

Preserving the Promise

HOOPP Annual Report 2008



DB = DEPENDABLE BENEFIT

Discover the Plan's promise: start a pension and receive it for life. Learn more in [The Promise](#) and [The Year in Review](#).

DB = DEFINITELY BANKABLE

Read about how the Fund weathered the storm, despite financial markets, in the [MD&A](#) and [Financials](#)

Introduction

HOOPP's pension promise is very simple: once members start receiving a pension, they receive it for life.

Preserving that promise is what has made HOOPP the leading pension plan provider in the Ontario healthcare community and one of the biggest, most respected pension plans in Canada.

But don't just take HOOPP's word for it – ask some members, pensioners and employers!

Teresa Adair has been a HOOPP member since she was 20.

"I have changed employers twice in the last few years and [the employers] being part of HOOPP was one of the key benefits attracting me," she says. "I am fortunate to have been able to maintain my membership."

Pensioner **Joan Brentnall** also knows firsthand the benefits of belonging to HOOPP.

Brentnall, who has been retired for more than a decade, is now a volunteer and teacher in the emergency room of Leamington District Memorial Hospital and often interacts with young field placement students considering entering the nursing profession.

"More than once I have lauded the benefits of HOOPP, explaining to them how the mandatory contributions that I made over the years have added to the quality of life during my retirement. What a blessing!" she says.

Like the members they serve, HOOPP employees are a committed team of professionals who understand what it means to be a member – because they're HOOPP members, too. This is why they have a vested interest in preserving the pension promise.



"More than once I have lauded the benefits of HOOPP... what a blessing!"

-Joan Brentnall

The HOOPP Advantage

Presently, close to a quarter of a million Ontario healthcare workers can count on HOOPP to be a cornerstone of their retirement plans.

"Being a member of HOOPP is an effortless aspect of my life that makes me feel very responsible," says **Beth Charron**, an administrative assistant at John McGivney Children's Centre. "When people ask why I'm not worried about retirement and I tell them it's taken care of, they think I must be a financial guru. Nope, I'm just a HOOPP member!"

HOOPP's team strives to meet member needs and expectations. Just take a look at the many advantages of HOOPP:

A Lifetime Retirement Income

Once a member starts receiving a pension, it will continue for life – and the longer a member belongs to HOOPP, the larger that pension will be. HOOPP's competitive benefit formula takes into account members' earnings history and length of service in the Plan. This earnings-based formula is designed to replace a portion of their pre-retirement income, in retirement.

The Choice of Retiring Early

With the physical and emotional demands of working in the healthcare sector, many Plan members choose to retire as early as age 55. HOOPP recognizes this and offers valuable early retirement provisions such as an unreduced pension at age 60 and a bridge benefit that's payable from the early retirement date to age 65.

Pensioner **Chris Steeves** decided to take early retirement after a 38-year career as a nurse.

"With the defined plan and the excellent leadership of our Board, I felt I could manage," she says. "I don't think the life I live now could have been possible without HOOPP and its structure and good management."

Inflation Protection

Every dollar counts – especially as members retire earlier and live longer. HOOPP's inflation protection feature safeguards the buying power of every pension dollar.

Transfers and Portability

Most people work at several employers throughout their entire career. Because HOOPP is a multi-employer plan, it's easy for members to link pension service from one HOOPP employer to the next.

Survivor Benefits

Loved ones make up a huge part of everyone's life and some of them depend on Plan members for income security. This is why HOOPP provides a range of valuable survivor benefits – whether the member dies before or during retirement.

Disability Benefits

HOOPP helps pave the way for financial security when a member retires, but if the unthinkable happens and a disability leaves a member unable to work for extended periods of time, he or she may be able to



"When people ask why I'm not worried about retirement and I tell them it's taken care of, they think I must be a financial guru. Nope, I'm just a HOOPP member!"

-Beth Charron

build service in the Plan without having to make pension contributions. Those who are totally and permanently disabled may qualify for an immediate unreduced pension.

The History of HOOPP

Pensioner **Garth Pierce** says, “Now that I am retired, I have come to learn the tremendous part that HOOPP plays in making retirement a time to enjoy life and not worry about finances. As a board member of another public sector defined benefit pension plan, I can assure HOOPP members that our Plan is indeed among the very best.”

There’s a reason HOOPP is “among the very best” – from the outset, in 1960, HOOPP has been committed to taking care of the financial future of those who care for Ontarians – healthcare workers across the province.

Before HOOPP, some hospitals had pension plans; others didn’t. The Ontario Hospital Association (OHA) had a goal to offer an affordable, uniform pension plan to *all* healthcare workers in Ontario.

In 1993, HOOPP became jointly administered by an independent Board of Trustees with equal representation from the OHA and the 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.

Currently serving 164,700 members at 333 employers, HOOPP continues to expand with the growing healthcare sector and helps provide retirement income to 82,600 pensioners and deferred pensioners.

After 49 years in business, HOOPP is moving forward steadily with new and innovative ways to reflect the needs of the Plan’s members and employers.

In 2008, HOOPP:

- rolled out a new online buyback estimator to provide members with an easy way to see how buying back service increases their pension
- completed the implementation of HOOPP’s new pension administration system, a multi-year project
- introduced HOOPP Employer Secure Environment (ESE) to employers, providing a new, secure method for handling some of the most common transactions online such as enrolment,



"Now that I am retired, I have come to learn the tremendous part that HOOPP plays in making retirement a time to enjoy life and not worry about finances."

-Garth Pierce

termination and retirement, instantly submitting the information to HOOPP without the need to sign and mail forms

- did full testing and began rolling out HOOPP Connect, which allows members and pensioners to securely access personalized information and perform pension-related inquiries and transactions at their convenience
- reached out to part-time employees and to new organizations to ensure they understood the value of having HOOPP
- began implementation of new investment technology

Aldwyn Guy, payroll specialist at Humber River Regional Hospital says, “the Plan administration's efforts of continued modernization are focused in the right direction. For example, the introduction of the HOOPP ESE smart forms are useful tools in reducing the response time between HOOPP and employers – this will greatly benefit the Plan's membership.”

With an eye towards the future, HOOPP is committed to moving with the changing healthcare landscape and remaining a cornerstone of the retirement plans of its members.

The Defined Benefit Advantage

As one of Canada's biggest defined benefit (DB) plans, HOOPP is proud that Plan members don't have to rely solely on their savings in this current climate of financial market uncertainty – HOOPP continues to preserve the pension promise, guaranteeing a lifetime benefit upon retirement.



Member **Michael Rennie**, who is Regional Manager, System Utilization/Customer Support at Niagara Health System, was in his early thirties when he joined HOOPP.

“Back then I had never even heard of a defined benefit plan,” he says. “My non-hospital friends felt sorry for me having to pay those contributions every pay. In the intervening years I have become keenly aware of the true value of a plan like HOOPP's. Now that I am in my mid-fifties my non-hospital friends are envious of the pension I can look forward to.”

*"I have become keenly aware of
the true value of a plan like
HOOPP's."*

-Michael Rennie

HOOPP firmly believes that the DB pension model is decidedly better than its defined contribution (DC) counterpart because of the higher level of security it provides to Plan members.

Others share that belief.

When **Janet Valcourt**, Autism Spectrum Disorder Consultant at Surrey Place Centre, first joined HOOPP in her twenties, she says “retirement” wasn’t even in her vocabulary.

“I blinked, and suddenly I was 51,” she says. “Now I am so thrilled, and the envy of many of my friends, as I will be able to retire on August 1, 2014. In this current fiscal climate, I know I am truly blessed to have a defined benefit plan like HOOP. Bring on the painting, the photography, the gardening, hiking and dinner parties!”

In November, the Ontario Expert Commission on Pensions’ review of the province’s occupational pension system was released. It was reported that, “large pension plans generally achieve better results than small plans or individuals who manage their own investments (as they often do in DC plans). Large plans are able to employ extensive teams of financial analysts, pay lower investment management fees, and gain access to private equity placements and other investment opportunities not available to smaller plans or individuals.”

Moreover, the report went on to say that large plans such as HOOPP “can achieve significant economies of scale in their administration and in providing service to their members.”

The table below offers a simple summary of why HOOPP believes the DB model is fundamentally superior:

	DB	DC	The DB Advantage
Philosophy	To reward members for long service with a lifetime retirement income.	To help members accumulate retirement savings during their active career.	The security of income rather than savings.
Contributions	Typically, member and employer contribute a set percentage of the member’s salary. Funds are deposited in a pension fund for the benefit of <i>all</i> plan members.	Typically, member and employer contribute a set percentage of the member’s salary. Funds are deposited in a personal account set up in the member’s name.	In most DB plans, employers shoulder the investment risk. Under a DC plan, members take on <i>all</i> the investment risk.
Investment Decisions	Professional money managers make the investment decisions based on strict guidelines established for the plan as a whole.	Members have to decide how their money is invested, usually based on a range of available investment options.	With a DB plan, members don’t have to worry about making investment decisions or tracking investments because a highly qualified investment professional is doing it for them.

	DB	DC	The DB Advantage
Income at retirement	Retirement income is a percentage of the member's pre-retirement earnings – so the more service the member has, the bigger that percentage will be. Once members start receiving their pension, they receive it for life.	The money in the member's 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 the member has contributed, the success of the investment strategy, and interest rates when the member buys an annuity.	With a DB plan, members can estimate, in advance, what their pension will be. Benefits are pre-defined – members know what they are going to receive.
Ancillary benefits	Many DB plans, offer ancillary benefits such as: <ul style="list-style-type: none"> • inflation protection • enhanced early retirement benefits • disability benefits • survivor benefits 	At retirement, members <i>may</i> be able to buy a lifetime annuity that includes some ancillary benefits such as partial inflation protection – but these extras tend to be pretty expensive, which reduces the amount they'll have available to provide an income stream.	With a DB plan, the ancillary benefits are built in and members don't have to worry about the additional cost of shopping around for an annuity that includes them.

Portrait of a Pensioner

Life might not be a fairy tale, but with HOOPP as a cornerstone of a retirement plan, members can get a lot closer to a "happily ever after."

Because HOOPP pensions are guaranteed for life, members can retire without having to worry about their retirement savings running out.

"In these tough economic times, I can rest assured that my retirement income is safe," says **Sharon Kerr**, Human Resources Generalist at Humber River Regional Hospital.

It's important to remember that a HOOPP member starts building a pension as soon as they start contributing – and the longer a member contributes, the bigger that pension will be.

Mei just retired at age 60, with 30 years of service in the plan and average annualized earnings of \$51,000. Her lifetime pension is \$24,100 per year.

If Mei lives to age 81, she would receive a total of \$540,000 in pension payments (including bridge payments to age 65) – and that's not including any cost of living adjustments she may receive. That's more than six times the \$86,000 in contributions she made to HOOPP over her career!

Part-timers who opt to join the Plan can expect a similarly compelling retirement scenario. Hassan just retired at age 60, with 12.5 years of contributory service and 25 years of eligibility service in the Plan. His average annualized earnings are \$51,000.

Hassan will receive a lifetime pension of about \$10,000 every year. If Hassan lives to age 81, he will receive pension payments totalling \$224,000 (including bridge payments to age 65), not including any cost of living adjustments. That's more than six times the \$35,000 he paid into HOOPP during his career!

Both of these examples are for illustrative purposes only but they show how the pension paid to a member depends on personal circumstances such as how much they earn, when they retire, and how many years of service they have.

With HOOPP, members are not alone in working towards their financial goals. HOOPP provides an excellent foundation for retirement.



*"In these tough economic times,
I can rest assured that my
retirement income is safe."*

-Sharon Kerr

Year in review

Investments & Funding

In spite of the state of the financial markets in 2008, the Fund weathered the storm better than most. While the overall return rate of -11.96 per cent fell short of HOOPP's target, HOOPP's compound rate of return over the last 10 years is 5.92 per cent. HOOPP ended the year 97 per cent funded.

The Plan

Two online transactional sites – HOOPP Connect for members and pensioners and HOOPP ESE for employers – were implemented. HOOPP ESE was rolled out in 2008, with the rollout of HOOPP Connect to occur in 2009. The sites allow clients to securely access information and perform pension-related inquiries and transactions.

Healthcare Initiative

Promoting a greater understanding of HOOPP to healthcare stakeholders continued to be a mandate in 2008. In light of the Expert Commission on Pensions, which advocated more multi-employer pension plans and urged small plans to consider joining larger ones for economies of scale, HOOPP had 15 healthcare employers join. HOOPP began its formal stakeholder relations program with two presentations at Queen's Park, and numerous one-on-one meetings with key healthcare stakeholders throughout the year. The ongoing campaign to recruit more part-time employees to join the Plan was ramped up, with sign-up drives taking place at multiple sites; an awareness campaign continued.

Employee Excellence

HOOPP is dedicated to developing the skill sets of all employees, through innovative and leading-edge talent management programs and practices. This key component to HOOPP's strategy helps secure a sustainable supply of leaders, at all levels, to meet the organizational challenges of today and tomorrow.

President & CEO's Message

Without question, 2008 was a challenging and disappointing year for investors. It was a year in which the Canadian stock markets dropped by an astounding 31 per cent, while in the U.S., the S&P 500 Index dropped 37 per cent.

HOOPP has come through the turmoil in better shape than most. While the Fund reported returns of - 11.96 per cent in 2008, our funded position is still relatively strong, at 97 per cent. Our pensioners are continuing to be paid on time, and have received a cost of living adjustment of 0.87 per cent on April 1. Our contribution rates will be steady until at least the end of 2010.

Defined benefit pension plans like HOOPP are designed to run for the long term. And while HOOPP did not emerge unscathed from 2008's events, it's important to put things in perspective. HOOPP's compound rate of return over the last ten years is 5.92 per cent, adding \$11.3 billion in value since 1998 for the nearly 250,000 Ontarians who depend on HOOPP for their pension benefits.

HOOPP's ability to preserve the pension promise can be attributed in part to the move to a liability driven investment strategy -- an approach to portfolio construction and management that explicitly integrates the exposure and cash flows of pension liabilities (the benefits owed to members) in formulating investment policies.

And it was a strategic decision taken in 2007, to greatly reduce our exposure to public equities, which protected about \$2 billion in asset value for our membership.

HOOPP is just as focused on serving its clients. In 2008, thanks to the completion of our new pension administration system, HOOPP launched new transactional web services for employers (rolled out in 2008) and members (being rolled out this year). The new system automates most key transactions, allowing the HOOPP team to better serve clients.

And in 2008, through the Plan's healthcare strategy, HOOPP promoted the value of the defined benefit pension plan model to key healthcare stakeholders, including healthcare providers, associations, and the government itself.

In this way, as healthcare itself changes from a hospital-based service to one that is more community-based, HOOPP will adapt and change with the market it serves. The ability to adapt and change has kept HOOPP as the pension provider of choice for the healthcare sector since 1960.

So, in closing, there's no doubt that 2008 was a year that will certainly test HOOPP's investment and organizational strategies. But the Plan has come through it in better shape than most, and I ultimately believe that the challenges HOOPP faced will only help strengthen the HOOPP team as the Plan moves ahead – serving the healthcare sector – into the future.



John Crocker
President & CEO

Chairs Message

The year 2008 was a year of volatility and turmoil. And as we look back on the year, it's important to recognize that HOOPP's defined benefit formula is the right pension plan for these times – and the right Plan for our members.

Whether markets are up or down, our pension plan provides the same benefit – one that is predefined, based on a formula that factors in the member's earnings and service.

It appears that HOOPP was able to manage through 2008 better than other pension plans. So while we didn't escape completely from the downturn, and the value of our assets has decreased, we have fared much better than others you read about in the papers.

For people who don't have a defined benefit plan like HOOPP, the impact of the troubles in the financial market is profound. For those who are in HOOPP, pensions are secure. They are privileged to be in HOOPP, and those of us who are not in HOOPP often wish we were!

