mills, Toronto	470	100%
The Promenade, Toronto	704	100%
Toronto-Dominion Centre, Toronto	156	100%
Toronto Eaton Centre, Toronto	1,712	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian Office Properties		
Encor Place, Calgary	359	100%
Granville Square, Vancouver	402	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,531	100%
PricewaterhouseCoopers Place, Vancouver	241	100%
RBC Centre, Toronto	1,226	50%
Shell Centre, Calgary	683	50%
Simcoe Place, Toronto	759	25%
Toronto-Dominion Centre Office Complex, Toronto	4,436	100%
Toronto Eaton Centre Office Complex, Toronto	1,898	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	670	100%
U.S. Regional Shopping Centres		
Lakewood Mall, Lakewood, California	2,079	49%
Los Cerritos Center, Cerritos, California	1,329	49%
Queens Center, Queens, New York	938	49%
Stonewood Center, Downey, California	920	49%
Washington Square, Tigard, Oregon	1,317	49%
U.K. Office Properties		
Thomas More Square Estate, London	566	50%

PRIVATE COMPANIES AND PARTNERSHIPS OVER $100 MILLION

(as at December 31, 2012)

360buy Jingdong Inc.
Acorn Care and Education Limited
Actera Partners L.P.
Alexander Forbes Limited
Alliance Boots GmbH
Alliance Laundry Systems, LLC
AlphaMikita
ANV Holdings BV
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 VII Ltd.
Aquiline Financial Services Fund (Offshore) L.P.
ARC Energy Fund 5 Canadian Limited Partnership
Ares Corporate Opportunities Fund III, L.P.
Autonomy Global Macro Fund Limited
Avaya Inc.
Barclays Private Credit Partners Fund L.P.
Baybridge Seniors Housing Inc.
BC European Capital VIII
BDCM Intermediate Company A
BDCM Offshore Opportunity Fund II Ltd.
Birmingham International Airport
Blue Coat Systems, Inc.
Bridgewater Pure Alpha Fund II Ltd.
Bristol Airports (Bermuda) Limited
Camelot Group plc
Copenhagen Airport A/S
Crestline OT Opportunity Fund, L.P.
DaVinciRe Holdings Ltd.
Dematic S.A.
Diamond Castle Partners IV-A, L.P.
Donnet Participações S.A.
Downsview Managed Account Platform Inc.
Effissimo Capital Management Pte. Ltd.
Empresa de Servicios Sanitarios del Bio-Bio S.A.
Esval S.A.
Exal International Limited
Express Pipeline Ltd.
Flexera Holdings, L.P.
Fortress Macro Fund Ltd.
FountainVest China Growth Fund, L.P.
GCT Global Container Terminals Inc.
GMO Mean Reversion Fund (Offshore) L.P.
Gottex Real Asset Fund, L.P.
Grupo Corporativo Ono, S.A.
Hancock Timber Resource Group
Heartland Dental Care, Inc.
Helly Hansen Group AS
HS1 Limited
Hudson Catastrophe Fund, Ltd.
HUGO BOSS AG
Imperial Parking Corporation
INC Research, Inc.
IntelSat, Ltd.
InterGen N.V.
ISS A/S
JANA Partners LLC
Kepos Alpha Fund Ltd.
Kyobo Life Insurance Co., Ltd.
Laricina Energy Ltd.
Manabi Holding S.A.
Maple Financial Group Inc.
MBK Partners Fund II, L.P.
MBK Partners, L.P.
Mitra Energy Limited
Munchkin, Inc.
NBCG Greenwich Sub-Fund
NBCG Lock Sub-Fund
NBCG Mason Sub-Fund
NBCG Oxford 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 Partners, L.P.
Permira IV L.P.2
Pershing Square International, Ltd.
Plano Molding Company
Providence Equity Partners Fund VI L.P.
Q9 Networks Inc.
Quinte Limited
Resource Management Service Inc.
Rhône Offshore Partners III L.P.
Scotia Gas Networks plc
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.
Steward Trust
Sydney Desalination Plant Pty Limited
TDR Capital II, L.P.
The Brussels Airport Company
TP Partners Fund, L.P.
Trez Capital Corporation
ValueAct Capital International II, L.P.
York Street Mezzanine Partners II, L.P.

