



2012 ANNUAL REPORT



Our path is clear
Our team is strong



At a glance

Investment returns (for the calendar year)

	Gross	Net
2012	11.8%	11.3%
2011	4.1%	3.4%
2010	13.3%	12.6%

Funded status

103% funded
 \$347 million surplus
 \$6.3 billion in assets
 as at January 1, 2013

Annual rates of return (net of investment management fees)



For 2012

2,078

New members

630

Members who retired

62

Average age at retirement

24

Average years of service at retirement

\$36,800

Average annual pension at retirement

\$22,700

Average annual pension for all retired members

Sponsors



24 colleges and 5 non-college employers

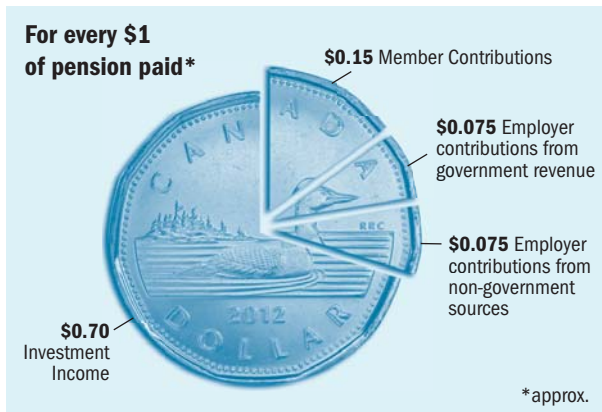


Ontario College Administrative Staff Association

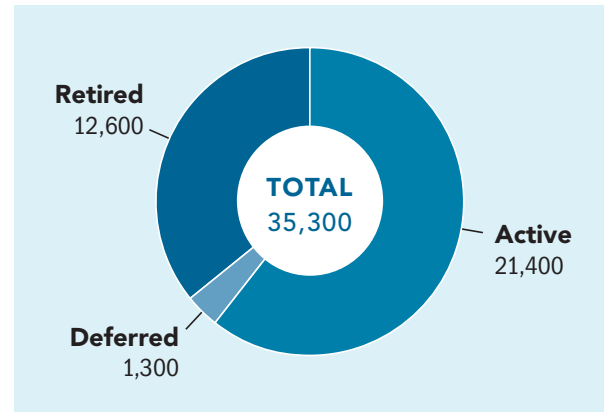


Academic and Support

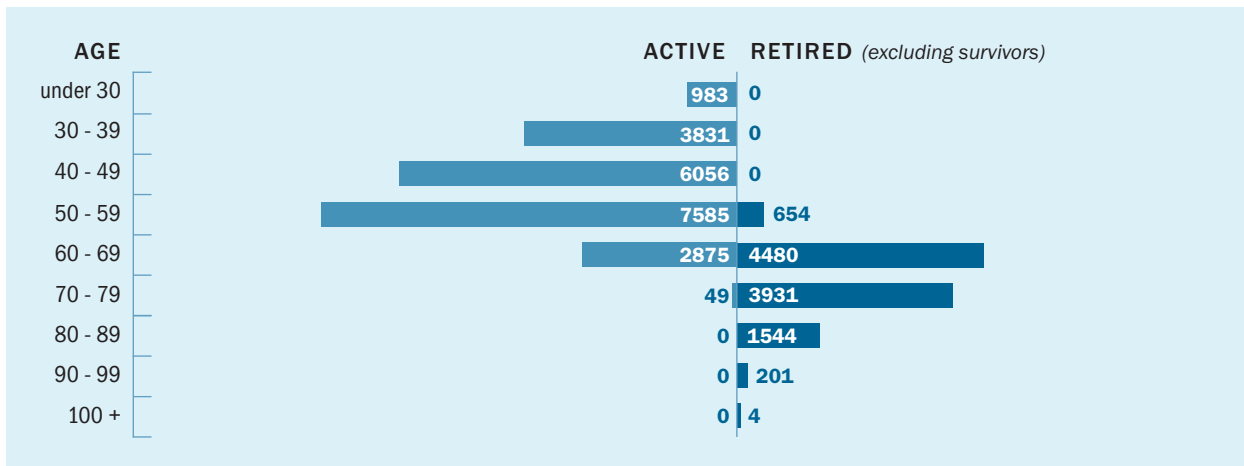
Who pays for CAAT Plan pensions?



