thoughtful change

HOOPP
Healthcare of Ontario Pension Plan

2012 ANNUAL REPORT

strategic investment

We have a shared commitment with members and employers – to keep our costs low and to manage our investments effectively.

planned flexibility

We take a thoughtful approach to investing – with the flexibility to respond to changes and take advantage of opportunities that emerge.

anticipating needs

We deliver on our promise – no matter what the world throws our way. Once a member retires, we pay them a pension for the rest of their life.

annual report 2012

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president & ceo's message

I am pleased to report that HOOPP experienced an exceptional year in 2012, with the Plan's assets growing from $40.3 billion to $47.4 billion. This represents a rate of return of 17.1% – the highest achieved in ten years. More importantly, our funded status improved to 104%, enabling us to continue to maintain benefits and contribution rates for our members and employers.

The year was one of both opportunity and challenge for HOOPP. While we continued to operate within a fragile economy, our focus on the long term enabled us to continue to deliver on the pension promise to our over 274,000 members who depend on HOOPP for secure, predictable income in retirement.

Working on a 70-year horizon, however, requires that we remain conscious of developing trends and create systems that allow us to anticipate risk while capitalizing on opportunities. To do this we continued with technology upgrades, such as modelling capability, to balance risk more effectively, which enables us to limit exposure and replace it with more evenly distributed risk, resulting in better balanced investment portfolios.

This improved modeling capability has assisted us in our planning for the long term and allows for change that is thoughtful and strategic. Costs can be targeted more efficiently and informed decisions made around the implications of proposed changes in Plan benefits. By running a variety of scenarios, we gain a better understanding today of the factors that could potentially take us off course in the future.

As the pension plan provider to Ontario's healthcare community, we are uniquely positioned at the crossroads of two key policy issues – pensions and healthcare. The pressure exerted on retirement programs with the exit of the Baby Boomer generation from the workforce has spurred discussion around the need for adequate retirement savings options. Yet at the same time, defined benefit pension plans like HOOPP that deliver secure, predictable income in retirement continue to come under scrutiny with respect to both affordability and sustainability. Given this environment, it has become increasingly important for us to work with all stakeholders in communicating the very real advantages available to Plan members through the defined benefit pension model.

Healthcare also continues to experience its own particular set of pressures. Our population is aging with people living longer than ever before, placing increased strain on our healthcare system. Solutions to rising costs continue to be sought with an emphasis on fiscal restraint in funding, while the need for healthcare services is on the rise. It is vital that we understand the implications of each of these pressures and position ourselves to be responsive to the challenges – and opportunities – they present.

Our mission to deliver on the pension promise remains at the core of all of our activities. From investments, to plan administration and communications, every action we take is made with our members in mind. Our member outreach increased in 2012 with informational meetings held across the province at times and locations convenient for member attendance. More than 3,600 members took advantage of the opportunity to hear directly from HOOPP representatives about the features, benefits and value of their pension, with plans to increase this program in 2013. Last year also saw the launch of a new public website with more intuitive navigation, video resources and dedicated information sections on retirement.

The performance of the past year is directly attributable to HOOPP's staff and their commitment to our mission. More than an expression, delivering on the pension promise is the unifying purpose that drives us all in ensuring that the hardworking women and men of Ontario's healthcare community can retire in dignity with adequate retirement income.

Jim Keohane
President & Chief Executive Officer

chairs' message

HOOPP has a long tradition of delivering on the pension promise to its members, and 2012 proved to be no exception. Under the 2011 Board-appointed stewardship of President & CEO Jim Keohane, the Fund posted exceptional returns of 17.1%, indicative of the smooth transition in leadership that took place in January of last year.

The HOOPP Board's key responsibility is to keep the pension promise made to HOOPP members, through sound and effective governance actions.

Because of the combined efforts of the Board of Trustees, our Settlors, senior management and staff, HOOPP continues to be in a solid financial position with a funded status of 104%. This surplus position has allowed us to maintain our benefit structure and contribution levels, and has enabled the Board to provide HOOPP pensioners, and deferred pensioners, with an annual cost of living increase in 2013 of 0.62%.

The year 2012 saw continued challenges to the defined benefit (DB) model. HOOPP has been, and will continue to be, a strong advocate for providing pension benefits through its DB plan. The value of the income certainty provided by DB plans is well understood. HOOPP's success in providing such benefits at affordable contribution rates is strong evidence that DB plans can be provided on a cost-effective and sustainable basis.

Our governance structure was tested and proven over the past year. Our strength was recognized and, as a result, HOOPP continues to operate as it has always done – in the best interests of its members, pensioners and employers.

Highlights of the past year included HOOPP members' sustained high levels of satisfaction with the service provided by HOOPP's administrative and outreach teams, indicating continued operating effectiveness.

Administrative and investment operating expenses remained at the favourable end of industry standards, confirming HOOPP's continued operating efficiency. Significant progress was also made in important IT, Finance, Audit and other initiatives that improved HOOPP's internal controls, risk management, IT response and financial projection capabilities.

Great progress was also made in alerting and educating part-time healthcare workers of the advantages of becoming HOOPP members. The results have been significant, with 5,388 joining the Plan in 2012. Efforts also continue to expand Plan coverage beyond hospitals to include community healthcare settings.

What continues to be evident is the commitment of HOOPP's Board, leadership and staff to keeping the pension promise made to HOOPP members, and the skill and expertise they bring to meeting the challenges that lie ahead.

In closing, best wishes and thank you to two HOOPP Trustees, Lesley Bell and Martin Parker, who left the Board during 2012. Their contributions were significant and appreciated.

Ronald Meredith-Jones
2012 Chair

Helen Fetterly
2012 Vice Chair

management's discussion and analysis of operations (MD&A)

overview

The Healthcare of Ontario Pension Plan (HOOPP) delivers pension benefits to more than 274,000 working and retired healthcare workers at over 390 employers across Ontario. In order to continue to deliver these benefits at a stable and reasonable cost, HOOPP uses a liability driven investing (LDI) approach. The LDI approach is a risk management philosophy that considers both the Plan's liabilities (the members' future retirement security) and the Fund's assets together, and focuses on the risk of having insufficient assets to provide funding for members' retirements.

The LDI approach drives portfolio construction, with the establishment of two broad portfolios. First, the Liability Hedge Portfolio is designed to hedge the major risks of the liabilities – namely, inflation and interest rates. Second, the Return Seeking Portfolio aims to add return by controlled risk-taking.

This risk management approach worked as expected in 2012. The return of the Liability Hedge Portfolio more than offset the increase in the Plan's liabilities attributable to the decline in the Plan's discount rate assumption. In addition, the Return Seeking Portfolio contributed a very robust return, with all strategies within this portfolio generating positive results.

Since future returns are uncertain, HOOPP's LDI strategy is designed to keep the Plan's funded status stable over a broad range of possible future conditions.

2012 results

The year 2012 was generally a constructive year in capital markets despite ever-present concerns regarding slow global economic growth, European sovereign debt and uncertainty surrounding the U.S. fiscal cliff and debt ceiling situation. Those concerns were offset by central banks' actions in providing further monetary stimulus and liquidity support. Significant volatility, particularly in equities, was a factor throughout the year.

Global equity markets exhibited positive returns in 2012, although the range of outcomes was quite wide. Canada's S&P/TSX Composite Index, with a total return of 7.19%, was toward the low end, while the S&P 500 Index in the United States was up 16.0% and Germany's DAX Index was up 29.1%. In interest rates, bonds rallied modestly, with real and nominal interest rates remaining at, or near, all-time lows. Credit spreads narrowed from 1.2% in the five-year CDX.NA.IG index to 0.94% by year end.

