



TEACHERS'
PENSION PLAN

2013 Report
to Members



There are teachers working in Ontario **TODAY** who will be collecting their pensions in **2083**. Think about it. We do, every day. It's what we were created **FOR** - to be an innovative and independent organization with a clear mandate to plan ahead, to be ready for **TOMORROW**.

\$5.1 billion

Preliminary surplus represents 103% funding, based on current benefit and contribution levels

10.9%

Rate of return for 2013 was above benchmark and in line with our annualized return of 10.2% since inception, boosting net assets to \$140.8 billion

9.1/10

Service satisfaction rating from plan members (180,000 active and 127,000 pensioners) remains at an industry-leading level

MESSAGE FROM THE CHAIR AND CEO

Pension plan staff and board members are focused on how actions today will prepare us for success tomorrow. With the future always top of mind, we are pleased to report that the pension plan has a \$5.1 billion preliminary funding surplus at current contribution and benefit levels.

The January 1, 2014, preliminary valuation shows the plan has about 3% more than it needs to pay future pensions, based on current plan provisions. This is positive news after more than a decade of recurring funding shortfalls.

Good investment results, higher interest rates and constructive action by the plan sponsors - Ontario Teachers' Federation (OTF) and the Ontario government - are the primary reasons for the surplus.

Nevertheless, the plan still faces challenges. These include increasing longevity, longer retirement periods and a difficult investing environment. A joint task force of the government, OTF and plan management is therefore studying how to balance present needs with the needs of all generations.

Solid returns, exceptional service

Thanks to the hard work of Teachers' investment employees, the pension plan earned a 10.9% return with \$13.7 billion of income earned in 2013. This includes \$2.1 billion above our fund benchmark. This is the value that our managers added above index returns in the markets in which we invest.

The plan's net assets have grown steadily and now stand at \$140.8 billion.

Our employees delivered exceptional member services again in 2013, earning a score of 9.1 out of 10 from members who were surveyed about service quality.

While we are very pleased with last year's accomplishments, we must continually think ahead and plan for the future.



"It is my honour to lead this thriving and successful organization and I am committed to preserving the qualities that made this organization a world leader among pension plans."

Ron Mock, B.A.Sc., MBA
President and Chief Executive Officer

"On a personal note, 2014 is my last year as board chair. I am confident the board will stay abreast of the many service, funding and investment issues that must be addressed."

Eileen Mercier, MA, MBA, FICB, FICD
Chair

Top priorities

We believe agility, innovation and strategic partnerships are fundamental to our ability to stay a step ahead in a changing world. We expanded our global footprint in 2013 with a new Asia office in Hong Kong and we will keep searching the world for the best possible investments and partnerships.

We will stay a step ahead of members' service expectations by anticipating needs. We are simplifying our processes and providing more personalized service in industry-leading ways, as with our mobile apps and social media channels.

Teachers' is known for recruiting and developing smart people. We have built internal expertise in fund management, risk management and client service. We expect our senior executives to expand on our record of innovation, and we will give our young talent exciting development opportunities.

We will also continue to advise regulators on the effect of changes being contemplated, so that large and complex plans such as ours are not overburdened with costly changes that may not be relevant to us.

Talent management, organizational agility, global relationships: these priorities directly support our mission of delivering outstanding service and retirement security for our members - today and tomorrow.

EVOLUTION CONTINUES WITH NEW CEO

In 2013, the board made the most important and forward-looking decision it can make: the selection of a new President and CEO. The board assessed many capable candidates before choosing Ron Mock to succeed Jim Leech, who retired after six years as CEO. This transition reflects a tradition of cultivating talent internally and promoting from within.