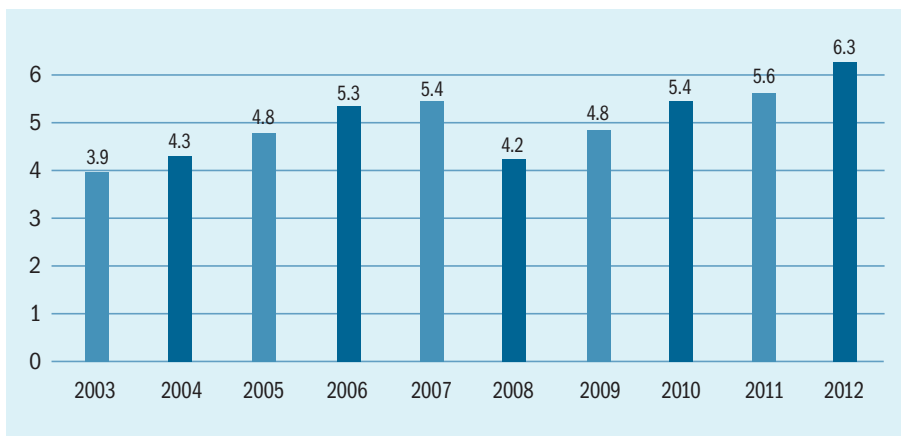
Membership profile



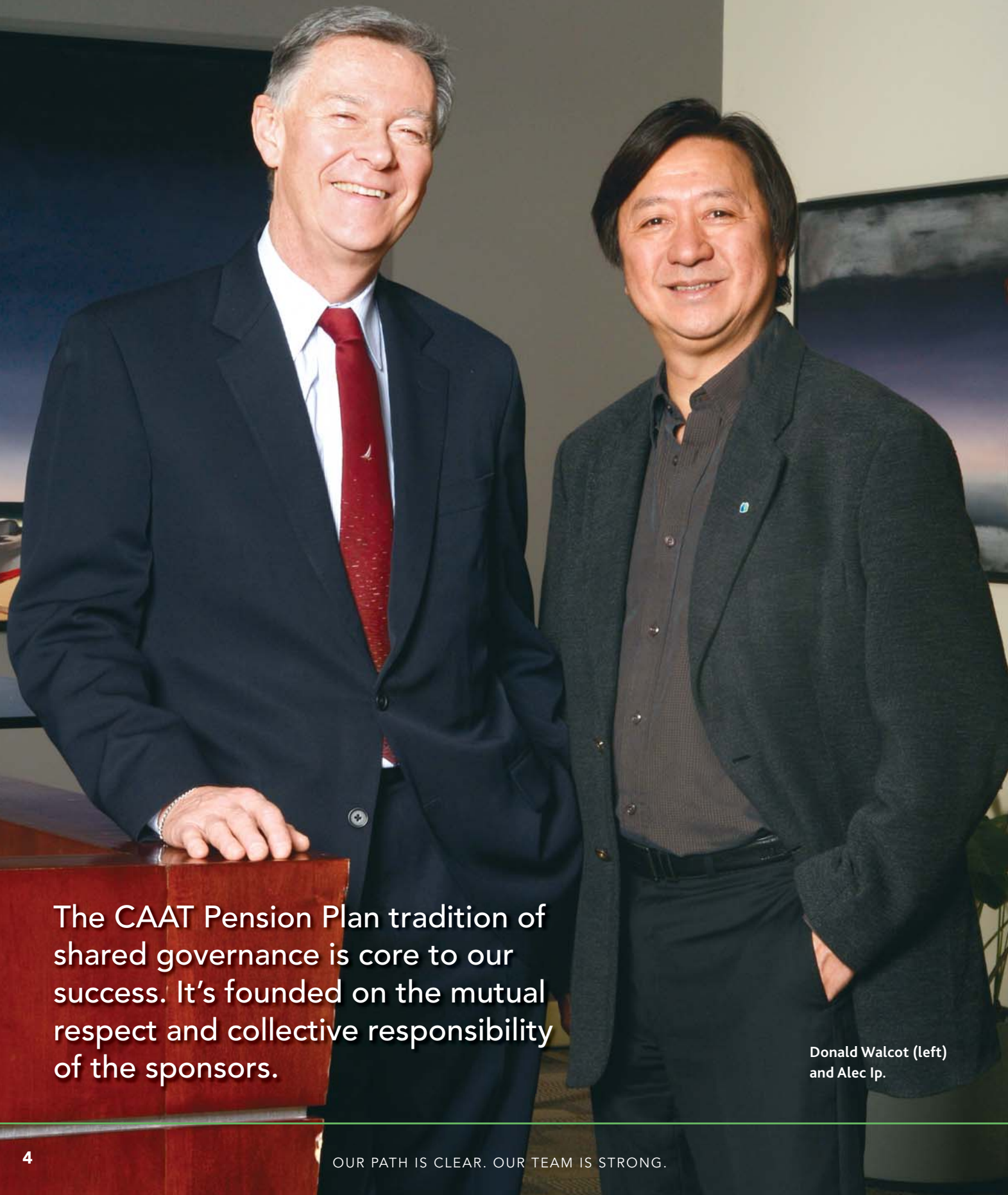
Demographic profile



Growth in net assets (\$ billions, at end of each year)



Exercising collective responsibility



The CAAT Pension Plan tradition of shared governance is core to our success. It's founded on the mutual respect and collective responsibility of the sponsors.

Donald Walcot (left)
and Alec Ip.

This tradition of shared governance led to our successful negotiations with the Ontario government to sign the Jointly Sponsored Pension Plan Framework Agreement in October 2012.

During several meetings with senior Ministry of Finance officials, the CAAT Plan was represented by the chairs of the Board and the Sponsors' Committee along with CEO Derek Dobson and several of his staff. This team approach to negotiations was used in part because it made good sense to have everyone at the table. It also showed how we operate as an organization: Plan governors and staff working together for a common purpose. Indeed, the CAAT Plan's proud tradition of functional governance is a distinguishing characteristic.

The 12-member Board of Trustees, which is responsible for overseeing management, the investment of assets and the administration of the benefits, governs by consensus. The eight-member Sponsors' Committee, which is responsible for the Plan design and contribution rates, governs by unanimous agreement.

A jointly sponsored plan means employers and employees contribute equally to funding the pension. They also share the risks and the responsibilities for managing deficits and surpluses in accordance with the Funding Policy of the Plan. Our ongoing surplus has placed the Plan in the enviable position of building reserves in a time of economic uncertainty.

Although the CAAT Plan serves the Ontario college system, it is often mistakenly thought to be an agency of the colleges. The CAAT Pension Plan is separate and independent. It works closely with college-system employers, but it is independent and

must act, by law, in the best interest of the Plan and its members.

Over the past year we have looked at the possibility of university plans joining our plan. As an independent multi-employer plan in the postsecondary sector, we are well-positioned to welcome interested university plans. We believe there are cogent reasons why this makes sense for everyone involved. We expect the CAAT name will be changed to be inclusive of universities. We further expect representation on the Board of Trustees and the Sponsors' Committee will evolve to reflect the growth in members from universities.

As stewards of the Plan it is our responsibility to ensure fairness. This is one reason why we embarked on the Plan Equity Review Task Force this past year, the results of which are presented in greater detail in the Management Discussion and Analysis section of this annual report. Ensuring fairness means, in part, that policy and the way it is administered does not inadvertently disadvantage one group of members over another. This philosophy of fairness is why the equity adjustment to contribution rates was introduced this year and part of the rationale for eliminating the "One-day rule."

This past year the Board bid a fond farewell to three trustees: Bernard Belanger, Pierre Giroux and James Simpson. Together these trustees have provided 23 years of service to the CAAT Pension Plan and it is with gratitude that we warmly wish each of them well.



Donald Walcot, Chair

With the arrival of 2013, the Board welcomed three new trustees: Stephen Campbell, Lynda Rattenbury and Don Smith.

The CAAT Pension Plan is separate and independent.

Also new this year is the appointment of Darryl Bedford to Chair of the Board, effective April 1, 2013. The appointment is for 18 months and Darryl takes over from Don Walcot, who becomes Vice-Chair. Alec Ip has completed his term as Vice-Chair of the Board and remains as a Trustee and Co-Chair of the Finance and Administration Committee.

The management of the Plan, under the accomplished leadership of Derek Dobson, is made up of talented professionals who bring expertise, diligence and dedication to their roles. We are fortunate and privileged to work with these fine individuals. Their collective skills were publicly acknowledged this year when the CAAT Pension Plan was recognized as one of Canada's Best Small and Medium Employers. This news did not come as a surprise to the Board of Trustees, but it is a welcome award of excellence and tangible evidence of the outstanding organization we are building.

Along with our capable and professional staff, the Board remains unwavering in its commitment to work with all stakeholders for the unifying purpose of keeping the Plan strong and viable for the current and future beneficiaries. ➤



Alec Ip, Vice-Chair

Dedicated talent and a solid Plan

"The Plan is 103% funded with a reserve to provide some cushion during this period of continued economic uncertainty."

DEREK W. DOBSON
CEO and Plan Manager

The CAAT Pension Plan recently made the list of the 50 Best Small and Medium Employers in Canada. We ranked 29 in Canada and nine in the Greater Toronto Area in an assessment conducted by the Queen's University School of Business and Aon Hewitt Consulting, and published in *Profit Magazine* and the *Toronto Star*, respectively.

This recognition is worth noting for one important reason: employee engagement is the predominant factor in determining the score. Our 67 employees are talented and dedicated, and their commitment is making all the difference.

Experts agree employee engagement is crucial to the success of an organization and important to attracting and keeping top talent. Engaged employees are motivated, have high morale and feel a greater sense of purpose. They tend to be more focused on future direction, strategies, and clients. In short, engaged employees are part of high-performing organizations.

Top talent produces top results. This year the Plan, under the able leadership of Julie Cays, our Chief Investment Officer, earned an 11.8% rate of return, gross of investment expenses totalling 50 basis points.¹

Since the financial crisis of 2008, the Plan's well-balanced, diversified investment portfolio has earned an average annual rate of return of 11.1% before expenses and 10.5% net of expenses, placing its performance in the top 10%

of pension plans, endowments and foundations.²

The returns in 2012 increased the Plan's net assets to \$6.3 billion from \$5.6 billion the previous year.

