caat PENSION PLAN

Our Focus Your Future

2011 ANNUAL REPORT


Value. Stability. Growth.

These words are not just the **CAAT Pension Plan's vision,** but our promise to you, our members. Through innovative, prudent investments and responsible decision-making, we are securing your retirement future.

Dedicated to the retirement security of Ontario's college community.

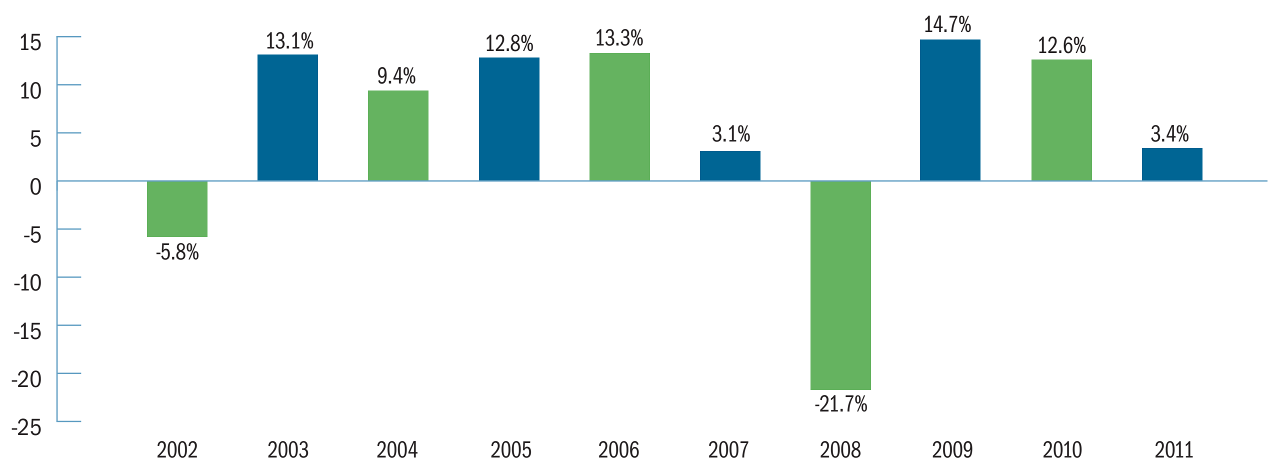
Opposite page from left to right: Mary-Lou McGivney, Project Manager; Robert Stuart, Policy Analyst; Nicole Lewis, Pension Analyst; Derek Dobson, Chief Executive Officer and Plan Manager; Brittney Ashley, Communications Assistant; Tracey Leask, Director, Pension Operations; Andrew Mathenge, Director, Information Technology.

Highlights

Investment Returns

	Gross	Net
2011	4.1%	3.4%
2010	13.3%	12.6%
2009	15.2%	14.7%

Annual Rate of Return *(net of investment management fees)*



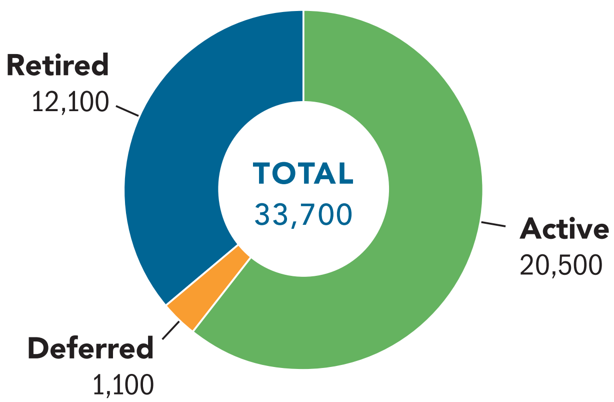
For 2011

61	597	21	$23,768
Average age at retirement	Number of members retired in 2011	Average number of years of service for members retiring	Average annual pension amount

About the cover image

The photo is a depiction of the CAAT Pension Plan logo, which combines an open book, symbolic of the acquisition of knowledge, with a growing tree, signifying strength, stability and long-term growth.

Total Number of Members by Type



Plan's Sponsors

MEMBERS

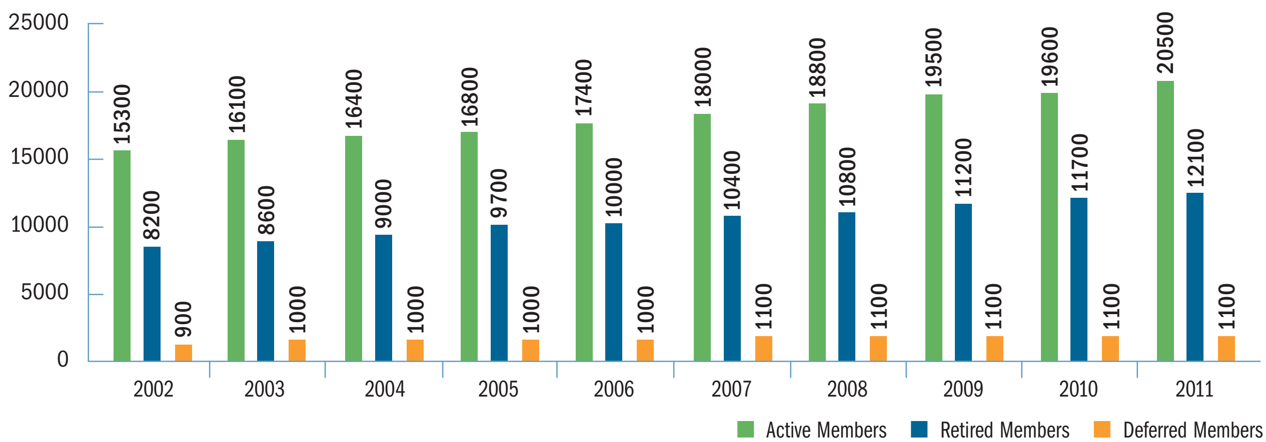
Academic and Support

Ontario College Administrative Staff Association

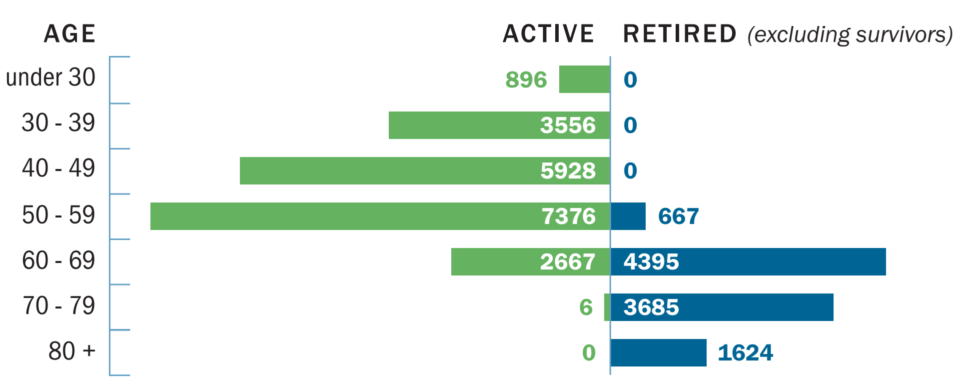
EMPLOYERS

24 colleges and 5 non-college employers

Growth in Membership



Demographic Profile



Joint Governance Builds Strength, Sustainability

The Ontario Budget, presented in March 2012, included a number of proposals that promote the model of joint governance for pension plans. We support this aspirational direction.

The CAAT Pension Plan, a multi-employer plan, has been a prime example of the joint governance model since being set up as an independent entity in 1995.

The provincial government's recent proposal aims to improve pension plan governance and efficiency and includes measures to encourage equal cost sharing and joint responsibility among members and employers of the plans.

We believe the CAAT Pension Plan is a model worth emulating. The Plan is a jointly sponsored defined benefit pension plan that serves the Ontario college sector. We were pleased to see the government's support for our approach in the budget. There are good reasons to be proud about the structure and features of the CAAT Pension Plan.

The sponsors appoint members to the two governing bodies charged with decision-making for the Plan, namely the Board of Trustees and the Sponsors' Committee.

Each body is made up of equal numbers of employer and employee members, who are responsible for decisions about appropriate contribution and benefit levels. Decision-making therefore requires consensus building and promotes fair and acceptable results. The joint governance model has been working effectively for CAAT for the past 17 years.

Members of the Board of Trustees have a fiduciary responsibility to act in the best interests of all members and beneficiaries. In other words, they are entrusted with the sustainability of the Plan. The Board oversees day-to-day administration of the Plan and its investments. Operations are carried out by Plan staff members who report to the Board through Derek Dobson in his role as the CEO and Plan Manager.

The Board consists of 12 members – six are appointed by Colleges Ontario, the employer representative, and six from the employee representatives (two from OPSEU Academic, two from OPSEU Support, one from OCASA, and one position rotates among the three groups).

There are four committees of the Board: Audit, Finance and Administration, Investment, and Appeals.

The Sponsors' Committee is principally responsible for approving Plan amendments and filing actuarial valuations, with advice and support from the Board of Trustees. It is composed of four employer and four employee members who are appointed by the sponsors. The four employer members are appointed by Colleges Ontario; three employee members are appointed by OPSEU, and one by OCASA.

As decisions of the Sponsors' Committee must be unanimous, the members effectively have a veto and have more latitude to act in the interests of their respective sponsors. However, in practice, the Sponsors' Committee members work closely with the Trustees and are cognizant of the need to keep the stability and sustainability of the Plan uppermost in mind at all times.

What has been the result of this structure? Time has demonstrated that decision-making by our Plan's governors promotes prudent, effective administration that manages risk and controls costs. The members of our governing bodies can face the challenges in

Alec Ip, Vice-Chair (left) and Don Walcot, Chair.

the current environment with pride and confidence in the continuing viability of CAAT's pension promise.

The Plan's activities in 2011 included the successful completion of the Funding Task Force. The task force recommendations were broadly accepted by all stakeholders and it was reaffirmed that the CAAT Pension Plan is sustainable.

There is a growing need to explain why defined benefit (DB) pension plans continue to be an efficient, low-cost structure to provide predictable and adequate retirement income. DB pension plans, such as the CAAT Plan, also provide a deferred tax base for governments and long-term investment capital in areas such as infrastructure.

Some would suggest that saving for retirement will be a drain on the economy – we disagree. As a general rule, a dollar saved for retirement today will generate $6 of economic activity in the future. And as the baby boomer population continues to age and a corresponding rise in the associated health care costs, the work of the CAAT Pension Plan to provide stable and sustainable pension benefits to its members will become ever more important to governments and to society.

The CAAT Plan serves the college sector with a strong governance structure, providing equal representation and accountability to both members and employers. We're large enough to be efficient and cost effective and have a sophisticated investment program.