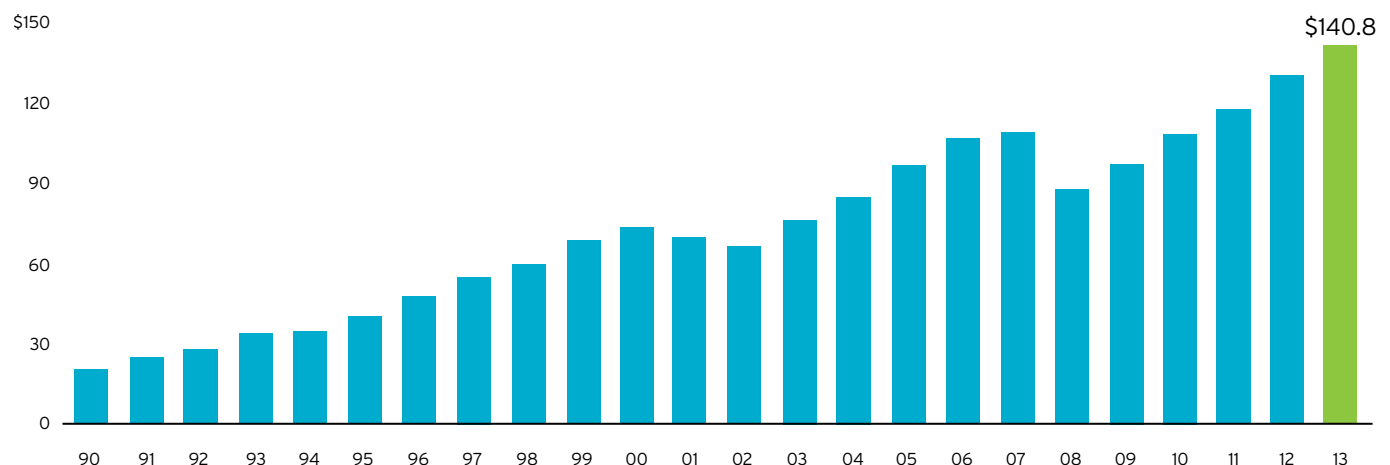
Ron joined Teachers' in 2001 and established an excellent track record leading the fund's Fixed Income & Alternative Investments team. He brings an ideal combination of experience, knowledge and leadership acumen to the CEO role.

Number One

The exceptional performance of Teachers' investment and service groups has again been recognized by CEM Benchmarking Inc., a leader in pension performance measurement. CEM ranked Teachers' first in its peer group of large global pension funds for 10-year total investment returns (to 2012) as well as for pension service.

NET ASSETS

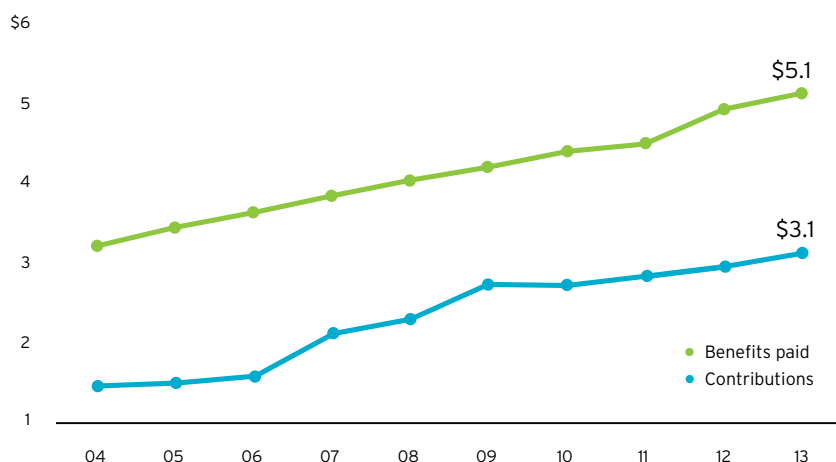
(as at December 31) (\$ billions)



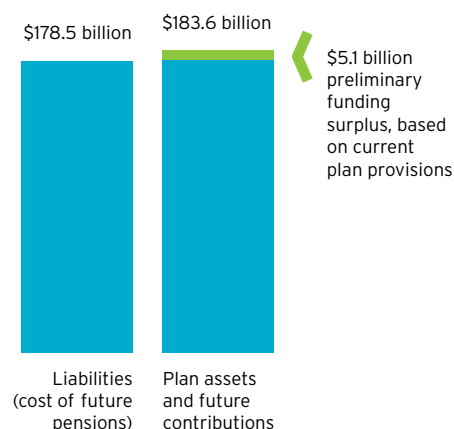
PLAN FUNDING

With a \$5.1 billion preliminary surplus as at January 1, 2014, the plan has about 3% more than it needs to pay future pensions to all members, based on current plan provisions. Current provisions include reduced levels of inflation protection for pension credit earned after 2009 and contribution rates that are 1.1%-of-pay higher than the base contribution rate. The plan would be 91% funded if full inflation protection and the base contribution rates were restored.