The Plan filed a valuation as at January 1, 2013, with a surplus on a going-concern basis of \$347 million, up from \$154 million from the previous year. In addition to growth in the market value of assets, we were able to realize liability reductions because members are retiring later than expected. This funding improvement from the retirement assumption change was tempered by a 10 basis-points reduction to the discount rate. The Plan is 103% funded with a reserve to provide some cushion during this period of continued economic uncertainty.

The Jointly Sponsored Pension Plan Framework Agreement we successfully negotiated with the Ontario government provided the Plan with exemption from special legislation and from forced participation in a pooled investment fund. We were also granted an additional year in the valuation cycle, which means our next required valuation is due effective January 1, 2017. This provides the Plan with more flexibility to manage through the unexpected. In return, the Plan has agreed not to increase contributions beyond those already scheduled for the duration of the five-year agreement. Most importantly, the agreement allows governance and investment decisions to remain with the Plan.

Looking forward

Increased life expectancy and low interest rates demand that more funding be set aside to secure future pension payments, while investment markets are expected to continue to be volatile.

In this environment, plans that provide pensions to public sector employees have received unfounded criticism that they are unsustainable. The CAAT Pension Plan's performance defies the critics.

The jointly sponsored defined benefit pension plan is a superb, efficient model for delivering predictable retirement income at a reasonable cost.

Through prudent, professional management, our jointly governed, multi-employer and 50/50 cost-shared plan has consistently strengthened its financial position since the financial crisis of 2008.

The jointly sponsored defined benefit pension plan is a superb, efficient model for delivering predictable retirement income at a reasonable cost. This information, often lost among the sound bites, needs to inform policy makers. Looking forward, the CAAT Pension Plan will continue to seek opportunities to promote the advantages of defined benefit pension plans and impart the need to provide adequate retirement income efficiently and with lower risk.

¹ A basis point is a unit equal to one hundredth of a percentage point. Hence, 50 basis points equals 0.5%.

² Based on the Bank of New York Mellon Corporation for Canadian universe data for pension plans, endowments and foundations.

Because retirement income adequacy is critically important for members, employers, and government, we will continue to do our part to inform the public debate about the growing need for effective and efficient retirement savings and the strengths and advantages of the defined benefit pension model in Canada.

Inviting universities to join a well-managed existing pension plan

As I reported in last year's annual report, we are inviting interested universities to join us to create a broader postsecondary education

sector-based pension plan. Our proposal offers immediate relief for those universities with pension funding shortfalls by enabling them to significantly reduce the risks and costs associated with managing a single employer pension plan.

In 2012 we engaged various stakeholder groups in Ontario's postsecondary education sector about the merits of this idea. We have been in detailed discussions with several universities and faculty associations to work through the remaining issues, and we are progressing well to an agreement.

This consolidation of postsecondary plans will benefit CAAT Plan members and employers, universities and their plan members, students, and Ontario taxpayers.

Working together we continue to explore ways to make the pension plan stronger for the benefit of current and future members and stakeholders. ▶



Derek W. Dobson
CEO and Plan Manager

Leadership team (l-r) Asif Haque, Kevin Fahey, Julie Cays, Kevin Rorwick, Derek Dobson, Andrew Mathenge, Tracey Leask, Evan Howard. Not shown: Angela Goodchild.



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 ended December 31, 2012.

Plan overview: delivering value, stability, growth

The CAAT Pension Plan provides defined pension benefits to more than 35,000 members who work for or have retired from the 24 colleges and related employers in the province of Ontario.

Against the headwinds facing all pension plans, the Plan stands secure, fully funded, and well-managed. The Plan's last filed actuarial valuation shows the Plan has a surplus of \$347 million, assets of \$6.3 billion and is 103% funded on a going-concern basis, as of January 1, 2013.

The Plan carries out its mandate by administering the benefits and investing the assets held in trust on behalf of members. We deliver value through our expertise in navigating economic and demographic risks. Members can count on a predictable and reliable lifetime income in retirement without the worry of outliving their savings. Plan employers can offer a valuable benefit without bearing the administrative expenses and risks of managing a single-employer pension plan.

The three sponsors of the Plan – 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 – members and employers participate equally on both bodies.

As fiduciaries, members of the Board of Trustees are legally bound to act in the interests of the Plan and its members. The Board establishes policies for investing contributions and administering benefits. It also sets the levels of investment and funding risk that are appropriate for the Plan's long-term obligations.

Sponsors' Committee members primarily represent the interests of the respective groups that appointed them. The Sponsors' Committee focus is determining how to best balance contribution rates and benefit design.

Strategy and priorities

In 2012, we completed a three-year strategy to define and reinforce the value of the Plan, in alignment with our mission: to improve the financial security of members in retirement with appropriate and secure benefits supported by stable and affordable contribution rates. Our exemption from the proposed Ontario government's

pooled investment fund is a notable success of our ongoing advocacy program aimed at retaining and expanding the governance tools required to fulfill our mission.

Against the headwinds facing all pension plans, the CAAT Plan stands secure, fully funded, and well-managed.

Our strategic priorities are to:

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

Benefits and administration



The Plan complies with complex federal and provincial regulations and relies on participating employers to carry out certain local administration functions. Our legal and pension administration experts ensure compliance as well as quality and efficiency in the calculation of benefits and delivery of service. They work closely with employers to simplify their role in the local administration of the pension plan while limiting risk.

Our award-winning³ communications team sees that member materials are easy to understand, surpass legislated requirements, and save employers time and effort.

Plan amendments

Several Plan changes were announced in 2012 to comply with new Ontario regulations. In addition, we introduced other changes aimed at improving equity

across the membership. These changes were the outcome of our ongoing reviews of Plan benefits, to ensure they continue to meet member needs and deliver fair value for the contributions made over the course of a member's career.

Equity adjustment to contribution rates – The difference between the low and high contribution rates was changed to 3.6% from 1.8% to better align contributions with benefits being accrued at low and high rates. Members with earnings below \$84,000 pay slightly less in contributions than previously announced starting in 2013. Members with higher earnings contribute more, proportionate to their earnings level. This change did not affect total contributions by all members and employers. Overall equity for members at different earnings levels is improved through this change.

Elimination of non-integrated contributions and benefit accrual

This change affects members working past age 65 who have stopped contributing to the Canada Pension Plan. Prior to the change, which took effect January 1, 2013, these members contributed only at the high contribution rate and built benefits at only the high rate. With the exception of those on long-term disability, all members now pay contributions and accrue benefits at both the low and high rates, improving equity amongst members regardless of age.

Removal of the 'One-day rule'

A provision that allowed members to accrue a month of service if they worked for at least one day of the month was eliminated beginning July 1, 2012 to ensure compliance with federal tax law and improve equity.

³ In 2012, the Plan earned two International Association of Business Communicators Ovation Awards of Merit and two APEX Awards of Excellence.

Highest Average Pensionable Earnings annualized

– The Plan Text description of how Highest Average Pensionable Earnings are calculated for members who work part time was clarified, effective July 1, 2012, to align with current practice of annualizing for the entire year rather than each month. The monthly calculation was not practical given the irregular and varied employment of many part-time members.