For the year, HOOPP was able to post the following results:

- regulatory funded ratio of approximately 104% funded as of December 31, 2012, up 1% from 2011;
- asset return of 17.1%, of which 14.29% represented benchmark return and 2.81% return was from active management strategies; and
- growth in total net assets to $47.4 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 Fund's assets to the Plan's liabilities, and provides details on income from specific investment assets and strategies and the Plan's liabilities:

	2012 Income *($ millions)*
Liability Hedge Portfolio	
Short-Term	458
Mid-Term Bonds	228
Long-Term Bonds	457
Real Return Bonds	118
Real Estate	742
Transition Strategy	207
Total Liability Hedge Portfolio	**2,210**
Return Seeking Portfolio	
Canadian Equities	374
U.S. Equities	643
International Equities	612
Long-Term Option Strategy	2,321
Corporate Credit	91
Private Equity	173
Asset Allocation Strategies	213
Absolute Return Strategies	218
FX Hedges	5
Other	(3)
Total Return Seeking Portfolio	**4,647**
Change Due to Net Investment Income	**6,857**
Change Due to Operations	**236**
Change in Smoothing Adjustment	**(3,259)***
Total Change in Smoothed Value of Net Assets Available for Benefits	**3,834**
Change in Pension Obligations	**(3,137)**
Net Change in Regulatory Surplus	**697**
2012 Regulatory Funded Ratio	**104%**

**Refer to Glossary*

As indicated above, the Liability Hedge Portfolio increased by $2,210 million, a return contribution of 5.52%. Note that the Smoothing Adjustment, which represents the amount that the current market-to-market net asset value exceeds its value smoothed over a five-year period, increased by $3,259 million. For the year, the Liability Hedge Portfolio's return more than offset the increase in the Plan's liabilities attributable to the decline in the discount rate used to determine the Plan's pension liabilities. Long-term interest rates are a key factor in determining the expected future return on the Fund's assets and in 2012, the yield on the benchmark 30-year Government of Canada bond fell 0.12%. Combined with minor assumption changes, this led to a decline in the discount rate to 6.0% from 6.3% in 2011. Of the assets within this portfolio, the largest contributions to performance came from long-term bonds, which were up $457 million, real estate up $742 million and short-term securities up $458 million.

The Return Seeking Portfolio was a major story in 2012, contributing $4,647 million, an 11.58% return contribution. All strategies in the Return Seeking Portfolio posted positive results, with the largest contributions coming from the long-term option strategy at $2,321 million, U.S. equities at $643 million, International equities at $612 million and Canadian equities at $374 million.

The pension obligations increased by $3,137 million. This increase is a result of service accrued and a decrease in the discount rate assumption, partially offset by changes in other actuarial assumptions and benefits paid during the year.

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 and asset allocation strategies.

	2012 Value Add *($ millions)*	Percentage Contribution to Asset Return
Liability Hedge Portfolio		
Short-Term	456	1.14%
Mid-Term Bonds	22	0.06%
Long-Term Bonds	55	0.14%
Real Return Bonds	(49)	-0.12%
Real Estate	215	0.54%
Total Liability Hedge Portfolio	**699**	**1.76%**
Return Seeking Portfolio		
Canadian Equities	20	0.05%
U.S. Equities	11	0.03%
International Equities	(11)	-0.03%
Corporate Credit	(27)	-0.07%
Private Equity	49	0.12%
Asset Allocation Strategies	213	0.53%
Absolute Return Strategies	218	0.55%
FX Hedges	17	0.04%
Other	(125)	-0.17%
Total Return Seeking Portfolio	**365**	**1.05%**
Total Value Add	**1,064**	**2.81%**

liability hedge portfolio discussion

Short-term and cash

HOOPP manages a portfolio of short-term fixed income assets that are included in many of its investment strategies. In 2012, the portfolio exceeded its benchmark return by $456 million.

The portfolio achieved this large return through two equal components – the daily accrual income, which includes gains on disposal of securities, and the mark-to-market gains on the portfolio.

The portfolio's performance can be attributed to a number of successful portfolio management strategies: covered bond programs of Canadian banks, provincial bonds and senior debt of global banks, and foreign denominated bonds hedged back to the Canadian floating rate.

Nominal bonds

Interest rates on government bonds were virtually unchanged in 2012, remaining very close to record low yields achieved in 2011. As an example, average yields were 0.08% higher on DEX Universe All-Government Bond Index while they were 0.04% lower on DEX Long-Term All-Government Bond Index.

The benchmark DEX Universe All-Government Bond's total return was 2.65% in 2012. The benchmark DEX Long-Term All-Government Bond's total return was 4.03%.

HOOPP's portfolios outperformed these benchmark returns.

The mid-term bond portfolio outperformed the benchmark DEX Universe All-Government Bond Index by $22 million. The long-term bond portfolio outperformed the DEX Long-Term All-Government Bond Index by $55 million.

Real return bonds (RRBs)

Real interest rates – the implied real yield of inflation linked bonds – fell to brand new record lows in 2012. The average yield on Canada RRBs was 0.13% at the end of 2012, about 0.12% lower than at the end of 2011.

HOOPP's real return bond portfolio returned $118 million last year.

Real estate

HOOPP's real estate portfolio delivered an overall return of 18.33% including fees, with 12.25% of the return coming from capital appreciation. This is the highest absolute return for the portfolio since 2007 and, more important, represents a significant outperformance relative to the Investment Property Databank (IPD) benchmark return of 14.1% excluding fees.

The year 2012 was a difficult one in which to make new acquisitions due to the very competitive investment market in Canada. Much of the focus, therefore, was on the effective asset management of our existing portfolio and the expansion of our development activities. Some of the highlights of the year included:

- acquisition of Marlborough Mall, a regional shopping centre located in Calgary;
- acquisition of a 50% interest in and commencement of construction of a new office project at 150 Elgin Street in Ottawa;
- acquisition of a 51% stake in a site known as Marine Gateway in Vancouver – this is a mixed office and retail project and construction commenced in late 2012;
- commencement of construction on the first phases of our industrial sites in both Calgary and Edmonton;
- maintenance of occupancy at a high level, ending the year again at 95%;
- aggregate net operating income and cash flow from the properties that were ahead of budget; and
- sale of some non-core holdings into the strong investment market; 50% stakes in Trimac House in Calgary and 200 Kent Street in Ottawa were sold at a significant premium to carried values, and three industrial properties in the east Greater Toronto Area were sold for a modest gain.

At year end, the portfolio had a gross value in excess of $6.5 billion and net equity of $5.1 billion, equivalent to 11.58% of the Fund assets.

return seeking portfolio discussion

Equities

Equity markets in 2012 continued to climb "a wall of worry." Despite no shortage of economic, political or socio-economic concerns, most major equity markets around the world generated positive returns. Similar to the previous year, markets proved to be volatile, often testing the resolve of investors.

In 2012, HOOPP managed to traverse the financial landscape well. A disciplined approach of independent analysis and attention to valuation allowed staff to stay the course and ignore some of the market noise.

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

In 2012, HOOPP's Canadian equities and U.S. equities outperformed their respective benchmark returns. The International equity portfolio underperformed its benchmark return.

Canadian equities

During the past year, heightened concern over global Gross Domestic Product (GDP) growth and a potential Chinese hard economic landing weighed heavily on the commodity sectors of the Canadian equity market. Nevertheless, strong performance from the Financials and other generally domestic sectors allowed the market to overcome the commodity weakness and generate decent returns.

HOOPP's Canadian equity portfolio outperformed its benchmark, the S&P/TSX 60 Total Return Index, by 0.5%.

U.S. equities

The U.S. equity market, with a more diversified composition and less commodity exposure, handily outperformed the Canadian equity market.

HOOPP's U.S. equity return outperformed its benchmark by 0.3%.

International equities

In 2012, European and Asian markets performed well. Growth concerns were set aside as monetary policies became more accommodative over the course of the year.

The total return for HOOPP's International equity portfolio was 18.0%, underperforming the benchmark return by 0.3%.

Long-term option strategy

This strategy, in which equity index exposure was combined with equity index options, was the major contributor to the Return Seeking Portfolio, increasing in value by $2,321 million.

Corporate credit

Credit spreads, the additional yield earned over government bonds, narrowed significantly in 2012. HOOPP's corporate credit portfolio was positioned defensively, resulting in underperformance of $27 million. The corporate credit portfolio had a negative performance of $69 million and the structured credit portfolio (established in August 2012) had a positive performance of $42 million.

