
It's possible
HOOPP
Healthcare of Ontario
Pension Plan

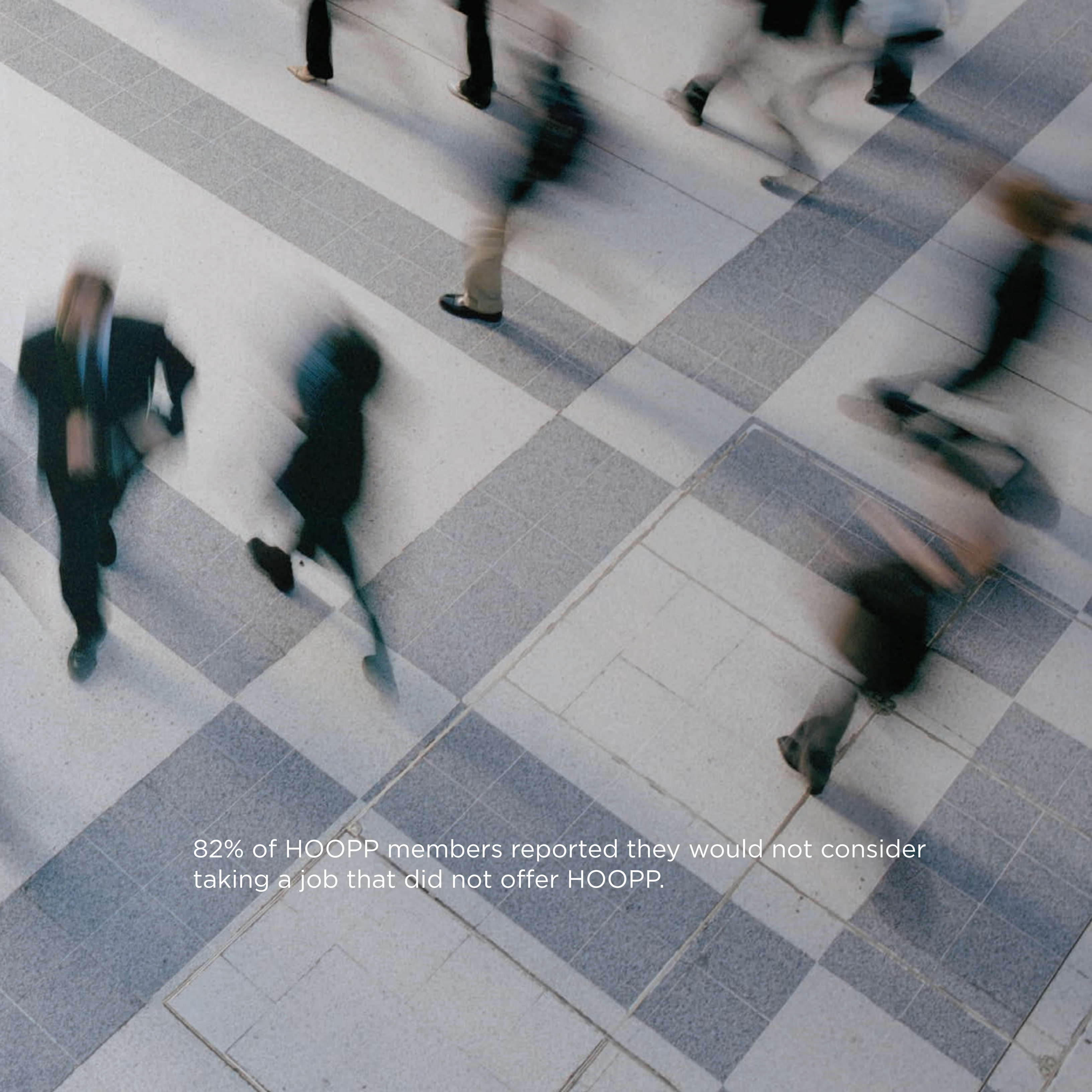
to contribute to
a pension plan
and know you will
be able to retire
with certainty.

More than 3,000 HOOPP members retired last year.

to employ a group of experienced investors who manage over $40 billion to support HOOPP's commitment.

The majority of pension payments are generated by investment returns on contributions.

to provide employees with a pension plan and support they need.



82% of HOOPP members reported they would not consider taking a job that did not offer HOOPP.

to deliver value.

2011 Annual Report

PRESIDENT & CEO'S MESSAGE

To say that, globally, 2011 was a turbulent year for the financial markets is to put it mildly – but at HOOPP, we've long held the view that it is important to anticipate volatility.

Over the very long term, investment returns have been reasonably predictable, but in the short to medium term, markets and returns are highly unpredictable.

In order to enhance our ability to deliver on the pension promise, in late 2007, HOOPP positioned itself with a more conservative investment structure. The Plan further developed its liability driven investing (LDI) approach, which uses HOOPP's liabilities – both the pension payments being paid now and the projected pensions to be paid in the future – as the main reference point in assessing the construction of an investment portfolio and the risk and return of a particular investment.

HOOPP's small in-house team of investment managers anticipate the inevitable market volatility and factor it in when structuring our portfolio. The portfolio is constructed to more closely match the investment characteristics of HOOPP's liabilities, so the value of the portfolio assets will change in sync with the value of the liabilities. Then, the investment managers carefully "layer on" return seeking strategies to get the returns required.

The LDI approach we are following is designed with the sole purpose of meeting HOOPP's objective of "delivering on the pension promise." And that objective isn't just an expression for our communication materials – it's a clear statement of how aware we are of HOOPP's importance in our members' lives, enabling them to retire with dignity.

This promise to our members and pensioners is the foundation of our business plan and it is a mission that has served to guide and focus our entire team at HOOPP.

Having worked at HOOPP for the past 13 years and served as the Plan's Chief Investment Officer, my mandate as the new President & CEO is to build upon the Plan's successes with investment portfolios designed with the future pension income needs of our members top of mind.

There were challenges from the turbulence in 2011, but with those challenges came opportunities. As in previous years, we felt that our investment approaches allowed us to meet the challenges of 2011 and we are pleased with the opportunities we were able to capitalize on.

It's important to note that, while HOOPP invests for the long term – where pension contributions made today are used to fund benefits that may not be paid out for 40 or more years – we also pay close attention to the short term.

This is why HOOPP has remained fully funded, despite the challenging financial climate, for the last three years.

This is the cornerstone to the solid foundation of success that my predecessor, John Crocker, helped to create. I would like to acknowledge and thank him for his service. I look forward to working with the HOOPP team as we navigate through the changing healthcare landscape and an uncertain economic climate to enable our members to realize their financial goal of a well-deserved retirement.

Jim Keohane
President & Chief Executive Officer

CHAIRS' MESSAGE

HOOPP's Board of Trustees and HOOPP employees are committed to delivering on the pension promise. Despite a year of financial turmoil, HOOPP met that promise – as it has every year since its inception.

One of the Board's key responsibilities is to ensure that HOOPP has a solid management team in place with the talent and commitment to ensure that our members are able to realize their retirement goals. John Crocker, who retired as HOOPP's President & CEO at the end of 2011, exemplified these qualities.

In the face of media coverage about the viability of defined benefit pension plans like HOOPP, John offered well-reasoned public statements, backed by the solid evidence of HOOPP's financial performance, and became a leading advocate for the Plan.

In selecting Jim Keohane as John's successor, the Board is confident that it has chosen a new leader who shares HOOPP's strong commitment to our members.

Jim has been with HOOPP since 1999, and prior to assuming the role of President & CEO at the beginning of 2012, he served as HOOPP's Senior Vice President, Investment Management & Chief Investment Officer.

With Jim overseeing HOOPP's day-to-day operations, the Board is confident the Plan will continue along its path of success – after all, it has been under Jim's investment direction in the last few years that HOOPP has maintained its fully funded status when most other pension plans have not.

Our fully funded status is key to maintaining stable rates and benefits – it is why the Board has continued to maintain member and employer contribution rates at the same level until at least the end of 2013.

In addition, all HOOPP pensioners – including deferred pensioners – will see a 1.73% cost of living adjustment on April 1, 2012, representing 75% of the previous year's increase in the Consumer Price Index.

HOOPP manages the Fund at a low cost for *all* its members. While full-time employees are automatically enrolled in HOOPP, part-time employees can elect to join once they have met certain qualifications. For both full-time and part-time members, the investment cost of managing their benefits is the same low 0.23%. When you compare this cost to typical RRSP management fees, that can be as much or more than 2.50%, HOOPP provides a very cost-effective means of saving for retirement.

Defined benefit plans, particularly multi-employer defined benefit plans, are the most efficient approach to retirement savings. HOOPP has consistently proven this for over 50 years.

The HOOPP Board, with trustees appointed by the Ontario Hospital Association and four unions – the Ontario Nurses' Association, the Canadian Union of Public Employees, the Ontario Public Service Employees Union and the Service Employees International Union – is proud that HOOPP is offered to the hardworking women and men who make up Ontario's healthcare sector.

The Board's focus on the Plan's long-term health is supported by the day-to-day work of HOOPP employees. We would like to take this opportunity to thank them for their tremendous efforts and dedication in consistently delivering on the pension promise.

Helen Fetterly
2011 Chair

Ronald Meredith-Jones
2011 Vice Chair

Our members will never outlive their pension.

Ontario's healthcare workers have dedicated themselves to careers of service where they go to work each day to care for and support us when we need them the most. And at HOOPP, we go to work each day to support them.

When these individuals – the very foundation of our healthcare system – are ready to retire after dedicating their careers to working in our healthcare institutions, HOOPP ensures that they can do so with financial security.

HOOPP's mandate is clear: once a member retires, HOOPP pays them a pension for the rest of their life. Through strategic and prudent investing, we ensure that retirements are possible.

IT'S POSSIBLE TO DELIVER ON THE PENSION PROMISE

While the global financial crisis continued well into 2011, our member-focused approach to investing allowed the Plan to report strong financial results despite the ongoing market turbulence.

Our pension plan serves more than 270,000 healthcare workers. And with our investment strategies focused on our members, we ensure that pensions are not only paid today to current pensioners but will also be paid to those who will be retiring 40 years from now.

While our strategies have a long-term focus, we also work to minimize the impacts of short-term volatility. Even in the aftermath of the 2008 market crash and the economic instability that followed it, HOOPP has ensured that every pensioner has received his or her promised pension benefit. And yet, a misconception exists about the "problems" of defined benefit plans – one of them being that they cost more than defined contribution plans. But, when you look objectively at the facts, you will find that the reverse is true.

Studies have shown that defined benefit plans like HOOPP deliver the highest level of pension income per dollar contributed. HOOPP's total cost of managing the Fund was about 0.33% in 2011. In comparison, when you look at individual defined contribution plans – most of which are invested in mutual funds – you'll note that expenses can be up to 10 times higher.

When you compound that cost difference over an individual member's participation in the Plan, it makes a huge difference in the final outcome. The costs of defined contribution plans are generally much higher than the costs of defined benefit plans. One U.K. study showed that the lower cost of implementing a defined benefit plan can result in pension payments which are 50% higher than what you could receive through a defined contribution plan.

In 2009 – the latest year for which data was available – Statistics Canada reported that more than 20 million Canadians had unused RRSP room and the average Canadian had only about $60,000 in RRSP savings at the time of retirement. At current interest rates, this would produce an annual income of about $1,500 a year.

At the end of 2011, a HOOPP pensioner's average annual lifetime pension was $14,300, which adds up to a total of over $350,000 (not including inflation protection) if a pensioner lives for 25 years in retirement.

The majority of the pension payments made to HOOPP retirees is generated from investment returns on contributions. And with the expertise of investment professionals who manage the Fund on the members' behalf, HOOPP has operated with a long-term view that has guided us through difficult times.

IT'S POSSIBLE TO HAVE A FINANCIALLY SECURE RETIREMENT

HOOPP's mission to deliver on the pension promise is more relevant than ever as the ability to retire with security has become a growing concern for many.

To date, most of the Canadian discussion around pension reform has focused on extending pension coverage so that more Canadians are covered by a workplace pension plan. While expanding pension coverage is laudable, it is equally important that pension plans produce an income that adequately meets the needs of retirees.