Levelling of service purchase costs

The costing of service purchases was amended so that, beginning July 1, 2012, purchases with an actuarial costing component would be charged the higher of the actuarial cost or contributions. This treats 'buybacks' for all members fairly and consistently.

Opting out of grow-in provisions

The Plan exercised an option available to jointly sponsored pension plans effective June 30, 2012 to not provide grow-in benefits to members who are involuntarily terminated. The decision was made because grow-in benefits would have been available to only a few members at a cost born by all participants, creating inequity.

Small pension thresholds raised

The threshold for paying out minimal entitlements in a single lump sum rather than as a pension or locked-in transfer was increased to 4% from 2% of the Year's Maximum Pensionable Earnings (YMPE) for an annual pension and to 20% of the YMPE for commuted value payouts. The changes, which took effect July 1, 2012, reflect

increased legislative limits that, in 2012, amounted to \$2,004 per year or \$167 per month for a pension and \$10,020 for a commuted value payout.

Payouts that can be made to an RRSP expanded

– This change reflected legislated changes allowing plans to transfer out as a lump sum the commuted value of a survivor pension that falls below the same small pension threshold that applies to members, as described above. It took effect July 1, 2012.

References to partial windups removed from Plan Text

– This change reflected the legislated elimination of partial windups that took effect July 1, 2012.

Service delivery

To assist employers to adapt to new compliance-driven processes introduced in 2012, we expanded support with:

- Monthly teleconferences with employer pension administrators
- Tools and information materials regarding earnings and service calculations, among other topics, available on our easier-to-navigate website
- Launch of an employer education and certification program and the first in a series of webinars.

We also provided employers actuarial analyses of employee demographic trends for use in workforce planning.

Late in 2012, our pension administration team was organized into employer and member services units to simplify inquiry handling and transaction processing, and to deepen the specialized knowledge within each of these groups. Direct-to-member service is now available for some transactions and required for others, such as pension valuation upon marriage breakdown. This service model improves timeliness, reduces costs, and better manages risk.

For members, in 2012 there were many new or refreshed sources for learning about their benefits and how the Plan is managed. Among them:

- Three new videos made available on our website: the *Road to retirement*, *Value in the Plan*, and *New to the Plan?*
- Improvements to the member presentations made at employer sites across the province
- The launch of *My Pension NewsLink*, an email service that enables members to receive Plan news directly and quickly, wherever they are
- The development of annual statements for retired members (delivered in early 2013), designed to help them better understand their benefits, including the level of inflation protection tied to each period of service

- A session about the Plan's investment strategy delivered to stakeholder groups including a retired member association, at their annual general meeting
- Multiple sessions explaining the Jointly Sponsored Pension Plan Framework Agreement with the province and its impact.

Modernizing infrastructure

We made progress updating the information infrastructure that is critical to efficient operations in pension management. Improvements to our accounting system will improve the detail and timeliness of financial reporting. Work continues on the implementation of a new pension administration system that, when completed, will streamline transactions and reduce risk. This

is a complex, multiphase project requiring precision in programmed calculations, data conversion, records management, reports, security and controls. These new systems will enable us to better serve current members and employers and also accommodate membership growth.

Plan funding

The Plan's actuarial valuation, as of January 1, 2013, shows an increase of the regulatory surplus to \$347 million from \$154 million from the previous filed valuation, as of January 1, 2012. Benefits remain secure with \$6.3 billion in assets and a 103% funded level on a going-concern basis. A previously scheduled 0.4% increase over 2013 contribution rates (announced in 2011) will be applied in 2014 for

a blended rate of 12.4% of pay (11.2% up to and 14.8% above the YMPE⁴) that will remain in effect until at least 2018.

With the results of the January 1, 2013 valuation, we were able to announce that no benefit reductions will need to be considered under the Jointly Sponsored Pension Plan Framework Agreement negotiated with the Ontario government.⁵ Based on this valuation, we were also able to announce that conditional inflation protection increases on service earned after 2007 will be granted to retired members through to at least January 1, 2017.

We use realistic assumptions in our actuarial valuations. One key assumption is that retired members are living to age 88 on average, well above the life expectancy of

Our pension administration team was organized into employer and member services units to simplify inquiry handling and transaction processing, and to deepen the specialized knowledge within each of these groups.

VALUATION

Going-concern funding results (modified aggregate basis)	January 1, 2013 Filed valuation
ASSET VALUES:	(\$ millions)
Market value of net assets	\$6,260
Smoothing adjustment	\$31
Present value of future contributions	
Basic contributions	\$2,631
Supplemental contributions	\$1,018
Total actuarial value of assets	\$9,940
Liabilities for accrued benefits	\$7,218
Present value of future benefit for active members	\$2,360
Provision for indexation adjustments relating to post-2007 service for 3 years following valuation date	\$15
Total actuarial liabilities	\$9,593
Funding excess	\$347

⁴ Year's Maximum Pensionable Earnings, set annually by the federal government. The 2013 YMPE is \$51,100.

⁵ See page 15 for more information on the Jointly Sponsored Pension Plan Framework Agreement.

the general population. Above-average longevity is typical of the demographic profile of those working in postsecondary education. Our adoption in 2011 of a longer life-span assumption and nudging up of contribution rates over three years (2012-14) to help fund for longer lifetime payouts, have prepared the Plan for this growing pressure.

Policy drives disciplined funding decisions

Plan governors have successfully steered the Plan through the turbulence of financial markets, low interest rates and improving member mortality by applying the required measures of the Funding

Policy developed in 2006 and updated in 2010.

The policy is designed to keep Plan funding healthy over the long term to protect promised benefits while minimizing contribution rate volatility and considering equity across generations of Plan members. To deliver on these longer term goals while managing through short-term volatility, the policy prescribes the use of reserves, stability contributions, and conditional benefits at each of six levels of Plan financial health. The Plan's funding level is measured at every filed actuarial valuation and the actions required

at that level are implemented. As of its latest filed valuation, at January 1, 2013, which shows the Plan 103% funded, the Plan sits at Level 3 of the Funding Policy. (See page 14 for more information about the Funding Policy.) ➤

We use realistic assumptions in our actuarial valuations. One key assumption is that retired members are living to age 88 on average, well above the life expectancy of the general population.



Funding Policy at a glance

This is a summary of the CAAT Pension Plan Funding Policy.
The full policy is available in the governance section of our website.

HOW THESE LEVERS OF CONTROL OF FUNDING ARE APPLIED AT EACH LEVEL

	Reserves	Contributions	Conditional Benefits	Benefits
Level 6 Consider a combination of:	Further build, up to tax limit	Consider reducing basic	Consider improving benefits, for example granting ad-hoc inflation protection on pre-1992 service	
Level 5	Additional allocation to withstand up to a 7.5% increase in liabilities	Basic only	Inflation protection paid on post-2007 service for all periods	
Level 4	Allocate to withstand up to a 1% change in discount rate and to fund future inflation protection increases on post-2007 service	Basic + 1% - 2% stability	Inflation protection paid on post-2007 service for all periods	
Level 3*	Allocate to withstand up to a 0.5% change in discount rate	Basic + 3% stability	Inflation protection increase on post-2007 service for current period + catch-up on missed periods	
Level 2	Fully used	Basic + 3% stability	Inflation protection increase on post-2007 service for current period	Restoration of any temporary reductions
Temporary Level 1– until December 31, 2017**	Fully used	Basic + 3% stability No increase permitted	No inflation protection increase on post-2007 service	Temporary reduction to benefits earned in future
Level 1	Fully used	Basic + 3% stability + Consider other increases	No inflation protection increase on post-2007 service	Consider reduction to benefits earned in future

* Level as at January 1, 2013

** As part of the Jointly Sponsored Pension Plan Framework Agreement negotiated with the provincial government in late 2012, the Funding Policy was amended to add a temporary Funding Level 1 to reflect a contribution rate freeze in effect from January 1, 2013 to December 30, 2017. During this period, if a valuation shows the Plan at Funding Level 1, the Plan

would be amended to temporarily reduce benefits. Reduced benefits could be restored when the Plan reaches a funding level of 100%, at Level 2. Since the agreement was reached, the Plan filed a valuation as of January 1, 2013 that projects a surplus through 2017, allowing contributions to remain as announced with no benefit changes required.