Private equity

HOOPP currently has approximately $3,450 million invested in or committed to private equity and related special situations. The portfolio generated a return of 9.26% for the year.

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

At year end, the carrying value of the portfolio stood at about $1,999 million, versus $1,972 million a year earlier. At 4.3% of the total Fund, the private equity portfolio has considerable scope for managed growth, and is well prepared for investment opportunities of all sizes.

Absolute return strategies

HOOPP engages in absolute return strategies designed to earn positive returns without sensitivities to interest rates, credit or equities. These strategies made $218 million in 2012.

Asset allocation strategies

HOOPP engages in the strategic re-weighting of major asset class risks (equities, fixed income and corporate credit). Throughout the year, HOOPP was opportunistically overweight in public equities and credit. In 2012, this strategy contributed a profit of $213 million.

Responsible investing

HOOPP believes that enterprises that effectively manage environmental, social and governance (ESG) factors will, over the longer term, generate better returns with reduced operating and financial risks. This belief translates into the integration of ESG factors into our investment decision making process and ensures we remain consistent with our fiduciary duty to Plan members.

As HOOPP invests in various asset classes and investment strategies, how ESG factors are integrated into investment decision making will vary. Where possible, we encourage enterprises to adopt positive ESG policies and practices through direct engagement with management or via collaborative engagement with other investors or organizations. In addition, we vote proxies in support of better ESG disclosure and practices.

Examples of ESG engagement and proxy voting efforts throughout the year include:

- direct engagement with companies and voting proxies in support of establishing better alignment of executive compensation with company performance; and
- discussions with management on increasing disclosure of carbon emissions and water recycling and usage in the energy sector.

In its real estate portfolio, HOOPP applies leading global sustainability practices to enhance asset values, reduce the environmental impact of its buildings and new developments, and accelerate best practices among its property management companies and peer investors.

HOOPP's 2012 sustainability priorities in real estate focused on improving performance in areas such as energy usage, carbon emissions, water consumption and tenant engagement, leading to the following initiatives:

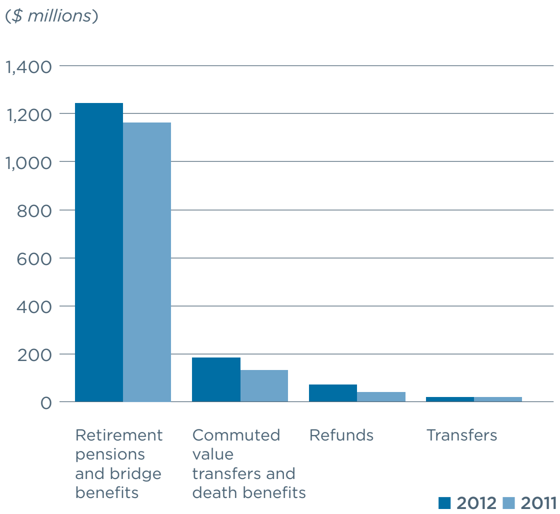
- the introduction of the LEAP Awards (Leadership in Environmental Advancement Program) to support and enhance the HOOPP real estate portfolio's reputation in green leadership and to acknowledge its property management firms for achievements in sustainable practices and performance;
- the development of an annual greenhouse gas (GHG) emissions report for HOOPP's property portfolio with the aim of reducing GHG emission intensity over the longer term; and
- the establishment of portfolio-wide five-year targets for energy and water consumption reduction.

In addition to being a signatory to the United Nations-backed Principles for Responsible Investment (PRI), HOOPP is a member of or a signatory to:

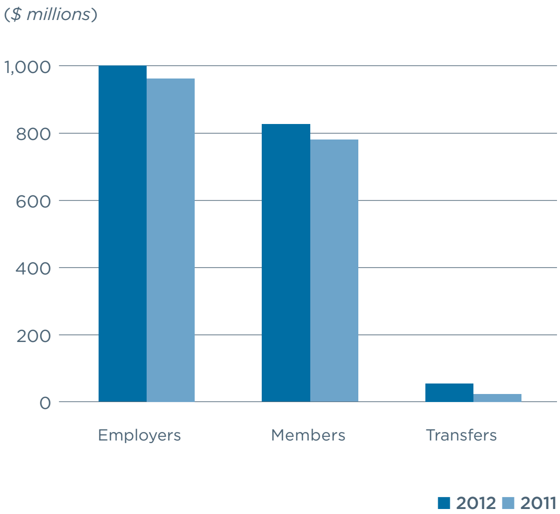
- the Canadian Coalition for Good Governance (CCGG);
- the Extractive Industries Transparency Initiative (EITI); and
- the Carbon Disclosure Project (CDP).

pension benefit vs. contributions

Pension benefits paid



Contributions



During 2012, pension-related payments totalled approximately $1,486 million, an increase of $151 million (or 11.3%) from 2011.

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 2012, 83% was paid to pensioners in the form of monthly benefits, 12% was paid to terminating members (or the beneficiaries of deceased members) in the form of commuted value transfers (lump-sum cash payments or transfers), 3% was paid to non-vested terminating members (or their beneficiaries) in the form of contribution refunds, and the remainder related to members transferring to other pension plans.

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

During 2012, contributions to HOOPP totalled approximately $1,863 million, an increase of $112 million (or 6.4%) from 2011.

The increase was largely due to:

• salary increases in the healthcare industry due to inflation; and

• growth in membership over 2011 levels.

operating expenses

HOOPP's 2012 operating expenses were $141 million, essentially flat with 2011 operating expenses of $139 million. HOOPP's 2012 operating expenses represent 0.30% of net assets, down slightly from 0.34% in 2011 – a reflection of HOOPP's ability to maintain costs even with a significant growth in net assets (up $7 billion or 17.1%).

Factors affecting operating expenses during 2012 include the work on a multi-year project to modernize the technology and processes supporting the annual collection of member data, with the first major deliverable implemented in early 2013. In addition, HOOPP continued its member outreach program by promoting and delivering a number of pre-retirement sessions for members all over Ontario. These informative sessions were held at locations both inside and outside the employer's premises to ensure the sessions were convenient for a broad membership base.

HOOPP continued to build appreciation of the value of the Plan versus alternatives through strong stakeholder relationships, including government and media relations.

In 2012, HOOPP developed a tool, called PRISM, that measures the impact of potential future economic scenarios on the Plan. PRISM takes into account HOOPP's liabilities as well as investments – facilitating the management of the combined risks of both the investment assets and the future pension obligations.

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 0.19% of net assets (down from 0.23% in 2011). HOOPP's Investment expenses are significantly lower than individual retirement account alternatives, where the expense ratios can be up to several times higher.

operational risk management

HOOPP recognizes that its commitment to pay member pensions also involves prudently managing the organization's day-to-day operations.

- HOOPP management places importance on ensuring that HOOPP projects are not only planned and implemented successfully but result in applications and processes that achieve business objectives with good controls in place. The year 2012 saw a lot of projects designed to enable HOOPP to operate more efficiently and effectively in a number of areas.
- Regular reviews of internal controls have been undertaken including the implementation of HOOPP's internal controls over financial reporting (or ICFR) program.
- HOOPP's Internal Audit team has performed reviews of a variety of the organization's processes which include operational risk assessments to gain a better understanding of the likelihood and impacts of a failure of any controls. The results of the team's work have helped management to improve operational controls in a number of areas of the organization.
- HOOPP's business continuity program (BCP) team members, who are representative of all critical areas of the organization, help to develop, maintain and when necessary execute BCP plans to ensure that, in the event of a disruption such as a disaster, HOOPP's core operations can be recovered and continued, if necessary at an alternate site. BCP team members also participate in an exercise each year to test the recoverability of core functions. Every exercise creates opportunities for improving BCP and disaster recovery plans.
- HOOPP staff in a number of areas of the organization continued their work to update their records and data management practices, identify records and data that are no longer required to be retained and which can be disposed of, and to ensure every staff member understands their role in prudent records and data management.
- HOOPP's *Code of Business Conduct* and supporting policies help emphasize to all staff, including both employees and contractors working at HOOPP, the importance of their roles, duties and responsibilities, including duties and responsibilities in preventing conflicts of interest, fraud and other wrongdoing.

internal controls over financial reporting

HOOPP has voluntarily elected to meet the standards required by National Instrument 52-109 of the Canadian Securities Administrators as part of our commitment to strong corporate governance.