As Chair and Vice Chair of the Board of Trustees, we feel the Board accomplished a lot in 2008. During our 2008 retreat, we focused on Board effectiveness ensuring that our Board committees are better mapped to HOOPP's strategic objectives – to enhance HOOPP's ability to provide members and employers services with state of the art resources, and continue the oversight on the investments of the Fund to ensure maximum returns.

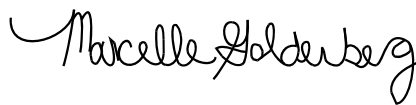
We have begun developing a 2010 to 2012 strategy, and are moving forward on those ideas. We moved to keep contribution levels the same until at least the end of 2010, as contribution and benefit stability is very important to the Board.

We were also happy to see that most of our recommendations to the Ontario Expert Commission on Pensions – particularly those around the portability of benefits, and rules for multi-employer pension plans – were part of the Commission's findings.

As we write this, Kelly has completed her last year on the HOOPP Board and has retired effective December 31, 2008. Kelly says it has been “an absolute pleasure to serve as the Chair and as a Board member for more than 10 years,” and adds that “HOOPP members are in very good hands. The Trustees care very deeply about the members, and always try to do the right thing for them. My thanks as well to the staff of HOOPP – we couldn't do it without you.” On behalf of the rest of us on the Board, I, Marcelle Goldenberg, wish Kelly all the best, and thank her for her dedicated service.



Kelly Butt
Chair



Marcelle Goldenberg
Vice-Chair

Investments and Funding

The Fund reported an overall return rate of -11.96 per cent, falling short of its investment target. However, HOOPP's compound rate of return over the last 10 years is 5.92 per cent, adding \$11.3 billion in value for the membership. HOOPP ended the year 97 per cent funded. (Note that the 97 per cent funded status figure is based on smoothed, rather than net asset values – for details on what is meant by smoothing, please see Determining the Funded Status in the MD&A section of this report.)

As of Dec. 31, 2008, net assets available for benefits stood at \$26.7 billion, while liabilities (the future benefits owing to members based on service earned to date) stood at \$31.2 billion.

HOOPP's real estate portfolio reported positive returns in 2008 – earning 10.23 per cent. Private equities reported a loss of 5.38 per cent in 2008, but saw the value of the portfolio grow to \$1.25 billion at year end, up from \$1.22 billion at year end 2007. The Fund's fixed income portfolio reported a 7.3 per cent return in Canadian universe bonds, a 4.98 per cent return in Canadian long bonds, a -2.57 per cent return in corporate credit and a 0.13 per cent return for real return bonds.

By reducing the Fund's public equity exposure in 2007, the Fund avoided the huge losses caused by market turmoil. It is estimated this reduction in exposure saved the Plan approximately \$2 billion.

Due to the foresight of HOOPP's investment management team, the Plan had:

- no direct exposure to asset-backed commercial paper or structured investment vehicles
- increased exposure to real estate and fixed income, both of which reported gains in 2008

In 2008, HOOPP was able to:

- Keep contribution rates for members and employers at the same level (6.9 per cent on earnings up to the year's maximum pensionable earnings (YMPE), and 9.2 per cent on earnings above the YMPE) until the end of 2010 with employers continuing to contribute \$1.26 for every dollar that members contribute. Contribution rates have been at this level since the beginning of 2004.
- Provide all pensioners (including survivors) with a cost of living adjustment of 0.87 per cent on April 1, 2009.

Work continued on the implementation of improved investment technology that will tackle integrated data and performance management to support investment decision-making and enhance risk management capabilities.

The Plan

Thanks to a decision by the Board of Trustees in 2008, all HOOPP pensioners – including deferred pensioners – received a cost of living adjustment of 0.87 per cent, which is 75 per cent of the December 2007 to December 2008 increase in the consumer price index of 1.16 per cent, on April 1, 2009.

Brochures were redesigned with a new look and rewritten so they are easier to understand and better explain the value of various HOOPP features. Two new brochures are available for ordering in English and French: a brochure for new hires and a brochure about buying back service. All are testing well with readers according to HOOPP's ongoing client satisfaction research.

Members can now quickly get an estimate of how much it will cost to buy back service with HOOPP's easy-to-use buyback estimator on hoopp.com.

HOOPP Employer Secure Environment (ESE) was rolled out in the summer to allow employers to handle major pension transactions such as enrolments, terminations and retirements online, providing administrators with a way to send data electronically to HOOPP – without having to fill out forms, get them signed, and then mail them to HOOPP.

Members and pensioners will be able to connect to their pension information and perform inquiries and transactions online at their convenience through HOOPP Connect, a self-serve site that was implemented in 2008 and will be rolled out throughout 2009.

In 2008, the Plan's administration team continued to provide excellent service to Plan members with high client satisfaction scores for timeliness, accuracy and consistency. In 2008:

- 82,782 member and pensioner calls were answered, an increase of 5,419 calls over 2007
- 557 onsite member presentations were given to 9,126 members, with 701 one-on-one sessions with members
- 387 employer information sessions were held

Healthcare Initiative

During 2008, HOOPP continued its mandate of promoting a greater understanding of the value of HOOPP. Specifically, HOOPP:

- Increased education efforts with the government about the socioeconomic value of defined benefit pension plans. In April 2008, President & CEO John Crocker gave a speech on HOOPP's economic health and benefits to a group of MPPs at Queen's Park. Subsequent meetings were held with MPPs to promote awareness of defined benefit plans, and a reception for MPPs was held in December.
- Highlighted the value of offering HOOPP as a tool for recruitment and retention as part of the Plan's outreach to new healthcare organizations. Research conducted by the Gandalf Group at the end of 2008 showed that 73 per cent of Ontarians said a defined benefit plan was important in choosing one job over another. Clearly offering a secure pension plan would significantly help employers to attract and retain the employees they need, the report said. During 2008, 15 new employers joined HOOPP.
- Rolled out the next phase of the awareness campaign, "Because Life Isn't a Fairy Tale," with posters and brochures educating part-time employees with an important message borrowed from the story of the tortoise and the hare: slow and steady still wins the race when it comes to building a comfortable retirement and joining HOOPP is a good way to do this. In addition to this awareness campaign, part-time sign-up sessions were held at several locations throughout Ontario in 2008, with more planned for 2009.

Intent on directly addressing the rising concern about the financial market events, HOOPP's President & CEO John Crocker released a statement on hoopp.com to emphasize that HOOPP has weathered the

storm better than most investors because HOOPP isn't a "typical" pension fund manager. In November, he also appeared on "Headline" on Business News Network (BNN), saying that the Plan is in good health, and adding that "a key message for our pensioners is that their pensions are safe and secure."

Always mindful of our members' changing needs and circumstances, HOOPP continued its formal client research program to measure client satisfaction, improve service levels, and enrich stakeholder communications.

Employee Excellence

HOOPP continued to build on its strategic priorities and initiatives based on the Strategy Map, which was rolled out in 2007 to outline HOOPP's strategic focus through 2009.

To provide the HOOPP team with a clear direction on aligning job expectations with organizational objectives, HOOPP continues to measure performance through its Balanced Scorecard initiative.

HOOPP remains committed to nurturing employee excellence and motivation by:

- Introducing a three-year program called The Leadership Journey, which provides the tools and experiences to build employees' leadership skills and guide them towards achieving greater excellence.
- Providing the tools for improving performance and productivity as well as attitude and well-being through an initiative known as Resilience and Agility.

HOOPP's commitment to community was more readily apparent than ever with the following initiatives:

- The Go Green campaign aims to make the HOOPP environment – as well as our world – a greener place. While stepping up organizational efforts in energy conservation, reducing waste and recycling, centralized print and copy areas were set up with the aim of reducing unnecessary document printing. Occupancy sensor lighting was also installed in some of the meeting rooms, copy rooms and storage rooms.
- Taking to heart the United Way's motto of "Without you, there would be no way," HOOPP's employees showed their generosity and spirit by raising an all-time HOOPP record of more than \$144,000, surpassing the goal of \$125,000.

Management's Discussion and Analysis

At a glance

Funding management – The unprecedented market turmoil experienced during 2008 had a negative impact on HOOPP's funded position. As of December 31, 2008, the Plan was 97 per cent funded which is down from 99 per cent funded at year end 2007. This is still within an acceptable range, which has allowed HOOPP to keep a commitment to hold contribution rates stable until at least the end of 2010, and provide a cost of living adjustment for all pensioners on April 1, 2009.

[Read more about Funding management...](#)

Investment management – In late 2007, HOOPP made a strategic decision to change HOOPP's asset mix targets to more effectively align the Fund's assets with the Fund's liabilities. This realignment reduced the target public equity holdings to 30 per cent of the portfolio and redeployed those funds into long term debt, real return bonds and real estate. This decision had a material positive impact on HOOPP's funded position in 2008 and helped HOOPP preserve capital in the face of steep equity market declines.

[Read more about Investment management...](#)

Investment performance – A sharp decline in equity markets, extreme volatility in credit markets, and a general weakening of the global economy created a hostile environment for investors during 2008. HOOPP took steps to reduce portfolio risk in late 2007, but despite this, the Fund finished the year with a return of -11.96 per cent which falls well short of the funding target return of 6.5 per cent. HOOPP's compound rate of return over the last 10 years is 5.92 per cent.

[Read more about Investment performance...](#)

Contributions vs. pension benefits – Total Plan contributions climbed to \$1,553 million in 2008, up 2.24 per cent or \$34 million over 2007. At the same time, the total of pension-related payments for the year grew to \$1,143 million – a year-over-year increase of 5.93 per cent or \$64 million.

[Read more about Contributions vs. pension benefits...](#)

Risk management – During 2008, 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 through improved technology, and better meet the Plan's long-term funding requirements.

[Read more about Risk management...](#)

Overview – Introduction

There is no getting around the fact that 2008 was a challenging year for pension plans. Unprecedented market conditions took their toll on plans around the world. While HOOPP was no exception, the Plan was conservatively positioned going into 2008 and emerged from 2008 better than many other large pension plans.

A significant drop in equity markets combined with extreme volatility in the credit markets put HOOPP's investment strategies and new asset mix targets to the test. While the Fund generated a return of -11.96 per cent in 2008, and lost value against its benchmark of -8.98 per cent, the 2007 decision to realign the asset mix to more effectively match assets with liabilities, reduced HOOPP's exposure to public equities and preserved more than \$2 billion in asset value.

It is also important to remember that HOOPP invests for the long term, not for year-over-year results. In the last decade, HOOPP's compound rate of return has been 5.92 per cent which has added value of \$11.3 billion for members and pensioners since 1998. As of December 31, 2008, the Plan was 97 per cent funded, versus 99 per cent funded in 2007.

Over the years, HOOPP has proven its ability to navigate through difficult times. For close to 50 years – through good times and bad – HOOPP has continued to keep the pension promise. During 2008, HOOPP took a number of steps to meet this ongoing commitment.

HOOPP continued the shift to liability driven investing. This approach is designed to reduce funding volatility by maintaining a suitable balance between risk and return – and to protect and grow the Fund's assets in line with the Plan's liabilities.

An initial transition to a new, more conservative asset mix policy was completed. This new policy:

- supports the move toward liability driven investing
- reduces the Fund's exposure to equity markets, while increasing exposure to long term bonds, real return bonds and real estate
- better aligns assets with future cash flow requirements, and
- provides the Plan with more effective protection against inflation

HOOPP also moved forward with the development of new investment technology. This includes a fully integrated data and performance management system that supports investment decision-making, and better mitigates investment-related risk.

In terms of operating expenses, the total cost of running HOOPP decreased by \$11 million, or 11 per cent, from the previous year. For benchmarking purposes, HOOPP measures its costs using cost per member (CPM) to measure the efficiency of delivering pension services and investment operating costs (IOC) to gauge the efficiency of investment processes. During 2008, HOOPP's CPM decreased approximately 23 per cent, from \$202 to \$156; while the IOC decreased to 17.9 basis points from 18.1 basis points in 2007.

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

Overview – Year-end financial position

As of December 31, 2008, HOOPP was 97 per cent funded, compared to 99 per cent funded at year end 2007. This means the Plan's assets, on a five-year "smoothed" basis, were approximately \$983 million short of the amount needed to fund the full cost of current and future pension liabilities (based on pensions earned to date).

Adding perspective

While fully recognizing the significance of this year's performance shortfall, it is important to also consider a longer-term perspective. 2008, featuring dramatic investment bank failures and government bailouts of several financial institutions, was the worst market and credit crisis in 70 years – and because HOOPP was conservatively positioned we were able to maintain a relatively strong funded position.

Defined benefit pension plans like HOOPP are designed to operate over the long term. Pensions earned today may not be paid for 20 or more years. Over the last 10 years, HOOPP's compound rate of return is 5.92 per cent, adding \$11.3 billion in value to the Fund. So when a defined benefit pension plan experiences a shortfall, there is usually ample time to offset it, and move back to a fully funded position.

HOOPP's Board will continue to monitor market conditions and the funded position of the Plan closely, and will take a proactive, considered and consultative approach to enhancing and protecting the Plan's funded status.

In the meantime, HOOPP's Board has committed to:

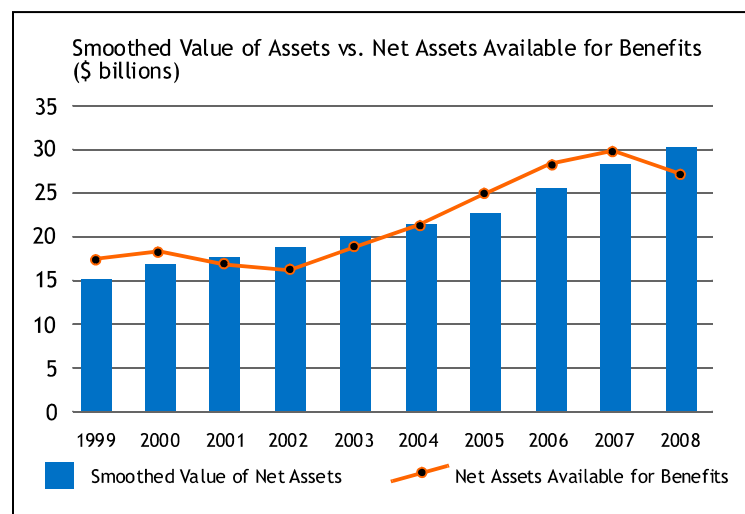
- holding contribution rates stable until at least the end of 2010, and
- providing a 0.87 per cent cost of living adjustment for all pensioners on April 1, 2009 (the adjustment is equal to 75 per cent of the 1.16 per cent increase in the consumer price index from December 2007 to December 2008)

Net assets

A weakening global economy and volatile market conditions impacted the Fund, with net assets available for benefits ending the year at \$26.7 billion, down from \$30 billion at year end 2007.

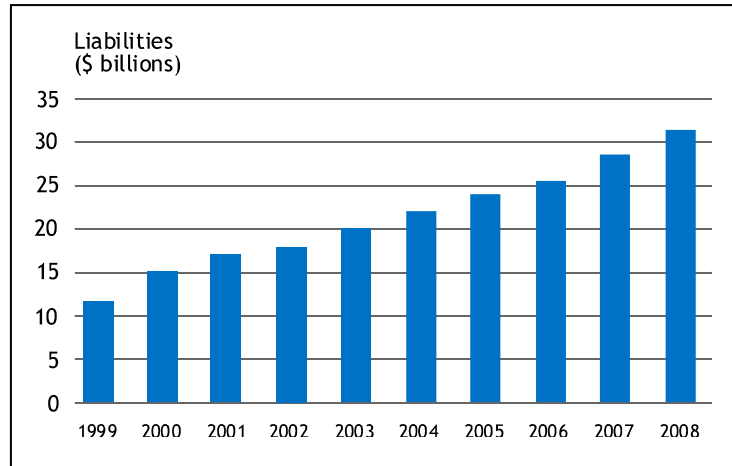
Consistent with industry practice, HOOPP, for funding purposes, applies a "smoothing" adjustment to net assets, which adjusts the value of the assets based on a five-year average of the Plan's year end net asset values (extrapolated to year end 2008). This adjustment has a moderating effect on investment gains or losses in a given year – such as the losses incurred in 2008. The "smoothed" value of net assets as of December 31, 2008, was \$30.3 billion, up from \$28.4 billion at year end 2007.

