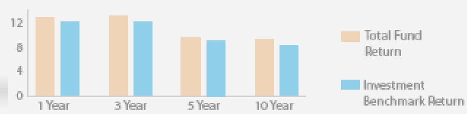
HOOPP Annual Report 2006

2006 Highlights

The HOOPP Fund achieved an investment return of 12.79 per cent in 2006, helping to push the Plan's net assets available for benefits to $27.9 billion.

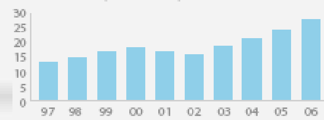
Read more about 2006 highlights >>

Total Fund vs. Investment Benchmark Returns (%)



Read more about financial highlights >>

Net Assets ($ billions)



Read more about MD&A highlights >>

You Belong Here

Why HOOPP?

HOOPP is a defined benefit plan. When you retire, you'll know your benefits are secure and that you have a Plan you can depend on.

Would you go see a dentist for a broken arm? Of course not. You'd want a medical practitioner who specializes in broken bones. We believe that same line of thinking should extend to the selection of your pension plan. After all, when it comes to your future financial security, you deserve the best.

That's where HOOPP comes in. We've been serving the health care sector for 47 years. We know the health care industry *and* the needs of our members inside out… and we've tailored our plan accordingly. Consider the advantages:

Competitive benefits

The pension benefits provided by HOOPP are extremely competitive. The Plan provides a lifetime retirement income based on a first-class benefit formula that takes into account your earnings history and length of service in the Plan.

Early retirement

Working in the health care sector is demanding – physically and emotionally. So, it's no surprise that many of our members opt out of the workforce well before reaching age 65. In recognition of this fact, HOOPP offers generous early retirement provisions, including an unreduced pension at age 60 *and* a bridge benefit that's payable from your early retirement date to age 65.

Partial inflation protection

Members are retiring earlier and living longer, which gives inflation more time to erode the buying power of your retirement income. With this in mind, HOOPP provides *partial* inflation protection – a valuable benefit designed to limit inflation's impact over the longer term.

Portability

The very nature of the health care sector lends itself to employment crossover. It's not unusual for a health care worker to switch employers or to work at two or more health organizations at the same time. HOOPP's portability features are designed to accommodate movement and flexibility, while protecting your pension benefit at the same time.

Survivor benefits

Your pension isn't just about you – it's also about the people you care about. That's why HOOPP offers a range of survivor benefits, including:

- a monthly lifetime pension for your eligible surviving spouse
- a 15-year payment guarantee, if you don't have a spouse

Disability benefits

HOOPP recognizes that life is full of twists and turns. If you are unable to work for health reasons, you may be able to build service in the Plan while you are off work – without you or your employer having to make pension contributions. If you become totally and permanently disabled (as defined by HOOPP), you may qualify for an immediate pension, based on the service you have built up to your disability date.

You Belong Here

A Perfect Fit

HOOPP isn't any old pension plan. We're *your* pension plan. We were created to serve Ontario's health care community, and that's precisely what we've been doing for 47 years. During that time, we've learned a thing or two about our members. And we've put that knowledge to good use, building a pension plan that addresses the unique needs of our key stakeholders.

It's been a winning formula – for members, participating employers and HOOPP. Today, we're one of Canada's largest pension plans. But more importantly, we've helped more than 225,000 active members, pensioners and deferred pensioners prepare for a financially secure future.

- HOOPP is a defined benefit (DB) pension plan, and proud of it. We firmly believe that the DB pension model provides members with a superior benefit and higher level of security than defined contribution (DC) pension plans. Read more about the DB "advantage."
- At HOOPP, we know the health care industry inside out -- and we've tailored our plan accordingly. HOOPP's many features address the unique needs of the province's health care workers. Read more about the benefits of HOOPP.
- When we say HOOPP was made for *you*, we mean it. HOOPP was created to serve the hardworking people of Ontario's health care community… and it's still our *raison d'être*. Our undivided focus has made us one of the country's most successful pension plans. Read why HOOPP is made for *you*.

Defined Benefit Advantage

HOOPP is a defined benefit (DB) pension plan… and proud of it. We firmly believe that the DB pension model offers a superior benefit and higher level of security than defined contribution (DC) pension plans. The table below explains why. It provides a simple summary of the two plan types and highlights what we believe to be the key advantages of the DB model.

	DB	DC	The DB advantage
Philosophy	To reward members for long service by providing them with a clearly defined retirement benefit based on an established formula.	To help members accumulate retirement savings during their active careers.	The DB benefit offers the security of a formula-based pension.
Contributions	Typically, you and your employer contribute a set percentage of your salary. Funds are deposited in a pension fund for the benefit of *all* plan members.	Typically, you and your employer contribute a set percentage of your salary. Funds are deposited in a personal account set up in your name.	With a DB plan, all contributions are pooled in one fund, so the investment risk is shared. Under a DC plan, the member assumes the full investment risk.
Investment decisions	Investment decisions are made by professional money managers, based on stringent guidelines established for the plan as a whole.	The individual member must decide how the money is invested, based on a range of available investment options.	With a DB plan, you don't have to worry about making investment decisions or tracking investments. The investment decisions are made by highly qualified investment professionals.
Income at retirement	Your retirement income is based on a formula that typically takes into account your earnings history and length of service in the plan. Once you start receiving a pension, you receive it for life. Compared to a defined contribution plan, HOOPP has an extremely low management expense ratio.	The money in your account is used to buy a lifetime annuity (an income stream). The size of that income will depend on various factors, such as how much has been contributed, the success of your investment strategy, and interest rates when you buy your annuity.	With a DB plan, you get the peace of mind knowing your pension will be there… when you need it. Because your DB pension is based on a formula, you can estimate, in advance, what your pension will be.
Ancillary benefits	Many DB plans, such as HOOPP, offer ancillary benefits, such as: ▪ inflation protection ▪ enhanced early retirement benefits ▪ enhanced survivor benefits ▪ disability benefits	At retirement, you *may* be able to buy a lifetime annuity that includes some ancillary benefits, such as partial inflation protection. However, these extras tend to be quite expensive, which will reduce the amount you have available to provide an income stream.	With a DB plan, the ancillary benefits are built in. You don't have to shop around for an annuity that includes them.

Only about 40 per cent of Canadian employees belong to employer-sponsored pension plans – and an even smaller percentage belong to DB plans.

Made for You

At HOOPP, we know a thing or two about providing pensions to the health care sector. In fact, providing meaningful benefits is our sole purpose.

We've been serving the health care sector for close to half a century – and we do it well. We *know* what our members want and we've built a plan specifically to address their needs.

Before 1960, accessibility to retirement benefits was – at best – a hit-and-miss affair for hospital workers. Some hospitals had pension plans; others didn't. Among those that had plans, costs and benefits varied widely.

In 1959, the Ontario Hospital Association (OHA) proposed a single, uniform plan. The intent was to create a plan that offered a standard pension arrangement – at an affordable price – to *all* health care workers across the province. The idea took hold. HOOPP was launched on New Year's Day, 1960, and grew quickly.

In 1993, HOOPP spun off from the OHA, becoming a separate organization. It's now administered jointly by an independent Board of Trustees with equal representation from the OHA and four unions representing Plan members – the Ontario Nurses' Association, the Canadian Union of Public Employees, the Ontario Public Service Employees' Union and the Service Employees International Union. This unique governance structure, which has been recognized across the country for its success, helps ensure decisions reflect the needs of all parties.

Today, 47 years after its launch, HOOPP has emerged as *the* dominant pension arrangement in the health care sector. It serves 150,000 active members working at 341 health care and related organizations across Ontario. It also serves more than 75,000 pensioners and deferred pensioners.

That said, we know that if we're going to stay on top, we need to keep our eye on the future. The health care sector isn't static – and neither are the needs of our stakeholders. We're committed to finding new and innovative ways to keep the Plan relevant, viable and affordable for members and employers – current and future.

HOOPP

Annual Report 2006

2006 Highlights

Founded in 1960, today HOOPP serves 150,000 members, 75,000 pensioners and has more than $27.9 billion in assets available to pay pensions.

Funding

HOOPP improved its financial position in 2006 – ending the year 99 per cent funded – while at the same time holding contribution rates stable *and* providing pensioners with a cost of living adjustment on all their service.

At year end 2006, net assets available for benefits stood at $27.9 billion.

Investments

The Fund achieved an overall return of 12.79 per cent, beating its investment benchmark by 91 basis points. This marks the ninth straight year HOOPP has exceeded its benchmark.

There was virtually no impact on HOOPP due to the rule changes for income trusts.

Administration

Continued progress toward implementation of a new pension administration system enabled HOOPP to significantly reduce turnaround times on key transactions, including retirements.

Member and pensioner statements will be produced using the new system.

Governance

HOOPP's Board conducted a two-part review of its governance structure and procedures to help ensure the Plan is governed based on industry best practices.

During the year, Trustees attended three educational sessions, including one on risk management and another on governance practices.

2006 Highlights

Funding Status

- HOOPP was able to:
  - keep contribution rates stable
  - strengthen its long-term investment return assumption
  - provide a cost of living adjustment to pensioners (equal to 75 per cent of the increase in the consumer price index)

  The Plan ended the year 99 per cent funded.

- Strong investment returns contributed to an increase in the Plan's net assets available for benefits. As at December 31, 2006, net assets available for benefits stood at $27.9 billion – up $3.4 billion from $24.5 billion at year end 2005.

- To better meet the Plan's long-term funding requirements – and to minimize market and operational risks – HOOPP continued working toward the integration of its funding policy with its investment strategy. As part of this effort, HOOPP:
  - improved controls in its Investment Finance area
  - developed a new liability driven investment strategy
  - actively developed and implemented new investment technology

- During 2006, HOOPP moved ahead with the implementation of a multi-year Investment and Funding program. When completed, this sweeping program will help us better:
  - define our tolerance for risk
  - improve access to funding data for decision-making and management
  - enhance risk measurement and management practices
  - align the Plan's investment strategies with funding needs

Year in Review

2006 Highlights

Investment

- The Fund achieved an overall return of 12.79 per cent, beating its investment benchmark by a full 91 basis points. This marks the ninth straight year that HOOPP has exceeded its benchmark.
- HOOPP's real estate portfolio generated a stellar 27.91 per cent return for the year. Private equity, Canadian equities, derivatives and global equities also contributed positively to the Plan's overall investment results.
- HOOPP avoided the negative fallout from tax changes imposed by the federal government on income trusts in late November. Unlike many pension plans, HOOPP's exposure to income trusts represented only 0.5 per cent of the Fund's total assets.
- As part of an ongoing effort to manage investment risk through a closer alignment of investment strategies and funding needs, HOOPP initiated the development of new investment approaches in 2006. For example, HOOPP stepped up its use of derivatives to "construct" investment portfolios that fit a liability driven investment strategy, while generating both traditional and value-added income.
- HOOPP continued work on the development and implementation of an investment data warehouse and performance measurement system that will support investment decision-making.
- Approximately 85 per cent of the Fund's assets were managed internally by investment professionals employed by HOOPP. The remaining 15 per cent were managed by external professionals responsible primarily for specialty mandates.

2006 Highlights

Plan

- A 1.61 per cent cost of living adjustment was applied to all pensions on April 1, 2006. This adjustment increased the pensions being paid to retirees (and survivors).
- HOOPP made significant progress toward full implementation of its new pension administration system. The resulting system enhancements reduced turnaround times for several transactions, including retirements. Member and pensioner statements will be produced using the new system.
- The Plan Text – the legal document that sets out the terms of the Plan – was updated to reflect Plan changes that were announced in 2004 and implemented in 2006. We also took the opportunity to shorten and simplify the document for easier use.
- HOOPP introduced a new, easy-to-read booklet aimed at part-time employees who don't currently belong to HOOPP. The booklet promotes the benefits of HOOPP membership and provides details on eligibility requirements and enrolment procedures.
- In response to direct input from employer representatives, we revised a number of important administrative forms to better meet their needs.
- The HOOPP team continues to provide meaningful support to HOOPP members. In 2006:
    - 63,849 member and pensioner calls were received
    - 347 onsite member presentations were conducted
    - 295 employer information sessions were held
    - four focus groups and dozens of in-depth telephone interviews with clients, as well as 32 stakeholder meetings, were held, paving the way for a formal client relationship program, featuring surveys, which began in December
- HOOPP supported the Ontario Government's decision to set up an expert commission on pensions.

2006 Highlights

Governance

- During 2006, the Board continued to pursue excellence in Plan governance. Board members attended three educational sessions in 2006, including one dedicated to risk management.
- Guidelines for proxy voting were updated to promote good governance within those corporations in which HOOPP holds shares. Under the revised guidelines, HOOPP will support proposals that require the election of corporate directors by an affirmative majority vote at shareholder meetings.
- As part of a bi-annual review, HOOPP fine-tuned its privacy policy to simplify the wording.
- The Plan's external auditor, PricewaterhouseCoopers, was re-appointed for a five-year term. The appointment followed a comprehensive review of service and quality standards. Also in 2006, a compensation advisor was appointed.

Chairs' Message

Dan Anderson – Vice-Chair
Kelly Butt – Chair

Contributing to the well-being of members

When HOOPP became an independent, jointly trusteed pension plan in 1993, the Trustees shared a vision – to contribute to the well-being of our members in retirement.

While much has changed in the past 14 years, including many of the faces around the Board table, we are pleased to say that our collective commitment to that vision has not wavered. If anything, the sentiment is stronger today than it has been at any point in HOOPP's history.

At the heart of that unwavering commitment is HOOPP's governance structure. Half of our Trustees are appointed by the Ontario Hospital Association (OHA) and half by four unions representing Plan members: the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees' Union (OPSEU) and the Service Employees International Union (SEIU).

This highly collaborative governance structure encourages consensus and conviction. More to the point, it ensures that the interest of our members is front and centre – in every decision the Board makes.

The structure also provides a valuable dual perspective that is helping the Board understand – and overcome – the many changes currently reshaping the health care sector. The Board and HOOPP's staff are closely monitoring the impact these changes are having on members – and are doing what we can to ensure that HOOPP remains accessible to health care employees throughout the province.

Building on our successes

Entering 2006, the Board was focused on two overriding objectives: improving the Plan's funded status and ensuring governance best practices. As we head into 2007, we are pleased to announce that we've made significant progress on both fronts.

Funded status improves

At year end, the Plan was 99 per cent funded. This gave the Board the latitude it needed to:

- hold contribution rates steady
- provide all pensioners with a cost of living adjustment equal to 75 per cent of the increase in the consumer price index (the adjustment will be applied effective April 1, 2007)

As a Board, we will continue to monitor the Plan's funding situation closely and will use the same proactive, considered and consultative approach we've used in the past to protect our funded position.

