HOOPP
Healthcare of Ontario
Pension Plan

# 2015 Annual Report

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# President & CEO's Message

## At HOOPP, we have a very clear mission. We want to ensure that we can deliver the expected benefits to our members regardless of the economic backdrop and financial market conditions.

Looking back, 2015 proved to be a very challenging year characterized by slowing global growth, plunging commodity markets, and highly volatile and difficult equity and bond markets. Despite these conditions, we are pleased to report that HOOPP delivered a positive investment return and, most importantly, maintained our strong funded status.

The Plan's assets grew by $3.1 billion to $63.9 billion in 2015, representing an investment return of 5.12%.

Most importantly, however, our funded status remained strong, rising to 122%.

That means we have more than enough assets to meet our current and future pension obligations. In other words, for every $1 we owe in pension benefits to retired and active members, now and in the future, the Fund has $1.22 in assets on hand.

Ensuring that we are able to meet our current and future pension obligations is our true yardstick for success. We make all investments, manage Plan risk, and operate our entire organization with these obligations in mind.

That's why, rather than measuring our annual results against stock market benchmarks or those of peer plans, we remain focused on our ability to deliver on our pension promise, particularly in the kind of uncertain economic times that we experienced last year.

At HOOPP, we see ourselves not simply as an asset manager, but as a pension benefit delivery organization. This may sound like a subtle difference, but it is actually quite profound. Taking this perspective has led to a significant change in our approach to risk management and how we manage the Plan to ensure that we can meet our pension obligation to our HOOPP members and retirees.

Over the last 15 years, our approach to investing has evolved to more effectively mitigate the impact of key risks faced by all pension plans today. There are many risks that we have to consider in managing the Plan, but the dominant risks are equity market risk, a decline in long-term interest rates, and an unexpected rise in inflation. For example, we have restructured our portfolio to enable us to increase our holdings in long-term government bonds to protect us from declining interest rates.

This is one illustration of our holistic long-term approach which we describe as Liability Driven Investing (LDI). Our positive return for 2015 is a testament to its reliability. LDI has also been a driving factor behind our long-term track record of investment success: HOOPP's 10-year return is 9.32%.

Our strong financial position has made it possible to provide other important benefits. In 2015, our retired and deferred members received two significant cost of living adjustments (COLA). These members saw their monthly pensions increase, offsetting the impact of rising prices due to inflation.

As well, HOOPP has been able to keep contribution rates unchanged since 2004. This is a tangible and valuable benefit to HOOPP employers and members.

In addition to providing ongoing investment oversight, in 2015 our Board approved a Plan change that allows part-time and other non-full-time employees the opportunity to join HOOPP upon hiring. This change helps ensure that all healthcare workers at HOOPP employers will now be able to start contributing to a secure financial future.

## Serving our members, now and in the future

While our main focus is delivering on our pension promise, we are equally committed to providing exceptional service to those whom we serve every day.

We are pleased to report that our client satisfaction score, which has been increasing since we began measuring in 2008, rose to a new high in 2015.

Our organization is growing rapidly, and we recognize that our systems and technologies need to keep pace with that growth in order to ensure continued success in the future.

We made changes in 2015 to prepare for this future growth. For example, we upgraded our telephone system, helping to enhance our client experience. As well, we moved our data centre from our 1 Toronto Street location to a third-party provider. These significant projects were completed without any disruptions to the services that we provide to members and employers every day.

We are in the process of upgrading our pension administration system, an initiative that will help us better serve the needs of our members and their employers in the coming years by enhancing our ability to manage their requests, lowering our costs, and providing added flexibility to adapt to Plan changes.

In 2016, we will move to a new HOOPP-owned, energy efficient building with LEED platinum certification at 1 York Street, giving us space to grow through the coming decades.

Thank you to the HOOPP team for your contributions to so many successful projects. Your everyday dedication and commitment makes a difference in the lives of all of our members.

Lastly, we are proud to say that in 2015 we hit a new milestone; we now have over 300,000 active, retired, and deferred members. We wholeheartedly welcome our new members to HOOPP.

To all our members, we remain steadfast in our commitment to be with you every step of the way, from enrolment to retirement and beyond, as we strive together towards a secure and sustainable future.

**Jim Keohane**
President & CEO

# Chairs' Message

## We know that HOOPP members and employers depend on the Plan to pay defined benefit (DB) pensions, today and in the future. Above all else, the Plan must be stable, secure, and sustainable.

HOOPP's Board of Trustees ensures that investment strategies and risk management, service to members and employers, and changes to the Plan are aligned to deliver a secure retirement income to more than 300,000 healthcare workers across the province.

We are proud to say HOOPP continued to deliver on its promise in 2015, and increased its strong funded status in a difficult year.

We thank all HOOPP management and staff for the dedication, collaboration, and commitment that drive them every day.

## Providing a secure retirement

Thanks to the strong financial position of the Plan, the Board took steps to protect pensions from inflation.

The Board approved a cost of living adjustment (COLA) for 2015 to provide an increase at 100% of the consumer price index (CPI). As a result, all current and deferred pensions will increase by 1.61%, effective April 1, 2016.

That increase comes on top of two adjustments paid in 2015: the first provided retired and deferred members with a one-time catch-up that brought pensions up to where they would be if they had received the maximum COLA increase permitted under HOOPP from 2002 to 2013, and the second was a COLA for 2014 at 100% of the CPI.

Made possible by the Plan's strong financial position, these decisions by the Board ensure that pensions will keep up with the rising cost of living and that HOOPP members are able to live their retirement years with a sense of security.

The Board also made a decision to remove eligibility requirements for part-time and other non-full-time workers at HOOPP employers, effective Oct. 1. In the past, these employees had to work at least 700 hours or earn at least 35% of the year's maximum pensionable earnings (YMPE) in the previous calendar year in order to join the Plan.

Now these employees, in consultation with their employer, can join the Plan as soon as they are hired. Alongside their full-time colleagues, for whom enrolment in HOOPP is mandatory, they can immediately start contributing to their pension and building a secure retirement.

To support this change, HOOPP provided additional online and written communications material, and regional managers met with members and management contacts.

The Board also approved changes to the Plan's disability benefits. These improvements are designed to assist members and employers by making the rules easier to understand and streamline the application and administrative process.

These changes come as HOOPP received its highest client approval scores to date, with members and employers showing increased satisfaction with the service they received.

This is a commendable achievement, and yet another illustration of the organization's commitment to member and employer service.

## Advocating for DB pensions

HOOPP continues to expand its DB Ambassador program, encouraging members and other interested stakeholders to take an active role in support of the DB model. Our commitment to this issue is stronger than ever, as HOOPP's latest research, conducted by the Gandalf Group in September 2015, found that more than half of Ontarians without workplace pension plans were unable to save anything for retirement in the last year.

The study also showed that nearly two-thirds of those surveyed wonder if they will have enough money for retirement, and 85% worry that without good workplace pensions Ontarians will face senior poverty.

The research illustrates that Ontarians are unable to save — even as they worry about not having enough for the future. This suggests that the kind of stable income provided by a DB plan could be a significant benefit to many people.

In 2015, HOOPP held its first DB Ambassador roundtables, allowing our Ambassadors to come together to compare best practices and exchange ideas on ways to spread the word and facts about the advantages DB plans have over alternative savings vehicles. More sessions are planned for 2016.

## Balancing risk and returns

The Board continued to work with HOOPP staff to improve governance and risk management by enhancing our existing risk-based approach to its oversight of HOOPP investments and investment strategy.

As a result, the Board, along with HOOPP employees, continues to have a clear picture of the Plan's funding position, as well as the risks we face.

Together, we are committed to ensuring that the Plan is able to deliver on its pension promise today, and in the future.

Helen Fetterly

**Helen Fetterly**
Chair

Bryce Walker

**Bryce Walker**
Vice Chair

# Management's Discussion & Analysis (MD&A)

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**In addition to historical information, the MD&A contains forward-looking statements regarding management's objectives, outlook and expectations. By their very nature, such statements are subject to risks and uncertainties, which may cause actual results to differ from those anticipated.**

# 2015 Financial Highlights

**122%***

**STATE OF THE PLAN**

**$3,103 MILLION**

**NET INVESTMENT INCOME**

**5.12%**

**RATE OF RETURN FOR 2015[†]**

**9.32%**

**10-YEAR ANNUALIZED RETURN[†]**

**$63.9 BILLION**

**NET ASSETS**

**309,000**

**MEMBERS**

* On a Smoothed Asset Basis (130% Funded Ratio on a Net Assets Basis)

† Registered Pension Plan

# Plan Overview

Offered at over 490 employers across the province, the Healthcare of Ontario Pension Plan (HOOPP or the Plan) is a multi-employer contributory defined benefit plan serving 309,000 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:

- Ontario Hospital Association (OHA)
- 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

At HOOPP, our singular focus remains on delivering on our pension promise to our members – that is, to provide a secure and predictable income to our members that comprises a key component of their overall retirement security. We endeavour to deliver on this promise in a manner that is consistent with our objective of ensuring the Plan remains affordable to our members and their employers, both now and in the future.

The key measure of our ability to meet this promise is the funded status of the Plan - the Plan's net assets expressed as a percentage of all current and estimated future benefits promised to our members. On this measure, HOOPP's funded status is currently at 130% on a net assets basis, unchanged from 2014. On a smoothed[1] asset basis, for regulatory filing purposes, the ratio of smoothed assets to our pension liabilities is 122%, up from 115% in 2014. Despite a challenging year in the financial markets, the funded ratios of the Plan remained stable / improved as a result of HOOPP's continued refinement of its Liability Driven Investing (LDI) strategy, discussed in more detail in the *Investments* section.

*The chart below shows the Funded Status of the Plan for 2015 and 2014, shown on both a net assets basis and on a smoothed asset value basis:*

| Funded Status | 2015 | 2014 | Year-Over-Year Change |
|---|---|---|---|
| Net Assets to Regulatory Pension Obligation | **130%** | 130% | +0% |
| Smoothed Asset Values to Regulatory Pension Obligation | **122%** | 115% | +7% |

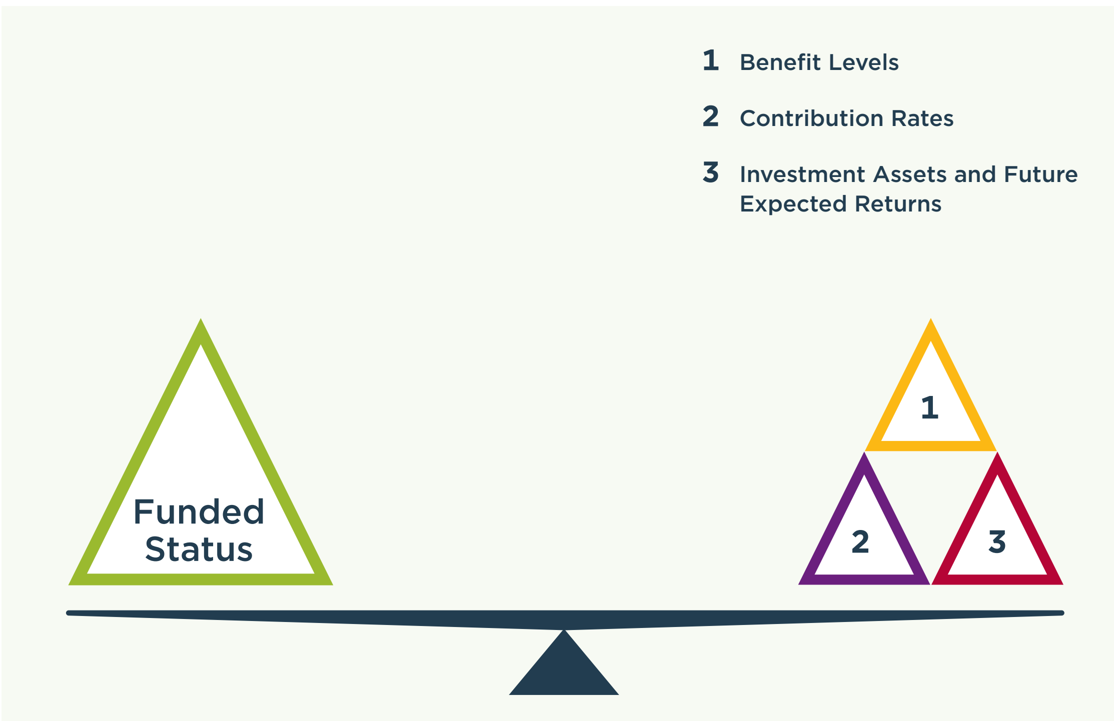
[1] *Actuarial technique that recognizes gains and losses, not as they occur, but slowly over a specified period of time.*

## Pension Plan Funding Management

Although HOOPP currently has a funding surplus, with current net assets higher than its current estimated future benefits, there always remains a risk with maintaining this funding surplus in the future owing to the constantly changing economic and market environment and demographic profiles of our members. Delivering on the pension promise is a complex challenge that involves anticipating these changes and prudently making adjustments using the levers at our disposal.

In managing the Plan, there are three main components that Management and the Board must balance to meet our promise to our members:

1. The level of pension benefits upon retirement;
2. Contribution rates from both Plan members and their employers; and
3. Total investment assets and future expected investment return and risk.




The objective in managing the first component – benefits – is to provide a predictable and stable level of pension income to our members upon retirement. The goal is to try to ensure that the level of benefits that members receive from their HOOPP pensions, in addition to income from other sources such as the Canada Pension Plan, provide a total retirement income that ensures retirement security. The task of managing benefit levels would not be difficult if it could be done in isolation. However, the realities of managing the second component, contribution rates, are what make managing benefit levels such a real challenge - contribution rates must be managed so that the Plan remains affordable to both our members and their employers to ensure the long-term sustainability of the Plan.

In 2015, no changes were made to the benefit levels of the Plan, and the Board has committed to maintain contribution rates at current levels until the end of 2017. These contribution rates have remained at the same level since 2004.

The third component is total available investment assets and current and future expected investment returns and investment risk. This component attracts the most attention and plays an essential role in our mission to deliver on the pension promise, as it is estimated that roughly 75% of pension benefits paid are derived from investment income. Managing expected investment returns and risk is also the component that Management and the Board can most quickly adapt due to rapidly changing economic conditions.

Balancing these three components in a prudent and effective manner will ultimately direct the Plan on the path towards delivering on its promise 80 years and longer into the future. An added complexity in managing the Plan is the need to ensure intergenerational equity exists among members; that is, meeting the goal of having each generation of members receive the level of benefit that is generally proportional to their contributions, such that no generation is disadvantaged to the detriment of their own retirement security.

## Future Funding Sustainability

Although HOOPP currently has a funding surplus, the risks to maintaining this position in the future are constantly present, as evidenced by the variability in the Plan's funded status over the years. We remain vigilant in trying to mitigate this funding risk to the greatest extent possible, primarily through the prudent management of the third component, as described above, of investment assets and future expected investment returns and risk. However, we recognize that the complete elimination of funding risk is neither practicable nor even advisable. The Plan chooses to take investment risk within its risk tolerance, in order to earn higher rates of return and thus to keep the costs of the Plan (contribution rates) reasonable. Furthermore, the future demographic profile of our members is subject to a level of uncertainty.

In general, the two broad categories of risks that contribute to total funding risk come from financial or economic factors and demographic factors.

### Economic and Financial Risk

As mentioned previously, investment income is a significant source of funding of pension benefits paid to our members, and is also a key determinant of how the other two of the three components are managed, i.e. the levels of contribution rates and benefits. The positive performance of investment strategies is essential to the long-term sustainability of the Plan. Investment returns that exceed our expectations lead us towards fulfilling the pension promise and allow us flexibility in managing benefit levels and contribution rates, while the opposite is true should returns be below expectations. In establishing an appropriate investment strategy, we aim to strike a balance between generating a sufficient return to meet our pension obligations and assuming an acceptable level of risk that does not jeopardize our ability to meet those obligations.

Of all the financial and economic risks, the three that are of the greatest concern to the Plan are, the level of interest rates, inflation, and the returns on equities and other return seeking strategies.

The level of interest rates affects our expected return on investments. As rates fall, so do expected returns on investments, making it more difficult to earn the returns needed to pay our benefits.

Increases in inflation, especially when unanticipated, could translate into higher wages which form the basis of the pension benefits promised to our members. Additionally, members' pension benefits are to a large degree protected against inflation and therefore higher inflation increases the Plan's pension obligation.

Lastly, if equities and other return seeking strategies fall short of their respective expected returns, investment income will fall short of the required levels to pay future pension benefits. Also, the volatility of returns of these strategies could cause shortfalls with respect to investment returns and funded status, risks that the Plan must diligently work to mitigate.

As a relatively young pension plan (in terms of the average age of our active members and the number of active members in relation to the number of retired members) and based on our long-term expected growth, HOOPP's investment assets and pension liabilities tend to double approximately every 12 years. At some point in the future, this may present an operational challenge as certain investment strategies may not be readily scalable to meet this growth and this may pose an incremental challenge to the overall investment strategy as we strive to generate sustainable asset growth over the long-term.