Although smoothing had a beneficial effect on the funded status of the Plan for 2008, it will have an adverse effect over the next four years since investment losses incurred in 2008 will, in effect, be factored into the next four years of smoothing adjustments.



Pension liabilities

As of December 31, 2008, the Plan's total pension liabilities (the total value of future benefits owing to members based on service earned to date) were \$31.2 billion – up from \$28.7 billion at year end 2007. This increase is largely attributed to a growth in HOOPP membership.



Funding management – Introduction

Retiring HOOPP members receive a pension based on a formula that takes into account their earnings history and service in the Plan. To ensure these payments can be provided, a balance is struck – over the long term – between assets and liabilities.

- Assets equal the current value of the contributions collected and invested to pay pensions.
- Liabilities equal the current value of the Plan's total pension obligations.

When assets equal or exceed liabilities, a plan is fully funded. When liabilities exceed assets, a plan is underfunded (in other words, there may not be enough money to *immediately* meet all of a plan's future benefits payable).

Maintaining a balance between assets and liabilities is a complex process. It requires a high level of expertise and supporting technology. It also requires making educated assumptions about future economic, market and demographic trends.

Even with best efforts, the balance between assets and liabilities can change, due to a number of factors:

- lower-than-expected investment returns
- interest rate fluctuations, and
- changing demographics (such as mortality and termination rates)

Going into 2008, HOOPP was 99 per cent funded, with a modest one per cent shortfall. Due to this year's unprecedented market turmoil, the Plan ended 2008 being 97 per cent funded.

HOOPP will now undertake to eliminate the current shortfall over time by ensuring:

- the Plan's investment strategy reflects funding needs
- benefit levels are sustainable, and
- contribution rates are set at an appropriate level

The Board is committed to ensuring HOOPP remains affordable for members and participating employers. This means endeavouring to maintain contributions at reasonable levels and keeping rates relatively stable from one year to the next.

Funding management – Determining the funded status

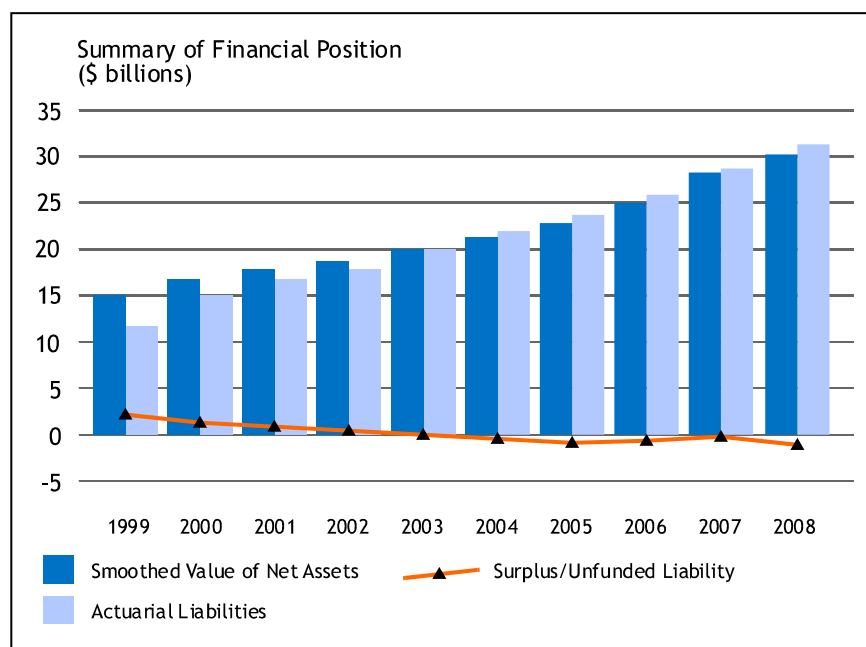
Under current pension law, HOOPP is required to determine the funded status of the Plan at least once every three years and file the results with the Financial Services Commission of Ontario. However, in the interest of proactive funding management, HOOPP's practice is to measure the funded status on an annual basis.

Determining funded status

The funded status of the Plan is simply the ratio of the Plan's total smoothed value of assets to its actuarial liabilities.

Valuing assets

Like most pension plans, HOOPP uses market prices and other accepted valuation techniques to determine the current fair value of its assets. In other words, the fair 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 adjustment is applied using a “smoothing” technique. This technique adjusts the value of net assets based on a five-year average of the Plan's year end net asset values (extrapolated to year end 2008). This process minimizes the impact of market volatility in any one year and helps the Plan avoid making decisions based on short-term market fluctuations.

Valuing liabilities

The value of the Plan's pension obligations is calculated using the “projected accrued benefit method.” 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 earnings history and pension service earned up to the date the obligations 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)

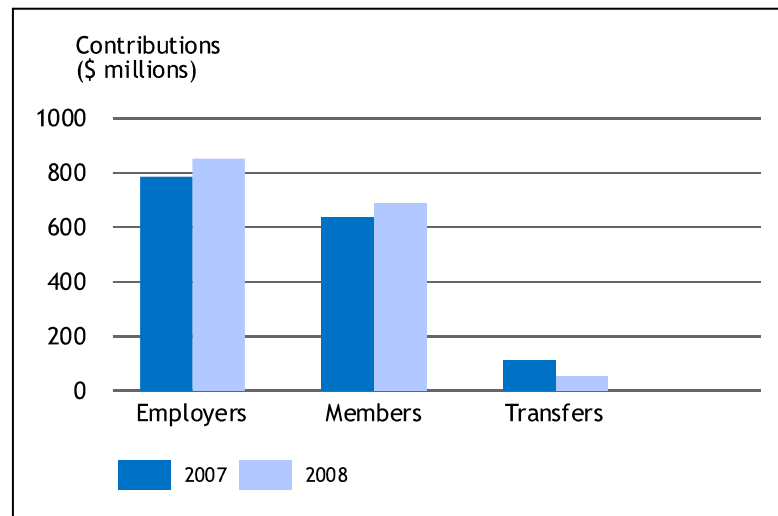
- how long members will live once they retire
- how much members' salaries will grow, and
- the return HOOPP will earn on its investments

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

Funding management – Contributions vs. pension benefits

Contributions

All active Plan members and their participating employers are required to contribute to the Plan. Contributions for members are calculated as a percentage of annualized earnings. In 2008, members contributed 6.9 per cent of annualized earnings up to the year's maximum pensionable earnings (\$44,900) and 9.2 per cent of annualized earnings at or above that level. Employers contributed 126 per cent of what members contributed.

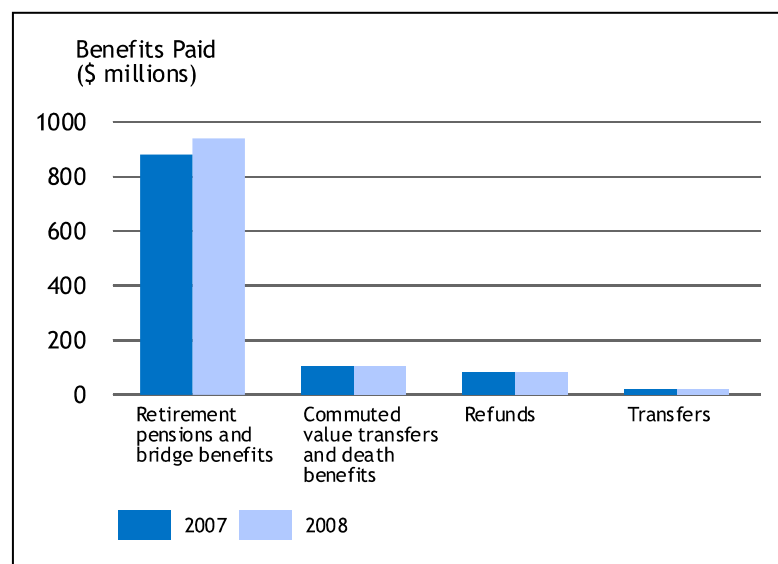


During 2008, contributions to HOOPP totalled \$1,553 million – up \$34 million (or 2.24 per cent) from 2007. This increase is largely due to:

- salary increases in the healthcare industry, and
- a steady growth in membership

Of the total contributed in 2008:

- 54 per cent was from participating employers
- 44 per cent was from members, and
- 2 per cent resulted from transfers into the Plan by new members



Pension benefits paid

Pension-related payments in 2008 totalled \$1,143 million in 2008 – up \$64 million (or 5.93 per cent) from 2007. This increase is largely due to:

- changes in the number of retirees, and the cost of living adjustment

Of the pension-related benefits paid out in 2008:

- 82 per cent was paid to pensioners in the form of monthly benefits
- 9 per cent was paid to terminating members (or the beneficiaries of deceased members) in the form of commuted value transfers (lump-sum cash payments or transfers)
- 7 per cent was paid to non-vested terminating members (or their beneficiaries) in the form of contribution refunds, and
- 2 per cent was transferred to other pension plans

Retirement pensions are expected to grow each year as HOOPP's membership grows, and a larger number of members retire.

Investment management – Introduction

At a basic level, the investment goal for a pension plan is no different than that of other investors – to achieve the best possible returns within “acceptable risk parameters.” Defining what constitutes “acceptable risk parameters” is the first order of business.

For HOOPP, like other defined benefit pension plans, the underlying objective of the Fund is to preserve the pension promise. Given the importance of that promise, HOOPP needs to ensure the Plan’s investment strategy aligns with funding and cash flow requirements.

To that end, HOOPP is moving to a liability driven approach to investing. This approach uses the Plan’s liabilities as the primary reference point in assessing risk and return objectives of a particular investment.

While HOOPP still measures investment manager performance against industry benchmarks the most important measure of success is meeting the Plan’s pension obligations.

To meet the Plan’s estimated pension obligations, HOOPP must – over the long term – achieve a nominal return of at least 6.5 per cent (or a real rate of return of 4.25 per cent after adjustment for an assumed inflation rate of 2.25 per cent). Reflecting a weak global economy and sharp market declines, HOOPP fell short of that target in 2008, producing a return of -11.96 per cent. However, HOOPP’s compound rate of return over the last 10 years is 5.92 per cent.

Investment management – Active management

HOOPP’s assets are actively managed by professional money managers. The goal of those managers is to achieve a long-term Fund return of 6.5 per cent annually.

Managers apply a range of investment strategies and techniques (including asset allocation, security selection, hedging and derivatives) to:

- maximize the Fund’s long-term investment returns, and
- maintain risk exposures within acceptable limits

While most of the Fund’s assets are managed by internal investment professionals, external managers are used for special mandates, such as foreign equity. Approximately 93.8 per cent of the Fund’s assets were managed by internal investment professionals, and 6.2 per cent by external investment professionals.

Investment management – Asset mix strategy

2008 provided further testament to the conventional wisdom that a plan's asset mix is an essential component of its risk management.

In the latter part of 2007, HOOPP introduced a significant change to its asset mix policy. As part of this change, the Plan's asset mix target was recalibrated from 60 per cent equities and equity oriented holdings / 40 per cent fixed income, to 46 per cent equities and equity oriented holdings / 54 per cent fixed income. This shift was designed to reduce the Plan's overall risk exposure by more effectively matching assets with liabilities (liability driven investing).

The transition to the new asset mix target was completed in early 2008, spurred on by concerns about weakening markets.

Swift redeployment of assets was made possible through a combination of:

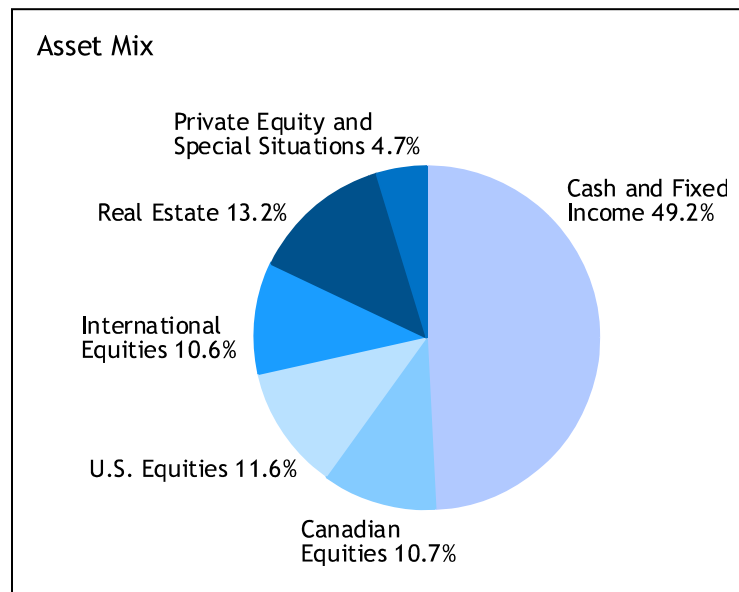
- direct investment (e.g., holding actual securities), and
- indirect investment (e.g., gaining or reducing exposure to certain securities through derivative strategies)

The implementation of the new asset mix allocation proved to be timely. In the face of steep market declines, it is estimated that the change enabled the Fund to preserve over \$2 billion in asset value in 2008.

HOOPP's new asset mix policy allows for a departure from the target by *plus* or *minus* 5 per cent. This departure is permitted to:

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

As of December 31, 2008, the actual asset mix, with the effect of derivatives, was 50.8 per cent equities and equity oriented holdings, and 49.2 per cent fixed income.



Investment management – Derivatives

HOOPP made significant use of derivatives as part of a carefully planned investment strategy to:

- implement active management programs more efficiently, and
- help mitigate investment risk

Using derivatives gives HOOPP added flexibility for:

- managing and rebalancing asset mix
- reducing transaction costs
- increasing liquidity
- managing foreign exchange risks
- implementing defensive strategies to reduce risks within portfolios
- generating value-added investment returns, and
- matching assets to liabilities more effectively (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. For full details on how HOOPP uses derivatives please refer to Note 3 of the Consolidated Financial Statements.

When HOOPP employs derivative strategies to replicate the returns in various asset classes, the actual assets that underlie those derivative strategies are invested in short term government and investment grade corporate money market securities. In this case when measuring portfolio performance, the return on the portfolio is determined by combining the return on the derivative contract with the return on the underlying money market portfolio, and this combined return is compared to the appropriate benchmark return for the asset class. The weakness in the credit markets and the associated widening of credit spreads has led to declines in values of the underlying money market assets, which has negatively impacted returns. The underperformance caused by the widening of credit spreads should be reversed as these securities mature.

Other measures used to manage the risks associated with derivatives include:

- conducting an independent valuation of each derivative contract
- generating regular reports to ensure HOOPP has the liquidity required to honour obligations
- closely monitoring the total outstanding value of contracts with counterparties, and
- fully enforcing HOOPP's right to counterparty collateral

Investment management – Currency hedging

Fluctuations in currency values can have a large impact on investment returns. Any time HOOPP invests in foreign markets, currency fluctuations impact the value of those investments when they are converted back into Canadian dollars. To help reduce the risk associated with currency fluctuations, HOOPP employs currency hedging.

Currency hedging converts an investment's foreign currency exposure (based on the currency in which an investment is denominated) back into Canadian dollars (the currency in which HOOPP benefit payments are paid) using contracts that:

- lock in the price for a future currency purchase or sale, and
- transfer the currency risk to another investor

Under HOOPP's currency policy:

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

Although it remains an essential risk management strategy, currency hedging resulted in lower returns in 2008. This is because the Canadian dollar fell significantly relative to other currencies, particularly the U.S. dollar.

Investment management – Socially responsible investing

Socially responsible investing involves the integration of environmental, social and ethical factors in the selection and management of investments. While fully committed to achieving the highest returns within acceptable risk parameters, HOOPP applies the basic principles of socially responsible investing to all of its investment activities.