Eleven-year Review

(Canadian $ billions)	**2012**	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
CHANGE IN NET ASSETS											
Income											
Investment income	**$14.75**	$11.74	$13.27	$10.89	$(19.03)	$4.68	$12.31	$14.09	$10.80	$11.42	$(1.41)
Contributions											
Members/transfers	**1.48**	1.41	1.35	1.29	1.13	1.06	0.83	0.79	0.75	0.71	0.68
Province of Ontario	**1.46**	1.41	1.35	1.43	1.18	1.08	0.82	0.78	0.75	0.72	0.70
Total income	**17.69**	14.56	15.97	13.61	(16.72)	6.82	13.96	15.66	12.30	12.85	(0.03)
Expenditures											
Benefits paid	**4.92**	4.66	4.50	4.39	4.20	4.02	3.82	3.62	3.43	3.20	3.08
Investment expenses	**0.30**	0.29	0.29	0.21	0.15	0.23	0.22	0.21	0.19	0.16	0.10
Client service expenses	**0.04**	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.03
Total expenditures	**5.26**	5.00	4.84	4.64	4.39	4.29	4.07	3.86	3.65	3.39	3.21
Increase/(decrease) in net assets	**$12.43**	$9.56	$11.13	$8.97	$(21.11)	$2.53	$9.89	$11.80	$8.65	$9.46	$(3.24)
NET ASSETS											
Investments											
Fixed income											
Bonds	**$28.87**	$26.50	$22.73	$15.46	$14.22	$22.91	$20.86	$5.28	$8.96	$10.30	$13.80
Real-rate products	**31.14**	29.29	23.24	19.88	17.41	11.06	11.80	10.56	11.90	7.07	5.92
Equities											
Canadian	**11.40**	10.64	9.29	8.43	6.21	13.73	16.39	19.26	16.80	15.19	13.43
Non-Canadian	**48.11**	41.03	38.20	32.75	28.72	36.31	32.42	25.78	23.09	19.13	18.19
Commodities	**6.97**	5.64	5.22	1.94	1.25	3.02	2.32	2.65	2.13	1.89	1.48
Real assets											
Real estate	**16.86**	14.96	16.86	14.21	13.48	13.41	11.12	8.75	7.20	6.20	7.28
Infrastructure	**9.65**	8.71	7.07	5.57	7.23	6.72	4.73	3.80	2.29	1.50	0.88
Timberland	**2.17**	2.17	2.22	2.34	2.80	2.12	2.05	0.97	0.70	0.40	0.09
Absolute return strategies	**12.27**	12.33	11.38	11.67	14.75	12.30	15.21	9.49	11.18	10.69	2.52
Money market	**(40.18)**	(35.01)	(31.49)	(18.74)	(20.97)	(13.58)	(11.22)	8.26	(2.53)	2.06	1.85
Net investments	**127.26**	116.26	104.72	93.51	85.10	108.00	105.68	94.80	81.72	74.43	65.44
Receivable from Province of Ontario	**2.83**	2.72	2.63	2.52	2.19	1.84	1.58	1.50	1.42	1.36	1.32
Other assets	**47.96**	40.81	32.04	15.21	32.33	32.06	23.14	10.67	18.23	6.28	17.91
Total assets	**178.05**	159.79	139.39	111.24	119.62	141.90	130.40	106.97	101.37	82.07	84.67
Liabilities	**(48.53)**	(42.69)	(31.86)	(14.84)	(32.18)	(33.35)	(24.39)	(10.84)	(17.04)	(6.39)	(18.46)
Net assets	**129.52**	117.10	107.53	96.40	87.44	108.55	106.01	96.13	84.33	75.68	66.21
Accrued pension benefits	**166.01**	162.59	146.89	131.86	118.14	115.46	110.50	110.53	96.73	83.12	73.67
(Deficit)/surplus	**$(36.49)**	$(45.49)	$(39.36)	$(35.46)	$(30.70)	$(6.91)	$(4.49)	$(14.40)	$(12.40)	$(7.44)	$(7.46)
PERFORMANCE (%)											
Rate of return	**13.0**	11.2	14.3	13.0	(18.0)	4.5	13.2	17.2	14.7	18.0	(2.0)
Benchmark	**11.0**	9.8	9.8	8.8	(9.6)	2.3	9.4	12.7	10.6	13.5	(4.8)

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 108 of this annual report. In previous reports, figures for the years 1998–2001 were shown before the application of gains. Gains arose in those years as the plan performed better than the actuarial assumptions.

FILED FUNDING VALUATIONS[1]
(as at January 1) ($ billions)

	2012	2011	2009	2008	2005	2003	2002	2001	2000	1999
Net assets available for benefits	**$117.1**	$107.5	$87.4	$108.5	$84.3	$66.2	$69.5	$73.1	$68.3	$59.1
Smoothing adjustment	**(3.0)**	3.3	19.5	(3.6)	(1.5)	9.7	3.0	(4.3)	(7.3)	(5.1)
Value of assets	**114.1**	110.8	106.9	104.9	82.8	75.9	72.5	68.8	61.0	54.0
Future basic contributions	**35.4**	33.8	25.9	23.6	16.7	14.7	13.7	12.7	13.4	12.0
Future special contributions	**3.3**	3.8	5.5	5.6	6.2	–	–	–	–	–
Future matching of CIP benefit reduction	**7.3**	5.1	–	–	–	–	–	–	–	–
Special payments[2]	**–**	–	–	–	–	–	–	–	–	0.2
Total assets	**160.1**	153.5	138.3	134.1	105.7	90.6	86.2	81.5	74.4	66.2
Cost of future pensions	**(167.6)**	(158.4)[3]	(137.5)[3]	(134.1)[3]	(105.6)	(89.1)	(84.3)	(80.9)	(69.9)	(66.2)
Reduction in cost due to less than 100% indexing	**7.7**	5.1	–	–	–	–	–	–	–	–
Surplus	**$0.2**	$0.2	$0.8	$0.0	$0.1	$1.5	$1.9	$0.6	$4.5	$0.0

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

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

[3] Assumes 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS
(as at January 1) (percent)

	2012	2011	2009	2008	2005	2003	2002	2001	2000	1999
Rate of return	**5.30**	5.40	5.00	5.65	6.475	6.40	6.30	6.25	6.50	7.50
Inflation rate	**2.20**	2.15	1.35	2.20	2.750	2.05	1.90	2.20	2.25	3.50
Discount rate	**3.10**	3.25	3.65	3.45	3.725	4.35	4.40	4.05	4.25	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 the 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).

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

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

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

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

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

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

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

2008: $12.7 billion preliminary funding shortfall resolved, leaving the plan in a balanced position; plan sponsors introduced conditional inflation protection for pension benefits earned after 2009 and increased the basic contribution rate to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.

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

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

2012: $9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and the impact of the two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on the plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a $200-million surplus at January 1, 2012.

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 and Facilities
Marcia Mendes-d'Abreu,
Senior Vice-President

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

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

Member Services Division
Rosemarie McClean,
Senior Vice-President
Tracy Abel, 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
Jane Rowe, 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 and Natural Resources
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

Portfolio Operations
Ron Wratschko,
Executive Vice-President

ANNUAL MEETING

April 11, 2013 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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