## Demographic Risk

Demographic risks to the Plan include increased life expectancy of our members, changing retirement trends (e.g. early retirements) and the natural aging of the plan membership. Demographic risks are difficult to identify as changes occur slowly over long periods of time and are generally identified by looking at longer periods of historical information. With demographic factors, the longer term trends must be monitored closely as year-over-year changes can be minor and easy to overlook. The biggest demographic risk is an unanticipated increase in the life expectancy of our members, as this will increase the amount of pension benefits to be paid beyond what was estimated. In 2015, no changes to the life expectancy assumption were made (changes were made in 2014 following the release of new mortality tables by the Canadian Institute of Actuaries), while small adjustments were made to the retirement rate assumption during the year, following a recent retirement experience study that was completed (no changes were made to the retirement rate assumption in 2014).

The Plan monitors demographic trends carefully with an annual analysis of all assumptions by the Board's actuary that reviews recent experience. Additionally, detailed demographic experience studies are conducted from time to time to help ensure assumptions about future expectations remain relevant.

The changing demographic profile of our membership, referred to as plan maturity, is another important trend to follow as it impacts the future sustainability of the Plan and is discussed in more detail below.

## Plan Maturity

All pension plans naturally age over time, a process often referred to as plan maturity. Newer plans have a greater proportion of working or "active" members relative to retired members or retirees. Among other factors, one key determinant of how quickly a plan ages is the rate at which new and younger members join the plan, thereby partially offsetting newly retired members. Over longer periods of time as a plan matures, the average plan participant age rises, due to the increasing pool of retirees and the difficulty in offsetting these retirees with new younger members in greater numbers.

As the plan ages, there are several management implications to consider. Firstly, a plan's risk-taking capacity falls as the plan matures, which could pose a challenge to maintaining the growth rate of investment assets. Also, more mature plans pay out more in benefits than the contributions they receive from active members, which increases a plan's sensitivity to investment market declines - the remaining asset base with which to "earn back" losses is reduced since there are no new net contributions to help rebuild the asset base. Additionally, any funding deficiencies are more difficult to address since contribution rate increases will have a diminishing impact given the smaller proportion of active members.

One key measure of the relative age of the plan is net cash flow between contributions received and pension benefits paid.

The chart below shows that HOOPP is a relatively young plan as cash flows received from contributions was greater than benefits paid by $174 million in 2015 (2014: $302 million), however, the Plan is slowly maturing as this difference is projected to narrow over time. Note, a contribution rate reduction was in place from 1999 – 2002 to help ensure compliance with legislation that limited the maximum surplus a registered pension plan can have.

**Contributions vs Benefits Paid** ($ millions)

Another key measure of the relative maturity of the plan is the ratio of active members to retirees. The numbers below portray the gradual maturing of the Plan, as the active to retiree ratio has declined from 3.4 at the end of December 31, 1995 to 2.2 at the end of December 31, 2015 and is forecasted to decline further to 1.8 by December 31, 2025. New entrants to the Plan are a key contributor in slowing the maturity of the Plan; however, all pension plans naturally age over time due to the ever growing population of retirees.

## Ratio of Active Members to Retirees

| | Dec. 31, 1995 | Dec. 31, 2005 | Dec. 31, 2015 | Dec. 31, 2025 |
|---|---|---|---|---|
| Active to Retiree Ratio | 3.4 | 2.5 | **2.2** | 1.8 |

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.

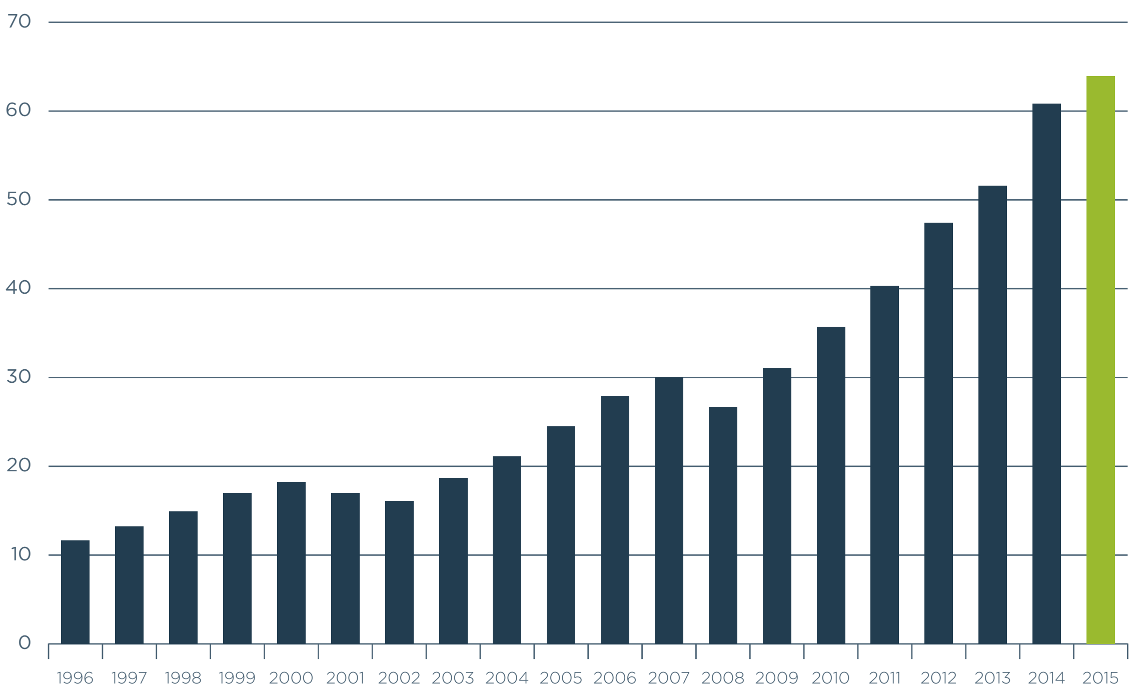
# Investments

In order to ensure that it can fulfill its mission to deliver on the pension promise, HOOPP employs a Liability Driven Investing (LDI) approach. In LDI the Plan's liabilities and the Fund's assets are considered together and, with the focus on the risk of having insufficient assets to provide funding for members' retirements, this approach helps to ensure that the Plan remains fully funded even in a very challenging environment.

In implementing LDI at HOOPP, the Fund's assets are allocated between two broad portfolios: the Liability Hedge Portfolio and the Return Seeking Portfolio. The Liability Hedge Portfolio is designed to hedge the major risks that can impact pension obligations – namely, inflation and interest rates – and contains investment assets which perform in a manner similar to that of the Plan's liabilities. The Return Seeking Portfolio is designed for controlled risk-taking in investment assets and strategies which are expected to deliver incremental return to the Fund and provide diversification benefits.

*The chart below shows the growth in HOOPP's Net Assets over the last two decades from $11.6 billion in 1996 to $63.9 billion at the end of 2015.*

**Net Assets** ($ billions)



*The table below shows investment performance for 2015 and 2014 as well as the 10-year and 20-year performance of the Fund (Registered Pension Plan):*

| | 2015 | 2014 | 10-Year | 20-Year |
|---|---|---|---|---|
| Total Return | **5.12%** | 17.72% | 9.32% | 9.46% |
| Benchmark* | **3.95%** | 15.62% | 7.58% | 8.18% |
| Value-Added Return | **1.17%** | 2.10% | 1.74% | 1.28% |

** Benchmarks are established to measure the performance of investment strategies relative to the risk taken. Some of these benchmarks are discussed below in the discussion of specific investment strategies.*

## 2015 Results

2015 saw the global economy continue to experience disappointing growth and, in particular, serious concerns emerged regarding the sustainable growth rate of the Chinese economy. The slowing economy in China further pressured commodity prices generally, while the oil price resumed its weakness largely as a result of a significant increase in supply from shale oil producers in the U.S. With all this uncertainty regarding global economic growth prospects, central banks maintained their extremely accommodative stance, although much of the latter part of the year was focused on when the U.S. Federal Reserve might begin to raise interest rates.

With equity markets having entered the year close to fully valued, the fears of slowing global economic growth and the attendant pressure this would put on corporate profits provided for a mixed year for stocks. Markets with a heavy weighting to commodities performed poorly; for example, Canada's S&P/TSX Composite Index was down 8.33% on a total return basis for the year. The S&P 500 Index in the United States was up only 1.37% on a total return basis in 2015. As noted, the performance of other major markets on a total return basis was mixed, and included Japan's Nikkei Index up 10.96%, Frankfurt's DAX Index up 9.56% and London's FTSE Index down 1.03%.

In the interest rate environment, 2015 saw the continued decline in interest rates in Canada: the 10-year government of Canada bond yield declined from 1.79% at the beginning of the year to 1.39% at the end of the year, and the 30-year yield declined from 2.34% to 2.15%. In the U.S., government bonds rose during the year, with the 10-year yield moving from 2.17% to 2.27% and the 30-year yield from 2.75% to 3.02%. Credit spreads, the difference in yield between a "risk-free" government benchmark and a corporate borrower, increased in 2015, with the five-year CDX.NA.IG index widening from 66 basis points at the beginning of the year to 88 basis points by year end.

For the year, HOOPP posted the following results:

- on a net assets basis, a funded ratio of 130% as of December 31, 2015, unchanged from 2014;
- net investment income of $3.1 billion (compared to $9.1 billion in 2014);
- investment return of 5.12% (compared to 17.72% in 2014), of which 3.95% represented benchmark return and 1.17% return from active management strategies; and
- growth in net assets to $63.9 billion from $60.8 billion in 2014.

## Major Drivers in the Change in Funded Position

The chart below summarizes the change in HOOPP's funded status and provides details on changes in specific investment strategies and the Plan's liabilities:

| ($ millions) | 2015 Change | 2014 Change |
|---|---|---|
| **Liability Hedge Portfolio** | | |
| Short-Term | **(167)** | 329 |
| Nominal Bonds | **1,441** | 4,806 |
| Real Return Bonds | **167** | 860 |
| Real Estate | **473** | 546 |
| ***Total Liability Hedge Portfolio*** | **1,914** | 6,541 |
| **Return Seeking Portfolio** | | |
| Public Equities | **(130)** | 1,524 |
| Private Equity | **614** | 473 |
| Corporate Credit | **54** | 131 |
| Long-Term Option Strategy | **334** | 157 |
| Asset Allocation Strategies | **107** | (6) |
| Absolute Return Strategies | **188** | 203 |
| FX Hedges and Other | **22** | 82 |
| ***Total Return Seeking Portfolio*** | **1,189** | 2,564 |
| **Changes due to Net Investment Income** | **3,103** | 9,105 |
| Change due to Operations | **(27)** | 117 |
| ***Total Change in Net Assets*** | **3,076** | 9,222 |
| **Change in Pension Obligations** | **(2,228)** | (5,445) |
| **Net Change in Surplus on a Net Asset Basis** | **848** | 3,777 |
| **Funded Ratio on a Net Asset Basis** | **130%** | 130% |
| Change in Smoothing Adjustment* | **3,049** | (2,529) |
| **Regulatory Funded Ratio** | **122%** | 115% |

* *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 $1,914 million in 2015, down from a return of $6,541 million in 2014. During 2014 there was a significant decline in interest rates which resulted in sizable gains on fixed income assets, while the decline in interest rates in 2015 was more moderate, and in fact rates were up slightly in the U.S., resulting in much smaller gains. As will be discussed in further detail below in the section titled *Plan Liabilities*, the decline in interest rates resulted in the discount rate used to calculate the present value of HOOPP's total pension obligation falling further to 5.65% in 2015, from 5.85% in 2014. This change in the discount rate increased the total pension obligation in 2015 by approximately $1.4 billion and was more than offset by the increase in the value of the Liability Hedge Portfolio. Details of the performance of individual strategies within the Liability Hedge Portfolio follow below, in the *Liability Hedge Portfolio Discussion*.

The Return Seeking Portfolio posted a gain of $1,189 million in 2015 which was down from the strong results in 2014 of a gain of $2,564 million. Most strategies in the Return Seeking Portfolio posted positive results, with the largest contributions coming from Private Equity at $614 million (2014: $473 million) and the Long-Term Option Strategy at $334 million (2014: $157 million). Details of the performance of individual strategies within the Return Seeking Portfolio follow below in the *Return Seeking Portfolio Discussion*.

The total pension obligation increased by $2,228 million in 2015 compared to an increase of $5,445 million in 2014. The increase is a result of the noted decrease in the discount rate assumption, as well as from service accrued and changes in other actuarial assumptions, less benefits paid during the year. A more detailed discussion follows in the *Plan Liabilities* section.

Overall in 2015, the investment return of 5.12%, combined with the growth in the Plan's liabilities of 4.75%, allowed the funded status of the Plan to remain stable. The funded status of the Plan on a net assets basis was unchanged in 2015 at 130%, while on a smoothed value of assets basis the regulatory funded ratio ended 2015 at 122%, up from 115% in 2014.

## Active Management and Relative Performance

In 2015, the total return of 5.12% exceeded the benchmark return of 3.95% by 1.17% or $708 million. This active management return, or "value-added," came from a variety of sources in 2015 within both the Liability Hedge and Return Seeking Portfolios. The Liability Hedge Portfolio generated 0.13% of value-added, with a significant contribution coming from Real Estate, while the Return Seeking Portfolio generated 1.04% of value-added with large contributions from Private Equity and Absolute Return Strategies.

| | **2015** | | **2014** | |
|---|---|---|---|---|
| | ($ millions) | **Percent** | ($ millions) | **Percent** |
| **VALUE ADDED** | | | | |
| Liability Hedge Portfolio | **81** | **0.13%** | 584 | 1.19% |
| Return Seeking Portfolio | **627** | **1.04%** | 449 | 0.91% |
| **Total** | **708** | **1.17%** | 1,033 | 2.10% |

# Liability Hedge Portfolio Discussion

## Short-Term and Cash

In 2015, the portfolio returned -$167 million (2014: $329 million). There are two components to the return – accrual income and the marked-to-market (MTM) loss on the portfolio.

The year was marked by a number of events and developments which affected both the income and the MTM gains/losses. Two rate cuts by the Bank of Canada cut the income that the portfolio earns. The MTM performance started to deteriorate in the second half of the year, as credit spreads widened.

Turbulence in global markets – Foreign Exchange, Equities and Fixed Income – created an environment where credit spreads widened, ending the long Credit rally that had prevailed since 2009. In addition, central bank selling of global bonds, including those of Canadian Governments, both Federal and Provincial, created a deterioration in the MTM gains/losses.

With respect to bonds issued by financial companies, the portfolio was defensively positioned since the yield increase from Governments to Financials was not sufficient to make it attractive to invest in them.

The status of the portfolio going into year-end was improving. Credit spreads were trading in a defined range and the running credit spread in the portfolio was slowly increasing as proceeds from maturing bonds were re-invested at wider spreads. Generally, the outlook is more positive. The steep Provincial credit curve creates an opportunity to earn calendar curve roll down which will recapture some of the MTM losses taken in 2015. The steeper credit curve also rewards managing the portfolio with a shorter duration.

## Nominal Bonds: Mid-Term and Long-Term Bonds

A large decline in commodity prices, waning global economic growth momentum and a domestic "technical recession" (i.e. two consecutive quarters of GDP declines) led to two Bank of Canada rate cuts in 2015 – the first in January and the second in July. These factors led to declines in interest rates on Government of Canada bonds with the magnitude of these declines being greatest in shorter term maturities. The average yield on the wider FTSE TMX All Government "Universe" Bond index fell by 30 basis points (bps), from 2.04% to 1.74%, whilst the yield on the Long Term All Government Bond index (which measures the performance on maturities greater than 10 years) was down only 8 basis points, from 2.90% to 2.82%.

HOOPP's Liability Hedge Fixed Income portfolios returned about $1.44 billion (2014: $4.81 billion), which included value added of about $64 million in the mandated portfolios.

## Real Return Bonds (RRB)

Real interest rates also declined in 2015. The average yield on the FTSE TMX Real Return Bond Index declined by 12 basis points, from 0.57% to 0.45%, and represented a return to HOOPP's self-benchmarking RRB portfolio of $167 million (2014: $860 million).

## Real Estate

In 2015, the HOOPP real estate portfolio produced a return of 7.96% on a currency hedged basis compared to 9.88% in 2014 (the return on an unhedged basis was 10.30% compared to 9.82% in 2014). The return represents a continuation of the trend of strong real estate performance over the past several years and an out performance relative to the Canadian Investment Property Databank (IPD) benchmark of 7.53% in 2015.