CONTRIBUTIONS VS. BENEFITS PAID
(for the years ended December 31) (\$ billions)



PRELIMINARY FUNDING VALUATION
(as at January 1, 2014)



Funding challenges remain

While the surplus is positive news today, the pension plan still faces several challenges tomorrow: increasing life expectancy and longer periods of retirement, which increase costs; a declining ratio of working teachers to retirees, which widens the gap between contributions received and benefits paid and puts more pressure on the investment program; and a low-growth investing environment, which lowers future return expectations.

Q: How will the 2014 surplus affect members?

A: OTF and the Ontario government, which jointly sponsor the pension plan, will decide what to do with the surplus when they file a funding valuation with the regulators. Members will be notified when a decision is reached.

A typical teacher now contributes to the plan for **26** years and collects a pension for **31** years.

About **50%** of members retire by age 58.

Visit otpp.com/funding and FundingYourPension.com for more information on plan funding.

MEMBER SERVICES

1,200

daily web/personal
interactions

58%

of members surveyed
rate service 10/10

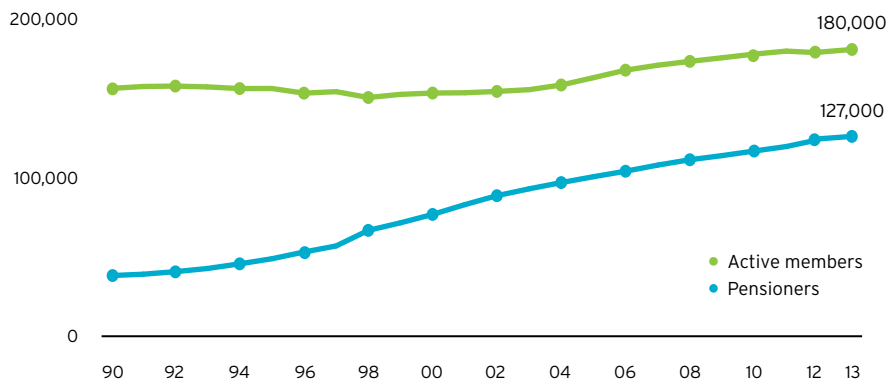
70

Average age of
pensioners

42

Average age of teachers

ACTIVE MEMBERS AND PENSIONERS
(as at December 31)



Retirements decreased 13% from 2012. Still, the plan continues to mature as pensioners become a larger proportion of the total membership.

Balancing service and cost

The plan's objective is to deliver outstanding service to all members at a reasonable cost. The service cost per member in 2013 was \$145 compared to \$142 the previous year. Costs were managed within budget while complying with plan changes and investing in the technology and people needed to implement our service strategy. The majority of service requests are answered on the same day.



A large part of our job is helping clients understand what the plan provides and how it works. Our strategy is designed to reduce complexity for plan members while using insight to create personalized service experiences.

"By simplifying information and streamlining processes today, we help members navigate the pension plan and make well-informed decisions tomorrow."

Rosemarie McClean, MBA, CMA, ICD.D
Senior Vice-President, Member Services

INVESTMENTS

Through active management and the expansion of our global footprint, we are positioning Teachers' for success tomorrow and supporting retirement security for members.

About 80% of Teachers' investments are managed in-house. Our approach to active management produces investment results that are better than market returns, at a significantly lower cost than external fund management.

We are global investors, with direct investments in more than 50 countries. In 2013, we opened an Asia-Pacific office in Hong Kong that complements our London office.

PENSION FUNDING SOURCES SINCE 1990



- **11%** Member Contributions
- **12%** Government/Employer Contributions*
- **35%** Investments - Active Management
- **42%** Investments - Benchmark

*Includes 1% original plan deficit funding.