Advocacy in best interest of members

We have been actively building relationships with our many stakeholders to raise awareness and understanding of the value of defined benefit pensions and of the success of our joint governance structure. Plan employees delivered educational presentations to more than 3,000 members at employer sites across the province in 2012. In addition, members of the Plan's senior management team spoke about the importance of defined benefit pension plans to a wide range of stakeholders – in the postsecondary education sector, government, and to pension and investment professionals.

We remained active with our advocacy efforts when, in its 2012 budget, the Ontario government proposed changes that would affect pension plans operating in the broader public sector. Those changes would require the assets of many smaller pension plans be pooled in a single investment 'superfund.' The proposed

legislation also required that jointly sponsored plans reduce future benefits rather than increase contributions to cover any funding shortfall.

The government's goal for investment pooling was to improve returns and achieve cost efficiencies. We believe that pooling assets alone will not necessarily lead to meaningful and sustainable efficiencies. The Plan's investment program is cost-effective and has been delivering returns in the top 10% since the financial crisis in 2008. Pooling CAAT Plan funds with those of plans in different sectors with different demographic, and therefore liability and risk profiles, would have forced together disparate funds with different investment goals. The mismatch of governance and investment objectives could effectively negate the advantages of size and ultimately increase volatility by concentrating

assets rather than our goal of diversifying them.

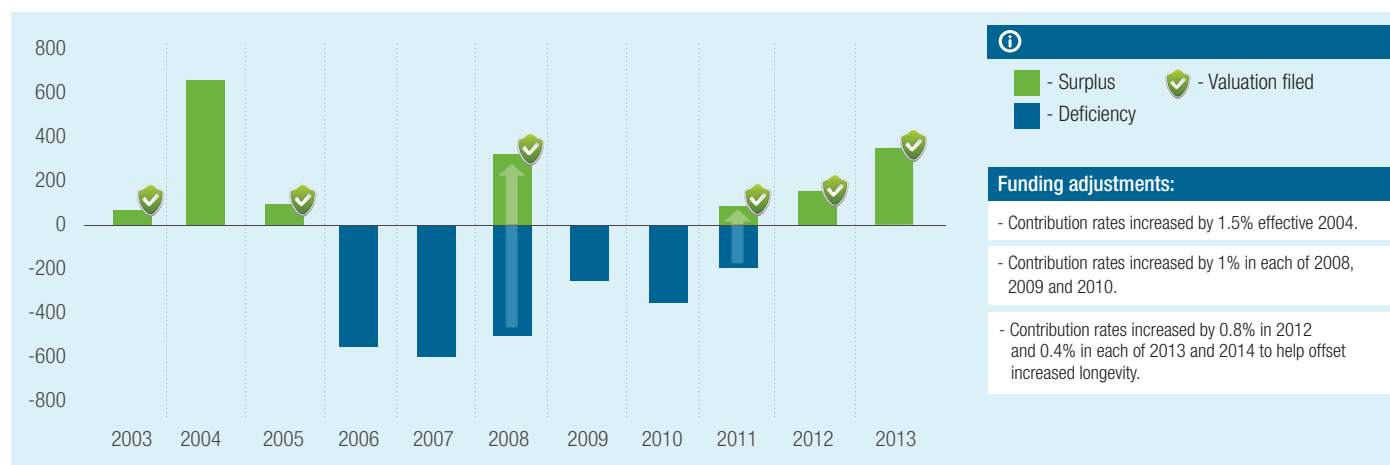
Our evidence-based view is that greater efficiencies and sustainability can be achieved for the CAAT Plan through pension plan consolidation under joint governance models within a sector with like-minded stakeholders. Full consolidation covers benefits design, risk tolerance, risk management, governance, and communication and education – all of which are integral parts of the pension plan value and efficiency equation.

Teamwork powered our negotiations with government

When the Ministry of Finance appointed Mr. Bill Morneau as the Pension Investment Advisor to recommend how to implement pension pooling, members of our senior management team met with and provided written submissions to him. Then, over several months, a team comprising employee and employer-appointed chairs of both

Funding valuations (as at January 1st)

From 2003-2013 (\$ millions)



our governing bodies and members of our senior management group met with government representatives and elected officials. Those consultations concerned the government's proposed legislation that would require jointly sponsored pension plans to reduce future benefits rather than increase contributions to cover any shortfall. Our goal was to achieve an outcome that would be in the best interests of members and employers.

We consider the JSPP Framework Agreement to be an enormous success because it was the best possible outcome for our members.

Our extensive negotiations with government came to a successful conclusion with the Jointly Sponsored Pension Plan Framework Agreement, announced in October. The negotiated agreement secured a number of outcomes critical to the ongoing stability and good governance of the Plan. They are:

- Exemption from forced participation in any new provincial 'pooled fund'
- A temporary four-year valuation cycle, up from the previous three years, allowing for increased stability by providing longer periods to manage investment market and interest rate volatility

- Exemption from any proposed special legislation determining funding decisions, which would have significantly impacted the jointly sponsored structure and decision-making that has been key to the Plan's stability.

To secure these outcomes, we agreed to make a temporary change to the Funding Policy of the Plan. The change provides for temporary and limited reductions to yet-to-be-earned benefits, should the Plan have a funding shortfall before December 30, 2017. When the Jointly Sponsored Pension Plan Framework Agreement was struck, the Plan was in a surplus position. We have since filed a valuation showing additional surplus and projecting a surplus to the end of the agreement period.

We consider the Jointly Sponsored Pension Plan Framework Agreement to be an enormous success because it was the best possible outcome for our members. We maintained the independence that is vital to strong governance and stability of a pension plan.

Growth within postsecondary education sector will benefit all


In 2012, Plan senior management and governors approached stakeholders in Ontario's postsecondary education sector about the merits of interested university pension plans joining the Plan to establish a sector-wide pension plan. We believe this direction for growth and consolidation of plans within the postsecondary sector would benefit current CAAT Plan members and employers, universities and their plan

members, postsecondary students, and Ontario taxpayers.

Our proposal offers an immediate solution for those universities with pension funding shortfalls by providing access to the solvency exemption available to the CAAT Plan, as a jointly sponsored pension plan. It would also enable the universities to meet the provincial government's objective that their pension plans have equal cost sharing with their plan members and operate under a joint governance model.

Colleges, universities and their members would all benefit from lower contribution rate volatility, increased stability, and cost efficiencies that a larger membership base, with a similar demographic profile, would deliver. The similar demographic and risk profiles of postsecondary plans would also facilitate strong alignment for governance needs and liability and asset management. All these advantages could be attained without the costs and risks of a separate administrative infrastructure for university plans.