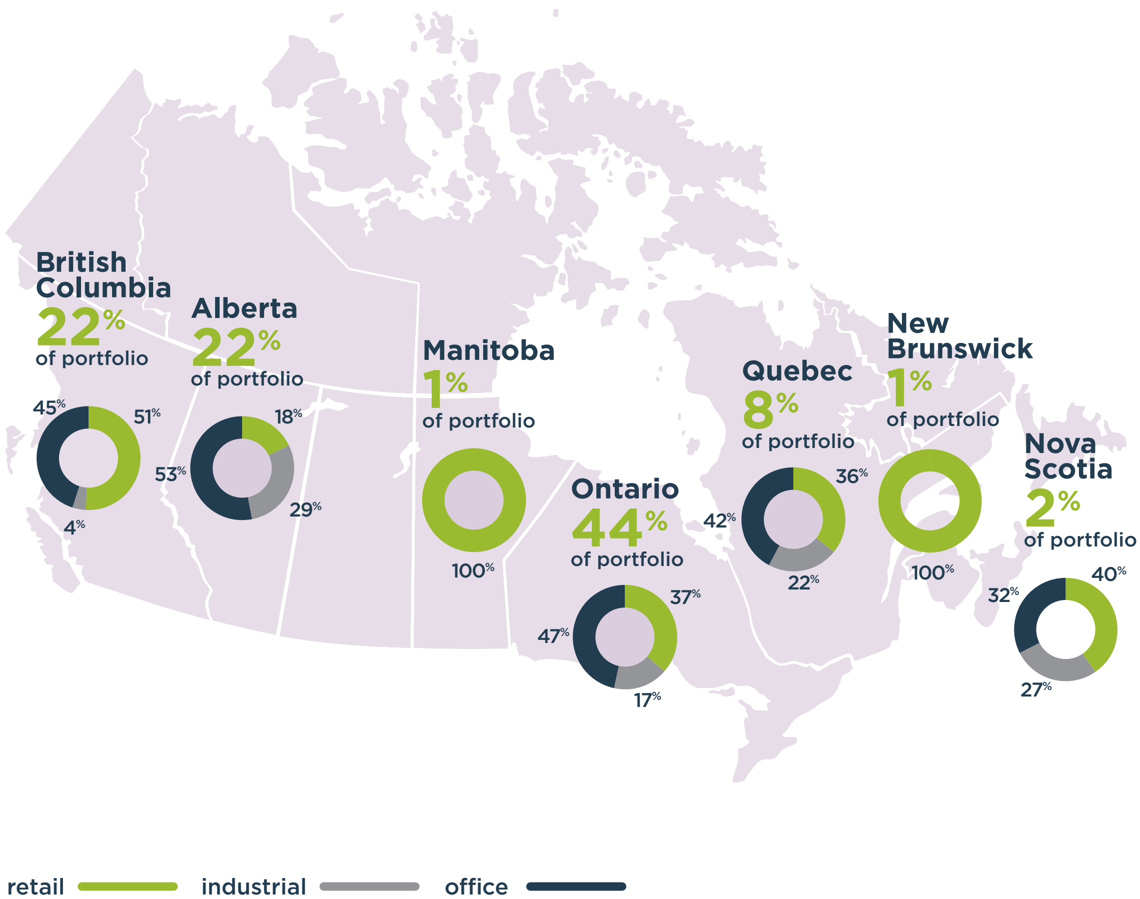
The year was an active one for the portfolio in terms of acquisitions, development, and selective divestment activity. A total of more than $1.8 billion in new investments or investment commitments were made, including activity in all three major geographies in which HOOPP invests: Canada, the U.S. and Europe.

Major highlights of 2015 include:

- the purchase of interests in two large regional shopping centres located in Belleville and Windsor, Ontario;
- the acquisition of a $198 million (US$140 million) interest in 32 Old Slip, a 1.2 million square foot office tower located in lower Manhattan;
- the commitment of $1.1 billion to real estate investment funds globally, including $243 million to four funds operating in Canada, $403 million to three funds in the U.S. and $468 million to four funds in Europe;
- the successful completion of six development projects during the year, bringing on-stream an additional $368 million of new income producing properties; (including 150 Elgin Street (Ottawa), Broadway Shopping Centre (Bradford, England), Parkside Student Residence (Toronto), Atboro House II (Halifax), and two industrial properties in Calgary and Edmonton);
- commitment to new developments totalling $170 million, including three industrial projects in Germany and the U.K., a residential tower at Brentwood Town Centre (Burnaby), and a new office at Gateway Centre (Mississauga);
- continued progress on the construction and lease-up of other major retail, office, industrial and mixed use development projects, including Creechurch Place (London), One York (Toronto), Brentwood Town Centre and Marine Gateway (Greater Vancouver) and Spectrum Square and Gateway Centre (Mississauga); and
- the sale of $176 million of properties, including two office buildings in Winnipeg, an office complex in Richmond Hill, and an office building and development site in Montreal.

At year end 2015, the total gross real estate asset base had reached $10.4 billion. The graphic below illustrates the diversification of HOOPP's Canadian real estate portfolio by geography and by product type (excluding multi-residential, property developments and limited partnerships) and represents approximately 66% of our total real estate holdings on a gross value basis.

## HOOPP's 2015 Canadian Real Estate Portfolio Composition



# Return Seeking Portfolio Discussion

## Public Equities

North American equity markets presented investors with plenty of volatility in 2015, but unfortunately little return. In the U.S., a strong dollar, slower earnings growth, and less favorable monetary policy all served to offset the favorable trend in employment growth, resulting in flat returns for 2015. In Canada, the heavy exposure to commodities, and the persistent weakness in energy prices, all contributed to equity returns that were materially down.

In 2015, HOOPP's public equity performance was generally in-line with market returns. Throughout the past year, our disciplined valuation approach helped HOOPP navigate equity markets well.

HOOPP uses a variety of active management strategies to generate equity returns, including long/short portfolios and the use of derivatives. Augmenting the returns cited below, these combined activities in 2015 detracted marginally from overall returns.

### *Canadian Equities*

2015 proved to be a very difficult year for Canadian investors. The weak market performance was led by the Energy, Materials and Industrial groups. Sector rotation provided investors with little cover as the majority of groups in the market generated negative returns. The steady decline in the Canadian dollar over the course of 2015 also served to undermine the attractiveness of Canadian equities to foreign investors.

HOOPP's Canadian equity total return was -7.9% (2014: 12.1%) compared to the -7.8% return for its benchmark, the S&P/TSX 60 Total Return Index.

### *U.S. Equities*

U.S. equity markets started the year with an upward bias through the first quarter, and then traded in a narrow range until August. At that point markets entered a corrective phase until October, after which the market embarked on a recovery, ultimately finishing the year in marginally positive territory. The year's volatility presented many challenges, with returns being heavily sector dependant. Like Canada the most severe losses were reserved for the commodity sectors.

HOOPP's U.S. equity total return of 1.5% (2014: 12.6%) outperformed its benchmark, the S&P 500 Total Return Index by 0.1%.

### *Non-North American Equities*

In Europe, aggressive monetary policy from The European Central Bank helped propel the major market indices of Germany, France and Italy all higher. The U.K. market materially underperformed the large markets of continental Europe with a small loss. Throughout most of 2015, emerging markets struggled. China, Brazil and India all delivered negative returns for investors, whereas Russia performed very well. In Japan, favorable monetary initiatives helped their equity market generate a positive return.

The total return for HOOPP's International equity portfolio was 5.6% (2014: 5.9%), underperforming its benchmark, a composite on non-North American equity indices by 1.7%.

## Private Equity

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

At the end of 2015, HCP had $4.3 billion invested, with a further $3.5 billion committed to private funds and direct investee companies. The invested portfolio generated a currency-hedged return of 17.7% for the year compared to 16.3% in 2014 (the return on an unhedged basis was 28.7% compared to 18.2% in 2014), exceeding its benchmark by $397 million.

The fair market value of the invested portfolio represents 6.8% of the total Fund, meaning there is considerable scope for managed growth and for considering significant investment opportunities.

## Corporate Credit

Credit spreads had a selloff in 2015. The Markit CDX Investment Grade index spread widened from 66 basis points (bps) at the start of the year to 88 bps at year end. Corporate Bonds also had a selloff. The Barclay's Aggregate U.S. Credit Index OAS spread for corporate bonds widened from 125 bps at start of the year to 155 bps at year-end.

HOOPP has three credit sub-portfolios which generated a cumulative value-added return of $61 million for the year, compared to $60 million in 2014:

1) The general asset active credit portfolio was positioned slightly short with overweight positions in senior tranches, Canadian and U.S. corporate bonds and credit curves offset by shorts in single names and index positions and credit options.
2) The structured credit active portfolio was positioned with a long bias. The return was generated from three strategies: commercial mortgage backed securities (CMBS), collateralized loan obligations (CLOs) and real estate backed assets.
3) The corporate passive portfolio provides the bulk of the Plan's credit exposure and was managed dynamically throughout 2015.

## Long-Term Option Strategy

This strategy, in which equity index exposure is combined with equity index options, was a contributor to the Return Seeking Portfolio, increasing in value by $334 million during the year, compared to $157 million in 2014. This strategy is self-benchmarked.

### Asset Allocation Strategies

HOOPP engages in the strategic re-weighting of major asset class risks (equities, fixed income and corporate credit) in order to manage the risk and return of the Fund. Throughout the year, HOOPP took various overweight and underweight positions in credit, U.S. equities, U.S. Treasury bonds, and Canadian government bonds. In 2015, this program generated a gain of $107 million, compared with a loss of $6 million in 2014. Value was added during the year by selling U.S. Treasuries early in 2015 and buying them back at much cheaper levels later in the year. All gains or losses on these strategies contribute to the value-added of the Fund.

### 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 $188 million in 2015 compared to $203 million in 2014.

## Responsible Investing

HOOPP believes that the appropriate consideration of Environmental, Social and Governance (ESG) issues is an integral part of the investment decision making process that allows investors to gain a more complete view of the potential risks and opportunities in an investment.

Our approach to responsible investing integrates available ESG data and information alongside traditional fundamental analysis incorporating financial and economic information. This approach in our investment decision making process ensures that we consider all types of relevant information when assessing an investment's total potential risk and future expected opportunities, and importantly, also ensures that we meet our fiduciary obligations to our members by making investment decisions that ultimately serves their best financial interest.

As the availability and quality of ESG data and information is continually expanding and evolving, the level of integration of ESG factors into each investment decision will vary depending on the specific situation. HOOPP does not make investment decisions on ESG factors alone.

To encourage better consideration of ESG issues by companies, HOOPP may engage with company management to encourage adoption of generally accepted best practices on environmental, social and governance matters. Engagements may take the form of direct engagements with company management and boards, or collectively with other like minded investors or through third party organizations such as the Canadian Coalition for Good Governance (CCGG). HOOPP believes that engaging with companies is the preferred approach for encouraging desired changes.

Examples of direct ESG engagement efforts throughout the year have included:

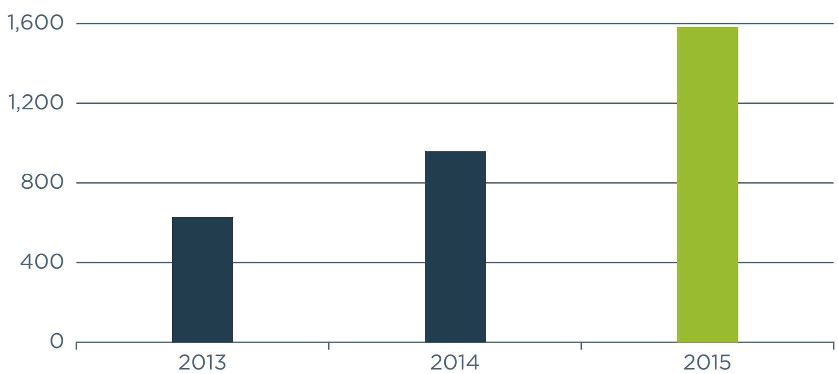
- direct engagement with a U.S. electric utility to encourage better disclosures on carbon emissions, including reporting to the CDP, and improvements to their below average employee health and safety record;

- direct engagements with a number of gold mining companies to discuss their plans following unfavourable outcomes on their say-on-pay advisory votes; and
- direct engagement with a power generation company to improve their water usage intensity levels;

Once an investment is made, in our approach to being responsible owners, we encourage better ESG practices by exercising our influence as owners. In our ownership of public companies, we take seriously our voting rights on proposals put forth by shareholders and management and vote our shares in accordance with our obligation as fiduciaries to maximize long-term shareholder value. Our position on certain management issues is outlined in our Statement of Guidelines and Procedures on Proxy Voting, available on our website. On ESG matters, we generally encourage companies to effectively implement ESG standards and to increase ESG disclosures as appropriate. However, given the increasing number of ESG issues and the increasing complexity and continuing evolution of these issues, voting on ESG matters is done after thorough analysis on a case-by-case basis.

During the year, we voted on 1,584 proxy proposals, up from 959 proposals in 2014.

### Proxy Proposals




Although 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, in 2015 we voted against the advice of our proxy advisor on the issue of board composition at a U.S. based retailer. Additionally, we may vote against management on shareholder proposals, as we did in 2015 on certain occasions on the issues of Board chair independence and say-on-pay resolutions.

For a number of years, HOOPP's real estate group has worked on implementing responsible investment principles across its property acquisition, development and management activities. The team follows internal processes and guidelines and also works in close collaboration with its development, asset- and property-management company partners.

Since the start of the program in 2010, the focus has been on implementing sustainability initiatives in new developments and in our existing real estate portfolio. For example, we have implemented initiatives to reduce energy, water, waste and greenhouse gas (GHG) emissions, to engage with tenants and suppliers and to achieve green building certification. We report on these results through our "Pillar Scorecard", which is published annually in HOOPP's Real Estate *Sustainability Report*, available on our website.

In 2015, the real estate team continued to focus on incorporating sustainability in the underwriting of new building acquisitions as well as within ongoing asset management with the intent to formalize sustainability considerations and implement a fully integrated approach across the portfolio. The group also rolled out its first Leadership in Environmental Advancement Program or LEAP Conference in 2015 which took place in conjunction with HOOPP's annual LEAP Awards. The Conference theme in 2015 was "Collaboration" and the Conference brought together over 70 of HOOPP's management partners to share ideas and best practices on how working together can advance sustainability in real estate.

Other 2015 real estate responsible investing accomplishments included the following:

- the introduction of new toolkits and information packages within our Industrial Excellence Group – a program that supports sustainability practices in the industrial building portfolio, which will allow property managers to educate their respective industrial tenants on the benefits of and how to finance energy efficiency projects;
- receiving the 2015 Investment & Pensions Europe (IPE) Real Estate Global Award for Sustainable Strategy, which recognizes HOOPP as an industry leader with an established sustainability strategy to protect and enhance the value of its real estate assets;
- the fourth annual celebration of our property managers' sustainability successes at the LEAP Awards and first LEAP Conference;
- achieving new LEED®, Leadership in Energy and Environmental Design, certifications for eight properties, bringing the total portfolio certification to 22 LEED® certifications; and
- being named as "Green Star" by GRESB, Global Real Estate Sustainability Benchmark, for the third consecutive year.

GRESB
Green Star 2015

HOOPP is a signatory to the United Nations-supported Principles for Responsible Investment (PRI), the Canadian Coalition for Good Governance (CCGG), the CDP and a GRESB investor member.

PRI

CDP
DRIVING SUSTAINABLE ECONOMIES

Canadian Coalition for
GOOD GOVERNANCE

# Plan Liabilities

The process of estimating the value of the Plan's pension liabilities, or future benefit payments, relies upon establishing numerous economic, financial and demographic assumptions. Financial or economic assumptions include inflation expectations, the future growth rate of employee wages and the future expected rate of return of the various investment strategies that comprise the investment portfolio.

Demographic assumptions include the retirement age of our members and their life expectancy. All of the assumptions made in the estimation of the total pension obligation implicitly assume that the Plan will operate for the foreseeable future, as a "going concern". Using these and other assumptions, together with our actual member data, we project the future benefits owed to plan members out over 80 years.

The valuation of these future pension liabilities into a monetary value today depends upon the financial assumption of the future expected return of our investment portfolio or the discount rate. To calculate the total value of these future pension benefits today, these estimated future payments are *"discounted"* by the estimated expected return of our investment portfolio. In simpler terms, 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. This sum is the present value of the pension liabilities.

Note that the actual future outcomes, both of financial and economic and demographic assumptions, will almost certainly differ from the assumptions made, and it is the difference between the actual outcomes and the assumptions made that is the main source of funding risk as discussed earlier in the section *Pension Plan Funding Management.*

A summary of the estimated plan liabilities or pension obligations as at the end of December 31, 2015 and 2014 is presented below:

| | 2015 | 2014 | % Change |
|---|---|---|---|
| ($ millions) | | | |
| **Pension Obligations** | **49,151** | 46,923 | 4.75% |

Changes in the value of the Plan's pension liabilities occur for a number of reasons.

Firstly, as members contribute to the Plan throughout the year, they "earn" future benefits, also called "benefit accrual". Additionally, the value of previously earned benefits grows at roughly the same rate as the expected return or discount rate, currently 5.65% per year. Offsetting the growth due to benefits accrued and the increase in value of previously earned benefits, are the pension benefits that were paid out during the year, which reduces the total pension obligation.

Secondly, changes in economic or demographic assumptions, such as changes in the future expected inflation rate, estimated life expectancy or retirement age will impact the calculation of the pension obligation. In 2015, we lowered our long-term assumption for inflation to 2.00% from 2.25%, due to the extended period of a low inflationary environment that we have experienced since the financial crisis of 2008, and our current outlook that this scenario will likely persist into the future. This change reduced the estimated total pension obligation. We also reduced the members' earnings growth assumption, in the short-term, to reflect the most recent experience of our members. Additionally, minor changes were made to the retirement rate assumption to reflect recent experience and future expectations. Both of these changes also reduced the total pension obligation in 2015.