We thank staff for the dedication, diligence and creativity they bring daily to the management of the Plan. We appreciate the positive disposition and good humour with which they do their work and we consider it a privilege to work with this accomplished group of professionals.

Along with our talented and professional staff, we remain committed to working with all our stakeholders to address the challenges and opportunities ahead with the primary focus of keeping the pension plan healthy and sustainable over the long term for the benefit of our members and employers.

Donald Walcot
Chair

Alec Ip
Vice-Chair

Focused on Delivering Excellent Value, Poised for Growth

"Good governance, strong policies and exceptional people are the foundation of our approach."

DEREK DOBSON
CEO & Plan Manager

We occupy a sweet spot among pension plans. The size of the CAAT Pension Plan permits it to benefit from operating efficiencies and to manage a sophisticated investment program that includes joining like-minded investors to take advantage of large deals. The Plan is also nimble enough to directly invest in mid-market opportunities.

With $5.6 billion in investments, the Plan's diversified fund was a top quartile performer in 2011*, earning a net annual rate of return of 3.4%, which generated investment income of $177 million. This is a strong performance, especially given the uncertainty in the world's markets.

As well, the CAAT Pension Plan has a going-concern surplus of $154 million as at our valuation of January 1, 2012.

Although the Plan enjoys many benefits from its current size, additional growth in the number of active members is desirable. Growth minimizes the risk of contribution rate increases, keeps the Plan's funding position strong under more adverse economic conditions and further reduces operating costs and risks.

Growth could come from two areas and both are being investigated. In the months to come, we will examine the feasibility of growth within the post-secondary education sector in Ontario, while also looking at opportunities among part-time employees within the college system.

First, we are studying the possibility of inviting university pension plans to join the CAAT Pension Plan with the goal of creating a jointly sponsored multi-employer plan for the broader post-secondary education sector. The discussions are still in the preliminary phases, but I believe the opportunity holds promise for everyone concerned. Universities in Ontario currently operate their own individual pension plans. Combining the plans would be to the advantage of universities and colleges through lower, more predictable costs and more secure benefits. For universities in particular it would introduce better risk sharing and improved sustainability. The existing infrastructure at the CAAT Pension Plan is scalable to accommodate members from university pension plans, so there is no need to recreate a post-secondary education sector plan from scratch, incurring substantial cost and duplication of effort.

Second, we are preparing to actively promote the CAAT Pension Plan to part-time employees. About 23,000 people are employed part time by the Ontario college system and 3,000 have already taken advantage of the defined benefits of the CAAT Pension Plan.

Growth goals aside, there is a pressing need to ensure compliance with the evolving legislated requirements to properly inform members and prospective members of their options on a more frequent basis. We will be shifting most of the work and oversight of legislative compliance to the CAAT Pension Plan from the employers to ensure all activities related to enrolling part-time employees are coordinated across the system. This will reduce costs and risks to individual employers and the entire college system. This shift allows employers to focus more on their core mandate and less on the work of administering the pension plan.

We at the CAAT Pension Plan are working diligently to deliver excellent service to members and employers and to ensure the Plan continues to flourish and evolve to meet the challenges ahead. To do this well, we focus on four strategic imperatives that drive everything we do as an organization. These are to deliver excellent value, provide timely education and service, reduce and manage risk, and control long-term costs.

* Based on the Bank of New York Mellon Corporation for Canadian universe data for pension plans, endowments and foundations.

Deliver excellent value

We are dedicated to keeping the pension promise and delivering excellent value. In the last two years I have had the pleasure to meet more than 3,000 members at our presentations at colleges and at meetings of our stakeholder groups. I have observed that the more our members understand the features of the Plan, the more they value the excellent pension benefits it provides.

On average, Plan members are living to age 88, about three years longer than the broader Canadian population. That's good news for members, but it means the CAAT Plan needs to pay pensions longer. This additional pension obligation is reflected in the recent contribution rate increase that began in January and will be fully implemented in 2014. As well, the Plan has taken appropriate steps to recognize the sustained low-interest rate environment, providing further protection for the Plan.

Provide timely education and service

The CAAT Pension Plan believes in transparent and timely disclosure of information to members and other stakeholders. A good example of this was the speed and thoroughness with which the Funding Task Force recommendations and subsequent decision of the Plan's governors was communicated to members early in 2011. Whether it was through the website, newsletters, webcast or special presentations at colleges, the decision was explained and concerns addressed in a clear and forthright manner.

Reduce and manage risk

The Plan's Funding Policy and the well-diversified asset mix are important ways the CAAT Pension Plan manages risk. The Funding Policy, available on our website, outlines our disciplined approach to altering contributions or benefits, or both, as the level of Plan funding changes. Similarly, an investment policy that diversifies the assets of the Plan helps to mitigate the risk of loss while maximizing returns.

Control long-term costs

We at the CAAT Pension Plan strive to provide appropriate and stable contribution rates for the pension benefits members earn. We are investing in a new pension system that will allow us to more efficiently collect and manage data and calculate pensions, controlling long-term costs.

LOOKING FORWARD

The CAAT Pension Plan has all the features lauded by the Ontario government in the 2012 Budget. The Plan is jointly governed with equal representation from members and employers and is fully funded based on realistic assumptions. This structure permits shared responsibility for the sustainability of the plan, and has 50/50 cost sharing between members and employers. The Plan has an efficient investment and administrative operations, provides conditional indexation and is a multi-employer plan aligned to Ontario's post-secondary education sector with pension portability among the colleges. It is a governance model that has proven to be effective.

During the coming year we will continue to build internal capacity by bringing functions in-house where it reduces overall costs and provides greater flexibility and control. We'll also continue to explore the growth opportunities, but only where it makes sense.

Derek Dobson
CEO & Plan Manager

Management Discussion and Analysis

The following information provides analysis of the operations and financial position of the Colleges of Applied Arts and Technology Pension Plan and should be read in conjunction with the Financial Statements and accompanying notes for the year ending December 31, 2011.

Plan Overview: Defining and Reinforcing Value

The CAAT Pension Plan provides employees of Ontario's community colleges and related employers with a valuable defined benefit pension, financed by equal contributions from members and employers. In the current challenging times for retirement savings plans in Canada, the Plan remains strong, appropriately funded, and well managed. At the end of 2011, the Plan had 20,500 active members (full-time, part-time, academic, administrative, and support staff), 1,100 members with deferred pensions, and 12,100 retired members.

The three sponsors—Colleges Ontario on behalf of the college boards of governors, the Ontario College Administrative Staff Association (OCASA), and the Ontario Public Service Employees Union (OPSEU)—appoint members to both of the Plan's governance bodies, the Board of Trustees and the Sponsors' Committee. The Plan is jointly governed, with members and employers having equal representation. As fiduciaries, Trustees are legally bound to act in the interests of Plan members and their beneficiaries. Sponsors' Committee members primarily represent the interests of the sponsors that appointed them.

2011 was the second year of a three-year strategy to define and reinforce the value of the Plan for members and employers, in alignment with the CAAT Pension Plan mission: to improve the financial security of members in retirement with appropriate and secure benefits supported by stable and affordable contribution rates.

Plan members benefit from early retirement options, survivor benefits, portability, and inflation adjustments, without the worries of complex investments and the possibility of outliving their savings. Plan employers can offer a valuable benefit without the expenses and risks of managing a single employer pension plan.

STRATEGY AND PRIORITIES

- **Deliver excellent value** – A superior, well-managed benefit that fulfills the pension promise, at a reasonable cost.
- **Provide timely education and service** – Transparent disclosure of information that helps members and participating employers better understand the benefit and recognize its value.
- **Reduce and manage risk** – The CAAT Pension Plan Funding Policy and well-diversified asset mix help us manage volatility and promote intergenerational equity.
- **Control long-term costs** – The Plan is well established, efficient, and low cost to run.

From left to right: Kathleen Riddell, Manager, Pension Administration; Tracey Leask, Director, Pension Operations; Irene Dailide, Senior Pension Analyst; Lisa Cocomile, Pension Analyst; Tom Pavlich, Business Analyst; Rhonda Mole, Senior Pension Analyst; Steve Speed, Pension System Leader.

Benefits and Administration

The CAAT Pension Plan complies with regulations and seeks ways to limit unnecessary effort and costs for employers, while helping them to meet their obligations as agents of the Plan. The CAAT Pension Plan is enhancing its service model using a direct-to-member approach, which is more consistent for members and cost effective for employers.

PLAN AMENDMENTS

The Sponsors' Committee, on the recommendation of the Board of Trustees, approved the following Plan amendments in 2011:

- *OntarioLearn* was welcomed to the Plan as a non-college employer.
- Immediate vesting was introduced, effective July 1, 2012, in keeping with a pension reform initiative.
- The pay date for pensions was moved to the first calendar day from the first business day of the month, improving the timeliness of pension payments.
- Plan membership was extended, effective July 1, 2012, so that members retain their benefit in the Plan for a minimum of 24 months from the date of the last contribution. This change acknowledges that members may work for several colleges and the prevalence of part-time employment.
- Minor housekeeping changes were made to provisions concerning references to Collège des Grands Lac, defining the term "retired member," what constitutes proof of disability, and the Plan's elimination of an annuity option.

The coming year will also see a number of amendments to the Plan as we continue to implement the requirements arising from the Ontario government's pension reform legislation and improve equity among Plan members.

PLAN EQUITY REVIEW TASK FORCE

This task force, made up of four members of the Sponsors' Committee and six members of the Board of Trustees, will conduct a review of the equity associated with a variety of Plan provisions. The task force will examine equity issues on subjects such as contribution rates, death benefits, service purchases, average earnings calculations, and part-time provisions.

SERVICE DELIVERY

Initiatives during 2011 included:

- Research and development of new pension system requirements and a review of data collection capabilities,
- Implementation of an enhanced electronic-records storage system, which included imaging and creating electronic files for member records,
- Hosting a half-day stakeholder symposium on retired member issues with the Ontario Colleges Retirees' Association, and
- Enhanced member communications, including electronic newsletters and an interactive webinar on the Funding Policy and the recommendations of the Funding Task Force.

Liabilities and Funding

The Plan is secure and fully funded on a going-concern basis. The actuarial valuation as of January 1, 2012, shows a $154-million going-concern surplus. People working in the post-secondary education sector are living to age 88 on average, about three years longer than the general population. This increases pension obligations and, therefore, liabilities, putting additional pressure on contribution rates. As a result of the recommendations of last year's Funding Task Force, contribution rates increased by 0.8% for both members and employers as of January 1, 2012. Smaller increases will be implemented in each of the next two years so that rates will peak at a blended rate of 12.4% in 2014 and 2015. The transparent Funding Policy, which prescribes the appropriate course of action at given levels of funding, will limit future surprises and promote stability.

