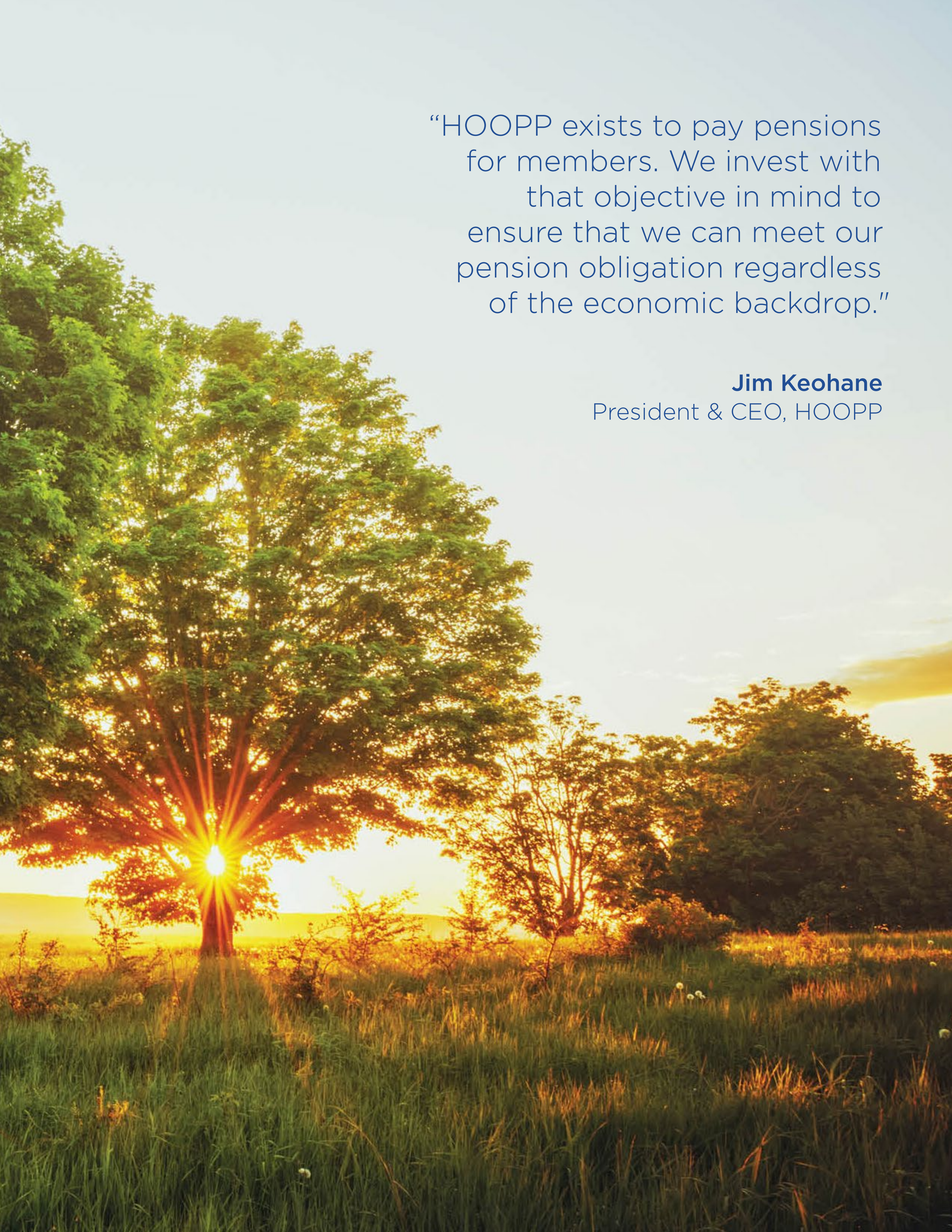
HOOPP
Healthcare of Ontario
Pension Plan

2017 ANNUAL REPORT

TABLE OF CONTENTS



"HOOPP exists to pay pensions for members. We invest with that objective in mind to ensure that we can meet our pension obligation regardless of the economic backdrop."

Jim Keohane
President & CEO, HOOPP

President & CEO's Message

Jim Keohane
PRESIDENT & CEO

At HOOPP, our promise to pay pensions is the driving force behind all we do. It guides how we invest, how we provide service to our members and employers, and how we advocate for retirement security for Canadians. We never lose sight of the fact that it is a privilege to steward the retirement pensions of more than 339,000 Ontario healthcare workers.

We are proud that in 2017 we were able to improve benefits for members and continue to invest in the systems that we use to administer and pay pensions while ensuring that the Plan remains more than fully funded and sustainable over the long term.

In 2017, the Plan's assets grew by approximately $7.5 billion to $77.8 billion, representing an investment return of 10.88%.

Most importantly, our funded status continues to remain strong at 122%, meaning that for every $1 we owe in pension benefits to members, the Fund has $1.22 in assets; in other words, we have more than enough assets to meet our current and future pension obligations.

We have more than enough assets to meet our current and future pension obligations.

This surplus–largely a result of HOOPP's consistent risk management and history of strong investment performance–has an important purpose. It provides a cushion in the event of a big decline in the economy and financial markets, like the kind the world experienced in 2008. Moreover, it demonstrates the success of our Liability Driven Investing (LDI) strategy, which aligns the Plan's assets with its pension obligations. LDI is designed to reduce risk in the Fund while still providing growth in assets over the long term. Its performance speaks for itself; over the last 10 years, our compounded rate of return has been 9.55%–among the highest of pension plans worldwide.

Our surplus made it possible for our Board to make significant improvements to the Plan's benefits in 2017. These changes are designed to increase pensions for members who will retire in the years to come and provide increased survivor benefits for spouses when members pass away in retirement. We are proud that our Plan is able to make improvements at a time when saving for the future is a challenge for many Canadians.

The Plan's overall good health also enabled HOOPP to deliver other valuable benefits for members. Understanding how rising prices can affect seniors who live on a fixed income, our Board of Trustees is committed to ensuring that pensions keep up with inflation. Our Board approved a cost of living adjustment of 100% of the change in the consumer price index over the previous year. As a result, all pensions and deferred pensions will increase by 1.87%, effective April 1, 2018.

Our contribution rates, which are among the lowest of Canada's largest public sector pension plans, will remain unchanged until at least the end of 2019. Our current rates have been in place since 2004. Keeping our rates stable helps ensure that the Plan is affordable for members and employers.

In addition to our benefit improvements, we prepared extensively for the full launch of our new pension administration system. The design and implementation of this new platform have been an enormous undertaking, several years in the making. On Jan. 2, 2018, our enhanced HOOPP pension administration system and online tools went live for all of our members, as well as our more than 500 employers. Members now have access to a variety of enhanced online interactive tools and resources via HOOPP Connect that will provide up-to-date information about their pensions. In addition to streamlined and more efficient administrative procedures, employers can now enjoy a suite of new interactive resources and tools on HOOPP Insight.

The coming year will be one of learning and refining as we use feedback from our members and employers to calibrate this new technology and refine our procedures. We are confident that this technology platform will allow us to deliver better service, provide more flexibility, and manage our costs more efficiently as we continue to grow in the future.

I would like to thank the entire HOOPP team for their continued hard work and dedication through what will be remembered as a milestone year for our organization. Across our divisions and departments, each and every day, we are guided by a single principle: putting members first.

Jim Keohane
PRESIDENT & CEO

Chairs' Message

Bryce Walker
CHAIR

Dan Anderson
VICE CHAIR

It has been a distinct privilege to serve on the HOOPP Board of Trustees throughout 2017. As trustees, we have a great responsibility to deliver on our pension promise; we have more than 339,000 members of Ontario's dedicated and hardworking healthcare community who are counting on us.

It has been almost 25 years since the Ontario Hospital Association (OHA), Ontario Nurses' Association (ONA), Canadian Union of Public Employees (CUPE), Ontario Public Service Employees Union (OPSEU), and Service Employees International Union (SEIU) signed the Agreement & Declaration of Trust, making HOOPP one of the very first pension plans to be jointly governed by employers and unions.

At the time, there were some doubts about how all these groups would be able to work together. But our trustees came together around a single purpose–doing what's best for our members. In fact, since that time, we've been able to reach consensus on every issue that's come before the Board. We are extremely proud of this.

Today, our governance structure has been touted by the World Bank Group as not only highly effective, but also a model for defined benefit (DB) pension plans across Canada and around the world.

This recognition by the World Bank also shows how important DB plans are when it comes to ensuring financial security for seniors. DB plans, such as HOOPP, deliver benefits that seniors can count on not only to cover food, shelter, and other basic needs, but in a way that allows them to live in dignity in retirement.

That's why it's so important for HOOPP to continue to support and speak out in favour of DB pensions.

We've had many good years at HOOPP, and 2017 was truly an exceptional one. Our investment returns continued to be outstanding. We prepared for the full launch of our of our new pension administration system. We were able to make improvements to plan benefits. And, once again, we were able to provide 100% inflation protection.

It was because of our consistently strong investment performance that we were able to make these changes without any increase in contribution levels for members and employers. Even more remarkable, we were able to do so while maintaining one of the lowest contribution rates in the public sector and without reducing our surplus position of 122%. Without a doubt, we have a plan that is second to none for all our members and their spouses and beneficiaries.

We commend HOOPP's Member and Employer Services teams for the excellent service they provide. In 2017, HOOPP was able to maintain its record high client satisfaction ratings. And, with the rollout of the new system now nearing completion, we expect that our service will only continue to improve.

In the coming year, the Board will complete the HOOPP Strategic Plan for 2019 to 2023. By working diligently and carefully to understand the challenges and opportunities that await us, we can ensure that the Plan remains stable and in good health for many decades to come. On that you have our complete commitment.

In closing, we would like to thank all of our Board members for their service and dedication throughout the year. In particular, we would like to acknowledge Bonnie Adamson, Marie Kelly, Yves Shank, and Dr. Kevin Smith, as they will not be continuing as Board members in 2018. A special note of thanks goes to Lesley Togawa, Director, Office of the CEO, for all the support that she continues to provide to the Board.

We would also like to extend our gratitude to the management and staff who make HOOPP the world-class organization that it is and without whom none of this would be possible.

Bryce Walker
CHAIR

Dan Anderson
VICE CHAIR

Management's Discussion & Analysis

TABLE OF CONTENTS

In addition to historical information, the Management's Discussion and Analysis (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. The Plan's financial statements should be read in conjunction with the MD&A.

2017 Financial Highlights

STATE OF THE PLAN

122%*

NET ASSETS

$77.8 BILLION

NET INVESTMENT INCOME

$7,598 MILLION

2017 RATE OF RETURN†

10.88%

10-YEAR ANNUALIZED RETURN†

9.55%

MEMBERS

339,000

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

† Registered Pension Plan

Plan Overview

The Healthcare of Ontario Pension Plan (HOOPP or the Plan) has been serving Ontario healthcare workers and their employers since it was first formed in 1960. There are now over 540 employers from across the province participating in HOOPP and offering the Plan to their employees, who number over 339,000 members.

In 1994, HOOPP was settled as a trust with a jointly-governed Board of Trustees (the Board) by its original sponsor, the Ontario Hospital Association (OHA), and by four unions (the Settlor Unions):

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

The Plan is a contributory, defined benefit (DB), multi-employer pension plan registered under the *Pension Benefits Act* (Ontario) (the PBA) and the *Income Tax Act* (Canada). The Plan is regulated under the PBA as a jointly sponsored pension plan (or JSPP).

State of the Plan

At the end of 2017, the Plan reported a surplus for the eighth consecutive year, as measured on a net assets basis. These results were driven largely by positive investment returns for nine consecutive years, since the financial crisis that began in 2008.

The Plan's funded ratio, the key measure of the current financial health of the Plan is at 130% at the end of 2017, up 1% from 129% in 2016, on a net assets basis.

On a smoothed[(1)] asset basis, for regulatory filing purposes, the ratio of smoothed assets to our pension liabilities remained unchanged from the prior year at 122%.

The chart below shows the Funded Status of the Plan for 2017 and 2016, shown on both a net assets basis and on a smoothed asset value basis:

	2017	2016	Year-over-Year Change
Net Assets to Regulatory Pension Obligation	**130%**	129%	+1%
Smoothed Asset Value to Regulatory Pension Obligation	**122%**	122%	0%

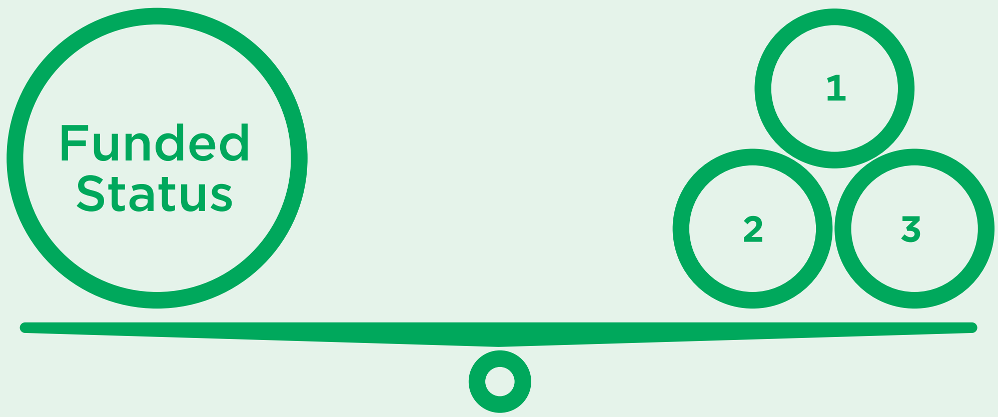
[(1)] *Actuarial technique that recognizes gains and losses, not as they occur, but slowly over a specified period of time.*

Pension Plan Funding Management

While the Plan remains in surplus, history has shown that the market environment can change rapidly as can the funded status of the Plan. Delivering on the pension promise is a complex challenge that involves prudently managing our risks to avoid negative impacts on our funding status.

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 provided at retirement;
2. contribution rates from both Plan members and their employers; and
3. total investment assets and future expected investment returns and risk.



1 benefit levels **2** contribution rates **3** investment assets and future expected returns

The objective in managing the first component – benefits – is to provide a predictable and stable level of pension income to our members in retirement. The Plan is designed to provide a level of benefits to members which, in addition to income from other sources, provide total income that will ensure the members' retirement security. Determining benefit levels must be done with thoughtful consideration of the second component: contribution rates. To ensure the long-term sustainability of the Plan, contribution rates must be set so that the Plan remains affordable to both our members and their employers.

