2013 Annual Report

FULLY COMMITTED

HOOPP
Healthcare of Ontario Pension Plan

FULLY
FOCUSED

We know pensions, because it's all we do. We have one single purpose — and that is to deliver pension payments to our members. It's the reason we exist. And it guides everything we do. This is what matters to us.


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FULLY FUNDED

Our members can count on the certainty of a secure retirement income because our pension model works. HOOPP is 114% funded, which means all members can be confident that their pension will be there for them — for life.

FULLY DEDICATED

From making investment decisions with a long-term view, to ensuring that the cheques are delivered on time, every individual at HOOPP is committed to keeping our pension promise. We're all here to work for you.

ANNUAL REPORT 2013

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PRESIDENT & CEO'S MESSAGE

FULLY COMMITTED TO DELIVERING ON THE PENSION PROMISE

At HOOPP, delivering on the pension promise is more than an expression. It's a commitment we make to the over 286,000 members of Ontario's healthcare community who rely on HOOPP for the certainty of replacement income in retirement. It's also the benchmark from which we set goals and measure success.

HOOPP may be receiving contributions today from a healthcare worker in their 20s, with the expectation we will be making pension payments to them in their 90s. We have a very long-term time horizon to manage the Plan. Over that timeframe, we fully expect that we will encounter market turbulence from time to time. Our key objective is to pay the promised pension benefits to members regardless of the economic backdrop and to ensure that the HOOPP Plan remains affordable for both members and employers. To achieve this we strive to maintain a fully funded position, meaning that we have sufficient assets to meet all current and future pension obligations.

This is supported by an investment strategy where the goal is to have assets outperform liabilities and focuses on the funded status of the Plan. I am pleased to report that our funded status has strengthened from 104% to 114%, with Plan assets growing from $47.4 billion to $51.6 billion, representing a rate of return of 8.55%.

A PENSION MODEL THAT WORKS

Simply put, we are in the business of delivering pension benefits to our members. This is our sole purpose and the reason HOOPP exists. While we strive to add value in our investments by surpassing market benchmarks, in order to be successful we must remain committed to meeting our primary objective of retaining our fully funded status. This supports our ability to maintain stable benefits and contribution rates, and to provide our members with secure, predictable income in retirement, both today and in the future.

HOOPP has a very effective joint governance structure which was created in 1993. That independent structure is a foundational element that enables HOOPP to operate as a business, with decisions made in the best interests of our members. With this framework, and the adoption of a liability driven investment strategy that focuses on delivering promised pension benefits, HOOPP has crafted a pension model that works for our members.

Because HOOPP invests for a 75-year time horizon, we needed to develop an investment strategy that more effectively manages the risk of the inevitable market volatility that will occur over this long time frame. The starting point for the construction of HOOPP's investment portfolio is our liabilities, which are the future pension payments owed to HOOPP members. In each instance, we apply our risk management discipline in order to strike the right balance between earning a sufficient rate of return without subjecting the Plan – and our members – to excessive volatility. Our model differs from others in that it is designed to provide promised member benefits within a framework of long-term measured risk management.

In addition, our targeted, single focus on delivering pensions has helped to maintain lower operational costs, while our size offers economies of scale that benefit our investment strategies.

While seemingly an over simplification, it's important to understand the business you are in. We know pensions – it's what we do. With this as our purpose, we will continue to deliver on our commitment to our members as we have done for more than a half century.

Jim Keohane
President & Chief Executive Officer

CHAIRS' MESSAGE

We are pleased to report that HOOPP experienced yet another strong year in 2013, with the Plan continuing to be solidly funded at 114%. This performance speaks to the dedication of HOOPP staff on their continued commitment to delivering on the pension promise to the women and men who comprise Ontario's healthcare workforce.

STRATEGIC DIRECTION

Over the course of the year, the Board and HOOPP senior leadership worked to develop a strategy that will take us forward and support our efforts in ensuring the long-term health and sustainability of the Plan.

Our direction is clear. Building from a solid foundation of financial stability and service strength, we will continue to focus our efforts on retaining our Fully Funded position and continuing our Defined Benefit (DB) Advocacy efforts. Both of these strategic imperatives speak to our enduring commitment to protecting the retirement security of our members.

FULLY FUNDED

HOOPP has broken new ground with its focus on its fully funded status as our measure of success as opposed to focusing on asset returns. This impacts how we evaluate risk relative to our liability driven investment strategy, which seeks to match assets to future pension payments, or liabilities. It ensures we have sufficient assets to cover the full benefit promised to the over 286,000 members of Ontario's healthcare community. Additionally, our solidly funded status allows us to continue to keep our benefits structure and contribution levels stable. In fact, in spite of the highly volatile financial markets we have experienced over the last ten years, there have been no significant changes in contribution rates for a decade.

While this approach has taken us in a new direction, our focus remains steadfast to deliver on the pension promise – a promise we have fulfilled for over 50 years.

DEFINED BENEFIT ADVOCACY

We've seen the issue of adequate replacement income in retirement raised in the media and become a focus at both the provincial and federal levels. Misinformation about the defined benefit model's ability to deliver benefits at an affordable cost continues to play a role in pension dialogue, all of which is taking place against a backdrop of decreasing availability of defined benefit workplace pensions. Advocating on behalf of our members in support of the DB model has become increasingly critical. We deliver on our fiduciary duty to our members when we ensure they are well informed about the value of this key financial asset.

To this end, we've expanded our outreach efforts and taken presentations on the value of the HOOPP defined benefit pension plan directly to members at employer and union sites. Pre-retirement information sessions, held at times and locations convenient for members and their partners, continue to be a tremendous success with approximately 10,000 attending these informative sessions in 2013 alone.

As part of our advocacy efforts, HOOPP, in conjunction with other key defined benefit plans in the province, sponsored research conducted by The Boston Consulting Group, on the economic benefits of DB pensions on Ontario's economy. The province's approximately 1.3 million defined benefit pensioners channel an estimated $27 billion back into the economy, with these dollars helping to sustain businesses and industry across Ontario, in both small and large communities.

Research of this kind is important in articulating the value of defined benefit pensions to our members and to our provincial economy. Defined benefit advocacy has, and will continue to be, a key strategic focus over the coming years. While understanding the value of what you have is important, understanding that what you have is better than the alternatives is critical.

Helen Fetterly
2013 Chair

Bryce Walker
2013 Vice Chair

2013 FINANCIAL HIGHLIGHTS

STATE OF THE PLAN:*

114%**

Up 10% from 2012

Net Investment Income for 2013:

$4,046 MILLION

Rate of Return for 2013:

8.55%

10-Year annualized return:

9.66%

NET ASSETS:*

$51.6 BILLION

MEMBERS: 286,212

*As at December 31, 2013 **Funded Ratio on a Smoothed Assets Basis

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

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PLAN OVERVIEW

Offered at 470[1] employers across the province, the Healthcare of Ontario Pension Plan (HOOPP or the Plan) is a multi-employer contributory defined benefit plan serving more than 286,000 working and retired healthcare workers. HOOPP was originally established by the Ontario Hospital Association (the OHA) in 1960.

In 1993, the structure of HOOPP changed: It was settled as a trust with a jointly-governed Board of Trustees (the Board). The Settlors of HOOPP and the appointed members of the Board signed HOOPP's Agreement & Declaration of Trust (ADT), empowering the Board to administer the Plan and manage and invest the fund assets. The Settlors of the Plan are the Ontario Hospital Association (OHA) and these four unions:

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

The ADT, as amended from time to time, establishes the foundation for HOOPP's governance.

HOOPP's Board has 16 Trustees. Eight of the Trustees are appointed by the OHA and the other eight by the four Settlor unions, with each union nominating two Trustees.

In fulfilling its responsibility to administer the Plan and manage its assets, the Board has delegated authority to administer the Plan, as specified under the ADT, to a Plan Manager, with the title "President & Chief Executive Officer" (CEO).

The Plan is registered under, and regulated by, the *Pension Benefits Act* (Ontario) and the *Income Tax Act* (Canada).

STATE OF THE PLAN

HOOPP's mission, to deliver on the pension promise, means providing a secure and adequate retirement income for its members at a reasonable price. To measure our success in this endeavour, we look at the ability of the Plan to pay its promised benefits at the current price, and the risk to this ability in the future. HOOPP's ability to meet its pension promise, measured by the ratio of the net assets to the present value of its promised benefits (funded ratio), is strong at 124%. On a smoothed[2] basis, used for regulatory purposes, this ratio of smoothed assets to liabilities is 114%. This means that HOOPP has a surplus – sufficient assets to meet its promises if the expected return on its investments is achieved in the long run.

The following chart shows the Funded Status of the Plan for 2013 and 2012, shown on both a net assets basis and on a smoothed asset value basis:

Funded Status	2013	2012	Year Over Year Change
Net Assets to Regulatory Pension Obligation	124%	119%	+5%
Smoothed Asset Values to Regulatory Pension Obligation	114%	104%	+10%

There is a risk that the expected return may not be achieved and therefore that current assets will not grow sufficiently to match future payments. HOOPP's liability driven investment (LDI) strategy is designed to manage this risk, and the Plan's surplus position also mitigates the risk.

(1) *Number of employers includes foundations within affiliated healthcare organizations. On this basis, the comparable number for 2012 is 441.*
(2) *Actuarial technique that recognizes gains and losses, not as they occur, but slowly over a specified period of time, see more detailed explanation on page 20.*

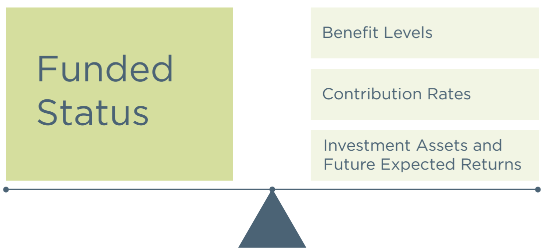
PENSION PLAN FUNDING MANAGEMENT

There are three main levers used in managing the Plan:

- ✓ the level of pension income upon retirement (benefit levels);
- ✓ contribution rates from both Plan members and their employers; and
- ✓ investment return and risk.

Notably, HOOPP relies solely on its accumulated assets and its members and employers for financial support. The Plan has no external government or private sector guarantor of its pension promise.

Although investment returns and risk attract the most attention, all three key levers must be effectively managed over time to ensure that the Plan is able to deliver on its promise today and 80 years or more into the future. Added to this complex task is ensuring intergenerational equity exists among members, that is, meeting the goal of having each generation of members receive an equivalent benefit at roughly the same contribution rate.



FUTURE FUNDING SUSTAINABILITY

Although HOOPP currently has adequate assets for its pension promise, there are risks to maintaining this state in the future. There is a necessary tradeoff between achieving a high enough return to pay for the promised benefits and taking the risk that future returns will not be sufficient to do so. HOOPP's investment strategy tries to strike the right balance between adequate returns and acceptable risk.

The Plan is exposed to risk from many sources, including sources which may yet emerge in the future. Broadly speaking, we perceive the primary sources of risk to be financial and demographic in nature.

Our three largest financial risks concern interest rates, inflation and the return on equities. Interest rates represent long-term risk free returns. As interest rates fall, expected asset returns tend to fall, making it more difficult to pay for the liabilities with a given amount of investment assets. Inflation increases future pension payments by both raising final average salaries (the basis of the pension payment) and the costs of inflation-adjusting the pension benefit. Finally, if equities and other return seeking assets fall short of delivering their respective expected returns, then the assets will fail to grow to a sufficient amount to pay for the pension benefits.

SCALABILITY

At current rates of return, HOOPP assets and liabilities tend to double about every 12 years. Certain investment strategies are not readily scalable to this degree and this poses an incremental challenge to maintaining asset growth rates over the long term.

Demographic risks to the Plan tend to be slower-moving than financial risks. Two of the most important demographic risks are longevity and the replacement rate of retirees by new contributing members. Increases in longevity tend to increase the amount of total benefits paid as the period in retirement also lengthens. HOOPP actually forecasts increases in longevity among its members over time, but the actual increase (or decrease) could deviate from our assumption. Changes in longevity tend to occur over long periods of time (e.g. decades).

PLAN MATURITY

We assume that new members will enter HOOPP as other members retire. This replacement process allows HOOPP to retain a balance between contributing members and retired members. This balance affects the Plan's risk-taking capacity, since future contributions and the returns on those contributions can offset short-term declines in the funded status of the Plan.

The tendency for the average Plan participant age to rise, therefore increasing the amount paid out of the Plan compared to the amount contributed, is referred to as Plan maturity. HOOPP is maturing slowly, the rate of which is affected by the replacement rate of retired members. Over a long horizon, maturation reduces the Plan's risk-taking capacity and poses a challenge to maintaining the growth rate of investment assets. It also increases the Plan's sensitivity to short-term drawdowns. Essentially, as money is paid out of the Plan, the remaining asset base with which to "earn back" losses falls.