VALUATION

Going-concern funding results *(modified aggregate basis)*	**January 1, 2012** Filed valuation
ASSET VALUES:	*($millions)*
Market value of net assets	$5,627
Smoothing adjustment	$399
Present value of future contributions	
Basic contributions	$2,159
Supplemental contributions	$985
Total actuarial value of assets	**$9,170**
Liabilities for accrued benefits	$7,020
Present value of future benefit for active members	$1,987
Provision for indexation adjustments relating to post 2007 service for 3 years following valuation date	$9
Total actuarial liabilities	**$9,016**
Funding excess	$154

Funding Task Force Initiative

The Funding Task Force was created by the Sponsors' Committee and Board of Trustees in 2009 when projections showed a going-concern deficit looming due to three main factors: the 2008 market losses resulting from the global credit crisis, the sustained period of low interest rates, and an increase in member life expectancy. The task force's mandate was to research and investigate ways to address the expected funding deficit for the next required valuation, as of January 1, 2011, and to keep the Plan financially healthy over the long term.

Pension promises or liabilities extend as much as 70 years into the future. Even though the Plan liabilities are increasing—largely due to historically low interest rates, increased life expectancy of members, and the impact of the 2008 global credit crisis—pensions to be paid now and in the future are secure.

The investment losses caused by the market collapse of 2008 are recognized over a five-year average period as permitted by legislation and professional actuarial standards for pension plans. Using these "smoothing" methods allows pension plans to better manage market volatility and avoid sharp changes in contribution rates and benefits. Interest rates determine the amount of funds a pension plan must be investing now to pay a future pension. The lower the interest rate, the more funds need to be set aside. Unprecedented low interest rates are having a significant impact on the size of the Plan's funding position and deficit. Defined benefit pension plans have been feeling the effects of these economic conditions. Due to our funding policy decisions in the past, the Plan is in a solid financial position.

Member and employer representatives appointed from the Board of Trustees and the Sponsors' Committee made up the task force. The task force met monthly beginning in April 2010 and reported to the Plan governors at quarterly meetings. The extensive review was guided by a process that ensured the breadth of ideas and depth of analysis was appropriate to the decisions that would be required. Throughout its work, the task force was assisted by professional staff and external legal and actuarial support. Task force members also participated in a series of sessions led by experts on pension legislation, actuarial standards and valuations.

The Plan's forecasts were tested by reviewing all of the actuarial assumptions upon which they are based. The assumptions were reviewed from several perspectives, including whether they were realistic, based on the Plan's own history, how they compared to those of other pension plans, and if they were appropriate for the Plan's overall objectives and tolerance for risk. Recent changes in actuarial standards and pension legislation also needed to be applied.

RECOMMENDATIONS OF THE FUNDING TASK FORCE

Early in 2011, the task force reported to the Board of Trustees and the Sponsors' Committee on the completion of its work and its recommendations.

The recommendations included further development of the Funding Policy to make clear how the policy guides decision-making to strike a balance between maintaining a financially stable pension plan and delivering fair value to all generations of members. The task force also recommended a 1.6% increase to the contribution rate, to be phased in over three years to fund the increase to member life expectancy. The task force concluded that the pension plan was sustainable without requiring changes to future benefits.

INCREASED MEMBER LIFE EXPECTANCY

In addition to these economic pressures, the average member is living to 88 years, up from 85 years, which means the Plan needs to put away more funds to reflect the expected additional pension payments to members.

CONTRIBUTIONS CHANGES WILL HELP SECURE FUTURE BENEFITS, IMPROVE EQUITY

The increase in the contribution rate was not needed to respond to lower interest rates and the 2008 market losses. The task force's review showed that the impact of these factors can continue to be managed with the stabilization contributions members are already paying, without making any changes to future benefits. Task force members opted to recommend an increase in contributions to properly fund the extra pension payments from longevity improvements over any benefit reductions because they were fully aware of the value members place on their pension benefits.

CONTRIBUTION STRUCTURE SIMPLIFIED TO TWO-TIERS

Being introduced for 2012 is a change to the way contributions are calculated. As a result of the move to two-tier contributions, members will contribute at a lower rate on the first $3,500 of their earnings. This change has no material impact on Plan funding but does improve fairness for members at all earnings levels in terms of what they pay into the Plan. It also simplifies the Plan, making it easier to explain and less costly to administer.

Investment Management

The CAAT Pension Plan investment management team oversees the execution of the investment strategy set out by the Board of Trustees. The team selects investment management firms that meet various criteria and monitors their performance against targets for both returns and risk relative to the structure of the Plan's liabilities. The approach reduces overall risk and balances benefit security with affordability.

The investment program has been producing solid returns for the three consecutive years following the 2008 market crash.

ASSET LIABILITY STUDY

The Plan conducted an Asset Liability Study during 2011, which resulted in a revised asset mix being approved in December 2011. This means the addition of commodities and emerging markets as separate asset classes for the Plan.

STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

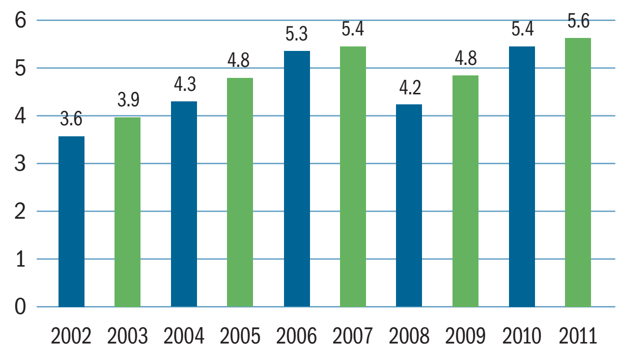
The Statement of Investment Policies and Procedures (SIP&P) was updated in 2011 to more accurately reflect Plan provisions concerning asset classification, smoothing procedures, benchmarks, and investment constraints.

MANAGING INVESTMENTS

The Plan's $5.6-billion investment Portfolio insures its pension commitments to members are secure. Member and employer contributions are pooled and invested for the long term. When a member retires, the Plan pays a lifetime stream of monthly payments based on that member's earnings and service, regardless of how long a member lives.

How do we sustain the pension plan long term? In part, we do this by building a diversified investment portfolio and using a disciplined and cost-effective strategy—all under the stewardship of an expert investment team.

CAAT Pension Plan
10-year growth in net assets
($ billions)



A DIVERSIFIED PORTFOLIO

In an uncertain and volatile economy, the Plan delivered a sound investment performance in 2011. Net assets grew by $175 million to $5.627 billion as of December 31, 2011.

This marked a 3.4% net rate of return for the Plan, the third consecutive year of asset growth since the global credit crisis.

A well-balanced, diversified portfolio was a key contributor to the positive return in 2011.

The fixed-income portfolio and real estate and infrastructure investments performed strongly during the year. The long-bond portfolio delivered a 17.4% return in 2011, capitalizing on lower interest rate trends. The Plan's real estate and infrastructure investments delivered 12.8% and 13.4% returns, respectively.

These returns buffered a more turbulent experience in equity markets. Canadian equity investments were a negative 7.9%, while non-Canadian equity portfolios saw a negative 3.7%. A bright spot on the global scene was the performance of U.S. equities, boosted by growth in the energy, industrials, and materials sectors. The Plan's U.S. equity portfolio (a segment of non-Canadian equities) gained 9.8% in 2011, outperforming the U.S. index and offsetting losses in global/international equities. Meanwhile, the Plan's small but growing private equity portfolio delivered a 25.8% return.

In 2011, the Plan's investment strategy added $177 million in investment income to the Plan's assets. The Plan paid benefits to members and retirees totalling $302 million and received contributions from members and employers of $312 million. Costs to administer the pension plan were $13 million, the same as the previous year, for a net increase in assets of $175 million in 2011.

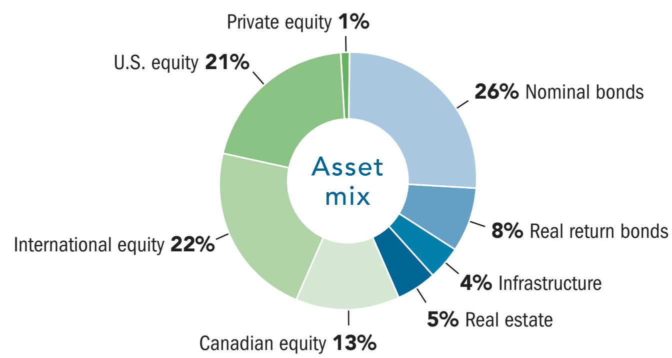
CAAT Pension Plan changes in net assets available for benefits in 2011

($ millions)

Net assets Dec. 31/10	$5,452
Investment income	$177
Contributions received	$312
Benefits paid	($302)
Administrative expenses	($13)
Net changes in assets available for benefits	$175
Net assets Dec. 31/11	**$5,627**

Amounts do not add due to rounding.

Well-diversified $5.6 billion in investments



The asset mix policy is set by the Board of Trustees in consultation with the investment team. The asset mix balances diverse classes of high-quality investments that fuel growth and support the Plan's long-term commitments to members.

The team employs a disciplined and sophisticated strategy to manage investments.

The equity portfolio is designed to harness market growth. Equity investments may be more volatile in the short term but historically outperform fixed income investments (such as bonds) over the long term. The Plan's Canadian, International, U.S., and Private equity holdings comprise 57% of total investments and are positioned to enhance investment returns over the long term and keep contribution rates reasonable for the benefits being earned.

The fixed income, infrastructure, and real estate portfolios are built to deliver stable returns as well as generate income. This makes an excellent fit for the Plan's commitment to pay pensions. Real return bonds and real estate act as inflation hedges, adding protection against increases in inflation. Infrastructure investments generate predictable returns on assets in regulated industries, while nominal bonds deliver stability and can add value in a low-inflation or deflationary environment. Together, these investments make up 43% of the total investments and provide a solid foundation for the pension promise.

Bench Strength

The Plan's long-term objective for investment performance is a 4.5% net return above inflation, which is in excess of returns needed to deliver pension benefits at the current contribution rate.

Annual average net rate of return

1-year	3-year	5-year	10-year
3.4%	10.1%	1.5%	4.9%
After inflation			
1.1%	8.1%	-0.4%	2.7%

To December 31, 2011; net return after expenses. The 5-year and 10-year annual average rate of return numbers include the 2008 market crash.

The strong three-year return of 10.1% reflects bond and equity market returns as well as the Plan's strategic move to increase its private market investments. For example, real estate holdings in the Canadian market (including retail, office, industrial, and residential real estate) delivered a 12.8% net return in 2011. Major retail real estate investments, such as holdings in the Bramalea City Centre mall, are capitalizing on regional growth.