Specifically, HOOPP:

- takes into account a company's social, environmental and governance issues when making investment decisions
- encourages reasonable disclosure of social, environmental, and ethical performance when voting proxies, and
- may enter discussions with companies to request greater disclosure where it feels that such disclosure is 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 Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- The Coalition for Environmentally Responsible Economies (CERES) principles; CERES is a coalition of environmental, investor and advocacy groups that works with companies to achieve environmental improvement

Investment performance – Introduction

2008 was nothing short of a hostile environment for investors. A sharp decline in equity markets, extreme volatility in credit markets, historically low interest rates and a general weakening of the global economy converged to have an impact on private and institutional investors alike.

Against this backdrop, HOOPP did what it could to reduce the effects of economic conditions on the Fund. The Fund finished the year with a return of -11.96 per cent. It has, over the last 10 years, had a compound rate of return of 5.92 per cent.

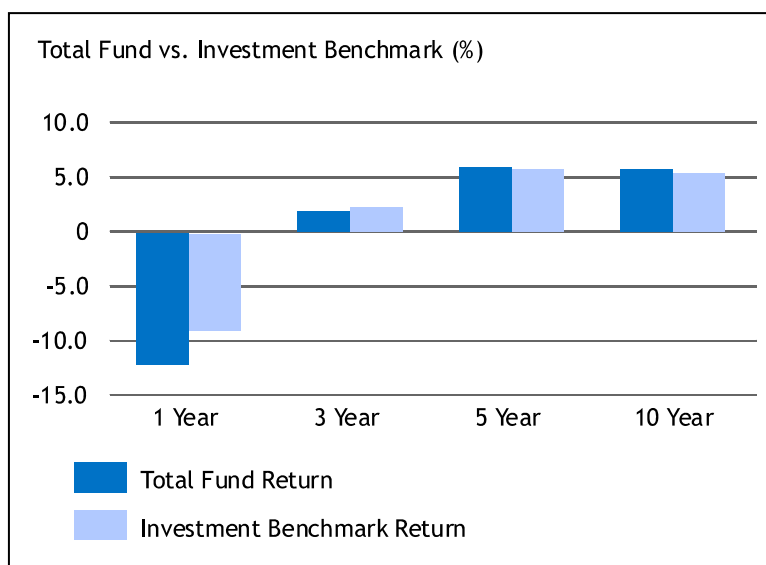
While overall returns dipped to negative territory, the situations would have been worse if not for:

- a recent realignment of HOOPP's asset mix targets
- effective risk management strategies

Up against the benchmark

The Fund also fell shy of its investment benchmark by 298 basis points. Active management underperformance is largely a result of the markdown of the carrying market value of short term government and investment grade corporate debt securities held as backing assets for certain derivative strategies as a result of the widening of credit spreads. These debt securities are fully funded through asset sales incorporated as part of this strategy and the debt securities are intended to be held to maturity as part the

strategy. Mark to market accounting, as applied to these strategies, does not recognize the offsetting appreciated value of the cash raised through asset sales which funds the purchase of these debt securities. The net effect is that investment performance from the current period is pushed out into future periods as the debt securities mature.



Drilling down

The Fund's public equity portfolio was the most significantly impacted. Markets around the globe posted major losses – many in excess of 30 per cent. There were few safe harbours; prices dropped across virtually every sector and region. By year end, the Fund's public equity portfolio had given back some of the gains earned in recent years. Despite the difficult markets, HOOPP's equity portfolio somewhat outperformed the markets.

Despite market uncertainty, the Fund's real estate and private equity portfolios continued to produce solid results in 2008. Real estate was, once again, the Fund's top performing asset class, generating a

return of 10.23 per cent. The fixed income asset class also produced strong results overall with returns in the Canadian universe bonds and Canadian long bonds portfolios of 7.30 per cent and 4.98 per cent respectively. The private equity portfolio experienced a return of -5.38 per cent.

Despite volatility in the bond and credit markets, HOOPP's universe and long bond portfolios reported a gain on the year, while corporate credit reported a modest loss.

Investment performance – Equities

2008 was a grim year for equity markets around the globe – with many markets posting their biggest losses since the 1930s. In Canada, the S&P/TSX60 Index was off 31 per cent on the year, while in the United States, the S&P 500 Index closed 37 per cent lower.

Despite the difficult markets, HOOPP's equity portfolio outperformed the markets.

Canadian equities

HOOPP's Canadian equities portfolio reported a return of -30.63 per cent on the year – outperforming its benchmark, the S&P/TSX60, by 54 basis points. By comparison, the portfolio returned 11.06 per cent in 2007 and 19.82 per cent in 2006.

Resisting the market slide that swept other parts of the world, Canadian markets gained ground in the first part of the year before peaking in early June. However, weaker prospects for global growth took their toll on commodity prices – removing a major source of support for Canadian equity markets. With that support gone, commodity-heavy Canadian equity markets quickly tumbled.

As the global market sell-off intensified in September, HOOPP initiated an overweight position in Canadian equities. Although the Canadian market lost further ground in the fourth quarter, the Plan's research indicated that Canadian equities were extremely undervalued. HOOPP believes investors will see significant gains over the long term.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Canadian Equities	-30.63	-31.17	S&P/TSX60 Total Return Index

Returns from backing assets supporting derivative overlays are excluded.

U.S. equities

A sell-off in U.S. markets that began in 2007 carried over and intensified in 2008. Financial stocks were particularly weak.

In late 2007, the Plan placed hedges on the S&P 500 Index based on growing concerns of overvaluation. Those hedges were removed in mid-2008, following a 20 per cent drop in the market. As the sell-off on U.S. markets gained momentum in September, HOOPP took advantage of undervalued prices to initiate an overweight position in U.S. equities. Although it appears markets will trade well below HOOPP's estimate of fair value for an extended period, the Plan believes an overweight position holds the potential for substantial upside gains over the long term.

The portfolio, denominated in U.S. currency, had a return of -36.57 per cent, outperforming the benchmark by 0.43 per cent. The return, after converting back into Canadian dollars, was -22.66 per cent. (HOOPP policy requires that 50 per cent of any foreign equity exposure be hedged back into Canadian dollars.)

Asset category	HOOPP return (in Canadian dollars – net of fees) (%)	Benchmark return (%)	Benchmark
U.S. Equities	-22.66	-23.09	S&P 500 Total Return Index

Returns from backing assets supporting derivative overlays are excluded.

International equities

Reeling from the effects of the global financial crisis and economic slowdown, international equity markets emerged as the biggest victims of the 2008 market meltdown. Many of the major indices finished the year lower by 40 per cent or more. The German DAX Index was down 40 per cent, while the Nikkei Index in Japan was down by 42 per cent. The U.K.'s FTSE Index fared better, ending the year down 31 per cent. Hardest hit were emerging markets. The Shanghai Index fell 65 per cent in 2008, following a 97 per cent gain in 2007.

The return for HOOPP's international equity portfolio, after converting back into Canadian dollars, was -28.46 per cent or 340 basis points more than the benchmark. These returns are due to the performance of the Canadian dollar relative to other international currencies. (Again, HOOPP's policy requires that 50 per cent of any foreign equity exposure be hedged back into Canadian dollars.)

Asset category	HOOPP return (in Canadian dollars – net of fees) (%)	Benchmark return (%)	Benchmark
International equities – external	-28.46	-31.86	Morgan Stanley Capital International All Country World Index Blend Total Return Index

Investment performance – Real estate

HOOPP's real estate portfolio delivered strong returns in 2008, despite concerns real estate markets could crumble under the weight of a faltering economy and tight credit markets. While markets in the U.S. and U.K. did give way, it was only in the latter part of the year that cracks began to appear in the stronger Canadian market.

Overall, the portfolio generated a total return of 10.23 per cent, outperforming its benchmark by 7.03 per cent (or 703 basis points). This favourable return can be attributed to a number of factors, including:

- the relative strength in the Canadian real estate market
- portfolio diversification by type of property and region
- a disciplined development program focused on quality commercial properties
- zero exposure to the troubled U.S. real estate market
- buoyant occupancy levels
- steady cash flows, and
- prudent expense management

When HOOPP revised its asset policy in 2007 – as part of a move toward liability driven investing – it increased its target real estate allocation from 8 per cent to 12.5 per cent of total fund assets. This change was made to reflect the fact that real estate has, historically, had a positive correlation with inflation and might, therefore, provide an effective hedge against inflation-sensitive elements of the Plan's liability exposure. As a result, going into 2008, HOOPP was in the process of increasing its investment in real estate.

During first half of the year, HOOPP acquired:

- a half interest in a major shopping centre in Windsor
- 650,000 square feet of industrial property in Calgary
- two new office buildings and 23 acres of land for future development in Mississauga, and
- a five-building industrial portfolio with 635,000 square feet in Montreal

On the development side, HOOPP:

- continued construction of the new Telus Tower in downtown Toronto, slated for occupancy in the fall of 2009
- continued with the development of industrial properties in Halifax, Ottawa, Milton, Edmonton and Burnaby
- started construction of a new two-phased office complex in Burnaby (part of the Wellington Park project), and
- began construction of a new office building at Aero Corporate Centre in Mississauga

HOOPP has now reached its investment target for real estate. While the pace of new acquisitions slowed materially during the second half of the year, HOOPP made several key changes to its portfolio:

- Three properties were sold, including an office building in Saint John, a small office building in Markham and an industrial building in Winnipeg.
- Two properties were purchased, including a small office building in Mississauga that is adjacent to four other properties already owned by HOOPP and a fully-let office building in Kanata.

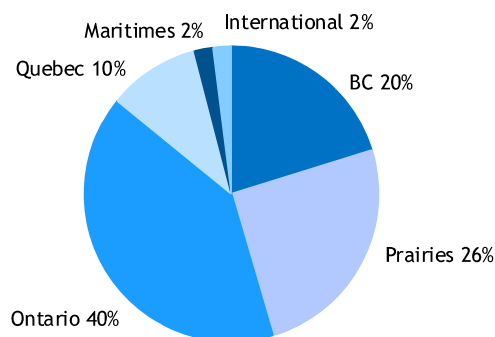
HOOPP also participates in several non-domestic real estate investment funds: two U.K. funds, two pan-European funds, and one Mexican fund. To date, these funds represent a minimal investment – about two per cent of HOOPP’s total real estate holdings.

At year end, real estate accounted for about 13.2 per cent of the Fund’s total assets, slightly above its asset mix target. Total value of net equity in the portfolio stood at \$3.51 billion, up 14.7 per cent from \$3.06 billion at year end 2007.

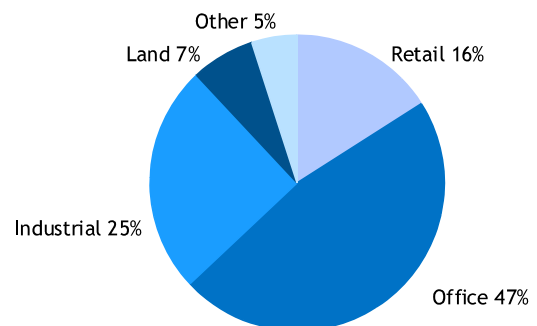
Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Real estate	10.23	3.20	Investment Property Databank (IPD)

The portfolio composition is as follows:

Real Estate Portfolio Composition by Region



Real Estate Portfolio Composition by Sector



Investment performance – Private equity and special situations

HOOPP's private equity investment activities are conducted by a small, experienced team of investors at HOOPP Capital Partners. For more than 10 years now, this team has used a unique and flexible approach which has delivered consistent long term results.

Characteristics of HOOPP's private equity portfolio include:

- a focus on established private equity markets in Canada, the U.S. and Western Europe
- an emphasis on medium-sized businesses that offer entrepreneurial growth potential (and do not rely on significant leveraged financing), and
- a history with both proprietary and direct-investment arrangements (the ability to accept flexible arrangements gives HOOPP access to a broader range of investment opportunities than is typically available to institutions investing in this asset class)

Despite a tough economic environment in 2008, the portfolio proved to be resilient, producing a return of -5.38 per cent. This relative buoyancy can be attributed, in large part, to strong business and portfolio fundamentals.

Asset category	HOOPP return – net of fees and foreign exchange (%)	Benchmark return (%)	Benchmark
Private equity and special situations	-5.38	6.5	Total Plan Funding Target

During 2008, HOOPP Capital Partners sold \$290 million in investments. Nonetheless, at year end, the carrying value of the portfolio stood at \$1.25 billion, up slightly from \$1.22 billion a year earlier.

At 4.7 per cent of the total Fund, the private equity portfolio has scope for growth and is well-positioned for investment opportunities of all sizes.

Investment performance – Fixed income

2008 was an extremely volatile year for credit markets. Despite coordinated global interest rate cuts and massive government liquidity injections, credit markets remained largely frozen. At the same time, asset de-leveraging and heightened concerns over financial markets sent credit spreads to historically wide levels.

Despite it all, HOOPP managed to create value-added returns for its fixed income assets, thanks to:

- favourable positioning on the yield curve
- an overweight position in government bonds, and
- a conscious effort to avoid large concentrated positions

For the purpose of reporting results, HOOPP divides its fixed income investments into five basic types:

- Canadian universe bonds
- Canadian long bonds
- Corporate credit
- Real return bonds, and
- Short-term money market

Canadian universe and long bonds, and corporate credit

The bond portfolios added value overall in 2008. HOOPP's universe bond portfolio, which includes exposure to derivatives, reported a return of 7.30 per cent, while its long bond portfolio returned 4.98 per cent. The corporate credit portfolio returned -2.57 per cent, beating its benchmark of -3.39 per cent.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Canadian universe bonds	7.30	7.35	DEX All Government Universe Bond Index
Canadian long bonds	4.98	4.47	DEX All Government Long Term Bond Index
Corporate credit	-2.57	-3.39	CDX.NA.IG Index, 5 year

Returns from backing assets supporting derivative overlays are excluded.

To manage its Canadian universe and long bond portfolios, HOOPP uses a two-step approach:

1. First, it “constructs” a portfolio that tracks a relevant index (the DEX All Government Universe Bond Index for Canadian bonds and the DEX All Government Long Term Bond Index for long bonds).
2. Then, it enhances returns through the use of active overlay strategies, such as corporate credit (strategies that use derivatives to change the Plan's exposure to certain assets, without actually having to buy or sell those assets).

Real return bonds

HOOPP's real return bond portfolio is currently a transition portfolio – once that transition is complete, it will be benchmarked to an index.

Real return bonds pay a rate of return equal to the rate of inflation *plus* a premium. For this reason, the real return bond portfolio provides a hedge against any inflation or interest-rate-related increase in the Plan's benefit liabilities.

For 2008, the portfolio returned 0.13 per cent. The portfolio is benchmarked against itself.

Asset category	HOOPP return – net of fees (%)	Benchmark return (%)	Benchmark
Real return bonds	0.13	0.13	Equal to portfolio return

Short-term money market

HOOPP maintains a money market portfolio so that it has cash on hand to:

- meet liquidity needs (pay monthly benefits and Plan expenses), and
- back non-direct investments made using derivatives

As of December 31, 2008, HOOPP's economic exposure to short-term money represented 1.17 per cent of total assets.

The short-term money market portfolio maintains a mix of government, corporate and financial bonds. During 2008, the portfolio's weighting continued to shift toward government securities, which offered better liquidity in the face of widening credit spreads.

To enhance returns, HOOPP uses derivative overlays in higher quality credits and indices. These derivative overlays are backed by money market assets. The returns on money market assets used to back derivative strategies are measured against the benchmark for the credit or indices being replicated.

Operating expenses

Plan expenses

After several years of increases, Plan expenses fell sharply in 2008. Expenses for 2008 totalled \$39 million, down almost 19 per cent from a high of \$48 million in 2007.

The drop was not unexpected. In 2008, HOOPP completed a multi-year investment in a new pension administration system. With that new system now operational, costs have been reduced. Further efficiencies are possible going forward as the Plan leverages the administration system to provide additional service enhancements.

Cost per member

HOOPP uses cost per member (CPM) to measure the efficiency of delivering pension services. Tracking and analyzing CPM allows HOOPP to monitor costs over time.

In 2008, the CPM fell by approximately 23 per cent to \$156. This sharp decline is the result of lower Plan expenses. HOOPP hopes to realize additional efficiencies from its new pension administration system and enhanced client service delivery.