Pursuing excellence

The pursuit of excellence in Plan governance also remained a priority in 2006.

A key component of good governance is ensuring Board members have the knowledge they need to make informed and effective decisions. To that end, Board members attended three educational sessions in 2006, including one dedicated to risk management and another on governance practices.

HOOPP's continued quest for good governance, however, extends beyond its own doors. As a significant investor in businesses around the world, we have an overriding duty to maximize the long-term value of our investments on behalf of the Plan's stakeholders. We believe that organizations that reflect good governance practices – and adhere to effective social, environmental and ethical standards – are more likely to be better managed and more successful over the long term.

With that in mind, HOOPP updated its proxy voting guidelines in 2006 to promote good governance within those corporations in which we hold shares. Under the revised guidelines, HOOPP will support proposals that require the election of corporate directors by an affirmative majority vote at shareholder meetings. We will continue to exercise our authority and rights as significant shareholders to protect and promote the interests of our Plan members.

Focusing on the future

Because the present is the doorway to the future, we recognize the importance of being a forward-thinking organization. During 2006, considerable effort was put into developing a business strategy for 2007 and beyond. This new strategy, which touches on both Plan operations and investment management, is designed to:

- better tailor our investment strategy to the needs of our membership
- provide more service options for our clients
- help us better meet the pension needs of the health care sector

The last point is particularly important given the changes our members are facing as the result of the current restructuring in health care. We will continue to be there for them during this period of change, with the goal of preserving their HOOPP pensions even as their employment relationships, and the organizations they work for, change.

As we head into 2007, there is no question that HOOPP is well positioned to tackle the challenges we face. Our financial position is sound, our governance structure is solid, and we have a clear vision for the future. It's a winning combination we believe *will* contribute to the well-being of members – securing the pension promise now, and for the future.

Kelly Butt
Chair

Dan Anderson
Vice-Chair

Year in Review

President & CEO's Message

John Crocker – President & CEO

The year 2006 will be remembered as a year in which HOOPP responded strongly to many changes and challenges.

We are seeing solid progress in the drive towards full functionality of our new pension administration system. A phased, multi-year approach is being taken to deliver each new business process.

At the same time, changes in the health care sector continued – changes that affected our members. HOOPP took a proactive role in responding to these changes, such as the restructuring of Community Care Access Centres, ensuring the employment changes faced by members did not impact their HOOPP benefits.

Given all these challenges, our focus remained on the client. Call response times and benefit processing speed both improved by year end – a testament to the dedication of the HOOPP team.

Investing in our future

On the investment side, we've developed a number of key strategies designed to generate value-added returns, mitigate investment risk, manage currency risk, and better align assets with liabilities. For example, we are stepping up our use of derivatives to construct investment portfolios that generate value-added returns and, at the same time, reduce risk.

Collectively, these initiatives will help to ensure that the Plan remains viable, meaningful and affordable for our stakeholders. And by all indications, they are already starting to pay off.

During 2006, HOOPP's financial position continued to improve. In fact, we ended the year 99 per cent funded. Better yet, we achieved this improvement while holding contribution rates stable, providing pensioners with a cost of living increase on all their service, and lowering its long-term investment return assumption based on future expectations.

Our improved financial position was cemented by strong investment markets, as well as value-added investment returns. Overall, the total Fund reported a 12.79 per cent return, a full 91 basis points above the policy benchmark. 2006 marked the ninth straight year that HOOPP has outperformed its investment benchmark. This is an outstanding track-record and a testament to our investment team's diligence and expertise.

Reaching out

Creating internal efficiencies and securing the pension promise are both mission-critical; together, they form the foundation on which we look to build our success. In today's changing health care environment, however, they are not enough to ensure relevance over the long term.

With an eye to a sustainable future, we have embarked on a comprehensive client research program. This multi-dimensional initiative is designed to ensure that HOOPP remains the pension plan of choice in a changing health care environment – a plan that meets the unique pension needs of its stakeholders.

During 2006, we held a number of fact-finding meetings with stakeholders – including members, pensioners, unions and employers – to identify and prioritize their pension needs. Based on the results of those meetings, we've developed a multi-year health care strategy that will help ensure that a HOOPP pension can be a constant in the ever-changing employment landscape faced by our members, pensioners, and employers.

A positive struggle

Change is never easy. But in a fast-evolving world, it is usually necessary and often for the best. At HOOPP, we embrace that change and are committed to doing what it takes to protect the long-term interests of our stakeholders (be they participating employers, individual Plan members, retirees or their families).

Like the year before it, 2006 was a year of positive struggle, strategy and success. It was also a year of strong investment returns and efficiencies realized through the enhancement of systems and operational practices. When the full measure of the year is taken into account, it is a year we can all be proud of.

By all indications, 2007 will bring much of the same. We will continue to build on recent successes – and to work diligently to improve our practices, enhance our performance, and deliver even greater value to Plan members. In the meantime, we want to thank clients for their continued patience and support in our pursuit of excellence.

John A. Crocker
President & CEO

HOOPP Annual Report 2006

With billions of dollars in net assets, HOOPP is one the largest and most successful pension plans in Canada.

Management's Discussion and Analysis

At-a-Glance

Funding management – During 2006, HOOPP was able to:

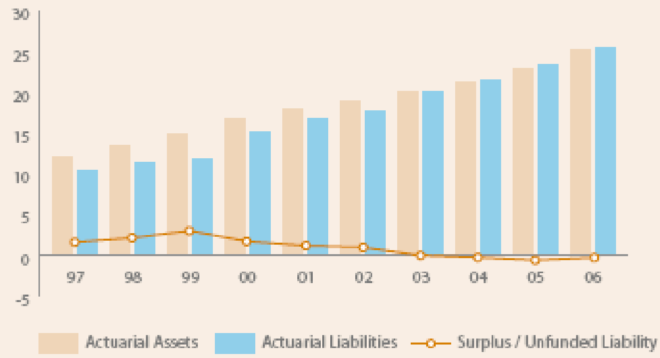
- keep contributions stable
- lower its long-term investment return assumption based on future expectations
- provide a cost of living adjustment for pensioners equal to 75 per cent of the increase in the 2006 consumer price index

At year end, the Plan was 99 per cent funded.

Read more about funding management >>

Summary of Financial Position

($ billions)

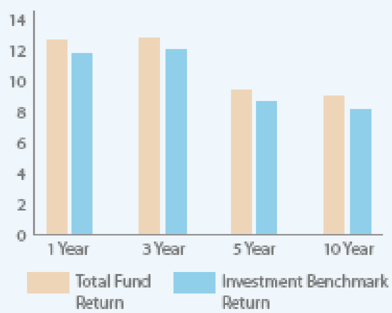


Investment performance – HOOPP enjoyed another strong year of investment performance in 2006. Overall, the Plan achieved a total Fund return of 12.79 per cent, exceeding its investment policy benchmark by 0.91 per cent.

Read more about investment performance >>

Total Fund vs. Investment Benchmark Returns

(%)



Investment management – Over the last several years, HOOPP has built up a core competency in the use of derivatives to manage and construct more effective investment portfolios. By incorporating derivatives into carefully designed strategies, HOOPP can reduce risk, manage and rebalance asset mix, and generate value-added investment returns.

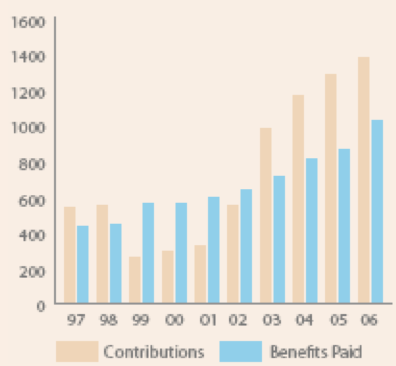
Read more about investment management >>

Contributions vs. pension benefits – Contributions to the Plan during 2006 totalled $1,376 million, compared to $1,281 million in 2005 – an increase of $95 million (or 7 per cent). Total pension-related payments climbed to $1,019 million in 2006, up from $856 million in 2005 – an increase of $163 million or 19 per cent.

Read more about contributions vs. pension benefits >>

Contributions vs. Benefits Paid

($ millions)



Risk management – During 2006, HOOPP continued to work towards full integration of its funding policy and investment strategy – a multi-year initiative designed to minimize market and operational risks and better meet the Plan's long-term funding requirements.

Read more about risk management >>

Overview

Introduction

The key purpose of any defined benefit pension plan is to secure the "pension promise" – that is, to provide lifetime benefit payments to eligible retired members.

Meeting that promise requires a sound financial base. During 2006, several key events helped HOOPP to solidify and build on its financial base. For example:

- Fund reported an overall return of 12.79 per cent, beating its investment benchmark for the ninth straight year.
- Favourable investment returns, combined with quick and early action by HOOPP's Board of Trustees, is enabling HOOPP to manage its unfunded liability while keeping contribution rates stable.
- To better meet the Plan's long-term funding requirements – and to minimize market and operational risks – HOOPP continued to work towards the full integration of its funding policy and investment strategy. To this end, HOOPP:
  - improved controls in its Investment Finance area
  - developed new investment strategies
  - actively pursued the development and implementation of new investment technology

This section of the report – Management's Discussion & Analysis (MD&A) – provides a more detailed look at these key events and the impact they had on the Plan.

Overview

Year-End Financial Position

At year end, HOOPP was 99 per cent funded.

As of December 31, 2006, net assets available for benefits stood at $27.9 billion, up from $24.5 billion at year end 2005. This can be attributed to robust investment gains and positive pension cash flow (i.e., the total of contributions and benefit transfers flowing into the Plan exceeded the total of pension payments and benefit transfers flowing out of the Plan).

For actuarial purposes, net assets available for benefits are adjusted based on a five-year average of the Plan's investment returns. This adjustment helps to minimize the impact of short-term market volatility in any one year. HOOPP's actuarial value of net assets stood at $25.2 billion as of December 31, 2006, up from $22.9 billion at year end 2005.

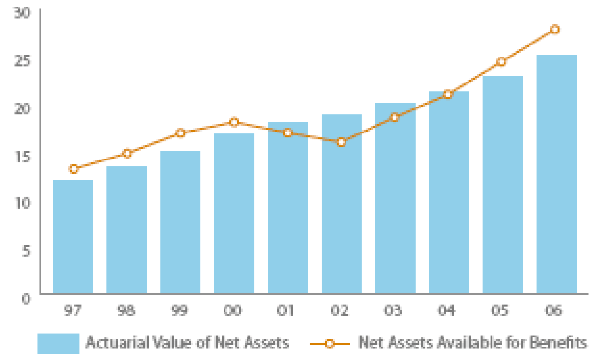
On the liability side, the Plan's accrued pension benefits (the future benefits owing to members based on service earned to date) stood at $25.4 billion at December 31, 2006, up from $23.4 billion at year end 2005.

At year end, the Plan was 99 per cent funded. HOOPP was able to:

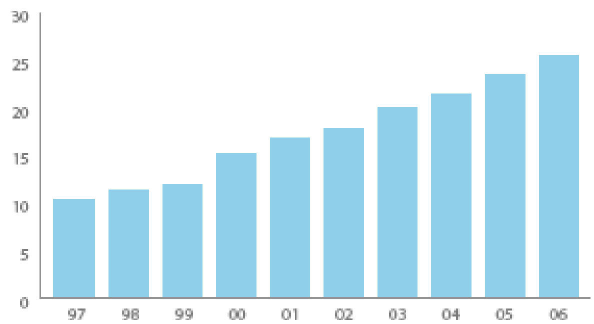
- keep contributions stable
- lower its long-term investment return assumption based on future expectations
- provide a cost of living adjustment for pensioners equal to 75 per cent of the increase in the 2006 consumer price index

HOOPP's Board of Trustees will continue to monitor the Plan's funded position closely – and will take a proactive, considered and consultative approach to protect the Plan's future financial position.

Actuarial Value of Net Assets vs. Net Assets Available for Benefits
($ billions)



Liabilities
($ billions)



Funding Management

Introduction

For more detail on Funding Management, visit the Financials section >>

Defined benefit plans like HOOPP have future financial obligations in the form of benefits owed to members. These financial obligations are referred to as "liabilities."

To ensure the pension plan is able to meet its liabilities, HOOPP must build up "assets." It does so over time by:

- collecting contributions from participating employers and members
- investing those contributions so that they grow in value (until needed to pay benefits)

Although this may sound simple enough, the successful management of the pension Fund is a complex and demanding exercise that requires considerable expertise and sophisticated resources. To help ensure the long-term financial health of the Fund, HOOPP employs a team of investment experts who make use of their talents and a range of tools and techniques.

Funding Management

Determining the Funded Status

For more detail on Funding Management, visit the Financials section >>

Pension plans are long-term commitments. Because the benefits being earned by members today may not be paid out for many years, plan assets and liabilities must be evaluated with an eye to the future.

Valuing assets

Like most pension plans, HOOPP uses "market" prices to determine the current value of its assets. In other words, the value of an individual asset is based on what that asset could be sold for in the current investment market.

Once the market value of assets has been determined, an "actuarial asset adjustment" is applied. This means that the market value of assets is adjusted based on a five-year average of the Plan's expected long-term rate of investment return. Known as "smoothing," this process minimizes the impact of market volatility in any one year and helps the Plan avoid decisions based on short-term market fluctuations.

Valuing liabilities

The value of the Plan's future liabilities is calculated using the "projected accrued benefit method," prorated on service. This means that HOOPP calculates how much money must be invested today to pay – in the future – the benefits members have earned, based on the pension service built up to the date liabilities are calculated.

To calculate future liabilities, HOOPP takes into account any benefits that existing members will "grow into" as they earn more service (such as the early retirement bridge benefit).

HOOPP also makes a number of assumptions about future economic, market and demographic conditions. For example, assumptions are made about:

- when members will retire (or leave the Plan)
- how long members will live once they retire
- how much members' salaries will grow
- the return HOOPP will get on its investments

These assumptions and economic forecasts are reviewed at least annually to ensure they remain appropriate in the face of evolving economic, market and demographic conditions.

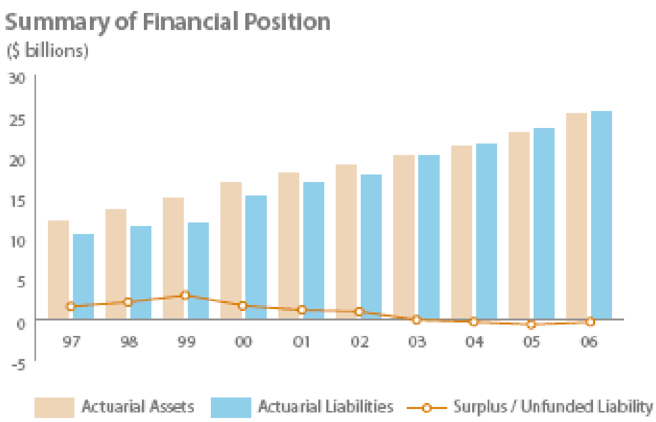
Determining funded status

The funded status of the Plan is the ratio of the Plan's assets (the actuarial value of net assets) to its liabilities.