In 2017, as a result of several years of funding surpluses, the Board approved enhancements to the benefit levels of the Plan. The enhancements resulted in an increase in the Plan's liability of $2,732 million. No changes were made to the contribution rates and the Board has committed to maintain contribution rates at current levels until at least the end of 2019. These contribution rates have remained at the same level since 2004.

The third component is the combination of total available investment assets, current and future expected investment returns and investment risk. Investment returns play an essential role in our mission to deliver on the pension promise – it is estimated that approximately 75% of pension benefits paid are derived from investment income. HOOPP's approach to expected investment returns and risk is the component most actively managed by Management and the Board, as it is the component most impacted by ever changing external market conditions.

Balancing these three components in a prudent and effective manner will ultimately ensure the long-term sustainability of the Plan. An added complexity in managing the Plan is the need to ensure intergenerational equity among members; that is, meeting the goal of having each generation of members receive a consistent level of benefit that is in proportion to their contributions, such that no generation is disadvantaged to the detriment of their retirement security.

Future Funding Sustainability

The risks to maintaining the Plan's current funding surplus are constantly present, as unexpected rapid and severe changes to investment markets can negatively impact the funded status of the Plan. This funding risk poses the greatest threat to the sustainability of the Plan and is the risk that the Plan constantly seeks to mitigate, primarily through the prudent management of investment assets and investment risk. The Plan recognizes that the complete elimination of funding risk is neither possible nor desirable. The Plan must take some investment risk, within its risk tolerance, in order to earn a sufficient rate of return to keep the cost of the Plan reasonable and affordable. Furthermore, the changing demographic profile of our members is subject to a level of uncertainty and the risks to the Plan due to these changes are difficult to address through investment strategies.

In general, the two broad categories of risks that contribute to total funding risk arise from (i) financial and economic factors and (ii) demographic factors.

Financial and Economic Risk

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). Positive and stable performance of investment strategies is essential to the long-term sustainability of the Plan. Investment returns that exceed expectations provide flexibility in managing benefit levels and contribution rates, while returns below expectations may result in unfavourable decisions surrounding benefits and contributions. In establishing an appropriate investment strategy, the Plan strives to balance the goal to generate a sufficient return to meet our pension obligations and keep costs affordable, with accepting a level of risk that does not jeopardize our ability to meet those obligations.

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

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

Unanticipated increases in inflation could lead to higher wages which form the basis of the pension benefits paid to members. Additionally, members' pension benefits contain some protection against inflation and therefore higher inflation increases the Plan's pension obligations.

Lastly, if equities and other return seeking strategies fail to achieve their respective expected returns, investment income may fall short of the required levels to pay future pension benefits. Additionally, the volatility of returns of these strategies could cause investment losses. In extreme circumstances, the potential negative impact on the funded status, particularly in the short-term, could lead to adverse consequences on benefits and contributions.

Demographic Risk

Demographic risks to the Plan include increased life expectancy (longevity) of our members, changing retirement trends (e.g. earlier retirements) and the natural aging of the plan membership. Demographic risks are more difficult to anticipate and manage as changes occur slowly over long periods of time and are generally identified by looking at longer periods of historical information. With demographic factors, both the longer term trend and year-over-year changes must be thoughtfully considered. Year-over-year changes can seem minor, however, consistent variances between actual experience and assumptions may indicate patterns where changes to existing assumptions may be needed. The most important 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. This may also lead to intergenerational inequity as unanticipated increases in longevity may mean that the Plan's pricing in prior years was insufficient to fund the promised benefits. For 2017, no changes to either the life expectancy or retirement rate assumptions were made.

The Plan monitors demographic trends carefully with an annual analysis of all assumptions by the Board's actuary that compares recent experience to assumptions. 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 factor to monitor as it impacts the future sustainability of the Plan.

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. Among other factors, one key determinant of how quickly a plan ages is the rate at which new and younger members join the plan and replace 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 replacing these retirees with new younger members in ever greater numbers.

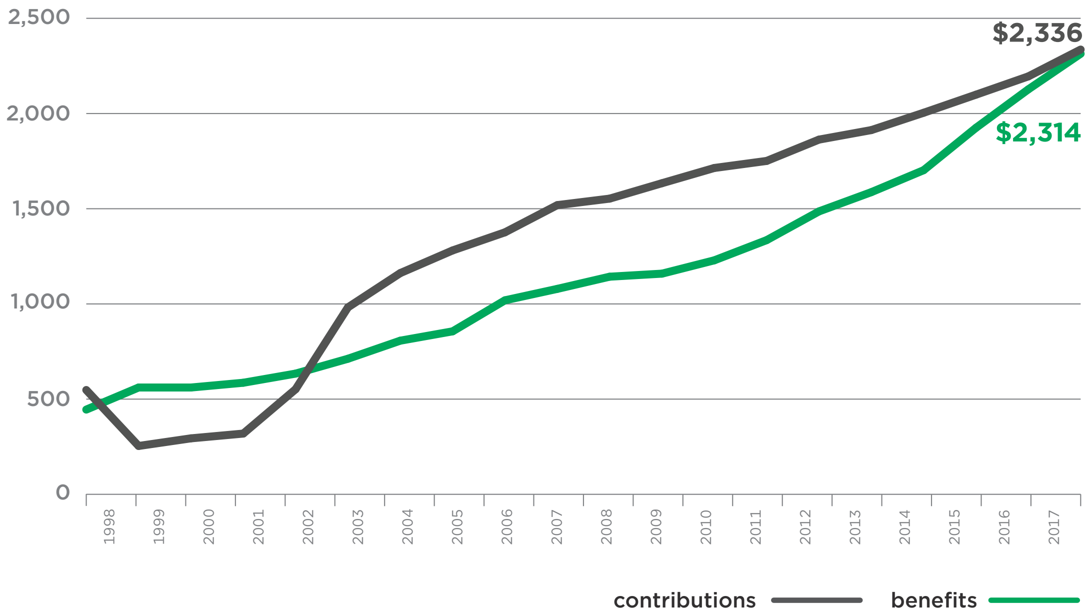
As a plan ages, the key implication is the impact to its risk taking ability. More mature plans pay out more in benefits than the contributions they receive from active members, which increases a plan's sensitivity to investment market declines – the remaining asset base with which to recover from investment losses is reduced since there are negative net contributions which further reduce the asset base. Furthermore, 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, the difference between contributions received and pension benefits paid.

The chart below indicates that HOOPP is a relatively young plan as cash flows received from contributions were greater than benefits paid by $22 million in 2017 (2016: $68 million). However, it is clear the Plan is maturing as this difference is narrowing. (Note: the chart reflects that 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 could 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 93.9 in 1960 (HOOPP's inception) to 2.5 at December 31, 2007 and to 2.2 at December 31, 2017. It is forecasted to decline further to 1.8 by December 31, 2027.

Ratio of Active Members to Retirees

	1960	2007	2017	2027 (projected)
Active to Retiree Ratio*	93.9	2.5	**2.2**	1.8

** As at December 31, except for 1960 which is as at November 30.*

HOOPP is a slowly maturing, relatively young pension plan. We currently benefit from the flexibility that this provides us, however, we remain aware of the need to adapt and evolve our investment strategies as the Plan continues to mature.

Investments

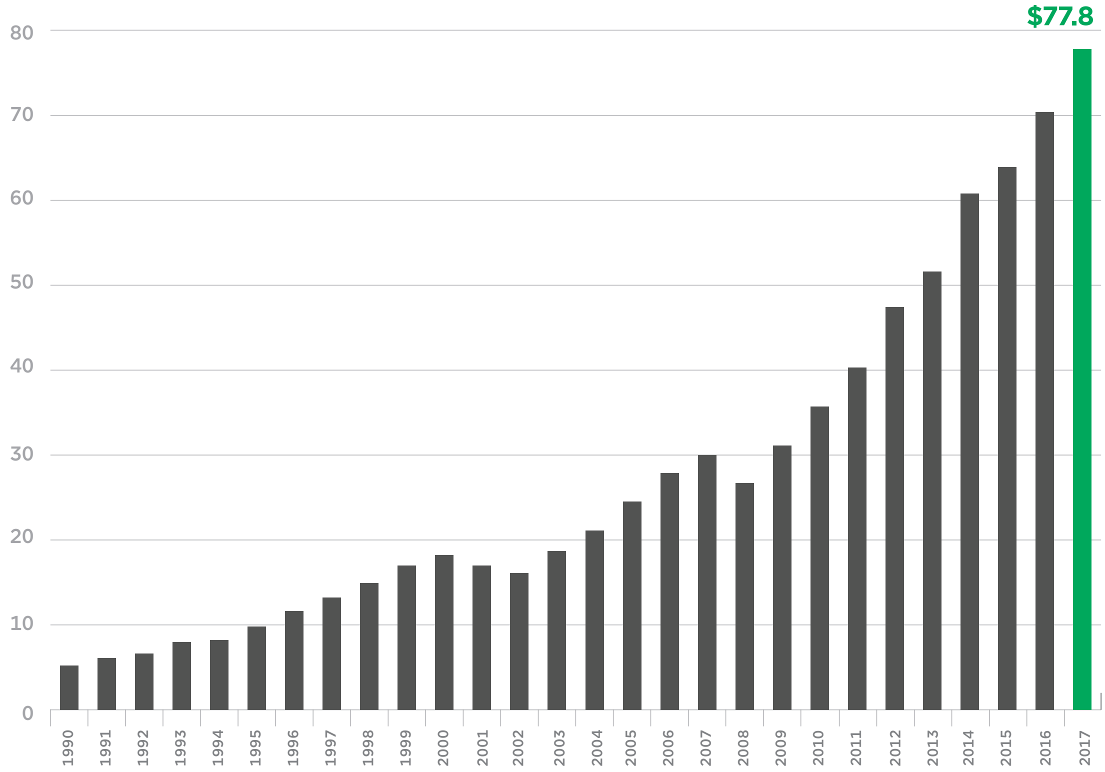
HOOPP's primary approach to reducing funding risk is to employ a Liability Driven Investment (LDI) strategy – one which closely considers the Plan's liabilities when investing the Fund's assets. This approach focuses on ensuring growth in the investment portfolio is sufficient to meet the growth in the retirement obligations owed to our members, and differs from more traditional investment approaches where success is based solely on asset growth meeting an asset based benchmark.

LDI at HOOPP involves allocating the Fund's assets between two broad portfolios: the Liability Hedge Portfolio and the Return Seeking Portfolio. The Liability Hedge Portfolio is designed to offset the major risks that can increase the pension benefits paid to our members – 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 provide diversification benefits for the entire portfolio and to generate incremental returns to the Fund to help ensure the Plan remains affordable.

The chart below shows the growth in HOOPP's net assets from $6.1 billion in 1990 to $77.8 billion at the end of 2017

Net Assets

($ billions)



2017 Results

The table below shows investment performance for 2017 and 2016 as well as the 10-year and 20-year performance of the Fund (Registered Pension Plan):

	2017	2016	10-Year	20-Year
Total Return	**10.88%**	10.35%	9.55%	9.01%
Benchmark*	**7.89%**	6.12%	7.32%	7.32%
Value-Added Return	**2.99%**	4.23%	2.22%	1.69%

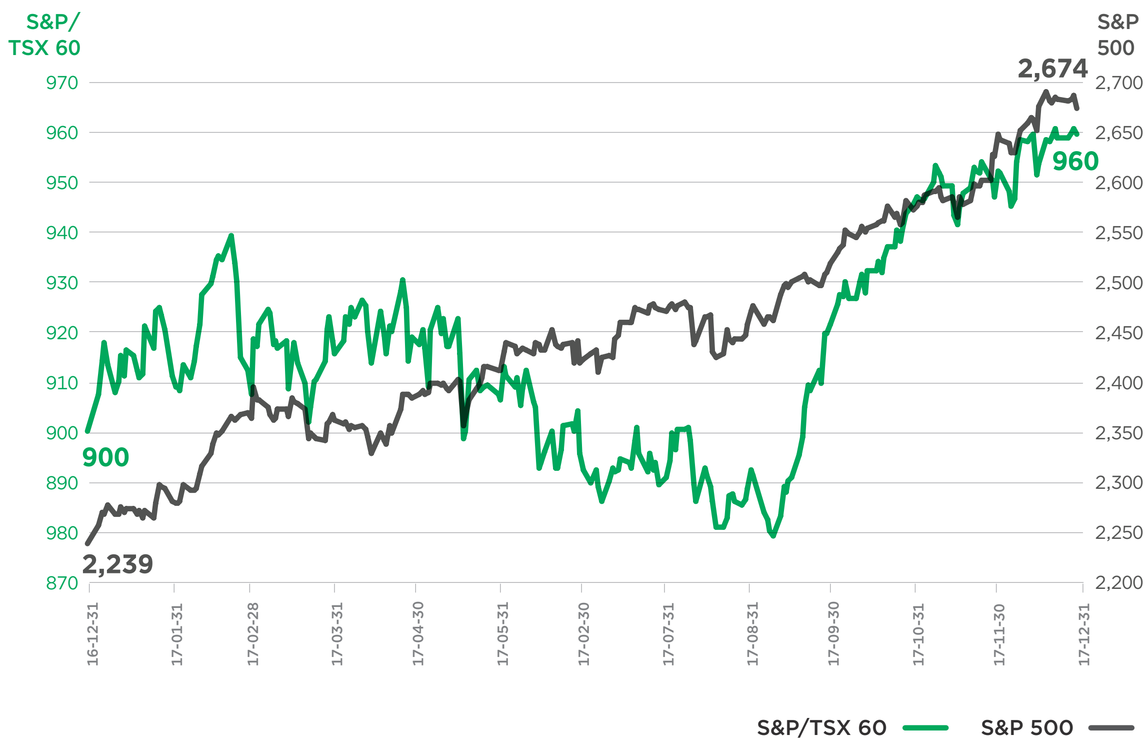
** Benchmarks are established to measure the performance of investment strategies relative to the risk taken. Some of these benchmarks are discussed below in the discussion of specific investment strategies.*

The following summarizes HOOPP's 2017 investment results:

- net investment income of $7.6 billion (compared to $6.6 billion in 2016);
- investment return of 10.88% (compared to 10.35% in 2016), of which 7.89% represented the benchmark return and 2.99% from active management strategies or value-added; and
- growth in net assets to $77.8 billion from $70.4 billion in 2016.