INVESTMENT PERFORMANCE

(percent)	2013	2012	4-Year	10-Year	Since Inception (1990)
Total return	10.9	13.0	12.3	8.9	10.2
Benchmark	9.3	11.0	10.0	7.2	8.0

Equities earned a 27.6% return and were our best-performing asset class. Real assets (real estate and infrastructure) had a one-year return of 14.6%. With a decline in bond markets, our fixed income assets posted a -7.9% return. See otpp.com for details on our asset mix and performance.

Responsible investing

- Teachers' considers all material factors when making investments, including environmental, social and governance issues
- The plan is a signatory to the Principles for Responsible Investment (PRI)
- We contribute to PRI initiatives and collaborate with leading organizations, peers, regulators and researchers to advance the understanding of responsible investing
- We voted proxies at 1,959 shareholder meetings in 2013

"Expanding our global presence brings us closer to the best international opportunities and strengthens our local partnerships."

Neil Petroff, MBA

Executive Vice-President, Investments and Chief Investment Officer

MAJOR INVESTMENTS

All figures as at December 31, 2013

Bonds and real-return instruments

(\$ billions)

Government of Canada bonds	\$21.5
Canadian inflation-sensitive bonds, notes and mortgages	18.6
Canadian treasury bills	7.4
Provincial bonds	6.7
Canadian and international corporate bonds	4.3
Bank notes	0.8
U.S. government agency bonds	0.5
International government and real-return bonds and debt	0.4

Top 10 private companies and partnerships

Copenhagen Airport A/S
 Empresa de Servicios Sanitarios del Bio-Bio S.A.
 Esval S.A.
 GCT Global Container Terminals Inc.
 HSI Limited
 InterGen N.V.
 Orbis SICAV Global Equity Fund
 Resource Management Service Inc.
 Scotia Gas Networks plc
 The Brussels Airport Company

Top 10 real estate properties

(Portfolio managed by subsidiary The Cadillac Fairview Corporation Limited)

Chinook Centre, Calgary
 Le Carrefour Laval, Montreal
 Les Promenades St. Bruno, Montreal
 Pacific Centre, Vancouver
 Polo Park Mall, Winnipeg
 Queens Center, Queens, New York
 Rideau Centre, Ottawa
 Sherway Gardens, Toronto
 Toronto-Dominion Centre, Toronto
 Toronto Eaton Centre, Toronto

Corporate shares/units over \$100 million

(millions)

Security Name	Shares	Fair Value
iShares MSCI Emerging Markets Index	34.7	\$1,533.5
Multiplan Empreendimentos Imobiliarios S.A.	54.8	1,236.7
Hudson's Bay Company*	30.7	558.5
Canadian Natural Resources Limited	12.7	458.6
Michael Kors Holdings Limited	4.2	365.5
Bank of America Corporation	21.6	357.7
Hitachi, Ltd.	43.5	350.0
Apple Inc.	0.6	345.6
Airbus Group N.V.	3.9	317.9
Microsoft Corporation	7.8	311.2
Nissan Shatai Co., Ltd.	20.0	309.0
Wells Fargo & Company*	7.0	308.4
Nippon Telegraph and Telephone Corporation	5.0	285.9
Samsung Electronics Co., Ltd.	0.2	280.8
Volkswagen AG	0.9	260.7
JPMorgan Chase & Co.*	4.1	255.3
Lafarge S.A.	3.2	251.9
General Motors Company	5.8	250.4
Daimler AG	2.7	249.3
CSX Corporation	8.0	246.0
Google Inc.	0.2	241.3
TMX Group Limited	4.6	237.0
The Bank of New York Mellon Corporation	5.6	207.9
Capital One Financial Corporation*	2.6	206.2