As the baby boomer generation edges closer towards retirement, media coverage has tended to focus on the financial challenges of distressed defined benefit plans. A more balanced and objective analysis would show that, despite facing challenges, defined benefit plans like HOOPP are better able to meet members' retirement income needs in comparison to other alternatives.

Over the years, the number of members looking to HOOPP for a measure of retirement security has grown. Healthcare is no longer solely based in hospitals. The healthcare landscape now includes alternative facilities such as community health clinics and family health teams located across the province.

HOOPP is important to both employees and employers. Research conducted on HOOPP's behalf revealed 82% of HOOPP members reported they would not consider taking a job that did not offer HOOPP. Employers, for their part, see access to HOOPP as a way to attract and retain the experienced staff they need to deliver quality healthcare services – which confirms our research that HOOPP provides employers with an important advantage over those who don't offer the Plan.

HOOPP pays out pensions to members when they retire — and in doing so, we help our members to carve a path towards a financially secure retirement.

For more than 50 years, HOOPP has shown that it's possible to deliver on the pension promise. It marks our commitment to assisting our members in reaching their retirement goals.

Net assets increased to $40.3 billion, up from $35.7 billion in 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS (MD&A)

OVERVIEW

HOOPP invests on behalf of more than 270,000 working and retired healthcare workers at more than 370 employers across Ontario. They count on HOOPP to deliver pension benefits at a reasonable cost far into the future.

Therefore, HOOPP uses a liability driven investing (LDI) approach. This approach is, in actuality, a member-driven investing approach where the "liability" is the members' future retirement security.

The LDI approach is a risk management philosophy that looks at the risk of not having sufficient assets to provide funding for members' retirements. HOOPP highlights the interest rate, inflation and equity-related risks that can lead to a decline of the financial capacity of the Plan to pay benefits at the current contribution rate.

The approach drives portfolio construction. The liability hedge portfolio is designed to hedge the major risks of the liabilities – namely, inflation and interest rates – while the return seeking portfolio supplements the return via controlled risk-taking.

As a measure of how well this risk management approach worked in the last year, the liability hedge portfolio responded to a decline in interest rates by contributing almost all of the asset return. Further, in a negative year for most equity markets, the return seeking portfolio contributed a slight positive return.

In the next few years, interest rates and inflation are expected to remain low and return seeking assets are expected to generate modestly positive returns. However, the future is by nature unknown and uncertain. In recognition of this fact, HOOPP's LDI strategy is designed to keep the Plan's funded ratio stable over a broad range of possible future conditions.

2011 RESULTS

With ever-present concerns regarding threats to global economic growth and the sovereign debt crisis, 2011 was a year of extreme volatility in the capital markets.

Global equity markets performed poorly with most major markets down between 10% and 20%. The U.S. market was an exception, even though the S&P 500 Index only managed a flat return over the year.

At the same time, the year saw a strong rally in bonds with interest rates moving close to all-time lows. In this challenging environment, HOOPP was able to post the following results:

- approximately 103% funded as of December 31, 2011, up over 2% from 2010
- asset return of 12.19%, of which 9.87% represented benchmark return and 2.32% return from active management strategies
- the value of total net assets grew to $40.3 billion.

MAJOR DRIVERS IN THE CHANGE IN FUNDED POSITION

The chart below summarizes the change in HOOPP's funded status, which is determined as the ratio of the Plan's assets to its liabilities, and provides details on the changes in specific assets and liabilities:

	2011 Change *($ millions)*
Liability Hedge Portfolio	
Short-Term and Cash	83
Mid-Term Bonds	776
Long-Term Bonds	1,979
Real Return Bonds	776
Real Estate	557
TOTAL LIABILITY HEDGE PORTFOLIO	**4,171**
Return Seeking Portfolio	
Canadian Equities	(338)
U.S. Equities	51
International Equities	(365)
Long-Term Option Strategy	273
Corporate Credit	26
Private Equity	166
Asset Allocation Strategies	174
Absolute Return Strategies	172
FX Hedges	(3)
TOTAL RETURN SEEKING PORTFOLIO	**156**
TOTAL CHANGE IN NET INVESTMENT ASSETS	**4,327**
CHANGE IN OTHER NET ASSETS AND LIABILITIES	**277**
CHANGE IN SMOOTHING ADJUSTMENT*	**(1,919)**
TOTAL CHANGE IN SMOOTHED VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	**2,685**
CHANGE IN PENSION OBLIGATIONS	**(1,885)**
NET CHANGE IN REGULATORY SURPLUS	**800**
2011 FUNDED RATIO	**103%**

**Refer to Glossary*

As indicated at left, the liability hedge portfolio increased by $4,171 million while pension obligations increased by $1,885 million. Note that the Smoothing Adjustment increased this year by $1,919 million.

The liability hedge portfolio contributed almost all of the asset returns of the Fund this year. Of the assets within this portfolio, mid-term bonds returned $776 million, long-term bonds $1,979 million, real return bonds $776 million, short-term securities $83 million and real estate $557 million, contributing 2.19%, 5.59%, 2.19%, 0.23% and 1.57% respectively to the total asset return of 12.19%.

Despite the overall equity market performance in 2011, HOOPP's return seeking portfolio contributed $156 million, a 0.41% return. The three major positive contributors were absolute return strategies, the asset allocation strategy and the long-term option strategy. Negative contributors were Canadian equities at -0.95% and International equities at -1.03%.

The pension obligations increased by $1,885 million. This increase is a result of service accrued and changes in some actuarial assumptions, offset by benefits paid and an increase in the discount rate.

ACTIVE MANAGEMENT AND RELATIVE PERFORMANCE

Active management return, or "value added", came from a variety of sources within both the liability hedge and return seeking portfolios – contributors included interest rates, corporate credit, real estate, absolute return strategies, private equity and asset allocation.

	2011 Change (*$ millions*)	2011 Contribution To Asset Return (*%*)
Liability Hedge Portfolio		
Short-Term and Cash	77	0.22
Mid-Term Bonds	104	0.29
Long-Term Bonds	177	0.50
Real Return Bonds	(29)	(0.08)
Real Estate	100	0.28
TOTAL LIABILITY HEDGE PORTFOLIO	**429**	**1.21**
Return Seeking Portfolio		
Canadian Equities	(1)	–
U.S. Equities	(10)	(0.03)
International Equities	8	0.02
Corporate Credit	20	0.06
Private Equity	40	0.11
Asset Allocation Strategies	183	0.52
Absolute Return Strategies	172	0.49
FX Hedges	(11)	(0.03)
TOTAL RETURN SEEKING PORTFOLIO	**401**	**1.14**
OTHER	**(40)**	**(0.03)**
TOTAL CHANGE IN ASSETS	**790**	**2.32**

LIABILITY HEDGE PORTFOLIO DISCUSSION

SHORT-TERM AND CASH

HOOPP manages a portfolio of short-term fixed income assets which are included in many of its investment strategies. In 2011, the portfolio exceeded its benchmark return by $77 million.

NOMINAL BONDS

Interest rates fell dramatically in 2011 to record low yields. The mid-term bond portfolio returned $776 million, outperforming the benchmark DEX Universe All-Government Bond Index by $104 million. The long-term bond portfolio returned $1,979 million, outperforming the DEX Long-Term Government Bond Index by $177 million.

As a major part of the Liability Hedge Portfolio, the nominal bond portfolios delivered 7.78% of the asset value.

REAL RETURN BONDS

Real interest rates, the implied real yield of inflation-linked bonds, also fell to record lows in 2011. HOOPP's real return bond portfolio returned $776 million last year.

REAL ESTATE

HOOPP's real estate portfolio delivered an overall return of 17.84% for the year, driven by solid income returns of 6.18% and capital appreciation of 11.66%.

During 2011, HOOPP turned its attention to development sites and to its non-domestic platform. Specifically, HOOPP made the following key commitments:

1. Large sites in Calgary, Alberta and Cambridge, Ontario were acquired for future industrial development.
2. A 33-acre site was purchased in Airport Corporate Centre in Toronto for a mixed office and retail development.
3. In a co-venture with Menkes, HOOPP acquired a site in downtown Toronto for future office development.
4. The Fund acquired a 50% interest in two new shopping centres in the Czech Republic.
5. Commitments were made to invest in two European funds – one focused on the Nordic region and the other a French development fund.

The occupancy levels of the properties improved, ending the year at nearly 95%. In May, U.S. retailer, Target, chose HOOPP's recently completed AeroCentre V building in Mississauga, Ontario for its new Canadian head office.

Development activities were somewhat muted, although good progress was made on several key projects. The co-venture with the Crown Estate in London, United Kingdom is well underway and is on time and budget. In British Columbia, construction began on a new 565,000 sq. ft. shopping centre in partnership with Shape Properties in Abbotsford. In another co-venture with Shape, plans have been developed for an expansion that will double the size of Brentwood Town Centre in Burnaby, British Columbia; civic approvals will be sought during 2012.

At year end, real estate accounted for 11.5% of the Fund's total assets with total value of net equity in the portfolio standing at $4,596 million versus $3,894 million at year end 2010.

RETURN SEEKING PORTFOLIO DISCUSSION

EQUITIES

Financially, 2011 proved to be challenging on a global basis. Economic, political and environmental issues created tremendous volatility for equity markets with continued uncertainty in Europe and its sovereign debt crisis, political uprisings in northern Africa and the Middle East and a catastrophic Japanese earthquake all serving to dampen markets throughout most of the year.

HOOPP was not immune to the equity challenges faced in 2011. The volatility, however, did not alter HOOPP's disciplined approach of independent analysis and attention to valuation when it came to equity selection in its active portfolios.

HOOPP uses a variety of strategies to generate equity returns, including long/short portfolios and derivatives.

In 2011, HOOPP's Canadian equities and U.S. equities underperformed the benchmark return and International equities marginally outperformed the benchmark return.

CANADIAN EQUITIES

Throughout most of 2011, global growth prospects deteriorated, materially impacting the commodity sectors of the Canadian Equity market. This, along with the poor performance of the Financials, as investors feared contagion risk to global banks, brought Canadian equity performance down.

HOOPP's Canadian equities portfolio reported a return of -9.55%, underperforming its benchmark, the S&P/TSX60 Index, by -0.50%.

U.S. EQUITIES

Unlike Canada, U.S. equity returns proved more resilient because of the more diversified nature of the U.S. equity market and its reduced exposure to commodities.

HOOPP's U.S. equity return was 1.44%, underperforming its benchmark, the S&P 500 Total Return Index, by -0.67%.

INTERNATIONAL EQUITIES

In 2011, European and Asian markets mirrored – and in many cases, underperformed – the weak returns in North America.

The absolute return for HOOPP's non-North American equity portfolio was -12.12%, marginally outperforming the benchmark return by 0.26%.

LONG-TERM OPTION STRATEGY

HOOPP initiated a new return seeking strategy in which equity index exposure was combined with equity index options. This strategy was one of the major contributors to the return seeking portfolio, increasing in value by $273 million.

CORPORATE CREDIT

Credit spreads, the additional yield earned on corporate bonds relative to government bonds, increased modestly in 2011. HOOPP's credit portfolio increased in value by $26 million last year, outperforming its benchmark by $20 million.

PRIVATE EQUITY

HOOPP currently has approximately $3,114 million invested in or committed to private equity and related special situations. The portfolio generated a return of 10.31% for the year.

With a focus on established private equity markets in North America and the U.K./Eurozone, HOOPP Capital Partners very selectively invests in privately-held businesses that offer growth potential. Investments are executed both directly in corporate issuers as well as through specialty limited partnerships.

Private equity is a long-term asset class that does not lend itself to the annual benchmarking methodology typically applied to public market portfolios. HOOPP applies an absolute hurdle rate-of-return threshold as the basis for interim annual assessment of whether the asset class is contributing to the organization's long-term investment objectives. This benchmarking approach has encouraged a flexible portfolio design which is complementary to HOOPP's broader investment activities, all of which are organized around the meeting of long-term pension obligations.

At year end, the carrying value of the portfolio stood at about $1,972 million, up from $1,841 million a year earlier. At 4.9% of the total Fund, the private equity portfolio has considerable scope for opportunistic growth, and is well prepared for investment opportunities of all sizes.

ABSOLUTE RETURN

HOOPP engages in absolute return strategies designed to earn positive returns without sensitivities to interest rates, credit or equities. These strategies made $172 million in 2011.