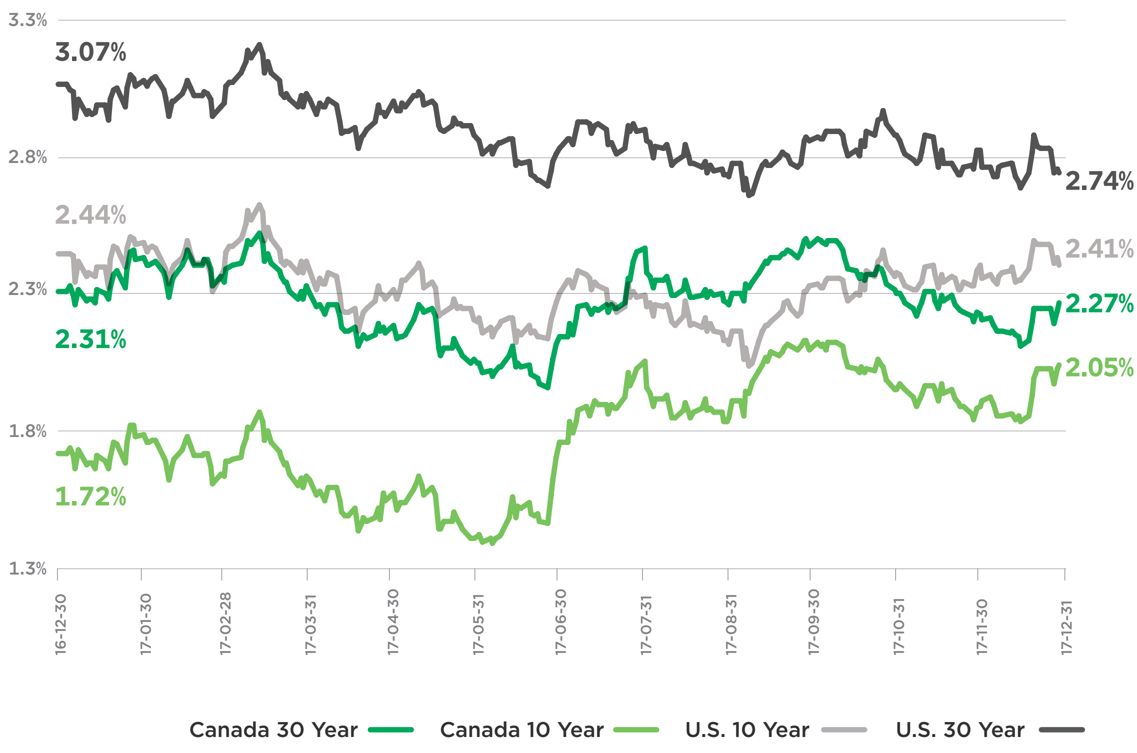
2017 Investment Environment

S&P/TSX 60 (CAN) vs S&P 500 (U.S.)



Global equity markets finished the year with positive returns during 2017. In Canada, the S&P/TSX 60 Index returned 9.8% on a total return basis (including dividends), while the U.S. S&P 500 Index provided a total return of 21.8%. Elsewhere, the MSCI EAFE Index (developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada) provided a total return of 25.7%, and the MSCI Emerging Markets Index returned 21.8% on a total return basis.

Canada & U.S. Interest Rates



In Canada, the 30-year Government of Canada yield ended the year at 2.27%, essentially flat year-over-year. The Government of Canada 10-year rate, however, exhibited somewhat more volatility and ended the year 31 basis points higher, rising to 2.05% from 1.72% at the end of 2016. In the U.S., the 30-year Treasury bond ended 2017 at 2.74%, down 33 basis points while the widely followed 10-year Treasury note ended the year at 2.41%, down 3 basis points from the end of 2016.

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)	2017 Change	2016 Change
Liability Hedge Portfolio		
Short-Term	**396**	347
Nominal Bonds	**2,271**	771
Real Return Bonds	**3**	538
Real Estate	**1,000**	824
Total Liability Hedge Portfolio	**3,670**	2,480
Return Seeking Portfolio		
Public Equities	**2,922**	2,320
Private Equity	**1,151**	714
Corporate Credit	**197**	217
Long-Term Option Strategy	**(496)**	90
Other Return Seeking Strategies	**154**	758
Total Return Seeking Portfolio	**3,928**	4,099
Changes due to Net Investment Income	**7,598**	6,579
Change due to Operations	**(202)**	(144)
Total Change in Net Assets	**7,396**	6,435
Change in Pension Obligation	**(5,141)**	(4,617)
Net Change in Surplus on a Net Asset Basis	**2,255**	1,818
Funded Ratio on a Net Asset Basis	**130%**	129%
Change in Smoothing Adjustment*	**(1,014)**	(12)
Regulatory Funded Ratio	**122%**	122%

* *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 (LHP) produced a return of $3,670 million in 2017, up from a return of $2,480 million in 2016 while the Return Seeking Portfolio (RSP) posted a gain of $3,928 in 2017, compared to $4,099 million in 2016. The LHP generated approximately 48% of the investment income in 2017 compared to 38% in 2016, while the RSP provided 52% of the Fund's investment income in 2017 compared to 62% in 2016. Details of the performance of individual strategies within the Liability Hedge Portfolio and the Return Seeking Portfolio follow in the subsequent sections.

Active Management and Relative Performance

The total Fund return of 10.88% exceeded the benchmark return of 7.89% by 2.99% or $2.0 billion. This active management return, or "value-added," came from a variety of sources during the year within both the Liability Hedge and Return Seeking Portfolios. The Liability Hedge Portfolio generated 1.39% of value-added, with a significant contribution coming from short-term, nominal bonds and real estate, while the Return Seeking Portfolio generated 1.60% of value-added with large contributions from private equity, credit and absolute return strategies.

	2017		2016	
	($ millions)	**Percent**	($ millions)	Percent
Value-Added				
Liability Hedge Portfolio	**942**	**1.39%**	1,565	2.47%
Return Seeking Portfolio	**1,089**	**1.60%**	1,118	1.76%
Total	**2,031**	**2.99%**	2,683	4.23%

Liability Hedge Portfolio Discussion

Short-Term and Cash

This portfolio provides general funding for investment strategies employed by the Fund and in 2017 generated returns of $396 million, compared with $347 million in 2016.

The portfolio consistently created value-added performance throughout the year. In an environment of narrowing credit spreads and two rate hikes by the Bank of Canada, HOOPP managed to take advantage of the opportunities that the markets presented.

Nominal Bonds: Mid-Term and Long-Term Bonds

The two aforementioned Bank of Canada interest rate hikes in the summer led to a 34 basis point increase in the average yield on the FTSE TMX All Government Universe Bond Index for 2017. The average yield of the index rose to 2.28% from 1.94%. A rally in 30-year U.S. Treasury bonds and LDI-type buying in Canada, however, led to an 18 basis point decrease in the average yield on the FTSE TMX All Government Long Term Bond Index. The average yield of that index fell to 2.76% from 2.94%.

The two ends of the yield curve went in opposite directions, leading to a considerable flattening of the term structure of interest rates. The Fund employs strategies that reflect our varying time horizon outlook on the direction of interest rates by extending or shortening the duration of the portfolio and by over- or under-weighting certain maturity segments of the portfolio depending on our outlook on the changing shape of the yield curve. Additionally, strategies may seek to capitalize on changing spread differentials between government fixed income products, such as over-weighting provincial bonds versus federal bonds. This portfolio created $106 million of value-added during the year employing these strategies.

Real Return Bonds (RRB)

Real interest rates rose 11 basis points in Canada in 2017. The average yield on the FTSE TMX Real Return Overall Index increased to 0.55% from 0.44% at the end of 2016. In the U.S., the real yield on 30-year Treasury Inflation Protected Securities (TIPS) actually declined 19 basis points, from nearly 1.00% to just under 0.80%. In other words, the Fund's TIPS holdings out-performed RRBs in 2017.

In terms of inflation breakevens, 30-year RRB breakevens declined about 12 basis points from approximately 1.81% to 1.69% while U.S. inflation breakevens on 30-year TIPS declined 8 bps, from 2.10% to 2.02%. This meant that assumed long term inflation expectations declined slightly more in Canada than in the U.S. in 2017.

Real Estate

In 2017 the HOOPP real estate portfolio produced a return of 11.86% on a currency hedged basis. This represents an outperformance of 5.04% relative to the Canadian Investment Property Databank (IPD) benchmark.

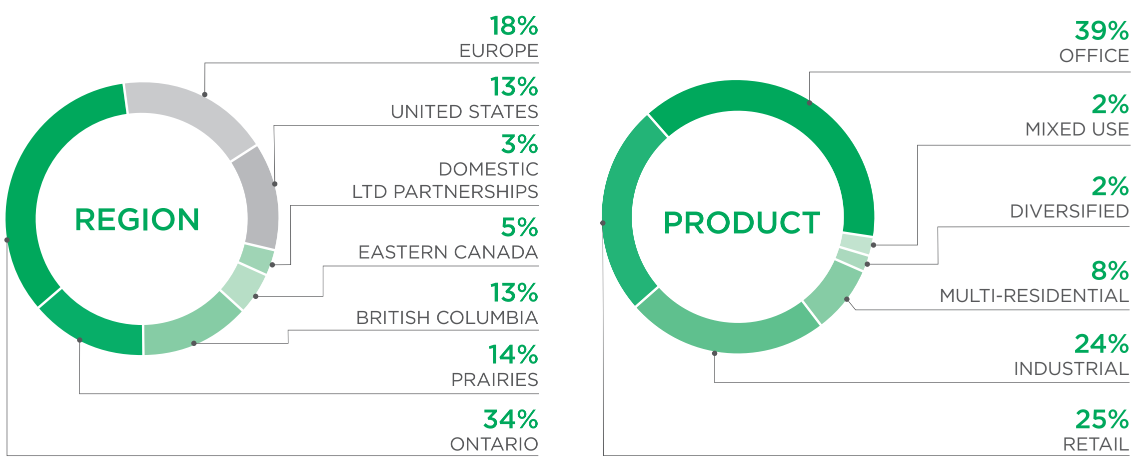
At year-end, the portfolio was valued at $13.4 billion on a gross market value basis (versus $11.5 billion at the end of 2016). A total of more than $1.7 billion in investments or investment commitments were made during the year, offset by just under $0.5 billion of selective property sales.

Major highlights of 2017 included:

- $700 million in property acquisitions, including the purchase of a 1.2 million square foot fully leased industrial property in the Greater Toronto Area, a 515 unit high rise residential project in Chicago, and an interest in a 1.7 million square foot mixed use redevelopment in downtown Los Angeles;
- commitments to new developments totaling $660 million, including a 370,000 square foot office development in central Vancouver, a 1.1 million square foot logistics warehouse for Amazon in Germany, and a 750,000 square foot build to suit industrial building for Mars Canada in the Greater Toronto Area which is slated to begin development in early 2018; and
- the commitment of $330 million to real estate investment funds globally.

The graphics below illustrate the global diversification and product mix of HOOPP's real estate portfolio.

Real Estate Asset Mix by Region & Product



Return Seeking Portfolio Discussion

Public Equities

Global stock markets were strong in 2017, with particular strength from indices in the Emerging Markets and the United States. The year was unusually steady, as many stock market indices rose consistently month by month through the year. Canadian stock market returns, while positive, were among the weakest of major markets in the world.

HOOPP's equity returns were generally in-line with the respective markets this year. We continued with our disciplined, fundamental and valuation-based approach to equities.

Canadian Equities

The price decline of Energy stocks is a significant factor behind the relatively soft returns from Canadian stocks in 2017. As oil prices rose later in the year, the Canadian energy sector regained some, but not all, of its annual losses.

HOOPP's Canadian equity portfolio generated 9.8% in 2017 (2016 21.4%).

U.S. Equities

The Technology sector was by far the strongest part of the U.S. stock market in 2017, with a full year price return of 36.9% for the S&P 500 Information Technology sector. In addition, 2017 was the fourth consecutive year in which the Technology sector outperformed the broader S&P 500 index.

HOOPP's U.S. equity portfolios returned 20.0% in 2017 (2016 9.1%).

Non-North American Equities

Emerging markets were very strong in 2017. Within the MSCI index, the price return for China was over 50%. Other strong equity markets within the MSCI Emerging Markets index were Korea and India, both with price increases of just under 30%. Developed markets in Asia were also strong. The MSCI price index for Hong Kong was up 33.3% and the comparable index for Singapore returned 21.0%. The MSCI price index for Europe posted a gain of 24.0%, while the similar index for the United Kingdom gained 7.3%, positive but moderate compared to other major markets.

The 2017 return for HOOPP's International equity portfolio was 14.4% (2016 7.2%).

Private Equity

HOOPP Capital Partners (HCP) invests globally in (i) privately-held businesses that offer the potential for equity or near equity returns; (ii) private equity funds; and (iii) other private capital opportunities such as private debt. HCP believes that private capital should continue to be an attractive focus for pension funds, offering an opportunity for skilled teams of investment professionals to generate, on a relative basis, strong risk-adjusted returns.

At the end of 2017, HCP had $7.0 billion invested, with a further $5.5 billion committed to private investments. The portfolio generated a currency-hedged return of 19.6% for the year compared to 15.0% in 2016 (the return on an unhedged basis was 18.2% compared to 13.1% in 2016), exceeding its benchmark by $803 million. HCP's invested capital has increased by over $5 billion in the past few years and now includes credit and structured investments with lower risk/return attributes.

The fair market value of the invested portfolio represents 9% of the total Fund, which provides scope for managed growth and for considering significant investment opportunities.

Corporate Credit

The Fund gains exposure to corporate credit via a combination of corporate bonds, structured products and derivatives. In 2017, credit spreads, like many other risk assets rallied to post crisis highs at year-end in anticipation of the proposed U.S. tax cuts and continued easy monetary policy. For example, the Barclay's Aggregate U.S. Credit Index Options Adjusted Spread for corporate bonds tightened from 118 basis points (bps) at the start of the year to 89 bps at year end and the 5-year maturity investment grade credit derivative index rallied from 67.7 bps at the start of the year to 49 bps at year-end.

The credit portfolios overall had a constructive performance for the year. Underperformance of Leverage Loans versus High Yield Bonds had a negative impact on performance, while the Canadian Credit & Less Liquid Assets portfolio and the Securitized Credit portfolio outperformed due to superior security selection and being directionally overweight. Overall, the credit portfolios generated value-added of approximately $61 million.

Long-Term Option Strategy

This strategy, in which equity index exposure is combined with equity index options, decreased in value by $496 million during the year, compared to a gain of $90 million in 2016.

Other Return Seeking Strategies

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. In 2017, this program generated a loss of -$28 million compared to a gain of $103 million in 2016. 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 contributed $158 million in investment income in 2017, compared to $503 million in 2016.

Responsible Investing

The integration of **E**nvironmental, **S**ocial and **G**overnance (**ESG**) factors is an essential component of the investment decision-making process at HOOPP. This integration provides a broader view of the risks and opportunities inherent in each investment. Greater details about our approach to responsible investing are available on our website, under the Responsible Investing section of www.hoopp.com.