One would expect, given a continually aging population in Ontario, that demand for healthcare services would remain strong for the next few decades. Therefore, the replacement rate is expected to remain steady. However, public sector healthcare continues to evolve in order to deliver services at lower cost, for example, through the use of non-hospital community care centres. In recognition of this evolution, HOOPP offers a portable and seamless pension plan to a range of healthcare providers across Ontario.

INVESTMENTS

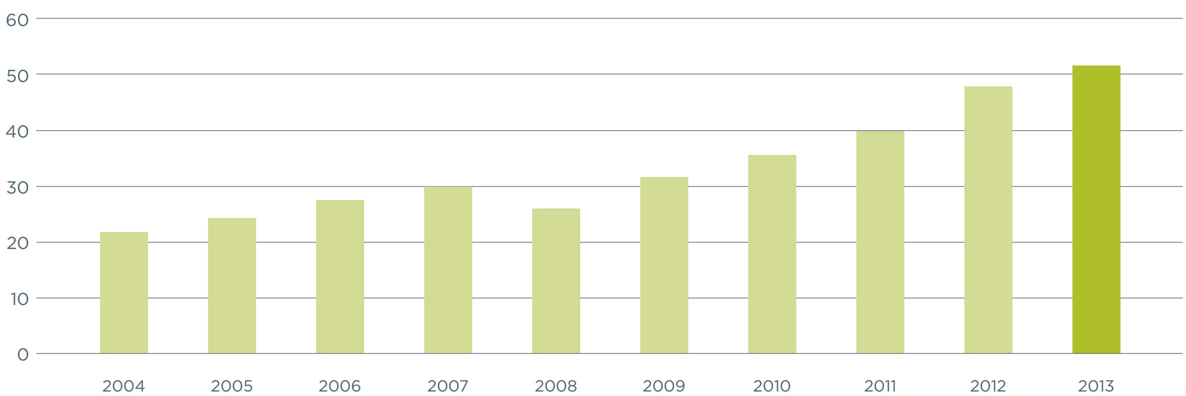
HOOPP employs a liability driven investing (LDI) approach in order to ensure that it can deliver its promised pension benefits at a reasonable cost far into the future. The LDI approach is a risk management philosophy that considers both the Plan's liabilities (the members' future retirement security) and the Fund's assets together, and focuses on the risk of having insufficient assets to provide funding for members' retirements.

Under HOOPP's LDI approach two broad portfolios are constructed. The Liability Hedge Portfolio is designed to hedge the major risks of the liabilities – namely, inflation and interest rates – and utilizes assets which exhibit behavior similar to that of the Plan's liabilities. The Return Seeking Portfolio engages in controlled risk-taking in investment assets and strategies which are expected to deliver incremental returns.

The LDI strategy is designed to keep the Plan's funded status stable over a broad range of possible future conditions, and this was more than accomplished in 2013 as the Plan's funded ratio increased. While rising interest rates caused the Liability Hedge Portfolio to decline in 2013, they also caused a reduction in the Plan's liabilities. Conversely, the Return Seeking Portfolio posted very strong results and all of the strategies within this portfolio generated positive results. More detail on investment returns is provided in the 2013 Results section on the following page.

The chart below shows the growth in HOOPP's Net Assets over the last decade from $21.1 billion in 2004 to $51.6 billion at the end of 2013.

Net Assets
($billions)



The table below shows investment performance for 2013 and 2012 as well as the 10-year performance of the Fund:

	2013	2012	10-Year
Total Return	8.55%	17.10%	9.66%
Benchmark	6.46%	14.29%	8.08%
Value-Added Return	2.09%	2.81%	1.58%

2013 RESULTS

2013 was a year that saw continued sluggish economic growth throughout most of the developed world, although the European debt situation and growth outlook appeared to be stabilizing. All the while, central banks maintained policies of unprecedented monetary stimulus and liquidity support. Overall, hopes were rising for improving economic growth in 2014 and beyond.

Against this backdrop, 2013 saw some significant moves in capital markets. First, global equity markets generally performed strongly. Canada's S&P/TSX Composite Index, with its heavy focus on resources, was up 9.6%. The S&P 500 Index in the United States was once again a star performer, up 29.6% in 2013, as was Japan's Nikkei Index up 56.7%. Other notable moves included Frankfurt's DAX Index up 21.4% and London's FTSE Index up 14.4%. Second, interest rates rose quite dramatically. For example, the 10-year government of Canada bond yield rose from 1.80% at the beginning of the year to 2.76% at the end of the year and the 30-year yield rose from 2.37% to 3.23%. Similar moves occurred in U.S. government bonds, with the 10-year yield moving from 1.76% to 3.03% and the 30-year yield from 2.95% to 3.97%. Also, credit spreads narrowed from 0.94% in the five-year CDX.NA.IG index to 0.62% by year end.

For the year, HOOPP posted the following results:

- on a net assets basis, a funded ratio of approximately 124% as of December 31, 2013, up 5% from 2012;
- net investment income of $4.0 billion (compared to $6.9 billion in 2012);
- asset return of 8.55%, of which 6.46% represented benchmark return and 2.09% return from active management strategies; and
- growth in net assets to $51.6 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 changes in specific investment assets and strategies and the Plan's liabilities:

	2013 Change ($ millions)	2012 Change ($ millions)
Liability Hedge Portfolio		
Short-Term	376	458
Mid-Term Bonds	(148)	228
Long-Term Bonds	(732)	457
Real Return Bonds	(795)	118
Real Estate	578	742
Transition Strategy	(717)	207
Total Liability Hedge Portfolio	**(1,438)**	**2,210**
Return Seeking Portfolio		
Canadian Equities	620	374
U.S. Equities	1,341	643
International Equities	1,036	612
Long-Term Option Strategy	1,725	2,321
Corporate Credit	164	91
Private Equity	404	173
Asset Allocation Strategies	26	213
Absolute Return Strategies	123	218
FX Hedges	26	5
Other	19	(3)
Total Return Seeking Portfolio	**5,484**	**4,647**
Change due to Net Investment Income	4,046	6,857
Change due to Operations	166	236
Total Change in Net Assets	**4,212**	**7,093**
Change in Pension Obligations	(1,559)	(3,137)
Net Change in Surplus on a Net Assets Basis	**2,653**	**3,956**
Funded Ratio on a Net Assets Basis	**124%**	**119%**
Change in Smoothing Adjustment*	1,376	(3,259)
Regulatory Funded Ratio	**114%**	**104%**

**Change in the average of the current net assets and the net assets for the four preceding years brought forward with interest at the asset valuation rate and adjusted for contributions, benefit payments and administrative expenses.*

The Liability Hedge Portfolio produced a return of -$1,438 million compared with a gain of $2,210 million in 2012. As described in more detail in the prior section, the broad increase in interest rates across the yield curve during 2013 resulted in marked-to-market losses on the fixed income portfolios. This increase in interest rates in 2013 was in sharp contrast to the decline in rates seen in 2012, which resulted in market gains in the fixed income portfolios. This volatility in interest rates highlights the merit of the liability driven investing approach, and specifically the value of the Liability Hedge Portfolio, as increases and decreases in the Plan's pension liabilities are offset by gains and losses on the Liability Hedge Portfolio. As will be discussed in further detail on page 27 in the section titled Plan Liabilities, the rise in interest rates resulted in the discount rate used to calculate the present value of HOOPP's pension obligation moving to 6.25% in 2013, from 6.00% in 2012. This change in the discount rate lowered the total pension obligation in 2013 by roughly $1,501 million and was offset by the change in the Liability Hedge Portfolio of -$1,438 million. Details of the performance of individual portfolios within the Liability Hedge Portfolio follow below, in the Liability Hedge Portfolio Discussion.

The Return Seeking Portfolio continued the strong performance of 2012 into 2013 with a gain of $5,484 million, up from $4,647 million in 2012. Once again, all strategies in the Return Seeking Portfolio posted positive results, with the largest contributions coming from the long-term option strategy at $1,725 million (2012: $2,321 million), U.S. equities at $1,341 million (2012: $643 million), International equities at $1,036 million (2012: $612 million) and Canadian equities at $620 million (2012: $374 million).

The total pension obligations increased by $1,559 million (2012: $3,137 million). This increase is a result of service accrued and changes in other actuarial assumptions and is reduced by benefits paid during the year and an increase in the discount rate assumption. A more detailed discussion follows in the Plan Liabilities section.

Overall, with the investment gains in 2013, along with a stable pension obligation due primarily to the rise in the discount rate, the funded status of the Plan on a net assets basis improved to 124% (114% on a smoothed value of assets basis) in 2013 from 119% in 2012 (104% on a smoothed value of assets basis).

ACTIVE MANAGEMENT AND RELATIVE PERFORMANCE

In 2013, the total return of 8.55% exceeded the benchmark return of 6.46% by 2.09% or $976 million. This active management return, or "value-added," came from a variety of sources in 2013 within both the Liability Hedge and Return Seeking Portfolios. The Liability Hedge Portfolio generated 1.38% of value-add, with strong contributions from fixed income and real estate, while the Return Seeking Portfolio generated 0.71% of value-add with large contributions from private equity and absolute return strategies.

	2013 Value-add *($ millions)*	Percentage	2012 Value-add *($ millions)*	Percentage
Liability Hedge Portfolio	643	1.38%	699	1.76%
Return Seeking Portfolio	333	0.71%	365	1.05%
Total	976	2.09%	1,064	2.81%

LIABILITY HEDGE PORTFOLIO DISCUSSION

Short-term and cash

Management took advantage of a steep credit curve beyond five years to add risk in Provincial Bonds, Stripped Bonds and Synthetic Bonds, all swapped into a 3-month Canadian Dealer Offered Rate (CDOR) floating reset. In 2013, the portfolio returned $376 million exceeding its benchmark, the Government of Canada 91-Day Treasury Bill return, by more than $373 million (2012: $456 million).

This large return was achieved through two components – the daily accrual income, which includes the gains/losses on disposal of securities and the marked-to-market gains on the portfolio. The split worked out to two thirds from the daily accruals and one third from marked-to-market gains.

The portfolio's performance came from an improvement in the spreads from daily accruals, from positioning to take advantage in a credit rally and from market timing – taking sales on market rallies and adding risk on the back-ups. For the last seven months of the year, the range between market strength and weakness in the five year area of the curve, for example, was only five basis points. The portfolio was well positioned coming into 2013 for the rally from year-end 2012 into May.

Mid-term and long-term bonds

Interest rates on long-term government bonds rose significantly in 2013 after reaching historical low yield levels in 2012. As an example, average yields rose about 0.51% on the DEX Universe All-Government Bond Index (from 2.08% to 2.59%) while they were nearly 0.80% higher on the DEX Long-Term All-Government Bond Index (from 3.02% to 3.81%).

It was another strong year for value-added in Fixed Income at HOOPP as our portfolios outperformed their benchmark returns. The mid-term bond portfolio returned -$148 million, outperforming the benchmark DEX Universe All-Government Bond Index, which returned -2.00%, by about $32 million (2012: $22 million). The long-term bond portfolio had a return of -$732 million, outperforming the DEX Long-Term All-Government Bond Index, which returned -7.01%, by over $74 million (2012: $55 million).

Real return bonds

Real interest rates – the implied real yield of inflation linked bonds – rose significantly in 2013. The average yield on DEX Overall Real Return Bond Index was 1.16% at the end of 2013, representing a rise of approximately 0.95% over December 31, 2012.

HOOPP's self-benchmarking real return bond portfolio lost over $795 million compared with a gain of $118 million in 2012, in line with the -13.07% total return of the DEX Real Return Bond index.

Real estate

The HOOPP real estate portfolio produced a return of 14.01% in 2013, a continuation of several years of strong absolute returns. Of this total, roughly 5% came from income and 9% from capital appreciation during the year. The overall number represents an outperformance of 341 basis points relative to the Canadian Investment Property Databank (IPD) benchmark.