ASSET ALLOCATION STRATEGIES

HOOPP engages in the strategic re-weighting of major asset class risks (equities, fixed income and corporate credit). Last year, these activities contributed a profit of $174 million.

RESPONSIBLE INVESTING

As a signatory to the United Nations-backed Principles for Responsible Investment (PRI), HOOPP integrates environmental, social and governance (ESG) issues into investment decision-making and ownership practices, within the bounds of HOOPP's fiduciary responsibilities to Plan members.

HOOPP considers all relevant ESG factors in the investment decision-making process in the belief that enterprises that effectively and prudently adopt and apply responsible ESG standards are likely to be better managed than those that do not and such enterprises will therefore be more financially successful over the long term.

Specifically, HOOPP:

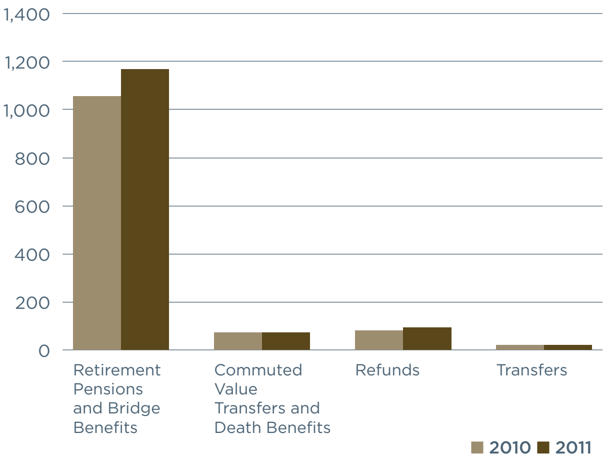
- considers all relevant ESG factors in any potential investment
- encourages reasonable disclosure of ESG policies and activities when voting proxies
- may engage with companies to encourage greater disclosure with respect to ESG factors.

In addition to being a signatory to the United Nations-backed PRI, HOOPP is a member of, or adheres to, the following organizations or principles:

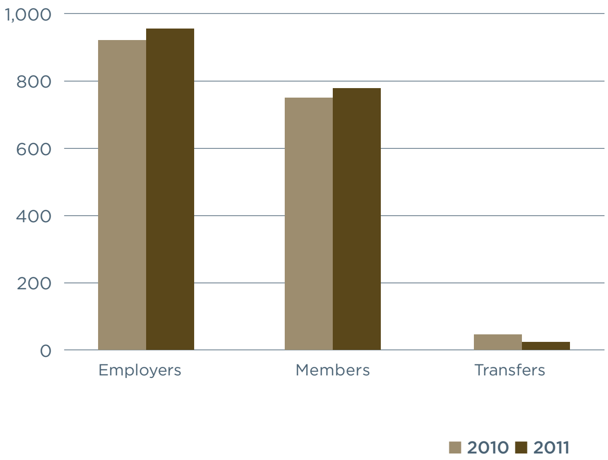
- Member of the Canadian Coalition for Good Governance (CCGG)
- The principles embodied in the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- The principles of the Coalition for Environmentally Responsible Economics (Ceres)
- Signatory to the Extractive Industries Transparency Initiative (EITI)
- Signatory to the Carbon Disclosure Project (CDP).

PENSION BENEFITS VS. CONTRIBUTIONS

PENSION BENEFITS PAID
($ *millions*)



CONTRIBUTIONS
($ *millions*)



PENSION BENEFITS PAID

During 2011, pension-related payments totalled approximately $1,335 million, an increase of $106 million (or 8.6%) from 2010.

This increase is largely due to:

- an increase in the number of retirees, and
- the cost of living adjustment

Of the pension-related benefits paid out in 2011, 86% was paid to pensioners in the form of monthly benefits, 7% was paid to non-vested terminating members (or their beneficiaries) in the form of contribution refunds, 6% was paid to terminating members (or the beneficiaries of deceased members) in the form of commuted value transfers (lump-sum cash payments or transfers) and the remainder related to members transferring to other pension plans.

CONTRIBUTIONS

All active Plan members and their participating employers are required to contribute to HOOPP.

During 2011, contributions to HOOPP totalled approximately $1,751 million, an increase of $37 million (or 2.2%) from 2010.

The increase was largely due to:

- salary increases in the healthcare industry due to inflation, and
- growth in membership over 2010 levels

OPERATING EXPENSES

HOOPP's 2011 operating expenses were $139 million or 0.33% of assets, up 7.8% from $129 million in 2010. This increase related primarily to higher staffing costs associated with HOOPP's infrastructure growth and variable compensation resulting from superior returns.

In 2011, HOOPP continued to enhance self-service options for members and a web-based portal for employers that was launched in 2010. Work continued on a multi-year project to modernize technology and processes supporting the annual collection of member data.

HOOPP also continued to expand membership and convey the value of the Plan by proactively managing our brand and maintaining strong stakeholder relationships including its government relations program.

HOOPP continues to offer a very cost-effective way for our members to save for their retirement as compared to other investment vehicles, with investment expenses costing just over 0.23%, which is significantly lower than individual retirement account alternatives, where the expense ratios can be up to several times higher.

OPERATIONAL RISK MANAGEMENT

HOOPP makes ongoing efforts to identify, assess and, when appropriate, mitigate risks inherent in its day-to-day operations. These operational risk management activities include:

- regular reviews of internal controls – with a particular focus on areas of higher risk – including ensuring a sustainable internal control framework is in place across the Finance division's functions and activities, especially those that involve or support financial reporting
- ensuring that as new systems, applications and processes are designed and implemented, a review of the effectiveness of controls is made part of pre-implementation analysis and planning, and changes are made where appropriate
- maintaining a Code of Business Conduct and supporting policies that include a fraud policy and a whistle-blower protection policy to help emphasize the importance of the roles, duties and responsibilities of all employees, including duties and responsibilities in the mitigation of fraud risk; and, periodic Board reviews of Board policies to ensure they are kept up-to-date
- maintenance of a business continuity program with regularly-tested disaster recovery and business continuity plans to ensure HOOPP can – in the event of disruption – recover its critical systems at an off-site location and carry on core operations.

Given the level of importance of data and records to HOOPP's mission, the organization also maintains records and data management policies that identify and emphasize the importance of the roles and responsibilities of records managers throughout the organization.

ADVOCACY

HOOPP recognizes the potential impact that changes in public policy can have on the interests of its members and employers. Where appropriate, HOOPP will partner with advocacy groups and, on occasion, engage directly with public policymakers to represent its interests and the interests of its members and employers when positive reforms are needed or adverse legislative or regulatory changes are being proposed – primarily in the areas of pensions and investments.

Following are some of HOOPP's notable advocacy activities during 2011:

- **Canadian Coalition for Good Governance (CCGG)**. HOOPP is a member of the CCGG, which represents some of Canada's largest institutional investment managers and pension funds. The mission statement of the CCGG is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder. Among the issues which the CCGG has been reviewing is dual class shares. The CCGG has been developing recommendations which are expected to be published in 2012.
- **United Nations-backed Principles for Responsible Investment (PRI)**. As a signatory to the UNPRI, HOOPP co-signed a submission made on behalf of various institutions that invest in companies operating in the Alberta Oil Sands. The joint submission was made to the Minister of the Environment, Government of Canada and to the Minister of Environment, Government of Alberta. HOOPP participated in the submission because it shares the view with other co-signers that the establishment of an effective and credible monitoring system is a key public policy step to help mitigate risks associated with controversial and conflicting information about oil sands environmental impacts and create greater certainty for investors.
- **Canadian Market Infrastructure Committee (CMIC)**. The CMIC was formed as a representative group from major Canadian banks and investment dealers and some "buy-side" institutions like HOOPP to help review and assess the proposed market structural and regulatory changes designed to meet Canada's G20 commitment on the regulation of "over-the-counter" (OTC) derivatives.
- **Division of pensions upon marriage breakdown**. Bill 133 had previously been introduced by the provincial government to reform the law dealing with the division of pensions upon marriage breakdown and draft regulations supporting Bill 133 had been published by the government for comment with final regulations becoming effective on January 1, 2012. In most respects, the improvements for which HOOPP has advocated are reflected in the legislation and these new regulations.
- **Resolving split pensions from provincial government divestments**. The Ontario Ministry of Finance made a regulatory posting on July 5, 2011 outlining the intended content of the regulations required for section 80.1 of the *Pension Benefits Act* (Ontario) to come into force. Section 80.1, introduced as part of the Bill 236 pension reforms, will allow certain pension plans (perhaps only large public sector plans) to negotiate transfer agreements that will give eligible employees an opportunity to consolidate their accrued pension benefits which became split as a result of past provincial government divestments.

  HOOPP has shared with the Ministry of Finance its views on the regulatory posting and those aspects which are considered problematic for pension plans like HOOPP.

  HOOPP has also met with representatives of some of its peer pension plans to develop a common understanding of the opportunities and challenges posed by the regulatory posting and of what may be done to prepare for the coming into force of section 80.1.

INDUSTRY STANDARDS

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Canadian Accounting Standards Board (AcSB) 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).

Effective January 1, 2011, HOOPP adopted the revised accounting standards for pension plans. This revised standard is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted. According to CICA Handbook Section 4600, *Pension Plans*, pension plans must choose between IFRS and Canadian accounting standards for private enterprises (AsPE), as issued by the AcSB. HOOPP has chosen AsPE.

Note 1 of the financial statements contains additional information regarding the impact of these changes to HOOPP.

GLOSSARY

BASIS POINT
A basis point is equal to 1/100th of one percentage point (0.01 %).

BENCHMARK
A benchmark is a standard or point of reference against which performance of an investment is measured. It is generally a passive 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.

CORPORATE CREDIT
Corporate credit is a derivative overlay strategy used to gain exposure to corporate credit markets using credit derivatives.

DERIVATIVES
A derivative is a financial contract that derives value from an underlying asset or indices (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 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.

DEX CANADA REAL RETURN BOND INDEX
The DEX Canada Real Return Bond Index is designed to be a measure of Government of Canada bonds that pay a rate of return that is adjusted for inflation. 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.

ECONOMIC EXPOSURE
This reflects HOOPP's total investment in a certain type of asset, including:

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

HEDGING
Hedging refers to reducing a pre-existing risk exposure by making a financial investment intended to offset potential losses that may be incurred by a companion investment (often using derivatives).

INVESTMENT PROPERTY DATABANK (IPD)
This index is designed to measure the performance of institutionally owned and managed properties in Canada.

LIABILITY DRIVEN INVESTING (LDI)
This approach refers to structuring the asset portfolio and investment strategies to integrate the risk exposure and cash flows of investments with those of the pension liabilities.

MCSI ALL COUNTRY WORLD INDEX
This is a composite index of equities listed on exchanges in developing and emerging markets throughout the world, including the U.S. and Canada.

REAL RETURN BONDS
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.

REGULATORY SURPLUS
The surplus, for regulatory filing purposes, is the difference between the smoothed value of net assets available for benefits and the pension obligations.

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.

SMOOTHING ADJUSTMENT
The smoothed 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 pension obligations.

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.

SURPLUS
The surplus, for financial statement presentation purposes, is the difference between the market value of net assets available for benefits and the pension obligations.

Integrity and accountability in financial reporting

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Healthcare of Ontario Pension Plan (the Plan) and the accompanying notes, which are an integral part of the financial statements, 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 that are based on best estimates and judgments. These financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and comply with the financial reporting requirements of the *Pension Benefits Act* (Ontario) *and Regulations*. The significant accounting policies are disclosed in note 1 to the financial statements and the financial information presented throughout the annual report is consistent with that found in the 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 financial statements rests with the members of the Board. The Audit & Finance Committee, consisting of four members, who are not officers or employees of the Plan, reviews the financial statements and recommends them to the Board of Trustees for approval. The Audit & Finance Committee also assists the Board in its responsibilities by reviewing recommendations from the external auditor, and management's action plans to respond to recommendations for improvements in internal control over financial reporting arising from their financial statement audit. 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 Plan's external auditor, PricewaterhouseCoopers LLP, was appointed by the Board and is directly responsible to the Audit & Finance Committee. The Plan's external auditor has conducted an independent examination of the 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 Auditor's Report. 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 and the adequacy of the systems of internal control.