We believe welcoming interested university pension plans to join the Plan to create a jointly sponsored multi-employer plan for the post-secondary education sector is a practical, cost-effective solution to university pension funding problems that also offers stable, secure benefits to university employees.

We continue to seek government and other stakeholder support as we work with several interested universities to explore options for building a viable pension plan for Ontario's postsecondary education sector. 

Managing investments

The CAAT Pension Plan investment management team oversees the fund's investment strategy as approved by the Board of Trustees. The five-member team of investment professionals selects investment management firms and funds that meet set criteria and quality standards and monitors their performance against targets for both returns and risks. The end result is a well-diversified portfolio that reduces overall risk while balancing benefit security with affordability.



The investment team oversees the activities of approximately 30 investment and fund managers in a wide array of asset classes with a balanced mix of investment approaches.

Market overview

Despite the slower global macroeconomic growth, 2012 was a strong year for equity returns in most markets as central bankers around the world acted to avoid sovereign defaults and to encourage growth.

After nearly a decade of strong performance, the S&P/TSX⁶ composite underperformed non-Canadian equities in 2012. The Canadian economy slowed with GDP⁷ numbers affected by the strong Canadian dollar and weaker commodity prices.

Growth in the U.S. picked up and economic indicators, including

housing, showed improvement. In Europe, it became clear that the central bank would do what is necessary to avoid a Euro breakup and equity markets reacted accordingly. The MSCI EAFE⁸ index led global stock market returns for 2012.

Interest rates in Canada, the U.S., and Euro zone countries fell in 2012 as central banks committed to keep the interest rates low primarily through bond buying programs.

Total returns

The Plan delivered sound investment performance for the fourth consecutive year with a 2012 return of 11.8% before investment expenses of 50 basis points.

Assets of the CAAT Pension Plan totalled \$6.3 billion at December 31, 2012, compared to \$5.6 billion the previous year, and income

“Our net return of 11.3% added \$50 million in value compared to the policy benchmark return of 10.4%.”

JULIE CAYS

Chief Investment Officer

from investments was \$624 million. The Plan returned 11.3% net of expenses, compared to the policy benchmark return of 10.4% for value added of \$50 million.

Since the financial crisis of 2008, the CAAT Plan's well-diversified investment portfolio has earned an average annual rate of return of 11.1%⁹ before expenses and 10.5% net of expenses.

⁶ The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies trading on the Toronto Stock Exchange (TSX) as measured by market capitalization.

⁷ Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period of time.

⁸ The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools. The EAFE acronym stands for 'Europe, Australasia and Far East'.

⁹ For the 4-year period ending December 31, 2012.

Diversified investment portfolio

Developing an appropriate asset mix takes into consideration the Plan’s current and future liabilities, as well as the current and expected assets. Our mix of liability hedging and return enhancing investments is the result of comprehensive studies that take into consideration our liabilities, long-term goals and our risk tolerance.

Return enhancing investments offer the potential for higher returns than bonds. The policy target weight for these investments is 57%. Investments include public equities – Canadian and international, (both developed and emerging markets) – and private equity.

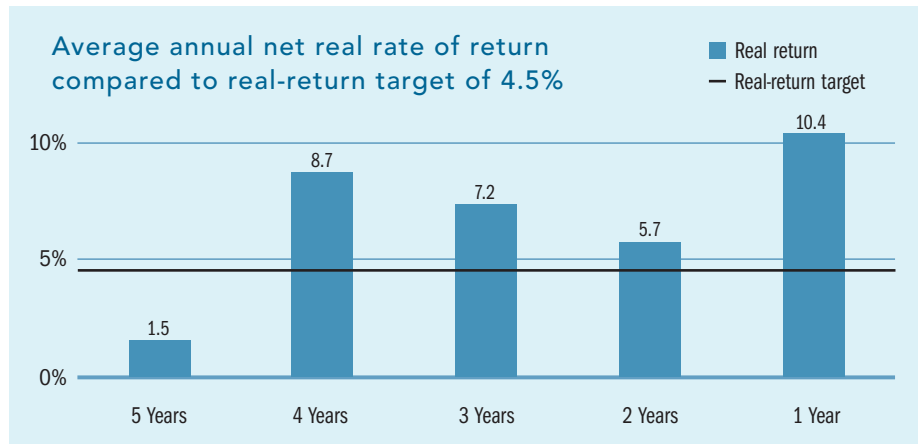
Liability hedging investments are used to partially hedge the inflation and interest rate sensitivity of our liabilities. The policy target weight for these investments is 43%.

Changes in net assets available for benefits in 2012

(\$ millions)

Net assets Dec. 31/11	\$5,627
Investment income	\$624
Contributions received	\$355
Benefits paid	(\$332)
Administrative expenses	(\$14)
Net changes in assets available for benefits	\$633
Net assets Dec. 31/12	\$6,260

Amounts do not add due to rounding



The graph above shows the CAAT Plan’s real rate of return (after inflation), compared to the 4.5% expected long-term real rate of return. While the Plan has exceeded this expected return over the past four years, the five-year returns lag the target as a result of the financial crisis in 2008.

They include investments such as nominal and real-return bonds, infrastructure, commodities and real estate.

Canadian equity (13% of total investments)

Canadian equities totalled \$806 million at December 31, 2012 and returned 10.5% compared to a benchmark (S&P/TSX Composite Index) return of 7.2%.

The materials, energy and information technology sectors were the only sectors to experience declines for the year. The Plan’s Canadian equity portfolio outperformed the S&P/TSX index due to an underweight to the underperforming materials sector.

Global developed markets equity (34% of total investments)

Global equities in developed markets totalled \$2,089 million at December 31, 2012, and returned

14.0%, compared to the benchmark (MSCI World ex. Canada Index) return of 14.3%.

The global developed equity portfolio is a combination of U.S., international and global equity mandates. This portfolio outperformed the benchmark in U.S. equities, but underperformed in international and global equities.

Emerging markets equity (8% of total investments)

The emerging markets equity portfolio, which became a dedicated allocation, separate from global developed equity in 2012, totalled \$532 million and returned 16.7%, compared to a benchmark (MSCI Emerging Markets Index) return of 16.0%.

Private equity (2% of total investments)

Private equity assets totalled \$129 million at year-end and returned

Net performance in each asset class is measured relative to a relevant benchmark return.

Asset class	Benchmark
Return enhancing	
Canadian equity	S&P/TSX Composite
Global developed markets equity	MSCI World ex Canada
Emerging markets equity	MSCI Emerging Markets
Private equity	MSCI ACWI + 3%
Liability hedging	
Nominal bonds	DEX Long Bond Index
Real-return bonds	Actual returns
Infrastructure	CPI + 5%
Real estate	IPD Index
Commodities	S&P GSCI Total Return

Real-return bonds (7% of total investments)

Real-return bonds totalled \$466 million and returned 2.7%.

Commodities (5% of total investments)

The Plan began investing in the commodities asset class using a passive strategy in April 2012. By year end, this asset class totalled \$305 million.


Infrastructure (4% of total investments)

The Plan began investing in infrastructure in 2005 and has a target of 10% of total assets. By year-end 2012, infrastructure assets totalled \$249 million and returned 10.8% compared to a benchmark of 5.8%. The CAAT Plan made three commitments to infrastructure funds in Europe and North America during the year.