Infrastructure investments include regulated North American and European companies in the water, natural gas, electrical, transportation, and telecommunications sectors. These investments deliver steady long-term returns. Infrastructure investments, which delivered a 13.4% return in 2011, also include exposure to partnerships with provincial and federal governments to build much-needed public infrastructure such as community hospitals.

Managing risk: The Statement of Investment Policies and Principles was established by the Board of Trustees with the long-term goal of securing retirement benefits and contribution stability. The Statement sets out the diversified mix of investments that will maximize growth at an acceptable level of risk.

The Plan regularly conducts studies that look at its balance of assets and benefit obligations. These studies take into account a range of economic scenarios as well as commitments to Plan members many years into the future.

From left to right: Kevin Rorwick, Chief Financial Officer, with representatives of his team: Jocelyne Mousseau, Manager, Policy and Governance; Jennifer Goerz, Administrative Assistant; Roc Chen, Programmer Analyst; Yannie Ho, Investment Finance Analyst.

This ensures the ability to make adjustments to maintain the right balance of growth and risk management going forward.

The Plan also keeps a close eye on the effect of changes in real and nominal interest rates on future liabilities.

To ensure current investments match the asset mix policy, the investment team regularly monitors the mix and recalibrates investment classes as required. This rebalancing method uses derivative instruments to convert actual exposure in a given class to an "effective exposure" that matches the policy and intended diversification of the investments.

Risk management also includes using a blend of active management approaches with some passively managed investments that match a specified market index, as well as ongoing monitoring of liquidity.

Investing responsibly: The Plan believes that over the long term, companies that have sound governance and a responsible approach to doing business will outperform those that do not. The Responsible Investment Policy is applied through thoughtful proxy voting, corporate engagement through organizations such as the Canadian Coalition for Good Governance, and awareness among external portfolio managers.

Adding value: Active management of investments aims to add value over the long term against market indices. In 2011, the Plan's net return of 3.4% exceeded the 3.2% policy benchmark. A key driver was performance of the U.S. equity strategies.

Investment Know-how

With assets of $5.6 billion, the CAAT Pension Plan is large enough to have a sophisticated investment program and agile enough to take advantage of great opportunities that may be too big or too small for others to consider.

Our investment team combines internal expertise and oversight with a seasoned stable of external managers to deliver long-term performance and value.

Julie Cays, Chief Investment Officer, brings veteran investment management experience from Canada's pension and banking sectors. A CFA charter holder, she is the current Chair of the Pension Investment Association of Canada (PIAC) and was selected as one of *Benefits Canada* magazine's Top 25 Most Influential Plan Sponsors in 2009. Julie speaks about the role of her team and the road ahead:

Our ultimate objective is to deliver the required rate of return so that the Plan can maintain benefits and keep contribution rates affordable for our members. One of my main roles is to support the Trustees in making strategic decisions about the Plan's asset mix, risk tolerance, and investment approach.

Our model ensures careful investment oversight, analysis, and compliance. Our directors of investments are responsible for the private and public market components of the investment program. They bring many years of experience in finance and investments to the table. Our investment analyst conducts performance measurement and risk analysis. And my colleague Kevin Rorwick, the Chief Financial Officer, ensures that we have top-level accounting and compliance for the Plan.

We have selected an exceptional roster of external firms to manage the portfolios that make up our asset mix. There are 30 managers in total, spanning public and private asset classes, and many have long-standing relationships with the Plan. We benefit from their expertise. They closely monitor markets to take advantage of opportunities, assess risk, and protect the Plan's investments.

Our in-house investment team ensures that our managers are carrying out the mandates we've given them. We make decisions on the mandates and allocations for each manager, as well as when to bring a new manager on board or cease a relationship for strategic reasons.

From left to right: Asif Haque, Director Investments; Kevin Fahey, Director Investments; Julie Cays, Chief Investment Officer; Prashant Mulay, Investment Analyst.

With the approval of the Board, we are introducing two new investment classes to the asset mix in 2012. The first addresses emerging markets in countries like Brazil, India, and China. We have already gained exposure to these markets in our global portfolio. But by adding a distinct new class, we will have a better depth of research and focus in this area, given the growing role these markets play in the global scene. The second new class will focus on commodities, which can provide an inflation hedge for our liabilities and add to the diversification of our investments.

Going forward in this economic climate, we are certainly aware of opportunities in the private equity market. We've seen situations where good companies with excellent business prospects are sometimes stressed by capital requirements. We know we have the agility to take advantage of these opportunities as they present themselves.

Likewise, as we diversify our investments, we are looking at opportunities to co-invest directly in infrastructure projects. For both infrastructure and private equity, there are projects in the $10-million to $100-million range that can be a great fit for the Plan. We're also continuing to fine-tune our risk management practices; for example, in the area of currency hedging.

At the end of the day, the Plan is here to sustain pensions for current and future retired members, for them to have the security of knowing their pensions will be paid for life. Our investment team will continue to use a disciplined and flexible approach to meet that ultimate commitment.

Select real estate held by the CAAT Pension Plan through pooled investment vehicles

Bramalea City Centre

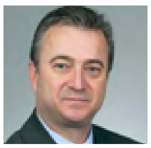
Bridgepoint Hospital

Governance

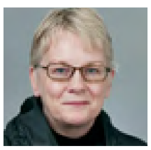
The Sponsors' Committee is composed of eight members: four representing the employees, three of whom are appointed by OPSEU and one by OCASA, and four representing the employers, who are appointed by Colleges Ontario on behalf of the Boards of Governors of colleges.

THE CURRENT SPONSORS' COMMITTEE MEMBERS ARE:

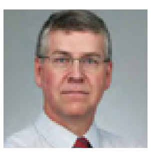
Marilou Martin, *Co-Chair*
An employee representative since 2010 and previously from 1996 to 2000, Ms. Martin has 25 years' experience at George Brown College.



Jeff Zabudsky, *Co-Chair*
An employer representative who joined the Committee in 2012, Mr. Zabudsky is President and CEO of the Sheridan Institute of Technology and Advanced Learning.



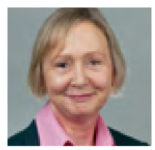
Barbara Cameron
An employer representative since 1999, Ms. Cameron is Vice President, Finance and Administration, at Fleming College.



Stephen Campbell
An employer representative since 1995, Mr. Campbell is Director, Financial Services, for the Canadian Medical Protective Association. He was Director of Finance at Algonquin College from 1986 to 1998.

Rick Helman
An employee representative since 2007, Mr. Helman is Director, Financial Planning, at Loyalist College. He is President and a founding member of OCASA.

Kim Macpherson
An employee representative who joined the Committee in 2012, Ms. Macpherson is Benefits Counsellor at OPSEU.



Peggy McCallum
An employer representative since 2005, Ms. McCallum is Partner and head of the pension and benefits practice group at the law firm of Fasken Martineau DuMoulin.

Damian Wiechula
An employee representative since 2008, Mr. Wiechula teaches in the Technology and Business divisions at George Brown College.

Shirley McVittie (employees) and **Rick Miner** (employers) completed their mandates in 2011 and Kim Macpherson (employees) and Jeff Zabudsky (employers) assumed their responsibilities as of January 1, 2012.

LEGISLATION – The Plan implemented changes to the rules for pension splitting upon marriage breakdown effective January 1, 2012. The Board of Trustees determined not to charge a fee to members at this time for preparation of family law value calculations, although it is allowed to do so. The Plan is also closely following the ongoing pension reform in Ontario. It is anticipated that regulations enacting a number of changes will be released in 2012, requiring adjustments to Plan Text, policies, and procedures.

POLICIES – The Sponsors' Committee approved a variety of new or updated governance policies during the year. A key update was made to the Funding Policy, as an outcome of the Funding Task Force review. This revision eliminated the minimum required margin for adverse deviation from funding considerations in the Funding Policy and updated basic contributions to reflect longevity improvements. Other amendments included policies in the areas of code of conduct, committee member expenses, operations, advisor selection and review, and the role of the Co-Chairs.

As part of the completion of a two-year governance review, the Board of Trustees similarly approved new or updated policies in the areas of non-audit services performed by the external auditor, service provider selection and review, Board committee terms of reference, operations, role of the Board, succession planning for the CEO and Plan Manager, member appeals and privacy.

The additional or updated policies give Sponsors' Committee members and Trustees a current and full set of governance criteria.

The Board of Trustees is composed of 12 members: six representing the employees, four of whom are appointed by OPSEU, one by OCASA, and one on a rotating basis by the two employee organizations; and six representing the employers, who are appointed by Colleges Ontario on behalf of the Boards of Governors of colleges.

Alec Ip was elected as Chair and James Simpson as Vice-Chair for the term April 1, 2010 to September 30, 2011. After James Simpson chose to step down from the Vice-Chair position, Don Walcot was elected to complete the remainder of Mr. Simpson's term. Effective October 1, 2011, Don Walcot assumed the position of Chair, and Alec Ip assumed the position of Vice-Chair, as per the Sponsorship and Trust Agreement.

Also in 2011, Duane McNair resigned as a Board member and was replaced as the OCASA representative by Michael Seeger, effective September 23, 2011.

THE CURRENT MEMBERS OF THE BOARD OF TRUSTEES ARE:

Don Walcot

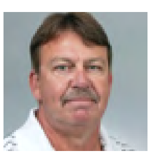
An employer Trustee since 2006, Mr. Walcot is Chair of the Board and sits on the Investment Committee.

Alec Ip

An employee Trustee since 2004, Mr. Ip is Vice-Chair of the Board and sits on the Finance and Administration Committee.

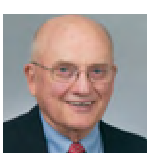
Darryl Bedford

An employee Trustee since 2010, Mr. Bedford is Co-Chair of the Investment Committee.



Bernard Belanger

An employee Trustee since 2009, Mr. Belanger is Co-Chair of the Finance and Administration Committee and sits on the Audit Committee.



Harry Gibbs

An employer Trustee since 2003, Mr. Gibbs is Co-Chair of the Investment Committee and a member of the Appeals Committee.

Pierre Giroux

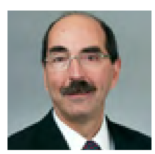
An employee Trustee since 2010, and previously from 2001 to 2003, Mr. Giroux sits on the Finance and Administration Committee.

John Rigsby

An employer Trustee since 2010, Mr. Rigsby is Co-Chair of the Audit Committee and sits on the Investment Committee.

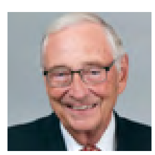
Alnasir Samji

An employer Trustee since 2010, Mr. Samji sits on the Finance and Administration Committee and the Audit Committee.



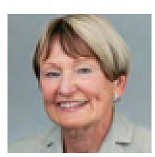
Michael Seeger

Mr. Seeger, who joined the Board as an employee Trustee in 2011, sits on the Investment Committee and on the Appeals Committee.