Finally, and perhaps most importantly, the discount rate or the future expected return on the investment portfolio can have a significant impact on the change in the total pension obligation. In 2015, a reduction in the discount rate from 5.85% to 5.65%, a 20 basis point decline, resulted in a $1.4 billion increase in the estimated pension obligations. A more detailed discussion on the discount rate follows below.

*The table below shows the change in the Plan's Pension Obligation from 2014 to 2015.*

| ($ millions) | |
|---|---|
| **Pension Obligations at December 31, 2014** | 46,923 |
| Increases in benefits due to members | 2,362 |
| Changes in assumptions | (1,511) |
| Change in discount rate (expected return) | 1,377 |
| **Pension Obligations at December 31, 2015** | **49,151** |

## Discount Rate

Of all the assumptions underlying the estimation of the Plan's pension liabilities, one of the most important is the Fund's long-term expected return assumption, also referred to as the discount rate. The expected return is impacted to a significant extent by interest rates, since expected asset returns are based on interest rates across the entire yield curve. Lower interest rates mean new investments in fixed income assets will earn lower yields. Return seeking strategies (e.g. equities) also have expected returns that fall and rise with interest rates, since their return estimates are comprised of a theoretical *"risk free"* interest rate and risk premiums, or incremental returns in addition to the risk free rate. A decrease / (increase) in the discount rate causes a corresponding increase / (decrease) in the pension liability value. This volatility in the discount rate and its sensitivity to the valuation of the Plan's pension obligations 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 2015, the discount rate was decreased to 5.65% from 5.85% in 2014 due principally to declines in interest rates in Canada during the year.

| | 2015 | 2014 |
|---|---|---|
| Inflation Rate | **2.00%** | 2.25% |
| Real Discount Rate | **3.65%** | 3.60% |
| Discount Rate | **5.65%** | 5.85% |

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

| Change | Discount Rate | Pension Liability ($ millions) | Change as % |
|---|---|---|---|
| +1.00% | 6.65% | 42,806 | (13%) |
| | **5.65%** | **49,151** | - |
| -1.00% | 4.65% | 57,172 | 16% |

# Operating Expenses

Prudent management of expenses is consistent with our mission to deliver on the pension promise by ensuring that more assets are available to deliver on future pension benefits. We prioritize spending to ensure that the Plan can operate efficiently today and invest in intellectual and technological capital that will allow us to continue to do so into the future.

HOOPP's 2015 operating expenses were $201 million, a $16 million or 8.6% increase over 2014 operating expenses of $185 million and represent 0.31% of net assets (2014: 0.30%).

*The table below shows 2015 and 2014 operating expenses in absolute amounts and expressed as a percentage of Net Assets.*

| ($ millions) | 2015 | 2014 |
|---|---|---|
| Investment Expenses | **$ 126** | $ 116 |
| Plan Administration | **75** | 69 |
| **Total** | **$ 201** | $ 185 |
| **Total Expenses as % of Net Assets** | **0.31%** | 0.30% |

# Member and Employer Services

**309,079**
TOTAL MEMBERS

**61**
AVERAGE AGE OF NEW RETIREES

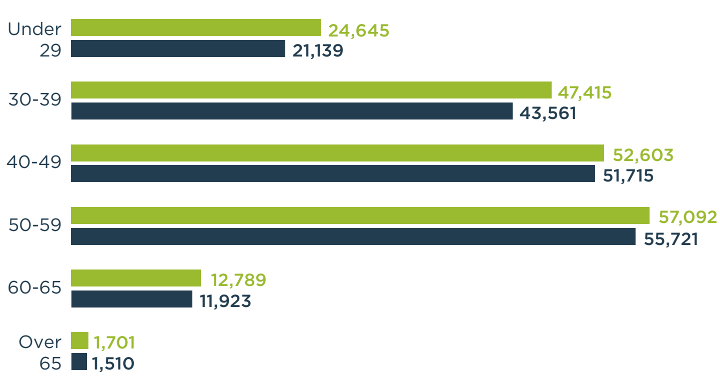
**35**
AVERAGE AGE OF NEW MEMBERS
19,403 total; 59% work part-time

**196,245**
ACTIVE

**87,195**
RETIRED

**25,639**
DEFFERED MEMBERS

## ACTIVE MEMBERS BY AGE




**$24,000**
AVERAGE NEW UNREDUCED ANNUAL PENSION

**70%**
OF ACTIVE MEMBERS WORK FULL-TIME

**82.5%** **17.5%**
ACTIVE MEMBERS

**30%**
OF ACTIVE MEMBERS WORK PART-TIME

## Delivering on Our Pension Promise

HOOPP reached important milestones in 2015.

The Board of Trustees modified the Plan to expand part-time enrolment, providing an opportunity for all healthcare workers at HOOPP employers to start building a secure retirement income sooner.

As we welcomed new members and employers into the Plan, our commitment to outstanding service remains.

It was a year in which we built on our solid foundation, focusing on our promise to pay and protect our members' pensions, while making changes to prepare for the future.

## Stability and Security for all Plan Members

In 2015, HOOPP's Board of Trustees made a decision to remove eligibility requirements for part-time and other non-full-time workers at HOOPP employers. These employees now have the option to join the Plan – and start contributing to their pension – as soon as they begin working.

To support employers and members through this change, we provided additional outreach through regional manager meetings and new written and online materials clearly explaining the benefits of joining the Plan early in one's career.

### Cost of Living Adjustments

Understanding that inflation can erode purchasing power over time, the Board made a significant decision that continues to protect existing and future pensions from rising prices.

In 2015, retired and deferred members received two cost of living adjustments (COLA):

- a one-time catch-up that brought pension benefit levels, payable from April 2015 onwards, up to the amounts that now reflect adjustments at 100% of the Consumer Price Index (CPI) for the 2002 to 2013 period; during those years, COLA had been paid at 75% of the CPI; and
- a COLA to increase the pension benefit by 100% of the increase in the Consumer Price Index observed in 2014.

Made possible by the strong funded position of the Plan, these decisions by the Board to increase pensions to keep up with the rising cost of living will help ensure that HOOPP members are able to retire with security and dignity.

### Contribution Rates

HOOPP members contribute a percentage of their earnings above and below the year's maximum pensionable earnings (YMPE), set by the federal government. In 2015, the YMPE was $53,600. Members contribute 6.9% of their annualized earnings up to the YMPE and 9.2% above the YMPE.

In 2015, the Board approved a measure to keep contribution rates, which have been unchanged since 2004, stable through the end of 2017.

Among major pension plans in Ontario that are similar to HOOPP, ours is the only plan that has maintained this price stability while continuing to deliver a valuable pension. It is also one of the lowest cost plans for members and employers.

## Building on a Tradition of Exceptional Service

In 2015, HOOPP reached a new benchmark; we are proud to report that the Plan now has more than 300,000 active, retired, and deferred members.

We welcome this growth, as it ensures the continued health of the Plan, and the opportunity to deliver exceptional personal service to each and every member.

We're here to help our members – over the phone, in-person, and online – by providing clear, relevant, and timely information so they can make knowledgeable decisions about their pension.

**130,000** telephone calls answered by Client Service

**26,000** participants attended HOOPP information sessions

**350** member walk-in meetings held at HOOPP

**12,000** email inquiries handled by Client Service

**3,800** member one-on-one sessions

**924** members purchased past service to increase their future pensions

HOOPP conducts client satisfaction research on a quarterly basis to track improvements in service and communications, and to monitor overall satisfaction levels.

According to our latest report, members showed a higher level of satisfaction with all aspects of our communications, as well as with the accuracy, consistency, and timeliness of the service they received from HOOPP.

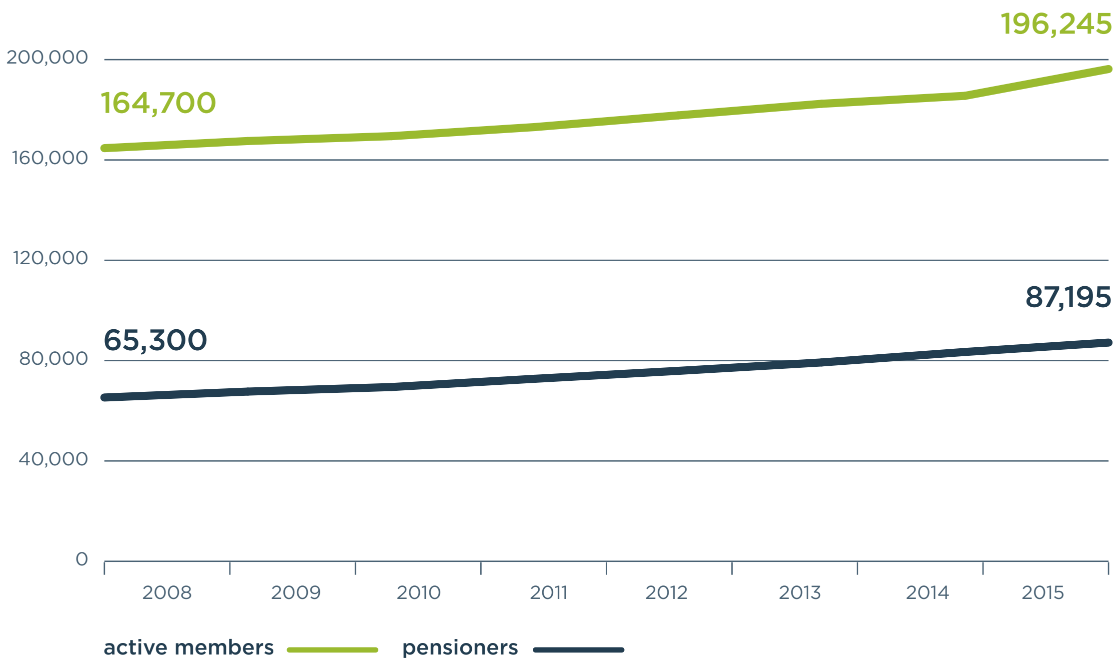
As a result, our client satisfaction rate, which has been gradually increasing for the last six years, reached a new high in 2015.

Employers also reported increased satisfaction in their experiences with Client Service and Member Data Collection, which is an annual initiative to ensure our membership data is accurate and up-to-date.

We are proud of this achievement. However, we are not resting on our laurels. Our aim is to deliver great service in a timely and accurate way while balancing cost.

## Our Members

### Membership Growth




Our membership reflects the changing face of the healthcare industry in Ontario.

While roughly half of our current members are employed at hospitals, our membership now includes employees at Family Health Teams, Local Health Integration Networks (LHIN), and other healthcare providers. Our diverse membership includes home care workers, dieticians, geriatric specialists, registered nurses, registered practical nurses, nurse practitioners, physical therapists, and medical technicians, as well as food and housekeeping services employees, and administrative staff.

More than 19,400 healthcare workers joined HOOPP in 2015, bringing our active membership to 196,245 members.

By the end of 2015, total plan membership, including 87,195 retired members and 25,639 deferred members reached 309,079 members. Nearly one-third, 30%, of our active members are part-time.

On average, our retired members are age 61 when they choose to begin their pensions. Our connection with these members stretches well beyond their retirement date; at the end of 2015, HOOPP had 70 retired members who were over age 100.

We recognize that for many of our members, their HOOPP pension may be one of their largest financial assets. We also know that pensions can be complex, and that's why we are committed to providing services and programs to help members make informed decisions about their benefits.

In 2015, HOOPP:

- held 21 pre-retirement planning seminars across the province, in 18 cities, educating over 5,000 participants about the features and benefits of the Plan. These sessions discussed basics about the Plan, how to determine the best time to retire, and early retirement options. These sessions also provided members the opportunity to meet one-on-one with Regional Managers and ask questions about their personal situations.
- held six post-retirement seminars in five cities for retired members, offering 1,000 participants the opportunity to learn about survivor benefits and inflation protection, as well as meet with HOOPP representatives to ask questions.
- embarked on new programs to reach deferred members by offering two convenient webcasts to discuss their options with HOOPP.

## New Ways to Engage Members

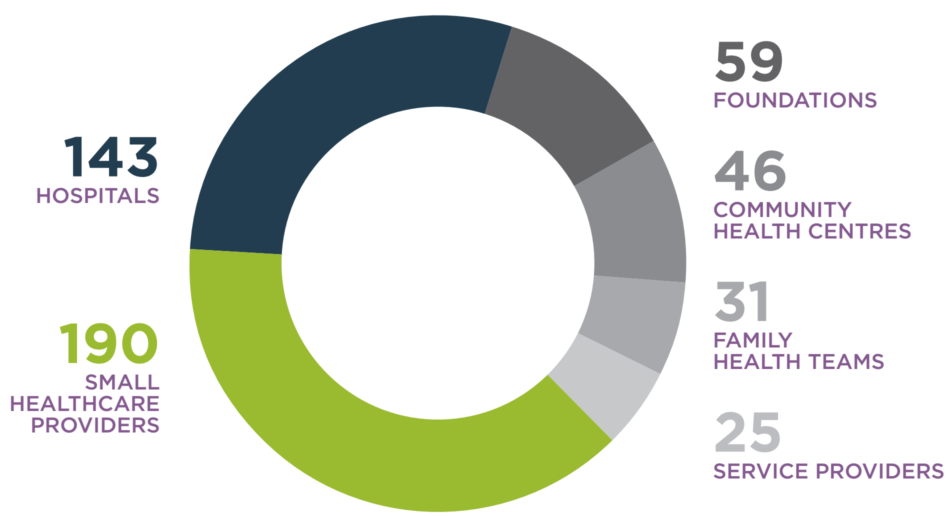
We continue to find ways to engage members through newsletters and online communications via our website and email. In 2015, we enhanced our presence on social media channels such as Twitter @HOOPPnow, as well as on Facebook, YouTube and LinkedIn.

Our members have told us that they want timely and relevant information, and we have responded to their feedback by using these channels to deliver information about the Plan, what's happening at HOOPP, and the importance of defined benefit (DB) pensions, in a way that lessens our impact on the environment.

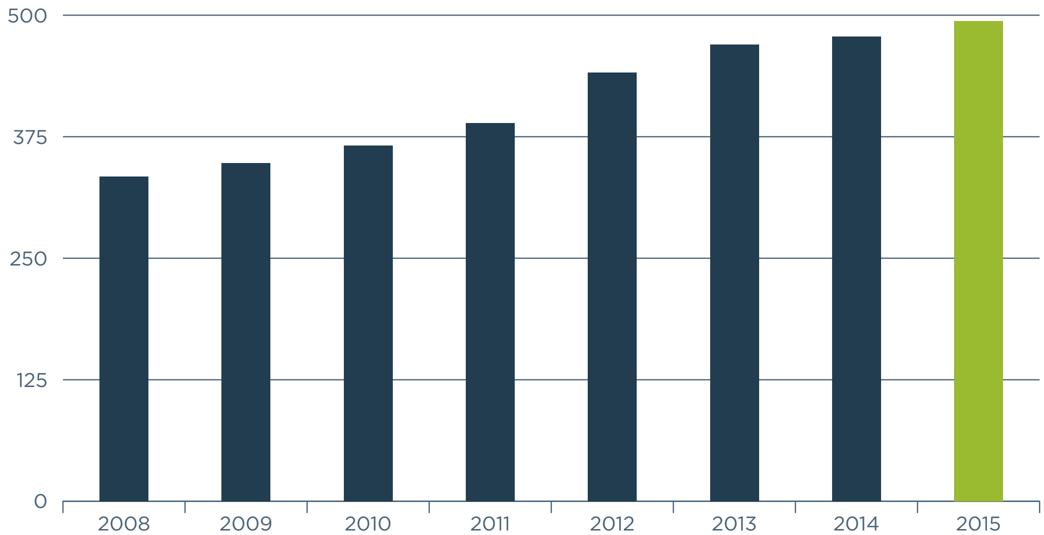
## Our Employers

At the end of 2015, HOOPP had over 490 participating employers across the province, including hospitals, Family Health Teams, Community Health Centres, and other healthcare organizations. Our employers range in size from hospitals with as many as 10,000 HOOPP members to Family Health Teams with fewer than a dozen members.

### Employer Breakdown



### Employer Growth




Offering the HOOPP defined benefit (DB) pension helps employers attract and retain the best employees and we are committed to assisting employers in these efforts. By providing constant communication and educational opportunities, our HOOPP employers can confidently provide information and tools to help members plan for retirement.

We couldn't deliver on our pension promise without our employers, who demonstrate their ongoing commitment and dedication as they fulfill their responsibilities to remit contributions, provide service data, and help their employees understand the value of their pension. We are proud to support these efforts; in 2015, HOOPP educated 1,600 employer contacts across the province about the Plan.

HOOPP continues to liaise with all areas of the healthcare industry, offering opportunities for employers and their staff to join HOOPP so they can benefit from a secure financial future.