The chart below tracks HOOPP's CPM since 2004.

Year	2004	2005	2006	2007	2008
CPM	\$171	\$195	\$194	\$202	\$156

Investment expenses

Investment expenses edged slightly lower in 2008, dropping to \$50 million, down 4 per cent from \$52 million in 2007.

Costs related to managing the Fund's assets declined during the year primarily due a 2007 decision to reduce reliance on external managers. This reduction was somewhat offset by increased outlays related to the development of new investment management systems.

Investment operating costs

Investment operating costs (IOC) is a measure used by the investment industry to gauge the efficiency of investment processes.

The chart below shows HOOPP's IOC since 2004, measured in basis points (bps). The Plan's IOC moved slightly lower in 2008 due to lower investment expenses which were partially offset in impact by a decrease in the value of the Fund.

Year	2004	2005	2006	2007	2008
IOC	17.8 bps	18.4 bps	18.6 bps	18.1 bps	17.9 bps

Risk management and controls – Introduction

Risk management is a critical part of preserving the pension promise.

HOOPP has comprehensive managerial and risk systems in place to manage the various operational and investment risks facing a pension plan the size of HOOPP. Continued investment in these resources is a cornerstone for the evolution of HOOPP. This section of the report highlights the policies, procedures, protocols, and tools that form the basis of that strategy.

Risk management and controls – Funding risk management

The primary focus of funding risk management is, without question, ensuring HOOPP is able to meet its current and future benefit obligations. At the same time, however, HOOPP is committed to doing what it can to keep contribution rates stable – so that the Plan remains affordable and members and participating employers can budget for the future.

To help achieve these important objectives, HOOPP continued to push ahead with a multi-year risk management initiative aimed at:

- improving the quality and availability of funding data
- measuring and managing funding risk more effectively, and
- aligning investment strategies more closely with capital needs (through liability driven investing)

Other risk management measures adopted by HOOPP include:

- establishing a detailed funding policy that provides a framework for making informed funding decisions and sets “trigger” points that flag potential adjustments to contribution and/or benefit levels
- developing and implementing a prudent asset mix strategy that reduces its overall risk exposure and better aligns the Plan’s assets with short and long-term pension obligations
- conducting valuations each year to benchmark the Plan’s assets and liabilities (pension obligations) – as part of the valuation process, HOOPP works with an independent actuarial advisor to prepare projections of the Plan’s future funding requirements

HOOPP’s Board will continue to take a proactive, considered and consultative approach to any price or benefit changes needed to address capital or funding concerns.

Risk management and controls – Investment risk management

Achieving the investment returns needed to fund members' pension benefits while safeguarding the value of the Plan's assets is a complex balancing act. It starts with identifying and assessing the full array of investment risk, and then determining the appropriate means of managing that risk.

While the Plan continually develops and refines its risk-management tools, the strategic focus in 2008 was an ongoing reorientation toward liability driven investing. This approach to portfolio construction and management measures risk tolerance on the basis of Plan liabilities and cash flow requirements. In keeping with this reorientation, during 2008 HOOPP:

- Completed the transition to new asset mix targets. The new targets (set in 2007) support the Fund's move towards a liability driven investment approach by reducing exposure to equity markets in favour of historically less volatile bond and real estate markets.
- Used derivatives to "construct" portfolios that more effectively align assets to liabilities.
- Continued with the development and implementation of forward-looking investment technology aimed at generating value-added data that supports investment decision-making.

Work included:

- Selecting a vendor to develop and install asset-liability management software. This powerful new risk management tool will help HOOPP determine the optimum asset mix based on different economic scenarios and the Plan's pension obligations. Implementation is expected in 2009.
- Moving forward with a multi-year initiative to build a comprehensive risk management system.
- Implementing a new order management system for the trading of equities and government bonds. The new system automatically uploads a record of each trade to a back-office accounting system, thereby eliminating the need for clerical re-keying – and reducing the chance of human error.
- Entering an agreement for the development and installation of a new portfolio management and fund accounting system. Once operational, this system will capture all bond, equity and derivatives trades electronically for more efficient data management and analysis. The new system will allow for more timely and accurate reporting.
- Continuing progress on the implementation of a new automated derivative pricing system. At the end of 2008, 85 per cent of HOOPP's derivative portfolio was priced automatically. This will enable more effective management of counterparty credit risk.
- Launching an initiative to create software that will enable external real estate managers to import data directly into HOOPP's asset management system – so that analytical reports can be generated faster.
- Laying the groundwork for the development of an automated profit and loss system that will allow HOOPP to monitor results more efficiently on a daily basis.

In keeping with risk management best practices, HOOPP also regularly reviews the following documents:

- *Statement of Investment Principles (SIP)*, which defines the Plan's investment return objectives and risk tolerances based on total Plan liabilities

- *Statement of Investment Policies & Procedures (SIP&P)*, which provides broad investment guidelines for the investment of HOOPP assets, and
- *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

Operational risk management aims to identify the risks inherent in the day-to-day operations of an organization, determine their causes, and develop appropriate response strategies.

In an ongoing effort to protect the Plan and its stakeholders, HOOPP undertook initiatives in 2008 that included the following:

- Introducing a new fraud policy. This new policy, which complements the Plan's existing whistle-blower protection policy, helps to emphasize the roles and responsibilities of employees throughout the organization in the prevention and detection of fraud.
- Mandating a new Internal Controls and Audit Group. The director of this group will build on the foundational work of external consultants hired to help HOOPP expand and strengthen its systems of internal controls. The director reports directly to the Board's Audit & Finance Committee.
- Reviewing the Plan's pension administration systems and administrative practices to ensure proper risk management controls are in place.
- Working with development teams to ensure effective controls are incorporated in new investment management systems currently being deployed.

These initiatives were conducted against a backdrop of existing operational risk management practices:

- The Plan has a fully tested business continuity plan in place. This rigorous plan is designed to ensure that HOOPP can – in the event of a disaster – recover its critical systems at an off-site location and carry on core business functions (including the processing and payment of pensions). Critical elements of the plan are tested twice a year.
- HOOPP's Board conducts an annual review of its governance structure and procedures. The Plan has policies that clearly define:
 - a code of business conduct
 - confidentiality and disclosure of information, and
 - whistle-blower protection

Advocacy

As a large and respected pension plan, HOOPP has a responsibility to safeguard the interests of members. With this in mind, HOOPP will, where appropriate:

- play a role in the development of public policy that affects the Plan, and
- bring to light areas where pension, investment or other reform is needed

During 2008, HOOPP:

- Reviewed the report of the Ontario Expert Commission on Pensions (OECF) with an eye to making a formal response in 2009. The mandate of the Commission was to look at the viability, security and sustainability of pensions in Ontario, with a focus on defined benefit plans. HOOPP feels the OECF's report constructively addresses the key points HOOPP raised in its submission to the Commission in 2007.
- Filed a submission with the Law Commission of Ontario in response to its consultation paper on the division of pensions on marriage breakdown. The commission released a final report in September and new legislation was tabled in October. HOOPP is satisfied with the legislation, as tabled.

Industry standards

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board announced Canada's intention for all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles (GAAP).

In 2008, the Canadian Accounting Standards Board concluded that pension plans would continue to apply current GAAP standards for their reporting but also refer and adopt the new relevant IFRS sections as appropriate. HOOPP continues to assess the impact of the transition to IFRS on its consolidated financial statements and operations.

Trade Matching

HOOPP's Investment Finance Operations is working towards full implementation of the standards set forth by The Canadian Capital Markets Association, as outlined in the National Instrument 24-101. HOOPP employs appropriate policies and procedures to ensure efficient and timely settlement of institutional trades.

Glossary

Asset de-leveraging

The act of selling off debt-leveraged assets – often at discounted prices – to lower the vendor’s risk profile or avoid defaulting on debt.

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 indices 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.

CDX.NA.IG Index

The CDX.NA.IG Index is a broad measure of Corporate Credit. Returns are calculated daily and are based on 125 equally weighted names.

Corporate Credit

Derivative overlay strategy used to get exposure to corporate credit markets using credit derivatives.

Credit Spreads

The difference in value between two options. It occurs when the value of an option being sold exceeds the value of an option being bought. An option is a derivative product.

Derivatives

A derivative is a contract (between two or more parties) whose terms and conditions are based on one or more underlying assets (stocks, bonds, commodities, currencies, etc.). 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.

DEX All Government Universe Bond Index

The DEX (SCM) All Government Universe Bond Index is designed to be a broad measure of the Canadian government fixed income market. Returns are calculated daily, and are weighted by market capitalization, so that the return on a bond influences the return on the index in proportion to the bond’s market value.

DEX All Government Long Term Bond Index

The DEX All Government Long Term Bond Index is designed to measure total return for the Canadian government long-bond market, with a term to maturity of more than 10 years.

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).

Equity Oriented

Investment in private equity and real estate.

Investment Property Databank

This index is designed to measure the performance of institutionally owned and managed properties in Canada.

Liability-driven investing

An approach to portfolio construction and management that explicitly integrates the exposure and cash flows of pension liabilities in formulating investment policies.

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.

Publicly Accountable Enterprises

According to the International Accounting Standards Board, an entity has a public accountability if:

- it has issued (or is in the process of issuing) debt or equity instruments in a public market, or
- it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank

Real return bonds

These are bonds that provide a rate of return that is adjusted for inflation. This feature helps protect the 'buying power' of the initial investment, regardless of the inflation rate. Real return bonds 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.

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 and expenses (assuming the Plan's actuarial assumptions reflect emerging economic, market and demographic experience).

Universe bonds

These are bonds listed on the DEX Universe Bond Index.

Yield curve

A line graph that plots the relationship between returns and maturity dates for a set of similar bonds at a given point in time.

Management's Responsibility for Financial Reporting

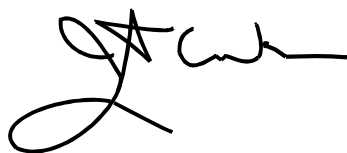
The consolidated financial statements of the Hospitals of Ontario Pension Plan (the Plan) have been prepared by management and approved by the Board of Trustees (the Board).

Management is responsible for the integrity and fairness of the information presented, including amounts, which must, out of necessity, be based on best estimates and judgments. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and comply with the financial reporting requirements of the *Pension Benefits Act* of Ontario. The significant accounting policies are disclosed in [note 1](#) to the consolidated financial statements and the financial information presented throughout the annual report is consistent with that found in the consolidated financial statements.

Systems of internal control and supporting procedures have been established and maintained to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include an organizational structure that provides a well-defined division of responsibilities, a corporate code of conduct, accountability for performance and the timely communication of policies and guidelines throughout the organization.

Ultimate responsibility for the consolidated financial statements rests with the members of the Board. The Audit & Finance Committee, consisting of four members, assists the Board in its responsibilities by reviewing recommendations from the external auditor regarding improvements in internal control over financial reporting. The Audit & Finance Committee meets regularly with management and the external auditor to review the scope and timing of the audit, findings and recommendations for improvement, to satisfy itself that it has appropriately discharged its responsibilities. The Audit & Finance Committee reviews the consolidated financial statements and recommends them for approval to the Board.

The Plan's external auditor, PricewaterhouseCoopers LLP, was appointed by the Board and is directly responsible to the Audit & Finance Committee. The auditor has full and unrestricted access to management and the Audit & Finance Committee to discuss their audit approach and any findings arising from the audit relating to the integrity of the Plan's financial reporting process and the adequacy of internal control systems. The Plan's external auditor has conducted an independent examination of the consolidated financial statements in accordance with Canadian Generally Accepted Auditing Standards, performing such tests and procedures, as they consider necessary, to express an opinion in their Auditors' Report.



John A. Crocker
President & Chief Executive Officer



John Riviere
Senior Vice-President, Finance and Chief Financial Officer

April 22, 2009

Actuaries' Opinion

Watson Wyatt Canada ULC was retained by the Board of Trustees for the Hospitals of Ontario Pension Plan to perform an actuarial valuation of the Plan as at December 31, 2008. The purpose of this valuation is to determine the going concern liabilities and value of assets for inclusion in the Plan's consolidated financial statements 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 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 results of the valuation disclosed total going concern liabilities of \$31,244 million in respect of service accrued to December 31, 2008 and a smoothed asset value of \$30,261 million determined at the same date.

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

- members' demographic data provided by HOOPP staff as at December 1, 2008 and members' pay data which was provided as at December 31, 2007, all of which was projected to December 31, 2008, using management's estimates of experience for the intervening periods;
- the benefits specified by the terms of the Plan including an adjustment of 0.87% which will become effective April 1, 2009 in respect of all pensioners' and deferred vested members' benefits; and
- assumptions about future events (for example, economic factors such as future rates of inflation and returns on the pension fund, as well as demographic factors) which were developed by Plan management in consultation with Watson Wyatt and have been adopted by Plan management.

No changes have been made to the actuarial assumptions affecting the actuarial liabilities since the previous valuation for the purpose of the Plan's consolidated financial statements at December 31, 2007, as described in the [notes](#) to the consolidated financial statements.

The smoothed value of the Plan's assets was based on financial information provided by HOOPP staff and the asset smoothing method adopted by Plan management which smoothes out short term market fluctuations.

We have reviewed the data used for the valuation, and have made tests of reasonableness and consistency.

In our opinion,

- *the data are sufficient and reliable for the purpose of the valuation;*
- *the assumptions adopted are, in aggregate, appropriate for the purpose of the valuation;*
- *the methods employed in the valuation are appropriate for the purpose of the valuation; and*
- *this valuation has been completed in accordance with our understanding of the requirements of Section 4100 of the Canadian Institute of Chartered Accountants Handbook.*

Nonetheless, differences between future experience and our assumptions about such future events will result in gains or losses which will be revealed in future valuations.

Our valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Watson Wyatt Canada ULC

A handwritten signature in black ink, appearing to read "Ian Markham".

Ian Markham
Fellow, Canadian Institute of Actuaries

A handwritten signature in black ink, appearing to read "Laura Newman".

Laura Newman
Fellow, Canadian Institute of Actuaries

April 22, 2009

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, 2008, 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, 2008 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, Licensed Public Accountants

Toronto, Ontario

April 22, 2009

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

As at December 31

(\$ millions)	2008	2007
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 2)	\$ 53,813	\$ 52,661
Investment related receivables (note 2)	3,135	2,511
Amounts receivable (note 6)	265	232
Other assets	7	6
	57,220	55,410
Liabilities		
Investment related liabilities (note 2)	30,463	25,379
Other liabilities	25	29
	30,488	25,408
Net assets available for benefits	26,732	30,002
Actuarial asset value adjustment (note 1)	3,529	(1,650)
Actuarial value of net assets available for benefits	\$ 30,261	\$ 28,352
ACCRUED PENSION BENEFITS AND DEFICIT		
Accrued pension benefits (note 10)	\$ 31,244	\$ 28,683
Deficit	(983)	(331)
Accrued pension benefits and deficit	\$ 30,261	\$ 28,352

See [Description of Plan](#) and accompanying notes to financial statements

On behalf of the Board Of Trustees



Kelly Butt
Chair of the Board



Marcelle Goldenberg
Vice-Chair of the Board



Ronald Meredith-Jones
Chair, Audit & Finance Committee

Consolidated Statement of Changes in Net Assets Available for Benefits

Year ended December 31

<i>(\$ millions)</i>	2008	2007
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
Investment Operations		
Investment (loss)/income (note 5a)	\$ (3,591)	\$ 1,748
Operating expenses - investment (note 9)	(50)	(52)
	(3,641)	1,696
Plan Operations		
Contributions (note 7)	1,553	1,519
Benefits (note 8)	(1,143)	(1,079)
Operating expenses - plan (note 9)	(39)	(48)
	371	392
Net (decrease)/increase in net assets available for benefi	(3,270)	2,088
Net assets available for benefits, beginning of year	30,002	27,914
Net assets available for benefits, end of year	\$ 26,732	\$ 30,002
See Description of Plan and accompanying notes to financial statements		

Consolidated Statement of Changes in Accrued Pension Benefits

Year ended December 31

<i>(\$ millions)</i>	2008	2007
CHANGES IN ACCRUED PENSION BENEFITS		
Accrued pension benefits, beginning of year	\$ 28,683	\$ 25,808
Increase in accrued pension benefits		
Interest on accrued benefits	1,772	1,616
Benefits accrued	1,430	1,270
Changes in actuarial assumptions (note 10)	-	1,008
Estimated experience losses (note 10)	501	58
Changes in plan provisions (note 10)	1	2
	3,704	3,954
Decrease in accrued pension benefits		
Benefits paid (note 8)	1,143	1,079
	1,143	1,079
Net increase in accrued pension benefits	2,561	2,875
Accrued pension benefits, end of year	\$ 31,244	\$ 28,683

See [Description of Plan](#) and accompanying notes to financial statements

Consolidated Statement of Changes in Deficit

Year ended December 31

<i>(\$ millions)</i>	2008	2007
CHANGES IN DEFICIT		
Deficit, beginning of year	\$ (331)	\$ (603)
(Decrease)/increase in net assets available for benefits	(3,270)	2,088
Change in actuarial asset value adjustment	5,179	1,059
Increase in actuarial value of net assets available for ben	1,909	3,147
Net increase in accrued pension benefits	(2,561)	(2,875)
Deficit, end of year	\$ (983)	\$ (331)

See [Description of Plan](#) and accompanying notes to financial statements

Notes to Consolidated Financial Statements

For the year ended December 31, 2008

Description of Plan

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

General

The Plan is a contributory defined benefit multi-employer pension plan, where earnings and years of service define members' benefits. The Plan was established under an *Agreement and Declaration of Trust* (as amended) for the benefit of eligible employees of participating employers.