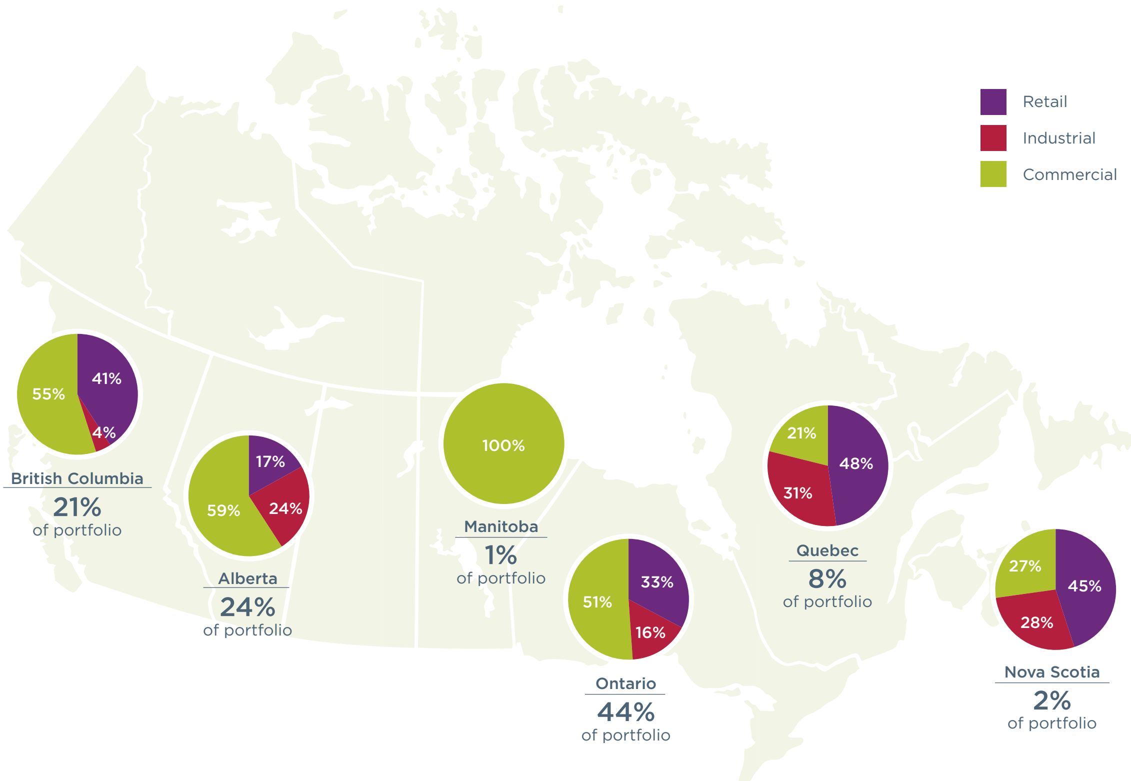
After a slow start, 2013 proved to be a very active year for the portfolio and the real estate team. Some of the significant highlights include:

- acquisition of the Smart Technologies Building in Calgary;
- purchase of the Saddleridge Lands in Calgary, a 240-acre site next to the airport with long-term potential for both office and industrial development;
- acquisition of a 50% stake in a multi-unit residential complex at Leslie & York Mills in Toronto;
- purchase of a 50% interest in a high-quality office building known as 44 Capital Boulevard in Edmonton;
- purchase of two regional shopping centres, InterCity Mall in Thunder Bay and New Sudbury Shopping Centre in Sudbury;
- successful sale of a number of non-core assets including two industrial complexes in Calgary, Capilano Business Park in Vancouver and a group of industrial buildings in Brampton; and
- successful completion of our new shopping centre in Abbotsford, B.C. and our co-venture with the Crown Estate in London.

As an additional measure of the success during the year, the total gross asset base of the portfolio now is slightly in excess of $8 billion.

The graphic below highlights the diversification of HOOPP's Canadian real estate portfolio by geography and by property type (excluding multi-residential, property developments and limited partnerships) and represents approximately 78% of our total real estate holdings on a gross value basis.

HOOPP's 2013 Canadian Real Estate Portfolio Composition



RETURN SEEKING PORTFOLIO DISCUSSION

Equities

In general, 2013 was a very good year for global equities. Fuelled by aggressive monetary policy, most developed countries' equity markets generated sizable returns. Unfortunately, Emerging Markets were the notable exception as they materially underperformed, returning -5.0%, as measured by the MSCI Emerging Markets Index.

In 2013, HOOPP's equity performance overall was generally in-line with market returns. Our disciplined approach of independent analysis and attention to valuation allowed HOOPP to stay the course despite industry and expert skepticism of the markets' surprising strength.

HOOPP uses a variety of strategies to generate equity returns, including long/short portfolios and the use of derivatives. Augmenting the returns cited below, these activities contributed positive marginal returns to both our Canadian and U.S. portfolios.

Canadian equities

During the past year, most sectors of the Canadian market performed well. Only two of the ten sector groups generated negative returns. Led down by gold stocks, and fueled by generalized commodity weakness, the worst performing sector was the Materials group which fell 30.6%. The other underperforming group was the Utilities sector which dropped 8.6%.

HOOPP's Canadian equity portfolio total return was 13.1%, matching its benchmark, the S&P/TSX 60 Total Return Index, comparable to the performance in 2012.

U.S. equities

The U.S. equity market, supported by ample financial liquidity and less commodity exposure, saw across the board strong sector performance. Led by the Consumer Discretionary sector which generated a 41.0% return, all groups posted positive results.

HOOPP's U.S. equity total return of 28.1% performed in-line with its benchmark, the S&P 500.

International equities

In 2013, European markets improved markedly as the region emerged from recession. Japan spurred by "Abenomics" – monetary, fiscal and other growth-oriented policies spearheaded by Japanese Prime Minister, Shinzo Abe – generated spectacular returns. Asia excluding Japan generated a poor 0.5% return. Led by very poor results in the BRIC (Brazil, Russia, India and China) countries, the emerging markets region generated a negative return as tighter monetary policies and weaker earnings expectations weighed on markets.

The total return for HOOPP's International equity portfolio was 25.8%, underperforming its benchmark, a composite of non-North American equity indices, return by $24 million (2012: -$11 million).

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 $1,725 million, compared to a gain of $2,321 million in 2012. This strategy is self-benchmarked.

Corporate credit

Credit spreads, the additional yield earned over government bonds, narrowed significantly in 2013. HOOPP's Credit Portfolios generated a positive value-added of $5 million for the year (2012: -$27 million).

The Structured Credit Portfolio was positioned with a long bias and generated a positive value-added of $60 million for the year. The General Credit portfolio was positioned defensively and generated a negative value-add of $55 million.

Private equity

HOOPP Capital Partners (HCP) selectively invests in (i) private equity funds; (ii) directly in privately-held businesses; and (iii) other private capital opportunities.

At the end of 2013, HCP had $2.6 billion invested, with a further $2.6 billion committed to private funds and direct investee companies. The invested portfolio generated a currency-hedged return of 19.6% for the year (2012: 9.3%), exceeding its benchmark, the Plan's funding target, by $277 million. On an unhedged basis, the portfolio returned 26.8%.

The fair market value of the invested portfolio represents only 5.0% of the total Fund, meaning there is considerable scope for managed growth and for considering significant investment opportunities.

Absolute return strategies

HOOPP engages in absolute return strategies designed to earn positive returns with minimal sensitivities to interest rates, credit or equities. These strategies made $123 million in 2013, compared to $218 million in 2012. All gains or losses on these strategies contribute to the value-add of the Fund.

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 took overweight and underweight positions in credit, U.S. equities, U.S. Treasury bonds, and Canadian government bonds. In 2013, this strategy contributed a profit of $26 million, compared with $213 million in 2012. All gains or losses on this strategy contribute to the value-add of the Fund.

RESPONSIBLE INVESTING

As prudent investment managers, HOOPP makes investment decisions on the basis of achieving the best risk adjusted return for our members. Our belief is that enterprises that effectively manage environmental, social and governance (ESG) risks will, over the longer term, generate better financial returns and reduce operating and financial risks. The integration of ESG factors into investment decisions, alongside traditional financial and non-financial factors, provides for a more complete view of risk surrounding each investment and is consistent with our fiduciary responsibilities to our members.

How ESG factors are integrated into each investment decision will vary depending on the type of investment or investment strategy. However, HOOPP does not make investment decisions on ESG factors alone.

In addition to integrating ESG factors into investment decisions, HOOPP acts as a responsible owner or prospective owner by encouraging enterprises to adopt industry leading ESG policies and practices in their operations via direct engagement with management and Boards, and through collaborative engagement efforts with other organizations.

Examples of direct ESG engagement efforts throughout the year include:

- direct engagement with a financial services company in support of the separation of the Chief Executive Officer (CEO) and Chairman of the Board roles;
- discussions with management on pipeline safety with an energy company;
- direct engagement with an oil services company that provides hydraulic fracturing ("fracking") services on environmental issues; and
- discussions with management of an oil sands company on their progress towards reducing greenhouse gas emissions.

A significant part of our efforts in our responsible investing approach is dedicated to voting our shares in the public companies that we own in support of better ESG disclosure and practices. Our position on certain management issues are detailed in our Statement of Guidelines and Procedures on Proxy Voting, available on our website. During the year, we voted on 628 agenda items, up from 509 items in 2012.

	2013	2012
Agenda Items	628	509

HOOPP engages a third party service provider to assist in providing recommendations on voting proxies in accordance with our Proxy Voting Guidelines. We review each issue internally and may override their recommendations when deemed appropriate. For example, on certain occasions in 2013, we voted against the advice of our proxy advisor on issues relating to executive compensation where we believed that management incentives could be better aligned to the long-term interest of shareholders. Additionally, we continue to support shareholder-sponsored resolutions that advocate for greater ESG disclosures. For example, we supported shareholder resolutions, sometimes against the recommendation of management, for better disclosures surrounding political contributions and lobbying expenditures as well as improved environmental disclosure as this type of information allows shareholders to better assess the total operational and financial risk of the relevant company.

As a long-term investor, HOOPP's real estate group has established a sustainability program designed around industry best practices to enhance asset values by investing in and developing healthy, efficient, and high-quality buildings.

In 2013, HOOPP's real estate responsible investing accomplishments included the following:

- release of the first public Real Estate Sustainability Report;
- expanded Leadership in Environmental Advancement Program (LEAP) Awards from one to five awards to recognize a breadth of sustainability innovation and achievement by HOOPP property managers;
- established portfolio-wide five-year targets for greenhouse gas (GHG) emissions reduction and waste diversion, to complement existing targets for energy and water; and
- increased the number of buildings with Leadership in Energy and Environmental Design (LEED) certifications from 10 to 13.

HOOPP's real estate sustainability initiatives have received external recognition for the following accomplishments in 2013:

- 2013 "Green Star" based upon the Global Real Estate Sustainability Benchmark (GRESB) survey;
- finalist for the 2013 National Association for Industrial and Office Parks' Real Estate Excellence (NAIOP REX) Green Award of the Year for our Energy and Carbon Performance Certificates; and
- "Greatest Energy Reduction" (AeroCentre 1) and "Lowest Energy Use" (25 York Street) awards at the 2013 Race to Reduce Awards.

Going forward, the real estate group intends to strengthen its commitment to enhancing real estate values through the implementation of industry leading practices in responsible property investing and ownership.

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

- the Canadian Coalition for Good Governance (CCGG); and
- the Carbon Disclosure Project (CDP).

NAIOP Greater Toronto Chapter

Signatory of:

PLAN LIABILITIES

The process of estimating the value of the Plan's liabilities – or future benefit payments – rests on financial and demographic assumptions. Financial assumptions include price inflation, the rate of growth of employee wages in the future and the rate of return of various investments.

Demographic assumptions include the age at which members will retire and how long they will live upon retirement. All of the assumptions used here implicitly assume that the Plan will operate for the long-term future (so-called "going concern" assumption). Using some of these assumptions and member data, we project the future benefits owed to plan members out over 80 years and beyond.

Valuation of the liabilities also depends upon the financial assumption of asset return. To obtain the present value of the liability cash flows, the estimated payments are discounted by the expected asset return (which is also known as the discount rate). Essentially, we add up, for each future year, the amount of money that we would have to put aside today to make that future year's benefit payment, assuming the money put aside grows at the expected return (discount rate). This sum is the present value of the liabilities.

A summary of the estimated plan liabilities or pension obligations as at the end of December 31, 2013 and 2012 is presented below:

	2013	2012
Pension Obligations *($ millions)*	41,478	39,919
Key Assumptions		
Discount Rate	6.25%	6.00%
Inflation	2.25%	2.25%
Real Discount Rate	4.00%	3.75%

Changes in the value of Plan liabilities occur for three different reasons.

The first is relatively predictable. As members contribute to the Plan throughout the year, the amount of benefit they have paid for steadily increases as well. This increase, also called "benefit accrual", increases Plan liabilities at roughly the same rate as the expected return (or discount rate), currently 6.25% per year.

The second reason is changes in demographic assumptions, such as changes in estimated longevity or retirement age.

The final reason is that financial assumptions such as inflation and the expected return (or discount rate) used to present value liability payments can change periodically.

In 2013 the Plan's pension liability changed from all three sources. The table below shows the change in the Plan's Pension Obligation from 2012 to 2013.

	($ millions)
Pension Obligations at December 31, 2012	**39,919**
Increases in benefits due to members	1,661
Changes in assumptions*	1,399
Change in discount rate (expected return)	(1,501)
Pension Obligations at December 31, 2013	**41,478**

**Primarily relates to a change in assumption to reflect the increased longevity or life expectancy of HOOPP's members.*

DISCOUNT RATE

Of all the assumptions underlying the valuation of the Plan's liabilities, the most variable and important is the discount rate (i.e. expected return) assumption. The discount rate is affected to a significant extent by interest rates, since expected asset returns are based on long-term interest rates and various "risk premiums", or incremental returns in addition to interest, associated with investing in equities and other return-seeking assets. A decrease (increase) in the discount rate causes a corresponding increase (decrease) in the pension liability value. This discount rate sensitivity was a primary reason for HOOPP's adoption of a liability driven investing approach, where investment returns are sought with a view to offsetting the risk in the value of the Plan's liabilities due to changes in the discount rate.