We encourage positive change with respect to ESG matters through engagements with publicly traded companies. This process includes direct engagements with companies and collaborative engagements with other like-minded investors or via organizations such as the Canadian Coalition for Good Governance (CCGG).

The following are examples of direct ESG engagement efforts throughout the year:

- discussions with a number of companies on the subject of gender diversity; and
- a discussion on the health and safety record of a large energy company.

As responsible owners, we use our proxy votes to encourage better disclosure and management of ESG issues by companies in our portfolio. ESG issues can be complex, and both industry and individual company disclosure standards are evolving rapidly. Proxy items on these matters are voted after thorough case-by-case analysis.

Our Proxy Voting Guidelines are available on our website. We employ an external proxy advisor but actively review each issue internally and may override their recommendations. For example, in 2017 we voted against the advice of our proxy advisor on a number of director elections at a major U.S. financial institution. We may also vote against management on shareholder proposals, and we have voted against both management and our proxy advisor on say-on-pay resolutions.

HOOPP's real estate group applies responsible investment practices across its core processes – portfolio management, property acquisition, and development. Both the portfolio management team and its management company partners work in close collaboration on an annual sustainability program, directed by a longer term strategic plan.

The sustainability program consists of management tools, targets, key performance indicator (KPI) tracking, recognition and communications. Anchored by the Pillar Scorecard, which reports on the portfolio's annual progress and can be found online in our annual Sustainability Report, the program drives sustainability integration and performance. HOOPP Real Estate achieved the following responsible investing milestones in 2017:

- a renewed Real Estate Sustainability Policy that outlines commitments to sustainability leadership and influence in the real estate industry;
- our management company partners gathered at our LEED-Platinum certified office tower, One York, for the 2017 Leadership in Environmental Advancement Program (LEAP) Conference and Awards. Attendees heard from industry experts and were recognized for sustainability leadership and innovative practices; and
- a Global Real Estate Sustainability Benchmark (GRESB) 'Green Star' was achieved for the fifth consecutive year.

Plan Liabilities

The estimation 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 HOOPP's investment strategies.

Key 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 are based on the principle 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 benefits owed to plan members for each future year out over 80 years.

The valuation of these future pension benefits depends upon the financial assumption of the future expected return of our investment portfolio, also known as the discount rate (see more detailed discussion of the discount rate below). 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.

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*.

The total estimated plan liabilities or pension obligation as at December 31, 2017 and 2016 is presented below.

	2017	2016	% Change
($ millions)			
Pension Obligations	**59,602**	54,461	9.4%

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 the expected return of the Fund. Offsetting this growth are the pension benefits that were paid out during the year, which reduces the total pension obligation. Changes to members' benefits can also impact the pension obligation, as it did in late 2017, when the Board approved enhancements to benefits which resulted in an increase in the Plan's liabilities of $2,732 million.

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 2017, no changes were made to these assumptions in the determination of the Plan's pension obligation.

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 2017, the increase in the discount rate of 5 basis points from 5.45% to 5.50% resulted in a $432 million decrease in the estimated pension obligation.

The table below shows the change in the Plan's pension obligation from 2016 to 2017.

($ millions)	
Pension Obligation at December 31, 2016	**54,461**
Increases in benefits due to members	2,841
Benefit enhancements	2,732
Changes in assumptions	-
Change in discount rate (expected return)	(432)
Pension Obligation at December 31, 2017	**59,602**

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 driven to a significant extent by interest rates; that is, expected returns fall and rise with interest rates - their expected returns 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 the sensitivity of the Plan's pension obligations to changes in the discount rate was a primary reason for HOOPP's adoption of a Liability Driven Investment approach.

At the end of 2017, the discount rate was increased to 5.50% from 5.45% in 2016, as a small decline in long-term interest rates was offset by larger increases in shorter term rates.

	2017	2016
Inflation Rate	**2.00%**	2.00%
Real Discount Rate	**3.50%**	3.45%
Discount Rate	**5.50%**	5.45%

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

Change	Discount Rate	Pension Liability	Change as %
		($ millions)	
+1.00%	6.50%	51,953	(13%)
	5.50%	**59,602**	-
-1.00%	4.50%	69,267	16%

Operating Expenses

The Plan continues to make investments in technology and human capital to meet the rapid growth of the Fund over the past decade and to ensure we meet the continually evolving needs of our members.

HOOPP's 2017 operating expenses were $224 million, a $12 million or 5.7% increase over 2016 operating expenses of $212 million, and represent 0.29% of net assets (2016: 0.30%).

The table below shows 2017 and 2016 operating expenses in absolute amounts and expressed as a percentage of net assets.

($ millions)	2017	2016
Investment Expenses	**$ 132**	$ 134
Plan Administration	**92**	78
Total	**$ 224**	$ 212
Total Expenses as % of Net Assets	**0.29%**	0.30%

Member and Employer Services

Our Enhanced Administration System

In all aspects of our Member and Employer Services, from answering calls to collecting employment data to paying pensions, we continue to strive for excellence. In 2017, this commitment included in-depth preparation for the launch of our enhanced end-to-end pension administration system, which augments both the online experience and the service that we provide directly to members and employers. Overall, this new system allows more flexibility and control over Plan design, simplifies administration, and helps us deliver service in a more proactive and responsive way.

Our extensive pilot phase began with approximately 10,000 members and six employers, who took part on behalf of the entire population. We are grateful for the feedback provided by these early participants. Adopting a phased approach, we transitioned members and employers to the new system gradually throughout the year as we continued to learn and shape the new environment.

Following its full launch in early January 2018, our new system is now available to all of our members – which includes more than 339,000 active, retired, and deferred members – and our employers. Having reached this important milestone, we continue to calibrate and refine our procedures.

HOOPP Connect, our secure online site for members now provides members with enhanced features and functionality that they can use to update their information, view and print important documents, and send secure messages to HOOPP.

Benefit Improvements

The full launch of the system coincided with the design, approval, and implementation of benefit improvements by our Board of Trustees. These historic Plan improvements, which increased pensions and survivor benefits effective January 1, 2018, come at no increase in cost and no administrative changes for employers. Along with our contribution rates, which will hold steady until at least the end of 2019, and our most recent cost of living adjustments, these improvements are made possible as a result of HOOPP's strong funded position.

While we enjoy the advantages afforded by the financial good health of the Plan, we are keeping a close eye on costs. Our new pension administration technology positions HOOPP well for the future by lowering our operating costs in this area going forward. In this way, we are demonstrating our commitment to putting members first.

Our Commitment To Service Excellence

We are pleased to report that through these extensive changes, we continued to deliver excellent service. As shown in a quarterly survey conducted by an independent third party, a record high level of members and employers reported being satisfied with the accuracy, consistency, and timeliness of the service they receive from HOOPP. We are proud that we have been able to maintain the record high level of satisfaction that we first reached in 2015.

Personal interaction remains a top priority and a cornerstone of our commitment to excellent service. It is our pleasure to provide a service experience that helps members feel more secure

Our Members

97,332 Retired members

28,230 Deferred members

213,766 Active members

83% Of active members are female

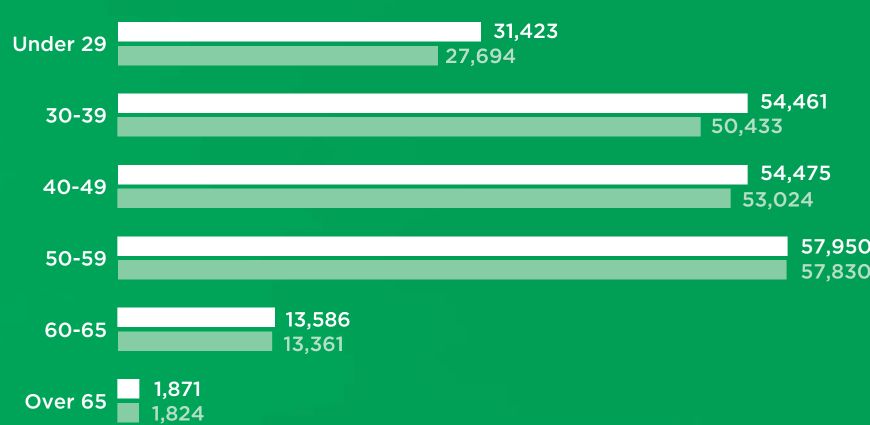
17% Of active members are male

34% Of active members work part-time

66% Of active members work full-time

Active members by age

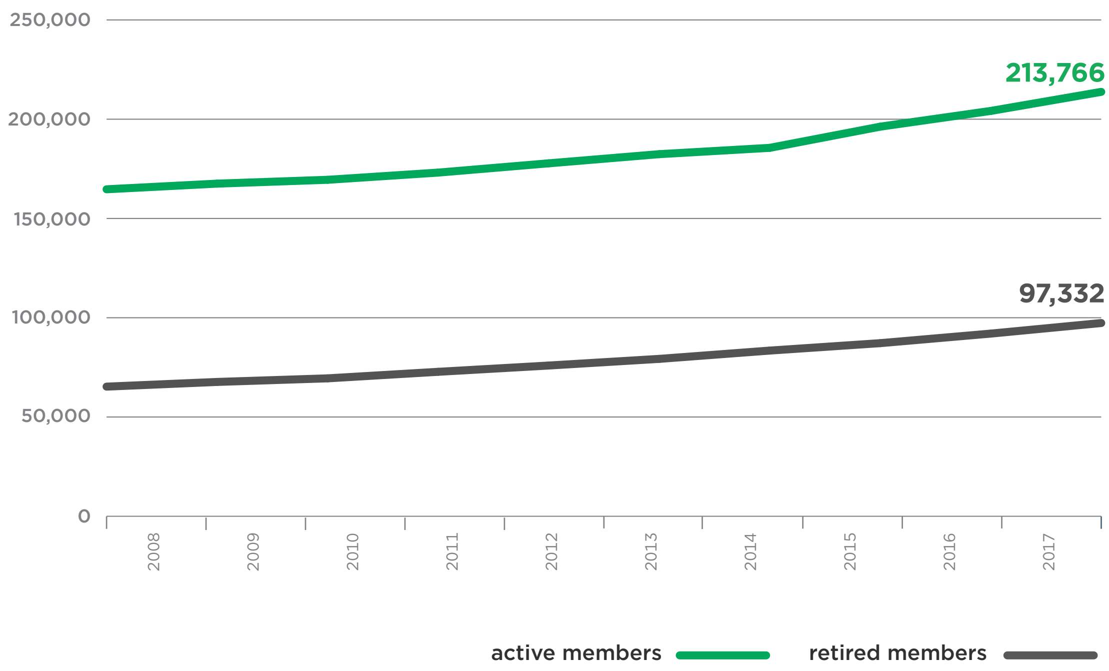
2017 2016



Average new unreduced annual pension

$25,300

Active and Retired Member Growth



and confident in their knowledge of their pension. In 2017, our team had more than 200,000 interactions with members through phone calls, emails, one-on-one information sessions, and walk-in meetings at our office.

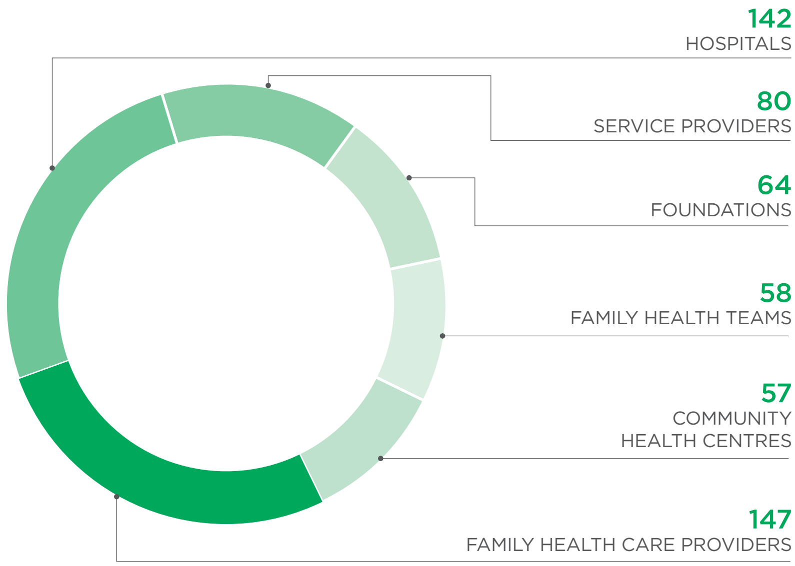
Our membership continues to reflect the ongoing evolution and diversity of Ontario's healthcare sector. In addition to registered nurses and registered practical nurses, it includes administrative staff and food and housekeeping services staff, home care professionals, physical therapists, and medical technicians, as well as many other occupations.

Our Employers

We now have 548 employers across the province that offer the HOOPP Plan to their employees. This includes hospitals and hospital foundations, small healthcare providers, community health centres, and family health teams and service providers. In the last five years, we have welcomed more than 100 employers, including the 49 employers who joined us in 2017.

Last year, the restructuring of Local Health Integration Networks (LHIN) in Ontario resulted in the amalgamation of several healthcare providers that are also HOOPP employers. Since HOOPP is a multi-employer plan, member pensions were not impacted by these changes; this clearly demonstrates one of the main advantages of the structure of our Plan.

Employer Breakdown



As part of our continuous improvement, we met with all our employers last year to collect valuable information to gain a better understanding of how they work with us. We used this information to help with the design of HOOPP Insight, our secure site for employers, and to build tools to help support the transition to our new system.

We are grateful for the early feedback we received from the six employers that took part in the pilot phase of our launch. Their contributions have been instrumental to its success. With this new system, employers can more easily manage and track administrative and member records, and they have more options for submitting data to HOOPP.

We look forward to continuing to work closely with our employers as they become familiar with our new system and processes. To help provide online support, we revamped our Learning Centre to create a one-stop shop for all Plan administration learning and knowledge. Ongoing support is also available from our Regional Managers and our Employer Services specialists.

We remain committed to making improvements to our current processes to simplify our employers' administration. In 2017, for example, we streamlined the buyback process, eliminating the need for employer involvement, and simplified the leave process.

Looking Ahead

We are expecting more growth in the years ahead as we continue to work with new employers that are interested in joining the Plan. We look forward to formally welcoming new employers and members to our broader membership as we continue to deliver on the HOOPP pension promise.

Plan Governance

Mission

HOOPP's governance is based on its mission to deliver on the pension promise. The Board and HOOPP's management administer the Plan and manage and invest the trust fund (the Fund) with a focus and dedication to meeting this mission in the best interests of HOOPP members. This shared focus and dedication is also consistent with the fiduciary duties owed to all Plan beneficiaries by HOOPP Trustees and staff.