- If the actuarial value of net assets exceeds liabilities, then the Plan should have enough money to meet future financial obligations. This means the Plan is "fully funded."
- If the Plan's liabilities exceed the actuarial value of net assets, then it may not – based on economic, market and demographic forecasts – have enough money to cover *all* of its future financial obligations. This means the Plan has an "unfunded liability" or "funding shortfall."

At year end, the Plan was 99 per cent funded. HOOPP was able to:

- keep contributions stable
- lower its long-term investment return assumption based on future expectations
- provide a cost of living adjustment for pensioners equal to 75 per cent of the increase in the 2006 consumer price index



Managing shortfalls
Pension plans must be managed in the best interests of plan members. If a pension plan finds itself with an unfunded liability, it is required – by law – to implement an action plan that will eliminate the funding shortfall typically over a period of no more than 15 years.

Funding Management

Contributions vs. Pension Benefits

For more detail on Funding Management, visit the Financials section >>

Contributions

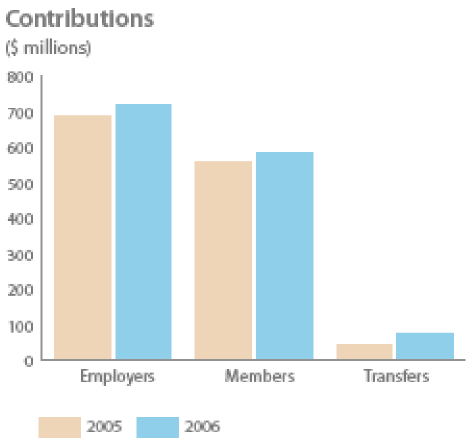
All active Plan members and their participating employers are required to make contributions to the Plan. Plan contributions totalled $1,376 million in 2006 – up $95 million (or 7 per cent) from 2005.

The increase is largely due to:

- salary increases in the health care industry (which averaged around 5 per cent)
- growth in membership (which climbed 1 per cent)

Of the total contributed in 2006:

- 52 per cent was from participating employers
- 42 per cent was from members
- 6 per cent resulted from transfers into the Plan



Pensions and benefits paid

The Plan also paid out more in benefits in 2006. Total of pension-related payments climbed to $1,019 million in 2006, up from $856 million in 2005, resulting in an increase of 19 per cent.

Of the total:

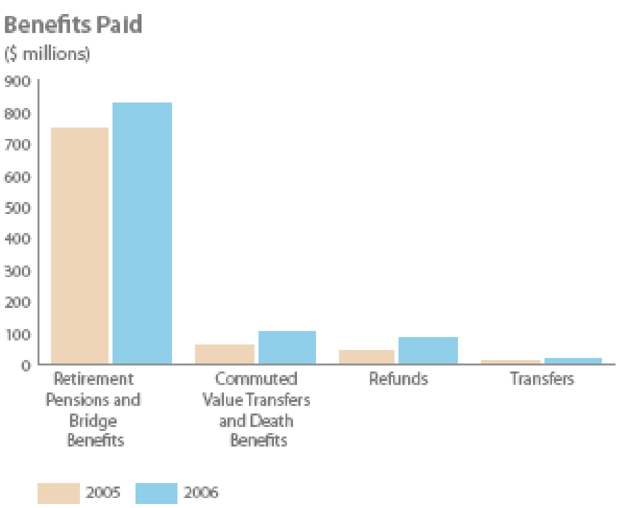
- 81 per cent was paid to pensioners in the form of monthly benefits
- 10 per cent was paid to terminating members (or the beneficiaries of deceased members) in the form of commuted value transfers (i.e., a lump-sum cash payout)
- 8 per cent was paid to terminating members (or the beneficiaries of deceased members) in the form of contribution refunds
- 1 per cent was transferred to other pension plans

Approximately 80 per cent of HOOPP pension benefits are funded from investment returns. The other 20 per cent are funded through contributions.

The year-over-year increase in pension-related payments is largely due to three key factors, as outlined in the table below.

Factor	Details
1. Higher salaries in the health care field	Pensions are calculated based on a member's final average earnings. Because salaries in the health care field are rising, on average, final average earnings are also going up – pushing the starting amount of pensions higher.
2. Growth in the number of HOOPP pensioners	The number of HOOPP pensioners climbed to 60,800 in 2006, an increase of nearly 4 per cent over the 58,600 total in 2005.
3. A cost of living adjustment	A 1.61 per cent cost of living adjustment was applied to all pensions on April 1, 2006, which automatically increased the pensions being paid to retirees (and the survivors of deceased retirees).

Pension-related payments are expected to continue their upward trend in the foreseeable future. Over time, this upward trend will be offset by the "grandparenting" of the temporary early retirement transition benefit. (The last payments related to the transition benefit will be made in 2015; no new members can become eligible for this benefit after 2005.)



Investment Management

Introduction

For more detail on Investment Management, visit the Financials section >>

The goal of HOOPP's investment team is to generate investment returns above the level required to fund the benefits being earned by Plan members.

To meet its future pension obligations, the Plan must – over the long term – achieve an annual real rate of return (the rate of return *less* inflation) of at least 4 per cent net of the allowance for expenses.

To reach this target, HOOPP employs a variety of investment strategies. Details on some of these strategies are provided in this section of the report.

Investment Management

Active Management

For more detail on Investment Management, visit the Financials section >>

The assets of the Fund are actively managed. In other words, HOOPP employs a number of investment strategies and techniques (such as asset mix changes, hedging, derivatives and others) to help the Fund:

- maximize long-term investment returns
- insulate the Fund from exposure to inappropriate levels of risk

While HOOPP uses internal investment professionals to manage most of its assets, external investment managers are used for special mandates.

- Approximately 85 per cent of the Fund's assets are managed internally by investment professionals employed by HOOPP.
- Approximately 15 per cent of the Fund's assets – primarily foreign investments – are managed by investment professionals at external asset-management firms. Although managed externally, these assets must still be invested in accordance with investment guidelines, restrictions and mandates established by HOOPP.

Investment Management

Asset Mix Strategy

For more detail on Investment Management, visit the Financials section >>

The Fund holds exposure to both equities (such as common stocks and real estate) and fixed income instruments (such as bonds, treasury bills and cash). The ratio of equities to fixed income held by the Fund is referred to as the asset mix.

HOOPP makes minor adjustments to its asset mix from time to time to:

- help maximize Fund returns and/or to reduce risk
- ensure that the type and liquidity of assets held align with the Plan's future cash flow requirements (this is often referred to as asset-liability matching)

HOOPP is able to adjust its mix through a combination of:

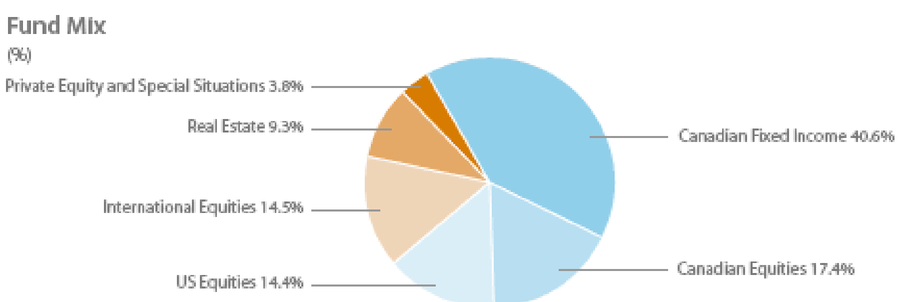
- direct investment (e.g., holding actual securities)
- indirect investment (e.g., gaining exposure to certain securities through derivative strategies)

Currently, HOOPP has an asset mix policy of 60 per cent equities/40 per cent fixed income – reflecting the belief that equities will, over the long term, generate higher returns than fixed income investments.

HOOPP's asset mix policy currently allows for a departure from the 60/40 split by *plus* or *minus* 3 per cent. This departure is permitted to:

- accommodate changes in the value of investments within a given portfolio
- take advantage of strengths or weaknesses in specific market segments

During 2006, HOOPP maintained a portfolio mix at, or very close to, the 60/40 ratio.



Fund mix

Asset type	Economic exposure at December 31, 2006 (in millions of dollars)	Percentage of total Fund
Canadian fixed income	$11,241	40.6%
Canadian equities	$4,836	17.4%
U.S. equities	$4,003	14.4%
International equities	$4,014	14.5%
Real estate	$2,589	9.3%
Private equity & special situations	$1,041	3.8%
Total	$27,727	100%

Investment Management

Derivatives

For more detail on Investment Management, visit the Financials section >>

A derivative is a contract (between two or more parties) whose value is based on one or more underlying market factors (interest rates, currencies, stocks, bonds, etc.).

Over the last several years, HOOPP has built up a core competency in the use of derivatives to manage and construct investment portfolios.

By incorporating derivatives into carefully designed investment strategies, HOOPP can:

- manage foreign exchange risks
- implement defensive strategies to reduce risks within portfolios
- manage and rebalance asset mix
- generate value-added investment returns
- more effectively match assets to liabilities (reducing the prospect of funding shortfalls)

For example, it is often more efficient and cost-effective to carry out asset mix adjustments using a derivative than it is to buy or sell the securities underlying that derivative. This is because derivatives:

- have significantly lower transaction costs
- are more liquid than the underlying securities

Investment Management

Currency Hedging

For more detail on Investment Management, visit the Financials section >>

Hedging is a money-management strategy designed to reduce or eliminate investment risk by taking an offsetting position in a related exposure. Currency hedging is used to offset a potential change in the value of a foreign investment caused by currency fluctuations.

In simple terms, currency hedging reduces or eliminates the risk associated with currency fluctuations by converting some or all of the foreign currency exposure in which a HOOPP investment is denominated back into Canadian dollars (the currency in which HOOPP benefit payments are denominated). This is done through the use of contracts that basically transfer the currency risk to another investor.

Under HOOPP's currency policy:

- 50 per cent of any foreign equity exposure must be hedged back into Canadian dollars
- 100 per cent of any foreign fixed income exposure must be hedged back into Canadian dollars

Investment Management

Socially Responsible Investing

For more detail on Investment Management, visit the Financials section >>

HOOPP has an overriding fiduciary duty to Plan beneficiaries to maximize the long-term value of the Fund's investments. By the same token, HOOPP believes that companies adhering to effective social, environmental and ethical standards are likely to be better managed and more successful over the longer term.

With these factors in mind, HOOPP:

- takes into account a company's social, environmental and ethical principles when making investment decisions
- encourages reasonable disclosure of social, environmental and ethical performance when voting proxies
- may question companies where it feels that improved disclosure practices are required to reasonably assess the prospects for long-term shareholder value

In assessing a company's social, environmental and ethical standards, HOOPP is guided by:

- the principles embodied in the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- the CERES Principles (CERES stands for the Coalition for Environmentally Responsible Economies, a coalition of environmental, investor and advocacy groups that works with companies to achieve environmental improvement)

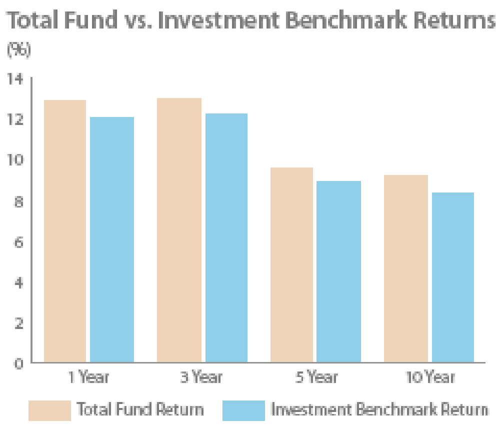
Investment Performance

Introduction

For more detail on Investment Performance, visit the Financials section >>

HOOPP enjoyed an exceptionally strong year of investment performance in 2006.

Overall, the total Fund reported a 12.79 per cent return, beating its investment benchmark by 91 basis points. This is the ninth straight year that HOOPP has exceeded its benchmark.



Real estate and private equity were both significant contributors to active returns. Canadian equities, derivatives and global equities were also positive contributors. Real estate was the top performing asset class, generating a 27.91 per cent return for the year.

While the Fund's equity portfolios performed well during 2006, returns for the Fund's bond portfolios were relatively flat.

Changes to the rules governing income trusts had minimal impact on HOOPP. Unlike many pension plans, HOOPP's exposure to income trusts is limited to 0.5 per cent of the Fund's total assets.

Equities

For more detail on Investment Performance, visit the Financials section >>

All performance numbers are in Canadian dollars.

Canadian equities

Despite concerns of an impending market slowdown heading into 2006, HOOPP's internally managed Canadian equity portfolio reported strong results for the year. Generating a return of 19.82 per cent, the portfolio exceeded its investment benchmark – the S&P/TSX60 Total Return Index – by 66 basis points.

Markets were driven higher by a robust demand for materials, strong performance by some metal, mining and gold stocks, and increased demand for fertilizer stocks. Takeover activity also helped push markets higher.

A slight overweight position in commodity stocks – in particular, select gold and metal stocks – as well as the strategic selection of stocks in the telecommunications and consumer staples sectors, helped HOOPP generate value-added returns.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Canadian equities	19.82	19.16	S&P/TSX60 Total Return Index

U.S. equities

U.S. equity markets stumbled in the first half of 2006, but raced ahead in the last six months of the year. The S&P 500 Index finished the year up by 16.18 per cent. Although stock prices were already above average historical valuations, demand for quality investments, spurred by an abundance of money available for investing, pushed stock prices higher.

HOOPP's internally managed U.S. equity portfolio reported a year-end return of 15.80 per cent, slightly behind the S&P 500. This underperformance can be attributed, in large part, to a defensive position adopted in response to concerns over a slowing U.S. economy. While this defensive position softened returns in 2006, HOOPP believes it continues to be the prudent position.

HOOPP's externally managed U.S. equity portfolio turned in mixed results, but still managed to generate an overall return of 10.63 per cent. Focused on mid-capitalization stocks, assets are divided between two managers – one specializing in value-based stocks, the other in growth stocks. The value-based manager outperformed the benchmark, while the growth-based manager did not. In general, value-based strategies have outperformed growth-based strategies in the mid-capitalization segment in six of the last seven years. Over that time technology stocks, usually associated with growth strategies, have been among the poorest performers, while more cyclical sectors of the market, generally associated with value strategies, have produced many of the best performing stocks.