James Simpson

An employer Trustee since 1998, Mr. Simpson sits on the Finance and Administration Committee.



Beverley Townsend

An employer Trustee since 2008, Ms. Townsend is Co-Chair of the Finance and Administration Committee and sits on the Appeals Committee.

Donald Wright

An employee Trustee since 2000, Mr. Wright is Co-Chair of the Audit Committee and sits on the Investment Committee and the Appeals Committee.

Management's Responsibility for Financial Statements

The financial statements of the Colleges of Applied Arts and Technology Pension Plan (the "Plan" or "CAAT Pension Plan") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Many amounts are based on the best estimates and judgements of management with appropriate consideration as to materiality. The financial statements have been approved by the Board of Trustees.

CAAT Pension Plan maintains books of account, systems of information and systems of financial and management control, which provides reasonable assurance that accurate financial statement information is available, that assets are protected and that resources are managed efficiently. These systems include careful hiring and training of staff, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities, and the communication of policies and guidelines through the organization.

The Board of Trustees is ultimately responsible for the financial statements of the CAAT Pension Plan. The Board of Trustees oversees financial reporting through its Audit Committee. The committee reviews matters related to accounting, auditing, internal control systems, the financial statements and report of the external auditors.

The Plan's external auditors, Deloitte & Touche LLP, are directly accountable to the Audit Committee and have full and unrestricted access to the committee. They discuss with the committee their audit and related findings as to the integrity of the Plan's financial reporting and adequacy of internal control systems in the context of their financial statement audit. Deloitte & Touche LLP have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they considered necessary to express their opinion.

Derek Dobson
CEO & Plan Manager
April 17, 2012

Kevin Rorwick
Chief Financial Officer

Independent Auditor's Report

To the Administrator of the Colleges of Applied Arts and Technology Pension Plan (the "Plan")

We have audited the accompanying financial statements of the Plan, which comprise the statements of financial position as at December 31, 2011, and 2010, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in deficit for the years then ended, and 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 audit 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 the Plan as at December 31, 2011, and 2010, and the changes in its net assets available for benefits, changes in its pension obligations and changes in its deficit for the years then ended in accordance with Canadian accounting standards for pension plans.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
April 17, 2012

CAAT Pension Plan Actuaries' Opinion

Mercer (Canada) Limited was retained by the Colleges of Applied Arts and Technology Pension Plan Board of Trustees (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Colleges of Applied Arts and Technology Pension Plan (the "Plan") as at December 31, 2010, and December 31, 2011, for inclusion in the Plan's financial statements.

The valuation of the Plan's actuarial liabilities was based on:

- Plan provisions in effect as at December 31, 2010, and December 31, 2011;
- membership data provided by the Board as at December 31, 2009, and December 31, 2010;
- methods prescribed by Section 4600 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements; and
- assumptions about future events (for example, returns on assets, inflation levels, future retirement rates), which have been communicated to us as the Board's best estimate of these events.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2010, and December 31, 2011, as a going concern. This is different from the regulatory valuation (the actuarial valuation required by the Pension Benefits Act (Ontario)), which establishes a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events based on market conditions at the end of 2010 and 2011, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation are appropriate for the purposes of the valuation, and that the assumptions used in the valuation are in accordance with accepted actuarial practice. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice in Canada.

Manuel Monteiro, F.C.I.A.
April 17, 2012

Malcolm P. Hamilton, F.C.I.A.

Statement of Financial Position

($ thousands)	December 31 2011	2010
ASSETS		
Investment assets		
Investments *(Note 3)*	$ 5,660,650	$ 5,507,784
Accrued income	15,850	14,649
Unsettled trades receivable	77,764	13,097
Derivative-related receivables *(Note 5)*	23,917	40,603
Employer contributions receivable	11,731	11,657
Member contributions receivable	11,975	11,629
Other assets *(Note 7)*	3,965	1,793
	5,805,852	5,601,212
LIABILITIES		
Investment liabilities		
Unsettled trades payable	165,243	117,897
Derivative-related liabilities *(Note 5)*	4,361	21,732
Accounts payable and accrued liabilities *(Note 8)*	9,085	9,855
	178,689	149,484
Net assets available for benefits	$ 5,627,163	$ 5,451,728
Pension obligations *(Note 9)*	7,028,718	6,869,761
Regulatory surplus (deficit) *(Note 10)*	153,737	(190,758)
Measurement differences between regulatory and accounting deficit *(Note 10)*	(1,555,292)	(1,227,275)
Deficit	($ 1,401,555)	($ 1,418,033)

Approved by the Board of Trustees

Colleges of Applied Arts and Technology Pension Plan

Alec Ip, Vice-Chair

Donald Walcot, Chair

Statement of Changes in Net Assets Available for Benefits

($ thousands)	Year ended December 31 2011	2010
Increase in net assets available for benefits		
Contributions *(Note 11)*	$ 312,210	$ 295,952
Investment income *(Note 12)*	177,368	607,211
	489,578	903,163
Decrease in net assets available for benefits		
Benefits *(Note 13)*	301,635	283,661
Administrative expenditures *(Note 14)*	12,508	13,076
	314,143	296,737
Net increase in net assets available for benefits	175,435	606,426
Net assets available for benefits, beginning of year	5,451,728	4,845,302
Net assets available for benefits, end of year	$ 5,627,163	$ 5,451,728

Statement of Changes in Pension Obligations

($ thousands)	Year ended December 31 2011	2010
Accrued pension obligations, beginning of year	$ 6,869,761	$ 5,899,517
Increase in accrued pension obligations		
Interest on accrued benefits	415,897	409,222
Benefits accrued	212,655	173,066
Changes in actuarial assumptions	(123,234)	662,384
Experience (gains) / losses	(44,726)	9,233
	460,592	1,253,905
Decrease in accrued pension obligations		
Benefits paid *(Note 13)*	301,635	283,661
Net increase in accrued pension obligations	158,957	970,244
Accrued pension obligations, end of year	$ 7,028,718	$ 6,869,761

Statement of Changes in Deficit

($ thousands)	Year ended December 31 2011	2010
Deficit, beginning of year	**($ 1,418,033)**	($ 1,054,215)
Increase in net assets available for benefits	**175,435**	606,426
Net increase in accrued pension obligations	**(158,957)**	(970,244)
Deficit, end of year	**($ 1,401,555)**	($ 1,418,033)

Notes to Financial Statements

December 31, 2011

NOTE 1 – DESCRIPTION OF THE PLAN

The Colleges of Applied Arts and Technology Pension Plan (the "Plan" or "CAAT Pension Plan") is a multi-employer jointly sponsored pension plan covering employees of the Colleges of Applied Arts and Technology in Ontario, and other college-related employers. The following description of the Plan is a summary only. A complete description of the Plan provision can be found in the Colleges of Applied Arts and Technology Pension Plan Text, the official Plan document.

General

The Plan is a contributory defined benefit pension plan with benefits being financed by equal contributions from participating employees and employers, and by investment earnings. The Plan has three sponsors: Colleges Ontario, acting on behalf of the Boards of Governors of the colleges, the Ontario College Administrative Staff Association ("OCASA") and the Ontario Public Service Employees Union ("OPSEU").

The Plan is registered under the Ontario Pension Benefits Act with the Financial Services Commission of Ontario ("FSCO") and the Canada Revenue Agency (Registration Number 0589895) as a registered pension plan not subject to income taxes.

A separate supplementary plan exists to provide benefits to the Plan's members (other than Board staff) who are impacted by restrictions under the Income Tax Act (Canada). Because the supplementary plan is a separate trust, the net assets of the supplementary plan are not included in the financial statements of the Plan.

Funding

Plan benefits are funded by contributions and investment earnings. The Plan's Funding Policy aims to secure the pension promise and achieve long-term stability in contribution rates for both employers and members. Actuarial funding valuations are conducted to determine pension liabilities and the funded position of the Plan, based on contribution and benefit levels approved by the Sponsors' Committee.

Retirement Pensions

A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member can receive an unreduced pension at the earlier of i) age 65, ii) as soon as the sum of their age plus pensionable service totals at least 85, or iii) at age 60 with at least 20 years of pensionable service. Members are eligible to retire before their unreduced date, with a reduced pension.

Death Benefits

Upon the death of the member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate.

Portability

Members who terminate employment with more than two years in the Plan shall be entitled to a deferred pension. Members not eligible for an immediate pension may also opt to transfer the commuted value of their benefit to another pension plan or registered retirement vehicle, subject to locking-in provisions and certain age restrictions. Members with less than two years in the Plan are entitled to a refund of contributions made by them, plus interest.

Commencing July 1, 2012, members will immediately vest upon joining the Plan. Members who terminate employment may opt to transfer the commuted value of their benefit to another pension plan or registered retirement vehicle after two years from the date of their last contribution.

Escalation of Benefits

Pension benefits are increased in January each year for inflation at 75% of the increase in the average Consumer Price Index as at September 30th of the prior year, subject to a maximum pension increase of 8% in any one year with any excess carried forward. Inflation adjustments on the portion of a pension based on post-2007 service is conditional on the Plan's funding position. Inflation adjustments on the portion of a pension based on service prior to 1992 were previously funded on an ad hoc basis out of prior funding surpluses and further increases are scheduled to end in January 2014.

Funding Policy

The Plan's funding policy determines the use of any funding surplus as determined by the last filed actuarial valuation. In the event of a going concern funding surplus, the policy provides for specified decreases to contribution rates, and/or inflation adjustments for pre-1992 and post-2007 service pensions, and/or the build-up of a contingency reserve. In the event a deficit is determined, a decrease in future benefits and/or an increase in contribution rates is required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements present the information of the Fund of the Colleges of Applied Arts and Technology Pension Plan as a separate financial reporting entity independent of the sponsors and plan members

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans. The Plan adopted Section 4600 – Pension Plans of the Canadian Institute of Chartered Accountants ("CICA") Handbook ("Section 4600") effective January 1, 2010. As required under Section 4600, the Plan has valued and made certain disclosures on financial instruments in accordance with international financial reporting standards (see below and Note 6). Accounting standards for private enterprises in Part II of the CICA Handbook are used for accounting policies that do not relate to the Plan's investment portfolio or pension obligations, to the extent that those standards do not conflict with the requirements of Section 4600.

Effective January 1, 2011, the Plan early adopted IFRS 13 Fair Value Measurement on a prospective basis. There were no changes to opening period balances.

Investments

Purchases and sales of investments are recorded as of the trade date and are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of investments is determined as follows:

- Short-term investments are valued at cost adjusted for foreign exchange, which in conjunction with accrued interest receivable, approximates fair value.

- Publicly traded equity securities are valued at the closing market price. Where a market price is not available, fair value is determined by reference to current market information.