At the end of 2013, the discount rate was increased to 6.25% from 6.00% in 2012 due principally to increases in interest rates.

The table below highlights the sensitivity of the estimated pension obligation to changes in the discount rate:

Change	Discount Rate	Pension Liability	Change as %
+1.00%	7.25%	36,165	(13%)
	6.25%	**41,478**	-
-1.00%	5.25%	48,180	16%

PLAN MATURITY

The degree to which the Plan's proportion of retirees and average age grows is referred to as Plan maturity. This "aging" process has important implications for Plan management, and in 2013, HOOPP increased the assumption of life expectancy of its members to better reflect management's view of the Plan's maturity profile.

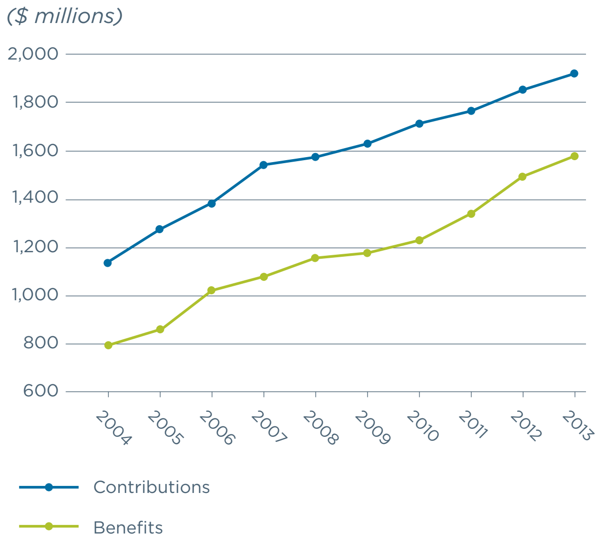
When a pension plan is very young, comprised entirely of contributing members and no retirees, future pension payments rely primarily upon future contributions and the associated investment returns on them, not on the current asset base. Thus, short-term drawdowns which erode the current asset base are of little consequence.

As the number of retirees grows in relation to the number of contributing members, more and more reliance is placed on the ability of current assets to generate future pension payments. In such a case, the trend of the asset base is downwards as pension benefit payments exceed pension contributions. Since there will be fewer assets in the future than at present, somewhat negative returns in the short run are serious as they would need to be offset by very high returns in the future.

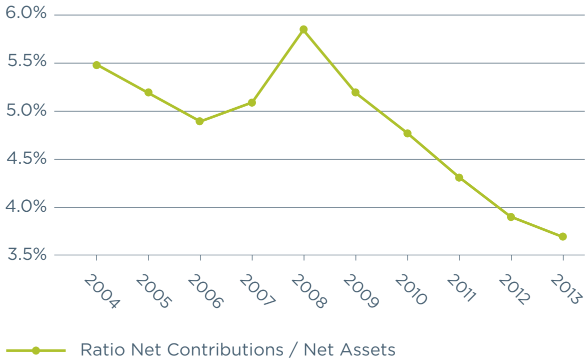
Therefore the maturity of a pension plan affects its ability to bear financial risk and seek asset returns: young plans can bear more risk, while mature plans can bear less. As plans mature, generating sufficient return to pay for benefits can become increasingly challenging.

One gauge of the relative age of the plan is net cash flow (i.e., contributions less benefits) both on its own and as a percentage of assets.

The chart below and on the next page show that HOOPP is a relatively young plan as cash flow remains positive, but is slowly maturing as its cash flow is declining as a percentage of assets.



Ratio Net Contributions / Net Assets



Another gauge of the relative maturity of the Plan is the ratio of active members to retirees. The numbers below depict a gradual maturing of the Plan, as the active to retiree ratio has declined from 2.7 at the end of December 31, 2003 to 2.3 at the end of December 31, 2013.

	Dec. 31, 2013	Dec. 31, 2003
Active to Retirees Ratio	2.3	2.7

New entrants to the Plan are a key contributor in keeping the relative age of the Plan low. However, all pension plans naturally age over time due to the ever growing population of retirees.

HOOPP is a slowly maturing, relatively young pension plan. We currently benefit from the flexibility that this affords us, but in the decades to come we will have to adjust to the effects of becoming more mature.

MEMBER AND EMPLOYER SERVICES

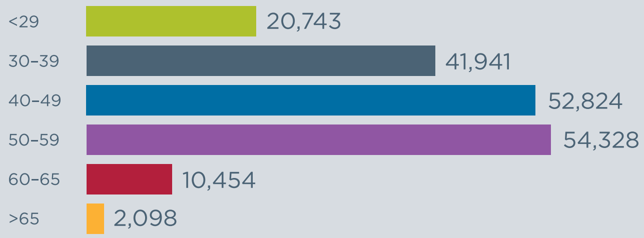
FULLY COMMITTED TO SERVING OUR MEMBERS AND EMPLOYERS

182,388
active members by age

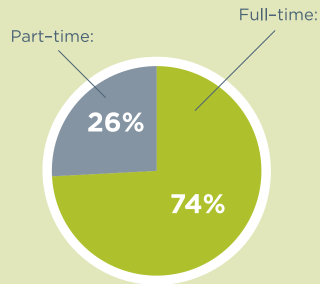
Gender breakdown

84%

16%



Full-time/Part-time membership



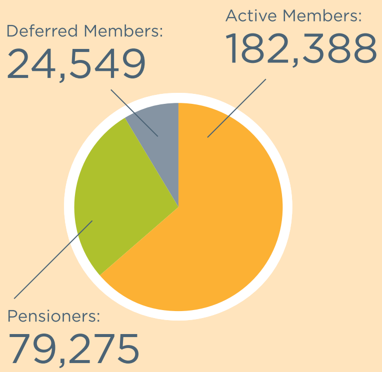
747
Buybacks purchased

Average unreduced pension
$23,000

Approximately
200,000
member interactions with HOOPP

Average retirement age
61
YEARS

HOOPP membership



54 PENSIONERS
are over **AGE 100**

WE'RE HERE TO HELP

Providing a strong, consistent service experience to our members, pensioners and employers is central to HOOPP's mission to deliver on the pension promise. Recognizing that pensions can be complex, we work to ensure our members have access to clear, relevant and timely information in the communication channel of their choice – whether in person, online or on the phone.

This commitment to service delivery enables members to make informed decisions, throughout their working careers, regarding this key financial asset. From enrolment through retirement and beyond, we deliver on our fiduciary duty when we assist our members in understanding the value and features of their HOOPP defined benefit pension.

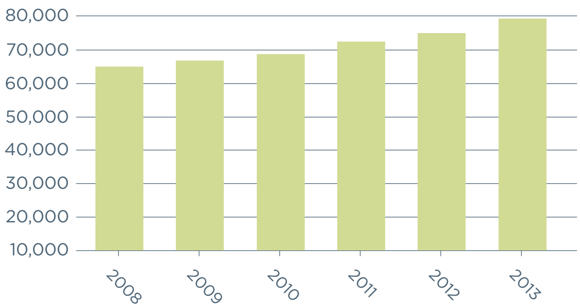
WHO WE SERVE...

Our members

HOOPP serves over 180,000 active members working full- and part-time in the province's healthcare community, with active membership increasing 2.6% over the course of 2013. Total plan membership including pensioners and deferred pensioners was 286,212 at the end of December 2013.

5-Year Membership Increase (2.6% increase from 2012)

5-Year Pensioner Increase (4.4% increase from 2012)



As Ontario's healthcare pension plan provider, HOOPP delivers services and programs tailored specifically to this sector.

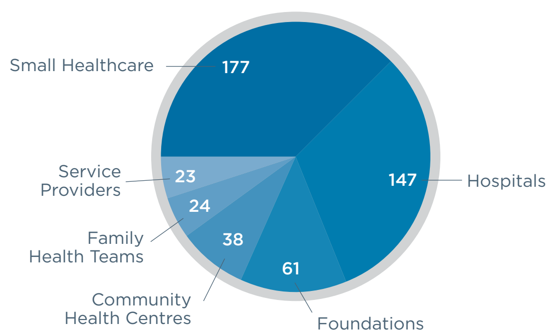
Included among these is HOOPP's Regional Member Pension Seminar program which provides members and their partners with information on key pension processes such as enrolment, buyback and pre-retirement. Launched in 2011, this program offers educational sessions held outside of traditional working hours to accommodate shift work and encourage member attendance. It has expanded to include additional sessions across the province, with more than 10,000 members attending a session in 2013. While at the seminars, 1,800 members took advantage of the opportunity to speak directly with a HOOPP representative to learn more about their personal pension scenario.

Enhancements to communications continued with the release of new member booklets and re-designed annual statements, developed to provide members with clear, concise information on the features and value of their pension. Easy-to-read charts featuring estimated projections for future pension payments were introduced as a new feature of the annual statement and prominently placed for quick access and future year-over-year comparison.

Our employers

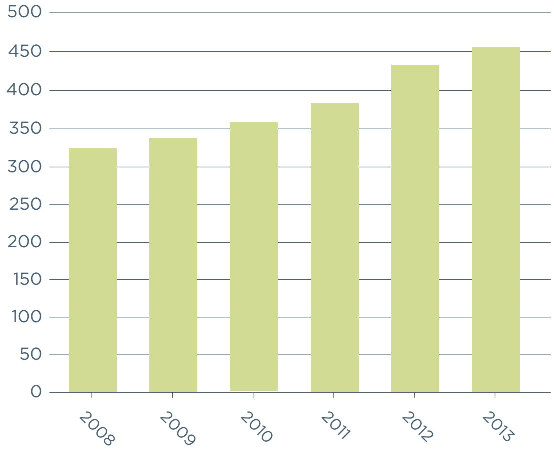
Our members work at 470 participating employers[4] across the province, including hospitals, Family Health Teams, Community Health Centres, Foundations and other healthcare service providers.

HOOPP Employers



[4] *Employer number includes actual number of employers participating in the Plan. Previously, foundations which are separate employers were counted within affiliated hospitals.*

Employer Growth Trend (6.6% increase from 2012)



Recognizing that the HOOPP defined benefit pension is a valuable attraction and retention tool, we partner with employers in educating their staff about the value of Plan membership through on-site educational presentations, programs directed to eligible part-time staff and targeted communications. Interest in the part-time program continues to grow with more than 95 employers participating in the campaign, representing an increase of 45% over 2012.

With an objective of reducing the administrative burden on employers, HOOPP launched two key initiatives over the course of the year in support of this goal. First to be released was a new, e-module offering online convenience and increased data management capabilities in the preparation and submitting of Monthly Contribution Reports (MCR) within a secure environment.

Following this was the launch of an Internet-based application supporting the yearly Member Data Collection, a critical process for the production of member annual statements. Integrated with other online applications, this tool was developed to offer employers increased ease and efficiencies in consolidating, validating and submitting data. Employer service and support for each of these multi-year initiatives was provided though online webcast or in-person training.

MONITORING CLIENT SATISFACTION…

To remain current on the service needs of our members and employers, HOOPP monitors satisfaction levels through a research program that tracks improvements in service and communications on a quarterly basis. Incremental improvements in member satisfaction levels have been experienced over the past five years, with satisfaction levels amongst employers also increasing in areas such as call centre and MDC service.

Additional research was also undertaken to drive decision making around the member experience with respect to key moments of interaction with HOOPP through a comprehensive research program consisting of multiple member focus groups and an electronic survey. With about 200,000 member interactions taking place in 2013, research of this kind provides important member-direct feedback, identifies areas of opportunity, helps to target areas of investment and assists in informing future service enhancements.

BALANCING COST AND SERVICE…

HOOPP continually seeks new ways to enhance the member service experience with process and communications improvements evaluated within a framework of balancing cost against service. This evaluation enables us to deliver on the expectations of our members while ensuring we continue to provide a sustainable pension at low contribution rates. Recognizing that service enhancements come at a cost to the Fund, we spend judiciously with our members' service requirements and needs in mind.

DELIVERING VALUE THROUGH SERVICE…

We are here to help. We partner with our members through their journey with HOOPP and provide service that takes life changes such as marriage, divorce, leaves and more into consideration. As each of these events has pension implications, we work to ensure our members are equipped with the information and materials they need – when they need it and in their preferred format. In this way, we deliver both value and peace of mind through a consistent service experience.

PLAN GOVERNANCE

PENSION GOVERNANCE

As the administrator of a multi-employer pension plan, the HOOPP Board of Trustees' sole function and focus is the administration of the HOOPP Plan and the investment and management of the assets of the HOOPP Fund.

The fundamental mission and objective that orients HOOPP's decision-making is the delivery of the promised pension benefit. It is through this "lens" the Trustees will assess if they are meeting their responsibilities and discharging their obligations. This orientation is, perhaps, the most important governance feature for HOOPP because it's the best way to ensure all parties involved in the management of HOOPP remain focused and accountable.