The President & CEO and the Senior Vice President & CFO are responsible for establishing and maintaining procedures to ensure internal control over financial reporting and financial statement note disclosures. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

During the year, HOOPP leveraged the framework and criteria set out in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to conduct a comprehensive evaluation of its internal control over financial reporting.

HOOPP has evaluated the effectiveness of internal control over financial reporting, and has concluded that internal control over financial reporting is properly designed and operating effectively as at December 31, 2012.

advocacy

HOOPP recognizes the potential impact that changes in public policy can have on its interests and, indirectly, the interests of its members and employers. Where appropriate, HOOPP will engage with public policymakers and, when appropriate, partner with others in advocacy groups to represent its interests and the interests of its members and employers. HOOPP's advocacy activities are necessarily limited to issues involving pensions and investments, those areas of most relevance to HOOPP's mission and mandate.

- **Bill C-377 – An Act to amend the *Income Tax Act* (requirements for labour organizations).** This legislation was introduced as a private member's bill to require that labour organizations make public disclosure of certain financial information under the *Income Tax Act* (Canada). As initially drafted, the bill included a definition of a "labour trust" that would likely have been interpreted to apply to a pension plan that includes any members that belong to a union. The definition appeared certain to apply where there is union representation on the pension plan's governing board. For this reason, HOOPP and a number of its peer pension plans were very concerned that each would fall within the definition and be caught by the legislation's financial reporting and disclosure requirements. HOOPP and its peer plans advocated for changes to the bill.
- **Financial Services Commission of Ontario (FSCO) – Disclosure Requirements for Financial Statements.** In response to the adoption a couple of years ago by the Canadian Institute of Chartered Accountants (CICA) of new accounting standards for pension plans, FSCO published for comment in a public consultation process a *Financial Statements Guidance Note* which confirms FSCO's expectations for financial statement disclosure by pension plans in relation to these new standards.

  HOOPP staff submitted a response to this draft guidance note advocating a number of changes to the FSCO proposals. Among HOOPP's concerns are that FSCO's proposals go beyond financial disclosures based on standards reflecting generally accepted accounting principles (GAAP).
- **Canadian Coalition for Good Governance (CCGG).** HOOPP is a member of CCGG, which represents some of Canada's largest institutional investment managers and pension funds. The mission statement of 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.
- **Canadian Market Infrastructure Committee (CMIC).** HOOPP has been a member of CMIC since 2010. CMIC was formed as a group of representatives of major Canadian banks and investment dealers as well as representatives of some "buy-side" institutions (including HOOPP) to help address proposed market structural and regulatory changes designed to meet Canada's G20 commitment on the regulation of "over-the-counter" (OTC) derivatives.

industry standards

Effective January 1, 2011, HOOPP adopted the revised accounting standard for pension plans, CICA Handbook Section 4600, *Pension Plans*. According to Section 4600, pension plans must choose between IFRS and Canadian accounting standards for private enterprises (AsPE), and apply these consistently, for matters not specifically covered under Section 4600. In such circumstances, HOOPP has chosen AsPE.

During 2012, the AcSB and the International Accounting Standards Board (IASB) introduced a number of changes to AsPE and IFRS, only one of which impacted HOOPP. Note 1 of the financial statements contains additional information regarding the impact of these changes to HOOPP.

glossary

CORPORATE CREDIT

The asset class consisting of debt obligations of corporations.

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.

HEDGING

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

LIABILITY DRIVEN INVESTING (LDI)

This investing 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.

MARKIT CDX.NA.IG INDEX

A credit default swap index used to hedge credit risk or to take a position on a basket of credit entities.

The Markit CDX.NA.IG index is comprised of 125 North American corporate credits that are rated as investment grade when the index begins trading.

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.

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.

VALUE ADDED RETURNS

Extra returns above market performance or established benchmark.

financial statements

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 and internal auditors, 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 and internal auditors to review the scope and timing of their audits, 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 external auditor has full and unrestricted access to management and the Audit & Finance Committee to discuss their audit approach and any findings, arising from their financial statement audit, which relate 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

March 19, 2013

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, 2012. The purpose of this valuation is to determine pension obligations of the Plan as at December 31, 2012, 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 $39,919 million in respect of service accrued to December 31, 2012 and a smoothed value of net assets of $41,592 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, 2012 and members' pay data provided as at December 31, 2011, all of which was projected to December 31, 2012, using management's estimates of experience for the intervening periods;
- the benefits specified by the terms of the Plan including an adjustment of 0.62% which will become effective April 1, 2013 in respect of all pensioners' and deferred vested members' benefits and the expected ad hoc inflation protection currently intended to be granted April 1, 2014 through April 1, 2018; 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, 2011, 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 (CICA) 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

Laura Newman

Ian Markham
Fellow, Canadian Institute of Actuaries

Laura Newman
Fellow, Canadian Institute of Actuaries

March 19, 2013

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, 2012 and 2011 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, 2012 and 2011 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

March 19, 2013

statements of financial position

As at December 31

($ millions)	**2012**	2011
Net Assets Available for Benefits		
Assets		
Investment assets (note 2)	**$ 90,243**	86,838
Contributions receivable		
Employers	**83**	79
Members	**67**	63
Other assets (note 7)	**150**	148
Total Assets	**90,543**	87,128
Liabilities		
Investment liabilities (note 2)	**43,046**	46,722
Other liabilities	**83**	85
Total Liabilities	**43,129**	46,807
Net Assets Available for Benefits	**47,414**	40,321
Pension Obligations (note 11)	**39,919**	36,782
Surplus (note 11)	**7,495**	3,539

reconciliation of the surplus to the regulatory surplus (note 11)

($ millions)	**2012**	2011
Surplus	**$ 7,495**	$ 3,539
Measurement differences between surplus and regulatory surplus	**(5,822)**	(2,563)
Regulatory Surplus	**$ 1,673**	$ 976

See Description of Plan and accompanying notes to financial statements.

On behalf of the Board of Trustees

Ronald Meredith-Jones
Chair of the Board

Helen Fetterly
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)		2012		2011
Net assets available for benefits, beginning of year	$	**40,321**	$	35,717
Investment Operations				
Net interest and dividend income (note 4)		**4,317**		5,131
Net realized gains and (losses) and changes in unrealized gains and (losses) (note 4)		**2,540**		(804)
Operating expenses – investment (note 10)		**(92)**		(92)
Total Investment Operations		**6,765**		4,235
Plan Operations				
Contributions (note 8)				
Employers		**1,003**		954
Members		**860**		797
Benefit payments (note 9)		**(1,418)**		(1,286)
Refunds and transfers (note 9)		**(68)**		(49)
Operating expenses – plan (note 10)		**(49)**		(47)
Total Plan Operations		**328**		369
Change in net assets available for benefits		**7,093**		4,604
Net assets available for benefits, end of year	$	**47,414**	$	40,321

See Description of Plan and accompanying notes to financial statements.

statements of changes in pension obligations

Year ended December 31

($ millions)		2012		2011
Pension obligations, beginning of year	$	**36,782**	$	34,897
Changes in pension obligations				
Interest accrued on benefits		**2,324**		2,137
Benefits accrued		**1,689**		1,607
Changes in actuarial assumptions (note 11)		**869**		(625)
Estimated experience (gains)/losses (note 11)		**(496)**		88
Amendments to the plan (note 11)		**237**		13
Benefits paid (note 9)		**(1,486)**		(1,335)
Total changes in pension obligations		**3,137**		1,885
Pension obligations, end of year	$	**39,919**	$	36,782

See Description of Plan and accompanying notes to financial statements.

notes to financial statements

DESCRIPTION OF PLAN

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 (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 eight trustees, while four unions, namely the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees Union (OPSEU) and the Service Employees International Union (SEIU), each appoint 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) under Registration Number 0346007.