- Fixed income securities are valued using an average of closing bids from market participants.

- Investments in underlying funds are valued using net asset values obtained from the managers of the fund, which are determined with reference to the fair value of the underlying investments of the fund.

- Infrastructure and private equity investments are held through ownership in limited partnership arrangements. Fair value is determined by the limited partnership's manager, using the most recent financial information obtained from underlying investments, and/or forecasts of future financial performance and then applying appropriate valuation techniques such as market comparables and/or discounted cash flows. Underlying infrastructure investments are often valued using a discounted cash flow to equity model, reflecting an extended cash flow forecasting period and a higher predictability of cash flows.

- The fair value of real estate investments is determined by the external manager using the most recent financial information obtained from the individual property managers. Real estate properties are appraised semi-annually by external, independent, professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.

- Derivative financial instruments are recorded at fair value using pricing models generally used by market participants. The fair value is provided by established pricing vendors and is determined using valuation models requiring the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In limited circumstances, the fair value input/assumptions may not be supported by observable market data.

Investment Income (loss)

Realized gains and losses on the sale of investments are determined using the average cost of securities sold. The change in the difference between fair value and the cost of investments at the beginning and end of each year is recorded as change in unrealized appreciation (depreciation) of investments. Interest, dividends, and distributions from pooled funds, are recorded on the accrual basis. Dividend income is accrued as of the ex-dividend date.

Transaction costs are incremental costs directly attributable to the purchase or sale of investments. Transaction costs incurred are expenses and are recorded separately as a deduction from Investment Income (loss).

Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange in effect on the dates of the transactions. The market value of foreign currency denominated assets and liabilities is translated using the year-end rates of exchange. The resulting gains and losses from changes in these rates are recorded as part of the realized gain (loss) for investments sold and as part of the change in unrealized appreciation (depreciation) of investments held at year-end.

Contributions

Contributions due to the Plan are recorded on an accrual basis. Transfers to the Plan and purchases of prior service are recorded when cash is received.

Benefits

Payments of pensions, refunds and transfers out of the Plan are recorded in the period in which they are paid.

Pension Obligations

The value of accrued pension benefits payable in the future to members and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the beginning of the year and then extrapolated to year-end. It uses the projected benefit method pro-rated on service and best estimate assumptions, as at the valuation date, of various economic and non-economic future events.

Use of Estimates

Preparation of the financial statements requires management to make estimates and assumptions based on the information available as at the date of the financial statements that affect the reported values of assets and liabilities, and related income and expenses. Such estimates and assumptions affect primarily the value of recorded pension obligations and the fair value of investments and investment-related receivables and liabilities. Actual results could differ from those presented.

Income Taxes

The Plan is exempt from Part 1 tax under paragraph 149(1)(o) of the Income Tax Act (Canada).

NOTE 3 – INVESTMENTS

3(a) – Summary of Investments

	2011		2010	
($ thousands)	Fair Value	Cost	Fair Value	Cost
Short-term investments	$ 288,232	$ 286,602	$ 501,310	$ 500,500
Fixed income *(Note 3b)*	2,057,823	1,792,109	1,940,203	1,814,164
Equities *(Note 3c)*	2,749,546	2,731,608	2,634,866	2,398,915
Infrastructure	214,156	219,016	161,536	184,450
Real estate	301,450	250,000	240,927	225,000
Private equity	49,443	41,955	28,942	25,977
	$ 5,660,650	$ 5,321,290	$ 5,507,784	$ 5,149,006

The effective asset mix at fair value, after consideration of derivative instruments as discussed in Note 5, is:

	2011	2010
Short-term investments	5.1%	9.3%
Fixed income	36.4%	35.2%
Equities	48.5%	47.7%
Infrastructure	3.8%	2.9%
Real estate	5.3%	4.4%
Private equity	0.9%	0.5%
	100.0%	100.0%

3(b) – Fixed Income

Investments in fixed income include the following issuers:

	2011		2010	
($ thousands)	Fair Value	Cost	Fair Value	Cost
Government of Canada	$ 763,475	$ 648,131	$ 580,081	$ 540,758
Provincial Governments	831,030	720,579	556,725	505,630
Municipal Governments	14,705	12,560	4,880	4,314
Corporate	327,569	286,364	724,295	685,710
Foreign	121,044	124,475	74,222	77,752
Total Bonds	$ 2,057,823	$ 1,792,109	$ 1,940,203	$ 1,814,164

Government bonds include those issued or guaranteed by the government.

3(c) – Equity Investments

Canadian and non-Canadian equities include securities issued and traded in the following geographical regions:

	2011		2010	
	Fair Value *($ thousands)*	%	Fair Value *($ thousands)*	%
United States	$ 970,403	35.3	$ 887,835	33.7
Canada	734,160	26.7	796,132	30.2
Europe (excluding United Kingdom)	291,025	10.6	305,791	11.6
United Kingdom	153,287	5.6	188,912	7.2
Japan	209,568	7.6	151,134	5.7
Other Asia / Pacific	138,900	5.0	151,227	5.7
Latin America	27,598	1.0	39,322	1.5
Other Emerging Markets	224,605	8.2	114,513	4.4
Total Equity	$ 2,749,546	100.0	$ 2,634,866	100.0

3(d) – Summary of Significant Investments

At December 31, 2011 the Plan held the following investments each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

($ thousands)	Fair Value	Cost
Short-term investments		
Government of Canada Treasury Bills	$ 63,730	$ 63,730
Fixed income		
CIBC Pooled Long-Term Bond Index Fund	$ 419,792	$ 364,633
Government of Canada	642,155	542,752
Province of Ontario	269,632	236,605
Province of Quebec	243,352	207,405
Equities		
Bridgewater Pure Alpha Fund II	$ 176,769	$ 119,715
SPDR Trust Series I	153,016	135,355
Vanguard Emerging Markets Stock Index Fund	125,040	150,057
Infrastructure & Real estate		
Greystone Real Estate Fund	$ 301,450	$ 250,000
A European-based infrastructure fund	62,758	70,653
A North American-based infrastructure fund	66,438	72,496

3(e) – Securities Lending

The Plan engages in securities lending to enhance portfolio returns. Credit risk associated with securities lending is mitigated by requiring the borrower to provide daily collateral in the form of cash and readily marketable investments of greater market value than the securities loaned. As at December 31, 2011, the Plan's investments included loaned securities with a fair value of $1,065,618 thousand (2010 – $698,912 thousand). The fair value of collateral received in respect of these loans was $1,106,872 thousand (2010 – $724,463 thousand). Net income earned from securities lending for the year was $1,696 thousand (2010 – $1,124 thousand).

NOTE 4 – CAPITAL AND INVESTMENT RISK MANAGEMENT

The Plan defines its capital as consisting of net assets available for benefits. Net assets available for benefits, consisting of investments and other assets, are managed to fund future pension obligations. The extent that net assets available for benefits are greater than or less than pension obligations is reflected as surplus or deficit. The objective of managing the Plan's capital is to ensure that the Plan is fully funded on a going-concern basis to pay the Plan's benefits over the long term.

The primary risks associated with pension obligations are changes in the key assumptions used to estimate the amount of the obligation. The investment return assumption reflects estimated future investment returns and is sensitive to long-term interest rates. The salary escalation rate is subject to future wage settlements and inflation. Longevity assumptions are a key risk due to the increasing longevity of Canadians. While the Plan monitors such risks, they are generally outside of the Plan's control and cannot be actively managed. As a result, the Plan is primarily focused on managing investment risk.

The objective of investment risk management is to achieve a diversifying of risks and returns in a fashion that minimizes the likelihood of an overall reduction in total fund value and maximizes the opportunity for gains over the entire portfolio. This is achieved through asset diversification to limit exposure to any single issuer or component in the capital markets.

Investment risk management relates to the understanding and active management of risks associated with invested assets. Investments are primarily exposed to currency, interest rate, market, credit and liquidity risk. The Plan maintains a Statement of Investment Policies and Procedures (the "Statement") that addresses the manner in which funds can be invested. The Statement requires diversification of investments within asset classes and sets limits on the exposure to individual investments. Investments are selected and held in accordance with the criteria and limitations set forth within the Statement and in accordance with relevant legislation. The Board of Trustees approves the policies in the Statement and reviews them at least annually.

Currency Risk

Currency risk exposure arises from the Plan's holdings of foreign currency denominated investments where investment values fluctuate due to changes in foreign exchange rates. To manage this risk, the Plan has instituted currency hedging strategies as explained in Note 5. Currency exposures before and after hedging as at December 31 are as follows:

	2011		2010	
($ thousands)	EXPOSURE		EXPOSURE	
	Before Hedging	After Hedging	Before Hedging	After Hedging
Canadian Dollar	$ 3,122,412	$ 4,277,980	$ 3,167,755	$ 4,160,128
United States Dollar	1,516,807	785,685	1,272,613	696,140
Euro	314,746	99,721	314,282	58,122
Japanese Yen	208,705	144,709	155,121	119,632
Hong Kong Dollar	46,211	40,450	50,008	48,387
Swiss Franc	41,086	18,190	47,962	40,732
British Pound Sterling	157,327	87,350	206,940	99,345
Other	187,857	154,492	206,455	214,019
	$ 5,595,151	$ 5,608,577	$ 5,421,136	$ 5,436,505

The chart above includes all investment assets and liabilities as shown on the Statement of Financial Position.

As at December 31, 2011, a 5% increase/decrease in exchange rate between the Canadian dollar and all other currencies, with all other variables held constant, would have resulted in a $66,530 thousand decrease/increase (2010 – $63,819 thousand) in the Plan's foreign currency-denominated investments and net assets.

Interest Rate Risk

Interest rate risk refers to the potential adverse effect on the fair value of the Plan's assets or liabilities due to fluctuations in interest rates. The values of the Plan's assets, liabilities and funded status are all affected by changes in both nominal and real interest rates.

Interest rate risk depends mainly on the timing and size of cash flows, and one measure of this risk is duration. Duration relates the impact of changing interest rates on assets and liabilities and is measured by calculating the average timing of cash flows. More distant cash flows (longer duration) are more sensitive to changes in interest rates than cash flows in the shorter term.

As at December 31, 2011, the duration of the fixed income portfolio was 14.4 years (2010 – 13.4 years). If interest rates were to rise by 1%, the fair value of the fixed income portfolio would decline by approximately $286 million (2010 – $244 million). Conversely, if interest rates were to fall by 1%, the fair value of the fixed income portfolio would increase by approximately $288 million (2010 – $256 million).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk) whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. To mitigate this risk, the Plan invests in a diversified portfolio of investments within the guidelines of the Statement. As at December 31, 2011, a 10% decrease in the price of equities would result in a $274,955 thousand (2010 – $263,487 thousand) decline in net assets and vice versa if equity prices increased by 10%.