The governance work of HOOPP's Board is supported by four standing committees: the Asset-Liability Management Committee, the Audit & Finance Committee, the Governance & HR Committee and the Plan Committee. The Board and each Committee has a written mandate with clearly documented responsibilities and regular reporting mechanisms. In turn, the Board has also clearly documented the power and authority it has delegated to the President & CEO (the Plan Manager). HOOPP also enters into and maintains written agreements with all of its service providers, including its advisors, to clearly document their roles and responsibilities in relation to HOOPP.

Governance is a process that, if effective, should involve regular reviews of the organization's structures, mandates, policies and other governance documents as well as its practices and procedures to identify and implement changes for continuous improvement. This is the approach to governance followed by the HOOPP Board and HOOPP management.

RISK MANAGEMENT

As a defined benefit (DB) pension plan with a mission to deliver on HOOPP's pension promise, the biggest risks the organization faces, and strives to manage, are those which impact fund investments and HOOPP's funded status. HOOPP also faces other risks: some are entity-level and most are inherent in HOOPP's day-to-day operations.

HOOPP encourages prudent risk management in all parts of the organization and follows an enterprise risk management framework which identifies roles and responsibilities for risk identification, mitigation, reporting and oversight. An assessment of entity-level risks is prepared annually with input from HOOPP's senior executives and results are reported to the Audit & Finance Committee of the Board. The assessment and management of individual risks are also reported on a regular basis. The Board and senior management seek to promote a risk-conscious culture at HOOPP. Steps taken to date have included assessing operational risks as part of the implementation of any new systems and processes and holding risk assessment workshops for management staff.

HOOPP's continuous risk management programs and processes include:

- a *Code of Business Conduct* and supporting policies which emphasize the special nature of HOOPP's commitment to members and other beneficiaries and the roles and responsibilities of Board members, staff and agents and advisors for helping to meet the commitment;
- a well-developed board and committee reporting and decision-making process;
- an Internal Audit team that provides management and the Audit & Finance Committee of the Board with independent assurance through audits of certain identified operational processes intended to help management improve the effectiveness of operational controls;
- the ongoing maintenance of records and data retention schedules guided by both Board- and organization-level policies and policy framework;
- both disaster recovery and business continuity plans that have been developed and tested over many years to help improve the resiliency of HOOPP's core operations and processes against the occurrence of a disruption;
- a number of stakeholder communications channels that include dedicated teams of Regional Managers who regularly meet with participating employers and members, and periodic pension seminars held throughout the province where members are invited to attend (including one-on-one sessions with HOOPP

staff members) and receive information they need to better understand the value of their HOOPP pensions and how to make the most of them in retirement; and

- a series of programs and processes designed to address the inherent risks associated with the recruitment, retention and development of HOOPP's human capital.

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 (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to conduct a comprehensive evaluation of its internal control over financial reporting. In 2013, COSO introduced an updated framework which HOOPP will adopt in 2014.

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, 2013.

ADOPTION OF NEW ACCOUNTING STANDARDS

In 2013, HOOPP adopted the amendments made to International Financial Reporting Standards (IFRS) 7 Financial Instruments – Disclosures which include additional disclosures relating to the offsetting of financial assets and financial liabilities. The additional disclosures present the effect or potential effect of offsetting arrangements on HOOPP's financial position and are included in note 2 of the financial statements.

There is no impact on the reported surplus resulting from the adoption of these amendments.

REGULATORY DISCLOSURE

The Plan administrator adopted a Statement of Investment Policies & Procedures (SIP&P) on January 1, 2001, which was last amended November 7, 2012. The SIP&P defines targets for debt and equity of 54% and 46% respectively. The actual asset mix for the Plan fell within the target ranges as at December 31, 2013. Generally the Liability Hedge Portfolio discussed in the MD&A relates to debt in the SIP&P, whereas the Return Seeking Portfolio relates to equity. One exception is real estate, which for SIP&P purposes is included in equity and for the MD&A discussion it is included in the Liability Hedge Portfolio.

The SIP&P sets out a real return expectation of 4.25%. In 2013, after considering inflation, this return expectation was 6.25% and our actual 2013 result was a return of 8.55%.

The SIP&P stipulates the investment that may be made in any of the approved categories by investing directly in the physical asset or through the use of derivatives. These approved categories are Canadian and non-Canadian equities, debt securities, preferred shares and short-term securities of Canadian and non-Canadian issuers, real estate, venture capital investments, resource properties, commodities and foreign exchange contracts.

FUTURE ACCOUNTING STANDARDS

In May 2013, the Accounting Standards Board of CPA Canada issued revised accounting standards for entities with defined benefit and defined contribution plans, effectively replacing CPA Canada Handbook Section 3461 – Employee Future Benefits with Section 3462 – Employee Future Benefits.

The revised standard becomes effective for HOOPP for the fiscal year beginning January 1, 2014. The adoption of the new standard will not have a material impact on the reported surplus.

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

OPERATING EXPENSES

HOOPP incurs costs in order to deliver the pension promise to its members by investing Fund assets and providing service to members and employers. Prudent management of expenses helps us to retain more assets to better deliver promised benefits in the future. We balance that imperative with targeted spending that helps deliver a better pension product.

HOOPP's 2013 operating expenses were $160 million, a 13% increase over 2012 expenses of $141 million. HOOPP's 2013 operating expenses represent 0.31% of net assets, up only slightly from 0.30% in 2012 – a reflection of HOOPP's ability to maintain costs even with a significant growth in net assets (up $4.2 billion or 8.9%).

The $19 million increase is a result of higher personnel and infrastructure costs required to keep up with the growth in net assets and membership levels. In particular, in 2013 operating expenses included the undertaking of a multi-year project to review HOOPP's plan administration systems and the completion of an initiative to modernize the technology and processes supporting the annual collection of member data. HOOPP also continued to invest in its liability driven investment strategy by enhancing a tool to measure the impact of potential future economic scenarios on the Plan. This takes into account HOOPP's liabilities as well as investments – facilitating the management of the combined risks of both investment assets and future pension obligations.

The table below shows 2013 and 2012 operating expenses in absolute amounts and expressed as a percentage of Net Assets.

($ millions)	**2013**	**2012**
Investment Expenses	$101	$92
Plan Administration	$59	$49
Total	$160	$141
Total Expenses as % of Net Assets	0.31%	0.30%

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 in all material respects 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 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 4, 2014

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, 2013. The purpose of this valuation is to determine pension obligations of the Plan as at December 31, 2013, for inclusion in the Plan's financial statements in accordance with Section 4600, *Pension Plans*, of the Chartered Professional Accountants of Canada (CPA Canada) 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 CPA Canada 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 $41,478 million in respect of service accrued to December 31, 2013 and a smoothed value of net assets of $47,180 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 October 1, 2013 and members' pay data provided as at December 31, 2012, all of which was projected to December 31, 2013, using management's estimates of experience for the intervening periods;
- the benefits specified by the terms of the Plan including an adjustment of 0.93% which will become effective April 1, 2014 in respect of all pensioners' and deferred vested members' benefits and the expected ad hoc inflation protection currently intended to be granted April 1, 2015 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, 2012, 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 Chartered Professional Accountants of Canada (CPA Canada) 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
Fellow, Canadian
Institute of Actuaries

Laura Newman
Fellow, Canadian
Institute of Actuaries

March 4, 2014

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, 2013 and 2012 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, 2013 and 2012 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 Professional Accountants,
Licensed Public Accountants

Toronto, Ontario
March 4, 2014

STATEMENTS OF FINANCIAL POSITION

As at December 31

($ millions)	2013	2012
Net Assets Available for Benefits		
Assets		
Investment assets (note 2)	$ 110,423	$ 90,243
Contributions receivable		
Employers	83	83
Members	67	67
Other assets (note 7)	146	150
Total Assets	110,719	90,543
Liabilities		
Investment liabilities (note 2)	58,999	43,046
Other liabilities	94	83
Total Liabilities	59,093	43,129
Net Assets Available for Benefits	51,626	47,414
Pension Obligations (note 11)	41,478	39,919
Surplus (note 11)	$ 10,148	$ 7,495

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

($ millions)	2013	2012
Surplus	$ 10,148	$ 7,495
Measurement differences between surplus and regulatory surplus	(4,446)	(5,822)
Regulatory Surplus	$ 5,702	$ 1,673

See Description of Plan and accompanying notes to financial statements.

On behalf of the Board of Trustees

Helen Fetterly
Chair of the Board

Bryce Walker
Vice Chair of the Board

R. Wayne Gladstone
Chair, Audit & Finance Committee

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31

($ millions)		2013		2012
Net assets available for benefits, beginning of year	**$**	**47,414**	$	40,321
Investment Operations				
Net interest and dividend income (note 4)		**4,533**		4,317
Net realized gains and (losses) and changes in unrealized gains and (losses) (note 4)		**(487)**		2,540
Operating expenses - investment (note 10)		**(101)**		(92)
Total Investment Operations		**3,945**		6,765
Plan Operations				
Contributions (note 8)				
Employers		**1,033**		1,003
Members		**880**		860
Benefit payments (note 9)		**(1,521)**		(1,418)
Refunds and transfers (note 9)		**(66)**		(68)
Operating expenses - plan (note 10)		**(59)**		(49)
Total Plan Operations		**267**		328
Change in net assets available for benefits		**4,212**		7,093
Net assets available for benefits, end of year	**$**	**51,626**	$	47,414

See Description of Plan and accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PENSION OBLIGATIONS

Year ended December 31

($ millions)		2013		2012
Pension obligations, beginning of year	**$**	**39,919**	$	36,782
Changes in pension obligations				
Interest accrued on benefits		**2,400**		2,324
Benefits accrued		**1,764**		1,689
Changes in actuarial assumptions (note 11)		**(102)**		869
Estimated experience gains (note 11)		**(916)**		(496)
Benefits paid (note 9)		**(1,587)**		(1,486)
Amendments to the plan (note 11)		**-**		237
Total changes in pension obligations		**1,559**		3,137
Pension obligations, end of year	**$**	**41,478**	$	39,919

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.

The Board, consisting 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 annually 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

Effective July 1, 2012, a disability pension is available to disabled members who are vested, under the age of 65, have less than 35 years of contributory service and meet 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 CPA Canada Handbook, specifically Section 4600, *Pension Plans* and the relevant sections of the Canadian accounting standards for private enterprises (AsPE) in Part II of the CPA Canada Handbook (referred to herein as "Canadian GAAP").

The financial statements also include new disclosure requirements issued by FSCO. The Financial Statements Guidance Note, which was published by FSCO in February 2013, provides regulatory guidance for certain principles-based requirements which are set out in the CPA Canada Handbook. These regulatory requirements, which came into effect for fiscal years ending on or after July 1, 2013, are being applied on a retrospective basis. The new requirements result in additional disclosures within certain notes to the financial statements.

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 2013, HOOPP adopted the amendments made to International Financial Reporting Standards (IFRS) 7 *Financial Instruments – Disclosures* which include additional disclosures relating to the offsetting of financial assets and financial liabilities. The additional disclosures are intended to assist users of the financial statements to assess the effect or potential effect of offsetting arrangements on an entity's financial position.

The amendments became effective for HOOPP for the fiscal year ended December 31, 2013 and are disclosed within note 2. While these amendments result in a change to the presentation in note 2, there is no impact on the reported surplus.

Future accounting standards

In May 2013, the Accounting Standards Board of CPA Canada issued revised accounting standards for entities with defined benefit and defined contribution plans, effectively replacing CPA Canada Handbook Section 3461 – *Employee Future Benefits* with Section 3462 – *Employee Future Benefits*. The revised standard eliminates the deferral and amortization approach to accounting for employee future benefits and requires plan assets and obligations to be measured as of the date of the statements of financial position. The revised standard becomes effective for HOOPP for the fiscal year beginning January 1, 2014. The adoption of the new standard will not have a material 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 generally 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 either discounted cash flows based on current market yields on comparable securities, or prices provided by third parties who have used their own independent models.

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 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. In the year of acquisition, cost is used as an approximation for fair value, unless there is evidence of a significant change in value. Properties under development are carried at cost. Investments in limited partnerships funds are valued based on interim financial information 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). 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. Direct investments are valued using market quotes, 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. Investments in limited partnerships are valued based on interim financial information 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).

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 or derived from independent data services;
- Interest rates – quoted rates obtained from central banks and from swap, bond and futures markets; and
- Public equity and equity indices prices – based on quoted closing 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, 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. These pension obligations are 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, 2013 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.

Contributions received are reconciled annually, one year in arrears, to ensure the appropriate amounts have been remitted. To perform this reconciliation, HOOPP requires each employer to verify and update HOOPP's records for each of their member's service and contributions. With this information, HOOPP performs a reconciliation for each employer to determine if the correct amount of contributions has been remitted to HOOPP. Once this reconciliation is complete, HOOPP is able to calculate the amount of any differences related to contributions. Any shortfalls are recovered from the employer and overpayments are refunded.

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, management and subsidiaries are considered related parties according to CPA Canada Handbook Section 3840, *Related Party Transactions*. Any transactions between these related parties and HOOPP are not material for the purposes of these financial statements, except for those disclosed in note 14.

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 6.34%.

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 2013 or 2012.