Agreement & Declaration of Trust (ADT)

The foundation for the governance of the HOOPP Plan and Fund is the ADT: it is the trust document entered into by the OHA, Settlor Unions and initial Board members that, among other things, constitutes and empowers the Board.

The Board

The Board's composition and its Committee structure can be found on HOOPP's website at https://hoopp.com/about-hoopp/pension-leadership/hoopp-board-of-trustees. The mandates of the Board and each Committee set out their respective responsibilities and describe the roles and responsibilities of the Board Chair, Vice Chair and the four Committee Chairs. HOOPP also maintains processes and protocols to ensure the Board and its Committees have access to accurate, complete and timely information and documentation to enable them to make decisions and fulfill their responsibilities effectively and efficiently.

Delegations of Authority

Authority for the day-to-day administration of the Plan and management of the Fund is delegated by the Board to the Plan Manager, who holds the title "President & Chief Executive Officer" (CEO). This delegation is regularly reviewed. In turn, HOOPP's CEO also regularly reviews further delegations of authority to designated HOOPP roles for 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.

In addition, the roles, responsibilities and accountabilities of HOOPP's agents, advisors and other service providers are set out in HOOPP agreements with each party. The Board's key agents and advisors include the Plan actuary, auditors, custodian, independent legal counsel, investment advisors and compensation advisor.

Governance Review Processes

HOOPP's commitment to good governance involves a dedication to continuous improvement. This dedication is particularly important in relation to organizational change management. Good governance requires periodic reviews of an organization's structures, mandates, policies and its practices and procedures to determine whether they should be updated or changed. As HOOPP undergoes change, the Board and management both conduct such periodic reviews.

Risk Management

HOOPP has a number of risks it must manage well to achieve its objectives. The paramount risk that HOOPP must manage is "funding risk": the risk that Fund asset growth will be insufficient to cover Plan liabilities, resulting in unfunded liabilities. A failure to manage this risk well could prevent HOOPP from paying its promised pension benefits to its beneficiaries.

The other risks HOOPP must manage, while not of the same magnitude as funding risk, include entity-level and operational risks. HOOPP identifies, assesses and manages entity-level risks as part of its enterprise risk management (ERM) framework which, among other things, sets out the roles and responsibilities for risk identification, mitigation, reporting and oversight. Annually, HOOPP conducts an assessment of entity-level risks. The results of the assessment are presented to the Audit & Finance Committee and shared with all Board members and certain HOOPP staff.

To manage the risks impacting the Plan and the Fund, HOOPP maintains governance and risk management programs and processes, which include:

- programs and processes for managing the recruitment, retention, performance and development of HOOPP employees, its most 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 HOOPP's agents and advisors in helping to fulfill the commitment as well as the responsibilities and core values expected of HOOPP staff in the workplace;
- an efficient and effective Board and Committee reporting and decision-making process;
- robust "stress testing" tools custom designed 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 management and the Audit & Finance Committee with independent assurance relating to the effectiveness of operational controls;
- a Privacy Officer who works with other responsible HOOPP staff members to develop and maintain appropriate policies and procedures for the protection of members', pensioners' and employees' personal information;
- ongoing maintenance of records and data retention schedules in accordance with both Board – and organization – level policies; and
- 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.

Internal Controls over Financial Reporting

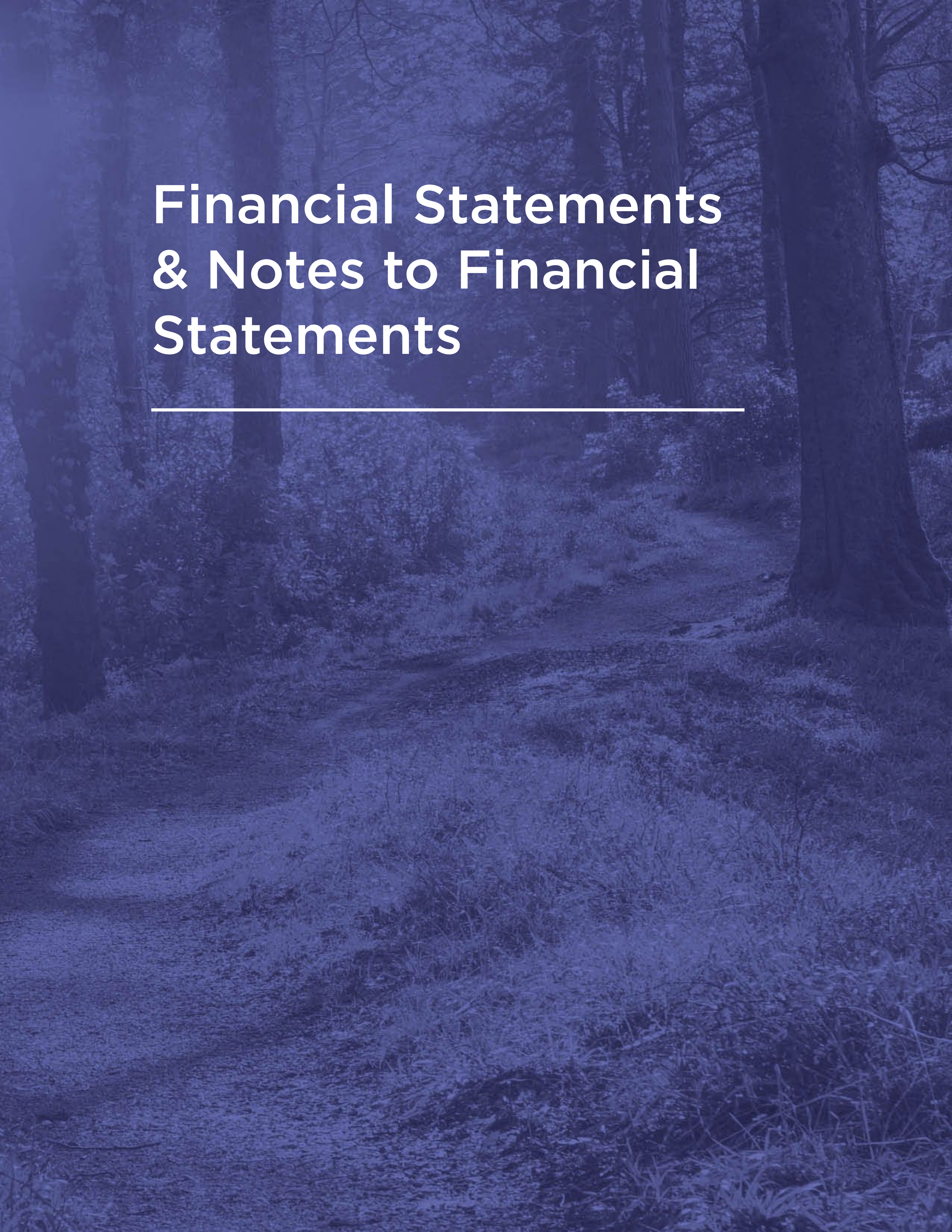
As part of HOOPP's commitment to good governance, HOOPP follows the standards outlined in National Instrument 52-109 published by the Canadian Securities Administrators for reporting issuers, though these rules and policies are not binding on HOOPP.

HOOPP's CEO and its Senior Vice-President and Chief Financial Officer are responsible for ensuring that procedures are in place to maintain appropriate internal controls 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 Committee of Sponsoring Organizations of the Treadway Commission (COSO) to conduct a comprehensive evaluation of its internal controls over financial reporting (ICFR).

The results of HOOPP's evaluation of the effectiveness of its ICFR confirm it is properly designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting as at December 31, 2017.

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 the Chartered Professional Accountants of Canada (CPA Canada) Handbook - Accounting 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 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 audits of the financial statements 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 7, 2018

Actuaries' Opinion

Towers Watson Canada Inc. (Towers Watson) was retained by the Board of Trustees of the Healthcare of Ontario Pension Plan (the Board) to perform an actuarial valuation of the Plan as at December 31, 2017. The purpose of this valuation is to determine pension obligations of the Plan as at December 31, 2017, 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 - Accounting.

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 $59,602 million in respect of service accrued to December 31, 2017 and a smoothed value of net assets of $72,803 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, 2017 and members' pay data provided as at December 31, 2016, all of which was projected to December 31, 2017, using management's estimates of experience for the intervening periods;
- the benefits specified by the terms of the Plan including the benefit improvements effective January 1, 2018, and the 100% of 2017 CPI adjustment (1.87%) which will become effective April 1, 2018 in respect of all pensioners' and deferred vested members' benefits; and
- assumptions about future events (for example, economic factors such as future rates of inflation and returns on the pension fund, as well as demographic factors) which were developed by Plan management in consultation with Towers Watson and have been adopted by Plan management and approved by the Board.

Changes have been made to the actuarial assumptions affecting the pension obligations since the previous valuation for the purpose of the Plan's financial statements at December 31, 2016, 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 7, 2018

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, 2017 and 2016 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, 2017 and 2016 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 7, 2018

Statements of Financial Position

As at December 31	2017	2016
($ millions)		
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investment assets (note 2)	**$ 178,310**	$ 163,789
Contributions receivable		
Employers	**93**	95
Members	**80**	76
Other assets (note 7)	**207**	205
Total assets	**178,690**	164,165
Liabilities		
Investment liabilities (note 2)	**100,803**	93,661
Other liabilities	**132**	145
Total liabilities	**100,935**	93,806
Net assets available for benefits	**77,755**	70,359
Pension obligations (note 11)	**59,602**	54,461
Surplus (note 11)	**$ 18,153**	$ 15,898

See Description of Plan and accompanying notes to financial statements.

ON BEHALF OF THE BOARD OF TRUSTEES

Bryce Walker
Chair of the Board

Dan Anderson
Vice Chair of the Board

Wayne Gladstone
Chair, Audit &
Finance Committee

Statements of Changes in Net Assets Available for Benefits

Year ended December 31 ($ millions)	2017	2016
Net assets available for benefits, beginning of year	**$ 70,359**	$ 63,924
Investment operations		
Net interest and dividend income (note 4a)	**5,945**	5,960
Net gain on investments (note 4a)	**1,653**	619
Operating expenses - investment (note 10)	**(132)**	(134)
Total investment operations	**7,466**	6,445
Plan operations		
Contributions (note 8)		
Employers	**1,224**	1,173
Members	**1,112**	1,022
Benefit payments (note 9)	**(2,205)**	(2,023)
Refunds and transfers (note 9)	**(109)**	(104)
Operating expenses - plan (note 10)	**(92)**	(78)
Total plan operations	**(70)**	(10)
Change in net assets available for benefits	**7,396**	6,435
Net assets available for benefits, end of year	**$ 77,755**	$ 70,359

See Description of Plan and accompanying notes to financial statements.

Statements of Changes in Pension Obligations

Year ended December 31 ($ millions)	2017	2016
Pension obligations, beginning of year	**$ 54,461**	$ 49,151
Changes in pension obligations		
Interest accrued on benefits	**2,973**	2,775
Benefits accrued	**2,441**	2,047
Amendments to the plan (note 11)	**2,853**	108
Changes in actuarial assumptions (note 11)	**(432)**	2,509
Estimated experience gains (note 11)	**(380)**	(2)
Benefits paid (note 9)	**(2,314)**	(2,127)
Total changes in pension obligations	**5,141**	5,310
Pension obligations, end of year	**$ 59,602**	$ 54,461

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. HOOPP is a Registered Pension Plan (RPP), which is generally exempt from income taxes for contributions and investment income earned.

The Board is responsible for administering the Plan in accordance with the PBA, the *Income Tax Act* (Canada) and *Regulations* (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 Canada Pension Plan benefits normally begin.

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, when they must begin to receive their pension.

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, an eligible disabled member may elect to continue to accrue service through a waiver of contributions at no cost until age 65 or until they have accrued 35 years of contributory service, whichever occurs first. Disabled members who may not be eligible for a disability pension may, instead, be eligible for a waiver of contributions.

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%.

Retirement Compensation Arrangement

In conjunction with its 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 ITA for RPPs. Additional information on the RCA is disclosed in note 13. Contributions 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. These financial statements have been prepared in accordance with Canadian accounting standards for pension plans and are compliant with the requirements of Part IV of the CPA Canada Handbook - Accounting, 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 - Accounting (referred to herein as the "Handbook").

The financial statements comply with the financial reporting requirements of the PBA and address certain disclosure requirements issued by FSCO in 2013 and amended in 2014. 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 generally 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, primarily pricing models, are used to estimate fair value. These pricing models are 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.

x. 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)

Net investment income (loss) generally consists of net interest and net 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 is recognized on an accrual basis and net dividend income is recognized on the ex-dividend date. Realized gains and losses on investments are recognized upon disposition and are calculated based on average cost. 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.

Management Fees and Performance Fees

Management fees and performance fees related to investments in real estate and private equity are expensed as incurred and reported as a component of net 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 net 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 practice 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.

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 amounts accrued and not yet 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 the Handbook. 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 short-term securities, securities purchased under resell agreements, securities sold under repurchase agreements, 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 2017 or 2016.

Investments that are classified as Level 3 include investments in real estate, private equity and special situations, commercial loans, 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.