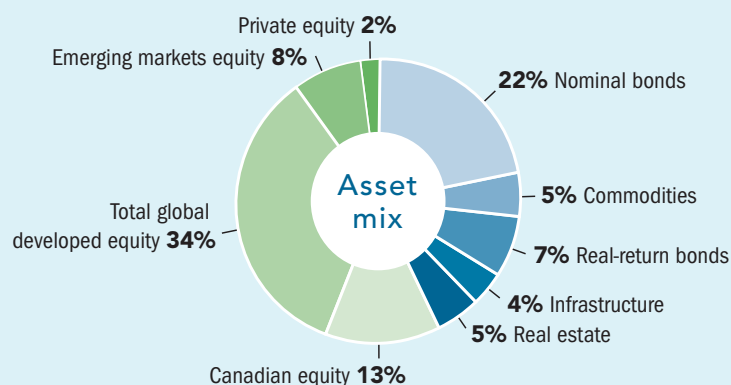
Real estate (5% of total investments)

Real estate, held entirely in Canadian properties, totalled \$339 million at year-end and returned 11.6% compared to a benchmark of 9.8%. The assets are held in a pooled fund that is well diversified by Canadian geographic region, property type and investment strategy.

Currency management

The Plan employs a currency hedging program to manage the risk inherent in holding non-Canadian dollar assets. In 2012, this program added to the Plan's investment performance due to the strong Canadian dollar. 

Well-diversified \$6.3 billion in investments



15.4% compared to a benchmark of 17.2%. The Plan made six private equity commitments in 2012, including one co-investment to make steady progress toward the target allocation of 5% of total assets, which was put in place in 2007.

Nominal bonds (22% of total investments)

The nominal bond portfolio totalled \$1,301 million at December 31, 2012 and returned 5.3% compared to the benchmark return (DEX Long Bond Index) of 5.2%.

Investment return by asset class relative to benchmark
as at December 31, 2012 (net of expenses)

Asset class	CAAT Plan investments (\$ millions)	CAAT Plan return	Benchmark	Value added
Return enhancing				
Canadian equity	\$806	10.5%	7.2%	3.3%
Global developed markets equity*	\$2,089	14.0%	14.3%	(0.4)%
Emerging markets equity	\$532	16.7%	16.0%	0.7%
Private equity	\$129	15.4%	17.2%	(1.8)%
Liability hedging				
Nominal bonds	\$1,301	5.3%	5.2%	0.1%
Real-return bonds	\$466	2.7%	2.7%	0.0%
Infrastructure	\$249	10.8%	5.8%	5.0%
Real estate	\$339	11.6%	9.8%	1.8%
Commodities	\$305	N/A**	N/A**	N/A**

*Global developed equity includes U.S. equity, international equity and global equity portfolios.

**Not applicable as investment was made for less than a full year.

Responsible investing

The primary investment goal of the CAAT Plan is to maximize risk-adjusted returns. To this end, the Responsible Investing Policy covers three areas of investment activities: i) proxy voting, ii) corporate engagement, and iii) integrating environmental, social and governance (ESG) factors into investment processes where appropriate.

Proxy voting

The Responsible Investing Policy states that the CAAT Plan will vote the proxies attached to its shareholdings thoughtfully and responsibly and that proposals dealing with ESG factors will be examined on a case-by-case basis taking into account the effects of the proposals on shareholder value.

Exercising proxies in 2012

There were 956 meetings voted at for a total of 11,641 individual issues in 2012. We voted against management proposals 642 times, or approximately 5% of the time, at a level similar to the previous year. In total there were 547 shareholder proposals raised in 2012 at the meetings of companies in the CAAT Plan portfolio; the Plan voted for 356 of these proposals, or over 65%.

The CAAT Plan encourages corporations to improve disclosure on ESG factors and risks so that investors, including the investment managers working for the Plan, are better able to take such factors into account when looking at the risk and return prospects of investments in their portfolios.

Votes are generally cast in favour of proposals that require

corporations to adopt policies that embrace the International Labour Organization's Conventions, the Ceres Principles on the Environment and the OECD Guidelines for Multinational Enterprises.

Corporate engagement

The CAAT Plan joins with other institutional investors in Canada to encourage regulators and the management of corporations to



“Holding companies and their management accountable for their actions promotes good corporate governance and ultimately has a positive impact on investment returns for all investors.”

KEVIN RORWICK
Chief Financial Officer

Promoting Good Corporate Governance

The Plan has acted as lead plaintiff in a U.S. securities class-action lawsuit against Immucor Inc., representing all shareholders who owned shares during a certain period. We brought a lawsuit against the company and certain of its officers when the share

price dropped after it was revealed that there had been investigations by the U.S. Department of Labor and the U.S. Food and Drug Administration over possible price fixing and lack of quality controls. Late in 2012, we reached an out-of-court settlement, which will be shared among all eligible Immucor shareholders.

strive for better governance practices and more comprehensive disclosure of environmental, social and governance risks.

Canadian Coalition for Good Governance

We have been a member of the Canadian Coalition for Good Governance (CCGG) since 2005. The coalition was formed to represent the interests of institutional investors in promoting, in its words: “good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders.” Members of the coalition believe

that good governance practices contribute to the ability of the company’s ability to create value for its shareholders.

The 46 members of the coalition include a range of institutional investors – pension plans, mutual funds and other third-party money managers and represent combined assets of more than \$2 trillion.

Along with a number of submissions made to the various governmental agencies, some of the notable contributions by the coalition in 2012 include releasing guidance on the role of the controlling shareholder in an equity-controlled corporation and releasing Executive

Compensation Principles, which sets out CCGG thoughts on designing an effective compensation program.

Pension Investment Association of Canada (PIAC)

Members of the CAAT Plan investment team are active members of the Pension Investment Association of Canada whose stated mission is “to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.” One of PIAC’s objectives is to develop, monitor and promote sound standards of corporate governance in Canada. The Plan’s CIO, Julie Cays, served as Chair of PIAC in 2012.

PIAC made numerous submissions in 2012, including a submission to the TSX regarding changes related to majority voting for directors, a submission to Canadian Securities Administrators in reply to the consultation paper on the potential regulation of Proxy Advisory firms and a submission to Canadian Securities Administrators on ongoing Governance and Disclosure Requirements for Venture Issuers.

The CAAT Plan is a signatory to the Extractive Industries Transparency Initiative (EITI), which aims to improve transparency and accountability by corporations and governments in developing countries around expenditures and revenues from oil, gas and mining.



Institutional Limited Partners Association

Institutional Limited Partners Association (ILPA) is a global industry association composed of limited partner investors in private equity funds. The CAAT Plan is an active member of ILPA and has endorsed the Private Equity Principles of the association. These principles promote the alignment of interest, governance and transparency that form the basis of effective relationships between limited and general partners. The principles urge general partners to disclose “extra-financial risks, including environmental, social and corporate governance risks, at fund and portfolio company levels” in their reporting to limited partners.

Carbon Disclosure Project and related Water Disclosure

The goal of the Carbon Disclosure Project (CDP) is to accelerate

“solutions to climate change and water management by putting relevant information at the heart of business, policy and investment decisions.” The CAAT Plan is a signatory to the CDP and the related CDP Water Disclosure initiatives.