Security Name	Shares	Fair Value
Grupo BTG Pactual	16.6	\$205.9
The Walt Disney Company	2.5	203.1
Constellium N.V.	8.0	197.2
Credit Suisse Group AG	6.0	194.1
Vodafone Group Plc	44.6	188.7
Metlife, Inc.	3.3	186.7
Thermo Fisher Scientific Inc.	1.6	184.3
Akzo Nobel N.V.	2.2	183.2
ACE Limited	1.7	182.4
CNH Industrial N.V.	14.7	177.9
Chesapeake Energy Corporation	6.2	177.6
RTL Group S.A.	1.3	175.0
Sanofi-Aventis	1.5	173.9
Toronto-Dominion Bank, The	2.4	171.0
Sprint Corporation	14.9	170.1
Macdonald, Dettwiler and Associates Ltd.	2.1	169.4
Idea Cellular Limited	58.8	168.6
Novartis AG	1.9	164.0
Cemex Latam Holdings S.A.	20.0	163.0
Royal Bank of Canada	2.2	159.2
Western Digital Corporation	1.8	157.6
Nordea Bank AB	10.7	153.9
NuVista Energy Ltd.	21.5	153.3
Twenty-First Century Fox, Inc.	4.1	152.2
FedEx Corporation	1.0	150.1
General Electric Company	5.0	149.6
Koninklijke KPN N.V.	43.0	147.7
American International Group, Inc.	2.7	146.2
General Mills, Inc.	2.7	145.6
Aircastle Limited	6.9	140.2
SunTrust Banks, Inc.*	3.6	137.2
TripAdvisor, Inc.	1.5	136.0
Viacom Inc.	1.5	135.0
The Dow Chemical Company	2.8	134.5
Amazon.com, Inc.	0.3	132.5
Koninklijke (Royal) Philips Electronics N.V.	3.4	132.3
Continental AG	0.6	130.8
Shriram Transport Finance Company Ltd.	11.3	130.7
BNP Paribas S.A.	1.6	129.1
Telecom Italia S.p.A.	120.7	127.4
Holcim Ltd.	1.6	126.7
Bank of Nova Scotia	1.9	124.5
Daiwa Securities Group Inc.	11.7	124.5
MMX Mineracao e Metalicos S.A.	113.7	124.4
Baidu, Inc.	0.7	124.2
Cheung Kong (Holdings) Limited	7.4	123.8
Republic Services, Inc.	3.5	122.7
Nestlé S.A.	1.6	121.6
DBS Group Holdings Ltd.	8.4	121.4
DIRECTV	1.6	120.0
Ivanhoe Mines Ltd.	64.1	119.9
Aurizon Holdings Limited	25.2	116.7
The Travelers Companies, Inc.	1.2	114.0
Loews Corporation	2.2	112.3
Total S.A.	1.7	110.1
Tencent Holdings Limited	1.6	107.9
Ferrovial, S.A.	5.2	106.6
Canadian National Railway Company	1.7	105.1
Exxon Mobil Corporation	0.9	101.9
Nokia Corporation	11.9	101.8
Applied Materials, Inc.	5.4	101.5
HSBC Holdings plc	8.7	101.4
Hewlett-Packard Company	3.4	100.2

*Includes fair market value of warrants and subscription receipts.

Learn more

Annual Report:

The 2013 Annual Report is available online at otpp.com and print copies are available on request.



Annual Meeting: Visit otpp.com for our live annual meeting webcast at 4:45 p.m. ET on April 10, 2014, or watch the archived version later.

Funding: Visit FundingYourPension.com to learn about plan funding.

Contact us

We welcome your comments and suggestions on this Report to Members.

Please phone 416-730-6880 or 1-877-812-7989, or e-mail us at communications@otpp.com.

Client services

Telephone: 416-226-2700 or 1-800-668-0105

Fax: 416-730-7807 or 1-800-949-8208

E-mail: inquiry@otpp.com

Website: www.otpp.com

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About Teachers'

Ontario Teachers' Pension Plan is an independent organization and the largest single-profession pension plan in Canada. It administers the pension benefits of Ontario's 180,000 elementary and secondary school teachers and 127,000 pensioners. The plan has one of the largest payrolls in Canada - it paid out \$5.1 billion in pension benefits in 2013.

The organization's mission is:

Outstanding service and retirement security for our members - today and tomorrow.

The pension plan is sponsored by Ontario Teachers' Federation (OTF) and the Ontario government.



Ontario



TEACHERS'
PENSION PLAN



What do the sponsors do?

- Appoint independent board members
- Set benefits and contribution rates
- Ensure the plan is appropriately funded with enough money to meet its obligation to members

What does Teachers' do?

- Earns money - through investing - to help pay pensions
- Administers the plan and pays benefits
- Reports and advises on the plan's funding status and regulatory requirements

Return undeliverable Canadian addresses to:

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5