Credit Risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The Plan limits credit risk by investing in the debt of corporations that have a minimum credit rating of BBB or R-1 (short term) as determined by a recognized credit rating agency. Up to 5% of the market value of Fixed Income may be invested in high yield securities with a credit rating below BBB. Credit exposure to any single counterparty is limited to maximum amounts as specified in the Statement.

In addition, the Plan has credit risk associated with the positive fair values of derivative instruments, where the counterparty owes the Plan. The Plan manages this risk with its Policy on Investments in Derivative Instruments, which limits investments in derivative investments to counterparties with a minimum credit rating of A from at least two recognized credit agencies.

The Plan also indirectly guarantees the underlying reference obligations when writing credit derivatives. The maximum potential exposure is the notional amount of the written credit derivatives.

The following table presents the maximum exposure at December 31st to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of any collateral held. The table includes financial assets subject to credit risk only; other financial assets, mainly equity securities, as well as non-financial assets, are excluded.

($ thousands)	2011	2010
Short-term investments	$ 288,232	$ 501,310
Fixed income	2,057,823	1,940,203
Derivative-related receivables	23,917	40,603
Interest receivable	9,682	9,201
Loaned securities	1,065,618	698,912
Credit default derivatives – written	46,909	66,171
Total maximum exposure	$ 3,492,181	$ 3,256,400

The credit quality of the Plan's fixed income portfolio as at December 31st was as follows:

($ thousands)	2011	2010
AAA	$ 819,899	$ 796,778
AA	497,582	495,073
A	644,827	586,201
BBB or lower	95,515	62,151
	$ 2,057,823	$ 1,940,203

Liquidity Risk

Liquidity risk refers to the risk that the Plan does not have sufficient cash to meet its current liabilities, including benefit payments, and to acquire investments in a timely and cost-effective manner.

The Plan maintains a portfolio of highly marketable assets, specifically Canada and provincial governments bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. As at December 31, 2011, the fair value of such bonds held by the Plan was $1,594,505 thousand (2010 – $1,136,806 thousand). In addition, the Plan's portfolio of short-term investments of $288,232 thousand (2010 – $501,310 thousand) primarily represents cash or near cash assets that are available to meet payment obligations.

NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS

A derivative financial instrument is a financial contract, the value of which is derived from changes in the value of underlying assets, indexes, interest rates or currency exchange rates. The use of derivatives as a substitute for direct market transactions entails risks similar to the actual purchase and sale of the security upon which the derivative is based. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges.

Notional amounts of derivative contracts represent the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows. It does not represent the potential gain, loss or net exposure associated with the market or credit risk of such transactions. Rather, it serves as the basis upon which the returns from, and the fair value of, the contracts are determined.

The Plan utilizes derivatives in the form of futures, foreign exchange forward contracts, swaps, options and credit derivatives as part of its investment strategy. The Plan uses derivatives to increase or decrease exposure to a market.

Derivative financial instruments are specifically used for:

- Reducing the cash exposure in the equity manager and operating accounts through the use of futures contracts. This is accomplished by converting cash exposure to capital markets exposure as per the Plan's long-term asset mix policy.

- Rebalancing of the actual asset class positions to the asset mix policy, within tolerance ranges, through the use of futures contracts and delayed settlement instruments. This strategy adjusts the weighting of asset classes using synthetic long and short positions.

- Foreign exchange forward contracts are used for short-term currency purchases or sales related to the execution of foreign currency denominated transactions. Foreign exchange forward contracts are also used for passive currency hedging (50% of non-Canadian equity holdings excluding emerging markets), for active currency strategies that increase or decrease the hedge ratio (within defined limits) in order to generate additional return, and for a 100% hedge on non-Canadian Infrastructure investments.

- Derivative instruments such as interest rate swaps, credit default swaps, options and futures are used to gain exposure in markets where no physical securities are available or as risk neutral substitutes for physical securities. Options are utilized to gain exposure to the price volatility of an underlying security or index.

The chart below lists the types of derivative financial instruments employed by the Plan together with the corresponding notional and fair values.

	2011			2010		
($ thousands)	Notional Value	Fair Value		Notional Value	Fair Value	
		Positive	Negative		Positive	Negative
Equity Derivatives						
Futures	$ 547,692	$ 4,794	($ 1,811)	$ 706,343	$ 7,399	($ 2,940)
Fixed Income Derivatives						
Futures	29,980	-	(246)	128,759	251	-
Currency Derivatives						
Forwards	1,931,742	13,433	-	2,127,881	28,992	(13,612)
Options	36,283	838	-	-	-	-
Swaps	47,200	-	(1,352)	5,119	2,186	(2,133)
Interest Rate Derivatives						
Swaps	461,368	785	(408)	95,510	942	(1,314)
Options	149,059	46	(146)	162,340	-	(1,250)
Credit Default Derivatives						
Swaps – purchased	53,557	3,790	(164)	12,848	258	(229)
– written	46,909	231	(234)	66,171	575	(254)
	$ 3,303,790	$ 23,917	($ 4,361)	$ 3,304,971	$ 40,603	($ 21,732)

The term to maturity based on notional value for the derivatives listed in the above table is as follows:

($ thousands)	2011	2010
Under 1 year	$ 2,697,607	$ 3,075,029
1 to 5 years	546,382	187,840
Over 5 years	59,801	42,102
	$ 3,303,790	$ 3,304,971

NOTE 6 – INVESTMENT VALUATION

International Financial Reporting Standard 7 establishes a three-tier hierarchy to classify the determination of fair value measurements for disclosure purposes. Inputs refer broadly to the data and assumptions that market participants would use in pricing the investment. Observable inputs are inputs that are based on market data from independent sources. Unobservable inputs are inputs that reflect the Plan's own assumptions about the assumptions market participants would use in pricing an investment developed based on the best information available in the circumstances.

The three-tier hierarchy of inputs is as follows:

- **Level 1** – quoted prices in active markets for identical investments
- **Level 2** – inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- **Level 3** – inputs for the investment that are not based on observable market data (unobservable inputs)

The following is a summary of the fair value classification levels for investment assets and derivative-related receivables and liabilities as at December 31:

	2011			
($ thousands)	Level 1	Level 2	Level 3	Total
Short-term Investments	$ -	$ 288,232	$ -	$ 288,232
Fixed Income	-	2,057,823	-	2,057,823
Equities	2,548,191	201,355	-	2,749,546
Infrastructure	-	-	214,156	214,156
Real estate	-	-	301,450	301,450
Private equity	-	-	49,443	49,443
Derivative-related receivables	4,794	19,123	-	23,917
Derivative-related liabilities	(2,057)	(2,304)	-	(4,361)
	$ 2,550,928	$ 2,564,229	$ 565,049	$ 5,680,206

	2010			
($ thousands)	Level 1	Level 2	Level 3	Total
Short-term Investments	$ -	$ 501,310	$ -	$ 501,310
Fixed Income	-	1,940,203	-	1,940,203
Equities	2,443,440	191,426	-	2,634,866
Infrastructure	-	-	161,536	161,536
Real estate	-	-	240,927	240,927
Private equity	-	-	28,942	28,942
Derivative-related receivables	7,650	32,953	-	40,603
Derivative-related liabilities	(2,940)	(18,792)	-	(21,732)
	$ 2,448,150	$ 2,647,100	$ 431,405	$ 5,526,655

There were no significant transfers of investments between Level 1 and Level 2 during 2011 or 2010.

Below is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value for the year ended December 31:

	2011			
($ thousands)	Infrastructure	Real Estate	Private Equity	Total
Opening Balance	$ 161,536	$ 240,927	$ 28,942	$ 431,405
Acquisitions	37,681	25,000	23,237	85,918
Dispositions	(7,337)	-	(9,882)	(17,219)
Realized Gains/(Losses)	(75)	-	2,622	2,547
Unrealized Gains/(Losses)	22,351	35,523	4,524	62,398
Closing Balance	**$ 214,156**	**$ 301,450**	**$ 49,433**	**$ 565,049**

	2010			
($ thousands)	Infrastructure	Real Estate	Private Equity	Total
Opening Balance	$ 145,996	$ 138,217	$ 12,845	$ 297,058
Acquisitions	16,654	86,097	16,049	118,800
Dispositions	(4,660)	-	(767)	(5,427)
Realized Gains/(Losses)	789	-	257	1,046
Unrealized Gains/(Losses)	2,757	16,613	558	19,928
Closing Balance	$ 161,536	$ 240,927	$ 28,942	$ 431,405

NOTE 7 – OTHER ASSETS

Other assets consist of fixed assets with a net book value of $2,785 thousand (2010 – $1,051 thousand), and miscellaneous receivables and prepaid expenses in the amount of $1,180 thousand (2010 – $742 thousand). Fixed assets are stated at cost and are depreciated or amortized on a straight-line basis.

($ thousands)	2011			2010
Fixed Assets	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Systems software	$ 2,217	$ 549	$ 1,668	$ 287
Leasehold improvements	733	380	353	297
Computer equipment	766	503	263	65
Furniture, fixtures & equipment	1,149	648	501	402
	$ 4,865	$ 2,080	$ 2,785	$ 1,051

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities is an accrual of $4,362 thousand (2010 – $4,429 thousand) for supplemental employment retirement benefits for Board staff based on pension entitlements that are in excess of registered pension plan maximums under the Income Tax Act (Canada).

NOTE 9 – PENSION OBLIGATIONS

Pension obligations as at December 31, 2011, represent the value of accrued pension benefits payable in the future to members and are based on an actuarial valuation prepared by Mercer (Canada) Limited. The valuation data used is as at the beginning of the year and then extrapolated to year-end. It uses the projected benefit method pro-rated on service and management's best estimate of various economic and non-economic future events, as at the valuation date. Pension obligations include the value of inflation adjustments for post-2007 service to January 1, 2015, and pre-1992 service to January 1, 2014, and exclude them thereafter. Pension obligations and the resulting surplus (deficit) for financial statement purposes are different than for regulatory purposes (refer to Note 10). Regulatory valuations must be filed with FSCO at a minimum once every three years. The next regulatory valuation is required to be filed as at January 1, 2014.

Pension obligations as at December 31, 2011, were $7,028,718 thousand (2010 – $6,869,761 thousand).

Actuarial Assumptions

The actuarial assumptions used in determining the accounting value of pension obligations reflect management's best estimate of future economic events and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment return, salary escalation rate and inflation rate. The investment return is based on the long-term estimated rate of return on investments, and reflects the Plan's asset mix and current market expectations. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumptions and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2011	2010
Investment return	**5.90%**	6.00%
Salary escalation rate	**3.75%**	4.15%
Inflation rate	**2.00%**	2.40%
Real discount rate	**3.90%**	3.60%

Changes in actuarial assumptions between 2010 and 2011 resulted in a decrease in the pension obligation of $123,234 thousand (2010 – increase of $662,384 thousand).