Externally managed U.S. equities represent about 1 per cent of HOOPP's total assets.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
U.S. equities – internal	15.80	16.18	S&P 500 Total Return Index
U.S. mid-cap equities – external	10.63	15.65	Russell Mid-Cap Total Return Index

International equities

Global equity performance was strong in 2006. Emerging markets led the way, with European markets also showing strong results. Markets were buoyed by encouraging economic news, good corporate results, falling energy prices, and a string of corporate takeovers. By way of example, the German market reported a one-year gain of 21.98 per cent.

One disappointment was a faltering Japanese market, which returned only 2.13 per cent on the year.

The six external managers who invest HOOPP's international equities generated an overall return of 23.89 per cent (including significant gains from currency exchange), underperforming the investment benchmark by 79 basis points. Value-based portfolios tended to outperform growth-based portfolios.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
International equities – external	23.89	24.69	Morgan Stanley Capital International All Country World Index Blend Total Return Index

Investment Performance

Real Estate

For more detail on Investment Performance, visit the Financials section >>

2006 was another exceptional year for HOOPP's real estate portfolio. With a total return of 27.91 per cent, the portfolio outperformed the benchmark (18.24 per cent, net of fees) by 9.67 per cent (or 967 basis points).

Continued strength in the real estate portfolio is attributable to several factors, including:

- significant gains in the value of properties held
- profits from the sale of properties
- high occupancy levels (approximately 95 per cent)
- high tenant renewal ratios
- growth in rental rates

A well-established and disciplined development program remains a primary focus of HOOPP's real estate portfolio. The Plan's strategy has been to build a portfolio that is balanced and diversified by type of property and geographic location. As a result, HOOPP owns a variety of retail, commercial and industrial properties from coast to coast.

During 2006, HOOPP continued to acquire and develop properties that adhere to its stringent risk-return standards. As a result of these efforts, the Fund:

- purchased Northgate Shopping Centre in North Bay
- purchased a three-building office portfolio in downtown Ottawa (a 50/50 co-venture with Morguard Real Estate Investment Trust)
- bought select land for development in Halifax and Montreal
- bought existing industrial buildings in Montreal and Kitchener
- completed the construction of a large industrial complex in Calgary (which is now fully leased)
- continued with the construction of a Calgary office tower (a joint-venture project with Greystone), which will be fully leased when completed in the second quarter of 2007
- began construction of a three-building industrial complex in Milton

By year end 2006, the total value of the real estate portfolio had grown to $2.59 billion, up 31.98 per cent from $1.96 billion at year end 2005. As of December 31, 2006, real estate represented about 9.3 per cent of the Fund's total assets.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Real estate	27.91	18.24	Investment Property Databank (IPD)

Investment Performance

Private Equity and Special Situations

For more detail on Investment Performance, visit the Financials section >>

During 2006, HOOPP reaffirmed the strategic importance of its private equity activities. It also made some significant changes to its business model through the formation of HOOPP Capital Partners.

HOOPP Capital Partners is designed to:

- reinforce the professional culture and market interactions of a successful private equity business
- continue a disciplined scaling of the portfolio and its organizational resources in a competitive investment environment

Since 1999, when HOOPP's private equity business model was last reviewed, this portfolio has generated nearly $1 billion of investment gains and income. The portfolio focuses primarily on middle market investment in North America, the United Kingdom and Europe.

Returns for 2006 (net of foreign exchange impacts) were 16.01 per cent.

At year end, the fair value of the portfolio stood at $1,040.6 million, with additional unfunded commitments to limited partnerships of $598.2 million. During the year, $351.2 million in cash was generated through the sale of investments, while new cash investments were $516.3 million.

Given the significant growth and renewal of the portfolio, and the fact that almost two-thirds of its investments are less than two years old, returns are solid and indicative of the portfolio's strong foundation.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Private equity and special situations	16.01	7.00	Total Plan Funding Target

Investment Performance

Fixed Income

For more detail on Investment Performance, visit the Financials section >>

HOOPP's fixed income investments are divided into four basic types:

- Canadian universe bonds
- Canadian long bonds
- real return bonds
- short-term money market

Canadian universe and long bonds

During 2006, HOOPP adopted a new, two-step approach for managing its Canadian universe and long bond portfolios. Under this new approach, HOOPP:

1. "constructs" a portfolio that tracks a relevant index (SCM Universe Bond Index for Canadian bonds and SCM Long Bond Index for long bonds), and then
2. enhances returns through the use of active overlay strategies (strategies that use derivatives to change the Plan's exposure to certain assets, without actually having to buy or sell those assets).

Following its introduction in mid-2006, the new portfolio generated positive results – partially offsetting underperformance in the early part of the year. Going forward, the new strategy is designed to generate return enhancement over an appropriate long-term time horizon.

For 2006, the Canadian universe portfolio returned 3.89 per cent for the year, falling short of the investment benchmark by 17 basis points. The long bond portfolio reported a year-over-year return of 3.77 per cent, trailing the benchmark by 30 basis points.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Canadian universe bonds	3.89	4.06	SCM Universe Bond Index
Canadian long bonds	3.77	4.08	SCM Long Bond Index

Real return bonds

HOOPP's real return bond portfolio provides a hedge against pension liabilities. The portfolio, which is passively managed, provided a return of –2.30 per cent for 2006.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Real return bonds	–2.30	–2.30	Equal to portfolio return

Short-term money market

At December 31, 2006, HOOPP's economic exposure to short-term money represents 3 per cent of total assets.

HOOPP maintains a money market portfolio so that it:

- has cash on hand to meet liquidity needs (i.e., pay monthly benefits and Plan expenses)
- can back certain derivative strategies, as required

The returns on money market assets held to meet liquidity needs are benchmarked against the SCM 91-Day T-Bill Index. The returns on money market assets used to back derivative strategies are rolled into the returns for that strategy. (Returns for derivative strategies are measured against the benchmark for the investment tactic being replicated).

During 2006, narrow credit spreads (i.e., the difference in yield between a Government of Canada bond and corporate bonds) prompted HOOPP to:

- maintain a significant underweight position in credit
- minimize the term of its credit exposure

Plan and Investment Expenses

Plan expenses

Plan expenses for the year were $44 million, up slightly from $43 million in 2005. The costs remained high in 2006 primarily due to ongoing expenses related to the launch of a new pension administration system, including costs associated with:

- scheduled enhancements to achieve full system functionality
- a temporary increase in staffing to assist with workflow until full system functionality is achieved

Once fully functional, the new pension administration system will create meaningful operating efficiencies and provide a solid platform for service improvements. HOOPP expects to achieve full functionality by the end of 2007, at which point there will be productivity improvements.

Investment expenses

On the investment side, HOOPP incurred expenses for the year of $47 million, up approximately $5 million compared to 2005. This increase can be attributed to three key factors:

- higher external management fees, which are directly related to the higher market value of HOOPP's international assets
- ongoing project spending related to the development of investment management systems
- increase in staffing costs for investment professionals

Cost per member

HOOPP uses cost per member (CPM) to measure the efficiency of delivering its pension services. The CPM is calculated by taking the annual Plan expense figure, and dividing it by the total number of members (i.e., retirees, active members, deferred pensioners). Tracking and analyzing CPM allows HOOPP to continually evaluate costs over time. The chart below shows HOOPP's CPM since 2002:

Year	2002	2003	2004	2005	2006
CPM	$139	$154	$164	$195	$194

The decrease in 2006 is primarily due to the increase in membership while costs have remained relatively unchanged from the previous year.

Investment operating costs

HOOPP uses investment operating costs (IOC) to measure the efficiency of its investment processes. The IOC is calculated by taking the Plan's total investment expense and dividing it by the average of the current and previous year's Fund assets expressed in basis points. IOC is a common measure in the investment industry. The chart below shows HOOPP's IOC since 2002, measured in basis points (bps):

Year	2002	2003	2004	2005	2006
IOC	20.2 bps	17.8 bps	17.8 bps	18.4 bps	18.6 bps

Risk Management and Controls

Introduction

Risk management is a key part of good governance and a cornerstone of any strong pension plan.

As a defined benefit pension plan, HOOPP faces risks on several different fronts. To effectively manage – and minimize – those risks, the Plan has created a comprehensive risk management framework that encompasses:

- funding risk management
- investment risk management
- operational risk management

During 2006, HOOPP continued to work towards full integration of its funding policy and investment strategy. The purpose of this initiative is to better meet the Plan's long-term funding requirements and minimize market and operational risks. To this end, HOOPP:

- improved controls in its Investment Finance area
- developed new investment strategies
- moved forward with the development of an advanced investment technology plan to support its new investment strategies

Risk Management and Controls

Funding Risk Management

To ensure the Plan has enough money to pay – over the long term – the benefits promised to members, HOOPP has implemented and moved forward with a number of funding risk management safeguards. For example:

- During 2006, HOOPP moved ahead with the implementation of a multi-year Integrated Funding & Risk Management program. This program is designed to:
    - clearly define HOOPP's risk tolerance and objectives
    - improve the quality and availability of funding data
    - better measure and manage funding risk
    - more closely align investment strategies with funding needs
- HOOPP has developed a detailed funding policy that:
    - provides a framework for making informed funding decisions
    - sets "trigger" points for considering adjustments to contributions and/or benefits
- At least annually, HOOPP prepares projections of its future funding requirements. These estimates are prepared in cooperation with HOOPP's actuarial advisor.

The Board of Trustees will – as it has in the past – take a proactive, considered and consultative approach to any price or benefit changes needed to address funding concerns.

Risk Management and Controls

Investment Risk Management

As part of an ongoing effort to more closely align investment strategies with funding needs – and thereby reduce risk – HOOPP began developing new approaches to investment in 2006.

These new approaches include, among other strategies, stepping up the use of derivatives to "construct" portfolios that:

- more effectively match assets to liabilities
- generate both traditional and value-added income

To help develop and implement these new investment strategies going forward, HOOPP is leveraging and enhancing its investment technology. During 2006, HOOPP:

- Continued development and implementation of an investment data warehouse and performance management system. This new system provides more timely and accurate reporting to support investment decision-making.
- Began a multi-year initiative to build a comprehensive "risk engine" that will use technology to better match assets to liabilities. Implementation is slated for 2008-2009.
- Continued to upgrade the investment technology systems currently used to support portfolio management.
- Worked towards integrating HOOPP's investment technology – where possible – to create an "investment technology suite" that synthesizes information from multiple sources to produce value-added data.

As part of its ongoing risk management procedures, HOOPP has a number of regularly reviewed policies in place to govern its market and credit risk exposure. These include:

- *Statement of Investment Principles* (*SIP*), which defines the Plan's investment return objectives and risk tolerances based on liabilities
- *Statement of Investment Policies & Procedures* (*SIP&P*), which provides broad investment guidelines for the investment of HOOPP assets
- *Investment Policies & Guidelines* (*IP&G*), which:
    - sets benchmarks and value-added investment objectives
    - places limits on where money can be invested
    - establishes guidelines for determining the value of different assets

Risk Management and Controls

Operational Risk Management

HOOPP has developed and maintains systems of internal control, as well as supporting procedures, to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include an organizational structure that provides a well-defined division of responsibilities, accountability for performance and the timely communication of policies and guidelines throughout the organization. In addition:

- In keeping with best practices, HOOPP's Board of Trustees conducts an annual review of its approach to governance. As part of its review, the Board:
  - uses a HOOPP-specific assessment questionnaire developed in consultation with external legal experts
  - considers the governance framework reflected in the assessment questionnaire developed by the Canadian Association of Pension Supervisory Authorities
- During 2006:
  - Trustees attended three education sessions, including one session dedicated to risk management.
  - HOOPP laid the groundwork for a review of internal controls and compliance. A preliminary review, conducted in 2005, provided positive feedback.
- The Plan has a number of policies in place designed to minimize operational risk, such as:
  - a code of business conduct
  - a policy governing confidentiality and disclosure of information
  - a whistle-blower protection policy
- HOOPP has a tested business continuity plan in place. This plan is designed to ensure HOOPP can – in the event of a disaster – recover its critical systems at an off-site location and continue to carry out essential business activities (including the processing and payment of pensions).

Advocacy

Where appropriate, HOOPP represents the interests of its membership through various advocacy efforts. Through these efforts, HOOPP seeks to:

- better serve Plan members and pensioners (and, when appropriate, other stakeholders)
- play a role in the development of public policy affecting the Plan
- bring to light areas where pension, investment or other reform is needed

During 2006:

- HOOPP supported the Ontario Government's decision to set up an expert commission on pensions. Between now and 2008, the commission will be reviewing certain aspects of Ontario's Pension Benefits Act.
- Earlier advocacy efforts culminated in the release of revised pension regulations that address the administrative challenges that cost-shared plans, such as HOOPP, face in complying with legislation.

Glossary

Basis point
A unit of measurement used to quantify investment returns. A basis point is equal to one one-hundredth of a percentage point (0.01 per cent).

Benchmark
An "investment benchmark" is the index or mix of indexes representative of the asset class against which a portfolio manager's investment performance is evaluated. For example, the investment benchmark for HOOPP's Canadian equity portfolio is the S&P/TSX60 Total Return Index.

Bonds
A security representing a loan to a government or company. Bonds have a maturity date, which is the agreed-upon date the loan is to be repaid in full.

Derivatives
Securities that depend on, or are conditional on, the values of other underlying securities, such as commodities, bonds, equities or market indexes. An example is an option, which gives the buyer the right, but not the obligation, to buy or sell an asset at a set price on or before a given date.

Economic exposure
Reflects HOOPP's total investment in a certain type of asset, including:

- direct investment through actual assets held
- indirect investment through derivative strategies

Emerging markets
The financial markets of developing countries.

Equity
A security representing partial ownership in a company. Stocks are equities. Large-cap equities are the stocks issued by larger companies. Mid-cap equities are the stocks issued by mid-sized companies.

Hedging
Reducing or offsetting a pre-existing risk exposure by making a financial transaction (often using derivatives).

Investment Property Databank
This is the index of the majority of institutionally owned and managed properties in Canada with an approximate total aggregate value of $62 billion.

Long bonds
Bonds with a term to maturity of more than 10 years.

Morgan Stanley Capital International All Country World Index Blend Total Return Index
This is a composite index of equities listed on exchanges in developing and emerging markets throughout the world, including the U.S. and Canada.

Real return bonds
Bonds that are adjusted for inflation on a quarterly basis. They tend to be issued by the federal government.

Russell Mid-Cap Total Return Index
This is a composite index that measures the performance of 800 U.S. corporations with market capitalization between approximately U.S. $1 billion and U.S. $18 billion. The average market capitalization is approximately U.S. $7.5 billion.

S&P/TSX60 Total Return Index
Standard & Poor's index of 60 Canadian stocks. Most Canadian index derivatives use this index as a reference price.

S&P 500 Total Return Index
This Standard & Poor's composite index is made up of 500 U.S. stocks and is used as a benchmark for the U.S. large-cap equity portfolios.