Jim Keohane
President & Chief Executive Officer

Barbara Thomson
Senior Vice President, Finance &
Chief Financial Officer

April 11, 2012

ACTUARIES' OPINION

Towers Watson Canada Inc. (Towers Watson) was retained by the Board of Trustees of the Healthcare of Ontario Pension Plan to perform an actuarial valuation of the Plan as at December 31, 2011. The purpose of this valuation is to determine pension obligations of the Plan as at December 31, 2011, for inclusion in the Plan's financial statements in accordance with Section 4600, *Pension Plans*, of the Canadian Institute of Chartered Accountants (CICA) 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 financial statements under the CICA Handbook Section 4600, *Pension Plans*, 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 pension obligations of $36,782 million in respect of service accrued to December 31, 2011 and a smoothed value of net assets of $37,758 million determined at the same date.

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

- members' demographic data provided by HOOPP staff as at November 1, 2011 and members' pay data which was provided as at December 31, 2010, all of which was projected to December 31, 2011, using management's estimates of experience for the intervening periods;
- the benefits specified by the terms of the Plan including an adjustment of 1.73% which will become effective April 1, 2012 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 Towers Watson and have been adopted by Plan management and approved by the Board.

Changes have been made to the actuarial assumptions affecting the pension obligations since the previous valuation for the purpose of the Plan's financial statements at December 31, 2010, as described in the notes to the financial statements.

The smoothed value of the Plan's net 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 performed tests of reasonableness and consistency.

In our opinion,

- *the membership data are sufficient and reliable for the purpose of the valuation;*
- *the assumptions adopted are 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 the Canadian Institute of Chartered Accountants Handbook Section 4600, Pension Plans.*

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 in Canada.

Towers Watson Canada Inc.

Ian Markham

Ian Markham
Fellow, Canadian Institute of Actuaries

Laura Newman

Laura Newman
Fellow, Canadian Institute of Actuaries

April 11, 2012

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF TRUSTEES OF HEALTHCARE OF ONTARIO PENSION PLAN (HOOPP)

We have audited the accompanying financial statements of HOOPP, which comprise the statements of financial position as at December 31, 2011 and 2010 and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of HOOPP as at December 31, 2011 and 2010 and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

April 11, 2012

STATEMENTS OF FINANCIAL POSITION

As at December 31

($ millions)		2011		2010
Net Assets Available for Benefits				
Assets				
Investment assets (note 2)	$	86,838	$	71,337
Contributions receivable				
Employers		79		75
Members		63		60
Other assets (note 7)		148		142
TOTAL ASSETS		87,128		71,614
Liabilities				
Investment liabilities (note 2)		46,722		35,825
Other liabilities		85		72
TOTAL LIABILITIES		46,807		35,897
NET ASSETS AVAILABLE FOR BENEFITS		40,321		35,717
PENSION OBLIGATIONS (note 11)		36,782		34,897
SURPLUS (note 11)	$	3,539	$	820

RECONCILIATION OF THE SURPLUS TO THE REGULATORY SURPLUS (note 11)

($ millions)		2011		2010
Surplus	$	3,539	$	820
Measurement differences between surplus and regulatory surplus [1]		(2,563)		(644)
REGULATORY SURPLUS	$	976	$	176

[1] *Previously referred to as Actuarial Asset Value Adjustment*

See Description of Plan and accompanying notes to financial statements.

On behalf of the Board of Trustees

Helen Fetterly
Chair of the Board

Ron Meredith-Jones
Vice Chair of the Board

Wayne Gladstone
Chair, Audit & Finance Committee

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31

($ millions)		2011		2010
Net Assets Available for Benefits, Beginning of Year	$	**35,717**	$	31,116
Investment Operations				
Interest and dividend income (note 4)		**5,131**		4,062
Net realized gains and (losses) and changes in unrealized gains and (losses) (note 4)		**(804)**		183
Operating expenses - investment (note 10)		**(92)**		(88)
TOTAL INVESTMENT OPERATIONS		**4,235**		4,157
Plan Operations				
Contributions (note 8)				
Employers		**954**		921
Members		**797**		793
Benefit payments (note 9)		**(1,222)**		(1,131)
Refunds and transfers (note 9)		**(113)**		(98)
Operating expenses - Plan (note 10)		**(47)**		(41)
TOTAL PLAN OPERATIONS		**369**		444
CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS		**4,604**		4,601
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$	**40,321**	$	35,717

See Description of Plan and accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PENSION OBLIGATIONS

Year ended December 31

($ millions)		2011		2010
Pension Obligations, Beginning of Year	$	**34,897**	$	32,020
Changes in Pension Obligations				
Interest accrued on benefits		**2,137**		1,995
Benefits accrued		**1,607**		1,533
Changes in actuarial assumptions (note 11)		**(625)**		503
Estimated experience losses (note 11)		**88**		67
Amendments to the Plan (note 11)		**13**		8
Benefits paid (note 9)		**(1,335)**		(1,229)
TOTAL CHANGES IN PENSION OBLIGATIONS		**1,885**		2,877
PENSION OBLIGATIONS, END OF YEAR	$	**36,782**	$	34,897

See Description of Plan and accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2011

DESCRIPTION OF PLAN

Effective January 1, 2010, the Hospitals of Ontario Pension Plan changed its name to the Healthcare of Ontario Pension Plan to better reflect the inclusion of healthcare providers in Ontario.

The following description of the Healthcare 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 *Healthcare of Ontario Pension Plan Text*, the official Plan document.

GENERAL

The Plan is a contributory defined benefit jointly-sponsored pension plan, where factors, such as 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; however, 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* (Canada) for Registered Pension Plans. Additional information on the RCA is disclosed in note 13.

FUNDING

Plan benefits are funded by contributions and investment earnings. 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 obligations, 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 pension obligations 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 most recent 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 eligibility service, provided they have attained at least 55 years of age. 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. Effective July 1, 2012, the portability options described above for members with more than two years in the Plan will apply to all members, (i.e. the two-year eligibility requirement is removed).

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% 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% 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% 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%.

INCOME TAXES

The Plan is both an RPP as defined in the *Income Tax Act* (Canada) 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 7 as recoverable refundable withholding tax on contributions.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TRANSITION TO NEW ACCOUNTING STANDARDS

In April 2010, the Canadian Accounting Standards Board (AcSB) issued revised accounting standards for pension plans, effectively replacing the Canadian Institute of Chartered Accountants (CICA) Handbook Section 4100, *Pension Plans* with Section 4600, *Pension Plans*. This revised standard is effective for annual financial statements relating to fiscal years beginning on or after January 1, 2011, with earlier application permitted. According to CICA Handbook Section 4600, *Pension Plans*, pension plans must choose between International Financial Reporting Standards (IFRS) and Canadian accounting standards for private enterprises (AsPE), as issued by the AcSB, in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations. Pension plans shall comply with the chosen standards on a consistent basis.

Effective January 1, 2011, HOOPP adopted CICA Handbook Section 4600, *Pension Plans* and also elected to adopt AsPE, where required. The accounting policies selected under this framework have been applied consistently and on a retrospective basis, unless specifically outlined in the notes to the financial statements. The transition to CICA Handbook Section 4600, *Pension Plans* and AsPE has not had a material impact on HOOPP's financial statements; however, the following presentation changes have been reflected in HOOPP's financial statements:

- The actuarial asset value adjustment is no longer presented within the Statements of Financial Position. However, HOOPP has chosen to include a reconciliation between the surplus and the regulatory surplus, which includes the actuarial asset value adjustment, below the Statements of Financial Position.
- Real estate investments are now presented at fair value on a non-consolidated basis effective January 1, 2011.

Under CICA Handbook Section 4600, *Pension Plans*, all investment assets and investment liabilities shall be measured at fair value at the date of the statement of financial position. In determining fair value, a pension plan shall refer to the guidance on fair value measurement under IFRS. HOOPP has elected to early adopt IFRS 13 *Fair Value Measurements* effective January 1, 2011 on a prospective basis for the fair value measurement of its investment assets and investment liabilities.

BASIS OF PRESENTATION

The financial statements of the RPP and RCA plans are combined for purposes of presenting HOOPP's financial statements and are prepared in accordance with accounting standards for pension plans and comply with requirements of Part IV of the CICA Handbook, specifically Section 4600, *Pension Plans* (referred to herein as "Canadian GAAP").

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

INVESTMENTS

All investment transactions are recorded when the risks and rewards of ownership are transferred. Investment transactions relating to marketable securities and derivatives are recorded as of the trade date. Investments are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

The quoted market price, when available, is used to measure fair value. When the quoted market price is not available, management uses appropriate valuation techniques to determine fair value. The valuation techniques include discounted cash flows, earnings multiples, prevailing market rates for comparable instruments with similar characteristics and/or in similar industries, pricing models and management's best estimates. Inputs used to determine fair values include contractual cash flows and interest rates, interest rate discount curves, credit spreads and volatilities. The output of any pricing model is an approximation of a fair value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions held.

The fair values of investments are determined as follows:

i. Cash and cash collateral pledged or received are recorded at cost, which is equivalent to the fair value.

ii. Short-term securities are recorded at quoted market prices if they exist. Otherwise, they are recorded at cost or amortized cost, which together with accrued interest approximates fair value due to their short term nature.

iii. Bonds are valued based on quoted mid-market prices obtained from independent, multi-contributor third party pricing sources. Where quoted prices are not available, fair values are calculated using discounted cash flows based on current market yields on comparable securities.

iv. Commercial loan fair values are calculated using discounted cash flows based on current market yields on comparable securities.

v. Securities purchased and sold under repurchase agreements, all of which mature within 90 days, are treated as collateralized borrowing transactions and are recorded at cost, which together with accrued interest approximates fair value due to their short-term nature.

vi. Public equities are valued at quoted closing market prices.

vii. Real estate investments, consisting primarily of income-producing properties, are valued at estimated fair values based on annual appraisals initially determined by accredited external appraisers. Any appraisals occurring prior to December 31 will be reviewed by the external appraisers at year-end to determine whether further adjustments to fair value are required. In the year of acquisition, cost is used as an approximation for fair value, unless there is evidence of a significant change in value. Mortgages held on real estate investments are valued using discounted cash flows based on current market yields on comparable securities.

viii. Investments in private equities and special situations include investments held directly and through ownership in limited partnership funds. These investments are valued using market quotes, values provided by the funds' General Partners under limited partnership agreements (unless a specific and conclusive reason exists to vary from the value provided by the General Partner) or through the use of appropriate valuation techniques. In the year of acquisition, cost is used as an approximation for fair value, unless there is evidence of a significant change in value.

ix. Exchanged-traded derivatives are valued based on quoted closing market prices. For over-the-counter derivatives, where quoted closing prices are not available, appropriate valuation techniques and pricing models are used to estimate fair value. These internally developed models, based on generally accepted valuation models, use readily observable market prices or inputs that are actively quoted and can be validated to external sources, including industry data and pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques which are consistently applied. The valuation techniques used by HOOPP require one or more of the following key inputs:

- Bond prices – quoted prices are generally available from pricing services for government bonds and most corporate bonds
- Credit spreads – obtained from independent pricing services or derived based on other credit based instruments
- Foreign currency exchange rates – forward and spot exchange rates from an independent data service
- Implied volatilities – obtained from an independent data service
- Interest rates – quoted rates obtained from central banks and in swap, bond and futures markets
- Public equity and equity indices prices – based on quoted market prices.

Financial instruments include investments, derivatives, pending trades, accrued investment income and accrued investment liabilities. Investments and derivatives are accounted for at fair values using the policies described at left. All other financial instruments are carried at amortized cost, which approximates fair value due to the short-term nature of these instruments.

INVESTMENT INCOME/LOSS RECOGNITION

Investment income/loss generally consists of interest and dividend income, which includes operating income/loss from real estate and private equity investments, as well as realized gains/losses on the disposal of investments, and unrealized gains/losses resulting from changes in fair value.

Interest income, which includes net real estate operating income, is recognized on an accrual basis and dividend income is recognized on ex-dividend date. Certain management and performance fees related to real estate and private equity investments are expensed as incurred and reported as a component of total investment income. Transaction costs are incremental costs attributable to the acquisition, issue or disposal of an investment, and are expensed as incurred and reported as a component of total investment income.