## Sustainability for Tomorrow

At HOOPP, we pride ourselves on being a recognized leader in the pension industry and so it's important to us that our service levels are in line with this objective now and in the future.

In 2015, we upgraded our phone system which will enable us to continue to provide excellent service. We accomplished this significant and complex technological change without any disruption to our Client Service operation, which received 130,000 calls during the year.

Over the next few years, we will be upgrading our pension administration system. This initiative will enhance our ability to service our clients in the coming years, by lowering our costs and providing added flexibility to adapt to Plan changes.

As we reflect on 2015, we see a year in which we reached new thresholds, in both the size of our membership and the quality of service that we provide to them. Just as we took steps to protect the buying power of our members' pensions, we are preparing our organization and its technology infrastructure for the coming years.

What will not change: our commitment to deliver on the pension promise.

# Plan Governance

## The HOOPP Mission

The HOOPP Board of Trustees governs the HOOPP Plan and Fund with the important context and distinct focus of meeting our mission to deliver on the pension promise. HOOPP's management is similarly dedicated to delivering on HOOPP's pension promise and serving the best interests of HOOPP members. This alignment among HOOPP's Board members and management is a defining feature of HOOPP's governance. It is also entirely consistent with the type of duties (fiduciary) owed to plan beneficiaries on which everyone responsible for the administration of the Plan and the investment of the Fund must stay focused and be accountable.

## The HOOPP Board

The HOOPP Board's sole function and focus is the administration of the HOOPP Plan and the investment and management of the assets of the HOOPP Fund. The Board's authority, derived from the creators (or settlors) of the HOOPP pension trust is consistent with this function and focus.

## Standing Committees

The work of the HOOPP Board is supported by its four standing committees:

- the Asset-Liability Management Committee;
- the Audit & Finance Committee;
- the Governance & HR Committee, and
- the Plan Committee.

As important components of HOOPP's governance framework, there are documented mandates for each of these Committees and for the Board itself, as well as documented descriptions of the roles and responsibilities of the Board Chair and Vice Chair and of the various Committee Chairs. These documents outline and clarify the various roles and responsibilities in the Board governance process. Processes and protocols are followed to ensure that the information and documentation which the Board and its Committees require to function properly are accurate, complete and prepared and delivered in a timely manner.

## Delegations of Authority

The Board clearly documents and regularly reviews the authority that it delegates to the President & CEO (the Plan Manager) in accordance with the terms of the HOOPP Trust. In turn, HOOPP's President & CEO also clearly documents and regularly reviews further delegations of authority to designated HOOPP employees covering significant day-to-day operations: the investment of Fund assets, the procurement of goods and services, the making of payments including electronic funds transfers and the accessing of critical HOOPP data and IT systems

HOOPP also negotiates written agreements with its agents, advisors and other service providers to clearly document in each case the service providers' roles, responsibilities and accountabilities in relation to HOOPP in addition to the applicable business terms. Examples of the Board's key agents and advisors include the Plan actuary, auditors, custodian, independent legal counsel, investment advisors and compensation advisor.

## Governance Reviews

Good governance should involve an organizational commitment to continuous improvement. Such a commitment is particularly important in relation to change management. As the organization undergoes change, good governance requires periodic reviews of the continuing effectiveness or appropriateness of an organization's structures, mandates, policy documents and its practices and procedures. HOOPP's Board and management share such a commitment to continuous improvement and follow an approach that involves such periodic reviews.

## Role of Risk Management in Governance

As a defined benefit (DB) pension plan with a mission to deliver on HOOPP's pension promise, the main risk which HOOPP must manage particularly well is funding risk, detailed in the earlier section, *State of the Plan*, because a failure to adequately manage this risk could threaten HOOPP's mission.

HOOPP also manages other risks which, while not of the same impact, are treated as very important nevertheless: these other risks fall into the category of either entity-level risks or operational risks. The entity-level risks which HOOPP faces are identified, assessed and managed as part of the organization's enterprise risk management (ERM) framework which, among other things, identifies the roles and responsibilities for risk identification, mitigation, reporting and oversight. An overall assessment of entity-level risks is undertaken and the results are documented annually with input from HOOPP's senior executives. These annual 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.

HOOPP's Board and senior management also consider the management of operational risks to be very important. HOOPP's senior management has for many years sought to foster a risk-conscious culture throughout the organization.

HOOPP's governance and risk management programs and processes continue to include:

- programs and processes designed to prudently manage the recruitment, retention, performance and development of HOOPP employees, its critical resource;
- a *Code of Business Conduct* and supporting policies which emphasize 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;
- robust "stress testing" tools custom designed and maintained to measure the impact of potential future economic scenarios on both Fund assets and Plan liabilities - to best manage the risks relating to investment assets, pension obligations payable in the future, as well as the investment strategies employed to achieve the required risk-adjusted returns;

- an Internal Audit team that provides to management and the Audit & Finance Committee of the Board independent assurance through audits of certain identified operational processes intended to help management maintain and, where needed, improve the effectiveness of operational controls;

- the appointment of a Privacy Officer who works closely with those HOOPP staff members who share the responsibility of implementing, maintaining and monitoring HOOPP's policies and procedures as they relate to the protection of members', pensioners' and employees' personal information;

- the ongoing maintenance of records and data retention schedules guided by both Board- and organization-level policies and a policy framework;

- disaster recovery and business continuity programs that are mature and tested to help maintain and, where needed, improve the resiliency of HOOPP's core operations and processes in the event of disruption; and

- a number of stakeholder communications channels that include regular engagement with members and employers by dedicated Regional Managers and periodic pension seminars for members held in venues throughout the province (including opportunities for one-on-one sessions between members and HOOPP staff) where information is provided to enable members to better understand the value of their HOOPP pension and how to make the most of it in retirement.

## Internal Controls Over Financial Reporting

As part of HOOPP's commitment to effective governance, HOOPP elects to follow the standards outlined in National Instrument 52-109 published by the Canadian Securities Administrators for reporting issuers, though these rules and policies are not binding on HOOPP.

The President and Chief Executive Officer (CEO) and the Senior Vice-President and Chief Financial Officer (CFO) are responsible for ensuring that procedures are established and maintained 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 including the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

During the past year, HOOPP leveraged the framework and criteria set out in the *Internal Control – Integrated Framework (2013)* issued by the C*ommittee of Sponsoring Organizations of the Treadway Commission* (COSO) to conduct a comprehensive evaluation of its internal control over financial reporting (ICFR).

HOOPP has evaluated the effectiveness of its ICFR and the results confirm its ICFR is properly designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting as at December 31, 2015.

# Financial Statements & Notes to Financial Statements

# Management's Responsibility for Financial Reporting

The financial statements of the Healthcare of Ontario Pension Plan (the Plan) and the accompanying notes, which are an integral part of the financial statements, have been prepared by management and approved by the Board of Trustees (the Board).

Management is responsible for the integrity and fairness of the information presented, including amounts that are based on best estimates and judgments. These financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and comply with the financial reporting requirements of the *Pension Benefits Act* (Ontario) and *Regulations* (PBA). 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 audits. 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, and 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 Independent 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 that 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 2, 2016

# 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, 2015. The purpose of this valuation is to determine pension obligations of the Plan as at December 31, 2015, 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 $49,151 million in respect of service accrued to December 31, 2015 and a smoothed value of net assets of $59,998 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 management as at October 1, 2015 and members' pay data provided as at December 31, 2014, all of which was projected to December 31, 2015, using management's estimates of experience for the intervening periods;
- the benefits specified by the terms of the Plan including the 100% of 2015 CPI adjustment (1.61%) which will become effective April 1, 2016 in respect of all pensioners' and deferred vested members' benefits and the expected ad hoc inflation protection intended to be granted April 1, 2017 through April 1, 2018 (75% of increase in CPI) which the Board approved in 2012; 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, 2014, 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 management 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

**Ian Markham**
Fellow, Canadian
Institute of Actuaries

Laura Newman

**Laura Newman**
Fellow, Canadian
Institute of Actuaries

March 2, 2016

# 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, 2015 and 2014 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, 2015 and 2014 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 2, 2016

# Statements of Financial Position

| As at December 31<br>($ millions) | 2015 | 2014 |
|---|---|---|
| **NET ASSETS AVAILABLE FOR BENEFITS** | | |
| **Assets** | | |
| Investment assets (note 2) | **$ 147,336** | $ 129,404 |
| Contributions receivable | | |
| Employers | **87** | 86 |
| Members | **69** | 70 |
| Other assets (note 7) | **165** | 151 |
| ***Total assets*** | **147,657** | 129,711 |
| **Liabilities** | | |
| Investment liabilities (note 2) | **83,616** | 68,753 |
| Other liabilities | **117** | 110 |
| ***Total liabilities*** | **83,733** | 68,863 |
| **Net assets available for benefits** | **63,924** | 60,848 |
| **Pension obligations** (note 11) | **49,151** | 46,923 |
| **Surplus** (note 11) | **14,773** | 13,925 |

*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

**Wayne Gladstone**
Chair, Audit &
Finance Committee

# Statements of Changes in Net Assets Available for Benefits

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| ($ millions) | | |
| **Net assets available for benefits, beginning of year** | **$ 60,848** | $ 51,626 |
| **Investment operations** | | |
| Net interest and dividend income (note 4a) | **5,385** | 5,468 |
| Net gain (loss) on investments (note 4a) | **(2,282)** | 3,637 |
| Operating expenses - investment (note 10) | **(126)** | (116) |
| ***Total investment operations*** | **2,977** | 8,989 |
| **Plan operations** | | |
| Contributions (note 8) | | |
| Employers | **1,108** | 1,075 |
| Members | **991** | 929 |
| Benefit payments (note 9) | **(1,835)** | (1,630) |
| Refunds and transfers (note 9) | **(90)** | (72) |
| Operating expenses - plan (note 10) | **(75)** | (69) |
| ***Total plan operations*** | **99** | 233 |
| **Change in net assets available for benefits** | **3,076** | 9,222 |
| **Net assets available for benefits, end of year** | **$ 63,924** | $ 60,848 |

*See Description of Plan and accompanying notes to financial statements.*

# Statements of Changes in Pension Obligations

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| ($ millions) | | |
| **Pension obligations, beginning of year** | **$ 46,923** | $ 41,478 |
| **Changes in pension obligations** | | |
| Interest accrued on benefits | **2,746** | 2,594 |
| Benefits accrued | **1,947** | 1,763 |
| Amendments to the plan (note 11) | **115** | 666 |
| Changes in actuarial assumptions (note 11) | **(134)** | 2,201 |
| Estimated experience gains (note 11) | **(521)** | (77) |
| Benefits paid (note 9) | **(1,925)** | (1,702) |
| ***Total changes in pension obligations*** | **2,228** | 5,445 |
| **Pension obligations, end of year** | **$ 49,151** | $ 46,923 |

*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 *HOOPP 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 members, 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) and *Regulations* (ITA) for RPPs. Additional information on the RCA is disclosed in note 13.

The Board is responsible for administering the Plan in accordance with the PBA, the ITA, 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, the funded position, and contribution requirements of the Plan.

Under the terms of the Plan, contributions are set by the Board 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, if applicable.

## 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 met certain eligibility requirements by the end of 2005.

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

## Disability Benefits

A disability pension is available to disabled members who meet the eligibility requirements. A disability pension is based on the member's contributory service and average annualized earnings 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 accrue service at no cost until age 65 or until they have accrued 35 years of contributory service, whichever occurs first.

## Death Benefits

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

## Portability

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 the value of their benefits from another registered pension plan to HOOPP can do so, provided the transfer meets all eligibility requirements and the other plan agrees to transfer the funds.

## Inflation Protection

Retirement pensions and deferred 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 ITA. 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, prepared in accordance with accounting standards for pension plans and compliant 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 address certain disclosure requirements issued by FSCO in 2013 and amended in 2014. These disclosure requirements came into effect for fiscal years ending on or after July 1, 2013. The requirements are addressed by 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.

### Investments

#### Valuation

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 valued 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 independent third parties.

iv. Commercial loans are valued using discounted cash flows based on current market yields on comparable securities.

v. Securities purchased under resell agreements and securities sold under repurchase agreements, all of which mature within 90 days, are accounted for as collateralized lending and collateralized borrowing transactions, respectively, 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. When quoted closing market prices are not available, appropriate valuation techniques and pricing models are used to estimate fair value.

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 independent accredited appraisers. Independent accredited appraisers review any appraisals occurring prior to December 1 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 recorded at cost. Investments in limited partnership funds are valued based on 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 Partners). 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 quoted market prices, or through the use of other 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 partnership funds are valued based on 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 Partners).

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 pricing models, based on generally accepted valuation models, use readily observable market prices and inputs that are actively quoted and can be validated with 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 that 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.

Investments also include pending trades, accrued investment income and accrued investment liabilities. These investments are recorded at amortized cost, which approximates fair value due to their short-term nature.

## Net Investment Income (Loss) Recognition

### Net Investment Income (loss)

Net investment income (loss) generally consists of net interest and dividend income, which includes net operating income (loss) from investments in real estate, and private equity and special situations, 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 net dividend income is recognized on the ex-dividend date. The change in unrealized gains and losses on investments represents the year-over-year change in the difference between the cost and the fair value of investments. Realized gains and losses on investments are recognized upon disposition and are calculated based on average cost.

### Management Fees

Certain management and performance fees related to investments in real estate and private equity are expensed as incurred and reported as a component of total investment income.

### Transaction Costs

Transaction costs, which are incremental costs attributable to the acquisition, issue or disposal of investments, are expensed as incurred, and reported as a component of total investment income.

## Foreign Currency Translation

Investment assets and investment liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year-end date. Investment income and expenses are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. The realized gains and losses arising from these investment transactions are included in realized gains and losses on the sale of investments. Unrealized gains and losses on translation of investment assets and investment liabilities 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 pension obligations included in these financial statements are consistent with the results that would be used for a December 31 regulatory filing 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 from other plans 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 transfers, refunds to former members, and transfers 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.

### Fixed Assets

Fixed assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives.

### Use of Estimates

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, pension obligations and related disclosures. Significant estimates are used primarily in the determination of pension obligations (note 11) and the fair value of certain investments (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 significant 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 6.04%.

Investment assets and investment 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 unadjusted quoted prices 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 an investment asset or investment 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 evaluation of factors specific to the investment asset or investment 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 government 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 2015 or 2014.

Investments that are classified as Level 3 include investments in real estate, private equity and special situations, some over-the-counter derivatives and some marketable securities. 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 an investment asset's or investment liability'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 investment involve significant observable inputs that were previously unobservable.

## a. Fair value hierarchy

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

| 2015 | | | | | | |
|---|---|---|---|---|---|---|
| ($ millions) | Level 1 | Level 2 | Level 3 | No Level[1] | Total Fair Value | Total Cost |
| **INVESTMENT ASSETS** | | | | | | |
| **Cash** | $ 57 | $ - | $ - | $ - | **$ 57** | **$ 57** |
| **Fixed Income** | | | | | | |
| Short-term securities | - | 357 | - | - | **357** | **357** |
| Bonds | | | | | | |
| Canadian | - | 103,675 | - | - | **103,675** | **96,515** |
| Non-Canadian | - | 10,669 | 1,229 | - | **11,898** | **10,493** |
| Non-Canadian commercial loans | - | - | - | - | **-** | **-** |
| ***Total fixed income*** | - | 114,701 | 1,229 | - | **115,930** | **107,365** |
| **Securities purchased under resell agreements** | - | 2,498 | - | - | **2,498** | **2,452** |
| **Public equity** | | | | | | |
| Canadian | 121 | - | 607 | - | **728** | **717** |
| Non-Canadian | 8,422 | - | - | - | **8,422** | **8,219** |
| ***Total public equity*** | 8,543 | - | 607 | - | **9,150** | **8,936** |
| **Equity-oriented** | | | | | | |
| Real estate | | | | | | |
| Canadian | - | - | 7,451 | - | **7,451** | **5,673** |
| Non-Canadian | - | - | 1,612 | - | **1,612** | **1,139** |
| Private equity and special situations | | | | | | |
| Canadian | - | - | 1,314 | - | **1,314** | **752** |
| Non-Canadian | - | - | 3,025 | - | **3,025** | **2,641** |
| ***Total equity-oriented*** | - | - | 13,402 | - | **13,402** | **10,205** |
| **Derivative instruments** (note 3) | - | 5,127 | 109 | - | **5,236** | **1,163** |
| **Investment receivables** | | | | | | |
| Cash collateral pledged (note 5) | - | - | - | - | - | - |
| Pending trades[1] | - | - | - | 80 | **80** | **60** |
| Accrued investment income[1] | - | - | - | 983 | **983** | **983** |
| ***Total investment receivables*** | - | - | - | 1,063 | **1,063** | **1,043** |
| **Total investment assets** | 8,600 | 122,326 | 15,347 | 1,063 | **147,336** | **131,221** |
| **INVESTMENT LIABILITIES** | | | | | | |
| **Equities sold short** (note 5) | (36,278) | - | - | - | **(36,278)** | **(35,648)** |
| **Bonds sold short** (note 5) | - | (2,130) | - | - | **(2,130)** | **(1,907)** |
| **Derivative instruments** (note 3) | (110) | (20,360) | (72) | - | **(20,542)** | **(7,284)** |
| **Securities sold under repurchase agreements** (note 5) | - | (21,520) | - | - | **(21,520)** | **(21,219)** |
| **Cash collateral received** (note 5) | (2,729) | - | - | - | **(2,729)** | **(2,729)** |
| **Pending trades**[1] | - | - | - | (299) | **(299)** | **(299)** |
| **Accrued investment liabilities**[1] | - | - | - | (118) | **(118)** | **(118)** |
| **Total investment liabilities** | (39,117) | (44,010) | (72) | (417) | **(83,616)** | **(69,204)** |
| **Net investments** | **$ (30,517)** | **$ 78,316** | **$ 15,275** | **$ 646** | **$ 63,720** | **$ 62,017** |