Experience Gains (losses)

Experience gains and losses represent the change in pension obligations due to the difference between actual economic and demographic experience and expected experience. During 2011, experience gains were $44,726 thousand, (2010 – loss of $9,233 thousand). Experience gains in 2011 stemmed from lower than assumed salary escalation. Experience losses in 2010 stemmed from higher salary escalation and lower mortality than assumed, offset in part by lower inflation for the period than assumed.

Plan Provisions

In 2011, changes to future contribution rates were announced. The contribution rate on contributory earnings (as defined by the Plan text) by both employers and employees will increase 0.8% on January 1, 2012, 0.4% on January 1, 2013, and 0.4% on January 1, 2014. The contribution rates in 2011 and 2010 were 12.1% of contributory earnings up to the Year's Basic Exemption as determined by the federal government to determine Canada Pension Plan contributions ("YBE") ($3,500 in 2011 and 2010), 10.3% of contributory earnings for earnings between the YBE and the Year's Maximum Pensionable Earnings as determined by the federal government to determine Canada Pension Plan contributions ("YMPE") ($48,300 in 2011 and $47,200 in 2010), and 12.1% of contributory earnings in excess of the YMPE. Once changes to the contribution rates are fully implemented in 2014, the contribution rate on contributory earnings up to the YMPE will be 11.9% and 13.7% on contributory earnings in excess of the YMPE. There were no material plan provision changes in 2010.

NOTE 10 – DEFICIT

The deficiency of net assets available for benefits against pension obligations results in the Plan being in a deficit of $1,401,555 thousand as at December 31, 2011 (2010 – $1,418,033 thousand). The deficit for financial statement purposes differs from the regulatory surplus / (deficit). The regulatory surplus / (deficit), which is calculated in accordance with actuarial standards on a going-concern basis, is used to determine changes to contribution rates and/or benefits for future service in order to maintain the Plan in a regulatory surplus. The Plan is not required to fund on solvency deficits. The regulatory surplus of the Plan prepared, but not filed with FSCO, as at December 31, 2011, is $153,737 thousand (2010 – deficit of $190,758 thousand). The last actuarial valuation filed as at January 1, 2011, indicated a regulatory surplus of $88,000 thousand. A 25-basis-point decrease in the investment return assumption at December 31, 2011, would result in a decrease in the regulatory surplus of approximately $297 million (2010 – $303 million).

The primary components of the measurement differences between the regulatory deficit and deficit for financial statement purposes are as follows:

($ thousands)	**2011**	**2010**
Regulatory surplus / (deficit)	$ 153,737	($ 190,758)
Actuarial asset value adjustment	(399,377)	(361,714)
Difference in actuarial methods	(1,155,915)	(865,561)
Measurement differences between regulatory and accounting deficit	(1,555,292)	(1,227,275)
Deficit for financial statement purposes	($ 1,401,555)	($ 1,418,033)

Actuarial Asset Value Adjustment

For purposes of determining the regulatory deficit, the actuarial value of net assets available for benefits is determined by using a formula that smoothes out the effects of the changes in market values over a five-year period. The adjustment represents the deferred portion of gains or losses resulting from the difference between the actual and management's best estimate of the expected return of those investments over the long term. Differences are deferred and amortized over the current and following four years.

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the regulatory deficit:

($ thousands)		**2011**	**2010**
Gains / (Losses) to be recognized at the end of	2011	**$ –**	($ 245,700)
	2012	**(241,600)**	(170,759)
	2013	**(22,950)**	47,891
	2014	**(63,987)**	6,854
	2015	**(70,840)**	–
		($ 399,377)	($ 361,714)

Difference in Actuarial Methods

While the pension obligation for financial statement purposes uses the projected benefit method pro-rated on service, the pension obligation for regulatory purposes uses a modified aggregate valuation method, where the present value of future contributions and future service benefits are included in the determination of the regulatory deficit.

NOTE 11 – CONTRIBUTIONS

($ thousands)	**2011**	**2010**
Members		
Current service	**$ 146,476**	$ 140,304
Past service	**6,164**	3,205
Employers		
Current service	**146,476**	140,304
Past service	**2,748**	2,366
Transfers from other pension plans	**10,346**	9,773
	$ 312,210	$ 295,952

NOTE 12 – INVESTMENT INCOME

Investment income before the allocation of the net realized and unrealized gains on investments to investment classes, is as follows:

($ thousands)	2011	2010
Interest income	$ 60,630	$ 82,910
Dividend income	71,451	63,326
Other income	2,124	1,611
	134,205	147,847
Investment gains		
Realized gain	84,053	184,238
Change in unrealized appreciation of investments	451	313,936
	84,504	498,174
Investment income prior to investment expenses	218,709	646,021
Investment management fees	(36,433)	(34,473)
Transaction costs	(4,908)	(4,337)
	$ 177,368	$ 607,211

Investment income before the allocation of the net realized and unrealized gains on investments to investment classes, is as follows:

($ thousands)	2011	2010
Short-term investments	($ 42,676)	$ 49,189
Fixed income	315,034	226,908
Equities	(126,426)	333,784
Infrastructure	26,756	14,471
Real estate	35,523	16,613
Private equity	10,498	5,056
	$ 218,709	$ 646,021

NOTE 13 – BENEFITS

($ thousands)	2011	2010
Pensions	$ 276,407	$ 257,706
Payment on termination of membership	22,938	21,744
Transfers to other pension plans	2,290	4,211
	$ 301,635	$ 283,661

NOTE 14 – ADMINISTRATIVE EXPENDITURES

($ thousands)	2011	2010
Salaries and benefits	$ 6,805	$ 7,016
Administration	1,953	2,113
Custodial fees	1,665	1,488
Actuarial fees	234	236
Audit fees	125	161
Other professional services	1,267	1,652
Depreciation and amortization	459	410
	$ 12,508	$ 13,076

NOTE 15 – COMMITMENTS

The Plan leases its office premises under an operating lease agreement that has an expiration date of November 30, 2015. Future lease payments over the remaining life of the lease total $2,778 thousand, with the following amounts payable over the next four years: 2012 – $693 thousand, 2013 – $704 thousand, 2014 – $715 thousand and 2015 – $666 thousand.

The Plan has committed to invest in certain private equity, real estate and infrastructure funds, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2011, these commitments totalled $231,451 thousand (2010 – $215,722 thousand).

NOTE 16 – RELATED PARTY TRANSACTIONS

Related parties to the Plan primarily include the Plan sponsors, each of the Colleges of Applied Arts and Technology in Ontario, and other college-related employers whose employees are participants in the Plan.

The Plan does not have any investments in any securities issued by related parties.

The Plan, in the regular course of its business, reimburses colleges for the time and expenses their employees spend attending Plan meetings. The total of such reimbursements to colleges in 2011 were $19 thousand (2010 – $16 thousand).

NOTE 17 – GUARANTEES AND INDEMNIFICATIONS

The Plan provides indemnifications to its trustees, sponsor committee members and officers for various items including, but not limited to, all costs to settle suits or actions due to services provided by the Plan, subject to certain restrictions. The Plan maintains Fiduciary and Directors & Officers insurance to mitigate the cost of any potential suits or actions. The contingent nature of the indemnification agreements prevents the Plan from making a reasonable estimate of the maximum potential payment that the Plan could be required to make. To date, the Plan has not received any claims nor made any payments pursuant to such indemnifications.

Ten-year Review (Unaudited)

($ in millions)	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
FINANCIAL										
Short-term investments	288	501	249	174	161	192	900	984	1,127	1,062
Fixed income	2,058	1,940	2,007	1,768	2,190	2,072	1,898	1,698	1,518	1,338
Equities	2,750	2,635	2,309	2,214	3,101	3,177	2,126	1,700	1,379	1,175
Infrastructure	214	162	146	130	84	34	-	-	-	-
Real Estate	301	241	138	39	-	-	-	-	-	-
Private Equity	49	29	13	-	-	-	-	-	-	-
Derivatives (net)	20	19	22	(18)	16	(22)	(11)	10	-	-
Total Investments	5,680	5,527	4,884	4,307	5,552	5,453	4,913	4,392	4,024	3,575
Other assets (liabilities) (net)	(53)	(75)	(39)	(74)	(100)	(101)	(124)	(94)	(60)	(8)
Net assets available for benefits	5,627	5,452	4,845	4,233	5,452	5,352	4,789	4,298	3,964	3,567
Contributions	312	296	262	227	186	167	161	156	116	108
Investment Income (loss)	177	607	629	(1,183)	159	628	542	367	458	(208)
Benefit Payments	(302)	(284)	(267)	(248)	(237)	(223)	(203)	(182)	(170)	(159)
Administrative Expenses	(13)	(13)	(12)	(14)	(8)	(9)	(9)	(8)	(8)	(8)
Net change in net assets available for benefits	175	606	612	(1,218)	100	562	491	333	397	(267)
RETURNS										
Annual return, gross of fees	4.1%	13.3%	15.2%	-21.4%	3.4%	13.6%	13.1%	9.7%	13.3%	-5.7%
Annual return, net of fees	3.4%	12.6%	14.7%	-21.7%	3.1%	13.3%	12.8%	9.4%	13.1%	-5.8%
After inflation	1.1%	10.2%	13.4%	-22.9%	0.7%	11.6%	10.7%	7.3%	11.0%	-9.8%
MEMBERSHIP										
Active Members	20,468	19,655	19,527	18,766	18,019	17,370	16,814	16,410	16,088	15,281
Deferred Members	1,142	1,121	1,101	1,098	1,058	1,043	1,027	1,025	974	931
Retired Members	12,097	11,663	11,190	10,831	10,432	10,021	9,645	9,026	8,622	8,215
Total Members	33,707	32,439	31,818	30,695	29,509	28,434	27,486	26,461	25,684	24,427

Amounts may not add due to rounding.

Corporate Directory

Derek W. Dobson
Chief Executive Officer and Plan Manager

Julie Cays
Chief Investment Officer

Kevin Rorwick
Chief Financial Officer

Kevin Fahey
Director, Investments

Asif Haque
Director, Investments

Evan Howard
Director, Policy

Tracey Leask
Director, Pension Operations

Andrew Mathenge
Director, Information Technology

We welcome your comments and suggestions on this annual report.

Please contact:
John Cappelletti, Manager, Stakeholder Relations
Tel: 416-673-9040
E-mail: caatpensionplan@caatpension.on.ca

Design: d'na (dakis&associates)

CAAT PENSION PLAN

2 Queen Street East, Suite 1400
P.O. Box 22 Toronto ON M5C 3G7
Tel 416.673.9000 **Toll Free** 1.866.350.2228
www.caatpension.on.ca

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