In conjunction with its Registered Pension Plan (RPP), HOOPP operates a Retirement Compensation Arrangement (RCA). The RCA is administered as part of the overall Plan; 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.

The Board is responsible for administering the Plan in accordance with the *Pension Benefits Act* (Ontario) and *Regulations*, the *Income Tax Act* (Canada) and *Regulations*, the *Plan Text* and HOOPP's policies and procedures.

Funding

Plan benefits are funded by contributions and investment earnings. The Board's Funding Decision Framework 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

Effective July 1, 2012, members of the Plan are immediately vested. Members who terminate employment 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 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 Canadian 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 comprised of an RPP and an RCA as defined in the *Income Tax Act* (Canada). 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 refundable withholding tax on contributions.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the requirements of Part IV of the CICA Handbook, specifically Section 4600, *Pension Plans* and the relevant sections of the Canadian accounting standards for private enterprises (AsPE) in Part II of the CICA Handbook (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.

Adoption of new accounting standards

In 2012, HOOPP adopted the amendments made to International Financial Reporting Standards (IFRS) 7 *Financial Instruments – Disclosures* which include additional disclosures relating to the transfer of financial assets. The additional disclosures are intended to assist users of the financial statements to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.

The amendments became effective for HOOPP for the fiscal year ended December 31, 2012 and are disclosed within note 5. While these amendments result in a change to the presentation in note 5, there is no impact on the reported surplus.

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 investments 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 their 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 loans are valued 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. Investments in real estate include investments held directly and through ownership in limited partnership funds. Direct investments in 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 are reviewed by the external appraisers at year end to determine whether further adjustments to fair value are required. Investments in limited partnership funds are valued based on information provided by the funds' General Partners under limited partnership agreements. 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. Exchange-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 are obtained from an independent data service;
- Implied volatilities – obtained from independent data services;
- Interest rates – quoted rates obtained from central banks and in swap, bond and futures markets; and
- 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 above. All other financial instruments are carried at amortized cost, which approximates fair value due to the short-term nature of these instruments.

Net Investment income/loss recognition

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

Net interest income, which includes net real estate operating income, is recognized on an accrual basis and dividend income is recognized on the 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. 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, 2012 regulatory 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, income 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); and
- ***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 2012 or 2011.

Investments that are classified as Level 3 include real estate and private equity investments, some over-the-counter 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 2 to Level 3 occur when a financial instrument's fair value, which was determined previously through the use of a valuation technique with significant observable inputs, is now determined using a valuation technique with significant unobservable inputs. Transfers from Level 3 to Level 2 occur when techniques used for valuing the financial instrument involve significant observable inputs which were previously unobservable.

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

($ millions)	2012					
	Level 1	Level 2	Level 3	No Level[1]	Total Fair Value	Cost
Investment assets						
Cash	$ (1)	$ -	$ -	$ -	$ (1)	$ (1)
Fixed income						
Short-term securities	-	3	-	-	3	3
Bonds						
Canadian	-	68,687	202	-	68,889	64,635
Non-Canadian	-	5,227	409	-	5,636	5,573
Non-Canadian commercial loans	-	-	141	-	141	136
Total fixed income	-	73,917	752	-	74,669	70,347
Securities purchased under resell agreements	-	3,117	-	-	3,117	3,104
Public equity						
Canadian	91	-	-	-	91	86
Non-Canadian	1,614	-	-	-	1,614	1,440
Total public equity	1,705	-	-	-	1,705	1,526
Equity-oriented						
Real estate						
Canadian	-	-	5,465	-	5,465	3,886
Non-Canadian	-	-	389	-	389	403
Private equity and special situations						
Canadian	-	-	802	-	802	718
Non-Canadian	-	-	1,197	-	1,197	1,238
Total equity-oriented	-	-	7,853	-	7,853	6,245
Derivative instruments (note 3)	28	1,527	69	-	1,624	508
Investment receivables						
Cash collateral pledged (note 5)	253	-	-	-	253	253
Pending trades[1]	-	-	-	517	517	517
Accrued investment income[1]	-	-	-	506	506	506
Total investment receivables	253	-	-	1,023	1,276	1,276
Total investment assets	1,985	78,561	8,674	1,023	90,243	83,005
Investment liabilities						
Obligations related to equities sold short (note 5)	(18,334)	-	-	-	(18,334)	(16,767)
Obligations related to bonds sold short (note 5)	-	(2,993)	-	-	(2,993)	(2,879)
Derivative instruments (note 3)	(7)	(6,828)	(159)	-	(6,994)	(5,351)
Securities sold under repurchase agreements	-	(12,739)	-	-	(12,739)	(12,726)
Cash collateral received (note 5)	(1,201)	-	-	-	(1,201)	(1,201)
Pending trades[1]	-	-	-	(782)	(782)	(782)
Accrued investment liabilities[1]	-	-	-	(3)	(3)	(3)
Total investment liabilities	(19,542)	(22,560)	(159)	(785)	(43,046)	(39,709)
Net investments	$ (17,557)	$ 56,001	$ 8,515	$ 238	$ 47,197	$ 43,296

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

($ 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 equity	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 (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 (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 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, 2012:

Changes in Fair Value Measurement for Instruments in Level 3 *($ millions)*	**Fair Value Dec. 31, 2011**	**2012** 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, 2012**
Bonds								
Canadian	$ -	$ -	$ -	$ 204	$ (2)	$ -	$ -	**$ 202**
Non-Canadian	94	9	3	402	(99)	-	-	**409**
Non-Canadian commercial loans	248	-	(2)	367	(472)	-	-	**141**
Real estate[3]								
Canadian	4,648	63	408	450	(104)	-	-	**5,465**
Non-Canadian	276	-	24	97	(8)	-	-	**389**
Private equity and special situations								
Canadian	779	18	(5)	76	(66)	-	-	**802**
Non-Canadian	1,193	51	58	159	(264)	-	-	**1,197**
Assets from derivative instruments (note 3)	183	(37)	(14)	3	(66)	-	-	**69**
Liabilities from derivative instruments (note 3)	(256)	35	64	(108)	109	(3)	-	**(159)**
Total	**$ 7,165**	**$ 139**	**$ 536**	**$ 1,650**	**$ (972)**	**$ (3)**	**-**	**$ 8,515**

[1] *The realized and unrealized gain included above relating to those assets and liabilities held at the end of the year were $72 million and $548 million respectively.*
[2] *Transfers into and transfers out of Level 3 are assumed to occur at the end of the year.*
[3] *For real estate, additional mortgage debt borrowings of $270 million are included in Purchases and Issues and mortgage debt repayments of $135 million are included in Sales and Settlements.*

	2011							
Changes in Fair Value Measurement for Instruments in Level 3 *($ millions)*	**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	114	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 realized and unrealized gain included above relating to those assets and liabilities held at the end of the year were $170 million and $341 million respectively.
[2] Transfers into and transfers out of Level 3 are assumed to occur at the end of the year.
[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.