The change in unrealized gains and losses on investments represents the year-over-year change in the difference between the cost-based values and the estimated fair values of investments. Realized gains and losses on investments are recognized upon disposition and are calculated based on average cost.

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.

PENSION OBLIGATIONS

Pension obligations are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. This pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by HOOPP for the purpose of establishing the long-term funding requirements of the Plan. The year-end valuation of pension obligations is based on data extrapolated to the current valuation date of December 31, 2011. The valuation uses the projected accrued benefit actuarial cost method and management's estimate of certain future events.

The actuarial valuation included in the financial statements is consistent with the results that would be used for a December 31, 2011 funding valuation if one were to be completed.

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 pension obligations.

USE OF ESTIMATES

According to Canadian GAAP, the preparation of the financial statements 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, the pension obligations and related disclosures. Significant estimates are used primarily in the determination of the pension obligations (refer to note 11) and the fair value of certain investments (refer to note 2). Actual results could differ from those estimates.

RELATED PARTY TRANSACTIONS

HOOPP's Board of Trustees and employees are related parties according to CICA Handbook Section 3840, *Related Party Transactions*. While transactions may occur between these individuals and HOOPP, such transactions are not material for the purposes of these financial statements.

NOTE 2: INVESTMENTS

The investment objective of the Plan is to earn an annual 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%.

Financial assets and financial liabilities are measured at fair value and classified using a fair value hierarchy that is based on the methods and assumptions used to determine their fair values. The fair value hierarchy gives highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The fair value hierarchy has the following three levels:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

In some cases the inputs used to measure the fair value of a financial asset or financial liability might be categorized within different levels of the fair value hierarchy. In those cases, the classification for each asset or liability is determined based on the lowest level input that is significant to the entire assessment. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement requires judgment and factors specific to the financial asset or financial liability being considered. Determining whether an input is observable also requires considerable judgment. Observable data is considered to be market data that is readily available, regularly distributed and updated, easily corroborated and obtained from independent sources that are actively involved in that particular market.

Investments that are classified as Level 1 include actively traded equity investments and exchange traded derivatives. These investments are valued at quoted, unadjusted, closing market prices. Cash is also included as Level 1.

Investments that are classified as Level 2 include most federal, provincial, municipal and corporate bonds and over-the-counter derivatives. For these investments, fair values are either derived from a number of prices that are provided by independent price sources or from pricing models that use observable market data such as swap curves, credit spreads and volatilities.

There were no significant transfers between Level 1 and Level 2 during 2011 or 2010.

Investments that are classified as Level 3 include real estate and private equity investments, some derivatives and some fixed income instruments. For these investments, trading activity is infrequent and fair values are derived using valuation techniques. The significant inputs used in the pricing models are either not observable or assumptions are made about significant inputs.

Transfers from Level 3 to Level 2 occur when techniques used for valuing the financial instrument require significant observable inputs which were previously unobservable. Transfers from Level 2 to Level 3 occur when a financial instrument's fair value, which previously required the use of a valuation technique with significant observable inputs, is now determined using a valuation technique with significant unobservable inputs.

The Plan's investment assets and investment liabilities are presented in the table on the following page.

($ millions)	2011					
	Level 1	Level 2	Level 3	No Level[(1)]	Total Fair Value	Cost
Investment Assets						
CASH	$ 3	$ -	$ -	$ -	$ 3	$ 3
Fixed income						
Short-term securities	-	-	-	-	-	-
Bonds						
Canadian	-	65,989	-	-	65,989	61,219
Non-Canadian	-	4,910	94	-	5,004	5,017
Non-Canadian Commercial loans	-	-	248	-	248	241
TOTAL FIXED INCOME	-	70,899	342	-	71,241	66,477
SECURITIES PURCHASED UNDER RESELL AGREEMENTS	-	3,188	-	-	3,188	3,233
Public equity						
Canadian	145	-	-	-	145	139
Non-Canadian	786	-	-	-	786	758
TOTAL PUBLIC EQUITIES	931	-	-	-	931	897
Equity-oriented						
Real estate						
Canadian	-	-	4,648	-	4,648	3,477
Non-Canadian	-	-	276	-	276	313
Private equity and special situations						
Canadian	-	-	779	-	779	690
Non-Canadian	-	-	1,193	-	1,193	1,292
TOTAL EQUITY-ORIENTED	-	-	6,896	-	6,896	5,772
DERIVATIVE INSTRUMENTS (note 3)	62	2,796	183	-	3,041	832
Investment receivables						
Cash collateral pledged related to securities borrowing (note 5)	427	-	-	-	427	427
Pending trades[(1)]	-	-	-	652	652	652
Accrued investment income[(1)]	-	-	-	459	459	459
TOTAL INVESTMENT RECEIVABLES	427	-	-	1,111	1,538	1,538
TOTAL INVESTMENT ASSETS	1,423	76,883	7,421	1,111	86,838	78,752
Investment Liabilities						
Obligations related to equities sold short (note 5)	(20,379)	-	-	-	(20,379)	(20,259)
Obligations related to bonds sold short (note 5)	-	(2,550)	-	-	(2,550)	(2,854)
Derivative instruments (note 3)	(2)	(7,905)	(256)	-	(8,163)	(5,428)
Securities sold under repurchase agreements	-	(14,192)	-	-	(14,192)	(14,202)
Cash collateral received related to securities lending (note 5)	(647)	-	-	-	(647)	(647)
Pending trades[(1)]	-	-	-	(787)	(787)	(787)
Accrued investment liabilities[(1)]	-	-	-	(4)	(4)	(4)
TOTAL INVESTMENT LIABILITIES	(21,028)	(24,647)	(256)	(791)	(46,722)	(44,181)
NET INVESTMENTS	$ (19,605)	$ 52,236	$ 7,165	$ 320	$ 40,116	$ 34,571

[(1)] *These amounts are financial assets or financial liabilities for which a fair value hierarchy classification is not required.*

($ millions)	2010					
	Level 1	Level 2	Level 3	No Level[1]	Total Fair Value	Cost
Investment Assets						
CASH	$ 14	$ -	$ -	$ -	$ 14	$ 14
Fixed income						
Short-term securities	-	715	-	-	715	715
Bonds						
Canadian	-	51,649	1,682	-	53,331	51,691
Non-Canadian	-	5,627	327	-	5,954	6,419
Non-Canadian Commercial loans	-	-	322	-	322	350
TOTAL FIXED INCOME	-	57,991	2,331	-	60,322	59,175
SECURITIES PURCHASED UNDER RESELL AGREEMENTS	-	1,134	-	-	1,134	1,148
Public equity						
Canadian	148	-	-	-	148	128
Non-Canadian	614	11	-	-	625	614
TOTAL PUBLIC EQUITIES	762	11	-	-	773	742
Equity-oriented						
Real estate						
Canadian	-	-	3,996	-	3,996	3,153
Non-Canadian	-	-	104	-	104	146
Private equity and special situations						
Canadian	-	-	853	-	853	753
Non-Canadian	-	-	988	-	988	1,119
TOTAL EQUITY-ORIENTED	-	-	5,941	-	5,941	5,171
DERIVATIVE INSTRUMENTS (note 3)	6	1,602	223	-	1,831	516
Investment receivables						
Cash collateral pledged related to securities borrowing (note 5)	585	-	-	-	585	585
Pending trades[1]	-	-	-	336	336	336
Accrued investment income[1]	-	-	-	401	401	401
TOTAL INVESTMENT RECEIVABLES	585	-	-	737	1,322	1,322
TOTAL INVESTMENT ASSETS	1,367	60,738	8,495	737	71,337	68,088
Investment Liabilities						
Obligations related to equities sold short (note 5)	(21,948)	(56)	-	-	(22,004)	(20,252)
Obligations related to bonds sold short (note 5)	-	(937)	-	-	(937)	(981)
Derivative instruments (note 3)	(6)	(3,597)	(193)	-	(3,796)	(2,581)
Securities sold under repurchase agreements	-	(8,442)	-	-	(8,442)	(8,455)
Cash collateral received related to securities lending (note 5)	(220)	-	-	-	(220)	(220)
Pending trades[1]	-	-	-	(423)	(423)	(423)
Accrued investment liabilities[1]	-	-	-	(3)	(3)	(3)
TOTAL INVESTMENT LIABILITIES	(22,174)	(13,032)	(193)	(426)	(35,825)	(32,915)
NET INVESTMENTS	$ (20,807)	$ 47,706	$ 8,302	$ 311	$ 35,512	$ 35,173

[1] *These amounts are financial assets or financial liabilities for which a fair value hierarchy classification is not required.*

The following table presents the changes in fair value measurement for financial instruments included in Level 3 during the year ended December 31, 2011:

CHANGES IN FAIR VALUE MEASUREMENT FOR INSTRUMENTS IN LEVEL 3 *($ millions)*	2011							
	Fair Value Dec 31, 2010	Total realized gains/ (losses) included in net income[1]	Total unrealized gains/ (losses) included in net income[1]	Purchases and issues	Sales and settlements	Transfers in[2]	Transfers out[2]	Fair Value Dec 31, 2011
Bonds								
Canadian	$ 1,682	$ -	$ (11)	$ -	$ (297)	$ -	$ (1,374)	**$ -**
Non-Canadian	327	(256)	261	-	(155)	-	(83)	**94**
Non-Canadian Commercial loans	322	(28)	34	378	(458)	-	-	**248**
Real estate[3]								
Canadian	3,996	15	329	304	4	-	-	**4,648**
Non-Canadian	104	-	4	168	-	-	-	**276**
Private equity and special situations								
Canadian	853	27	(11)	50	(140)	-	-	**779**
Non-Canadian	988	1 14	32	389	(330)	-	-	**1,193**
Assets from derivative instruments (note 3)	223	21	30	103	(144)	3	(53)	**183**
Liabilities from derivative instruments (note 3)	(193)	(14)	(7)	(142)	48	53	(1)	**(256)**
TOTAL	**$ 8,302**	**$ (121)**	**$ 661**	**$ 1,250**	**$ (1,472)**	**$ 56**	**$ (1,511)**	**$ 7,165**

[1] The total gain included above relating to those assets and liabilities held at the end of the year was $516 million.
[2] Transfers into and transfers out of Level 3 are assumed to occur at the end of the reporting period.
[3] For real estate, additional mortgage debt borrowings of $116 million are included in Purchases and Issues and mortgage debt repayments of $96 million are included in Sales and Settlements.

CHANGES IN FAIR VALUE MEASUREMENT FOR INSTRUMENTS IN LEVEL 3 *($ millions)*	2010						
	Fair Value Dec 31, 2009	Total realized gains/(losses) included in net income[1]	Total unrealized gains/(losses) included in net income[1]	Purchases and issues	Sales and settlements	Transfers in/out[2]	Fair Value Dec 31, 2010
Bonds							
Canadian	$ 804	$ (1)	$ (171)	$ 1,474	$ (224)	$ (200)	**$ 1,682**
Non-Canadian	201	2	52	102	(105)	75	**327**
Non-Canadian Commercial loans	277	1	(18)	233	(171)	-	**322**
Real estate[3]							
Canadian	3,518	35	136	132	175	-	**3,996**
Non-Canadian	31	-	(6)	79	-	-	**104**
Private equity and special situations							
Canadian	637	(6)	133	112	(23)	-	**853**
Non-Canadian	855	2	5	319	(193)	-	**988**
Assets from derivative instruments (note 3)	69	26	128	-	-	-	**223**
Liabilities from derivative instruments (note 3)	(151)	(68)	27	-	-	(1)	**(193)**
TOTAL	**$ 6,241**	**$ (9)**	**$ 286**	**$ 2,451**	**$ (541)**	**$ (126)**	**$ 8,302**

[1] *The total gain included above relating to those assets and liabilities held at the end of the year was $199 million.*

[2] *Transfers into Level 3 are assumed to occur at the end of the reporting period and transfers out of Level 3 are assumed to occur at the beginning of the reporting period. For 2010, the methodology used to determine the transfers in and transfers out was on a net basis. Total transfers into Level 3 were $99 million and total transfers out of Level 3 were $225 million.*

[3] *For real estate, additional mortgage debt borrowings of $402 million are included in Purchases and Issues and mortgage debt repayments of $293 million are included in Sales and Settlements.*

For individual investments included in Level 3, management's judgment is that changing one or more of the inputs to a reasonably possible alternative assumption would not change the fair value significantly.