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.

a) Fair value hierarchy

The Plan's investment assets and investment liabilities are presented in the table below:

($ millions)	2013					
	Level 1	Level 2	Level 3	No Level[1]	Total Fair Value	Total Cost
Investment assets						
Cash	$ 8	$ -	$ -	$ -	**$ 8**	**$ 8**
Fixed income						
Short-term securities	-	33	-	-	**33**	**33**
Bonds						
Canadian	-	80,683	-	-	**80,683**	**79,268**
Non-Canadian	-	5,560	283	-	**5,843**	**5,820**
Non-Canadian commercial loans	-	-	135	-	**135**	**132**
Total fixed income	-	86,276	418	-	**86,694**	**85,253**
Securities purchased under resell agreements	-	3,046	-	-	**3,046**	**3,009**
Public equity						
Canadian	83	-	-	-	**83**	**74**
Non-Canadian	4,513	-	-	-	**4,513**	**4,259**
Total public equity	4,596	-	-	-	**4,596**	**4,333**
Equity-oriented						
Real estate						
Canadian	-	-	6,378	-	**6,378**	**4,587**
Non-Canadian	-	-	630	-	**630**	**536**
Private equity and special situations						
Canadian	-	-	913	-	**913**	**734**
Non-Canadian	-	-	1,667	-	**1,667**	**1,550**
Total equity-oriented	-	-	9,588	-	**9,588**	**7,407**
Derivative instruments (note 3)	4	4,900	149	-	**5,053**	**889**
Investment receivables						
Cash collateral pledged (note 5)	577	-	-	-	**577**	**577**
Pending trades[(1)]	-	-	-	162	**162**	**159**
Accrued investment income[(1)]	-	-	-	699	**699**	**699**
Total investment receivables	577	-	-	861	**1,438**	**1,435**
Total investment assets	5,185	94,222	10,155	861	**110,423**	**102,334**
Investment liabilities						
Obligations related to equities sold short (note 5)	(24,486)	-	-	-	**(24,486)**	**(19,819)**
Obligations related to bonds sold short (note 5)	-	(2,689)	-	-	**(2,689)**	**(2,671)**
Derivative instruments (note 3)	(2)	(12,976)	(166)	-	**(13,144)**	**(6,681)**
Securities sold under repurchase agreements	-	(17,939)	-	-	**(17,939)**	**(17,879)**
Cash collateral received (note 5)	(562)	-	-	-	**(562)**	**(562)**
Pending trades[(1)]	-	-	-	(177)	**(177)**	**(178)**
Accrued investment liabilities[(1)]	-	-	-	(2)	**(2)**	**(2)**
Total investment liabilities	(25,050)	(33,604)	(166)	(179)	**(58,999)**	**(47,792)**
Net investments	**$ (19,865)**	**$ 60,618**	**$ 9,989**	**$ 682**	**$ 51,424**	**$ 54,542**

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

($ millions)	2012					
	Level 1	Level 2	Level 3	No Level[1]	Total Fair Value	Total 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.*

b) Offsetting financial assets and financial liabilities

The following financial instruments are subject to enforceable master netting arrangements or similar agreements and/or may require the transfer of collateral. Since the netting provisions contained in the respective agreements apply in limited circumstances, the accounting standards require that these financial instruments be presented gross in the statements of financial position. If the effect of these arrangements, together with the collateral pledged or received were taken into consideration, the potential impact on HOOPP's financial position would be as follows:

	2013			
($ millions)		Related amounts not set off in the statements of financial position		
	Gross amounts of financial instruments presented (note 2a)	Amounts subject to an enforceable master netting arrangement or similar agreements[1]	Cash and Securities collateral pledged (received)[2]	Net amount
Financial assets				
Securities purchased under resell agreements	$ 3,046	$ (2,294)	$ (730)	$ 22
Securities on loan[3]	2,539	-	(2,539)	-
Derivative instruments[4]	5,207	(4,740)	(457)	10
Total financial assets	**10,792**	**(7,034)**	**(3,726)**	**32**
Financial liabilities				
Securities sold under repurchase agreements	(17,939)	2,294	15,581	(64)
Derivative instruments[4]	(13,298)	4,740	8,012	(546)
Total financial liabilities	**$ (31,237)**	**$ 7,034**	**$ 23,593**	**$ (610)**

[1] Refer to note 6 for additional information on master netting arrangements. [2] Refer to note 5 for additional information on cash and securities collateral. [3] These securities are included within Fixed income and Public equity investment assets in note 2a. [4] Includes futures broker receivables and payables of $154 million and $154 million, respectively.

	2012			
($ millions)		Related amounts not set off in the statements of financial position		
	Gross amounts of financial instruments presented (note 2a)	Amounts subject to an enforceable master netting arrangement or similar agreements[1]	Cash and Securities collateral pledged (received)[2]	Net amount
Financial assets				
Securities purchased under resell agreements	$ 3,117	$ (2,422)	$ (680)	$ 15
Securities on loan[3]	1,965	-	(1,962)	3
Derivative instruments[4]	2,065	(1,901)	(118)	46
Total financial assets	**7,147**	**(4,323)**	**(2,760)**	**64**
Financial liabilities				
Securities sold under repurchase agreements	(12,739)	2,224	10,478	(37)
Derivative instruments[4]	(7,435)	1,901	5,336	(198)
Other financial liabilities[5]	(198)	198	-	-
Total financial liabilities	**$ (20,372)**	**$ 4,323**	**$ 15,814**	**$ (235)**

[1] Refer to note 6 for additional information on master netting arrangements. [2] Refer to note 5 for additional information on cash and securities collateral. [3] These securities are included within Fixed income and Public equity investment assets in note 2a. [4] Includes futures broker receivables and payables of $441 million and $441 million, respectively. [5] These balances are included within Pending trades in investment liabilities in note 2a.

c) Changes in fair value measurement for instruments in Level 3

The following table presents the changes in fair value measurement for financial instruments included in Level 3 during the year ended December 31, 2013:

Changes in Fair Value Measurement for Instruments in Level 3 *($ millions)*	**2013**							
	Fair Value Dec. 31, 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, 2013**
Bonds								
Canadian	$ 202	$ -	$ (2)	$ -	$ (52)	$ -	$ (148)	**$ -**
Non-Canadian	409	2	18	21	(167)	-	-	**283**
Non-Canadian commercial loans	141	2	(1)	267	(274)	-	-	**135**
Real estate[3]								
Canadian	5,465	52	211	524	126	-	-	**6,378**
Non-Canadian	389	4	108	154	(25)	-	-	**630**
Private equity and special situations								
Canadian	802	127	96	215	(327)	-	-	**913**
Non-Canadian	1,197	108	157	560	(355)	-	-	**1,667**
Assets from derivative instruments (note 3)	69	69	23	62	(101)	27	-	**149**
Liabilities from derivative instruments (note 3)	(159)	(18)	27	(112)	96	-	-	**(166)**
Total	**$ 8,515**	**$ 346**	**$ 637**	**$ 1,691**	**$ (1,079)**	**$ 27**	**$ (148)**	**$ 9,989**

[1] The net realized and unrealized gains included above relating to those assets and liabilities held at the end of the year were $241 million and $679 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 $467 million are included in Purchases and Issues and mortgage debt repayments of $371 million are included in Sales and Settlements.

Changes in Fair Value Measurement for Instruments in Level 3 *($ millions)*	2012							
	Fair Value Dec. 31, 2011	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 net realized and unrealized gains 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.*

For individual direct 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. For investments in private equity limited partnership funds, HOOPP has limited access to specific underlying investment information. As a result, HOOPP is not able to determine a change in the fair values derived from a reasonably possible alternative assumption.

d) 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 $540 and $510 million respectively as at December 31, 2013, are as follows:

($ millions)	Maturity Date	Coupon Rate %	Fair Value	Cost Value
Fixed income				
Canadian federal bonds	2015 - 2045	1.23 - 9.00	$ 12,807	$ 12,768
U.S. Treasury Bonds	2042	2.75	597	665
Canadian provincial & municipal bonds	2016 - 2050	2.30 - 11.00	15,993	15,870
Canadian real return bonds	2021 - 2044	1.50 - 4.55 *Plus CPI**	5,695	5,250

**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, options on credit default swaps and caps and floors. 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)*	2013		
	Notional Value[1]	Fair Value[2] Assets	Fair Value[2] Liabilities
Foreign exchange forward contracts	$ 5,762	$ 12	$ (8)
Futures contracts			
Equity	5,706	3	(2)
Bond	427	1	-
Options			
Equity	44,960	2,993	(7,979)
Credit default swap	5,102	4	(4)
Swaption	2,066	43	(41)
Caps and floors	531	2	-
Swaps			
Equity	48,888	1,115	(388)
Interest rate	39,477	507	(2,355)
Credit default	25,977	130	(262)
Cross-currency	21,134	243	(2,105)
Total	$ 200,030	$ 5,053	$ (13,144)

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)
Credit default swap	2,257	4	(3)
Swaption	313	11	-
Caps and floors	-	-	-
Swaps			
Equity	42,416	391	(187)
Interest rate	39,410	541	(1,205)
Credit default	28,092	124	(331)
Cross-currency	20,107	306	(1,074)
Total	**$ 173,391**	**$ 1,624**	**$ (6,994)**

[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)	**2013**							
($ millions)		**Within 1 Year**		**1 to 5 Years**		**Over 5 Years**		**Total**
Foreign exchange forward contracts	**$**	**5,762**	**$**	**-**	**$**	**-**	**$**	**5,762**
Futures contracts								
Equity		**5,706**		**-**		**-**		**5,706**
Bond		**427**		**-**		**-**		**427**
Options								
Equity		**7,356**		**1,228**		**36,376**		**44,960**
Credit default swap		**5,102**		**-**		**-**		**5,102**
Swaption		**101**		**1,328**		**637**		**2,066**
Caps and floors		**-**		**531**		**-**		**531**
Swaps								
Equity		**30,297**		**18,039**		**552**		**48,888**
Interest rate		**7,970**		**20,733**		**10,774**		**39,477**
Credit default		**2,625**		**15,597**		**7,755**		**25,977**
Cross-currency		**5,680**		**11,876**		**3,578**		**21,134**
Total	**$**	**71,026**	**$**	**69,332**	**$**	**59,672**	**$**	**200,030**

Derivative Financial Instruments by Term to Maturity (Notional Values)	**2012**							
($ millions)		**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
Credit default swap		2,257		-		-		2,257
Swaption		199		114		-		313
Caps and floors		-		-		-		-
Swaps								
Equity		39,645		2,367		404		42,416
Interest rate		11,115		23,949		4,346		39,410
Credit default		9,304		13,580		5,208		28,092
Cross-currency		5,338		11,852		2,917		20,107
Total	**$**	**86,300**	**$**	**52,769**	**$**	**34,322**	**$**	**173,391**

NOTE 4: NET INVESTMENT INCOME

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

($ millions)	2013			
	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	$ 5	$ (214)	$ 4	**$ (205)**
Fixed income				
Short-term securities	-	-	-	**-**
Net Bonds				
Canadian	2,552	(36)	(2,691)	**(175)**
Non-Canadian	142	(50)	(93)	**(1)**
Non-Canadian commercial loans	8	2	(1)	**9**
	2,702	(84)	(2,785)	**(167)**
Net repurchase agreements	(123)	-	(23)	**(146)**
Net public equity				
Canadian	(748)	(238)	(3,086)	**(4,072)**
Non-Canadian	2,389	(1,944)	70	**515**
	1,641	(2,182)	(3,016)	**(3,557)**
Equity-oriented				
Net real estate operating income (note 4b)				
Canadian	281	52	211	**544**
Non-Canadian	6	4	108	**118**
Private equity and special situations				
Canadian	15	127	96	**238**
Non-Canadian	29	108	157	**294**
	331	291	572	**1,194**
Derivatives	-	8,721	(1,771)	**6,950**
	4,556	6,532	(7,019)	**4,069**
Transaction costs	(23)	-	-	**(23)**
Total net investment income	**$ 4,533**	**$ 6,532**	**$ (7,019)**	**$ 4,046**

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

($ 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	$ (462)	$ -	**$ (460)**
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)	-	34	**(91)**
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.*

b) Real estate income

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

($ millions)		2013		2012
Rental revenue	$	624	$	598
Property operating & other expenses		(296)		(285)
Operating income		328		313
Mortgage interest		(41)		(44)
Net real estate operating income	**$**	**287**	**$**	**269**

NOTE 5: TRANSFERS OF FINANCIAL ASSETS

a) Financial assets transferred to HOOPP's counterparties

Transfers of financial assets result from HOOPP's arrangements with its counterparties whereby the Plan:

- transfers the contractual rights to receive the cash flows of the financial assets, or
- retains the contractual rights to receive the cash flows of the financial assets, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

For HOOPP, transfers of financial assets to counterparties occur directly through securities lending arrangements. HOOPP also transfers financial assets indirectly through collateral pledged to counterparties as a result of investment strategies such as repurchase agreements, securities borrowing arrangements and derivatives. Transferred financial assets continue to be recognized as HOOPP's assets on the statements of financial position if the risks and rewards of ownership remain with HOOPP.