A Board of Trustees (the Board) which consists of 16 voting members governs HOOPP. The Ontario Hospital Association (OHA) appoints 8 trustees, while four unions namely, 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) each appoints two trustees. Each trustee has a legal obligation to administer the Plan in the best interests of all its participants, regardless of their union or other affiliation.

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

In conjunction with its Registered Pension Plan (RPP), HOOPP operates a Retirement Compensation Agreement (RCA). The RCA is administered as part of the overall Plan, but its assets are held in a segregated account. The RCA provides supplementary pension benefits to members whose earnings result in a pension that exceeds the maximum pension permitted under the *Income Tax Act* for Registered Pension Plans. Additional information on the RCA is disclosed in [note 12](#).

Funding

Contributions and investment earnings fund the pension benefits. The Board'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 HOOPP's administrative expenses), plus special payments required to amortize unfunded liabilities and solvency deficiencies, less any surplus amortization amounts.

Retirement pensions

A retirement pension is based on the member's contributory service, the highest average annualized earnings during any consecutive five-year period, and the three-year average year's maximum pensionable earnings (YMPE).

Members can receive an unreduced pension at the earlier of age 60 or as soon as they have completed 30 years of Plan membership, provided they be 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 supplements 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 had met certain eligibility requirements by the end of 2005.

Members who choose to work beyond age 65 can continue to earn benefits until November 30 of the calendar year in which the member turns age 71.

Disability benefits

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 earned to the date of disability retirement with no reduction for early pension commencement and no entitlement to a bridge benefit.

Alternatively, a disabled member may elect to continue to earn benefits until age 65.

Death benefits

A death benefit 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.

Portability

Members who terminate employment with more than two years in the Plan shall be entitled to receive a deferred pension. They 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. Members 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.

Inflation protection

Retirement pensions are adjusted annually by an amount equal to 75 percent of the previous year's increase in the Consumer Price Index (CPI) for all contributory service earned through to the end of 2005. Depending on the Plan's financial status and other factors, the Board can approve an annual increase above the guaranteed level up to 100 per cent of the increase in the previous year's CPI.

For retirements and deferred retirements occurring after 2005, the Board may approve an annual increase of up to 100 per cent of the increase in CPI in respect of pensions earned for service after 2005.

In all cases, the increases in CPI are limited to an annual maximum of 10 per cent.

Income taxes

The Plan is both an RPP as defined in the *Income Tax Act* and an RCA. The RPP component is generally exempt from income taxes for contributions and investment income earned. Funds received and income earned in the 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 is disclosed in [note 6](#) as recoverable refundable withholding tax on contributions.

Note 1: Summary of Significant Accounting Policies

Basis of presentation

These consolidated statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and comply with the requirements of Canadian Institute of Chartered Accountants (CICA) Handbook Section 4100, *Pension Plans*.

Certain comparative amounts have been reclassified to conform to the current year's presentation. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Consolidation

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

Changes in accounting policies

Financial Instruments—Disclosures and Presentation

In 2008, the Plan adopted CICA's two new accounting standards, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These standards enhance the disclosure requirements surrounding the nature and extent of risks arising from financial instruments and how the Plan manages these risks. The disclosure for financial risk management is included in [note 4](#).

Capital Disclosures

In 2008, the Plan adopted CICA's section 1535, *Capital Disclosures*. This standard requires an entity to disclose its objectives, policies and processes for managing capital, which for a pension plan, is its surplus or deficit. The disclosure for capital management is included under [note 4](#).

Valuation of investments

Investment assets and liabilities are stated at fair value. Fair value represents the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

Fair values of investments are determined as follows:

- i. Short-term money market securities are recorded at cost or amortized cost, which together with accrued interest or discount earned, approximates fair value.
- ii. Bonds are valued based on 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.
- iii. Equities owned and sold short are valued at year-end quoted market prices.

- iv. 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.
- v. Private equities and special situations include investments in equity and private equity, held directly or through a limited partnership. These investments are valued using market quotes, values provided by the Fund's General Partner under a limited partnership agreement (unless a specific reason exists to vary from the value provided by the General Partner) and/or through the use of industry accepted valuation techniques.
- vi. Real estate, consisting primarily of income-producing properties, is generally valued based on latest appraisal values determined at least once every two years by accredited external appraisers. Investments are carried at cost in the year of acquisition, as an approximation of fair value, unless specific and conclusive reasons exist to change the value.
- vii. Exchange-traded derivatives are valued based on quoted market prices. For non exchange-traded derivatives where quoted market values are not readily available, appropriate valuation techniques are used to estimate fair value.

Where a quoted market price is not available for an investment asset or liability, as may be the case for private equities, real estate, and non-exchange traded derivatives, management utilizes appropriate and industry accepted valuation techniques to determine fair value. The valuation techniques include discounted cash flow, market-based data inputs, earnings multiples, prevailing market rates for comparable instruments in similar industries, and management's best estimates.

Investment transactions and income

Investment transactions are recognized on a trade-date basis when the substantial risks and rewards have been transferred.

Investment income includes interest income, dividends, securities lending income, and real estate operating income, net of interest expense. Certain management and performance fees for externally managed private equity funds are offset against investment income. The change in unrealized gains and losses on investments represent the difference between the cost-based values and the fair values of investments year-over-year. Gains and losses on investments are realized upon disposition.

Transaction costs, which are incremental costs attributable to the acquisitions, issue or disposal of an investment, are expensed in the period in which they were incurred.

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 trade date of the transaction. The realized gains and losses arising from these transactions are included in realized gains and losses on the sale of investments. Unrealized gains and losses on translation are included in the change in unrealized gains and losses on investments.

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, 2008. The valuation uses the projected accrued benefit actuarial cost method and management's estimate of certain future events.

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.

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.

Contributions

Contributions from members and employers are recorded on an accrual basis. Contributions for past service purchases and transfers are recorded when received.

Benefits

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

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions based on information available as at the date of the financial statements. Such estimates and assumptions may affect the reported amounts of assets and liabilities, revenue and expenses, accrued pension benefits and related disclosures. Significant estimates are used primarily in the determination of accrued pension benefits and the fair value of investments. Actual results could differ from those estimates.

Future accounting changes

The Canadian Accounting Standards Board confirmed January 1, 2011 as the date International Financial Reporting Standards (IFRS) will replace Canadian GAAP. Upon the adoption of IFRS by publicly accountable enterprises, pension plans will continue to apply CICA Handbook Section 4100 *Pension Plans* in the preparation of their financial statements instead of the International Accounting Standards (IAS) 26 *Accounting and Reporting by Retirement Benefit Plans*. For matters not addressed in Section 4100, guidance will be sought from the relevant IFRS sections. HOOPP continues to assess the impact of the transition to IFRS on its consolidated financial statements and operations.

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 6.50 per cent.

The Plan's investments, presented by the currency in which they are denominated and before allocating the market exposure related to derivative financial instruments, are as follows:

(\$ millions)	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Fixed Income				
Cash and short term securities	\$ 112	\$ 112	\$ 508	\$ 506
Bonds				
Canadian	32,788	32,573	32,258	31,819
Non-Canadian	13,290	12,202	10,183	10,904
	46,190	44,887	42,949	43,229
Equity				
Canadian	142	179	767	964
Non-Canadian	1,762	2,205	3,845	3,632
	1,904	2,384	4,612	4,596
Equity-Oriented				
Real estate				
Canadian	4,414	3,259	3,866	2,762
Non-Canadian	55	53	12	12
Private equity and special situations				
Canadian	439	584	605	626
Non-Canadian	811	895	617	712
	5,719	4,791	5,100	4,112
Total investments	53,813	52,062	52,661	51,937
Investment related receivables				
Receivables from derivative financial instruments (note 3)	1,754	60	1,566	-
Securities purchased under resell agreements	-	-	348	348
Cash collateral pledged related to securities borrowing (note 2a)	296	296	-	-
Pending trades	656	656	184	183
Accrued investment income	429	429	413	413
	3,135	1,441	2,511	944
Investment related liabilities				
Obligations related to securities sold short (note 2a)	(10,685)	(13,872)	(16,056)	(14,018)
Liabilities from derivative financial instruments (note 3)	(4,241)	(61)	(1,326)	(2)
Real estate mortgages	(877)	(866)	(817)	(817)
Securities sold under repurchase agreements	(14,337)	(14,337)	(6,600)	(6,600)
Pending trades	(185)	(185)	(452)	(451)
Accrued liabilities	(138)	(138)	(128)	(128)
	(30,463)	(29,459)	(25,379)	(22,016)
NET INVESTMENTS	\$ 26,485	\$ 24,044	\$ 29,793	\$ 30,865

a) Securities borrowing and collateral pledged

The Plan pledges collateral, typically in the form of cash, fixed income and equities, as security for obligations incurred in the ordinary course of trading in derivatives (options, forwards, futures, swaps) and related transactions or otherwise where such pledge of assets is ancillary to certain permitted activities.

In particular, the Plan enters into short positions, where it agrees to sell securities, which it does not already own. The risk associated with short positions is that the Plan could be required to purchase the securities at a market price which exceeds the agreed upon sale price. The Plan borrows securities to facilitate the taking of short positions to reduce or eliminate economic exposures as part of certain active management strategies and as an offset to long positions in some derivative strategies. The Plan uses derivatives for hedging, to replicate direct investments, and for yield enhancement purposes; doing so requires the Plan to pledge collateral to cover the counterparty's credit risk.

As at December 31, 2008, the fair value of the collateral pledged with various financial institutions was as follows:

(\$ millions)	2008	2007
Securities Borrowed	11,974 *	16,881
Derivatives	2,884	1,135
Repurchase Agreements	—	32

* Includes collateral pledged in cash of \$296 million (2007: \$nil) (note 2)

Note 3: Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying asset, index, interest rate, or exchange rate.

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 financial risk. Derivatives may be used on all of HOOPP's permitted asset classes.

The Plan utilizes the following derivative financial instruments:

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 foreign currency at a price specified at origination of the contract, with settlement at a specified future date. Forward contracts are used to modify the Plan's exposure to currency risk.

Bonds and equity futures 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 modify exposures efficiently without actually purchasing or selling the underlying asset.

Options

Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a financial instrument at a predetermined price, on or before a specified future date. The seller receives a premium from the purchasers for this right. The various option agreements are interest rate options, foreign currency options, and equity options. Options are used to manage the exposures of market risks.

Caps and floors

An interest rate cap is a series of call options on the specified reference interest rate. 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.

Swaps

Swaps involve contractual agreements between two counterparties to exchange a series of cash flows. HOOPP utilizes the following swap instruments:

- Equity swaps are agreements between two parties to exchange a series of cash flows based on the return of an equity or an equity index. One party typically agrees to pay a floating interest rate in return for receiving the equity return. Equity swaps are used for yield enhancement purposes and to adjust exposures to particular indices without directly purchasing or selling the securities that comprise the index.
- Interest rate swaps (including cross currency swaps) are agreements 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.
- Credit default swaps are agreements 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.
- Variance swaps are agreements between two parties to exchange cash flows on payment date based on the difference between the realized volatility and a strike volatility rate of the underlying instruments.

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

(\$ millions)		2008			
Derivative Financial Instruments	Notional Value ⁽¹⁾		Fair Value ⁽²⁾		
	Long	Short	Assets	Liabilities	
Foreign exchange forward contracts	\$ 1,901	\$ 1,901	\$ 24	\$ (61)	
Futures contracts					
Equity	2,976	5	26	-	
Bond	-	605	1	-	
Options					
Foreign exchange	183	183	-	-	
Caps and floors	50	-	-	-	
Equity	61	58	194	(193)	
Swaps					
Equity	15,342	830	572	(632)	
Interest rate	13,923	2,447	220	(1,114)	
Cross currency	9,714	109	31	(1,715)	
Credit default	7,763	11,649	634	(466)	
Variance	47	48	52	(60)	
TOTAL	\$ 51,960	\$ 17,835	\$ 1,754	\$ (4,241)	

(\$ millions)		2007			
Derivative Financial Instruments	Notional Value ⁽¹⁾		Fair Value ⁽²⁾		
	Long	Short	Assets	Liabilities	
Foreign exchange forward contracts	\$ 4,939	\$ 4,939	\$ 41	\$ (51)	
Futures contracts					
Equity	7,089	3,742	-	(5)	
Bond	74	61	-	-	
Options					
Foreign exchange	125	125	1	-	
Caps and floors	50	-	-	-	
Equity	363	366	503	(444)	
Swaps					
Equity	19,624	2,507	168	(430)	
Interest rate	6,450	2,483	89	(153)	
Cross currency	6,534	202	635	(144)	
Credit default	6,287	6,363	128	(91)	
Variance	28	26	1	(8)	
TOTAL	\$ 51,563	\$ 20,814	\$ 1,566	\$ (1,326)	

⁽¹⁾ 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 level of financial risk, nor the potential gain or loss arising from these instruments.

⁽²⁾ Fair value represents unrealized gains or losses from derivative contracts, which are recorded in the consolidated statement of net assets based on the fair value of the derivative contracts. Contracts with a positive fair value are recorded as investment related receivables while contracts with a negative fair value are recorded as investment related liabilities.

The following schedule provides the notional values for the Plan's derivative positions by term to maturity:

(\$ millions)		2008					
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		\$ 1,901	\$ 1,901	\$ -	\$ -	\$ -	\$ -
Futures contracts							
Equity		2,976	5	-	-	-	-
Bond		-	605	-	-	-	-
Options							
Foreign exchange		152	152	31	31	-	-
Caps and floors		50	-	-	-	-	-
Equity		61	50	-	8	-	-
Swaps							
Equity		15,342	830	-	-	-	-
Interest rate		2,751	1,024	8,963	1,113	2,209	310
Cross currency		3,327	109	5,691	-	696	-
Credit default		913	957	4,643	9,970	2,207	722
Variance		47	48	-	-	-	-
TOTAL		\$ 27,520	\$ 5,681	\$ 19,328	\$ 11,122	\$ 5,112	\$ 1,032

(\$ millions)		2007					
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		\$ 4,939	\$ 4,939	\$ -	\$ -	\$ -	\$ -
Futures contracts							
Equity		7,089	3,742	-	-	-	-
Bond		74	61	-	-	-	-
Options							
Foreign exchange		125	125	-	-	-	-
Caps and floors		-	-	50	-	-	-
Equity		362	364	1	2	-	-
Swaps							
Equity		19,624	2,506	-	-	-	-
Interest rate		1,862	407	3,796	1,686	792	390
Cross currency		1,856	155	3,985	48	693	-
Credit default		853	1,914	3,634	3,103	1,800	1,346
Variance		28	26	-	-	-	-
TOTAL		\$ 36,812	\$ 14,239	\$ 11,466	\$ 4,839	\$ 3,285	\$ 1,736

Note 4: Risk Management

For HOOPP, the primary objective is to secure the pension promise (i.e. provide a lifetime pension at a reasonable cost) for all of its members, pensioners and beneficiaries ("HOOPP members"). In order to accomplish this, the Plan must actively manage its capital, which for HOOPP is represented by its net funded position (i.e. surplus or deficit). There are two major components to capital – the Plan's pension obligations and the Fund's investment assets – which HOOPP manages and measures in concert. The Fund's investment assets are also exposed to financial risks (market risk, credit risk and liquidity risk) through its investment activities.