SIGNIFICANT INVESTMENTS

Investments with fair value exceeding $400 million (gross securities excluding short sales) as at December 31, 2011 (excluding derivative exposures):

($ millions)	Maturity Date	Coupon Rate %		Fair Value
Fixed Income				
Canadian Federal Bonds	2012-2033	1.40 - 9.00	$	10,331
Canadian Provincial & Municipal Bonds	2013-2041	1.41 - 5.85		17,644
Canadian Real Return Bonds	2026-2041	2.00 - 4.55 *Plus CPI**		4,108
Corporate Bonds				
Royal Bank of Canada	2012	4.50		677
Bank of Nova Scotia	2014	1.25		433
Fondo De Vivienda Del Issste	2024	4.50		409
TOTAL			**$**	**1,519**

**CPI - Consumer Price Index*

NOTE 3: DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments whose values change as a result of an underlying asset, index of prices or rates, interest rate or foreign 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

Foreign exchange forward contracts are customized agreements 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.

FUTURES CONTRACTS

Futures contracts are standardized agreements which can be purchased or sold on a futures exchange market at a predetermined future date and price, in accordance with terms specified by the regulated futures exchange and are subject to daily cash margining. HOOPP invests in both bond futures and also equity futures, which relate to a specific equity or index, a basket of stocks, or a single stock. 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, swaptions, foreign currency options, equity options and options on credit swaps. Options are used to manage the exposures to market risks and to enhance returns.

SWAPS

Swaps are 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, a basket of equities 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 credit 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.

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

DERIVATIVE FINANCIAL INSTRUMENTS ($ millions)	2011		
	Notional Value[1]	Fair Value[2] Assets	Fair Value[2] Liabilities
Foreign exchange forward contracts	$ 5,978	$ 8	$ (31)
Futures contracts			
Equity	6,441	62	(1)
Bond	531	-	(1)
Options			
Equity	33,311	448	(4,760)
Swaption	337	9	-
Swaps			
Equity	45,474	1,432	(508)
Interest rate	36,812	467	(1,598)
Cross currency	18,157	270	(825)
Credit default	17,980	345	(439)
TOTAL	**$ 165,021**	**$ 3,041**	**$ (8,163)**

DERIVATIVE FINANCIAL INSTRUMENTS ($ millions)	2010		
	Notional Value[1]	Fair Value[2] Assets	Fair Value[2] Liabilities
Foreign exchange forward contracts	$ 2,979	$ 6	$ (26)
Futures contracts			
Equity	4,522	6	(5)
Bond	338	-	(1)
Options			
Equity	14,141	196	(1,879)
Swaption	1,186	2	(1)
Swaps			
Equity	34,695	498	(198)
Interest rate	30,219	209	(915)
Cross currency	15,017	543	(426)
Credit default	14,267	371	(345)
TOTAL	**$ 117,364**	**$ 1,831**	**$ (3,796)**

[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 the financial statements. Notional values are also the basis upon which the fair values of the contracts and the returns are determined. Notional values do not necessarily represent the future cash flows to be exchanged nor do they indicate the Plan's exposure to market or credit risk.*

[2] *Contracts with a positive fair value are recorded as investment assets while contracts with a negative fair value are recorded as investment liabilities in note 2.*

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

DERIVATIVE FINANCIAL INSTRUMENTS BY TERM TO MATURITY (NOTIONAL VALUES)	2011			
($ millions)	Within 1 year	1 to 5 years	Over 5 years	Total
Foreign exchange forward contracts	$ 5,978	$ -	$ -	**$ 5,978**
Futures contracts				
Equity	6,441	-	-	**6,441**
Bond	531	-	-	**531**
Options				
Equity	10,191	1,918	21,202	**33,311**
Swaption	-	337	-	**337**
Swaps				
Equity	39,652	5,484	338	**45,474**
Interest rate	5,163	25,097	6,552	**36,812**
Cross currency	4,895	11,523	1,739	**18,157**
Credit default	592	12,592	4,796	**17,980**
TOTAL	**$ 73,443**	**$ 56,951**	**$ 34,627**	**$ 165,021**

DERIVATIVE FINANCIAL INSTRUMENTS BY TERM TO MATURITY (NOTIONAL VALUES)	2010			
($ millions)	Within 1 year	1 to 5 years	Over 5 years	Total
Foreign exchange forward contracts	$ 2,979	$ -	$ -	**$ 2,979**
Futures contracts				
Equity	4,522	-	-	**4,522**
Bond	338	-	-	**338**
Options				
Equity	5,385	399	8,357	**14,141**
Swaption	1,063	123	-	**1,186**
Swaps				
Equity	33,682	1,013	-	**34,695**
Interest rate	4,840	18,953	6,426	**30,219**
Cross currency	4,145	9,293	1,579	**15,017**
Credit default	1,002	8,738	4,527	**14,267**
TOTAL	**$ 57,956**	**$ 38,519**	**$ 20,889**	**$ 117,364**

NOTE 4: INVESTMENT INCOME

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

($ millions)	2011			
	Interest and Dividend Income[(1)(2)]	Realized Gain/(Loss) on Investments[(1)]	Changes in Unrealized Gain/(Loss) on Investments[(1)]	Net Investment Income
Cash	$ -	$ 101	$ -	**$ 101**
Fixed Income				
Short-term securities	4	-	-	**4**
Net Bonds				
Canadian	2,021	(296)	3,460	**5,185**
Non-Canadian	168	179	383	**730**
Non-Canadian Commercial loans	10	(28)	34	**16**
	2,203	(145)	3,877	**5,935**
Net Repurchase Agreements	(114)	-	(32)	**(146)**
Net Public Equity				
Canadian	(708)	(356)	1,673	**609**
Non-Canadian	3,494	(2,712)	(39)	**743**
	2,786	(3,068)	1,634	**1,352**
Equity-Oriented				
Net real estate operating income (note 4b)				
Canadian	240	15	329	**584**
Non-Canadian	8	-	4	**12**
Private equity and special situations				
Canadian	14	27	(11)	**30**
Non-Canadian	13	114	32	**159**
	275	156	354	**785**
Derivatives	-	(3,054)	(627)	**(3,681)**
	5,150	(6,010)	5,206	**4,346**
Transaction Costs	(19)	-	-	**(19)**
TOTAL INVESTMENT INCOME	**$ 5,131**	**$ (6,010)**	**$ 5,206**	**$ 4,327**

[(1)] *Net of investment income and investment expenses.*
[(2)] *Includes operating income/loss from real estate and private equity investments.*

($ millions)	2010			
	Interest and Dividend Income[1][2]	Realized Gain/ (Loss) on Investments[1]	Changes in Unrealized Gain/(Loss) on Investments[1]	Net Investment Income
Cash	$ 4	$ (378)	$ (2)	**$ (376)**
Fixed Income				
Short-term securities	2	(12)	-	**(10)**
Net Bonds				
Canadian	1,731	4,626	898	**7,255**
Non-Canadian	161	(4,541)	(209)	**(4,589)**
Non-Canadian Commercial loans	6	1	(16)	**(9)**
	1,900	74	673	**2,647**
Net Repurchase Agreements	(81)	-	(2)	**(83)**
Net Public Equity				
Canadian	(333)	(235)	(1,373)	**(1,941)**
Non-Canadian	2,335	(3,327)	180	**(812)**
	2,002	(3,562)	(1,193)	**(2,753)**
Equity-Oriented				
Net real estate operating income (note 4b)				
Canadian	238	35	136	**409**
Non-Canadian	-	-	(6)	**(6)**
Private equity and special situations				
Canadian	18	(6)	133	**145**
Non-Canadian	11	2	5	**18**
	267	31	268	**566**
Derivatives	-	3,866	408	**4,274**
	4,092	31	152	**4,275**
Transaction Costs	(30)	-	-	**(30)**
TOTAL INVESTMENT INCOME	**$4,062**	**$ 31**	**$ 152**	**$ 4,245**

[1] *Net of investment income and investment expenses.*
[2] *Includes operating income/loss from real estate and private equity investments.*

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

($ millions)		**2011**		2010
Rental revenue	$	561	$	528
Property operating & other expenses		(271)		(246)
Operating income		290		282
Mortgage interest		(42)		(44)
NET REAL ESTATE OPERATING INCOME	**$**	**248**	$	238

NOTE 5: COLLATERAL

HOOPP has investment policies and procedures in place which specify the requirements for using collateral to reduce credit risk exposure to individual corporate entities. Only collateral of a certain quality is considered acceptable. Contracts with various counterparties are in place and define the terms under which collateral is transferred. Terms may include minimum transfer amounts or thresholds, eligible securities, and rules for the settlement of disputes.

COLLATERAL PLEDGED

The Plan enters into short positions, where it agrees to sell securities which it does not already own, 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 borrows securities to facilitate the taking of short positions. The Plan uses derivatives for hedging, to replicate direct investments, and for yield enhancement purposes.

The Plan typically pledges cash, fixed income and equities as collateral for securities borrowed and obligations incurred in the ordinary course of trading in derivatives and related transactions or otherwise where such pledge of assets is ancillary to certain permitted activities.

As at December 31, 2011, the fair value of the collateral pledged with various financial institutions, classified by activity giving rise to the pledging requirement, was as follows:

($ millions)	**2011**	2010
Securities borrowed[(1)]	**$ 21,925**	$ 23,210
Derivatives[(1)]	**6,310**	2,336
Repurchase agreements[(2)]	**2**	10

[(1)] *Includes collateral pledged in cash of $427 million [2010: $585 million] (note 2).*

[(2)] *Represents the fair value of collateral pledged as a result of the change in value of the securities purchased or sold under resell or repurchase agreements. The total book value of obligations related to securities sold under repurchase agreements, which are economically similar to collateralized loans, are approximately $14,192 million [2010: $8,442 million] (note 2). The securities sold under these agreements are not recorded as collateral pledged in the table above but have restrictions on their use that are similar to collateral pledged.*

COLLATERAL RECEIVED

The Plan participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Plan receives a fee and the borrower provides cash or marketable securities of higher value as collateral which mitigates the credit risk associated with the program. HOOPP also receives collateral for certain derivative transactions and for repurchase agreements. As at December 31, 2011, the fair value of the collateral received from various financial institutions, classified by the activity giving rise to the collateral requirement, was as follows:

($ millions)	**2011**	2010
Securities lending[1]	**$ 583**	$ 928
Derivatives[1]	**545**	61
Repurchase agreements[2]	**102**	18

[1] *Includes collateral received in cash of $647 million [2010: $220 million] (note 2).*

[2] *Represents the fair value of collateral received as a result of the change in value of the securities purchased or sold under resell or repurchase agreements. The total book value of securities purchased under resell agreements, which are economically similar to collateralized loans, are approximately $3,188 million [2010: $1,134 million] (note 2). The securities purchased under these agreements are not recorded as collateral received in the table above but may be used in a manner similar to collateral received.*

For any collateral received, the Plan is able to re-pledge, loan or use it under repurchase agreements. At December 31, 2011, $279 million (2010: $210 million) of the collateral received was lent under HOOPP's securities lending program.

NOTE 6: RISK MANAGEMENT

For HOOPP, the primary mission is to secure the pension promise for all of its members, pensioners and beneficiaries ("HOOPP members"). In order to accomplish this, the Plan must actively manage its net funded position (i.e., surplus or deficit). There are two major components to the net funded position – the Plan's going concern pension obligations and net investment assets – which HOOPP manages and measures in concert. The risk that the imbalance between the net investment assets and pension obligations becomes a deficit is referred to as funding risk.

The Plan's net investment assets are exposed to financial risks (i.e., 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 pension obligations to ensure they are being managed in the best interests of HOOPP members. The Board has established a policy framework, which outlines the Board's risk tolerances, and which guides the development of investment strategies to meet HOOPP's overall objectives.

The cornerstone of the policy framework is the Funding Policy. The Funding Policy sets out criteria to be considered when contemplating changes to contribution rates and/or benefits levels, and establishes a target range for the Plan's funded ratio, which is the ratio of the Plan's assets to its pension obligations. HOOPP's investment policy and strategic asset mix will also impact the Plan's funded ratio and can be altered to support the management of HOOPP's funded position.