	2017					
($ millions)	Level 1	Level 2	Level 3	No Level[1]	Total Fair Value	Total Cost
INVESTMENT ASSETS						
Cash	$ 21	$ -	$ -	$ -	**$ 21**	**$ 21**
Fixed income						
Short-term securities	-	3,011	-	-	**3,011**	**3,011**
Bonds						
Canadian	-	88,624	-	-	**88,624**	**85,734**
Non-Canadian	-	10,736	786	-	**11,522**	**10,858**
Commercial loans						
Canadian	-	-	-	-	**-**	**-**
Non-Canadian	-	-	20	-	**20**	**20**
Total fixed income	-	102,371	806	-	**103,177**	**99,623**
Securities purchased under resell agreements (note 5)	-	7,797	-	-	**7,797**	**7,860**
Public equities						
Canadian	267	-	603	-	**870**	**855**
Non-Canadian	35,449	7	-	-	**35,456**	**34,350**
Total public equities	35,716	7	603	-	**36,326**	**35,205**
Equity-oriented						
Real estate						
Canadian	-	-	8,808	-	**8,808**	**6,890**
Non-Canadian	-	-	3,144	-	**3,144**	**2,408**
Private equities and special situations						
Canadian	-	-	1,526	-	**1,526**	**627**
Non-Canadian	-	-	5,694	-	**5,694**	**4,555**
Total equity-oriented	-	-	19,172	-	**19,172**	**14,480**
Derivative instruments (note 3)	22	8,671	21	-	**8,714**	**2,222**
Investment receivables						
Cash collateral pledged (note 5)	1,911	-	-	-	**1,911**	**1,911**
Pending trades[1]	-	-	-	372	**372**	**372**
Accrued investment income[1]	-	-	-	820	**820**	**820**
Total investment receivables	1,911	-	-	1,192	**3,103**	**3,103**
Total investment assets	37,670	118,846	20,602	1,192	**178,310**	**162,514**
INVESTMENT LIABILITIES						
Equities sold short (note 5)	(22,231)	-	-	-	**(22,231)**	**(20,091)**
Bonds sold short (note 5)	-	(11,693)	-	-	**(11,693)**	**(12,113)**
Derivative instruments (note 3)	(13)	(22,094)	(10)	-	**(22,117)**	**(8,144)**
Securities sold under repurchase agreements (note 5)	-	(30,135)	-	-	**(30,135)**	**(30,426)**
Cash collateral received (note 5)	(13,592)	-	-	-	**(13,592)**	**(13,591)**
Pending trades[1]	-	-	-	(936)	**(936)**	**(941)**
Accrued investment liabilities[1]	-	-	-	(99)	**(99)**	**(99)**
Total investment liabilities	(35,836)	(63,922)	(10)	(1,035)	**(100,803)**	**(85,405)**
Net investments	**$ 1,834**	**$ 54,924**	**$ 20,592**	**$ 157**	**$ 77,507**	**$ 77,109**

[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
			2016			
INVESTMENT ASSETS						
Cash	$ 19	$ -	$ -	$ -	$ 19	$ 19
Fixed income						
Short-term securities	-	6,214	-	-	6,214	6,214
Bonds						
Canadian	-	96,036	-	-	96,036	91,903
Non-Canadian	-	11,548	863	-	12,411	11,527
Commercial loans						
Canadian	-	-	648	-	648	647
Non-Canadian	-	-	163	-	163	162
Total fixed income	-	113,798	1,674	-	115,472	110,453
Securities purchased under resell agreements (note 5)	-	6,283	-	-	6,283	6,267
Public equities						
Canadian	116	-	603	-	719	711
Non-Canadian	15,387	-	-	-	15,387	14,639
Total public equities	15,503	-	603	-	16,106	15,350
Equity-oriented						
Real estate						
Canadian	-	-	8,124	-	8,124	6,220
Non-Canadian	-	-	1,929	-	1,929	1,595
Private equities and special situations						
Canadian	-	-	1,409	-	1,409	666
Non-Canadian	-	-	3,560	-	3,560	3,153
Total equity-oriented	-	-	15,022	-	15,022	11,634
Derivative instruments (note 3)	8	7,176	68	-	7,252	1,935
Investment receivables						
Cash collateral pledged (note 5)	2,284	-	-	-	2,284	2,284
Pending trades[1]	-	-	-	311	311	310
Accrued investment income[1]	-	-	-	1,040	1,040	1,040
Total investment receivables	2,284	-	-	1,351	3,635	3,634
Total investment assets	17,814	127,257	17,367	1,351	163,789	149,292
INVESTMENT LIABILITIES						
Equities sold short (note 5)	(40,001)	-	-	-	(40,001)	(35,280)
Bonds sold short (note 5)	-	(9,620)	-	-	(9,620)	(9,994)
Derivative instruments (note 3)	(44)	(18,725)	(19)	-	(18,788)	(7,619)
Securities sold under repurchase agreements (note 5)	-	(22,386)	-	-	(22,386)	(22,278)
Cash collateral received (note 5)	(2,173)	-	-	-	(2,173)	(2,173)
Pending trades[1]	-	-	-	(550)	(550)	(551)
Accrued investment liabilities[1]	-	-	-	(143)	(143)	(143)
Total investment liabilities	(42,218)	(50,731)	(19)	(693)	(93,661)	(78,038)
Net investments	**$ (24,404)**	**$ 76,526**	**$ 17,348**	**$ 658**	**$ 70,128**	**$ 71,254**

[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 the Handbook, 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:

2017				
		Related Amounts Not Set Off in the Statements of Financial Position		
($ millions)	Gross Amounts of Financial Instruments Presented (note 2a)	Amounts Subject to Enforceable Master Netting Arrangements or Similar Agreements[1]	Cash and Securities Collateral Pledged (Received)[2]	Net Amount
Financial assets				
Securities purchased under resell agreements	$ 7,797	$ (7,097)	$ (445)	$ 255
Securities on loan[3]	19,711	-	(19,704)	7
Derivative instruments[4]	8,795	(7,125)	(1,658)	12
Total financial assets	**36,303**	**(14,222)**	**(21,807)**	**274**
Financial liabilities				
Securities sold under repurchase agreements	(30,135)	7,097	23,024	(14)
Derivative instruments[4]	(22,242)	7,125	14,969	(148)
Total financial liabilities	**$ (52,377)**	**$ 14,222**	**$ 37,993**	**$ (162)**

[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] *Included within fixed income and public equity investment assets in note 2a.*
[4] *Includes pending trade receivables and payables of $81 million and $125 million, respectively.*

2016				
		Related Amounts Not Set Off in the Statements of Financial Position		
($ millions)	Gross Amounts of Financial Instruments Presented (note 2a)	Amounts Subject to Enforceable Master Netting Arrangements or Similar Agreements[1]	Cash and Securities Collateral Pledged (Received)[2]	Net Amount
Financial assets				
Securities purchased under resell agreements	$ 6,283	$ (5,423)	$ (856)	$ 4
Securities on loan[3]	9,009	-	(9,002)	7
Derivative instruments[4]	7,310	(5,971)	(1,290)	49
Total financial assets	**22,602**	**(11,394)**	**(11,148)**	**60**
Financial liabilities				
Securities sold under repurchase agreements	(22,386)	5,423	16,963	-
Derivative instruments[4]	(18,828)	5,971	12,620	(237)
Total financial liabilities	**$ (41,214)**	**$ 11,394**	**$ 29,583**	**$ (237)**

[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] *Included within fixed income and public equity investment assets in note 2a.*
[4] *Includes pending trade receivables and payables of $58 million and $40 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, 2017.

2017 ($ millions)	Fair Value Dec. 31, 2016	Total Gains (Losses) Included in Net Income(1)	Purchases and Issues	Sales and Settlements	Transfers In(2)	Transfers Out(2)	Fair Value Dec. 31, 2017
Bonds							
Non-Canadian	$ 863	$ 13	$ -	$ (90)	$ -	$ -	**$ 786**
Public equities							
Canadian	603	-	-	-	-	-	**603**
Commercial loans							
Canadian	648	(1)	-	(647)	-	-	**-**
Non-Canadian	163	(1)	20	(162)	-	-	**20**
Real estate(3)							
Canadian	8,124	161	616	(93)	-	-	**8,808**
Non-Canadian	1,929	431	846	(62)	-	-	**3,144**
Private equities and special situations							
Canadian	1,409	221	109	(213)	-	-	**1,526**
Non-Canadian	3,560	796	2,171	(812)	-	(21)	**5,694**
Assets from derivative instruments	68	54	(39)	(57)	1	(6)	**21**
Liabilities from derivative instruments	(19)	1	(17)	27	(2)	-	**(10)**
Total	**$ 17,348**	**$ 1,675**	**$ 3,706**	**$ (2,109)**	**$ (1)**	**$ (27)**	**$ 20,592**

(1) For those investment assets and investment liabilities held at the end of the year, the total gains were $1,164 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 $310 million are netted in Purchases and Issues and mortgage debt repayments of $295 million are netted in Sales and Settlements.

2016 ($ millions)	Fair Value Dec. 31, 2015	Total Gains (Losses) Included in Net Income(1)	Purchases and Issues	Sales and Settlements	Transfers In(2)	Transfers Out(2)	Fair Value Dec. 31, 2016
Bonds							
Non-Canadian	$ 1,229	$ (39)	$ 2	$ (329)	$ -	$ -	**$ 863**
Public equities							
Canadian	607	(4)	-	-	-	-	**603**
Commercial loans							
Canadian	-	1	647	-	-	-	**648**
Non-Canadian	-	-	163	-	-	-	**163**
Real estate(3)							
Canadian	7,451	336	435	(98)	-	-	**8,124**
Non-Canadian	1,612	(94)	511	(100)	-	-	**1,929**
Private equities and special situations							
Canadian	1,314	214	17	(136)	-	-	**1,409**
Non-Canadian	3,025	334	929	(728)	-	-	**3,560**
Assets from derivative instruments	109	37	53	(131)	-	-	**68**
Liabilities from derivative instruments	(72)	(4)	(2)	59	-	-	**(19)**
Total	**$ 15,275**	**$ 781**	**$ 2,755**	**$ (1,463)**	**$ -**	**$ -**	**$ 17,348**

(1) For those investment assets and investment liabilities held at the end of the year, the total losses were $31 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 $236 million are netted in Purchases and Issues and mortgage debt repayments of $350 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 $770 million, as at December 31, 2017, are as follows:

	Maturity Date	Coupon Rate %	Fair Value	Cost Value
($ millions)				
Fixed income				
Canadian federal bonds	2019-2037	1.39-8.00	$ 8,870	$ 8,786
United States treasury bonds	2045	2.88-3.00	3,556	3,388
Canadian provincial and municipal bonds	2019-2048	2.80-11.00	13,251	13,416
Canadian real return bonds	2021-2047	0.75-4.55 *Plus CPI**	11,845	10,857
Public equities				
SPDR S&P 500 ETF Trust			$ 3,251	$ 2,861
iShares Russell 2000 ETF			2,072	2,094
Powershares QQQ Trust Series 1			1,635	1,626
Apple Inc.			1,004	966
Altaba Inc.			799	655
Other				
Private equity fund			$ 896	$ 18

** CPI - Canadian Consumer Price Index*

Note 3 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial contracts, the value of which is derived from changes in the 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, a basket of equities or bonds or index of equities or bonds. 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 purchaser for this right. HOOPP invests in interest rate options, swaptions, foreign currency options, equity options, and options on credit default swaps. Options are used to manage the exposures to market risks and to enhance returns.

Swaps

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

- Equity swaps are agreements between two parties to exchange a series of cash flows based on the return of an equity, a basket of equities or an equity index. One party typically agrees to pay a floating interest rate in return for receiving the equity return. HOOPP also invests in equity-based swaps such as variance, volatility, and dividend swaps. These 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.

a. Derivative notional and fair values

The following table summarizes the notional and fair values of the Plan's derivative positions.

	2017		
($ millions)	Notional Value[1]	Fair Value[2] Assets	Liabilities
Credit derivatives			
Credit default swap options	$ 12,420	$ 3	$ (4)
Credit default swaps[3]	15,372	40	(113)
Currency derivatives			
Forwards	9,515	32	(125)
Options	2,528	34	(11)
Swaps	11,824	229	(1,450)
Equity derivatives			
Futures contracts	6,117	15	(13)
Options	119,489	7,383	(18,113)
Swaps	86,915	506	(442)
Interest rate derivatives			
Futures contracts	1,156	2	-
Options	5,316	10	-
Swaps	28,256	348	(1,819)
Swaptions	10,649	112	(27)
Total	**$ 309,557**	**$ 8,714**	**$ (22,117)**

(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 $7,530 million and $13 million, respectively. These contracts mature between 2019 and 2024.

	2016		
($ millions)	Notional Value[1]	Fair Value[2] Assets	Liabilities
Credit derivatives			
Credit default swap options	$ 8,197	$ 5	$ (1)
Credit default swaps[3]	17,320	68	(98)
Currency derivatives			
Forwards	6,190	33	(10)
Options	1,767	29	(2)
Swaps	11,376	190	(2,092)
Equity derivatives			
Futures contracts	8,193	7	(42)
Options	103,597	5,574	(13,270)
Swaps	76,357	958	(414)
Interest rate derivatives			
Futures contracts	2,068	-	(2)
Options	308	-	-
Swaps	33,757	362	(2,855)
Swaptions	24,973	26	(2)
Total	**$ 294,103**	**$ 7,252**	**$ (18,788)**

(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 $9,350 million and $13 million, respectively. These contracts mature between 2017 and 2023.

b. Derivative notional values by term to maturity

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

	2017			
($ millions)	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Credit derivatives				
Credit default swap options	$ 12,420	$ -	$ -	**$ 12,420**
Credit default swaps	3,008	9,536	2,828	**15,372**
Currency derivatives				
Forwards	9,515	-	-	**9,515**
Options	1,183	905	440	**2,528**
Swaps	5,438	6,257	129	**11,824**
Equity derivatives				
Futures contracts	6,117	-	-	**6,117**
Options	59,107	55,511	4,871	**119,489**
Swaps	73,703	13,212	-	**86,915**
Interest rate derivatives				
Futures contracts	1,156	-	-	**1,156**
Options	-	5,316	-	**5,316**
Swaps	3,719	20,583	3,954	**28,256**
Swaptions	6,649	2,752	1,248	**10,649**
Total	**$ 182,015**	**$ 114,072**	**$ 13,470**	**$ 309,557**

	2016			
($ millions)	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Credit derivatives				
Credit default swap options	$ 8,197	$ -	$ -	$ 8,197
Credit default swaps	436	14,758	2,126	17,320
Currency derivatives				
Forwards	6,190	-	-	6,190
Options	1,027	269	471	1,767
Swaps	3,355	7,743	278	11,376
Equity derivatives				
Futures contracts	8,193	-	-	8,193
Options	46,473	54,660	2,464	103,597
Swaps	46,491	29,866	-	76,357
Interest rate derivatives				
Futures contracts	2,068	-	-	2,068
Options	-	-	308	308
Swaps	8,760	18,889	6,108	33,757
Swaptions	23,629	538	806	24,973
Total	**$ 154,819**	**$ 126,723**	**$ 12,561**	**$ 294,103**

Note 4 – NET INVESTMENT INCOME

a. Net investment income based on investment assets and investment liabilities

The Plan's net investment income for the year ended December 31, presented by investment assets and investment liabilities, is as follows:

	2017		
($ millions)	Net Interest and Dividend Income[(1)(2)]	Net Gain (Loss) on Investments[(3)]	Net Investment Income
Cash and pending trades	$ (8)	$ 223	$ 215
Fixed income			
Short-term securities	46	-	46
Net bonds			
Canadian	2,839	(730)	2,109
Non-Canadian	289	(21)	268
Commercial loans			
Canadian	77	(2)	75
Non-Canadian	3	(1)	2
Total fixed income	3,254	(754)	2,500
Net repurchase agreements	(160)	591	431
Net public equities			
Canadian	(427)	(436)	(863)
Non-Canadian	2,795	(1,672)	1,123
Total public equities	2,368	(2,108)	260
Equity-oriented			
Real estate			
Canadian	434	161	595
Non-Canadian	6	412	418
Private equities and special situations			
Canadian	42	221	263
Non-Canadian	9	798	807
Total equity-oriented	491	1,592	2,083
Derivative instruments	-	2,144	2,144
Total investment income	5,945	1,688	7,633
Transaction costs	-	(35)	(35)
Net investment income	**$ 5,945**	**$ 1,653**	**$ 7,598**

(1) Includes net operating income (loss) from investments in real estate and private equity.
(2) Includes management fees incurred on investments in real estate and private equity of $105 million.
(3) Includes realized gains from investments of $164 million and change in unrealized gains from investments of $1,524 million before allocating the effect of transaction costs.