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, summarized by category for fixed income, (excluding short sales and derivative exposures) where the cost or fair value exceeds 1% of the cost or fair value of the Fund, being approximately $430 and $470 million respectively as at December 31, 2012, are as follows:

($ millions)	**Maturity Date**	**Coupon Rate %**	**Fair Value**	**Cost Value**
Fixed income				
Canadian federal bonds	2015 - 2042	1.35 - 9.00	$ 11,919	$ 11,258
U.S. treasury bonds	2042	2.75 - 3.125	1,166	1,119
Canadian provincial & municipal bonds	2013 - 2050	1.60 - 5.60	13,968	13,200
Canadian real return bonds	2021 - 2044	1.50 - 4.55 *Plus CPI**	5,410	4,066
Public equity				
Total S.A.	-	-	$ 1,200	$ 1,047

**CPI – Canadian 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 equities, or a single equity. 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 default 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 and fair values of the Plan's derivative positions, as at December 31:

Derivative Financial Instruments *($ millions)*	**2012**		
	Notional Value[1]	**Fair Value**[2] **Assets**	**Fair Value**[2] **Liabilities**
Foreign exchange forward contracts	$ 8,960	$ 47	$ (10)
Futures contracts			
Equity	4,723	27	(7)
Bond	568	1	-
Options			
Equity	26,545	172	(4,177)
Swaption	313	11	-
Credit default swap	2,257	4	(3)
Swaps			
Equity	42,416	391	(187)
Interest rate	39,410	541	(1,205)
Cross-currency	20,107	306	(1,074)
Credit default	28,092	124	(331)
Total	**$ 173,391**	**$ 1,624**	**$ (6,994)**

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	-
Credit default swap	-	-	-
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)**

[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 as at December 31:

Derivative Financial Instruments by Term to Maturity (Notional Values) *($ millions)*	**2012**			
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange forward contracts	$ 8,960	$ -	$ -	**$ 8,960**
Futures contracts				
Equity	4,723	-	-	**4,723**
Bond	568	-	-	**568**
Options				
Equity	4,191	907	21,447	**26,545**
Swaption	199	114	-	**313**
Credit default swap	2,257	-	-	**2,257**
Swaps				
Equity	39,645	2,367	404	**42,416**
Interest rate	11,115	23,949	4,346	**39,410**
Cross-currency	5,338	11,852	2,917	**20,107**
Credit default	9,304	13,580	5,208	**28,092**
Total	**$ 86,300**	**$ 52,769**	**$ 34,322**	**$ 173,391**

Derivative Financial Instruments by Term to Maturity (Notional Values) *($ millions)*	**2011**			
	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**

NOTE 4: NET INVESTMENT INCOME

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

($ millions)	2012			
	Net Interest and Dividend Income[(1)(2)]	Realized Gain/(Loss) on Investments[(1)]	Changes in Unrealized Gain/(Loss) on Investments[(1)]	Net Investment Income
Cash and pending trades	$ 2	$ (225)	$ -	**$ (223)**
Fixed income				
Short-term securities	-	-	-	**-**
Net Bonds				
Canadian	2,227	707	(960)	**1,974**
Non-Canadian	109	(34)	103	**178**
Non-Canadian commercial loans	12	-	(2)	**10**
	2,348	673	(859)	**2,162**
Net repurchase agreements	(125)	(237)	34	**(328)**
Net public equity				
Canadian	(714)	(395)	(1,460)	**(2,569)**
Non-Canadian	2,523	(3,051)	158	**(370)**
	1,809	(3,446)	(1,302)	**(2,939)**
Equity-oriented				
Net real estate operating income (note 4b)				
Canadian	263	63	408	**734**
Non-Canadian	6	-	24	**30**
Private equity and special situations				
Canadian	9	18	(5)	**22**
Non-Canadian	17	51	58	**126**
	295	132	485	**912**
Derivatives	-	7,287	(2)	**7,285**
	4,329	4,184	(1,644)	**6,869**
Transaction costs	(12)	-	-	**(12)**
Total net investment income	**$ 4,317**	**$ 4,184**	**$ (1,644)**	**$ 6,857**

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

($ millions)	2011			
	Net Interest and Dividend Income[1][2]	**Realized Gain/(Loss) on Investments[1]**	**Changes in Unrealized Gain/(Loss) on Investments[1]**	**Net Investment Income**
Cash and pending trades	$ -	$ 105	$ -	**$ 105**
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)	(4)	(32)	**(150)**
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 net investment income	**$ 5,131**	**$ (6,010)**	**$ 5,206**	**$ 4,327**

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

b) Real estate income

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

($ millions)	**2012**	2011
Rental revenue	$ 598	$ 561
Property operating & other expenses	(285)	(271)
Operating income	313	290
Mortgage interest	(44)	(42)
Net real estate operating income	**$ 269**	$ 248

NOTE 5: COLLATERAL

HOOPP has investment policies and procedures in place which specify the requirements for using collateral to reduce the total net 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.

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 also enters into repurchase agreements, which are economically similar to collateralized loans. The net exposure represents the fair value of collateral pledged as a result of the change in value of the securities sold under repurchase agreements.

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.

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. The Plan also lends securities through a third party, in accordance with a securities lending agreement, in exchange for a fee. As at December 31, 2012 the fair value of the securities lent through this program totalled $176 million (2011: $176 million) in exchange for collateral received of $186 million (2011: $185 million).

HOOPP also receives collateral for certain derivative transactions. The Plan also enters into repurchase agreements, which are economically similar to collateralized loans. The net exposure represents the fair value of collateral received as a result of the change in value of the securities under repurchase agreements.

As at December 31, 2012, the fair value of the collateral pledged and received with various financial institutions, and the associated liabilities and receivables from the activity giving rise to the collateral requirement, was as follows:

($ millions)	2012		
	Repurchase Agreements	Securities (Borrowed)/Lent	Derivatives
Fair value of associated receivables	$ 3,117	-	$ 1,624
Fair value of associated liabilities	(12,739)	(21,327)	(6,994)
Net liabilities	**(9,622)**	**(21,327)**	**(5,370)**
Fair value of securities on loan	-	4,459	-
Fair value of securities borrowed	-	(4,879)	-
Net securities borrowed	-	**(420)**	-
Fair value of collateral pledged:			
Cash	-	248	5
Marketable securities	12,730	24,091	6,367
Total	12,730	24,339	6,372
Fair value of collateral received:			
Cash	-	1,201	-
Marketable securities	2,939	598	120
Total	2,939	1,799	120
Net collateral pledged	**9,791**	**22,540**	**6,252**
Net exposure	**$ (169)**	**$ (793)**	**$ (882)**

($ millions)	2011		
	Repurchase Agreements	Securities (Borrowed)/Lent	Derivatives
Fair value of associated receivables	$ 3,188	$ -	$ 3,041
Fair value of associated liabilities	(14,192)	(22,929)	(8,163)
Net liabilities	**(11,004)**	**(22,929)**	**(5,122)**
Fair value of securities on loan	-	2,816	-
Fair value of securities borrowed	-	(777)	-
Net securities on loan	**-**	**2,039**	**-**
Fair value of collateral pledged:			
Cash	-	102	325
Marketable securities	14,194	21,823	5,985
Total	14,194	21,925	6,310
Fair value of collateral received:			
Cash	-	102	545
Marketable securities	3,290	296	-
Total	3,290	398	545
Net collateral pledged	**10,904**	**21,527**	**5,765**
Net exposure	**$ 100**	**$ (637)**	**$ (643)**

For any collateral received, the Plan is able to re-pledge, loan or use it under repurchase agreements. As at December 31, 2012, $598 million (2011: $279 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 Decision Framework. The Funding Decision Framework 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;
- annually reviewing the actuarial assumptions underlying the Plan's pension obligations to ensure continued appropriateness; and
- 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 strategies, 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 Board's 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 benefit 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 actuarial valuations and the appointment and performance of the Board's external actuarial advisors.

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, and
- unexpected increases in inflation.

In addition to the economic contributors to funding risk listed above and further described in the Financial Risk Management section on the next page, the Plan's pension obligations are also affected by non-economic factors like changes in member demographics.

As at December 31, 2012, the Plan had a surplus of $7,495 million (2011: $3,539 million) based on the difference between the market value of net assets available for benefits and the pension obligations. On a regulatory filing basis at December 31, 2012, the Plan had a regulatory surplus of $1,673 million compared to a surplus of $976 million as at December 31, 2011 (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 ended December 31, 2011. 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 below by class of financial instrument.