Broadly, the Plan manages funding risk by:

- utilizing a liability driven investment (LDI) approach, an investment strategy that aligns the Plan's assets to the Plan's pension obligations, which helps determine appropriate investments and reduces funding risk
- setting and managing to a target range for the Plan's funded ratio
- annual review of the actuarial assumptions underlying the Plan's pension obligations to ensure continued appropriateness
- complying with the *Pension Benefits Act* (Ontario) *and Regulations*, the *Income Tax Act* (Canada) *and Regulations*, the Plan's Agreement and Declaration of Trust, and the Plan Text.

The Board provides a framework for the investment of plan assets through the following key documents, which collectively form HOOPP's policy framework, 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 Plan, including objectives and how they will be reached
- Investment Policies and Guidelines (IP&G) – the Plan's policy benchmark, policy asset mix and detailed investment limits.

The Investment Management team provides advice and recommendations to the Board about the investing of plan assets to meet the Plan's target funding ratio and they design and execute investment strategy, in compliance with HOOPP's policy framework. The Finance division, which is independent from Investment Management, monitors the limits set out in the IP&G. Compliance reporting is provided quarterly to the Asset Liability Management Committee and the Board.

The Board's Plan Committee oversees the Plan's benefits design and administration. It reviews, monitors and makes recommendations to the Board on matters such as proposed changes to benefits, Plan amendments, and contribution rates, as well as Employer administration. The Committee also monitors compliance with legislative and regulatory requirements and the Board's policies.

The Board's Asset Liability Management Committee oversees the management and investment of the Plan's assets and pension obligations. It monitors and evaluates the investment management process and performance of the Plan and reviews and recommends to the Board asset liability management policies. The Committee also reviews, monitors and makes recommendations to the Board on matters such as the appointment and performance of the Board's external actuarial advisors and actuarial valuations.

FUNDING RISK

The primary risk that HOOPP faces is funding risk, the risk that the Plan's investment asset growth and contribution rates will not be sufficient to cover the Plan's pension obligations resulting in an unfunded liability (i.e., a funding deficit). If the funding deficit reaches a certain level, or persists, it may need to be eliminated by reducing benefits, raising contributions, or a combination of both.

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

- declines in interest rates
- equity markets failing to achieve expected returns
- unexpected increases in inflation.

In addition to the financial risks listed above and further described in the Financial Risk Management section below, the Plan's pension obligations are also affected by non-economic factors like changes in member demographics.

At December 31, 2011, the Plan had a regulatory surplus of $976 million compared to a surplus of $176 million as at December 31, 2010 (based on the smoothed asset value of net assets described in note 11).

The Board manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis to ensure it remains in the targeted range. If and when the future funded ratio falls 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 the investment policy to effectively manage both risk and the net funded position, HOOPP must consider investment strategies that are suitable for the Plan's pension obligations. Failing to do this would result in greater volatility in the Plan's funded status, leading to a greater risk of making changes to benefits and/or contribution rates.

The Board's external actuary performs an annual valuation 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, 2010. See note 12 for more information on HOOPP's funding valuation.

FINANCIAL RISK MANAGEMENT

The Plan's investment activities expose it to financial risks which include:

- 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.

a. Interest rate risk

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

The Plan is exposed to investment interest rate risk as a result of the policy decision to invest in interest sensitive instruments as part of the LDI approach to investing. The Plan's interest rate sensitive instruments and the remaining term to maturity or repricing dates, whichever is earlier as at December 31, are summarized on the following page by class of financial instrument.

INTEREST RATE SENSITIVE INSTRUMENTS ($ millions)	2011					2010
	Term to Maturity					
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	Total
Short-term securities	$ -	$ -	$ -	$ -	**$ -**	**$ 715**
Canadian bonds[1]						
Federal bonds	4,667	6,287	1,040	5,376	**17,370**	**15,074**
Provincial and municipal bonds	2,637	13,189	13,332	9,386	**38,544**	**30,284**
Real return bonds	-	-	306	4,819	**5,125**	**4,331**
Corporate bonds	1,037	3,021	15	139	**4,212**	**3,538**
	8,341	22,497	14,693	19,720	**65,251**	**53,227**
Non-Canadian bonds[1]	2,454	(92)	204	642	**3,208**	**5,131**
Non-Canadian Commercial loans	109	139	-	-	**248**	**322**
Derivatives	(8,600)	(21,280)	(6,648)	436	**(36,092)**	**(32,110)**
Repurchase agreements	(11,004)	-	-	-	**(11,004)**	**(7,308)**
TOTAL	**$ (8,700)**	**$ 1,264**	**$ 8,249**	**$ 20,798**	**$ 21,611**	**$ 19,977**

[1] *Net of Canadian bonds sold short of $738 million [2010: $104 million] and Non-Canadian of $1,796 million [2010: $820 million].*

Risk measurement

The Plan's fixed income duration is reviewed to ensure compliance to policy and the Asset Liability Committee receives quarterly reports on interest rate change sensitivity for the fixed income mandates. As at December 31, 2011, a 1% increase/decrease in interest rates would have decreased/increased the Plan's net assets available for benefits by $4,482 million (2010: $2,194 million). While the increase/decrease in interest rates would have decreased/increased the value of the Plan's assets, longer term trends in decreases/increases in interest rates would have also decreased/increased the value of the Plan's pension obligations.

Risk management

While the Plan's interest sensitive products are exposed to interest rate risk, this risk has been assumed purposefully as part of the LDI approach to offset the interest rate risk inherent in the Plan's pension obligation. HOOPP uses duration to measure the sensitivity of the fair value of fixed income investments to changes in market interest rates. HOOPP manages its exposure to investment interest rate risk by ensuring the modified duration of the fixed income mandates remains within the approved ranges of the respective benchmarks as stipulated in the IP&G and the overall asset mix remains within the approved policy weights specified 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.

b. Foreign currency risk

Foreign currency risk is the risk that the fair value of a financial instrument denominated in a foreign currency will fluctuate due to changes in applicable foreign exchange rates. While HOOPP pension benefits are paid in Canadian dollars, some of the Plan's assets are denominated in other currencies. The Plan's foreign currency exposure (including through derivatives) as at December 31, was as follows:

FOREIGN CURRENCY EXPOSURE *(local currency, $ millions)*	**2011**	2010
Austrailian dollars	**(1)**	(1)
Swiss francs	**-**	-
Euros	**(11)**	(3)
British pounds	**-**	-
Japanese yen	**(167)**	(21)
U.S. dollars	**(83)**	32

Risk measurement

The exposures to foreign currency are measured 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, 2011, a strengthening/decline in the Canadian dollar of 1% against other currencies would result in a decrease/increase to the Plan's net assets available for benefits of approximately $1.0 million (2010: decrease/increase of less than $0.3 million).

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 Plan's foreign currency exposure to be fully hedged within a 5% tolerance of the Fund's net asset value. This is accomplished through the use of derivatives, which include foreign exchange forward contracts and cross currency swaps.

c. Other price risk
The Plan is also exposed to other price risk. Other price risk is the risk that the fair value 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 other price risk through its investment in public equities and equity-oriented (i.e., private equity and real estate) instruments. The Plan is also exposed to credit spread risk, which resides primarily within the provincial, municipal and corporate bond portfolios and the credit derivative portfolio.

As at December 31, the total exposure to equity risk, including through the use of derivatives was as follows:

Risk measurement
HOOPP measures risk daily by monitoring exposure levels to Board approved limits, which include total equity exposure and single name limits. Compliance limit reporting 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.

As at December 31, 2011, a 1% decline/increase in equity markets would have resulted in a decrease/increase in the Plan's net assets available for benefits of $252.4 million (2010: $191.4 million).

EQUITY EXPOSURE BY MARKET	**2011**		2010	
($ millions)	**Effective Equity Exposure $**	**% of Total Equity Exposure**	Effective Equity Exposure $	% of Total Equity Exposure
Public Equity				
Canadian	$ 4,044	16.0%	$ 3,561	18.6%
U.S.	11,384	45.1%	6,812	35.6%
Non-North American	3,243	12.9%	3,029	15.8%
	18,671	74.0%	13,402	70.0%
Equity-Oriented				
Real estate	4,596	18.2%	3,894	20.4%
Private equity and special situations	1,972	7.8%	1,841	9.6%
	6,568	26.0%	5,735	30.0%
TOTAL	**$ 25,239**	**100.0%**	$ 19,137	100.0%

Risk management
HOOPP manages equity risk through diversification, by investing in major equity markets with benchmarks approved by the Board, and 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 and equity-oriented investments, in respect to the overall value of the Plan, remains within the limits established by the Board. The approach to credit risk is of a long-term focus and changes in the market value of securities due to fluctuations in credit spreads are not of primary concern.

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.

The Plan assumes credit risk exposure through its investment in fixed income instruments and the underlying reference bond of credit derivatives. Counterparty credit risk is introduced through the Plan's securities lending program, repurchase agreements and derivatives.

The Plan's total credit risk exposure as at December 31 appears on the following page.

CREDIT RISK EXPOSURE *($ millions)*	**2011** Total Credit Exposure	**2011** % of Total	2010 Total Credit Exposure	2010 % of Total
Physical Sovereign Securities AAA	$ 18,350	23.2%	$ 19,375	28.3%
Physical Securities:				
AAA	9,561	12.1%	4,654	6.8%
AA	23,196	29.3%	17,294	25.3%
A	16,918	21.3%	16,879	24.7%
BBB	1,190	1.5%	955	1.4%
BB or below	213	0.3%	780	1.1%
Credit Risk Exposure (Physical Securities)	51,078	64.5%	40,562	59.3%
Credit Risk Exposure (Credit Derivatives)	9,408	11.9%	8,122	11.9%
Counterparty Credit Risk Exposure[1]	257	0.3%	258	0.4%
Credit Risk Exposure before Collateral Received	79,093	99.9%	68,317	99.9%
Collateral Received	90	0.1%	56	0.1%
Maximum Credit Risk Exposure	79,183	100.0%	68,373	100.0%
Credit Risk Exposure (Credit Derivatives)	(8,937)		(6,867)	
TOTAL	**$ 70,246**		$ 61,506	

[1] *Counterparty credit risk exposure after accounting for master netting agreements. Excludes counterparty credit risk exposure related to the securities lending program of $Nil million (2010: $139 million), repurchase agreements netted by counterparty and before collateral of approximately $1,031 million (2010: $130 million), and over collateralization related to the securities lending programs of approximately $786 million (2010: $1,171 million).*

Risk measurement
HOOPP measures the risk by monitoring the Plan'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. 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. Compliance reporting is provided quarterly to the Asset Liability Committee and the Board. 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 $1,200 million (2010: $1,061 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 credit derivatives to achieve this objective.

HOOPP mitigates counterparty credit risk by transacting exchange-traded derivative contracts and when required, by dealing with over-the-counter derivatives 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 Plan 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. Note 5 provides more information on securities collateral.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

For the Plan, financial liabilities are comprised of investment liabilities (note 2), which as at December 31, 2011 totalled $46,722 million (2010: $35,825 million). Most of the investment 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 payments.

HOOPP's future liabilities include the pension obligations (note 11) and contracts that give rise to commitments for future payments (note 14).

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.

Also, the ratio of assets available to cover potential margin calls is determined daily. When calculating the assets available, factors such as market value, posted collateral, repo positions and securities lending positions are considered. The potential margin call is based on the Plan's exposure to various derivatives and their potential daily market movement.

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 financial liabilities and pay for operating expenses.