SCM Universe Bond Index

The Scotia Capital Markets (SCM) Universe Bond Index is designed to measure the total return of the Canadian bond market. It includes approximately 750 bonds that are representative of the Canadian market based on issuer, quality and term. The bonds included in the index range in term from one to 30 years.

SCM Long Bond Index

The Scotia Capital Markets (SCM) Long Bond Index is designed to measure total return for the Canadian long-bond market, covering approximately 250 bonds with a term to maturity of more than 10 years.

Total Plan Funding Target

This is the average annual rate of return the Fund needs to earn over the longer term to ensure Plan assets are sufficient to pay all benefits (assuming the Plan's actuarial assumptions reflect economic, market and demographic experience).

HOOPP is the only major pension plan in Ontario that focuses exclusively on the needs of workers in the health care sector.

Financials

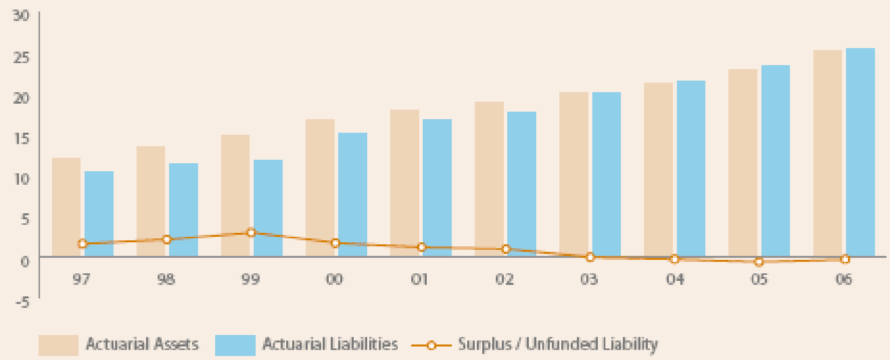
Highlights

During 2006, HOOPP was able to keep contributions stable, and lower its long-term investment return assumption based on future expectations. HOOPP provided a cost of living adjustment for pensioners equal to 75 per cent of the increase in the 2006 consumer price index. At year end, the Plan was 99 per cent funded.

Read more about funding management >>

Summary of Financial Position

($ billions)

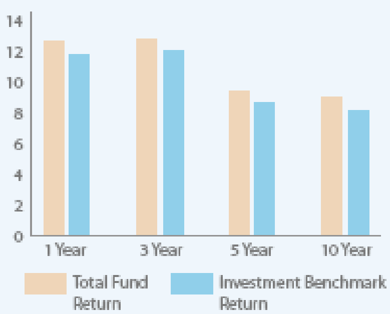


HOOPP enjoyed another strong year of investment performance in 2006. Overall, the Plan achieved a total Fund return of 12.79 per cent, exceeding its investment policy benchmark by 0.91 per cent.

Read more about investment performance >>

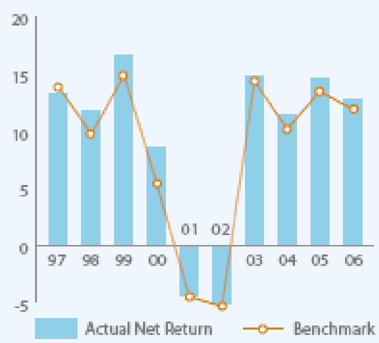
Total Fund vs. Investment Benchmark Returns

(%)



Actual Net Return vs. Benchmark

(%)

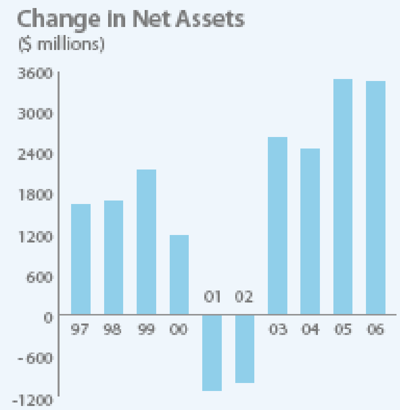


As of December 31, 2006, net assets available for benefits stood at $27.9 billion, up from $24.5 billion at year end 2005. This can be attributed to robust investment gains and positive pension cash flow (i.e., the total of contributions and benefit transfers flowing into the Plan exceeded the total of pension payments and benefit transfers flowing out of the Plan). For actuarial purposes, net assets available for benefits are adjusted based on a five-year average of the Plan's investment returns. This adjustment helps to minimize the impact of short-term market volatility in any one year. HOOPP's actuarial value of net assets stood at $25.2 billion as of December 31, 2006, up from $22.9 billion at year end 2005.

Read more about funding risk management >>

Financials

($ Millions)	As at Dec. 31, 2006	As at Dec. 31, 2005	$ Change
Net assets	**$ 27,914**	$ 24,512	$ 3,402
Actuarial asset value adjustment [note 1(e)]	**(2,709)**	(1,659)	(1,050)
Actuarial value of net assets	**25,205**	22,853	2,352
Accrued pension benefits	**25,454**	23,419	2,035
Surplus/(unfunded liability) [note 9(a)]	**(249)**	(566)	317



Consolidated Financial Statements (as at December 31)

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Hospitals of Ontario Pension Plan (HOOPP) have been prepared by management and approved by the Board of Trustees. Management is responsible for the contents of the consolidated financial statements and other sections of the annual report.

HOOPP maintains appropriate processes to ensure the integrity and fairness of the data presented and that relevant and reliable information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and comply with the financial reporting requirements of the Pension Benefits Act of Ontario. These consolidated financial statements include certain amounts that are based on management's estimates and judgments. The significant accounting policies used and which management believes are appropriate for HOOPP are described in note 1 to the consolidated financial statements. The financial information presented throughout the annual report is consistent with that found in the consolidated financial statements.

HOOPP has developed and maintains systems of internal control, as well as supporting procedures, to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include an organizational structure that provides a well-defined division of responsibilities, accountability for performance and the timely communication of policies and guidelines throughout the organization.

The Audit & Finance Committee assists the Board of Trustees in discharging its responsibilities of approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. Prior to recommending approval of the audited consolidated financial statements, the Audit & Finance Committee reviews the consolidated financial statements, the adequacy of internal controls and the audit and financial reporting process with both management and the external auditors.

PricewaterhouseCoopers LLP was appointed the independent external auditors by the Board of Trustees upon the recommendation of the Audit & Finance Committee. The 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 an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit & Finance Committee to discuss any findings related to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

John A. Crocker
President & Chief Executive Officer

G. Douglas Carr
Senior Vice-President, Finance and
Chief Financial Officer

February 22, 2007

Consolidated Financial Statements (as at December 31)

Auditors' Report

To the members of the Hospitals of Ontario Pension Plan

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits and deficit of the Hospitals of Ontario Pension Plan (the Plan) as at December 31, 2006, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended. These consolidated financial statements are the responsibility of management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficit of the Plan as at December 31, 2006 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 generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada

March 21, 2007

Consolidated Financial Statements (as at December 31)

Actuaries' Opinion

Towers Perrin Inc. was retained by the Board of Trustees for the Hospitals of Ontario Pension Plan (the Plan) to perform an actuarial valuation of the assets and the going-concern liabilities of the Plan as at December 31, 2006. This valuation is for the purpose of inclusion in the Plan's consolidated financial statements, prepared in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

We have undertaken such a valuation and provided the Board with our related actuarial report. As this valuation was undertaken for purposes of the Plan's consolidated financial statements under Section 4100 of the Canadian Institute of Chartered Accountants Handbook, it might not be appropriate for other purposes and should not be relied upon or used for any other purpose.

The valuation of the Plan's going-concern liabilities was based on:

- Members' demographic data provided by the Hospitals of Ontario Pension Plan as at December 1, 2006 and members' pay data which was provided as at December 31, 2005, all of which was projected to December 31, 2006 using management's estimates of experience for the intervening periods;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which, having been developed by Plan management and Towers Perrin, have been adopted by Plan management as its best long-term estimate of future events.

Changes have been made to the actuarial assumptions and Plan provisions since the previous valuation for the purpose of the Plan's consolidated financial statements at December 31, 2005 as described in the notes to the consolidated financial statements. The valuation of the Plan's assets was based on financial information provided by the Hospitals of Ontario Pension Plan.

The objective of the consolidated financial statements is to fairly present the financial position of the Plan as at December 31, 2006 as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's consolidated financial statements are reasonable in our opinion, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any difference 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 reviewed the data used for the valuation, and have made tests of reasonableness and consistency and, in our opinion, the data is sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are appropriate for the purposes of the valuation.

Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

Towers Perrin Inc.

Stephen P. Bonnar
Fellow, Canadian Institute of Actuaries

Gerald F. Schnurr
Fellow, Canadian Institute of Actuaries

February 22, 2007

Consolidated Financial Statements (as at December 31)

Consolidated Statement of Changes in Net Assets Available for Benefits

Year ended December 31

($ Millions)	**2006**	**2005**
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Increase in net assets		
Net investment income [note 5]	**$ 3,136**	$ 3,095
Contributions [note 6]	**1,376**	1,281
Total increase	**4,512**	4,376
Decrease in net assets		
Benefits [note 7]	**1,019**	856
Investment and Plan administration expenses [note 8]	**91**	85
Total decrease	**1,110**	941
Net increase in net assets available for benefits	**3,402**	3,435
Net assets available for benefits, beginning of year	**24,512**	21,077
Net assets available for benefits, end of year	**$ 27,914**	$ 24,512

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements (as at December 31)

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficit

As at December 31

($ Millions)	**2006**	2005
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments [note 2]	**$ 42,951**	$ 35,465
Amounts receivable [note 4]	**211**	191
Total assets	**43,162**	35,656
Liabilities		
Investment-related liabilities [note 2]	**15,224**	11,120
Other liabilities	**24**	24
Total liabilities	**15,248**	11,144
Net assets available for benefits	**27,914**	24,512
Actuarial asset value adjustment [note 1(e)]	**(2,709)**	(1,659)
Actuarial value of net assets available for benefits	**$ 25,205**	$ 22,853
ACCRUED PENSION BENEFITS AND DEFICIT		
Accrued pension benefits [note 9(a)]	**$ 25,454**	$ 23,419
Deficit	**(249)**	(566)
Accrued pension benefits and deficit	**$ 25,205**	$ 22,853

See Description of Plan and accompanying notes to financial statements

On behalf of the Board of Trustees

Kelly Butt
Chair of the Board

Dan Anderson
Vice-Chair of the Board

David Alexander
Chair, Audit & Finance Committee

Consolidated Financial Statements (as at December 31)

Consolidated Statement of Changes in Accrued Pension Benefits

Year ended December 31 *($ Millions)*		2006		2005
CHANGES IN ACCRUED PENSION BENEFITS				
Accrued pension benefits, beginning of year	**$**	**23,419**	$	21,535
Increase in accrued pension benefits				
Interest on accrued benefits		**1,501**		1,491
Benefits accrued		**1,131**		1,213
Changes in actuarial assumptions [note 9(c)]		**878**		(70)
Changes in Plan provisions [note 9(f)]		**1**		–
Total increase		**3,511**		2,634
Decrease in accrued pension benefits				
Benefits paid [note 7]		**1,019**		856
Data adjustment experience gain [note 9(d)]		**315**		94
Estimated experience gain/(loss) [note 9(e)]		**142**		(200)
Total decrease		**1,476**		750
Net increase in accrued pension benefits		**2,035**		1,884
Accrued pension benefits, end of year	**$**	**25,454**	$	23,419

See Description of Plan and accompanying notes to financial statements

Consolidated Financial Statements (as at December 31)

Consolidated Statement of Changes in Deficit

Year ended December 31

($ Millions)	**2006**	**2005**
CHANGES IN DEFICIT		
Deficit, beginning of year	**$ (566)**	$ (227)
Increase in net assets available for benefits	**3,402**	3,435
Decrease in actuarial asset value adjustment	**(1,050)**	(1,890)
Increase in actuarial value of net assets available for benefits	**2,352**	1,545
Net increase in accrued pension benefits	**(2,035)**	(1,884)
Deficit, end of year	**$ (249)**	$ (566)

See Description of Plan and accompanying notes to financial statements

Description of Plan

The following description of the Hospitals of Ontario Pension Plan Trust Fund (HOOPP or the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the *Hospitals of Ontario Pension Plan Text*, the official Plan document.

a. General

The Plan is a contributory defined benefit multi-employer pension plan, established under an *Agreement and Declaration of Trust* (as amended) for the benefit of eligible employees of participating employers.

HOOPP is registered with the Financial Services Commission of Ontario (FSCO), and with the Canada Revenue Agency (CRA), Plan Registration Number 0346007.

In conjunction with its Registered Pension Plan (RPP), HOOPP operates a Retirement Compensation Arrangement (RCA). The RCA is administered as part of the overall Plan, but its assets are held in a segregated account.

b. Funding

Plan benefits are funded by contributions and investment earnings. The Plan's funding policy aims to secure the pension promise and achieve long-term stability in contribution rates for both employers and members. Actuarial funding valuations are conducted to determine pension liabilities and the funded position and contribution rates of the Plan.

Under the terms of the Plan, contributions are set to cover the total annual cost of benefits. This includes the current service cost of benefits (with recognition of the administrative expenses of HOOPP), plus special payments required to amortize unfunded liabilities and solvency deficiencies, less any surplus amortization amounts.

c. Contributions

Contributions are determined in accordance with provisions of the Plan Text, and on the recommendation of the Plan's actuary. During 2005 and 2006, members contributed 6.9 per cent of their annualized earnings up to the 2005 and 2006 year's maximum pensionable earnings (YMPE) respectively, and 9.2 per cent of their annualized earnings above the 2005 and 2006 YMPE respectively. The YMPE is a figure that is set annually by the federal government and used to calculate Canada Pension Plan (CPP) contributions and benefits. Employers contributed 126.0 per cent of member contributions during the period. Contribution rates will remain unchanged for 2007 and 2008.

d. Pensions

The formula used to calculate a HOOPP retirement pension takes into account a member's contributory service, average annualized earnings, and the average YMPE. Members can receive an unreduced pension at the earlier of age 60 or as soon as they have completed 30 years of eligibility service (formerly called Plan membership), provided they are at least 55 years old. Members are eligible to retire at age 55, usually with a reduced pension.

Members who retire early will receive a bridge benefit until age 65 or death, whichever occurs first. The bridge benefit is designed to supplement a member's basic HOOPP pension until age 65 when CPP benefits normally begin. An early retirement transition benefit, which provides an additional supplement, payable until age 65, is also available to retiring members who by the end of 2005 had met certain eligibility requirements.