Interest Rate Sensitive Instruments *($ millions)*	**2012**					**2011**
	Term to Maturity					
	Within 1 Year	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Total**	**Total**
Short-term securities	$ 3	$ -	$ -	$ -	**$ 3**	**$ -**
Canadian bonds[1]						
Federal bonds	5,823	5,468	1,484	5,893	**18,668**	**17,370**
Provincial and municipal bonds	1,952	11,951	14,152	11,461	**39,516**	**38,544**
Real return bonds	-	-	531	5,366	**5,897**	**5,125**
Corporate bonds	541	2,977	101	179	**3,798**	**4,212**
	8,316	20,396	16,268	22,899	**67,879**	**65,251**
Non-Canadian bonds[1]	1,256	74	90	2,251	**3,671**	**3,208**
Non-Canadian commercial loans	-	141	-	-	**141**	**248**
Derivatives	(16,166)	(17,143)	(6,791)	392	**(39,708)**	**(36,092)**
Repurchase agreements	(9,657)	35	-	-	**(9,622)**	**(11,004)**
Total	**$ (16,248)**	**$ 3,503**	**$ 9,567**	**$ 25,542**	**$ 22,364**	**$ 21,611**

[1] *Net of Canadian bonds sold short of $1,010 million (2011: $738 million) and Non-Canadian bonds sold short of $1,965 million (2011: $1,796 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, 2012, a 1% increase/decrease in interest rates would have decreased/increased the Plan's net assets available for benefits by $4,481 million (2011: $3,559 million - amount has been restated from prior year). 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	**2012**		2011	
($ millions)	**Local**	**Canadian**	Local	Canadian
Australian dollars	**4**	**5**	(1)	(1)
Euros	**(6)**	**(7)**	(11)	(15)
Japanese yen	**72**	**1**	(167)	(2)
U.S. dollars	**2,270**	**2,252**	(83)	(85)

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, 2012, 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 $22.5 million (2011: decrease/increase of approximately $1.0 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, derivatives, 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:

Equity Exposure By Market *($ millions)*	**2012** Effective Equity Exposure	**2012** % of Total Equity Exposure	2011 Effective Equity Exposure	2011 % of Total Equity Exposure
Public equity				
Canadian	$ 4,676	22.7%	$ 3,949	20.4%
U.S.	11,847	57.4%	12,009	62.1%
Non-North American	4,098	19.9%	3,378	17.5%
	$ 20,621	**100.0%**	$ 19,336	100.0%

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, 2012, a 1% decline/increase in equity markets would have resulted in a decrease/increase in the Plan's net assets available for benefits of $206.2 million (2011: $193.4 million).

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.

Credit risk

Credit risk is the risk of loss associated with an obligor's potential inability or unwillingness to fulfill its contractual obligations.

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 was as follows:

Credit Risk Exposure *($ millions)*	**2012** **Total Credit Exposure**	**2012** **% of Total**	2011 Total Credit Exposure	2011 % of Total
Physical sovereign securities AAA	$ 20,215	23.3%	$ 18,350	22.7%
Physical securities:				
AAA	11,223	12.8%	9,233	11.3%
AA	23,289	26.8%	23,196	28.7%
A	16,500	19.0%	16,918	20.9%
BBB	689	0.8%	1,190	1.5%
BB or below	209	0.2%	213	0.3%
Credit risk exposure (physical securities)	51,910	59.6%	50,750	62.7%
Credit risk exposure (credit derivatives)	11,620	13.4%	9,408	11.6%
Counterparty credit risk exposure	142	0.2%	257	0.3%
Repurchase agreements	699	0.8%	1,042	1.3%
Securities lending program	2,320	2.7%	1,093	1.4%
Maximum credit risk exposure	86,906	100.0%	80,900	100.0%
Credit risk protection (credit derivatives)	(17,960)		(8,937)	
Collateral received	(2,058)		(1,377)	
Total	**$ 66,888**		$ 70,586	

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 $1,412 million (2011: $1,200 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 primarily 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 collateral. 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.

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, 2012 totalled $43,046 million (2011: $46,722 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, repurchase agreements 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)		**2012**		2011
Refundable withholding tax on contributions	$	**137**	$	132
Fixed assets		**9**		12
Other		**4**		4
Total	**$**	**150**	$	148

NOTE 8: CONTRIBUTIONS

($ millions)		**2012**		2011
Employers				
Current service contributions	$	**1,003**	$	954
Members				
Current service contributions		**796**		757
Past service contributions from members		**25**		18
Transfers from other plans		**39**		22
		860		797
Total	**$**	**1,863**	$	1,751

NOTE 9: BENEFITS

($ millions)		2012		2011
Benefit payments				
Retirement pension and bridge benefits[1]	$	1,234	$	1,146
Commuted value transfers and death benefits		184		140
		1,418		1,286
Refunds and transfers				
Refunds		46		29
Transfers to other plans		22		20
		68		49
Total	$	1,486	$	1,335

[1] *Includes disability payments of $82 million (2011: $81 million)*

NOTE 10: OPERATING EXPENSES

($ millions)		2012		2011
Investment:[1]				
Administration	$	86	$	82
Legal, actuarial and other professional fees[2]		4		8
Custodial		2		2
		92		92
Plan:[1]				
Administration		44		40
Legal, actuarial and other professional fees[2]		5		7
		49		47
Total	$	141	$	139

[1] *Based on an allocation of corporate expenses*
[2] *Includes amounts paid or payable to the auditors pertaining to statutory audit fees of $658,400 (2011: $680,400), audit-related fees of $nil (2011: $22,400), and non-audit fees of $225,700 (2011: $180,300). Also includes amounts paid or payable to the actuary pertaining to actuarial fees of $595,500 (2011: $590,500).*

NOTE 11: PENSION OBLIGATIONS

Pension obligations

The pension obligations are based on management's assumptions and include a provision for investment 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 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 CPI rate.

To determine the pension obligations as at December 31, 2012 and December 31, 2011, 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	2012[2]	2011[2]
Discount rate[1]	6.00%	6.30%
Rate of price inflation	2.25%	2.25%
Real discount rate	3.75%	4.05%
Salary escalation rate	4.25%	4.75%

[1] *Net of allowance for investment expenses of 0.25% (2011: 0.25%)*
[2] *Changes from actuarial assumptions resulted in an actuarial loss of $869 million (2011: $625 million gain).*

Actuarial methodology for financial reporting

For the determination of the actuarial present value of the pension obligations as at December 31, 2012, 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, 2012 and members' pay data provided as at December 31, 2011, all of which was projected to December 31, 2012 using management's estimates of experience for the intervening periods. The earnings estimates were determined based on 2011 experience and estimate assumptions.

Using this method and data, the pension obligations (or going concern actuarial pension obligations) at December 31, 2012, was $39,919 million (2011: $36,782 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 2012, there was an estimated experience gain of $496 million (2011: loss of $88 million).

Plan provisions

As discussed under the Description of the Plan, the Board has the authority to provide ad hoc inflation protection for retirements and deferred retirements for service after 2005. During 2012, the Board authorized 75% of the 2012 CPI increase as an ad hoc increase effective April 1, 2013. This resulted in an increase in the pension obligations of approximately $7 million (2011: $13 million). In addition, the December 31, 2012 pension obligations include $230 million related to ad hoc inflation protection, currently intended to be granted April 1, 2014 through April 1, 2018.

Surplus

According to 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. The surplus on December 31, 2012 was $7,495 million (2011: $3,539 million).

Prior to 2011, 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 $5,822 million at December 31, 2012 (2011: $2,563 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, 2011, and a copy of that valuation was filed with FSCO and CRA. The effective date of the next required valuation is December 31, 2014.

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, 2011 regulatory funding valuation were as follows:

Discount rate[1]	6.30%
Rate of price inflation	2.25%
Real discount rate	4.05%
Salary escalation rate	4.75%

[1] *Net of allowance for investment expenses of 0.25% (2010: 0.25%)*

The most recent regulatory filing valuation conducted as at December 31, 2011 disclosed a smoothed value of net assets of $37,758 million with accrued going concern pension obligations of $36,782 million, resulting in a going concern surplus of $976 million. In accordance with Regulation 1.3.1(3) of the *Pension Benefits Act* (Ontario), the solvency deficiency at December 31, 2011 was deemed to be $nil.

NOTE 13: RETIREMENT COMPENSATION ARRANGEMENT

The 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, 2012 was $266 million (2011: $261 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, 2012, these commitments totalled $1,451 million and $1,228 million, respectively (2011: $1,142 million and $575 million, respectively). The Plan has also committed to purchasing services related to the pension administration system totalling approximately $72 million (2011: $76 million), payable over the next 10 years in accordance with the terms and conditions of the contract. Commitments which are deemed to be immaterial have not been disclosed.