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

| ($ millions) | Level 1 | Level 2 | Level 3 | No Level[(1)] | Total Fair Value | Total Cost |
|---|---|---|---|---|---|---|
| | | | **2014** | | | |
| **INVESTMENT ASSETS** | | | | | | |
| **Cash** | $ 2 | $ - | $ - | $ - | $ 2 | $ 2 |
| **Fixed Income** | | | | | | |
| Short-term securities | - | - | - | - | - | - |
| Bonds | | | | | | |
| Canadian | - | 99,429 | - | - | 99,429 | 93,155 |
| Non-Canadian | - | 6,225 | 516 | - | 6,741 | 5,774 |
| Non-Canadian commercial loans | - | - | 30 | - | 30 | 27 |
| ***Total fixed income*** | - | 105,654 | 546 | - | 106,200 | 98,956 |
| **Securities purchased under resell agreements** | - | 3,286 | - | - | 3,286 | 3,260 |
| **Public equity** | | | | | | |
| Canadian | 134 | - | - | - | 134 | 120 |
| Non-Canadian | 2,048 | - | - | - | 2,048 | 1,991 |
| ***Total public equity*** | 2,182 | - | - | - | 2,182 | 2,111 |
| **Equity-oriented** | | | | | | |
| Real estate | | | | | | |
| Canadian | - | - | 6,922 | - | 6,922 | 5,076 |
| Non-Canadian | - | - | 795 | - | 795 | 610 |
| Private equity and special situations | | | | | | |
| Canadian | - | - | 988 | - | 988 | 753 |
| Non-Canadian | - | - | 2,287 | - | 2,287 | 2,171 |
| ***Total equity-oriented*** | - | - | 10,992 | - | 10,992 | 8,610 |
| **Derivative instruments** (note 3) | 6 | 5,662 | 140 | - | 5,808 | 1,081 |
| **Investment receivables** | | | | | | |
| Cash collateral pledged (note 5) | 22 | - | - | - | 22 | 22 |
| Pending trades[(1)] | - | - | - | 137 | 137 | 138 |
| Accrued investment income[(1)] | - | - | - | 775 | 775 | 775 |
| ***Total investment receivables*** | 22 | - | - | 912 | 934 | 935 |
| **Total investment assets** | 2,212 | 114,602 | 11,678 | 912 | 129,404 | 114,955 |
| **INVESTMENT LIABILITIES** | | | | | | |
| **Equities sold short** (note 5) | (27,762) | - | - | - | (27,762) | (22,849) |
| **Bonds sold short** (note 5) | - | (2,784) | - | - | (2,784) | (2,611) |
| **Derivative instruments** (note 3) | (8) | (16,933) | (81) | - | (17,022) | (7,323) |
| **Securities sold under repurchase agreements** (note 5) | - | (20,016) | - | - | (20,016) | (19,909) |
| **Cash collateral received** (note 5) | (804) | - | - | - | (804) | (804) |
| **Pending trades**[(1)] | - | - | - | (281) | (281) | (282) |
| **Accrued investment liabilities**[(1)] | - | - | - | (84) | (84) | (84) |
| **Total investment liabilities** | (28,574) | (39,733) | (81) | (365) | (68,753) | (53,862) |
| **Net investments** | **$ (26,362)** | **$ 74,869** | **$ 11,597** | **$ 547** | **$ 60,651** | **$ 61,093** |

[(1)] *These are investment assets or investment 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. In accordance with Canadian GAAP, HOOPP presents these financial instruments as gross amounts in the statements of financial position, since the netting provisions contained in the respective agreements apply in limited circumstances. 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:

| 2015 | | | | |
|---|---|---|---|---|
| | | Related Amounts Not Set Off in the Statements of Financial Position | | |
| ($ millions) | 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 | $ 2,498 | $ (2,304) | $ (193) | $ 1 |
| Securities on loan[3] | 8,306 | - | (8,306) | - |
| Derivative instruments[4] | 5,264 | (4,487) | (763) | 14 |
| **Total financial assets** | **16,068** | **(6,791)** | **(9,262)** | **15** |
| **Financial liabilities** | | | | |
| Securities sold under repurchase agreements | (21,520) | 2,304 | 19,214 | (2) |
| Derivative instruments[4] | (20,569) | 4,487 | 15,664 | (418) |
| **Total financial liabilities** | **$ (42,089)** | **$ 6,791** | **$ 34,878** | **$ (420)** |

*[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 pending trade receivables and payables of $28 million and $27 million, respectively.*

| 2014 | | | | |
|---|---|---|---|---|
| | | Related Amounts Not Set Off in the Statements of Financial Position | | |
| ($ millions) | 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[4] | $ 3,361 | $ (2,338) | $ (1,022) | $ 1 |
| Securities on loan[3] | 2,403 | - | (2,355) | 48 |
| Derivative instruments[4] | 5,861 | (5,057) | (739) | 65 |
| **Total financial assets** | **11,625** | **(7,395)** | **(4,116)** | **114** |
| **Financial liabilities** | | | | |
| Securities sold under repurchase agreements[4] | (20,173) | 2,338 | 17,828 | (7) |
| Derivative instruments[4] | (17,058) | 5,057 | 11,872 | (129) |
| **Total financial liabilities** | **$ (37,231)** | **$ 7,395** | **$ 29,700** | **$ (136)** |

*[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 pending trade receivables and payables of $128 million and $193 million, respectively.*

## c. Changes in fair value measurement for investments in Level 3

The following table presents the changes in fair value measurement for investments included in Level 3 during the year ended December 31, 2015.

| 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($ millions) | Fair Value Dec. 31, 2014 | Total Gains (Losses) Included in Net Income[1] | Purchase and Issues | Sales and Settlements | Transfers In[2] | Transfers Out[2] | Fair Value Dec. 31, 2015 |
| **Bonds** | | | | | | | |
| Non-Canadian | $ 516 | $ 135 | $ 583 | $ (5) | $ - | $ - | **$ 1,229** |
| **Equities** | | | | | | | |
| Canadian | - | 7 | 600 | - | - | - | **607** |
| **Non-Canadian commercial loans** | 30 | 2 | - | (32) | - | - | - |
| **Real estate**[3] | | | | | | | |
| Canadian | 6,922 | (26) | 520 | 35 | - | - | **7,451** |
| Non-Canadian | 795 | 296 | 438 | 83 | - | - | **1,612** |
| **Private equity and special situations** | | | | | | | |
| Canadian | 988 | 414 | 76 | (164) | - | - | **1,314** |
| Non-Canadian | 2,287 | 568 | 860 | (690) | - | - | **3,025** |
| **Assets from derivative instruments** | 140 | 29 | 78 | (138) | - | - | **109** |
| **Liabilities from derivative instruments** | (81) | (9) | (44) | 62 | - | - | **(72)** |
| **Total** | **$ 11,597** | **$ 1,416** | **$ 3,111** | **$ (849)** | **$ -** | **$ -** | **$ 15,275** |

*[1] For those investment assets and investment liabilities held at the end of the year, the total gains were $1,319 million.*
*[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 $395 million are netted in Purchases and Issues and mortgage debt repayments of $306 million are netted in Sales and Settlements.*

| 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($ millions) | Fair Value Dec. 31, 2013 | Total Gains (Losses) Included in Net Income[1] | Purchase and Issues | Sales and Settlements | Transfers In[2] | Transfers Out[2] | Fair Value Dec. 31, 2014 |
| **Bonds** | | | | | | | |
| Non-Canadian | $ 283 | $ 36 | $ 220 | $ (23) | $ - | $ - | **$ 516** |
| **Equities** | | | | | | | |
| Canadian | - | - | - | - | - | - | - |
| **Non-Canadian commercial loans** | 135 | 7 | 49 | (161) | - | - | **30** |
| **Real estate**[3] | | | | | | | |
| Canadian | 6,378 | 123 | 481 | (60) | - | - | **6,922** |
| Non-Canadian | 630 | 136 | 150 | (121) | - | - | **795** |
| **Private equity and special situations** | | | | | | | |
| Canadian | 913 | 295 | 134 | (354) | - | - | **988** |
| Non-Canadian | 1,667 | 179 | 872 | (431) | - | - | **2,287** |
| **Assets from derivative instruments** | 149 | 71 | 70 | (150) | - | - | **140** |
| **Liabilities from derivative instruments** | (166) | 63 | (60) | 84 | (2) | - | **(81)** |
| **Total** | **$ 9,989** | **$ 910** | **$ 1,916** | **$ (1,216)** | **$ (2)** | **$ -** | **$ 11,597** |

*[1] For those investment assets and investment liabilities held at the end of the year, the total gains were $747 million.*
*[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 $450 million are netted in Purchases and Issues and mortgage debt repayments of $189 million are netted 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 of the overall Plan 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, 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 $620 and $630 million respectively, as at December 31, 2015, are as follows:

| ($ millions) | Maturity Date | Coupon Rate % | Fair Value | Cost Value |
|---|---|---|---|---|
| **Fixed income** | | | | |
| Canadian federal bonds | 2017-2045 | 0.79-9.00 | $ 14,921 | $ 14,167 |
| United States treasury bonds | 2045 | 2.88-3.00 | 4,413 | 4,072 |
| Canadian provincial and municipal bonds | 2019-2045 | 3.45-11.00 | 16,436 | 15,489 |
| Canadian real return bonds | 2021-2044 | 1.50-4.55 *Plus CPI** | 6,617 | 5,546 |
| **Public Equity** | | | | |
| S&P 500 ETF trust | | | $ 809 | $ 781 |
| **Other** | | | | |
| Private Equity | | | $ 710 | $ 26 |

** 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 in 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 they are subject to daily cash margining. HOOPP invests in both bond futures and equity futures, which relate to a specific equity or bond, or index of equities or bonds, a basket of equities or bonds, or a single equity or bond. 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. HOOPP invests in 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 (including variance and volatility 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. Variance and volatility swaps are contracts where cash flows are exchanged based on the difference between the realized variance or volatility of an equity, a basket of equities, or an equity index and the fixed strike level specified in the contract. Equity-based 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 and 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 table summarizes the notional and fair values of the Plan's derivative positions.

| | 2015 | | |
|---|---|---|---|
| | Notional | Fair Value[2] | |
| ($ millions) | Value[1] | Assets | Liabilities |
| **Credit derivatives** | | | |
| Credit default swap options | $ 3,529 | $ 8 | $ (5) |
| Credit default swaps[3] | 23,792 | 125 | (157) |
| **Currency derivatives** | | | |
| Forwards | 8,232 | 51 | (32) |
| Options | 1,262 | 30 | (7) |
| Swaps | 16,937 | 487 | (4,240) |
| **Equity derivatives** | | | |
| Caps/floors | - | - | - |
| Futures contracts | 13,435 | - | (109) |
| Options | 80,175 | 3,781 | (11,612) |
| Swaps | 58,459 | 282 | (679) |
| **Interest rate derivatives** | | | |
| Futures contracts | 828 | - | (1) |
| Options | 317 | - | - |
| Swaps | 35,326 | 430 | (3,695) |
| Swaptions | 20,624 | 42 | (5) |
| **Total** | **$ 262,916** | **$ 5,236** | **$ (20,542)** |

*[1] Notional values represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged, and are therefore not recorded as assets or liabilities in these financial statements. Notional values are also the basis on 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.*

*[3] HOOPP, through the sale of credit protection, indirectly guarantees the underlying reference obligations. The notional amount and fair value of the credit protection sold are $12,613 million and $49 million, respectively. These contracts mature between 2016 and 2023.*

| | 2014 | | |
|---|---|---|---|
| | Notional | Fair Value[2] | |
| ($ millions) | Value[1] | Assets | Liabilities |
| **Credit derivatives** | | | |
| Credit default swap options | $ 2,586 | $ 7 | $ (3) |
| Credit default swaps[3] | 24,168 | 147 | (180) |
| **Currency derivatives** | | | |
| Forwards | 5,063 | 48 | (21) |
| Options | - | - | - |
| Swaps | 20,942 | 450 | (2,623) |
| **Equity derivatives** | | | |
| Caps/floors | 581 | - | - |
| Futures contracts | 6,227 | 6 | (7) |
| Options | 64,614 | 3,879 | (10,669) |
| Swaps | 55,106 | 818 | (302) |
| **Interest rate derivatives** | | | |
| Futures contracts | 406 | - | (1) |
| Options | 266 | - | - |
| Swaps | 38,934 | 413 | (3,206) |
| Swaptions | 7,277 | 40 | (10) |
| **Total** | **$ 226,170** | **$ 5,808** | **$ (17,022)** |

*[1] Notional values represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged, and are therefore not recorded as assets or liabilities in these financial statements. Notional values are also the basis on 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.*

*[3] HOOPP, through the sale of credit protection, indirectly guarantees the underlying reference obligations. The notional amount and fair value of the credit protection sold are $12,844 million and $(3) million, respectively. These contracts mature between 2015 and 2023.*

The following table summarizes the notional values for the Plan's derivative positions by term to maturity.

| ($ millions) | 2015 Within 1 Year | 2015 1 to 5 Years | 2015 Over 5 Years | 2015 Total |
|---|---|---|---|---|
| **Credit derivatives** | | | | |
| Credit default swap options | $ 3,529 | $ - | $ - | **$ 3,529** |
| Credit default swaps | 2,171 | 17,227 | 4,394 | **23,792** |
| **Currency derivatives** | | | | |
| Forwards | 8,232 | - | - | **8,232** |
| Options | 277 | 847 | 138 | **1,262** |
| Swaps | 6,936 | 9,223 | 778 | **16,937** |
| **Equity derivatives** | | | | |
| Caps/floors | - | - | - | **-** |
| Futures contracts | 13,435 | - | - | **13,435** |
| Options | 18,960 | 61,111 | 104 | **80,175** |
| Swaps | 31,536 | 26,923 | - | **58,459** |
| **Interest rate derivatives** | | | | |
| Futures contracts | 828 | - | - | **828** |
| Options | - | - | 317 | **317** |
| Swaps | 7,655 | 17,002 | 10,669 | **35,326** |
| Swaptions | 17,810 | 1,984 | 830 | **20,624** |
| **Total** | **$ 111,369** | **$ 134,317** | **$ 17,230** | **$ 262,916** |

| ($ millions) | 2014 Within 1 Year | 2014 1 to 5 Years | 2014 Over 5 Years | 2014 Total |
|---|---|---|---|---|
| **Credit derivatives** | | | | |
| Credit default swap options | $ 2,586 | $ - | $ - | $ 2,586 |
| Credit default swaps | 1,858 | 16,082 | 6,228 | 24,168 |
| **Currency derivatives** | | | | |
| Forwards | 5,063 | - | - | 5,063 |
| Options | - | - | - | - |
| Swaps | 8,241 | 10,310 | 2,391 | 20,942 |
| **Equity derivatives** | | | | |
| Caps/floors | 581 | - | - | 581 |
| Futures contracts | 6,227 | - | - | 6,227 |
| Options | 16,659 | 16,594 | 31,361 | 64,614 |
| Swaps | 28,291 | 26,310 | 505 | 55,106 |
| **Interest rate derivatives** | | | | |
| Futures contracts | 406 | - | - | 406 |
| Options | - | - | 266 | 266 |
| Swaps | 9,683 | 16,626 | 12,625 | 38,934 |
| Swaptions | 1,944 | 4,636 | 697 | 7,277 |
| **Total** | **$ 81,539** | **$ 90,558** | **$ 54,073** | **$ 226,170** |