HOOPP's Board is responsible, with the assistance of staff, agents and advisors, for prudently managing, investing, and administering the Plan in order to secure the pension promise for HOOPP's members. This requires Board oversight of the assets and liabilities to ensure they are being managed in the best interests of HOOPP members. The Board has established a Funding Policy, which outlines certain of the Board's risk tolerances, and an Investment Risk Framework, which guides the development of investment strategies to meet HOOPP's overall objectives.

The Funding Policy sets out criteria to be considered when contemplating changes to contribution rates and/or benefit levels, and establishes a target range for the Plan's funded ratio, which is the ratio of the Plan's assets to its liabilities. HOOPP's investment policy and strategic asset mix will also impact the Plan's funded ratio and can be altered to keep HOOPP's funded position within the targeted range over the long term.

Broadly, the Plan manages these capital and financial risks by:

- utilizing a liability driven investment (LDI) approach, an investment strategy that aligns the Fund's assets to the Plan's liabilities, which helps determine appropriate investments, to reduce funding risk;
- implementing appropriate hedging strategies, through derivatives, to improve the risk profile of the Fund; and
- complying with the Pension Benefits Act and Regulations, the Income Tax Act and its regulations, the Plan's Agreement and Declaration of Trust, and the Plan Text.

Risk management for the Fund is performed by the Investment Management team through compliance with these key documents, which the Board reviews and approves no less frequently than annually:

- Investment Risk Framework – the Board's view of the Plan's risk tolerance
- Statement of Investment Principles (SIP) – the principles fiduciaries use when developing investment policies
- Statement of Investment Policies and Procedures (SIP&P) – investment guidelines for the management of the Fund, including objectives and how they will be reached
- Investment Policies and Guidelines (IP&G) – the Fund's policy benchmark, policy asset mix and detailed investment limits.

The Finance division, which is independent from Investment Management, monitors the limits set out in the IP&G. Finance reports compliance to the Board on a quarterly basis.

The Board's Plan Committee oversees the Plan's benefits design, administration and funding. It reviews, monitors and makes recommendations to the Board on matters such as proposed changes to benefits, appointment and performance of the Board's external actuarial advisor, actuarial valuations, funding strategies and contribution rates. The Committee also monitors compliance with legislative and regulatory requirements and the Board's policies.

The Board's Investment Committee oversees the management and investment of the Fund. It monitors and evaluates the investment management process and performance of the Fund and reviews and recommends to the Board investment policies and goals, and systems and controls, to ensure compliance with investment policy and regulations.

Capital management

The Plan's capital is represented by its net funded position (i.e. surplus or deficit), which the Plan manages and measures through funding risk.

Funding risk

The primary risk that HOOPP faces is that the Fund's asset growth and contribution rates will be insufficient to cover the Plan's liabilities (funding risk) resulting in an unfunded liability (funding deficiency). If a funding deficiency reaches a certain level, or persists, it may need to be eliminated by reducing benefits, raising contributions, or a combination of the two.

The Plan's net funded position can change relatively quickly if there are changes in the value of the investments or liabilities. Either can result in a mismatch between the Fund's assets and its liabilities. The most significant contributors to funding risk are:

- falling interest rates
- lower-than-expected investment returns, and
- unexpected increases in inflation

Plan liabilities are affected by non-economic factors like changes in member demographics. The Fund's assets are subject to financial instrument risks which are explained in more detail in the following financial risk management section. At December 31, 2008, the Plan had an unfunded liability (or deficit) of \$983 million, or 97% funded ratio compared to \$331 million, or 99% funded ratio for 2007.

Risk management

The Board manages funding risk by monitoring the current and future expected funded ratio on an ongoing basis to ensure it remains in the targeted range. If and when the future funded ratio could fall outside the range, the Board determines whether changes to the investment policy, strategic asset mix, and contribution rates and/or benefits may be required.

When formulating investment policy to effectively manage both risk and capital, HOOPP must consider investment strategies that are suitable for the Plan's liabilities. Failing to do this would result in greater volatility in the Plan's funded status, leading in turn to a greater risk of making changes to benefits and/or contribution rates.

Risk Measurement

The Board's external actuary performs an annual valuation (going-concern and solvency basis) to determine the Plan's funded status and also forecasts future results.

HOOPP is registered with the Financial Services Commission of Ontario (FSCO) and is required to file a funding valuation at least once every three years; it last filed a valuation for the period ending December 31, 2007. See [note 11](#) for more information on HOOPP's funding valuation.

Financial risk management

The Fund's investment activities expose it to the following financial risks related to financial instruments:

- market risk (interest rate risk, foreign currency risk and other price risk)
- credit risk
- liquidity risk

Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all securities traded in the market.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market interest rates.

As of December 31, 2008, the Fund's interest rate sensitive instruments (including those backing derivative instruments) and the remaining term to maturity or repricing dates, whichever is earlier, are provided below. These instruments are presented by the currency in which they are denominated.

(\$ millions)				
Interest Rate Sensitive Instruments	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Short-term securities	\$47	-	-	\$47
Canadian bonds*				
Federal bonds	364	\$4,983	\$3,904	9,254
Provincial and municipal bonds	4,842	1,877	5,646	12,365
Real return bonds	-	-	3,477	3,477
Corporate bonds	5,165	1,249	1,269	7,683
	10,371	8,112	14,296	32,779
Non-Canadian bonds	6,834	4,787	1,669	13,290
Canadian mortgage debt	(158)	(559)	(160)	(877)
Derivatives	(3,232)	(10,618)	(3,238)	(17,088)
Repurchase agreements	(14,337)	-	-	(14,337)
	\$ (475)	\$1,722	\$12,567	\$13,814

* Net of Canadian bonds sold short of \$8 million [2007: \$148 million]

Risk management

HOOPP manages its exposure to interest rate risk by ensuring the modified duration of the fixed income instrument portfolios remains within the approved ranges of the respective benchmarks as stipulated in the IP&G. This is accomplished by rebalancing the portfolio on a regular basis and through the use of derivatives, including interest rate swaps, cross currency swaps and interest rate futures.

Duration measures the sensitivity of the fair value of the Plan's interest rate sensitive instruments to changes in market interest rates.

Risk measurement

The Fund's fixed income duration is reviewed daily to ensure compliance to the policy; the Investment Committee receives quarterly reports on interest rate change sensitivity. As at December 31, 2008, a 1% increase/decrease in interest rates would have decreased/increased the Plan's net assets available for benefits by \$1.2 billion. While the increase/decrease in interest rates would have decreased/increased the value of the Fund's assets, it would have also decreased/increased the value of the Plan's liabilities.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. While HOOPP pensions are paid in Canadian currency, some of the Fund's assets are denominated in other currencies. The Fund's foreign currency exposure (including through derivatives) as at December 31, 2008, was as follows:

<i>(Local currency, Millions)</i>	
Currencies	Net Asset Exposure
Australian dollars	39
Swiss francs	92
Euro dollars	446
British pounds	154
Japanese yen	25,564
U.S. dollars	1,435

Risk management

HOOPP manages its exposure to foreign currency risk by ensuring the exposures are effectively hedged in accordance with the limits stipulated in the IP&G. These limits require the Fund's foreign currency exposure on equity and equity-oriented investments to be 50% hedged, and fixed income investments to be 100% hedged. This is accomplished through the use of derivatives, which include foreign exchange forward contracts and cross currency swaps.

Risk measurement

Finance measures the exposures to foreign currency daily to ensure policy compliance. Each quarter management provides the Board with reports and analysis, illustrating the impacts on assets of foreign currency rate changes. As at December 31, 2008, if the Canadian dollar had strengthened/declined by 1% against other currencies this would have resulted in a decrease/increase to the Plan's net assets available for benefits of \$29.6 million.

Other price risk

The Fund's major market risk is equity price risk. Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). HOOPP is exposed to equity risk through its investment in public equities and equity-oriented (i.e. private equity and real estate) instruments. At December 31, 2008, the total exposure to equity risk including through the use of derivatives was as follows:

<i>(Canadian dollar, Millions)</i>		
Financial Instruments	Effective Equity Exposure	% of Total Equity Exposure
<i>Equity</i>		
Canadian equities	\$2,813	20.8%
U.S. equities	3,133	23.2%
Non-North American equities	2,794	20.7%
	8,740	64.7%
<i>Equity-Oriented</i>		
Real estate	3,508	26.0%
Private equities and special situations	1,250	9.3%
	4,758	35.3%
Total	\$13,498	100.0%

Risk management

HOOPP manages equity risk and concentration risk through diversification, by investing in benchmarks approved by the Board, through physical and derivative markets in order to minimize non-systemic risk. Rebalancing of the equity investments occurs regularly to ensure the weighting of the equities equity-oriented investments, in respect to the overall value of the Fund, remains within the limits established by the Board.

In addition, HOOPP manages equity risk by limiting the investment in individual securities to a set percentage of the overall Fund, as determined by the Board.

Risk measurement

HOOPP measures risk daily by monitoring exposure levels to Board approved limits, which include total equity exposure and single name limits. Reporting of compliance is provided to the Board on a quarterly basis. Sensitivity analysis is performed to measure the impact of public equity market changes, to quantify the underlying risk and to ensure risk mitigation strategies are effective. The analysis is provided to Investment Management and the Investment Committee quarterly.

As at December 31, 2008, a 1% decline/increase in public equity markets would have resulted in a decrease/increase in the Plan's net assets available for benefits of \$134.9 million.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Counterparty credit risk is the risk of loss in the event the counterparty (excluding clearinghouses) to a transaction defaults, or otherwise fails to perform under the terms of a contract. Counterparty credit risk exposure for financial contracts 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.

The Fund assumes credit risk exposure through its investment in fixed income instruments and counterparty credit risk through its securities lending program, repurchase agreements and derivatives.

At December 31, 2008, the Fund's total credit risk exposure, arising from fixed income instruments, accruals, and certain derivatives, was as follows:

<i>(Canadian dollar, Millions)</i>		
	Total Credit risk Exposure	% of Total
Physical sovereign securities AAA	\$10,729	18.8%
Physical securities:		
AAA	5,271	9.3%
AA	13,110	23.0%
A	14,362	25.2%
BBB	2,193	3.9%
BB or below	645	1.1%
Credit risk exposure (physical securities)	35,581	62.5%
Credit risk exposure (derivatives)	10,255	18.1%
Counterparty credit risk exposure*	359	0.6%
Maximum credit risk exposure	56,924	100.0%
Credit risk exposure (derivatives)**	(5,618)	
Total net credit risk exposure	\$51,306	

*Counterparty credit risk exposure after accounting for master netting agreements.

**Includes collateral received of \$87 million.

Risk management

HOOPP's policy is to manage credit risk by restricting investments to investment grade debt, diversifying credit holdings, and limiting investments based on single name issuer limits as stipulated by the Board in the IP&G. HOOPP will also employ the use of derivatives, such as credit default swaps from financial institutions rated A and higher, to achieve this objective.

HOOPP mitigates counterparty credit risk by transacting exchange-traded derivative contracts and by dealing with counterparties with a minimum credit rating of A, as determined by a recognized credit rating agency. HOOPP also uses an internal credit-limit monitoring process and has master netting arrangements in place and the right to obtain collateral, all of which mitigate counterparty credit risk. Exposure to any counterparty with whom the Fund has non-exchange traded derivative contracts shall not exceed the limits specified and approved by the Board in the IP&G. Counterparty exposure is determined daily and collateral is either requested or delivered in accordance with the agreements in place.

At December 31, 2008, the Fund received collateral totalling \$100 million (2007: \$407 million) for securities lending, \$365 million (2007: \$nil) for securities sold under repurchase agreements, and \$87 million (2007: \$nil) for other derivative obligations.

For any collateral received, the Fund is able to re-pledge, loan or use it under repurchase agreements. At December 31, 2008, \$82 million of the collateral received was lent under HOOPP's securities lending program and \$238 million under repurchase agreements. For collateral, the Fund may only accept collateral of a certain credit quality – these limits are set by the Board and stipulated within the IP&G.

Risk measurement

HOOPP measures the risk by monitoring the Fund's exposure each day to credit based on Board-approved credit limits, which include single name limits, and also counterparty exposure to determine whether collateral should be requested. The Board receives quarterly compliance reports. Investments in any one issuer are limited to 5% of the total net assets of the Plan. In the event of default of a single investment at the maximum exposure allowed under the IP&G, the loss to HOOPP, assuming a typical recovery rate of 40%, would be approximately \$791 million.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

For the Plan, financial liabilities are comprised of investment related liabilities ([note 2](#)), which as at December 31, 2008 totaled \$30,463 million. Most of the investment related liabilities will become due within the next year. The Plan is also exposed to the daily settlement of derivatives, margin calls on derivatives and to periodic pension-type payments.

HOOPP's future liabilities include the accrued pension benefits obligation ([note 10](#)) and contracts that give rise to commitments for future payments ([note 13](#)).

Risk management

HOOPP manages liquidity risk by maintaining sufficient cash and cash equivalents, investing in highly liquid fixed income investments and securities which can be easily disposed of, and through the use of investment income and contributions received, to meet liquidity requirements. These sources of funds are used to pay pension benefits, settle investment-related liabilities ([note 2](#)) and pay for operating expenses.

Risk measurement

On a daily basis, Finance forecasts cash flow requirements for up to one week to ensure sufficient cash is made available to meet short term requirements.

Note 5: Investment Income

a) Investment income for the year ended December 31 is as follows:

(\$ millions)	2008	2007
Fixed Income		
Cash and short-term securities	\$ 46	\$ 36
Bonds and debentures		
Canadian ⁽¹⁾	1,189	1,156
Non-Canadian	573	460
	1,808	1,652
Equity		
Canadian	(2)	8
Non-Canadian	1,662	1,500
	1,660	1,508
Equity-oriented		
Net real estate operating income (note 5b)		
Canadian	209	180
Non-Canadian	2	-
Private equity and special situations		
Canadian	23	25
Non-Canadian	4	13
	238	218
Sub-total	3,706	3,378
Transaction costs	(7)	-
Net realized losses on investments ⁽²⁾	(10,707)	(479)
Net change in unrealized gains/(losses) on investments ⁽³⁾	3,417	(1,151)
Total investment (loss) / income	\$ (3,591)	\$ 1,748

¹Net of interest expense related to securities sold under repurchase agreements of \$261 million [2007: \$94 million]

²Includes net realized gains/(losses) on derivatives of (\$8,797) million [2007: \$892 million]

³Includes net change in unrealized losses on derivatives of \$2,726 million [2007: \$3 million]

b) Real estate income

The Plan's real estate income for the year ended December 31 is as follows:

(\$ millions)	2008	2007
Rental revenue	\$ 444	\$ 408
Property operating & other expenses	(207)	(189)
Operating income	237	219
Mortgage interest	(26)	(39)
Net real estate operating income	\$ 211	\$ 180

Note 6: Amounts Receivable

(\$ millions)	2008	2007
Contribution receivable		
Employers	\$ 69	\$ 62
Members	55	49
Recoverable refundable withholding tax on contributions	141	121
	\$ 265	\$ 232

Note 7: Contributions

(\$ millions)	2008	2007
Employers	\$ 840	\$ 782
Members		
Regular	667	621
Others	12	11
Transfers from other plans	34	105
	\$ 1,553	\$ 1,519

Note 8: Benefits

(\$ millions)	2008	2007
Retirement pension and bridge benefits	\$ 935	\$ 877
Commuted value transfers and death benefits	104	101
Refunds	85	86
Transfers to other plans	19	15
	\$ 1,143	\$ 1,079

Note 9: Operating Expenses

(\$ millions)	2008	2007
Investment: ⁽¹⁾		
Administration	\$ 35	\$ 32
External investment management fees	8	15
Legal, actuarial and other professional fees ⁽²⁾	5	3
Custodial	2	2
	50	52
Plan: ⁽¹⁾		
Administration	32	37
Legal, actuarial and other professional fees ⁽²⁾	7	11
	39	48
	\$ 89	\$ 100

⁽¹⁾ Includes allocation of corporate expenses

⁽²⁾ Includes fees paid or due to the auditors pertaining to statutory audit fees of \$410,000 [2007:\$295,000], audit-related fees of \$180,500 [2007: \$108,000] and non-audit fees of \$3,400 [2007: \$nil]

Note 10: Accrued Pension Benefits

Accrued pension benefits

Accrued pension benefits are based on management's assumptions as described in note 10 and include a provision for expenses. The Plan provisions considered in the valuations were those in effect at the valuation dates.