The following describes HOOPP's transactions that may result in the direct or indirect transfer of financial assets:

Securities lending program and other transfers of financial assets (direct)

The Plan participates in a securities lending program where it lends securities that it owns to third parties in exchange for a fee. 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.

The Plan engages in other transfers of financial assets received from various transactions which have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with the counterparty.

Collateral pledged (indirect)

i. Repurchase agreements

The Plan enters into repurchase agreements, which are economically similar to collateralized loans. Under these agreements, the Plan effectively sells securities and simultaneously agrees to buy them back at a specified price at a future date. The net position represents the fair value of collateral pledged, as a result of the change in value of the securities sold under repurchase agreements.

ii. Securities borrowing arrangements

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, or uses securities received through other strategies, to facilitate the taking of short positions. For securities borrowed, the Plan is required to pledge cash or marketable securities of higher value as collateral which mitigates the counterparty's credit risk associated with the program.

iii. Derivatives

A transfer of financial assets only occurs when the Plan pledges collateral, typically in the form of cash, fixed income or equities for obligations incurred in the ordinary course of trading in derivatives.

When the Plan pledges cash collateral for any of the above investment strategies, this cash is derecognized from the statements of financial position. A receivable for the equivalent amount is then recognized to reflect this cash collateral due from the Plan's counterparties.

b) Financial assets received from HOOPP's counterparties

Securities are received from HOOPP's counterparties directly through securities borrowing arrangements, or indirectly through investment strategies such as securities lending arrangements, resell agreements, and derivatives which give rise to the counterparty transferring or pledging collateral with HOOPP. These securities are only recognized as HOOPP's assets on the statements of financial position if the risks and rewards of ownership are transferred to HOOPP.

The following describes HOOPP's transactions that may result in financial assets received from its counterparties:

Securities borrowing arrangements (direct)

The Plan borrows securities, or uses securities received through other strategies, to facilitate the taking of short positions. For securities borrowed, the Plan is required to pledge cash or marketable securities of higher value as collateral which mitigates the counterparty's credit risk associated with the program.

Collateral received (indirect)

i. Securities lending program

For securities lent, the borrower provides cash or marketable securities of higher value as collateral which mitigates the credit risk to the Plan, associated with the program.

ii. Resell agreements

The Plan enters into resell agreements, which are economically similar to collateralized loans. Under these agreements, the Plan effectively purchases securities and simultaneously agrees to sell them back at a specified price at a future date. The net position represents the fair value of collateral received, as a result of the change in value of the securities under resell agreements.

iii. Derivatives

The Plan receives collateral, typically in the form of cash, fixed income or equities for receivables recognized in the ordinary course of trading in derivatives.

When the Plan receives cash collateral for any of the above investment strategies, this cash is recognized on the statements of financial position. A liability for the equivalent amount is recognized to reflect this cash collateral due to the Plan's counterparties.

For any collateral received, the Plan is able to re-pledge, loan or use it under repurchase agreements. As at December 31, 2013, the fair value of total collateral rehypothecated by the Plan is $1,803 million (2012: $598 million).

c) Net position of financial assets transferred to and received from HOOPP's counterparties

As at December 31, the fair values and carrying amounts of HOOPP's direct and indirect transferred financial assets, their associated liabilities and receivables and the financial assets received from counterparties were as follows:

	2013		
($ millions)	Repurchase Agreements	Securities Lending/ (Borrowing) and Other Transfers	Derivatives
Fair value/carrying amount of transferred financial assets[1]	$ -	$ 6,612	$ -
Fair value/carrying amount of transferred financial assets, collateral pledged[2]	17,878	26,304	9,018
	17,878	32,916	9,018
Fair value/carrying amount of associated receivables (note 2)	3,046	-	5,053
Fair value/carrying amount of associated liabilities (note 2)	(17,939)	(27,175)	(13,144)
Fair value/carrying amount of financial assets received, securities borrowed[3]	-	(2,115)	-
Fair value/carrying amount of financial assets received, collateral[4]	(3,025)	(2,808)	(461)
	(17,918)	(32,098)	(8,552)
Net position	**$ 40**	**$ (818)**	**$ (466)**

[1] *Includes securities lent, both directly and through a third party, of $2,539 million which have not been derecognized from HOOPP's statements of financial position as the risks and rewards remain with HOOPP. The remaining amount of $4,073 million represents other transfers of financial assets received from various transactions which have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with the counterparty.*

[2] *Includes cash collateral pledged of $577 million which has been derecognized. The remaining amount represents securities which have not been derecognized from HOOPP's statements of financial position as the risks and rewards remain with HOOPP.*

[3] *These securities have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with the counterparty.*

[4] *Includes cash collateral received of $562 million. The remaining amount represents securities which have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with HOOPP's counterparty, or the third party's counterparty in accordance with the securities lending agreement.*

($ millions)	2012 Repurchase Agreements	2012 Securities Lending/ (Borrowing) and Other Transfers	2012 Derivatives
Fair value/carrying amount of transferred financial assets[1]	$ -	$ 4,635	$ -
Fair value/carrying amount of transferred financial assets, collateral pledged[2]	12,730	24,339	6,372
	12,730	28,974	6,372
Fair value/carrying amount of associated receivables (note 2)	3,117	-	1,624
Fair value/carrying amount of associated liabilities (note 2)	(12,739)	(21,327)	(6,994)
Fair value/carrying amount of financial assets received, securities borrowed[3]	-	(4,879)	-
Fair value/carrying amount of financial assets received, collateral[4]	(2,939)	(1,985)	(120)
	(12,561)	(28,191)	(5,490)
Net position	**$ (169)**	**$ (783)**	**$ (882)**

[1] *Includes securities lent, both directly and through a third party, of $1,965 million which have not been derecognized from HOOPP's statements of financial position as the risks and rewards remain with HOOPP. The remaining amount of $2,670 million represents other transfers of financial assets received from various transactions which have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with the counterparty.*

[2] *Includes cash collateral pledged of $253 million which has been derecognized. The remaining amount represents securities which have not been derecognized from HOOPP's statements of financial position as the risks and rewards remain with HOOPP.*

[3] *These securities have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with the counterparty.*

[4] *Includes cash collateral received of $1,201 million. The remaining amount represents securities which have not been recognized on HOOPP's statements of financial position as the risks and rewards remain with HOOPP's counterparty, or the third party's counterparty in accordance with the securities lending agreement.*

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 below, the Plan's pension obligations are also affected by non-economic factors like changes in member demographics.

As at December 31, 2013, the Plan had a surplus of $10,148 million (2012: $7,495 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, 2013, the Plan had a regulatory surplus of $5,702 million compared to a surplus of $1,673 million as at December 31, 2012 (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 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, 2012. 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)*	**2013**				
	Term to Maturity				
	Within 1 Year	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Total**
Short-term securities	$ 33	$ -	$ -	$ -	**$ 33**
Canadian bonds[1]					
Federal bonds	6,963	4,636	2,044	6,584	**20,227**
Provincial and municipal bonds	2,321	10,613	22,639	12,419	**47,992**
Real return bonds	-	-	752	5,444	**6,196**
Corporate bonds	1,626	2,996	40	180	**4,842**
	10,910	18,245	25,475	24,627	**79,257**
Non-Canadian bonds[1]	1,118	519	111	2,854	**4,602**
Non-Canadian commercial loans	29	106	-	-	**135**
Derivatives	(5,044)	(16,475)	(15,592)	364	**(36,747)**
Repurchase agreements	(14,893)	-	-	-	**(14,893)**
Total	**$ (7,847)**	**$ 2,395**	**$ 9,994**	**$ 27,845**	**$32,387**

[1] *Net of Canadian bonds sold short of $1,426 million and Non-Canadian bonds sold short of $1,241 million.*

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

[1] *Net of Canadian bonds sold short of $1,010 million and Non-Canadian bonds sold short of $1,965 million.*

Risk measurement
The Plan's interest rate sensitive portfolio is reviewed to ensure compliance to policy. The Asset Liability Committee receives quarterly reports which include interest rate change sensitivity for the interest rate sensitive portfolio. As at December 31, 2013, a 1% increase/decrease in interest rates would have decreased/increased the Plan's net assets available for benefits by $4,679 million (2012: $4,481 million). While the increase/decrease in interest rates would have decreased/increased the value of the Plan's assets, longer-term trends in decreases/increases in interest rates would have also decreased/increased the value of the Plan's pension obligations.

Risk management
While the Plan's interest sensitive products are exposed to interest rate risk, this risk has been assumed purposefully as part of the LDI approach to offset the interest rate risk inherent in the Plan's pension obligation. HOOPP uses duration to measure the sensitivity of the fair value of fixed income investments to changes in market interest rates. HOOPP manages its exposure to investment interest rate risk by ensuring the modified duration of the fixed income mandates remains within the approved ranges of the respective benchmarks as stipulated in the IP&G and the overall asset mix remains within the approved policy weights specified in the IP&G. This is accomplished by rebalancing the portfolio on a regular basis and through the use of derivatives, including interest rate swaps, cross-currency swaps and interest rate futures.

b. Foreign currency risk
Foreign currency risk is the risk that the fair value of a financial instrument denominated in a foreign currency will fluctuate due to changes in applicable foreign exchange rates. While HOOPP pension benefits are paid in Canadian dollars, some of the Plan's assets are denominated in other currencies. The Plan's foreign currency exposure (including through derivatives) as at December 31, is presented below. The table also includes the impact of a 5% decrease/increase in the applicable foreign exchange rate on the Plan's net assets available for benefits.

Foreign Currency Exposure	**2013**			**2012**		
($ millions)	**Local**	**Canadian**	**Impact of +/- 5% change**	**Local**	**Canadian**	**Impact of +/- 5% change**
United States dollars	**416**	**441**	**22 / (22)**	2,270	2,252	113 / (113)
Euros	**(85)**	**(127)**	**(6) / 6**	(6)	(7)	-
Japanese yen	**(5,486)**	**(55)**	**(3) / 3**	72	1	-
Australian dollars	**-**	**-**	**-**	4	5	-

Risk measurement
The exposures to foreign currency are measured daily and reported on monthly for compliance purposes. Each quarter, management provides the Board with reports and analysis, illustrating the impacts on assets of foreign currency rate changes. As at December 31, 2013, 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 $3 million (2012: decrease/increase of approximately $23 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 which includes primarily equity price risk through its investment in public equities and derivative 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.

The Plan's total exposure to equity price risk (including through derivatives) as at December 31, is presented below. The table also includes the impact of a 10% decrease/increase in the equity markets benchmark price index on the Plan's net assets available for benefits.

Equity Exposure By Market *($ millions)*	**2013**			
	Effective Equity Exposure	**% of net assets available for benefits**	**Benchmark**	**Impact of a 10% Increase / (Decrease)**
Public Equity				
Canadian	$ 5,035	9.8%	S&P/TSX 60 Total Return Index	$ 504 / (504)
United States				
United States equity	4,524		S&P 500 Total Return Index	452 / (452)
Long option strategy	1,952		S&P 500 Futures with 10-year options	215 / (157)
	6,476	12.5%		667 / (609)
Non-North American	4,533	8.8%	Blend of international indices [1]	453 / (453)
	$ 16,044			**$ 1,624 / (1,566)**

[1] *The blended benchmark is composed of the following international stock market indices: Dow Jones Euro Stoxx 50 Index, Tokyo Stock Price Index (Topix), FTSE 100, Swiss Market Index (SMI), Hang Seng Index, Australian Securities Exchange (ASX) 200.*

Equity Exposure By Market ($ millions)	2012			
	Effective Equity Exposure	% of net assets available for benefits	Benchmark	Impact of a 10% Increase / (Decrease)
Public Equity				
Canadian	$ 4,676	9.9%	S&P/TSX 60 Total Return Index	$ 467 / (467)
United States				
United States equity	4,493		S&P 500 Total Return Index	449 / (449)
Long option strategy	7,354		S&P 500 Futures with 10-year options	693 / (783)
	11,847	25.0%		1,142 / (1,232)
Non-North American	4,098	8.6%	Blend of international indices [1]	410 / (410)
	$ 20,621			$ 2,019 / (2,109)

[1] *The blended benchmark is composed of the following international stock market indices: Dow Jones Euro Stoxx 50 Index, Tokyo Stock Price Index (Topix), FTSE 100, Swiss Market Index (SMI), Hang Seng Index, Australian Securities Exchange (ASX) 200.*

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, 2013, a 1% decline/increase in equity markets would have resulted in a decrease/increase in the Plan's net assets available for benefits of $160.4 million (2012: $206.2 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.

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 collateral pledged and received is the only recourse available to the counterparties of these transactions.