Members who choose to retire after the normal retirement age of 65 receive an upward adjustment in recognition of the fact that they have chosen to retire later.

e. Disability pensions

A disability pension is available at any age to a disabled member who has at least two years of Plan membership and meets other eligibility requirements. A disability pension is based on the member's contributory service accrued to the date of disability retirement.

f. Death benefits

Death benefits may be available to a surviving spouse or designated beneficiary upon the death of a member. Depending upon eligibility requirements, the benefit may be paid in the form of a surviving pension or lump-sum payment.

g. Portability from the Plan

A member with more than two years in the Plan shall be entitled to receive a deferred pension. A member may also opt to transfer the commuted value of the benefit out of HOOPP to another pension plan or registered retirement vehicle, subject to locking-in provisions and certain age restrictions.

A member with less than two years in the Plan shall be entitled to a refund of their own contributions with interest.

Members wanting to transfer their contributions or benefits from another registered pension plan to HOOPP can do so providing the transfer meets all eligibility requirements.

h. Inflation protection

Retirement pensions earned for service through the end of 2005 are annually adjusted by an amount equal to 75 per cent of the previous year's increase in the consumer price index (CPI), to a maximum CPI increase of 10 per cent. Thereafter, annually the Board has the authority to provide ad hoc indexing for all service earned, up to 100 per cent of the previous year's increase in CPI, depending on the Plan's financial status as well as other factors. For retirements and deferred retirements occurring in 2006, the Board has granted ad hoc indexation equal to 75 per cent of the 2006 CPI, to a maximum CPI increase of 10 per cent. Therefore, all current retirees and deferred annuitants will receive indexation at 75 per cent of the 2006 CPI in respect of all service.

i. Income taxes

HOOPP is a seamless plan offering both an RPP and RCA, as defined by the Income Tax Act (Canada) (ITA). The RCA is designed to provide members of the Plan with benefits in excess of what an RPP can provide, due to ITA limits. No taxes are paid on the contributions made to the Plan under the RPP or on the investment income it earns. However, funds earned in or contributed to HOOPP's RCA are taxable. Depending on the contributions received, benefit payments made, and investment income earned through the RCA, a portion of taxes may be refundable and are disclosed in note 4 as recoverable refundable withholding tax on contributions. From the member's perspective, they contribute to a seamless plan. Required contributions to both the RPP and RCA are tax-deductible.

Choose a note

Notes to Consolidated Financial Statements (for the year ended December 31, 2006)

Choose a note

Note 1: Summary of significant accounting policies

The consolidated financial statements of the Plan reflect the financial position and the changes in its net assets available for benefits. These consolidated statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and comply with the requirements of CICA Handbook Section 4100. Certain comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

a. Principles of consolidation

Subsidiaries:

The consolidated financial statements include the assets, liabilities and the changes in net assets of HOOPP and its wholly owned investment subsidiaries, as well as its proportionate share of the fair value of assets, liabilities, and other operations resulting from real estate joint ventures, after elimination of all intercompany transactions and balances.

b. Investments

(i) Valuation of investments

Fair values of investments are determined as follows:

a. Short-term money market securities are recorded at cost or amortized cost which, together with accrued interest or discount earned, approximates fair value.

b. Bonds are valued on the basis of market quotes using the average of the bid and ask prices. Where quoted year-end prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Equities owned and sold short are valued at year-end quoted market prices.

d. Securities sold under agreements to repurchase, all of which mature within 90 days, are treated as collateralized borrowing transactions and are recorded at cost. Accrued interest on repurchase agreements is included in interest expense as part of net investment income.

e. Private equities are valued based on estimated fair values determined using appropriate valuation techniques, and management's best estimates.

f. Real estate, consisting primarily of income-producing properties, is generally valued based on latest appraisal values determined at least once every three years by accredited external appraisers.

g. All derivative financial instruments, which include foreign exchange forward contracts, bond and equity futures contracts, equity index swaps, interest rate swaps, equity and bond option contracts, and credit default swaps, are recorded at fair value using year-end market prices. Fair value represents the amount of consideration at which derivative financial instruments could be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to transact. Where quoted market values are not readily available, appropriate valuation techniques are used to determine fair value.

(ii) Investment transactions and income

Investment transactions are recognized on a trade-date basis. Investment income, comprising interest income and expense, and real estate operating income net of expenses, is recorded on an accrual basis; dividend income is recognized on the ex-dividend date. Realized gains and losses on the sale of investments include gains and losses on disposition, and investment write-offs. Unrealized gains and losses on investments represent the change in the difference between the cost-based values and the fair values of investments at the beginning and end of each year.

c. Foreign currency translation
Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end date. Income and expenses are translated into Canadian dollars at the rate of exchange prevailing on the dates of the transactions. The realized gains and losses arising from these transactions are included in realized gains and losses on the sale of investments in the period incurred. Unrealized gains and losses on translation are included in the change in unrealized gains and losses on investments.

d. Accrued pension benefits
Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The year-end valuation of accrued pension benefits is based on data extrapolated to the current valuation date of December 31, 2006. The valuation uses the projected accrued benefit actuarial cost method prorated on service and management's estimate of certain future events.

e. Actuarial asset value adjustment
The actuarial value of net assets available for benefits has been determined in a manner that reflects long-term market trends consistent with assumptions underlying the actuarial present value of accrued pension benefits.

This value has been determined by taking an average of the current market value of net assets and the market values for the four preceding years brought forward with interest at the asset valuation rate and adjusted for contributions, benefit payments, and administrative expenses.

The impact of this adjustment is to decrease the net assets available for benefits by $2,709 million (2005: decrease $1,659 million). This is a common actuarial practice and has the effect of stabilizing the contribution rates of the Plan during periods of short-term market volatility.

f. Contributions
Contributions from members and employers due to the Plan as at year-end are recorded on an accrual basis. Contributions for past service purchases and transfers are recorded when received.

g. Benefits
Benefit payments to members and pensioners are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in the accrued pension benefits.

h. Use of estimates
In the preparation of these consolidated financial statements, management uses estimates and assumptions based on current available information. Such estimates and assumptions may affect the reported amounts of assets and liabilities, revenue and expenses, accrued pension benefits and related disclosures. Actual results could differ from those estimates.

Choose a note

Notes to Consolidated Financial Statements (for the year ended December 31, 2006)

Choose a note

Note 2: Investments

The investment objective of the Plan is to earn an average rate of return that exceeds its long-term funding target by employing appropriate asset mix policies and risk diversification strategies. The nominal long-term return target of the Plan during the year was 7.00 per cent.

a. Summary of investments

The following schedule summarizes the fair value and cost of the Plan's investments before allocating the market exposure related to derivative financial instruments, as at December 31:

($ Millions)	2006		2005	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Fixed income				
Cash and short-term money market securities	**$ 639**	**$ 639**	$ 1,723	$ 1,723
Bonds				
Canadian	**23,358**	**22,853**	21,269	20,530
Other global	**6,602**	**6,383**	1,686	1,819
	30,599	**29,875**	24,678	24,072
Equities and equity type				
Canadian	**441**	**560**	901	813
United States	**3,034**	**2,693**	2,822	2,824
Other global	**2,899**	**2,244**	2,289	2,024
Real estate	**3,371**	**2,575**	2,598	2,173
Private equity and special situations	**1,041**	**1,165**	752	767
	10,786	**9,237**	9,362	8,601
Investment-related receivables				
Receivables from derivative financial instruments	**892**	**–**	783	–
Pending trades	**354**	**353**	366	368
Accrued investment income	**320**	**320**	276	276
	1,566	**673**	1,425	642
TOTAL INVESTMENTS	**$ 42,951**	**$ 39,785**	$ 35,465	$ 33,317
Investment-related liabilities				
Obligations related to securities sold short	**(12,872)**	**(10,480)**	(9,288)	(8,026)
Liabilities from derivative financial instruments	**(682)**	**(2)**	(314)	–
Real estate mortgages	**(779)**	**(765)**	(634)	(631)
Securities sold under repurchase agreements	**(613)**	**(613)**	–	–
Pending trades	**(264)**	**(263)**	(422)	(420)
Obligations related to securities lending	**(7)**	**(7)**	(424)	(424)
Accrued liabilities	**(7)**	**(7)**	(38)	(38)
	(15,224)	**(12,137)**	(11,120)	(9,539)
NET INVESTMENTS	**$ 27,727**	**$ 27,648**	$ 24,345	$ 23,778

b. Risk management

Fundamental to the risk management process is the understanding of risks associated with all areas of the Plan's business and its operating environment, and the articulation of strategies for dealing with those risks.

The Plan's investment portfolio is subject to risks that could adversely affect its cash flows, net assets available for benefits, and income.

The Plan controls investment – related risks through its Statement of Investment Policies and Procedures (SIP&P) and Investment Policies and Guidelines (IP&G), which prescribe a long-term debt-equity asset mix policy; require portfolio investment diversification; set guidelines on investment categories; and limit exposure to individual investments, major asset classes, geographic markets and currency. As permitted, the Plan uses derivative instruments to efficiently manage its market and credit exposures, and engages in transactions to enhance returns without the use of leverage.

(i) Interest rate risk

Interest rate risk is the risk that the market value of the Plan's investments will fluctuate due to changes in market interest rates. It arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's investments is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are influenced by expectations of long-term inflation and salary escalation, as well as long-term rates of return on investments.

To manage the Plan's interest rate risk, guidelines on the weighting and duration for the fixed income portfolio are set and monitored. Derivatives are also used as economic hedges against the Plan's exposure to interest rate risk.

The remaining terms to contractual maturity or repricing dates, whichever dates are earlier, of interest-bearing investments (including those which back derivative instruments) as at December 31 are as follows:

($ Millions, except %)	2006					2005	
Interest-Bearing Instruments	**Within 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Effective Yield**	**Total**	**Effective Yield**
Short-term securities	**$ 527**	**$ –**	**$ –**	**$ 527**	**3.97%**	$ 1,578	3.27%
Government of Canada bonds	**400**	**1,912**	**1,913**	**4,225**	**4.21%**	4,577	3.97%
Provincial and municipal bonds	**441**	**5,624**	**3,170**	**9,235**	**3.61%**	8,804	3.71%
Real return bonds	**–**	**–**	**1,304**	**1,304**	**1.36%**	1,193	1.12%
Corporate bonds	**2,829**	**4,615**	**1,150**	**8,594**	**4.48%**	6,695	5.20%
Other global bonds	**868**	**4,331**	**1,403**	**6,602**	**5.22%**	1,686	6.55%
	$ 5,065	**$ 16,482**	**$ 8,940**	**$ 30,487**	**4.20%**	$ 24,533	4.21%

(ii) Currency risk

Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. The Investment Policies and Guidelines require that the Plan's foreign currency exposure on equity investments be approximately 50 per cent hedged, fixed income investments will be 100 per cent hedged and the Plan is also required to hedge currency exposures on derivative positions. This is accomplished by entering into foreign currency forward contracts or swaps for the purchase or sale of foreign currencies.

The Plan's investments by currency of risk including related derivative financial instruments, as at December 31, are as follows:

(C$ Millions)	2006			2005
Currency	**Currency Exposure**	**Net Foreign Currency Hedge**	**Net Currency Exposure**	**Net Currency Exposure**
Canadian dollar	**$ 15,029**	**$ 8,442**	**$ 23,471**	$ 20,552
United States dollar	**8,109**	**(5,993)**	**2,116**	1,991
Euro	**2,243**	**(1,628)**	**615**	562
Other European currencies	**1,036**	**(410)**	**626**	515
Japanese yen	**706**	**(372)**	**334**	305
Other Pacific currencies	**232**	**(38)**	**194**	138
Emerging market currencies	**372**	**(1)**	**371**	282
	$ 27,727	**$ –**	**$ 27,727**	$ 24,345

(iii) Credit risk
Credit risk is the risk that a loss could arise from a securities issuer being unable to meet its financial obligations. Credit risk is mitigated by adherence to investment policy limits on credit ratings and exposure to individual corporate entities and derivative counterparties. The Plan may have fixed income exposure to below investment grade issues, which arise as a consequence of credit rating downgrades, which are hedged by credit default swaps from financial institutions rated A and higher. Credit risk arising from derivative financial instruments is discussed in note 3.

(iv) Market risk
Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or by factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the investment policy, and to utilize derivative financial instruments to mitigate the impact of market risk.

(v) Securities lending and collateral received
To enhance the portfolio return, the Plan lends securities to approved borrowers. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily securities collateral with market values exceeding the market value of the loaned securities. The securities lending program also includes transactions with cash as collateral. The cash is reinvested in short-term money market securities and expected to earn a rate of return in excess of the net rebate paid to the securities borrower. As at December 31, the fair value of loaned securities was $598 million (2005: $1,689 million). Collateral received associated with securities lending totalled $629 million (2005: $1,828 million) comprised of securities worth $622 million and cash of $7 million.

(vi) Securities borrowing and collateral lodged
The Plan borrows securities from financial institutions for securities that have been sold short for yield enhancement strategies. Such sales reduce the Plan's effective exposure to issuers and are within the Plan's policy to not result in an overall net short position with any issuer. Fixed income securities deposited or pledged with various financial institutions as collateral or margin totalled $13,778 million (2005: $9,817 million) for securities borrowing, $340 million (2005: $247 million) for futures and $2,328 million (2005: $282 million) for other derivative obligations.

Choose a note

Note 3: Derivative financial instruments

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates, indices, or exchange rates.

a. Derivative product types

Types of derivative contracts transacted by HOOPP either directly with counterparties or on regulated exchange markets, include:

(i) Foreign exchange forward contracts
A foreign exchange forward contract is a customized agreement negotiated between two parties to buy or sell a specific amount of a foreign currency at a price specified at origination of the contract, with settlement at a specified future date. Forward currency contracts are used to modify the Plan's exposure to currency risk.

(ii) Bond and equity future contracts
Futures contracts involve an agreement to buy or sell a standardized amount of bonds or equity indices, at a predetermined future date and price, in accordance with terms specified by a regulated futures exchange and are subject to daily cash margining. These types of derivatives are used to efficiently modify exposures without actually purchasing or selling the underlying asset.

(iii) Equity index swaps
An equity index swap is a contractual agreement between two parties to exchange a series of cash flows based on an equity index return. One party typically agrees to pay a floating interest rate in return for receiving a return on specified equity indices. Equity index swaps are used for yield enhancement purposes and also to adjust exposures to particular indices without directly purchasing or selling the securities which comprise the index.

(iv) Interest rate swaps
An interest rate swap (including cross currency swap) is a contractual agreement between two parties to exchange a series of fixed or floating cash flows in the same currency or different currencies based on the notional amount. Interest rate swaps are used to manage interest rate exposures and cross currency swaps are used to manage both interest rate and currency exposures.