($ millions)	2016 Net Interest and Dividend Income[1][2]	Net Gain (Loss) on Investments[3]	Net Investment Income
Cash and pending trades	$ 21	$ (27)	$ (6)
Fixed income			
Short-term securities	27	-	27
Net bonds			
Canadian	3,091	(1,759)	1,332
Non-Canadian	332	(90)	242
Commercial loans			
Canadian	4	1	5
Non-Canadian	1	-	1
Total fixed income	3,455	(1,848)	1,607
Net repurchase agreements	(106)	292	186
Net public equities			
Canadian	(900)	(5,422)	(6,322)
Non-Canadian	3,053	(4,770)	(1,717)
Total public equities	2,153	(10,192)	(8,039)
Equity-oriented			
Real estate			
Canadian	383	336	719
Non-Canadian	50	(94)	(44)
Private equities and special situations			
Canadian	39	214	253
Non-Canadian	(35)	334	299
Total equity-oriented	437	790	1,227
Derivative instruments	-	11,622	11,622
Total investment income	5,960	637	6,597
Transaction costs	-	(18)	(18)
Net investment income	**$ 5,960**	**$ 619**	**$ 6,579**

(1) *Includes net operating income (loss) from investments in real estate and private equity.*
(2) *Includes management fees incurred on investments in real estate and private equity of $101 million.*
(3) *Includes realized gains from investments of $3,465 million and change in unrealized losses from investments of $2,828 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)	2017	2016
Rental revenue	$ 884	$ 871
Property operating and other expenses	(404)	(390)
Operating income	480	481
Mortgage interest	(40)	(48)
Net real estate operating income	**$ 440**	**$ 433**

c. Net investment income based on investment strategies

The Plan's net investment income for the year ended December 31, presented by investment strategy, is as follows:

	2017		
($ millions)	Net Interest and Dividend Income[1]	Net Gain (Loss) on Investments	Net Investment Income
Liability hedge portfolio			
Short term	$ 967	$ (571)	$ 396
Nominal bonds			
Mid-term bonds	469	(147)	322
Long-term bonds	712	448	1,160
Transition strategy	264	525	789
Total nominal bonds	1,445	826	2,271
Real return bonds	92	(89)	3
Real estate	413	587	1,000
Total liability hedge portfolio	2,917	753	3,670
Return seeking portfolio			
Public equities			
Canadian equities	70	615	685
United States equities	75	1,309	1,384
International equities	(2)	855	853
Total public equities	143	2,779	2,922
Private equity	49	1,102	1,151
Corporate credit	234	(37)	197
Long-term option strategy	191	(687)	(496)
Other return seeking strategies			
Asset allocation strategies	-	(28)	(28)
Absolute return strategies	2,407	(2,249)	158
Foreign exchange hedges	-	15	15
Other	4	5	9
Total other return seeking strategies	2,411	(2,257)	154
Total return seeking portfolio	3,028	900	3,928
Net investment income	**$ 5,945**	**$ 1,653**	**$ 7,598**

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

($ millions)	2016 Net Interest and Dividend Income[1]	Net Gain (Loss) on Investments	Net Investment Income
Liability hedge portfolio			
Short term	$ 1,282	$ (935)	$ 347
Nominal bonds			
Mid-term bonds	440	(303)	137
Long-term bonds	629	(384)	245
Transition strategy	321	68	389
Total nominal bonds	1,390	(619)	771
Real return bonds	131	407	538
Real estate	404	420	824
Total liability hedge portfolio	3,207	(727)	2,480
Return seeking portfolio			
Public equities			
Canadian equities	59	1,297	1,356
United States equities	40	536	576
International equities	1	387	388
Total public equities	100	2,220	2,320
Private equity	21	693	714
Corporate credit	162	55	217
Long-term option strategy	188	(98)	90
Other return seeking strategies			
Asset allocation strategies	-	103	103
Absolute return strategies	2,278	(1,775)	503
Foreign exchange hedges	-	140	140
Other	4	8	12
Total other return seeking strategies	2,282	(1,524)	758
Total return seeking portfolio	2,753	1,346	4,099
Net investment income	**$ 5,960**	**$ 619**	**$ 6,579**

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

Note 5 – TRANSFERS OF FINANCIAL ASSETS

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.

For any collateral pledged, the counterparty has the right to re-pledge, loan or use it under repurchase agreements in the absence of default by the owner of the collateral.

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, 2017, the fair value of total collateral rehypothecated by the Plan is $1,101 million (2016: $1,945 million).

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:

($ millions)	2017 Repurchase Agreements	Securities Lending/Borrowing and Other Transfers	Derivatives
Fair value/carrying amount of financial assets transferred out[1]	$ -	$ 27,417	$ -
Fair value/carrying amount of collateral pledged[2]	30,369	40,244	16,535
Fair value/carrying amount of financial assets received[3]	-	(16,208)	-
Fair value/carrying amount of collateral received[4]	(7,632)	(16,251)	(1,745)
Fair value/carrying amount of associated receivables (note 2)	7,797	-	8,714
Fair value/carrying amount of associated liabilities[5]	(30,135)	(34,007)	(22,117)
Net position	**$ 399**	**$ 1,195**	**$ 1,387**

[1] Includes securities lent, both directly and through a third party, of $19,711 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 $7,706 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 $1,911 million. 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 $13,592 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 $83 million of accrued investment liabilities relating to investments sold short. Amounts for repurchase agreements and derivatives are presented in note 2.

($ millions)	2016 Repurchase Agreements	Securities Lending/Borrowing and Other Transfers	Derivatives
Fair value/carrying amount of financial assets transferred out[1]	$ -	$ 17,341	$ -
Fair value/carrying amount of collateral pledged[2]	22,526	45,799	14,173
Fair value/carrying amount of financial assets received[3]	-	(8,047)	-
Fair value/carrying amount of collateral received[4]	(6,224)	(4,267)	(1,613)
Fair value/carrying amount of associated receivables (note 2)	6,283	-	7,252
Fair value/carrying amount of associated liabilities[5]	(22,386)	(49,759)	(18,788)
Net position	**$ 199**	**$ 1,067**	**$ 1,024**

[1] Includes securities lent, both directly and through a third party, of $9,009 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 $8,332 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 $2,284 million. 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 $2,173 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 $138 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 investments — which HOOPP manages and measures in concert. The risk that the imbalance between the net investments and pension obligations becomes a deficit is referred to as funding risk.

The Plan's investments 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 investments 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 net investments 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 investments 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 A*greement and Declaration of Trust*, and the *Plan Text*.

The Board provides a framework for the investment of the Plan's investments 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 Division provides advice and recommendations to the Board about the investing of Plan investments 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 Division, 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 Asset Liability Management Committee oversees the management and investment of the Plan's investments 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.

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.

Funding Risk

The primary risk that HOOPP faces is funding risk - the risk that the Plan's net investment 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 investments or pension obligations, which may result in a mismatch between the Plan's net investments 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, 2017, the Plan had a surplus for financial statement purposes of $18,153 million (2016: $15,898 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, 2017, the Plan had a regulatory filing surplus of $13,201 million, compared to $11,960 million as at December 31, 2016 (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, 2016. 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 (including 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.

i. 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 rate 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.

			2017		
($ millions)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Short-term securities	$ 3,011	$ -	$ -	$ -	**$ 3,011**
Public equities - preferred shares	-	610	-	-	**610**
Canadian bonds[(1)(2)]					
Federal bonds	10,678	2,874	(916)	3,448	**16,084**
Provincial and municipal bonds	1,500	22,193	7,579	18,101	**49,373**
Real return bonds	-	958	1,507	8,612	**11,077**
Corporate bonds	4,501	50	171	136	**4,858**
Non-Canadian bonds[(1)(2)]	19	232	94	7,296	**7,641**
Canadian commercial loans	-	-	-	-	**-**
Non-Canadian commercial loans	-	-	20	-	**20**
Derivative instruments	11,361	(32,341)	(2,328)	189	**(23,119)**
Repurchase agreements	(22,338)	-	-	-	**(22,338)**
Total	**$ 8,732**	**$ (5,424)**	**$ 6,127**	**$ 37,782**	**$ 47,217**

(1) Net of Canadian bonds sold short of $7,770 million and non-Canadian bonds sold short of $3,923 million.
(2) Includes accrued interest of $538 million on Canadian bonds and $42 million on non-Canadian bonds.

			2016		
($ millions)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Short-term securities	$ 6,214	$ -	$ -	$ -	$ 6,214
Public equities - preferred shares	-	603	-	-	603
Canadian bonds[(1)(2)]					
Federal bonds	14,718	4,060	(1,627)	4,193	21,344
Provincial and municipal bonds	2,009	21,037	11,270	16,048	50,364
Real return bonds	-	992	1,496	8,117	10,605
Corporate bonds	6,438	285	282	115	7,120
Non-Canadian bonds[(1)(2)]	3,044	547	413	6,052	10,056
Canadian commercial loans[(3)]	161	490	-	-	651
Non-Canadian commercial loans[(3)]	-	164	-	-	164
Derivative instruments	(13,551)	(33,475)	(6,012)	223	(52,815)
Repurchase agreements	(16,103)	-	-	-	(16,103)
Total	**$ 2,930**	**$ (5,297)**	**$ 5,822**	**$ 34,748**	**$ 38,203**

(1) Net of Canadian bonds sold short of $7,207 million and non-Canadian bonds sold short of $2,412 million.
(2) Includes accrued interest of $604 million on Canadian bonds and $57 million on non-Canadian bonds.
(3) Includes accrued interest of $3 million on Canadian commercial loans and $1 million on non-Canadian commercial loans.

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, 2017, a 1% increase/decrease in interest rates would have decreased/increased the Plan's net assets available for benefits by $6,723 million (2016: $6,072 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 rate 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 obligations. 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.

ii. 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.

	2017			2016		
($ millions)	Local Currency	Canadian Dollar Equivalent	Impact of +/- 5% Change	Local Currency	Canadian Dollar Equivalent	Impact of +/- 5% Change
British Pounds	**163**	**277**	**14/(14)**	(63)	(104)	(5)/5
Danish Kroner	**(1,417)**	**(287)**	**(14)/14**	-	-	–
Euros	**310**	**465**	**23/(23)**	1,056	1,494	75/(75)
Japanese Yen	**3,302**	**37**	**2/(2)**	165,494	1,902	95/(95)
United States Dollars	**(17)**	**(21)**	**(1)/1**	(1,995)	(2,682)	(134)/134

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, 2017, a strengthening/weakening 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 $4.7 million (2016: decrease/increase of approximately $6.1 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.

iii. 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-based price risk of $3,370 million (2016: $2,249 million) through its investments in indices that are proprietary to other financial institutions and through dividend derivatives. The 1% increase/decrease in the indices and dividends would have resulted in an increase/decrease in the Plan's net assets available for benefits of $34 million (2016: $22 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.

		2017			
($ millions)		Effective Equity Exposure	% of Net Assets Available for Benefits	Benchmark	Impact of a 10% Increase/ (Decrease)
Canadian	$	7,497	9.7%	S&P/TSX 60 Total Return Index	750/(750)
United States					
Equities		8,393		S&P 500 Total Return Index	839/(839)
Long option strategy		(62)		S&P 500 Futures with 10-Year Options	413/517
		8,331	10.7%		1,252/(322)
International		6,385	8.2%	Blend of International Indices[1]	639/(639)
	$	**22,213**			**2,641/(1,711)**

[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.*

		2016			
($ millions)		Effective Equity Exposure	% of Net Assets Available for Benefits	Benchmark	Impact of a 10% Increase/ (Decrease)
Canadian	$	6,964	9.9%	S&P/TSX 60 Total Return Index	696/(696)
United States					
Equities		7,359		S&P 500 Total Return Index	736/(736)
Long option strategy		(621)		S&P 500 Futures with 10-Year Options	66/312
		6,738	9.6%		802/(424)
International		6,255	8.9%	Blend of International Indices[1]	626/(626)
	$	**19,957**			**2,124/(1,746)**

[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, 2017, a 1% increase/decrease in equity markets would have resulted in an increase/decrease in the Plan's net assets available for benefits of $215 million (2016: $200 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 fulfill 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 lent/borrowed, 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:

($ millions)	2017 Total Credit Exposure	2017 % of Total	2016 Total Credit Exposure	2016 % of Total
Sovereign securities AAA[1]	$ 20,500	17.3%	$ 23,428	20.0%
Fixed income instruments				
AAA	15,124	12.7%	19,315	16.5%
AA	20,514	17.3%	10,985	9.4%
A	33,148	27.9%	47,872	41.0%
BBB	1,311	1.1%	1,833	1.6%
BB or below	1,072	0.9%	1,632	1.4%
Credit derivatives	8,088	6.8%	4,451	3.8%
Counterparty credit risk exposure				
Derivatives	1,671	1.4%	1,338	1.1%
Repurchase agreements	882	0.7%	1,055	0.9%
Securities lending program	16,408	13.9%	4,978	4.3%
Maximum credit risk exposure	**118,718**	**100%**	**116,887**	**100%**
Credit risk protection (credit derivatives)	(8,706)		(4,299)	
Collateral received	(15,441)		(4,323)	
Total	**$ 94,571**		**$ 108,265**	

[1] As at December 31, 2017, includes securities issued by the governments of Canada, Germany, and the United States (2016: 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.

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 for liquidity, factors such as market value, collateral pledged and received, securities purchased under resell agreements and securities sold under repurchase agreements, and securities lending and borrowing positions are considered. The potential margin call is based on the Plan's exposure to various derivatives and their potential daily market movement.

In addition, consideration is given to the Plan's financial liabilities, which 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).

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 converted to cash, 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.