Actuarial methodology for financial reporting

For the determination of the actuarial present value of accrued pension benefits as at December 31, 2008, an actuarial valuation was conducted by Watson Wyatt Canada ULC (Towers Perrin Inc. conducted the December 31, 2007 actuarial valuation). The valuation uses the projected accrued benefit method 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 HOOPP staff as at December 1, 2008 and members' pay data which was provided as at December 31, 2007, all of which was projected to December 31, 2008 using management's estimates of experience for the intervening periods. The earnings estimates were determined based on 2007 experience and estimate assumptions.

Using this method and data, the accrued pension benefits (or going concern actuarial liabilities) at December 31, 2008, were \$31,244 million (2007: \$28,683 million).

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, 2008 and December 31, 2007, the following economic assumptions were analyzed and reviewed by management and the Plan's actuarial advisors for reasonability and approved by the Board for financial reporting purposes:

December 31	2008	2007
Rate of return ⁽¹⁾	6.00%	6.00%
Rate of price inflation	2.25%	2.25%
Real interest rate ⁽¹⁾	3.75%	3.75%
Salary escalation rate	4.75%	4.75%

⁽¹⁾ Net of allowance for investment expenses of 0.25% [2007: 0.40% in respect of all expenses]; allowance for non-investment expenses to be included in minimum contribution requirements in the next filed valuation.

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 2008, there was an estimated experience loss of \$501 million (2007: loss of \$58 million).

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. During 2008, the Board granted a 75 percent of the 2008 CPI increase as an ad hoc increase effective April 1, 2009. This resulted in an increase in the Plan's accrued pension benefits of approximately \$1 million.

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 minimum funding requirements. The last actuarial valuation for regulatory filing purposes was prepared by Towers Perrin Inc., as at December 31, 2007, and a copy of that valuation was filed with FSCO and CRA.

The funding valuation method used to determine the Plan's pension liabilities is the projected accrued benefit actuarial cost method. Under this method, pension liabilities are determined by calculating the actuarial present value of benefits based on service at the valuation date and projected final average earnings. The actuarial current service cost of benefits, is determined based on benefits (with projected

final average earnings) in respect of service in the year following the valuation date, a portion of which is covered by member contributions.

The external actuary, in consultation with management, recommends the actuarial assumptions to be used for the filing valuation. The economic assumptions used for the December 31, 2007 regulatory funding valuation were as follows:

Rate of return	6.00%
Rate of price inflation	2.25%
Real interest rate	3.75%
Salary escalation rate	4.75%

The most recent regulatory filing valuation conducted as at December 31, 2007 disclosed actuarial assets of \$28,352 million with accrued going concern liabilities of \$28,683 million, resulting in a going concern deficit of \$331 million. This filing valuation also confirmed that the Plan was fully funded on a solvency basis as of December 31, 2007.

Note 12: Retirement Compensation Arrangement

The Retirement Compensation Arrangement (RCA) is a seamless arrangement which is funded by member and employer contributions as well as investment earnings, and managed in accordance with the overall Plan. The RCA assets are segregated under a separate account from the assets of the RPP. The allocation of contributions to the RCA and RPP are driven by the requirements of the Income Tax Act in a manner that is expected to be sufficient to pay the benefits as they become due. Total pension benefits are calculated using the pension formula disclosed under the Description of the Plan based on a member's total pensionable earnings. Benefits payable from the RCA are then determined as those which exceed amounts permitted under the Income Tax Act (Canada) for an RPP.

The net asset value available for RCA benefits at December 31, 2008 was \$247 million.

Note 13: Commitments

As part of normal business operations, the Plan enters into commitments related to the funding of investments. 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, 2008, these commitments totaled \$1,417 million and \$746 million respectively (2007: \$714 million and \$593 million respectively). The Plan has also committed to purchasing services relating to the pension administration and investment systems at approximately \$4 million and \$1 million per annum respectively.

Note 14: Guarantees and Indemnifications

Guarantees are contracts under which the guarantor is required to make payment to a third party where a principal obligor fails to pay or perform a stated obligation owed to that party. Indemnification agreements are similar to guarantees in that the indemnifying party may be required to make payments to the indemnified party in the event that the indemnified party incurs certain specified losses or expenses, often as a result of the act or omission of the indemnifying party.

Guarantees

Certain of the Plan's derivative instruments meet the accounting definition of a guarantee when believed to be related to an asset, liability or equity security held by the counterparty at the inception of the contract. The Plan indirectly guarantees the underlying reference obligations when it sells credit protection, i.e. it commits to compensate the counterparty in the event of a default in the reference obligation. Written options provide the counterparty with the right, but not the obligation, to purchase or sell a specific amount of a financial instrument at the price specified in the option agreement. The nature of these contracts makes it impossible to determine the maximum potential exposure. The notional amount, fair value and the term to maturity of the credit default swaps and options entered into by the Plan is disclosed in [note 3](#).

Indemnifications

According to the Agreement of Declaration of Trust, HOOPP indemnifies its trustees against certain claims that may be made against them. In addition, HOOPP may in certain circumstances in the course of investment activities, agree to indemnify a counterparty. Under the terms of these arrangements, HOOPP may be required to compensate the counterparties for costs incurred because of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the range of indemnification and the contingent nature of the liabilities in such agreements, prevent HOOPP from making a reasonable estimate of the maximum amount that would be required to pay all such indemnifications. At December 31, 2008, the amount recorded as a liability for claims under these arrangements was \$nil (2007: \$nil).

Significant Investments

Investments with fair value exceeding \$100 million (gross securities excluding short sales) as at December 31, 2008 (excluding derivative exposures):

(\$ Millions)	Maturity Date	Coupon Rate %	Fair Value
Fixed Income			
Federal Bonds	2010 - 2037	1.72 - 9.00	\$ 8,787
Provincial & Municipal Bonds	2010 - 2045	1.55 - 11.00	11,879
Real Return Bonds	2021 - 2041	2.00 - 4.50	3,365
		<i>Plus CPI *</i>	
Corporate Bonds			
Allstate Life Global Funding	2009	1.89	108
American Express Corp	2012	0.59	204
Anglo Irish Bank	2009 - 2010	1.85 - 2.13	399
Bank of Ireland	2010	3.78	100
Bank of Montreal	2009 - 2018	2.11 - 6.02	1,028
Bank of Nova Scotia	2009 - 2011	4.40 - 5.20	492
Channel Link	2012	4.45	149
CIBC	2010 - 2011	4.40 - 5.25	974
Citigroup Financial Cda	2010 - 2011	2.18 - 2.60	617
Credit Suisse USA	2009	2.3	117
General Electric Capital Corp	2010 - 2016	1.73 - 2.03	850
Goldentree Loan	2013	5.75	152
Goldman Sachs	2009	1.55	289
Grand Horn Ltd	2022	5.42	164
Bank of Scotland	2010	1.73 - 3.02	516
ING	2009	1.5	122
International Lease Finance	2011	5.07	218
Merck & Co	2037	5.76	107
Morgan Stanley	2009	4.3	105
Royal Bank of Canada	2011	4.25	204
Banco Santander	2009 -2010	1.72 - 1.78	541
SLM Corp	2011	1.98	196
Sunlife	2011	1.62	136
TD Bank	2011	2.8	151
Transocean Inc	2010	5.27	213
UBS AG	2009	3.82	321
Weinstein Company	2016	0.97	183
Wells Fargo	2012	3.63	222
Westpac Banking	2009	3.18	168
			<u>9,046</u>

* CPI - consumer price index

Private Equities

Investment Partnership (2006) LP

Ownership

Real Estate Properties

(net of respective mortgages)

Pensionfund Realty Ltd

Coquitlam Shopping Centre	42%
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HOOPP Realty Inc.

Telus Plaza	100%
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TEN YEAR REVIEW

For the year ended December 31

(\$ millions)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
CHANGE IN NET ASSETS										
(Decrease)/increase in net assets										
Net investment loss)/income	\$ (3,591)	\$ 1,748	\$ 3,136	\$ 3,095	\$ 2,135	\$ 2,393	\$ (845)	\$ (799)	\$ 1,471	\$ 2,463
Contributions										
Employers	840	782	718	685	633	532	297	172	158	138
Members	679	632	583	554	514	435	244	137	130	109
Transfers	34	105	75	42	15	15	11	10	6	7
Total (Decrease)/Increase	(2,038)	3,267	4,512	4,376	3,297	3,375	(293)	(480)	1,765	2,717
Decrease in net assets										
Benefits	1,143	1,079	1,019	856	807	712	634	586	561	561
Investment & Plan operating ex	89	100	91	85	70	64	57	54	52	46
Total Decrease	1,232	1,179	1,110	941	877	776	691	640	613	607
NET (DECREASE)/INCREASE IN NET ASSETS	\$ (3,270)	\$ 2,088	\$ 3,402	\$ 3,435	\$ 2,420	\$ 2,599	\$ (984)	\$ (1,120)	\$ 1,152	\$ 2,110
NET ASSETS										
Investments										
Fixed income	\$ 46,190	\$ 42,949	\$ 30,599	\$ 24,678	\$ 16,980	\$ 10,831	\$ 8,408	\$ 9,808	\$ 8,442	\$ 5,899
Equity	1,904	4,612	6,374	6,012	5,421	5,548	5,518	5,326	7,696	9,658
Equity-Oriented	5,719	5,100	4,412	3,350	2,853	2,608	2,406	2,265	2,033	1,542
Investment related receivables	3,135	2,515	1,571	1,425	949	770	504	353	293	97
	56,948	55,176	42,956	35,465	26,203	19,757	16,836	17,752	18,464	17,196
Amounts Receivable	265	232	200	179	145	113	67	43	33	28
Other assets	7	6	6	12	8	11	9	8	6	4
Total Assets	57,220	55,414	43,162	35,656	26,356	19,881	16,912	17,803	18,503	17,228
Investment related liabilities	(30,463)	(25,383)	(15,224)	(11,120)	(5,262)	(1,210)	(839)	(747)	(330)	(207)
Other liabilities	(25)	(29)	(24)	(24)	(17)	(14)	(15)	(14)	(11)	(11)
Total Liabilities	(30,488)	(25,412)	(15,248)	(11,144)	(5,279)	(1,224)	(854)	(761)	(341)	(218)
NET ASSETS	\$ 26,732	\$ 30,002	\$ 27,914	\$ 24,512	\$ 21,077	\$ 18,657	\$ 16,058	\$ 17,042	\$ 18,162	\$ 17,010
Actuarial asset value adjustme	3,529	(1,650)	(2,709)	(1,659)	231	1,471	2,766	946	(1,322)	(2,033)
Actuarial value of net assets	30,261	28,352	25,205	22,853	21,308	20,128	18,824	17,988	16,840	14,977
Accrued pension benefits	31,244	28,683	25,808	23,749	21,858	20,113	17,814	16,756	15,102	11,946
(DEFICIT)/SURPLUS	\$ (983)	\$ (331)	\$ (603)	\$ (896)	\$ (550)	\$ 15	\$ 1,010	\$ 1,232	\$ 1,738	\$ 3,031
INVESTMENT PERFORMANCE										
Investment rate of return-net	-11.96%	6.23%	12.79%	14.66%	11.35%	14.86%	-5.02%	-4.41%	8.50%	16.61%
Benchmark return	-8.98%	4.78%	11.88%	13.97%	10.45%	14.38%	-5.33%	-4.51%	5.41%	14.87%
Long-term return target	6.50%	6.75%	7.00%	7.50%	7.50%	7.75%	7.75%	7.75%	7.25%	7.25%

Governance

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 the majority of Plan members, including the:

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

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

- makes Plan and benefit changes
- 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.

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



Trustees

Kelly Butt

Appointed by the Ontario Hospital Association (OHA), Butt was the Chair in 2008.

Marcelle Goldenberg

Executive Vice-President, Service Employees International Union, Local 1, Canada, Goldenberg was Vice-Chair in 2008.

David Alexander

Past Director, Grey Bruce Health Services and Director South Bruce Grey Health Centre

Dan Anderson

Director and Chief Negotiator, Ontario Nurses' Association

Lesley Bell

Chief Executive Officer, Ontario Nurses' Association

Warren Chant

President & Chief Executive Officer, Leamington District Memorial Hospital

Helen Fetterly

Secretary-Treasurer, Ontario Council of Hospital Unions, (Canadian Union of Public Employees)

Adrian Foster

Governor, Ottawa Hospital

Wayne Gladstone

Board Member, Lakeridge
Health Services Board of
Directors

Deborah Menzies

Benefits Steward, SEIU

Ronald Meredith-Jones

Past Chair, Toronto
Rehabilitation Institute

Louis Rodrigues

First Vice-President, Ontario
Council of Hospital Unions,
(Canadian Union of Public
Employees)

Patty Rout

First Vice-President & Treasurer,
Ontario Public Service
Employees' Union

James Sanders

Local 142, Ontario Public Service
Employees' Union

Greg Shaw

Vice-President, Strategic Human
Resources Management,
Ontario Hospital Association

Deepak Shukla

Past Chair, Board of
Directors, Markham-
Stouffville Hospital

Pension Observers**Joyce Bailey**

Former President of the
Wellesley Hospital

Linda Haslam-Stroud

President, Ontario Nurses'
Association

Executives and Professional Advisors

John A. Crocker, President & CEO

Reno Bugiardini

Senior Vice-President,
Information Technology &
Facilities

Victoria S. Hubbell

Senior Vice-President, Strategy
& Stakeholder Relations

Jim Keohane

Senior Vice-President,
Investments & Chief Investment
Officer

David L. Miller

General Counsel & Senior Vice-
President Governance

John Riviere

Senior Vice-President Finance &
Chief Financial Officer

Barbara Thomson

Senior Vice-President Plan
Operations

Senior Management

Michael Catford

Vice-President, Real Estate

Paul Kirk

Vice-President, Short Term &
Foreign Exchange

David Long

Vice-President, Derivatives &
Fixed Income

Andrew Moysiuk

Managing Partner, HOOPP
Capital Partners

Carmela Pappas

Vice-President, Client Services

Jeff Rabb

Vice-President, Risk &
Compliance

Nan Samaroo

Vice President, Investment
Operations & Accounting

Silvano Trinca

Vice-President, Quality & Risk
Management

Jeffrey Wendling

Vice-President, Public Equities

Board Advisors

Actuary

Watson Wyatt Worldwide

Auditors

PricewaterhouseCoopers LLP

Investments

Eric Kirzner
Karen R. Shoffner

Legal

Cavalluzzo Hayes Shilton McIntyre & Cornish LLP
and
Osler Hoskin & Harcourt LLP