(v) Credit default swaps
A credit default swap is a contractual agreement between two parties where the buyer of the protection pays a premium to the seller in exchange for payment of the notional amount from the seller against delivery of the related/relevant debt securities if a credit event such as a default occurs. Instead of physical settlement, credit default swaps can also be cash settled. Credit default swaps are used to promote credit diversification and for risk mitigation.

(vi) Foreign exchange, equity and bond options
An option contract is a contractual agreement under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or until a specified future date a specified amount of a particular financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right. Options are used to manage the exposures of market risk to a particular financial instrument without directly purchasing or selling the underlying security.

(vii) Variance swaps
A variance swap is a contractual agreement between two parties to exchange cash flows based on the variance of a specified underlying asset during a certain time period.

(viii) Caps and floors
An interest rate cap is a series of call options on the specified reference interest rate; e.g., CDOR. The buyer receives payment at maturity if the reference interest rate is above the agreed strike rate.

An interest rate floor is a series of put options on the specified reference interest rate. The buyer receives payment at maturity if the reference interest rate is below the agreed strike rate.

b. Investment objectives for derivatives

The Plan's investment objectives for the use of derivatives are to enhance returns by facilitating changes in the investment asset mix to enhance equity and fixed income portfolio returns, and to manage foreign currency exposures. As a risk management tool, derivatives are used to manage the credit and market exposures related to holding certain investments. Provisions within the SIP&P and IP&G dealing with derivatives specify that the Plan cannot use leverage. In addition, derivatives are only permitted if their value is based on some component of equities, bonds, or money market instruments, and not on any other asset class. To mitigate credit risk associated with derivative financial instruments, contracts can only be transacted with counterparties that have a credit rating of A or higher within specified concentration limits.

c. Derivative-related credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction defaults, or otherwise fails to perform under the terms of a contract. Credit risk exposure for derivative financial instruments is measured by the positive fair value of the contractual obligations with the counterparties, less any collateral or margin received, as at the reporting date. Credit risk is managed by utilizing an internal credit-limit monitoring process, as well as through the use of credit mitigation techniques such as master netting arrangements (which provide for certain rights of offset) and obtaining collateral. For futures contracts, credit risk exposure is negligible, as the contracts are transacted over an exchange as opposed to with a counterparty. All derivative contracts currently held by HOOPP have daily, quarterly or semi-annual resets, most of which settle within one year.

The following schedule summarizes the notional, fair value and credit exposure of the Plan's derivatives position, as at December 31:

(i) Notional value

Notional values represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged, and are therefore not recorded as assets or liabilities in these consolidated financial statements. Notional amounts do not represent the potential gain or loss associated with the market risk or credit risk of such instruments.

(ii) Fair value

Fair value is based on quoted market prices for exchange traded derivatives. For over-the-counter derivatives, fair value is determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

(iii) Credit risk exposure
Credit risk exposure represents the replacement cost of all contracts that have a positive fair value at current market rates.

($ Millions)			2006		
Derivative Financial Instruments	**Notional Value Long**	**Notional Value Short**	**Gross Positive (Asset)**	**Gross Negative (Liability)**	**Credit Risk Exposure**
Foreign exchange forward contracts	$ 3,243	$ 3,243	$ 15.6	$ (78.7)	$ 15.6
Foreign exchange options	51	51	–	(3.2)	–
Caps and floors	50	–	0.2	–	0.2
Equity options	28	27	15.7	(45.6)	15.7
Bond options	–	–	–	–	–
Equity swaps	14,327	900	681.6	(43.2)	681.6
Interest rate swaps	13,486	2,501	133.8	(409.6)	133.8
Credit default swaps	6,000	3,799	42.4	(86.6)	42.4
Variance swaps	11	9	2.9	(2.2)	2.9
Futures	7,796	643	0.2	(13.1)	–
TOTAL			$ 892.4	$ (682.2)	$ 892.2

($ Millions)			2005		
Derivative Financial Instruments	**Notional Value Long**	**Notional Value Short**	**Gross Positive (Asset)**	**Gross Negative (Liability)**	**Credit Risk Exposure**
Foreign exchange forward contracts	$ 2,805	$ 2,805	$ 35.6	$ (10.8)	$ 35.6
Foreign exchange options	–	–	–	–	–
Caps and floors	–	–	–	–	–
Equity options	33	33	3.1	(9.2)	3.1
Bond options	–	22	–	(2.7)	–
Equity swaps	12,655	1,350	611.9	(68.6)	611.9
Interest rate swaps	8,008	519	64.2	(167.7)	64.2
Credit default swaps	3,507	2,314	67.7	(35.7)	67.7
Variance swaps	8	7	0.5	(0.6)	0.5
Futures	5,602	331	–	(19.1)	–
TOTAL			$ 783.0	$ (314.4)	$ 783.0

The term to maturity based on the notional value is as follows:

($ Millions)	2006					
Derivative Financial Instruments by Term to Maturity (Notional Values)	**Within 1 Year**		**1 to 5 Years**		**Over 5 Years**	
	Long	**Short**	**Long**	**Short**	**Long**	**Short**
Foreign exchange forward contracts	$ 3,243	$ 3,243	$ –	$ –	$ –	$ –
Foreign exchange options	51	51	–	–	–	–
Caps and floors	–	–	50	–	–	–
Equity options	27	25	1	2	–	–
Bond options	–	–	–	–	–	–
Equity swaps	14,327	900	–	–	–	–
Interest rate swaps	3,280	405	9,456	2,033	750	63
Credit default swaps	1,434	912	3,565	2,616	1,001	271
Variance swaps	11	9	–	–	–	–
Futures	7,796	643	–	–	–	–

($ Millions)	2005					
Derivative Financial Instruments by Term to Maturity (Notional Values)	**Within 1 Year**		**1 to 5 Years**		**Over 5 Years**	
	Long	**Short**	**Long**	**Short**	**Long**	**Short**
Foreign exchange forward contracts	$ 2,751	$ 2,751	$ 54	$ 54	$ –	$ –
Foreign exchange options	–	–	–	–	–	–
Caps and floors	–	–	–	–	–	–
Equity options	–	–	33	33	–	–
Bond options	–	22	–	–	–	–
Equity swaps	12,655	1,350	–	–	–	–
Interest rate swaps	2,952	382	5,056	137	–	–
Credit default swaps	662	353	2,698	1,937	147	24
Variance swaps	–	–	8	7	–	–
Futures	5,602	331	–	–	–	–

d. Investment asset mix

The Plan has established a policy asset mix of 60 per cent equities and 40 per cent fixed income instruments with a permitted deviation of up to 3 per cent. At December 31, 2006, the Plan's policy asset mix was approximately 59.4 per cent (2005: 58.1 per cent) equities and 40.6 per cent (2005: 41.9 per cent) fixed income.

The Plan allocates the investment-related receivables and payables and derivative exposures to the asset categories to which they relate. On this basis, the Plan's effective net investments and asset mix as at December 31 are summarized as follows:

($ Millions, except %)	2006		2005	
	Effective Net Investments	**Effective Asset Mix**	**Effective Net Investments**	**Effective Asset Mix**
Fixed income				
Cash and short-term money market securities	**$ 828**	**3.0%**	$ 1,021	4.2%
Bonds				
Canadian	**10,413**	**37.6%**	9,180	37.7%
	11,241	**40.6%**	10,201	41.9%
Equities and equity type				
Canadian	**4,836**	**17.4%**	4,535	18.6%
United States	**4,003**	**14.4%**	3,347	13.7%
Other global	**4,014**	**14.5%**	3,546	14.6%
Real estate	**2,592**	**9.3%**	1,964	8.1%
Private equity and special situations	**1,041**	**3.8%**	752	3.1%
	16,486	**59.4%**	14,144	58.1%
NET INVESTMENTS	**$ 27,727**	**100.0%**	$ 24,345	100.0%

Choose a note

Note 4: Amounts receivable

($ Millions)		**2006**		**2005**
Contributions receivable				
Employers	**$**	**57**	$	58
Members		**45**		46
Recoverable refundable withholding tax on contributions		**98**		75
Other assets		**11**		12
	$	**211**	$	191

Note 5: Net investment income

Investment income is summarized in the schedule below. Income from individual portfolios is presented, before allocating the effect of derivative contracts and prior to allocating the realized and unrealized gains and losses for the year ended December 31.

($ Millions)	**2006**	2005
Fixed income		
Cash and short-term securities	**$ 47**	$ 36
Bonds		
Canadian[1]	**931**	795
Other global	**255**	52
	1,233	882
Equities and equity type		
Canadian	**7**	18
United States	**146**	79
Other global	**584**	121
Net real estate operating income[2]	**134**	118
Private equity and special situations	**28**	12
	899	348
	2,132	1,230
Net realized gains on investments[3]	**1,476**	2,143
Net change in unrealized losses on investments[4]	**(472)**	(278)
TOTAL	**$ 3,136**	$ 3,095

(1) *Net of interest expense related to securities sold under repurchase agreements of $18 million [2005: nil]*

(2) *Net of interest expense of $40 million [2005: $38 million]*

(3) *Includes realized gains on derivatives of $1,460 million [2005: $1,942 million]*

(4) *Includes net change in unrealized losses on derivatives of $233 million [2005: $444 million]*

Notes to Consolidated Financial Statements (for the year ended December 31, 2006)

Note 6: Contributions

($ Millions)		2006		2005
Employers	**$**	**718**	$	685
Members				
Regular		**570**		544
Others		**13**		10
Transfers from other plans		**75**		42
	$	**1,376**	$	1,281

Consolidated Financial Statements (as at December 31)

Notes to Consolidated Financial Statements (for the year ended December 31, 2006)

Choose a note

Note 7: Benefits

($ Millions)		**2006**		**2005**
Retirement pensions and bridge benefits	**$**	**824**	$	745
Commuted value transfers and death benefits		**98**		58
Refunds		**80**		41
Transfers to other plans		**17**		12
	$	**1,019**	$	856

Choose a note

Note 8: Investment and Plan administration expenses

($ Millions)		**2006**		**2005**
Operating expenses				
Investment:				
Administration	**$**	**26**	$	24
External investment fees		**17**		15
Legal, actuarial and other professional fees*		**2**		1
Custodial fees		**2**		2
Total		**47**		42
Plan:				
Administration		**33**		29
Legal, actuarial and other professional fees*		**11**		14
Total		**44**		43
	$	**91**	$	85

* *Includes fees paid or due to the auditors of the Plan pertaining to statutory audit fees of $295,000 and audit-related fees of $20,000*

Note 9: Accrued pension benefits

a. Accrued pension benefits
Accrued pension benefits are based on management's assumptions as described in note 9(c) and include an implicit provision for expenses. The Plan provisions considered in the valuations were those in effect at the valuation dates.

b. Actuarial methodology for financial reporting
For the determination of the actuarial present value of accrued pension benefits as at December 31, 2006, an actuarial valuation was conducted by Towers Perrin Inc. The valuation uses the projected accrued benefit method (prorated on service) with respect to all benefits and assumes that the Plan will continue on a going-concern basis. The data used in the valuation was based on members' demographic data provided by the Hospitals of Ontario Pension Plan as at December 1, 2006 and members' pay data which was provided as at December 31, 2005, all of which was projected to December 31, 2006 using management's estimates of experience for the intervening periods. The earnings estimates were determined based on 2005 experience and estimate assumptions.

Using this method and data, the accrued pension benefits at December 31, 2006 were $25,454 million (2005: $23,419 million).

c. Actuarial assumptions
Estimates used for financial reporting purposes reflect management's expectations of long-term economic and demographic conditions. To determine the accrued pension benefits as at December 31, 2006 and December 31, 2005, the following economic assumptions were approved by the Board and analyzed and reviewed by management and the Plan's actuarial advisors for reasonability and were determined to be appropriate for financial reporting purposes:

December 31	2006	2005
Rate of return[1]	**6.25%**	6.50%
Rate of price inflation	**2.25%** (1)	2.25%
Real interest rate[1]	**4.00%**	4.25%
Salary escalation rate	**4.75%**	4.75%

(1) *Net of allowance for expenses of 0.40 per cent [2005: 0.40 per cent]*
(2) *Changes from actuarial assumptions used in the previous year resulted in an actuarial loss of $878 million*
(3) *2.50 per cent for 2006, 2.25 per cent thereafter*

d. Data adjustment experience gains and losses
Data adjustment experience gains and losses represent the difference in accrued pension benefits based on using projected data versus actual data, including any change in pension benefits payable on a year-over-year basis. Projected data is used for determining the accrued pension benefits. Once actual data is available a subsequent valuation is conducted on the same basis. The difference in results is the data adjustment experience gain or loss and is recorded in the year in which it is measured. The 2006 data adjustment resulted in an experience gain of $315 million (2005: experience gain of $94 million).

e. Estimated experience gains and losses
Estimated experience gains and losses represent the change in accrued pension benefits due to the difference between actual economic and demographic experience and expected experience. During 2006, there was an estimated experience gain of $142 million (2005: loss of $200 million).

f. Plan provisions
As discussed under the Description of the Plan, the Board has the authority to provide ad hoc indexing for retirements and deferred retirements for service after 2005. For 2006, the Board granted 75 per cent of the 2006 CPI, to a maximum CPI increase of 10 per cent. This resulted in an increase in the Plan's accrued pension benefits of approximately $1 million.

Consolidated Financial Statements (as at December 31)

Notes to Consolidated Financial Statements (for the year ended December 31, 2006)

Choose a note

Note 10: Retirement Compensation Arrangement (RCA)

The RCA was established by the Plan effective January 1, 1996, to formalize the funding and payment of supplementary pension benefits in excess of the benefits that may be paid under the RPP. The RCA is registered with CRA, Account Number RC8100724, and is administered in accordance with the requirements of the Income Tax Act (Canada) and Regulations. A refundable tax is paid to the CRA at a rate of 50 per cent in respect of contributions and investment earnings. However, the tax is refunded at the end of each taxation year in the amount of 50 per cent of benefits paid during the year.

The RCA is a seamless arrangement and is funded by the overall investment portfolio of the Plan, but assets are segregated under a separate account from the assets of the RPP. It allows members to accrue pension benefits and to remit contributions that exceed those amounts permitted under the Income Tax Act (Canada) for an RPP.

The RCA is partially funded from employer contributions that have not been allocated to the RPP, and from investment earnings on those contributions. The allocation of contributions to the RCA and RPP is based on a rate determined periodically by management in a manner that is expected to be sufficient to pay the benefits as they fall due. The pension benefits are payable under the terms and conditions of the Plan.

Choose a note

Note 11: Funding valuation (regulatory filing valuation)

In accordance with the Pension Benefits Act of Ontario and the Income Tax Act (Canada) and Regulations, an actuarial valuation is required to be filed at least every three years to estimate the Plan's surplus or deficit, and to determine the Plan's funding requirements. The last actuarial valuation for regulatory funding purposes was prepared by Towers Perrin Inc., as at December 31, 2005, and a copy of this valuation was filed with the Financial Services Commission of Ontario and the CRA.