NOTE 7: OTHER ASSETS

($ millions)		2011		2010
Recoverable refundable withholding tax on contributions	$	132	$	129
Fixed assets		12		11
Other		4		2
TOTAL	$	148	$	142

NOTE 8: CONTRIBUTIONS

($ millions)		2011		2010
Employers				
Current service contributions	$	954	$	921
Members				
Current service contributions		757		731
Past service contributions from members		18		15
Transfers from other plans		22		47
		797		793
TOTAL	$	1,751	$	1,714

NOTE 9: BENEFITS

($ millions)		2011		2010
Benefit payments				
Retirement pension and bridge benefits [1]	$	1,146	$	1,058
Commuted value transfers and death benefits		76		73
		1,222		1,131
Refunds and transfers				
Refunds		93		78
Transfers to other plans		20		20
		113		98
TOTAL	$	1,335	$	1,229

[1] *Includes disability payments of $81 million [2010: $81 million].*

NOTE 10: OPERATING EXPENSES

($ millions)	2011	2010
Investment:[1]		
Administration	$ 82	$ 71
Legal, actuarial and other professional fees[2]	8	16
Custodial	2	1
	92	88
Plan:[1]		
Administration	40	36
Legal, actuarial and other professional fees[2]	7	5
	47	41
TOTAL	$ 139	$ 129

[1] *Based on an allocation of corporate expenses.*
[2] *Includes fees paid or due to the auditors pertaining to statutory audit fees of $680,400 [2010: $615,000], audit-related fees of $22,400 [2010: $344,000], non-audit fees of $180,300 [2010: $2,500] and actuarial fees of $590,500 [2010: $586,900].*

NOTE 11 : PENSION OBLIGATIONS

PENSION OBLIGATIONS

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

Estimates used for financial reporting purposes reflect management's expectations of long-term economic and demographic conditions. The primary economic assumptions include the discount rate, salary escalation rate, and the price inflation rate. The non-economic assumptions include considerations such as mortality, withdrawal, and retirement rates.

The discount rate is based on the long-term expected fund return and includes a margin for conservatism (as appropriate for a funding valuation). The price inflation rate is based on the expected Consumer Price Index (CPI) rate.

To determine the pension obligations as at December 31, 2011 and December 31, 2010, 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	2011[3]	2010[3]
Discount rate[1]	**6.30%**	6.10%
Rate of price inflation	**2.25%**	2.15%[2]
Real discount rate	**4.05%**	3.95%[2]
Salary escalation rate	**4.75%**	4.65%[2]

[1] *Net of allowance for investment expenses of 0.25% [2010: 0.25%].*
[2] *For 2010, blended rates based on rate of price inflation of 1.90% per annum for first five years following the valuation date and 2.25% per annum thereafter.*
[3] *Changes from actuarial assumptions used in the previous year resulted in an actuarial gain of $625 million [2010: $503 million loss]. The 2011 gain is primarily due to the change in the discount rate, offset by the change in the inflation rates and demographic assumptions.*

ACTUARIAL METHODOLOGY FOR FINANCIAL REPORTING

For the determination of the actuarial present value of the pension obligations as at December 31, 2011, an actuarial valuation was conducted by Towers Watson Canada Inc. The valuation uses the projected accrued benefit actuarial cost 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 HOOPP staff as at November 1, 2011 and members' pay data which was provided as at December 31, 2010, all of which was projected to December 31, 2011 using management's estimates of experience for the intervening periods. The earnings estimates were determined based on 2010 experience and estimate assumptions.

Using this method and data, the pension obligations (or going concern actuarial pension obligations) at December 31, 2011, was $36,782 million (2010: $34,897 million).

ESTIMATED EXPERIENCE GAINS AND LOSSES

Estimated experience gains and losses represent the change in the pension obligations due to the difference between actual economic and demographic experience and expected experience. During 2011, there was an estimated experience loss of $88 million (2010: loss of $67 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 2011, the Board authorized 75% of the 2011 CPI increase as an ad hoc increase effective April 1, 2012. This resulted in an increase in the pension obligations of approximately $13 million (2010: $8 million).

SURPLUS

According to the new CICA Handbook Section 4600, *Pension Plans*, the surplus for financial statement presentation purposes is the difference between the market value of net assets available for benefits and the pension obligations. On this basis, the surplus on December 31, 2011 was $3,539 million (2010: $820 million).

In previous years, the surplus reported on the Statement of Financial Position was the same as that used for regulatory filing purposes, which utilized a longer term view of plan net asset values. The net assets value used for this purpose, referred to as the "smoothed" value of net assets, is determined in a manner that reflects long-term market trends consistent with assumptions underlying the actuarial present value of pension obligations. The smoothed value of net assets is 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 for long-term valuations filed with the regulators and has the effect of stabilizing the contribution rates of the Plan during periods of short-term market volatility.

The difference between the smoothed and market value of net assets available for benefits and therefore, the difference between the surplus for financial statement purposes versus regulatory filing purposes is $2,563 million in 2011 (2010: $644 million).

NOTE 12: FUNDING VALUATION (REGULATORY FILING VALUATION)

In accordance with the *Pension Benefits Act* (Ontario) *and Regulations* 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 Watson Canada Inc. as at December 31, 2010, and a copy of that valuation was filed with FSCO and CRA. The effective date of the next required valuation is December 31, 2013.

The funding valuation method used to determine the pension obligations is the projected accrued benefit actuarial cost method. Under this method, the pension obligations 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, recommended the actuarial assumptions to be used for the filing valuation. The economic assumptions used for the December 31, 2010 regulatory funding valuation were as follows:

	2010
Discount rate[1]	6.10%
Rate of price inflation[2]	2.15%
Real discount rate[2]	3.95%
Salary escalation rate[2]	4.65%

[1] *Net of allowance for investment expenses of 0.25% [2009: 0.25%].*
[2] *Blended rates based on rate of price inflation of 1.90% per annum for first five years following the valuation date and 2.25% per annum thereafter.*

The most recent regulatory filing valuation conducted as at December 31, 2010 disclosed a smoothed value of net assets of $35,073 million with accrued going concern pension obligations of $34,897 million, resulting in a going concern surplus of $176 million.

NOTE 13: RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) is an 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* (Canada) 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, 2011 was $261 million (2010: $263 million).

NOTE 14: 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, 2011, these commitments totalled $1,142 million and $575 million respectively (2010: $1,083 million and $464 million respectively). The Plan has also committed to purchasing services relating to the pension administration and investment systems at approximately $5 million per annum and $1 million per annum respectively (2010: $4 million and $1 million respectively).

NOTE 15: CAPITAL

HOOPP defines its capital as the Plan's surplus or deficit. Refer to note 6 for further disclosure on capital.

NOTE 16: GUARANTEES, INDEMNIFICATIONS AND CONTINGENCIES

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 derivative 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 relation to 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. Alone, the nature of these contracts in many cases makes it impossible to determine a maximum potential exposure, but when carefully structured and coupled with other hedging instruments, the exposure can be limited with certainty. 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 and 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 contractual counterparty. Under the terms of these arrangements, HOOPP may be required to compensate certain 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, 2011, the amount recorded as a liability for claims under these arrangements was $nil (2010: $nil).

CONTINGENCIES

As at December 31, 2011, HOOPP was involved in certain litigation and claims. The outcome and possible impact to HOOPP of such litigation and claims is inherently difficult to predict. However, it is the opinion of HOOPP's management that any loss that may result would not have a significant adverse effect on HOOPP's financial statements. During 2011, HOOPP incurred losses of $nil (2010: $nil).

It’s possible.

See your future. Now.

TEN-YEAR REVIEW

For the year ended December 31

($ millions)	**2011**	2010	2009	2008
Change in Net Assets				
Increase/(Decrease) in net assets				
Net investment income/(loss)	**$ 4,327**	$ 4,245	$ 4,040	$ (3,591)
Contributions				
Employers	**954**	921	890	840
Members	**797**	793	744	713
TOTAL INCREASE/(DECREASE)	**6,078**	5,959	5,674	(2,038)
Decrease in net assets				
Benefits	**1,335**	1,229	1,159	1,143
Investment & Plan operating expenses	**139**	129	131	89
TOTAL DECREASE	**1,474**	1,358	1,290	1,232
INCREASE/(DECREASE) IN NET ASSETS	**$ 4,604**	$ 4,601	$ 4,384	$ (3,270)
Net Assets				
Investments				
Cash	**$ 3**	$ 14	$ -	$ 35
Fixed income	**71,241**	60,322	49,121	46,125
Public equity	**931**	773	889	1,904
Equity-oriented	**6,896**	5,941	5,040	4,836
Securities purchased under resell agreements	**3,188**	1,134	336	-
Derivative instruments	**3,041**	1,831	1,019	1,754
Investment receivables	**1,538**	1,322	1,566	1,333
	86,838	71,337	57,971	55,987
Contributions receivable	**142**	135	133	124
Other assets	**148**	142	142	148
TOTAL ASSETS	**87,128**	71,614	58,246	56,259
Investment liabilities	**(46,722)**	(35,825)	(27,071)	(29,502)
Other liabilities	**(85)**	(72)	(59)	(25)
TOTAL LIABILITIES	**(46,807)**	(35,897)	(27,130)	(29,527)
NET ASSETS	**$ 40,321**	$ 35,717	$ 31,116	$ 26,732
PENSION OBLIGATIONS	**36,782**	34,897	32,020	31,244
SURPLUS/(DEFICIT)	**$ 3,539**	$ 820	$ (904)	$ (4,512)
Investment Performance				
Investment rate of return-net	**12.19%**	13.68%	15.18%	-11.96%
Benchmark return	**9.87%**	10.31%	9.77%	-8.98%
Long-term return target	**6.50%**	6.63%	6.50%	6.50%

2007	2006	2005	2004	2003	2002
$ 1,748	$ 3,136	$ 3,095	$ 2,135	$ 2,393	$ (845)
782	718	685	633	532	297
737	658	596	529	450	255
3,267	4,512	4,376	3,297	3,375	(293)
1,079	1,019	856	807	712	634
100	91	85	70	64	57
1,179	1,110	941	877	776	691
$ 2,088	$ 3,402	$ 3,435	$ 2,420	$ 2,599	$ (984)
$ 38	$ 81	$ 122	$ 67	$ 32	$ 33
42,875	30,487	24,533	16,890	10,736	8,356
4,612	6,374	6,012	5,421	5,548	5,518
4,290	3,647	2,726	2,220	2,139	2,012
348	-	-	-	-	-
1,566	892	783	639	559	294
557	642	613	285	158	179
54,286	42,123	34,789	25,522	19,172	16,392
111	102	104	90	76	46
127	104	81	61	46	29
54,524	42,329	34,974	25,673	19,294	16,467
(24,493)	(14,391)	(10,438)	(4,579)	(623)	(394)
(29)	(24)	(24)	(17)	(14)	(15)
(24,522)	(14,415)	(10,462)	(4,596)	(637)	(409)
$ 30,002	$ 27,914	$ 24,512	$ 21,077	$ 18,657	$ 16,058
28,683	25,808	23,749	21,858	20,113	17,814
$ 1,319	$ 2,106	$ 763	$ (781)	$ (1,456)	$ (1,756)
6.23%	12.79%	14.66%	11.35%	14.86%	-5.02%
4.78%	11.88%	13.97%	10.45%	14.38%	-5.33%
6.75%	7.00%	7.50%	7.50%	7.75%	7.75%

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 regularly reviews 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.

EXECUTIVE LEADERSHIP

Working with HOOPP's Board of Trustees, and led by President & Chief Executive Officer, Jim Keohane, the executive team's mandate is to manage and lead HOOPP in accordance with Board policy in the best interests of its members, pensioners and employers.

The executive team is committed to HOOPP's mission of delivering on the pension promise.

PREVIOUS PAGE

FIRST ROW: Marlene Puffer, Dan Anderson, Helen Fetterly, Ronald Meredith-Jones, Patty Rout; SECOND ROW: Joyce Bailey, Louis Rodrigues, James Sanders, Martin Parker; THIRD ROW: Jon Clark, Bryce Walker, Dr. Kevin Smith, Julie Giraldi, Deepak Shukla; FOURTH ROW: Marlene Izzard, Lesley Bell, R. Wayne Gladstone, Adrian Foster

ABOVE

FIRST ROW: Reno Bugiardini, Jim Keohane, Jeff Wendling, Victoria S. Hubbell; SECOND ROW: David L. Miller, Barbara Thomson, David Long

See your future. Now.

The HOOPP 2011 Annual Report was produced by the Healthcare of Ontario Pension Plan.

HOOPP staff appearing in 2011 Annual Report are: Elizabeth Loach, Karen Ng, Michael Sirola, F.H. Syed, Richard Varkey

HOOPP
Healthcare of Ontario Pension Plan

Healthcare of Ontario Pension Plan
1 Toronto Street, Suite 1400
Toronto, ON M5C 3B2