## Note 4 – NET INVESTMENT INCOME

### a. Net investment income for the year ended December 31, reported based on investment assets and investment liabilities, is as follows:

| | 2015 | | |
|---|---|---|---|
| ($ millions) | Net Interest and Dividend Income[(1)(2)] | Net Gain (Loss) on Investments[(3)] | Net Investment Income |
| **Cash and pending trades** | $ (1) | $ (616) | $ (617) |
| **Fixed income** | | | |
| Short-term securities | 6 | - | 6 |
| Net bonds | | | |
| Canadian | 3,237 | 1,609 | 4,846 |
| Non-Canadian | 199 | 1,203 | 1,402 |
| Commercial loans | | | |
| Canadian | 1 | - | 1 |
| Non-Canadian | 1 | 2 | 3 |
| ***Total fixed income*** | 3,444 | 2,814 | 6,258 |
| **Net repurchase agreements** | (95) | (174) | (269) |
| **Net public equity** | | | |
| Canadian | (1,030) | 3,408 | 2,378 |
| Non-Canadian | 2,693 | (2,497) | 196 |
| ***Total public equity*** | 1,663 | 911 | 2,574 |
| **Equity-oriented** | | | |
| Net real estate operating income | | | |
| Canadian | 349 | (26) | 323 |
| Non-Canadian | 19 | 296 | 315 |
| Private equity and special situations | | | |
| Canadian | 26 | 414 | 440 |
| Non-Canadian | (20) | 536 | 516 |
| ***Total equity-oriented*** | 374 | 1,220 | 1,594 |
| **Derivative instruments** | - | (6,418) | (6,418) |
| ***Total investment income*** | 5,385 | (2,263) | 3,122 |
| **Transaction costs** | - | (19) | (19) |
| **Net investment income** | **$ 5,385** | **$ (2,282)** | **$ 3,103** |

*(1) Net of investment income and investment expenses.*
*(2) Includes net operating income (loss) from investments in real estate and private equity.*
*(3) Includes realized losses from investments of $4,407 million and change in unrealized gains from investments of $2,144 million before allocating the effect of transaction costs.*

| ($ millions) | 2014 Net Interest and Dividend Income[(1)(2)] | Net Gain (Loss) on Investments[(3)] | Net Investment Income |
|---|---|---|---|
| **Cash and pending trades** | $ 4 | $ (321) | $ (317) |
| **Fixed income** | | | |
| Short-term securities | - | - | - |
| Net bonds | | | |
| Canadian | 3,048 | 5,018 | 8,066 |
| Non-Canadian | 153 | 1,025 | 1,178 |
| Commercial loans | | | |
| Canadian | - | - | - |
| Non-Canadian | 2 | 7 | 9 |
| ***Total fixed income*** | 3,203 | 6,050 | 9,253 |
| **Net repurchase agreements** | (149) | (58) | (207) |
| **Net public equity** | | | |
| Canadian | (822) | (2,027) | (2,849) |
| Non-Canadian | 2,857 | (2,255) | 602 |
| ***Total public equity*** | 2,035 | (4,282) | (2,247) |
| **Equity-oriented** | | | |
| Net real estate operating income | | | |
| Canadian | 322 | 123 | 445 |
| Non-Canadian | 9 | 136 | 145 |
| Private equity and special situations | | | |
| Canadian | 25 | 295 | 320 |
| Non-Canadian | 19 | 178 | 197 |
| ***Total equity-oriented*** | 375 | 732 | 1,107 |
| **Derivative instruments** | - | 1,534 | 1,534 |
| ***Total investment income*** | 5,468 | 3,655 | 9,123 |
| **Transaction costs** | - | (18) | (18) |
| **Net investment income** | **$ 5,468** | **$ 3,637** | **$ 9,105** |

(1) *Net of investment income and investment expenses.*
(2) *Includes net operating income (loss) from investments in real estate and private equity.*
(3) *Includes realized gains from investments of $978 million and change in unrealized gains from investments of $2,677 million before allocating the effect of transaction costs.*

## b. Real estate income

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

| ($ millions) | 2015 | 2014 |
|---|---|---|
| Rental revenue | $ 779 | $ 713 |
| Property operating and other expenses | (362) | (334) |
| Operating income | 417 | 379 |
| Mortgage interest | (49) | (48) |
| **Net real estate operating income** | **$ 368** | **$ 331** |

## c. Net investment income for the year ended December 31, reported based on the underlying investment strategies of HOOPP's portfolios, is as follows:

| | 2015 | | |
|---|---|---|---|
| ($ millions) | Net Interest and Dividend Income[(1)(2)] | Net Gain (Loss) on Investments | Net Investment Income |
| **Liability hedge portfolio** | | | |
| Short term | $ 1,339 | $ (1,506) | $ (167) |
| Mid-term bonds | 420 | 12 | 432 |
| Long-term bonds | 594 | 70 | 664 |
| Real return bonds | 168 | (1) | 167 |
| Real estate | 341 | 132 | 473 |
| Transition strategy | 363 | (18) | 345 |
| ***Total liability hedge portfolio*** | 3,225 | (1,311) | 1,914 |
| **Return seeking portfolio** | | | |
| Canadian equities | 59 | (538) | (479) |
| United States equities | 24 | 40 | 64 |
| International equities | 12 | 273 | 285 |
| Long-term option strategy | 198 | 136 | 334 |
| Corporate credit | 63 | (9) | 54 |
| Private equity | 6 | 608 | 614 |
| Asset allocation strategies | - | 107 | 107 |
| Absolute return strategies | 1,793 | (1,605) | 188 |
| Foreign exchange hedges | - | 13 | 13 |
| Other | 5 | 4 | 9 |
| ***Total return seeking portfolio*** | 2,160 | (971) | 1,189 |
| **Net investment income** | **$ 5,385** | **$ (2,282)** | **$ 3,103** |

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

| ($ millions) | Net Interest and Dividend Income[1][2] | Net Gain (Loss) on Investments | Net Investment Income |
|---|---|---|---|
| | | 2014 | |
| **Liability hedge portfolio** | | | |
| Short term | $ 1,197 | $ (868) | $ 329 |
| Mid-term bonds | 367 | 564 | 931 |
| Long-term bonds | 568 | 1,593 | 2,161 |
| Real return bonds | 161 | 699 | 860 |
| Real estate | 308 | 238 | 546 |
| Transition strategy | 407 | 1,307 | 1,714 |
| ***Total liability hedge portfolio*** | 3,008 | 3,533 | 6,541 |
| **Return seeking portfolio** | | | |
| Canadian equities | 45 | 580 | 625 |
| United States equities | 11 | 629 | 640 |
| International equities | 16 | 243 | 259 |
| Long-term option strategy | 175 | (18) | 157 |
| Corporate credit | 47 | 84 | 131 |
| Private equity | 43 | 430 | 473 |
| Asset allocation strategies | - | (6) | (6) |
| Absolute return strategies | 2,119 | (1,916) | 203 |
| Foreign exchange hedges | - | 62 | 62 |
| Other | 4 | 16 | 20 |
| ***Total return seeking portfolio*** | 2,460 | 104 | 2,564 |
| **Net investment income** | **$ 5,468** | **$ 3,637** | **$ 9,105** |

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

## 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 directly 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 also transfers financial assets received from HOOPP's counterparties as a result of various transactions. These financial assets 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 that 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. 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.

*ii. 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.

*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 has the right to re-pledge, loan or use it under repurchase agreements in the absence of default by the owner of the collateral. On termination of the agreement, the Plan is obligated to return the collateral received to the owner. As at December 31, 2015, the fair value of total collateral rehypothecated by the Plan is $2,004 million ($2014: $1,910 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:

| | | 2015 | |
|---|---|---|---|
| ($ millions) | Repurchase Agreements | Securities Lending/Borrowing and Other Transfers | Derivatives |
| Fair value/carrying amount of financial assets transferred out[1] | $ - | $ 13,633 | $ - |
| Fair value/carrying amount of collateral pledged[2] | 21,667 | 37,026 | 17,285 |
| Fair value/carrying amount of financial assets received[3] | - | (4,978) | - |
| Fair value/carrying amount of collateral received[4] | (2,582) | (5,835) | (873) |
| Fair value/carrying amount of associated receivables (note 2) | 2,498 | - | 5,236 |
| Fair value/carrying amount of associated liabilities[5] | (21,520) | (38,523) | (20,542) |
| **Net position** | **$ 63** | **$ 1,323** | **$ 1,106** |

*[1] Includes securities lent, both directly and through a third party, of $8,306 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 $5,327 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 $nil. The full amount represents securities that 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 $2,729 million. The remaining amount represents securities that 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.*

*[5] Includes $115 million of accrued investment liabilities relating to investments sold short. Amounts for repurchase agreements and derivatives are presented in note 2.*

| | | 2014 | |
|---|---|---|---|
| ($ millions) | Repurchase Agreements | Securities Lending/Borrowing and Other Transfers | Derivatives |
| Fair value/carrying amount of financial assets transferred out[1] | $ - | $ 8,982 | $ - |
| Fair value/carrying amount of collateral pledged[2] | 20,259 | 28,664 | 13,201 |
| Fair value/carrying amount of financial assets received[3] | - | (3,471) | - |
| Fair value/carrying amount of collateral received[4] | (3,507) | (2,546) | (834) |
| Fair value/carrying amount of associated receivables (note 2) | 3,286 | - | 5,808 |
| Fair value/carrying amount of associated liabilities[5] | (20,016) | (30,627) | (17,022) |
| **Net position** | **$ 22** | **$ 1,002** | **$ 1,153** |

*[1] Includes securities lent, both directly and through a third party, of $2,403 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 $6,579 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 $22 million, which has been derecognized. The remaining amount represents securities that 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 $804 million. The remaining amount represents securities that 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.*

*[5] Includes $81 million of accrued investment liabilities relating to investments sold short. Amounts for repurchase agreements and derivatives are presented in note 2.*

## Note 6 – RISK MANAGEMENT

HOOPP's 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 minimum and a target expected 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 PBA, the ITA, 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, and which the Board reviews and approves at least annually:

- Investment Risk Framework – the Board's view of the Plan's risk tolerance;
- Statement of Investment Policies and Procedures (SIP&P) – investment guidelines for the management of the Plan, including objectives and how they will be reached; and
- 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 the Investment Management team, 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, which may result in a mismatch between the Plan's assets and its pension obligations. The most significant economic contributors to funding risk are as follows:

- 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 such as changes in member demographics.

As at December 31, 2015, the Plan had a surplus for financial statement purposes of $14,773 million (2014: $13,925 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, 2015, the Plan had a regulatory filing surplus of $10,847 million, compared to $6,950 million as at December 31, 2014 (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, relying on the results of various scenarios, 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 regulatory filing valuation periodically. It last filed a regulatory filing valuation for the period ended December 31, 2014. See note 12 for more information on HOOPP's regulatory filing 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; and
- 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 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.

| | 2015 | | | | |
|---|---|---|---|---|---|
| ($ millions) | **Within 1 Year** | **1 to 5 Years** | **5 to 10 Years** | **Over 10 Years** | **Total** |
| **Short-term securities** | $ 357 | $ - | $ - | $ - | **$ 357** |
| **Public equities - preferred shares** | - | 607 | - | - | **607** |
| **Canadian bonds**(1)(2) | | | | | |
| Federal bonds | 17,016 | 4,507 | 2,456 | 8,292 | **32,271** |
| Provincial and municipal bonds | 4,737 | 16,820 | 17,889 | 15,814 | **55,260** |
| Real return bonds | - | - | 781 | 6,938 | **7,719** |
| Corporate bonds | 4,982 | 2,442 | 247 | 263 | **7,934** |
| **Non-Canadian bonds**(1)(2) | 3,865 | 837 | 333 | 5,971 | **11,006** |
| **Non-Canadian commercial loans** | - | - | - | - | **-** |
| **Derivative instruments** | (11,548) | (28,389) | (12,614) | 224 | **(52,327)** |
| **Repurchase agreements** | (19,022) | - | - | - | **(19,022)** |
| **Total** | **$ 387** | **$ (3,176)** | **$ 9,092** | **$ 37,502** | **$ 43,805** |

(1) *Net of Canadian bonds sold short of $1,167 million and non-Canadian bonds sold short of $963 million.*
(2) *Includes accrued interest of $676 million on Canadian bonds and $71 million on non-Canadian bonds.*

| | 2014 | | | | |
|---|---|---|---|---|---|
| ($ millions) | **Within 1 Year** | **1 to 5 Years** | **5 to 10 Years** | **Over 10 Years** | **Total** |
| **Short-term securities** | $ - | $ - | $ - | $ - | $ - |
| **Public equities - preferred shares** | - | - | - | - | - |
| **Canadian bonds**(1)(2) | | | | | |
| Federal bonds | 15,620 | 3,240 | 2,995 | 8,639 | 30,494 |
| Provincial and municipal bonds | 2,119 | 13,725 | 22,873 | 16,595 | 55,312 |
| Real return bonds | - | - | 781 | 6,552 | 7,333 |
| Corporate bonds | 2,822 | 2,071 | 85 | 186 | 5,164 |
| **Non-Canadian bonds**(1)(2) | 1,494 | 840 | (97) | 3,507 | 5,744 |
| **Non-Canadian commercial loans** | - | - | 30 | - | 30 |
| **Derivative instruments** | (9,699) | (18,983) | (22,613) | 333 | (50,962) |
| **Repurchase agreements** | (16,730) | - | - | - | (16,730) |
| **Total** | **$ (4,374)** | **$ 893** | **$ 4,054** | **$ 35,812** | **$ 36,385** |

(1) *Net of Canadian bonds sold short of $1,767 million and non-Canadian bonds sold short of $1,042 million.*
(2) *Includes accrued interest of $633 million on Canadian bonds and $28 million on non-Canadian bonds.*

*Risk measurement*

The Plan's interest rate sensitive portfolio is reviewed to ensure compliance to policy. The Asset Liability Management Committee receives quarterly reports, which include interest rate exposure for the interest rate sensitive portfolio. As at December 31, 2015, a 1% increase/decrease in interest rates would have decreased/increased the Plan's net assets available for benefits by $6,650 million (2014: $6,257 million). While the increase/decrease in interest rates would have decreased/increased the value of the Plan's assets, longer-term trends in increases/decreases 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 financial instruments 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 Canadian dollar equivalent impact of a 5% increase/decrease in the applicable foreign exchange rate on the Plan's net assets available for benefits.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| ($ millions) | Local Currency | Canadian Dollar Equivalent | Impact of +/- 5% Change | Local Currency | Canadian Dollar Equivalent | Impact of +/- 5% Change |
| Euros | **(37)** | **(60)** | **(3)/3** | (27) | (37) | (2)/2 |
| United States Dollars | **33** | **46** | **2/(2)** | (28) | (33) | (2)/2 |
| British Pounds | **27** | **54** | **3/(3)** | 48 | 87 | 4/(4) |
| Japanese Yen | **-** | **-** | **-/(-)** | 482 | 5 | -/(-) |

*Risk measurement*

The exposures to foreign currency are measured daily and reported on a monthly basis for compliance purposes. Each quarter, management provides the Board with reports and analysis, illustrating the impact on assets of foreign currency rate changes. As at December 31, 2015, 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 $0.4 million (2014: decrease/increase of approximately $0.2 million).

*Risk management*

While certain limited risk taking activities are permitted, 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 generally require the Plan's foreign currency exposure to be 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, which 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. In addition, HOOPP has exposure to other equity price risk of $687 million (2014: $495 million) through its investments in an index that is proprietary to another financial institution. The 1% increase/decrease in the index would have resulted in an increase/decrease in the Plan's net assets available for benefits of $7 million (2014: $5 million).

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% increase/decrease in the equity markets benchmark price index on the Plan's net assets available for benefits.

| | 2015 | | | |
|---|---|---|---|---|
| ($ millions) | Effective Equity Exposure | % of Net Assets Available for Benefits | Benchmark | Impact of a 10% Increase/(Decrease) |
| **Canadian** | $ 6,611 | 10.4% | S&P/TSX 60 Total Return Index | 661/(661) |
| **United States** | | | | |
| United States equity | 5,014 | | S&P 500 Total Return Index | 501/(501) |
| Long option strategy | (1,136) | | S&P 500 Futures with 10-Year Options | 104/298 |
| | 3,878 | 6.1% | | 605/(203) |
| **International** | 5,436 | 8.5% | Blend of International Indices[1] | 544/(544) |
| | **$ 15,925** | | | **1,810/(1,408)** |

[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.*

| | 2014 | | | |
|---|---|---|---|---|
| ($ millions) | Effective Equity Exposure | % of Net Assets Available for Benefits | Benchmark | Impact of a 10% Increase/ (Decrease) |
| **Canadian** | $ 6,214 | 10.2% | S&P/TSX 60 Total Return Index | 621/(621) |
| **United States** | | | | |
| United States equity | 4,918 | | S&P 500 Total Return Index | 492/(492) |
| Long option strategy | (254) | | S&P 500 Futures with 10-Year Options | 141/233 |
| | 4,664 | 7.7% | | 633/(259) |
| **International** | 4,933 | 8.1% | Blend of International Indices[1] | 493/(493) |
| | **$ 15,811** | | | **1,747/(1,373)** |

*[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, 2015, a 1% increase/decrease in equity markets would have resulted in an increase/decrease in the Plan's net assets available for benefits of $159 million (2014: $158 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 occurs regularly to ensure the weighting of the equity 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 fullfill its contractual obligations.