The funding valuation method used to determine the Plan's pension liabilities is the projected accrued benefit actuarial cost method (prorated on service). Under this method, pension liabilities are determined by calculating the actuarial present value of benefits based on the projected final average earnings. The actuarial present value of benefits is then prorated to determine the actuarial current service cost of benefits, a portion of which is covered by member contributions.

The economic and demographic assumptions used for regulatory funding valuations can vary from those used to determine amounts disclosed for financial statement purposes. The funding valuation may use actuarial assumptions that are more conservative since the primary purpose of the funding valuation is to promote benefit security. These actuarial assumptions are recommended by the external actuary, in consultation with management, to ensure there is sufficient funding to meet all long-term liability requirements. The economic assumptions used for the previous year's regulatory funding valuation were as follows:

Rate of return	6.50%
Rate of price inflation	2.25% (1)
Real interest rate	4.25%
Salary escalation rate	4.75%

(1) *2.50 per cent for 2006, 2.25 per cent thereafter*

The most recent regulatory funding valuation conducted as at December 31, 2005 disclosed actuarial assets of $22,853 million with accrued pension liabilities of $23,419 million, resulting in a deficit of $566 million. This funding valuation also confirmed that the Plan is fully funded on a solvency basis.

Note 12: Commitments

The Plan has committed to purchase limited partnership units, which will be funded over the next several years in accordance with the terms and conditions agreed to. The Plan has also made commitments to invest in real estate. As at December 31, 2006, these commitments totalled $598 million and $346 million respectively (2005: $439 million and $202 million respectively). The Plan has also committed to purchasing services relating to the pension administration system extending to the year 2023 at approximately $3 million per annum.

Note 13: Guarantees

Guarantees comprise contracts requiring the guarantor to make payment where the guaranteed party fails to perform under an obligating agreement; indirect guarantees of the indebtedness of another party whereby that party has failed to pay its indebtedness; and indemnification agreements that require the indemnifying party (guarantor) to make payments to the indemnified party (guaranteed party).

A guarantee includes a contract that contingently requires the guarantor to make payments to the guaranteed party based on the changes in the underlying interest rate, foreign exchange rate, equity or commodity instruments, index of prices or rates, or any other variables relating to an asset, liability or equity security of the guaranteed party.

In the normal course of its business, HOOPP may, from time to time, provide guarantees to various counterparties which may be considered material within the context of the Fund. The significant guarantees made to third parties would include the following:

Indemnification agreements
According to the *Agreement and Declaration of Trust*, HOOPP indemnifies its Trustees against certain claims that may be made against them.

Derivative instruments (note 3)
HOOPP enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a bond, if a default or other defined triggering event occurs. Typically, a rated regulated entity is the counterparty to the written credit derivatives contracts, which meet the characteristics of guarantees described above. HOOPP also enters into written option agreements, which grant the buyer the future right, but not the obligation, to sell or buy, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the option is arranged, and which can be physically or cash settled. Written options can be used by the counterparty to hedge foreign exchange, equity, credit, commodity and interest rate risks.

Significant Investments

($ Millions)	Maturity Date	Coupon Rate %	Fair Value
Fixed income			
Bonds			
Government of Canada and guaranteed	2007–2037	3.55–9.13	$ 6,213
Real return	2026–2036	2.00–4.50 plus CPI*	2,608
Corporate	2007–2042	0.00–10.80	15,603
Provincial and municipal	2007–2038	0.00–11.00	17,790

* *CPI – consumer price index*

($ Millions)	No. of Shares (in millions)	Fair Value
Equities		
U.S. equities		
Bank of America Corporation	0.7	$ 44.1
Cisco Systems Inc.	0.8	25.4
Citigroup Inc.	0.8	50.3
Dow Chemical Company	1.4	64.6
Exxon Mobil Corporation	0.5	47.0
General Electric Company	1.7	75.9
Microsoft Corporation	1.1	39.3
Verizon Communications Inc.	4.6	198.8

($ Millions)	No. of Shares (in millions)	Fair Value
Equities		
International equities		
Anglo American	0.5	$ 29.1
Japan Tobacco Inc.	0.0	29.3
Mitsubishi Tokyo Financial Group Inc.	0.0	27.4
Nestle SA	0.1	56.6
Petroleo Brasileiro ADR	0.3	33.2
Sanofi-Aventis	0.5	55.7
Takeda Pharmaceuticals	0.4	28.6
UBS AG	0.5	34.6

Equities

Private equities

- BC European Capital VII – 1
- Balmoral Capital LP
- Teranet Income Fund
- TD Capital Private Equity Partners (QLP)
- Clairvest Equity Partners LP
- Investment Partnership (2006) LP
- Project Eagle
- Triton Fund II LP

	Ownership
Real estate properties	
Pensionfund Realty Inc.	
Coquitlam Shopping Centre	42.4%
Slater/Metcalfe	86.0%
Toronto Convention Centre	17.3%
Penlea Investments Ltd.	
1500 West Georgia	100.0%
HOOPP Realty Inc.	
141 Adelaide Street West	100.0%
4711 Yonge Street	75.0%
8th Line and 10th Sideroad	100.0%
Monterey Park	50.0%
Telus	100.0%
Vancouver Centre	50.0%
Whistler Market Place	100.0%
2001 University	100.0%
LeMail Champlain	50.0%
Quinte Mall	50.0%
Fifth and Fifth	50.0%
Canada Place	100.0%
Northgate Mall	100.0%
Northam	50.0%
Willingdon III	100.0%
Willingdon VI	100.0%
Trimac House	50.0%
Westpoint Corp.	100.0%
Other properties	
200 Kent	50.0%
Exchange Tower	25.0%
Foothills Equities	100.0%
Place Rosemere	33.3%
Sussex Place	100.0%
KingSett Real Estate Growth Fund II	13.6%
Morguard Residential Fund	30.8%
Robson Central	100.0%

Ten-Year Review

For the year ended December 31

($ Millions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
CHANGE IN NET ASSETS										
Increase in net assets										
Net investment income/(loss)	**$ 3,136**	$ 3,095	$ 2,135	$ 2,393	$ (845)	$ (799)	$ 1,471	$ 2,463	$ 1,586	$ 1,520
Contributions										
Employers	**718**	685	633	532	297	172	158	138	316	313
Members	**583**	554	514	435	244	137	130	109	227	224
Transfers	**75**	42	15	15	11	10	6	7	5	5
Total increase/(decrease)	**4,512**	4,376	3,297	3,375	(293)	(480)	1,765	2,717	2,134	2,062
Decrease in net assets										
Benefits	**1,019**	856	807	712	634	586	561	561	445	432
Investment and Plan administration expenses	**91**	85	70	64	57	54	52	46	33	23
Total decrease	**1,110**	941	877	776	691	640	613	607	478	455
NET INCREASE/(DECREASE) IN NET ASSETS	**$ 3,402**	$ 3,435	$ 2,420	$ 2,599	$ (984)	$ (1,120)	$ 1,152	$ 2,110	$ 1,656	$ 1,607
NET ASSETS										
Investments										
Fixed Income										
– Canadian	**$ 23,997**	$ 22,992	$ 16,591	$ 10,507	$ 8,154	$ 9,490	$ 8,301	$ 5,739	$ 5,753	$ 5,669
– Other global	**6,602**	1,686	389	324	254	318	141	160	130	107
Equities										
– Canadian	**441**	901	657	1,874	2,117	2,739	4,324	6,180	4,823	4,304
– Other global	**5,933**	5,111	4,764	3,674	3,401	2,587	3,372	3,478	2,840	1,987
Real estate properties, private equity and resource properties	**4,412**	3,350	2,853	2,608	2,406	2,265	2,033	1,542	1,287	1,018
Investment-related receivables	**1,566**	1,425	949	770	504	353	293	3	–	–
	42,951	35,465	26,203	19,757	16,836	17,752	18,464	17,102	14,833	13,085
Other assets	**211**	191	153	124	76	51	39	126	209	167
Total assets	**43,162**	35,656	26,356	19,881	16,912	17,803	18,503	17,228	15,042	13,252
Liabilities										
Investment-related liabilities	**(15,224)**	(11,120)	(5,262)	(1,210)	(839)	(747)	(330)	(207)	(137)	–
Other liabilities	**(24)**	(24)	(17)	(14)	(15)	(14)	(11)	(11)	(5)	(8)
Total liabilities	**(15,248)**	(11,144)	(5,279)	(1,224)	(854)	(761)	(341)	(218)	(142)	(8)
NET ASSETS	**$ 27,914**	$ 24,512	$ 21,077	$ 18,657	$ 16,058	$ 17,042	$ 18,162	$ 17,010	$ 14,900	$ 13,244
Actuarial asset value adjustment	**(2,709)**	(1,659)	231	1,471	2,766	946	(1,322)	(2,033)	(1,378)	(1,193)
Actuarial value of net assets	**25,205**	22,853	21,308	20,128	18,824	17,988	16,840	14,977	13,522	12,051
Accrued pension benefits	**25,454**	23,419	21,535	20,113	17,814	16,756	15,102	11,946	11,333	10,405
(DEFICIT)/SURPLUS	**$ (249)**	$ (566)	$ (227)	$ 15	$ 1,010	$ 1,232	$ 1,738	$ 3,031	$ 2,189	$ 1,646
INVESTMENT PERFORMANCE										
Investment rate of return – net	**12.79%**	14.66%	11.35%	14.86%	(5.02)%	(4.41)%	8.50%	16.61%	11.77%	13.18%
Benchmark return	**11.88%**	13.97%	10.45%	14.38%	(5.33)%	(4.51)%	5.41%	14.87%	9.75%	13.84%
Long-term return target	**7.00%**	7.50%	7.50%	7.75%	7.75%	7.75%	7.25%	7.25%	7.25%	8.00%

Investment vs. Benchmark Returns

(Unaudited)

The one-year returns for investment and the related benchmark, by investment portfolio, are as follows:

Year ended December 31

	2006		2005	
Rate of return (net of fees)	**Investment Returns %**	**Benchmark Returns %**	**Investment Returns %**	**Benchmark Returns %**
Fixed income				
Short-term money market securities	**4.44**	**3.97**	2.90	2.58
Bonds				
Canadian	**3.89**	**4.06**	5.66	6.46
Long bonds	**3.77**	**4.08**	12.84	13.84
Real return	**(2.30)**	**(2.30)**	12.83	12.83
Equities				
Canadian	**19.82**	**19.16**	27.37	26.29
United States	**15.29**	**16.13**	2.53	2.18
Other global	**23.89**	**24.69**	11.64	11.11
Real estate	**27.91**	**18.24**	28.77	18.25
Private equity and special situations	**16.01**	**7.00**	18.15	7.50
NET INVESTMENTS*	**12.79**	**11.88**	14.66	13.97

The Plan identifies the following benchmarks to evaluate the performance of the investment management process. The performance of each portfolio is measured against the benchmarks that reflect the results of the markets in which they invest.

Portfolio	**Benchmarks**
Short-term securities	Government of Canada 91-Day Treasury Bill Index
Canadian bonds	Scotia Capital Markets Universe Bond Index
Long bonds	Scotia Capital Markets Long Bond Index
Real return bonds	Equal to portfolio return
Canadian equities	S&P/TSX60 Total Return Index
U.S. equities	Blended S&P 500 Total Return Index and Russell Mid-Cap Total Return Index
Other global equities	MSCI ACWI Blend Total Return Index
Real estate properties	Investment Property Databank
Private equities	Total Plan Funding Target

* *Includes derivative-related return enhancement strategies*

Governance

Overview

HOOPP's governance structure features equal representation from the OHA and four key unions – OPSEU, ONA, CUPE and SEIU. That's unique in the industry.

HOOPP is governed by an independent Board of Trustees made up of 16 voting members. Eight Trustees are appointed by the Ontario Hospital Association and eight by four major unions representing Plan members, including the:

- Ontario Nurses' Association (ONA)
- Canadian Union of Public Employees (CUPE)
- Service Employees International Union (SEIU)
- Ontario Public Service Employees' Union (OPSEU)

The Board is responsible for overseeing all aspects of the Plan and the HOOPP Fund. Among its many duties, the Board:

- sets contribution levels
- establishes investment policy
- monitors investment performance
- approves annual operating budgets

In carrying out their duties, Trustees are required – by law – to act in the best interests of Plan beneficiaries as a whole. And, in keeping with best practices, HOOPP's Board conducts an annual review of its approach to governance.

In addition to the Trustees, there can be up to two pensioner observers.

Day-to-day responsibility for the overall leadership and management of the Plan, including the Fund, has been delegated to HOOPP's President & CEO.

Read more about HOOPP's governance at hoopp.com >>

Board of Trustees and Committees

For more detail on the Board, visit the Governance section of hoopp.com >>

Trustees (as of December 31, 2006) [1]

Pensioner observer

Joyce Bailey
Former President
Wellesley Hospital

Board committees

Investment Committee
Scott Potts (Chair), Lesley Bell, James Sanders, Deepak Shukla

Plan Committee
Marcia Gillespie (Chair), Warren Chant, Helen Fetterly, Susan Lewis

Governance Committee
Dan Anderson (Chair), Kelly Butt, Marcelle Goldenberg, Anthony Vines

Audit & Finance Committee
David Alexander (Chair), Deborah Menzies, Louis Rodrigues, Ronald Meredith-Jones

(1) One pensioner observer position was vacant at December 31, 2006.

Executives and Professional Advisors

Executives

President & CEO

John A. Crocker
President & CEO

Executive

Reno Bugiardini
Senior Vice-President
Information Technology & Facilities

George B. Buse
Senior Vice-President
Plan Operations

G. Douglas Carr
Senior Vice-President
Finance
Chief Financial Officer

Victoria S. Hubbell
Senior Vice-President
Strategic Planning & Employee Services

Paul Grisé
Senior Vice-President
Interim Investment Management and Chief Investment Officer

David L. Miller
General Counsel and Senior Vice-President
Governance

Senior management

Michael Catford
Vice-President
Real Estate

Jim Keohane
Vice-President
Portfolio Strategy & Derivatives

David Hayter
Vice-President
Financial Services

Clint Matthews
Vice-President
Risk & Compliance

Andrew Moysiuk
Managing Partner
HOOPP Capital Partners

David Long
Vice-President
Fixed Income

Carmela Pappas
Vice-President
Client Services

Jeffrey Wendling
Vice-President
North American Equities

Professional advisors

Actuary
Towers Perrin Inc.

Auditors
PricewaterhouseCoopers LLP

Investments
Lea B. Hansen,
Eric Kirzner,
Karen R. Shoffner,
Valter Viola

Legal
Cavalluzzo Hayes Shilton McIntyre & Cornish LLP