The Plan's total credit risk exposure as at December 31 was as follows:

Credit Risk Exposure *($ millions)*	**2013** Total Credit Exposure	**2013** % of Total	**2012** Total Credit Exposure	**2012** % of Total
Sovereign securities AAA[1]	$ 21,690	21.1%	$ 19,651	22.8%
Fixed income instruments:				
AAA	12,722	12.4%	11,223	12.9%
AA	26,287	25.5%	23,289	27.0%
A	22,492	21.8%	16,500	19.1%
BBB	388	0.4%	689	0.8%
BB or below	558	0.5%	209	0.2%
Credit risk exposure (fixed income instruments)	62,447	60.6%	51,910	60.0%
Credit risk exposure (credit derivatives)	15,520	15.2%	11,620	13.5%
Counterparty credit risk exposure	455	0.4%	142	0.2%
Repurchase agreements	753	0.7%	699	0.8%
Securities lending program	2,080	2.0%	2,320	2.7%
Maximum credit risk exposure	102,945	100.0%	86,342	100.0%
Credit risk protection (credit derivatives)	(12,663)		(17,396)	
Collateral received	(1,898)		(2,058)	
Total	**$ 88,384**		**$ 66,888**	

[1] *As at December 31, 2013, includes securities issued by the governments of Canada, Germany, and the United States (2012: Canada, Germany, France, the United Kingdom and the United States).*

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 $1,549 million (2012: $1,412 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 assigns credit ratings to its sovereign securities and fixed income instruments as determined by recognized credit rating agencies, where available. For fixed income instruments that are not rated by a recognized credit ratings agency, HOOPP assigns credit ratings based on an internal rating process. HOOPP will also employ the use of credit derivatives to achieve its objective of managing credit risk.

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, 2013 totalled $58,999 million (2012: $43,046 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 (notes 14 and 15).

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

As at December 31, other assets consist of the following amounts:

($ millions)		2013		2012
Refundable withholding tax on contributions	$	136	$	137
Fixed assets		7		9
Other		3		4
Total	$	146	$	150

NOTE 8: CONTRIBUTIONS

Contributions received or receivable during the year ended December 31 were comprised of the following:

($ millions)		2013		2012
Employers				
Current service contributions	$	1,033	$	1,003
Members				
Current service contributions		822		796
Past service contributions from members		34		25
Transfers from other plans		24		39
		880		860
Total	$	1,913	$	1,863

NOTE 9: BENEFITS

Benefits paid during the year ended December 31 were comprised of the following:

($ millions)		2013		2012
Benefit payments				
Retirement pension and bridge benefits[1]	$	1,319	$	1,234
Commuted value transfers and death benefits		202		184
		1,521		1,418
Refunds and transfers				
Refunds		40		46
Transfers to other plans		26		22
		66		68
Total	$	1,587	$	1,486

[1] *Includes disability payments of $81 million (2012: $82 million)*

NOTE 10: OPERATING EXPENSES

For the year ended December 31, HOOPP incurred operating expenses for Investment and Plan related activities as follows:

($ millions)	2013	2012
Investment:[1]		
Administration	$ 95	$ 86
Legal, actuarial and other professional fees[2]	3	4
Custodial	3	2
	101	92
Plan:[1]		
Administration	53	44
Legal, actuarial and other professional fees[2]	6	5
	59	49
Total	**$ 160**	**$ 141**

(1) *Based on an allocation of corporate expenses that includes direct and indirect expenses associated with Investment and Plan related activities. Management allocates these costs using estimates of time associated with each activity.*

(2) *Includes amounts paid or payable to the auditors pertaining to statutory audit fees of $698,400 (2012: $658,400), and non-audit fees of $88,400 (2012: $225,700). Also includes amounts paid or payable to the actuary pertaining to actuarial fees of $575,400 (2012: $595,500).*

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.

For the December 31, 2013 actuarial valuation, the Board approved an increase to the discount rate assumption as well as a change to the mortality assumptions to reflect recent experience.

To determine the pension obligations as at December 31, 2013 and December 31, 2012, 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	2013[2]	2012[2]
Discount rate[1]	**6.25%**	6.00%
Rate of price inflation	**2.25%**	2.25%
Real discount rate	**4.00%**	3.75%
Salary escalation rate	**4.25%**	4.25%

(1) *Net of allowance for investment expenses of 0.25% (2012: 0.25%).*

(2) *Net impact from changes to the discount rate and mortality assumptions resulted in an actuarial gain of $102 million (2012: assumption changes resulted in an actuarial loss of $869 million).*

Actuarial methodology for financial reporting

For the determination of the actuarial present value of the pension obligations as at December 31, 2013, 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 October 1, 2013 and members' pay data provided as at December 31, 2012, all of which was projected to December 31, 2013 using management's estimates of experience for the intervening periods. The pensionable earnings estimates were determined based on 2012 experience and estimate assumptions.

Using this method and data, the pension obligations (or going concern actuarial pension obligations) at December 31, 2013, was $41,478 million (2012: $39,919 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 2013, there was an estimated experience gain of $916 million (2012: gain of $496 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 2013, the Board confirmed 75% of the 2013 CPI increase as an ad hoc increase effective April 1, 2014. As the December 31, 2012 pension obligations included the ad hoc increases intended to be granted April 1, 2014 through April 1, 2018, there is no additional impact to the pension obligations at December 31, 2013.

Surplus

According to CPA Canada 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, 2013 was $10,148 million (2012: $7,495 million).

Prior to 2011, the surplus reported on the Statements 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 regulatory filing purposes, 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 operating 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 market value of net assets available for benefits exceeds the smoothed value of net assets and, therefore, the difference between the surplus for financial statement purposes versus regulatory filing purposes is $4,446 million at December 31, 2013 (2012: $5,822 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, 2012, and a copy of that valuation was filed with FSCO and CRA. The effective date of the next required valuation is December 31, 2015.

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, 2012 regulatory funding valuation were as follows:

Discount rate[1]	6.00%
Rate of price inflation	2.25%
Real discount rate	3.75%
Salary escalation rate	4.25%

[1] *Net of allowance for investment expenses of 0.25% (2012: 0.25%)*

The most recent regulatory filing valuation conducted as at December 31, 2012 disclosed a smoothed value of net assets of $41,592 million with accrued going concern pension obligations of $39,919 million, resulting in a going concern surplus of $1,673 million. In accordance with Regulation 1.3.1(3) of the *Pension Benefits Act* (Ontario), the solvency deficiency at December 31, 2012 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, 2013 was $282 million (2012: $266 million).

NOTE 14: RELATED PARTY TRANSACTIONS – LEASE COMMITMENT

During the year ended December 31, 2013, a wholly-owned subsidiary of the Plan, entered into an agreement for the construction of a commercial office tower called One York Street. As at December 31, 2013, the wholly-owned subsidiary holds a significant ownership interest in this commercial project. The Plan's commitment to the construction of this office building is included in the commitments to invest in real estate in note 15.

During the year ended December 31, 2013, the Plan signed a lease agreement to become a tenant at One York Street. The term of the lease is for 15 years with two renewal options, each for 5 years. Rental payments will commence in 2016, once construction of One York Street is complete. The future minimum lease payments by year, and in aggregate, are as follows:

($ millions)	
2014	$ -
2015	-
2016	2
2017	4
2018	4
Thereafter	88
Total minimum lease payments	$ 98

NOTE 15: COMMITMENTS

As part of normal business operations, the Plan enters into commitments related to the funding of investments. The Plan or its subsidiaries have committed to either purchase limited partnership units which fund real estate and private equity investments or to directly invest in real estate and private equity. These commitments will be funded over the next several years in accordance with agreed terms and conditions. As at December 31, 2013, these commitments totalled $1,562 million related to real estate investments and $2,612 million related to private equity investments (2012: $1,451 million and $1,228 million, respectively). The Plan has also committed to purchasing services related to the pension administration system totalling approximately $70 million (2012: $72 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 16: CAPITAL

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

NOTE 17: 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 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, 2013, the amount recorded as a liability for claims under these arrangements was $nil (2012: $nil).

Contingencies

As at December 31, 2013, 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 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)	2013	2012	2011	2010
Change in net assets				
Increase/(Decrease) in net assets				
Net investment (loss)/income	$ **4,046**	$ 6,857	$ 4,327	$ 4,245
Contributions				
Employers	**1,033**	1,003	954	921
Members	**880**	860	797	793
Total increase/(decrease)	**5,959**	8,720	6,078	5,959
Decrease in net assets				
Benefits	**1,587**	1,486	1,335	1,229
Investment & plan operating expenses	**160**	141	139	129
Total decrease	**1,747**	1,627	1,474	1,358
Increase/(decrease) in net assets	$ **4,212**	$ 7,093	$ 4,604	$ 4,601
Net assets				
Investments				
Cash	$ **8**	$ (1)	$ 3	$ 14
Fixed income	**86,694**	74,669	71,241	60,322
Public equity	**4,596**	1,705	931	773
Equity-oriented	**9,588**	7,853	6,896	5,941
Securities purchased under resell agreements	**3,046**	3,117	3,188	1,134
Derivative Instruments	**5,053**	1,624	3,041	1,831
Investment receivables	**1,438**	1,276	1,538	1,322
	110,423	90,243	86,838	71,337
Contributions receivable	**150**	150	142	135
Other assets	**146**	150	148	142
Total Assets	**110,719**	90,543	87,128	71,614
Investment liabilities	**(58,999)**	(43,046)	(46,722)	(35,825)
Other liabilities	**(94)**	(83)	(85)	(72)
Total Liabilities	**(59,093)**	(43,129)	(46,807)	(35,897)
Net assets	$ **51,626**	$ 47,414	$ 40,321	$ 35,717
Pension Obligations	**41,478**	39,919	36,782	34,897
Surplus/(Deficit)	$ **10,148**	$ 7,495	$ 3,539	$ 820
Investment performance				
Investment rate of return–net	**8.55%**	17.10%	12.19%	13.68%
Benchmark return	**6.46%**	14.29%	9.87%	10.31%
Long-term return target	**6.34%**	6.50%	6.50%	6.63%

2009	2008	2007	2006	2005	2004
$ 4,040	$ (3,591)	$ 1,748	$ 3,136	$ 3,095	$ 2,135
890	840	782	718	685	633
744	713	737	658	596	529
5,674	(2,038)	3,267	4,512	4,376	3,297
1,159	1,143	1,079	1,019	856	807
131	89	100	91	85	70
1,290	1,232	1,179	1,110	941	877
$ 4,384	$ (3,270)	$ 2,088	$ 3,402	$ 3,435	$ 2,420
$ -	$ 35	$ 38	$ 81	$ 122	$ 67
49,121	46,125	42,875	30,487	24,533	16,890
889	1,904	4,612	6,374	6,012	5,421
5,040	4,836	4,290	3,647	2,726	2,220
336	-	348	-	-	-
1,019	1,754	1,566	892	783	639
1,566	1,333	557	642	613	285
57,971	55,987	54,286	42,123	34,789	25,522
133	124	111	102	104	90
142	148	127	104	81	61
58,246	56,259	54,524	42,329	34,974	25,673
(27,071)	(29,502)	(24,493)	(14,391)	(10,438)	(4,579)
(59)	(25)	(29)	(24)	(24)	(17)
(27,130)	(29,527)	(24,522)	(14,415)	(10,462)	(4,596)
$ 31,116	$ 26,732	$ 30,002	$ 27,914	$ 24,512	$ 21,077
32,020	31,244	28,683	25,808	23,749	21,858
$ (904)	$ (4,512)	$ 1,319	$ 2,106	$ 763	$ (781)
15.18%	-11.96%	6.23%	12.79%	14.66%	11.35%
9.77%	-8.98%	4.78%	11.88%	13.97%	10.45%
6.50%	6.50%	6.75%	7.00%	7.50%	7.50%

GOVERNANCE

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

HOOPP's joint-governance structure was created in 1993 with the signing of the Agreement and Declaration of Trust by HOOPP's five Settlor organizations. An independent Board of Trustees made up of 16 voting members govern HOOPP, with eight Trustees appointed by the Ontario Hospital Association and eight by the four 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)

There are also two non-voting Board members. One observer representing pensioners is appointed by the OHA, and one is appointed by the Settlor unions.

The Board is responsible for overseeing all aspects of the Plan and the HOOPP Trust Fund, with duties including:

- changes to the Plan and benefits
- setting contribution levels
- establishing investment policy
- monitoring investment performance
- approving annual operating budgets

The Trustees have a fiduciary duty to act in the best interests of all members. The Board regularly reviews its approach to governance, in order to remain current with best practices.

Day-to-day responsibility for the overall leadership and management of the Plan is the responsibility of HOOPP's President & CEO.

EXECUTIVE LEADERSHIP

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

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

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
Senior Vice President & Chief Investment Officer, Equity Investments

SENIOR MANAGEMENT

Michael Catford
Vice President, Real Estate

Paul Kirk
Vice President, Short Term & Foreign Exchange

Carmela Pappas
Vice President, Member Services

Jeff Rabb
Vice President, Investment Reporting, Valuation & Risk

Nan Samaroo
Vice President, Investment Operations

Silvano Trinca
Vice President, Plan & Employer Services

Jim Walker
Managing Partner, HOOPP Capital Partners

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
Investment Advisors

Christina Medland
Meridian Compensation Partners

See your future. Now.

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