The Plan's assets available for liquidity needs, as at December 31 are as follows:

($ millions)	2017	2016
Liquid fixed income investments and securities[1]	**$ 78,318**	$ 86,080
Less: net liquid fixed income investments and securities transferred[2]	**(63,843)**	(65,499)
Fixed income investments and securities available for liquidity needs	**$ 14,475**	**$ 20,581**

[1] *Includes sovereign bonds of Canada, USA, Germany, France, and the UK, bonds issued by provinces of Canada, Canadian mortgage bonds, and supranational bonds.*

[2] *Includes securities purchased under resell agreements and securities sold under repurchase agreements, bonds lent and borrowed, collateral pledged and received.*

Note 7 – OTHER ASSETS

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

($ millions)	2017	2016
Refundable withholding tax on contributions	**$ 137**	$ 141
Fixed assets	**58**	52
Other	**12**	12
Total	**$ 207**	**$ 205**

Note 8 – CONTRIBUTIONS

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 any overpayments are refunded or credited towards future remittances.

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

($ millions)	2017	2016
Employers		
Current service contributions	**$ 1,224**	$ 1,173
Members		
Current service contributions	**971**	931
Past service contributions from members	**25**	39
Transfers from other plans	**116**	52
	1,112	1,022
Total	**$ 2,336**	**$ 2,195**

Note 9 – BENEFITS

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

($ millions)	2017	2016
Benefit payments		
Retirement pension and bridge benefits[1]	**$ 1,823**	$ 1,678
Commuted value transfers and death benefits	**382**	345
	2,205	2,023
Refunds and transfers		
Refunds	**85**	77
Transfers to other plans	**24**	27
	109	104
Total	**$ 2,314**	**$ 2,127**

[1] *Includes disability payments of $80 million (2016: $81 million).*

Note 10 – OPERATING EXPENSES

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

($ millions)	2017	2016
Investment[1]		
Administration	**$ 124**	$ 125
Legal, actuarial and other professional fees[2]	**5**	6
Custodial	**3**	3
	132	134
Plan[1]		
Administration	**84**	71
Legal, actuarial and other professional fees[2]	**8**	7
	92	78
Total	**$ 224**	**$ 212**

[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 $1,142,000 (2016: $1,061,300), and non-audit services of $169,000 (2016: $328,750). Also includes amounts paid or payable to the actuary pertaining to actuarial services of $700,000 (2016: $460,000).*

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, 2017 actuarial valuation, the Board approved an increase to the discount rate as indicated below.

To determine the pension obligations as at December 31, 2017, and December 31, 2016, 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:

	2017[3]	2016[3]
Discount rate[1]	**5.50%**	5.45%
Rate of price inflation	**2.00%**	2.00%
Real discount rate	**3.50%**	3.45%
Salary escalation rate[2]	**3.50%**	3.50%

(1) *Net of allowance for investment expenses of 0.25% (2016: 0.25%).*

(2) *For 2017, a two-tiered rate of 3.20% per annum for the first year following the valuation date and 3.50% thereafter is assumed (2016: a two-tiered rate of 3.20% per annum for the first two years following the valuation date and 3.50% thereafter was assumed).*

(3) *For 2017, impact from change to the discount rate was an actuarial gain of $432 million (2016: Impact from change to the discount rate was an actuarial loss of $1,509 million).*

The pension obligations as of December 31, 2016 includes additional liabilities of $1,000 million assuming future commuted value (CV) calculations will reflect full inflation protection for all service. The CV calculations and the degree of inflation protection provided reflects current administrative practice although HOOPP may elect to change this practice in future. The total impact of assumption changes for 2016 (discount rate and assumed inflation protection reflected in CVs) resulted in an actuarial loss of $2,509 million. The pension obligations at December 31, 2017 continue to include an allowance for full inflation protection in the CVs.

Actuarial Methodology for Financial Reporting

For the determination of the actuarial present value of the pension obligations as at December 31, 2017, 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, 2017 and members' pay data provided as at December 31, 2016, all of which were projected to December 31, 2017 using management's estimates of experience for the intervening periods. The pensionable earnings estimates were determined based on 2016 experience and estimate assumptions.

Using this method and data, the pension obligations (or going concern actuarial pension obligations) as at December 31, 2017, were $59,602 million (2016: $54,461 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 2017, there was an estimated experience gain of $380 million (2016: gain of $2 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 2016, the Board confirmed 100% of the 2016 CPI increase as an ad hoc increase effective April 1, 2017. As at December 31, 2016, the additional impact to the pension obligations for this ad hoc inflation protection adjustment is $108 million. Also included in the pension obligations at December 31, 2016 is the ad hoc CPI inflation increase at 75% of CPI, intended to be granted effective April 1, 2018, which the Board approved in 2012. During 2017, the Board confirmed 100% of the 2017 CPI increase as an ad hoc increase effective April 1, 2018. As at December 31, 2017, the additional impact to the pension obligations for this ad hoc inflation protection adjustment is $121 million.

The Board also approved certain improvements to the Plan provisions effective January 1, 2018, as follows:

- increase to the benefit formula accrual rate in respect of member's service prior to January 1, 2018;
- increase to the YMPE averaging period; and
- increase in the pension payable to a member's spouse, upon the death of a member after retirement.

The combined impact of these improvements as of December 31, 2017 based on assumptions as of December 31, 2016 was an actuarial loss of $2,732 million.

Surplus

According to the Handbook, 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, 2017, was $18,153 million (2016: $15,898 million).

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, 2017, was $13,201 million (2016: $11,960 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 $4,952 million at December 31, 2017 (2016: $3,938 million).

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

($ millions)	2017	2016
Surplus for financial statement purposes	**$ 18,153**	$ 15,898
Regulatory filing surplus	**13,201**	11,960
Difference	**$ 4,952**	$ 3,938

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, 2016, and a copy of that valuation was filed with FSCO and CRA. The effective date of the next required valuation is December 31, 2019.

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.

Towers Watson Canada Inc., in consultation with management, recommended the actuarial assumptions to be used for the regulatory filing valuation. The economic assumptions used for the December 31, 2016 regulatory filing valuation were as follows:

Economic Assumptions	Rates
Discount rate(1)	**5.45%**
Rate of price inflation	**2.00%**
Real discount rate	**3.45%**
Salary escalation rate(2)	**3.50%**

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

(2) *A two-tiered rate of 3.20% per annum for the first two years following the valuation date and 3.50% thereafter is assumed.*

The most recent regulatory filing valuation conducted as at December 31, 2016, disclosed a smoothed value of net assets of $66,421 million with accrued going concern pension obligations of $54,461 million, resulting in a going concern regulatory filing surplus of $11,960 million. In accordance with the PBA, the solvency deficiency at December 31, 2016, 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, 2017 was $272 million (2016: $287 million).

Note 14 – RELATED PARTY TRANSACTIONS – LEASE COMMITMENT

As at December 31, 2017, a wholly-owned subsidiary of the Plan held a significant ownership interest in a commercial office building. 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 is also a tenant in this office building. The term of its lease is 15 years with two renewal options, each for 5 years. The future minimum lease payments by year, and in aggregate, are as follows:

($ millions)	Minimum Lease Payments
2018	$ 6
2019	6
2020	6
2021	6
2022	6
Thereafter	90
Total mininum lease payments	**$ 120**

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, 2017, these commitments totalled $1,619 million related to real estate investments and $6,264 million related to private equity investments (2016: $1,889 million and $4,748 million, respectively). 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 by the Plan are disclosed in note 3. The nature of any assets held as collateral is disclosed in note 5.

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, 2017, the amount recorded as a liability for claims under these arrangements was $nil (2016: $nil).

Contingencies

As at December 31, 2017, 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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
($ millions)										
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS										
Net assets available for benefits, beginning of year	**$ 70,359**	$ 63,924	$ 60,848	$ 51,626	$ 47,414	$ 40,321	$ 35,717	$ 31,116	$ 26,732	$ 30,002
Change in net assets available for benefits										
Net investment income (loss)	**7,598**	6,579	3,103	9,105	4,046	6,857	4,327	4,245	4,040	(3,591)
Contributions										
Employers	**1,224**	1,173	1,108	1,075	1,033	1,003	954	921	890	840
Members	**1,112**	1,022	991	929	880	860	797	793	744	713
Benefit payments	**(2,314)**	(2,127)	(1,925)	(1,702)	(1,587)	(1,486)	(1,335)	(1,229)	(1,159)	(1,143)
Operating expenses	**(224)**	(212)	(201)	(185)	(160)	(141)	(139)	(129)	(131)	(89)
Total change in net assets available for benefits	**7,396**	6,435	3,076	9,222	4,212	7,093	4,604	4,601	4,384	(3,270)
Net assets available for benefits, end of year	**$ 77,755**	$ 70,359	$ 63,924	$ 60,848	$ 51,626	$ 47,414	$ 40,321	$ 35,717	$ 31,116	$ 26,732
NET ASSETS AVAILABLE FOR BENEFITS										
Assets										
Investment assets										
Cash	**$ 21**	$ 19	$ 57	$ 2	$ 8	$ (1)	$ 3	$ 14	$ -	$ 35
Fixed income	**103,177**	115,472	115,930	106,200	86,694	74,669	71,241	60,322	49,121	46,125
Public equities	**36,326**	16,106	9,150	2,182	4,596	1,705	931	773	889	1,904
Equity-oriented	**19,172**	15,022	13,402	10,992	9,588	7,853	6,896	5,941	5,040	4,836
Securities purchased under resell agreements	**7,797**	6,283	2,498	3,286	3,046	3,117	3,188	1,134	336	-
Derivative instruments	**8,714**	7,252	5,236	5,808	5,053	1,624	3,041	1,831	1,019	1,754
Investment receivables	**3,103**	3,635	1,063	934	1,438	1,276	1,538	1,322	1,566	1,333
Contributions receivable	**173**	171	156	156	150	150	142	135	133	124
Other assets	**207**	205	165	151	146	150	148	142	142	148
Total assets	**178,690**	164,165	147,657	129,711	110,719	90,543	87,128	71,614	58,246	56,259
Liabilities										
Investment liabilities	**(100,803)**	(93,661)	(83,616)	(68,753)	(58,999)	(43,046)	(46,722)	(35,825)	(27,071)	(29,502)
Other liabilities	**(132)**	(145)	(117)	(110)	(94)	(83)	(85)	(72)	(59)	(25)
Total liabilities	**(100,935)**	(93,806)	(83,733)	(68,863)	(59,093)	(43,129)	(46,807)	(35,897)	(27,130)	(29,527)
Net assets available for benefits	**77,755**	70,359	63,924	60,848	51,626	47,414	40,321	35,717	31,116	26,732
Pension obligations	**59,602**	54,461	49,151	46,923	41,478	39,919	36,782	34,897	32,020	31,244
Surplus (deficit)	**$ 18,153**	$ 15,898	$ 14,773	$ 13,925	$ 10,148	$ 7,495	$ 3,539	$ 820	$ (904)	$ (4,512)
Investment Performance										
Investment rate of return-net	**10.88%**	10.35%	5.12%	17.72%	8.55%	17.10%	12.19%	13.68%	15.18%	-11.96%
Benchmark return	**7.89%**	6.12%	3.95%	15.62%	6.46%	14.29%	9.87%	10.31%	9.77%	-8.98%
Long-term return target	**6.04%**	5.94%	6.04%	6.93%	6.34%	6.50%	6.50%	6.63%	6.50%	6.50%

Governance

Front row (left to right): Anthony Dale, Barry Wainstein **Back row (left to right):** Marie Kelly, Linda Haslam-Stroud, James Sanders, Jim Flett, Jon Clark, R. Wayne Gladstone, Dan Anderson, Bryce Walker, Marlene Puffer, Louis Rodrigues, Gerry Rocchi, Terry McCarthy, Adrian Foster, Sharon Richer, Sandi Blancher

In 1993, HOOPP's five Settlor organizations signed an Agreement & 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

Led 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.

Reno Bugiardini

Victoria S. Hubbell

Steven McCormick

David L. Miller

Barbara Thomson

Jeff Wendling

CHAIRS

Bryce Walker

2017 Chair
Former Chair, Board of Directors, Grand River Hospital

Dan Anderson

2017 Vice Chair

Retired Director and Chief Negotiator, Ontario Nurses' Association (ONA)

TRUSTEES

Sandi Blancher

Vice President, OPSEU Local 109

Jon Clark

SEIU Healthcare

Anthony Dale

President & CEO, Ontario Hospital Association

Jim Flett

Retired President & CEO, Kingston General Hospital

Adrian Foster

OHA – appointed Trustee

R. Wayne Gladstone

Past Board Chair, Central East LHIN

Linda Haslam-Stroud

President, Ontario Nurses' Association (ONA)

Terry McCarthy

Chief Negotiator, SEIU Healthcare

Marlene Puffer

Partner, Alignvest Investment Management

Sharon Richer

Secretary/Treasurer, OCHU

Gerry Rocchi

OHA – appointed Trustee

Louis Rodrigues

First Vice President, Ontario Council of Hospital Unions (OCHU)

James Sanders

OPSEU Trustee

Barry Wainstein

Retired Vice-Chairman and Deputy Head, Global Capital Markets, Scotiabank

PENSION OBSERVERS

Marie Kelly

Chief Executive Officer/ Chief Administrative Officer, Ontario Nurses' Association (ONA)

EXECUTIVES

Jim Keohane

President & Chief Executive Officer

Reno Bugiardini

Senior Vice President, Information Technology & Facilities Services

Victoria S. Hubbell

Senior Vice President, Strategy & Stakeholder Relations

Steven McCormick

Senior Vice President, Plan Operations

David L. Miller

General Counsel & Senior Vice President, Governance

Barbara Thomson

Senior Vice President, Finance & Chief Financial Officer

Jeff Wendling

Senior Vice President & Chief Investment Officer, Equity Investments

SENIOR MANAGEMENT

Paul Kirk

Vice President, Short Term & Foreign Exchange Trading

Jeff Rabb

Vice President, Investment Reporting, Valuation & Risk

Nan Samaroo

Vice President, Investment Operations

Stephen Taylor

Vice President, Real Estate

Silvano Trinca

Vice President, Plan Operations

Jim Walker

Managing Partner, HOOPP Capital Partners

Vince Zambrano

Vice President, Public Equities

Ivana Zanardo

Vice President, Plan Operations

ADVISORS

Willis Towers Watson Canada Inc.

Actuary

PricewaterhouseCoopers LLP

External Auditor

Osler, Hoskin & Harcourt LLP

Board Legal Counsel

Eric Kirzner, Bill Moriarty

Investment Advisors

Korn Ferry Hay Group

Board Compensation Advisor

HOOPP
Healthcare of Ontario Pension Plan

The HOOPP 2017 Annual Report was produced by the Healthcare of Ontario Pension Plan.

1 York Street, Suite 1900
Toronto, ON M5J 0B6

AR-01