Counterparty credit risk is the risk of loss in the event the counterparty (excluding clearing houses) defaults on a transaction, 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| ($ millions) | Total Credit Exposure | % of Total | Total Credit Exposure | % of Total |
| **Sovereign securities AAA**[1] | $ 31,243 | 23.1% | $ 29,308 | 23.9% |
| **Fixed income instruments** | | | | |
| AAA | 20,375 | 15.1% | 18,038 | 14.7% |
| AA | 12,627 | 9.3% | 32,205 | 26.3% |
| A | 47,456 | 35.1% | 23,247 | 19.0% |
| BBB | 1,734 | 1.3% | 650 | 0.5% |
| BB or below | 915 | 0.7% | 224 | 0.2% |
| **Credit derivatives** | 13,191 | 9.8% | 13,941 | 11.4% |
| **Counterparty credit risk exposure** | | | | |
| Derivatives | 777 | 0.6% | 785 | 0.6% |
| Repurchase agreements | 258 | 0.2% | 1,142 | 0.9% |
| Securities lending program | 6,539 | 4.8% | 3,043 | 2.5% |
| **Maximum credit risk exposure** | **135,115** | **100%** | **122,583** | **100%** |
| Credit risk protection (credit derivatives) | (10,797) | | (11,680) | |
| Collateral received | (5,249) | | (3,095) | |
| **Total** | **$ 119,069** | | **$ 107,808** | |

[1] *As at December 31, 2015, includes securities issued by the governments of Canada, Germany, and the United States (2014: Canada, Germany, 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 overall exposure limits, 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.

*Risk management*

HOOPP's policy is to manage credit risk by placing limits on investments in below-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 has a long-term focus on credit risk; therefore, changes in the market value of securities due to fluctuations in credit spreads are not of primary concern.

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.

## 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.

The Plan's financial liabilities include investment-related liabilities (note 2), accrued pension obligations (note 11), and contracts that give rise to commitments for future payments (notes 14 and 15). The Plan is also exposed to the daily settlement of derivatives and margin calls on derivatives.

The Plan's investment-related liabilities by maturity, on an undiscounted basis, as at December 31 are as follows:

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ millions) | Less than 3 Months | 3 to 12 Months | Over 1 Year | Total | Less than 3 Months | 3 to 12 Months | Over 1 Year | Total |
| Non-derivative investments liabilities | $ (63,074) | $ - | $ - | **$ (63,074)** | $ (51,364) | $ (367) | $ - | $ (51,731) |
| Derivative investments liabilities | (6,199) | (2,741) | (12,256) | **(21,196)** | (4,215) | (2,237) | (11,762) | (18,214) |
| **Total investment liabilities** | **$ (69,273)** | **$ (2,741)** | **$(12,256)** | **$ (84,270)** | **$ (55,579)** | **$ (2,604)** | **$(11,762)** | **$ (69,945)** |

*Risk measurement*

On a daily basis, HOOPP 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) | 2015 | 2014 |
|---|---|---|
| Refundable withholding tax on contributions | $ 140 | $ 141 |
| Fixed assets | 19 | 6 |
| Other | 6 | 4 |
| **Total** | **$ 165** | **$ 151** |

## Note 8 – CONTRIBUTIONS

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

| ($ millions) | 2015 | 2014 |
|---|---|---|
| **Employers** | | |
| Current service contributions | $ 1,108 | $ 1,075 |
| **Members** | | |
| Current service contributions | 879 | 853 |
| Past service contributions from members | 32 | 36 |
| Transfers from other plans | 80 | 40 |
| | 991 | 929 |
| **Total** | **$ 2,099** | **$ 2,004** |

## Note 9 – BENEFITS

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

| ($ millions) | 2015 | 2014 |
|---|---|---|
| **Benefit payments** | | |
| Retirement pension and bridge benefits[1] | $ 1,544 | $ 1,408 |
| Commuted value transfers and death benefits | 291 | 222 |
| | 1,835 | 1,630 |
| **Refunds and transfers** | | |
| Refunds | 57 | 55 |
| Transfers to other plans | 33 | 17 |
| | 90 | 72 |
| Total | $ 1,925 | **$ 1,702** |

[1] *Includes disability payments of $81 million (2014: $80 million)*

## Note 10 – OPERATING EXPENSES

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

| ($ millions) | 2015 | 2014 |
|---|---|---|
| **Investment**[1] | | |
| Administration | **$ 118** | $ 109 |
| Legal, actuarial and other professional fees[2] | **6** | 4 |
| Custodial | **2** | 3 |
| | **126** | 116 |
| **Plan**[1] | | |
| Administration | **69** | 62 |
| Legal, actuarial and other professional fees[2] | **6** | 7 |
| | **75** | 69 |
| **Total** | **$ 201** | **$ 185** |

*[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 services of $936,100 (2014: $820,800), and non-audit services of $116,200 (2014: $159,300). Also includes amounts paid or payable to the actuary pertaining to actuarial services of $634,800 (2014: $565,300).*

## 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, 2015 actuarial valuation, the Board approved decreases to the discount rate, rate of price inflation and salary escalation rate as indicated below. The change in the rate of price inflation also had corresponding impacts to other inflation-linked assumptions (e.g. salary escalation rate). The Board also approved changes to certain demographic assumptions based on recent experience.

To determine the pension obligations as at December 31, 2015, and December 31, 2014, the following economic assumptions were analyzed and reviewed by management and the Plan's actuarial advisors for reasonableness and approved by the Board for financial reporting purposes:

| December 31 | 2015[3] | 2014[3] |
|---|---|---|
| Discount rate[1] | **5.65%** | 5.85% |
| Rate of price inflation | **2.00%** | 2.25% |
| Real discount rate | **3.65%** | 3.60% |
| Salary escalation rate[2] | **3.50%** | 3.75% |

[1] *Net of allowance for investment expenses of 0.25% (2014: 0.25%).*
[2] *For 2015, a two-tiered rate of 3.20% per annum for the first three years following the valuation date and 3.50% thereafter is assumed (2014: single rate of 3.75%).*
[3] *Net impact from changes to the discount rate, rate of price inflation, salary escalation rate and all other assumption changes resulted in an actuarial gain of $134 million (2014: changes to the discount rate, salary escalation and mortality assumptions resulted in an actuarial loss of $2,201 million).*

## Actuarial Methodology for Financial Reporting

For the determination of the actuarial present value of the pension obligations as at December 31, 2015, 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, 2015 and members' pay data provided as at December 31, 2014, all of which were projected to December 31, 2015 using management's estimates of experience for the intervening periods. The pensionable earnings estimates were determined based on 2014 experience and estimate assumptions.

Using this method and data, the pension obligations (or going concern actuarial pension obligations) as at December 31, 2015, were $49,151 million (2014: $46,923 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 2015, there was an estimated experience gain of $521 million (2014: gain of $77 million).

## Plan Provisions

As discussed under the Description of the Plan, the Board has the authority to provide ad hoc inflation protection for retirees and deferred retirees. During 2014, the Board approved a one-time ad hoc inflation protection adjustment equal to 25% of the annual CPI increases for the years 2002 to 2013, which results in 100% of the CPI inflation protection for these years, effective April 1, 2015. The related one-time impact of $542 million was reflected in the pension obligations as at December 31, 2014. Also during 2014, the Board confirmed 100% of the 2014 CPI increase as an ad hoc increase effective April 1, 2015, which had an additional impact to the pension obligations as at December 31, 2014 of $124 million. There is no additional impact for these in 2015. During 2015, the Board confirmed 100% of the 2015 CPI increase as an ad hoc increase effective April 1, 2016. As at December 31, 2015, the additional impact to the pension obligations for this ad hoc inflation protection adjustment is $115 million. Also included in the pension obligations are the ad hoc CPI inflation increases at 75% of CPI, intended to be granted April 1, 2017 to April 1, 2018, which the Board approved in 2012.

## 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 for financial statement purposes on December 31, 2015, was $14,773 million (2014: $13,925 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. The market values for the four preceding years are adjusted for contributions, benefit payments and operating expenses. They are also adjusted to include assumed investment return, which is based on long-term expected fund returns. 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 regulatory filing surplus on December 31, 2015, was $10,847 million (2014: $6,950 million).

The market value of net assets available for benefits exceeds the smoothed value of net assets, resulting in a difference between the surplus for financial statement purposes and that for regulatory filing purposes of $3,926 million at December 31, 2015 (2014: $6,975 million).

A reconciliation of the surplus is presented in the table below:

| ($ millions) | 2015 | 2014 |
|---|---|---|
| Surplus for financial statement purposes | **$ 14,773** | $ 13,925 |
| Regulatory filing surplus | **10,847** | 6,950 |
| **Difference** | **3,926** | 6,975 |

## Note 12 - REGULATORY FILING VALUATION

In accordance with the PBA and the ITA, 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. Towers Watson Canada Inc. prepared the last actuarial valuation for regulatory filing purposes, as at December 31, 2014, and a copy of that valuation was filed with FSCO and CRA. The effective date of the next required valuation is December 31, 2017.

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 regulatory filing valuation. The economic assumptions used for the December 31, 2014 regulatory filing valuation were as follows:

| Economic Assumptions | Rates |
|---|---|
| Discount rate[1] | 5.85% |
| Rate of price inflation | 2.25% |
| Real discount rate | 3.60% |
| Salary escalation rate | 3.75% |

[1] *Net of allowance for investment expenses of 0.25%*

The most recent regulatory filing valuation conducted as at December 31, 2014, disclosed a smoothed value of net assets of $53,873 million with accrued going concern pension obligations of $46,923 million, resulting in a going concern surplus of $6,950 million. In accordance with the PBA, the solvency deficiency at December 31, 2014, was $nil.

## Note 13 – RETIREMENT COMPENSATION ARRANGEMENT

The RCA is an arrangement that 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 ITA 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 ITA for an RPP.

The net asset value available for RCA benefits at December 31, 2015 was $294 million (2014: $298 million).

## Note 14 – RELATED PARTY TRANSACTIONS – LEASE COMMITMENT

As at December 31, 2015, a wholly-owned subsidiary of the Plan held a significant ownership interest in a commercial office tower under construction called One York Street. The Plan's commitment to the construction of this office building is included in the commitments to invest in real estate investments in note 15.

The Plan entered into 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) | Minimum Lease Payments |
|---|---|
| 2016 | $ 2 |
| 2017 | 5 |
| 2018 | 5 |
| 2019 | 5 |
| 2020 | 5 |
| Thereafter | 96 |
| **Total mininum lease payments** | **$ 118** |

## 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-on terms and conditions. As at December 31, 2015, these commitments totalled $2,305 million related to real estate investments and $3,496 million related to private equity investments (2014: $1,767 million and $3,269 million, respectively). The Plan has also committed to purchasing services related to its pension administration systems totalling approximately $78 million (2014: $88 million), payable over the next 12 years in accordance with the contractual terms and conditions. Commitments that are deemed to be insignificant have not been disclosed.

## Note 16 – CAPITAL

HOOPP defines its capital as the Plan's surplus or deficit. The objective of managing the Plan's capital is to ensure that the Plan is fully funded in order to meet the pension obligations over the long term. Refer to note 6 for further disclosure on HOOPP's 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

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. The maximum potential exposure is the notional amount of the credit protection sold. However, 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 protection sold 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 indemnifications 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, 2015, the amount recorded as a liability for claims under these arrangements was $nil (2014: $nil).

### Contingencies

As at December 31, 2015, 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

**(unaudited)**

For the year ended December 31

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | | | | | | | | | | |
| **Net assets available for benefits, beginning of year** | **$ 60,848** | $ 51,626 | $ 47,414 | $ 40,321 | $ 35,717 | $ 31, 116 | $ 26,732 | $ 30,002 | $ 27, 914 | $ 24,512 |
| Net investment income (loss) | **3,103** | 9,105 | 4,046 | 6,857 | 4,327 | 4,245 | 4,040 | (3,591) | 1,748 | 3,136 |
| Contributions | | | | | | | | | | |
| Employers | **1,108** | 1,075 | 1,033 | 1,003 | 954 | 921 | 890 | 840 | 782 | 718 |
| Members | **991** | 929 | 880 | 860 | 797 | 793 | 744 | 713 | 737 | 658 |
| Benefits | **(1,925)** | (1,702) | (1,587) | (1,486) | (1,335) | (1,229) | (1,159) | (1,143) | (1,079) | (1,019) |
| Operating expenses | **(201)** | (185) | (160) | (141) | (139) | (129) | (131) | (89) | (100) | (91) |
| Increase (decrease) in net assets available for benefits | **3,076** | 9,222 | 4,212 | 7,093 | 4,604 | 4,601 | 4,384 | (3,270) | 2,088 | 3,402 |
| **Net assets available for benefits, end of year** | **$ 63,924** | $ 60,848 | $ 51,626 | $ 47,414 | $ 40,321 | $ 35,717 | $ 31,116 | $ 26,732 | $ 30,002 | $ 27,914 |
| **Net Assets** | | | | | | | | | | |
| Investment assets | | | | | | | | | | |
| Cash | **$ 57** | $ 2 | $ 8 | $ (1) | $ 3 | $ 14 | $ – | $ 35 | $ 38 | $ 81 |
| Fixed income | **115,930** | 106,200 | 86,694 | 74,669 | 71,241 | 60,322 | 49,121 | 46,125 | 42,875 | 30,487 |
| Public equity | **9,150** | 2,182 | 4,596 | 1,705 | 931 | 773 | 889 | 1,904 | 4,612 | 6,374 |
| Equity-oriented | **13,402** | 10,992 | 9,588 | 7,853 | 6,896 | 5,941 | 5,040 | 4,836 | 4,290 | 3,647 |
| Securities purchased under resell agreements | **2,498** | 3,286 | 3,046 | 3,117 | 3,188 | 1,134 | 336 | – | 348 | - |
| Derivative instruments | **5,236** | 5,808 | 5,053 | 1,624 | 3,041 | 1,831 | 1,019 | 1,754 | 1,566 | 892 |
| Investment receivables | **1,063** | 934 | 1,438 | 1,276 | 1,538 | 1,322 | 1,566 | 1,333 | 557 | 642 |
| | **147,336** | 129,404 | 110,423 | 90,243 | 86,838 | 71,337 | 57,971 | 55,987 | 54,286 | 42,123 |
| Contributions receivable | **156** | 156 | 150 | 150 | 142 | 135 | 133 | 124 | 111 | 102 |
| Other assets | **165** | 151 | 146 | 150 | 148 | 142 | 142 | 148 | 127 | 104 |
| **Total assets** | **147,657** | 129,711 | 110,719 | 90,543 | 87,128 | 71,614 | 58,246 | 56,259 | 54,524 | 42,329 |
| **Investment liabilities** | **(83,616)** | (68,753) | (58,999) | (43,046) | (46,722) | (35,825) | (27,071) | (29,502) | (24,493) | (14,391) |
| Other liabilities | **(117)** | (110) | (94) | (83) | (85) | (72) | (59) | (25) | (29) | (24) |
| **Total liabilities** | **(83,733)** | (68,863) | (59,093) | (43,129) | (46,807) | (35,897) | (27,130) | (29,527) | (24,522) | (14,415) |
| **Net assets** | **$ 63,924** | $ 60,848 | $ 51,626 | $ 47,414 | $ 40,321 | $ 35,717 | $ 31,116 | $ 26,732 | $ 30,002 | $ 27,914 |
| **Pension obligations** | **49,151** | 46,923 | 41,478 | 39,919 | 36,782 | 34,897 | 32,020 | 31,244 | 28,683 | 25,808 |
| **Surplus (deficit)** | **$ 14,773** | $ 13,925 | $ 10,148 | $ 7,495 | $ 3,539 | $ 820 | $ (904) | $ (4,512) | $ 1,319 | $ 2,106 |
| **Investment Performance** | | | | | | | | | | |
| Investment rate of return-net | **5.12%** | 17.72% | 8.55% | 17.10% | 12.19% | 13.68% | 15.18% | -11.96% | 6.23% | 12.79% |
| Benchmark return | **3.95%** | 15.62% | 6.46% | 14.29% | 9.87% | 10.31% | 9.77% | -8.98% | 4.78% | 11.88% |
| Long-term return target | **6.04%** | 6.93% | 6.34% | 6.50% | 6.50% | 6.63% | 6.50% | 6.50% | 6.75% | 7.00% |

# GOVERNANCE

**Standing (left to right):** Sue McSheffrey, Dan Anderson, Louis Rodrigues, Yves Shank, Martin Reid, Dr. Kevin Smith, Jim Flett, Adrian Foster, James Sanders, Terry McCarthy, R. Wayne Gladstone, Jon Clark **Seated (left to right):** Marlene Puffer, Helen Fetterly, Bonnie Adamson, Julie Giraldi, Bryce Walker, Linda Haslam-Stroud

In 1993, HOOPP's five Settlor organizations signed an Agreement of Declaration of Trust, creating a joint-governance structure that features equal representation from members and employers. As a result, HOOPP is governed by an independent Board of Trustees made up of 16 voting members; eight trustees are appointed by the Ontario Hospital Association and eight are appointed by the four unions representing the majority of Plan members:

- 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. Its duties include:

- approving 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.

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

# EXECUTIVE LEADERSHIP


Jim Keohane


Reno Bugiardini


Victoria S. Hubbell


David Long


Steven McCormick


David L. Miller


Barbara Thomson


Jeff Wendling

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

The HOOPP 2015 Annual Report was produced
by the Healthcare of Ontario Pension Plan.

HOOPP
Healthcare of Ontario
Pension Plan

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