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 sold by the Plan 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 are disclosed in note 3.

Indemnifications

According to the Agreement and Declaration of Trust, the Plan may indemnify its trustees and employees against certain claims that may be made against them. In addition, the Plan may in certain circumstances in the course of the Plan's investment activities and its normal course of operations, agree to indemnify a contractual counterparty. Under the terms of these various arrangements, the Plan may be required to compensate 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. As at December 31, 2012, the amount recorded as a liability for claims under these arrangements was $nil (2011: $nil).

Contingencies

As at December 31, 2012, the Plan was involved in defending against certain claims or asserting claims against third parties. The outcome and possible impact to the Plan of such litigation or claims is inherently difficult to predict. A provision for a present obligation is recognized when a reliable estimate can be determined and the settlement of any contingent obligation is probable. However, it is the opinion of the Plan's management that any impact that may result would not have a significant adverse effect on the Plan's financial statements.

ten-year review

For the year ended December 31

($ millions)	2012	2011	2010	2009
Change in net assets				
Increase/(Decrease) in net assets				
Net investment income/(loss)	**$ 6,857**	$ 4,327	$ 4,245	$ 4,040
Contributions				
Employers	**1,003**	954	921	890
Members	**860**	797	793	744
Total increase/(decrease)	**8,720**	6,078	5,959	5,674
Decrease in net assets				
Benefits	**1,486**	1,335	1,229	1,159
Investment & plan operating expenses	**141**	139	129	131
Total decrease	**1,627**	1,474	1,358	1,290
Increase/(Decrease) in net assets	**$ 7,093**	$ 4,604	$ 4,601	$ 4,384
Net assets				
Investments				
Cash	**$ (1)**	$ 3	$ 14	$ -
Fixed income	**74,669**	71,241	60,322	49,121
Public equity	**1,705**	931	773	889
Equity-oriented	**7,853**	6,896	5,941	5,040
Securities purchased under resell agreements	**3,117**	3,188	1,134	336
Derivative instruments	**1,624**	3,041	1,831	1,019
Investment receivables	**1,276**	1,538	1,322	1,566
	90,243	86,838	71,337	57,971
Contributions receivable	**150**	142	135	133
Other assets	**150**	148	142	142
Total assets	**90,543**	87,128	71,614	58,246
Investment liabilities	**(43,046)**	(46,722)	(35,825)	(27,071)
Other liabilities	**(83)**	(85)	(72)	(59)
Total liabilities	**(43,129)**	(46,807)	(35,897)	(27,130)
Net assets	**$ 47,414**	$ 40,321	$ 35,717	$ 31,116
Pension obligations	**39,919**	36,782	34,897	32,020
Surplus/(Deficit)	**$ 7,495**	$ 3,539	$ 820	$ (904)
Investment performance				
Investment rate of return – net	**17.10%**	12.19%	13.68%	15.18%
Benchmark return	**14.29%**	9.87%	10.31%	9.77%
Long-term return target	**6.50%**	6.50%	6.63%	6.50%

2008	2007	2006	2005	2004	2003
$ (3,591)	$ 1,748	$ 3,136	$ 3,095	$ 2,135	$ 2,393
840	782	718	685	633	532
713	737	658	596	529	450
(2,038)	3,267	4,512	4,376	3,297	3,375
1,143	1,079	1,019	856	807	712
89	100	91	85	70	64
1,232	1,179	1,110	941	877	776
$ (3,270)	$ 2,088	$ 3,402	$ 3,435	$ 2,420	$ 2,599
$ 35	$ 38	$ 81	$ 122	$ 67	$ 32
46,125	42,875	30,487	24,533	16,890	10,736
1,904	4,612	6,374	6,012	5,421	5,548
4,836	4,290	3,647	2,726	2,220	2,139
-	348	-	-	-	-
1,754	1,566	892	783	639	559
1,333	557	642	613	285	158
55,987	54,286	42,123	34,789	25,522	19,172
124	111	102	104	90	76
148	127	104	81	61	46
56,259	54,524	42,329	34,974	25,673	19,294
(29,502)	(24,493)	(14,391)	(10,438)	(4,579)	(623)
(25)	(29)	(24)	(24)	(17)	(14)
(29,527)	(24,522)	(14,415)	(10,462)	(4,596)	(637)
$ 26,732	$ 30,002	$ 27,914	$ 24,512	$ 21,077	$ 18,657
31,244	28,683	25,808	23,749	21,858	20,113
$ (4,512)	$ 1,319	$ 2,106	$ 763	$ (781)	$ (1,456)
-11.96%	6.23%	12.79%	14.66%	11.35%	14.86%
-8.98%	4.78%	11.88%	13.97%	10.45%	14.38%
6.50%	6.75%	7.00%	7.50%	7.50%	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.

Above
First Row: Louis Rodrigues, Helen Fetterly, Ronald Meredith-Jones, Marlene Puffer, Mary Riddell; **Second Row:** Adrian Foster, Julie Giraldi, Yves Shank, Jon Clark, Joyce Bailey, James Sanders; **Third Row:** Martin Reid, Dan Anderson, Bryce Walker, Linda Haslam-Stroud, Dr. Kevin Smith, Eoin Callan, R. Wayne Gladstone

executive leadership

HOOPP's executive team is committed to the organization's mission of delivering on the pension promise. Led by President & CEO Jim Keohane, the team works in accordance with Board policy in the best interests of the Plan's members, pensioners and employers.

Above
Left to Right: Barbara Thomson, David L. Miller, Steven McCormick, Jim Keohane, Reno Bugiardini, Jeff Wendling, Victoria S. Hubbell, David Long

CHAIRS

Ronald Meredith-Jones
2012 Chair

Past Chair, Toronto Rehabilitation Institute

Helen Fetterly
2012 Vice Chair

Secretary-Treasurer, Ontario Council of Hospital Unions

TRUSTEES

Dan Anderson
Director & Chief Negotiator, Ontario Nurses' Association

Eoin Callan
SEIU Local 1 Canada

Jon Clark
SEIU Local 1 Canada

Adrian Foster
Board Member, Service Coordination Eastern Ontario

Julie Giraldi
Chief Human Resources Officer & VP, Health HR Leadership, Ontario Hospital Association

R. Wayne Gladstone
Board Chair, CE LHIN

Linda Haslam-Stroud
President & Chief Executive Officer, Ontario Nurses' Association

Marlene Puffer
Managing Editor, Global Fixed Income Strategy, BCA Research Corp.

Martin Reid
President, Home Trust Company, Home Capital Group Inc.

Louis Rodrigues
First Vice President, Ontario Council of Hospital Unions

James Sanders
OPSEU Local 142

Yves Shank
OPSEU

Dr. Kevin Smith
President & CEO, St. Joseph's Health System

Bryce Walker
Chair, Board of Directors, Grand River Hospital

PENSION OBSERVERS

Joyce Bailey
Former President, Wellesley Hospital

Mary Riddell
SEIU

EXECUTIVES

Jim Keohane
President & CEO

Reno Bugiardini
Senior Vice President, Information Technology & Facilities Services

Victoria S. Hubbell
Senior Vice President, Strategy & Stakeholder Relations

David Long
Senior Vice President & Chief Investment Officer, ALM and Derivatives & Fixed Income

Steven McCormick
Senior Vice President, Plan Operations

David L. Miller
General Counsel & Senior Vice President, Governance

Barbara Thomson
Senior Vice President, Finance & Chief Financial Officer

Jeff Wendling
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Jeff Rabb
Vice President, ALM & Plan Risk

Nan Samaroo
Vice President, Investment Operations

Silvano Trinca
Vice President, Plan & Employer Services

Vince Zambrano
Vice President, Public Equities

ADVISORS

Towers Watson Canada Inc.
Actuary

PricewaterhouseCoopers LLP
External Auditor

Cavalluzzo Hayes Shilton McIntyre & Cornish LLP and **Osler, Hoskin & Harcourt LLP**
Board Legal Counsel

Eric Kirzner, Jois Mundell, Maureen Stapleton
Investments Advisors

See your future. Now.

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Healthcare of Ontario
Pension Plan

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