CDP plays a role in enhancing the disclosure by corporations on carbon emissions and water management. Annual information requests are sent by CDP to corporations across the globe (including over 200 in Canada).

Extractive Industries Transparency Initiative

The Plan is a signatory to the Extractive Industries Transparency Initiative (EITI), which aims to improve transparency and accountability by corporations and governments in developing countries around expenditures

and revenues from oil, gas and mining. Often these countries have poor governance around such revenues. The goal of EITI is to set a global standard for transparency in an effort to make natural resources extraction benefit the entire population.

Incorporating ESG considerations into the investment process

An annual questionnaire is sent out to the Plan’s investment managers and general partners asking a series of questions about how ESG factors are integrated into their investment processes.

The responses to the ESG survey indicate that many managers of the Plan are considering the impact of ESG factors when making investment decisions. ➤

Joint governance core to Plan's success

The CAAT Pension Plan's joint governance structure is bicameral, with two governing bodies: the Sponsors' Committee and the Board of Trustees.

Members and employers have equal representation on both these groups through their governors who are appointed by the Plan 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). This structure is recognized as a model for its success in shared decision making.

As fiduciaries, Trustees are legally bound to act in the interests of all Plan members. The Board establishes policies for investing contributions and administering benefits. It also sets the levels of investment and funding risk that are appropriate for the Plan's long-term obligations.

Sponsors' Committee members primarily represent the interests of the respective groups that appointed them. The Sponsors' Committee focus is on determining how to best balance contribution rates and benefit design.

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 college boards of governors.

THE CURRENT SPONSORS' COMMITTEE MEMBERS ARE:



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

she is currently a Cooperative Education Officer and President of OPSEU Local 557.



Michael Gallagher
An OCASA representative who joined the committee in 2013, Mr. Gallagher is Director, Budgets and Financial Planning at Confederation College and

has been with the college since 1996.



Brian Tamblin
A Colleges Ontario representative who joined the committee in 2013, Mr. Tamblin is a private practice management consultant, an associate with Janet Wright & Associates Inc.,

and a retired president of Georgian College.



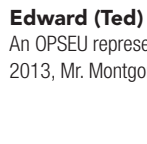
Jeff Zabudsky, Co-Chair
A Colleges Ontario representative who joined the committee in 2012, Dr. Zabudsky is President and CEO of Sheridan

Institute of Technology and Advanced Learning.



Kim Macpherson
An OPSEU representative who joined the committee in 2012, Ms. Macpherson is a Benefits Counsellor in the Pensions and Benefits Unit at OPSEU and a

governor of two other jointly sponsored pension plans.



Edward (Ted) Montgomery
An OPSEU representative appointed to the committee in 2013, Mr. Montgomery teaches at Seneca College.



Barbara Cameron
A Colleges Ontario representative since 1999, Ms. Cameron retired from the position of Vice President, Finance and Administration, at Fleming College in 2012.



Peggy McCallum
A Colleges Ontario representative since 2005, Ms. McCallum is Partner and head of the pension and benefits practice group

at the law firm of Fasken Martineau DuMoulin.



Rick Helman and Damien Wiechula (employee representatives) and **Stephen Campbell** (employer representative) completed their mandates in 2012. Michael Gallagher, Edward (Ted) Montgomery, and Brian Tamblin assumed their responsibilities as of January 1, 2013.

Proven success in shared decisions

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 college boards of governors.

THE CURRENT MEMBERS OF THE BOARD OF TRUSTEES ARE:



Darryl Bedford

An employee Trustee since 2010, Mr. Bedford became Chair of the Board in April 2013. He also sits on the Investment Committee. A professor in the School of

Information Technology at Fanshawe College, Mr. Bedford is President of OPSEU Local 110.



Stephen Campbell

A founding member of the Sponsors' Committee, Mr. Campbell is now an employer Trustee who sits on the Finance and Administration Committee.

He retired as Chief Financial Officer of the Canadian Medical Protective Association and before that was Director of Finance at Algonquin College.



Alec Ip

An employee Trustee since 2004, Mr. Ip was Vice Chair of the Board to March 2013, and is Co-Chair of the Finance and Administration Committee. A

Technical Co-ordinator for the Technology Department at Lambton College, he has worked as Mechanical Technologist for Lambton for over 30 years. Mr. Ip is Vice President for OPSEU Local 124.



Don Walcot

An employer Trustee since 2006, Mr. Walcot became Vice Chair of the Board in April 2013, after serving as Chair to March 2013. He also sits on the Investment

Committee. Mr. Walcot is a past Chair of the Pension Investment Association of Canada and advisor to a number of Canadian pension investment committees.



Harry Gibbs

An employer Trustee since 2003, Mr. Gibbs is Co-Chair of the Investment Committee. An advisor to a number of Canadian pension investment committees,

he has held executive positions in investment management in the public and private sectors. Mr. Gibbs has also been a Vice President and Director of the Pension Investment Association of Canada.



Lynda Rattenbury

Ms. Rattenbury joined the Board as an employee Trustee in 2013 and sits on the Finance and Administration Committee. She was Senior Facilitator at

Humber College's Career Exploration Centre and has many years' experience as a senior human resources practitioner and administrator of benefit plans.

PLAN EQUITY REVIEW TASK FORCE – In 2012, a task force comprising four members of the Sponsors' Committee and six members of the Board of Trustees conducted a full review of a wide variety of Plan provisions, from an equity perspective. Contribution rates, death benefits, service purchases, average earnings calculations, and provisions for part-time members were all examined. After full analysis and careful consideration, the task force recommended these changes that were approved by the Sponsors' Committee:

- Adjusting the difference between the low and high contribution rates to better align the contributions with benefits being accrued
- Removal of the 'One-day rule' for compliance and equity

- Changes to service purchase costs for consistency
- Opting out of grow-in provisions, as is available to jointly sponsored pension plans.

POLICIES – The Sponsors' Committee approved amendments to the Sponsorship and Trust Agreement early in 2012. These amendments involved housekeeping changes such as updating terminology, deleting irrelevant historical information, and reflecting updates to provincial pension law and the existence of the Funding Policy. All three Plan sponsors subsequently approved the changes.

The Sponsors' Committee approved a new Education Policy and Trustee Selection Guidelines.

Governance structure is a model



John Rigsby

An employer Trustee since 2010, Mr. Rigsby is Co-Chair of the Audit Committee, and sits on the Finance and Administration Committee. He is retired from

the position of Vice President, Corporate Services and Chief Financial Officer at Loyalist College, and Treasurer of the Loyalist College Foundation.



Michael Seeger

Mr. Seeger, who joined the Board as an employee Trustee in 2011, sits on the Investment Committee. He is Director of Financial Services for Loyalist

College, Treasurer of the Bridge Street Church Foundation, and is the former Vice President of Finance and Operations for the Campbellford Memorial Hospital.



Beverley Townsend

An employer Trustee since 2008, Ms. Townsend is Co-Chair of the Finance and Administration Committee. A health care consultant, she is a past Chair of ACAATO

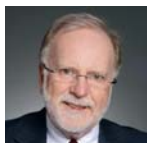
(now Colleges Ontario), past Chair of the Loyalist College Board of Governors, and current Chair of the Loyalist College Foundation. Ms. Townsend has 30 years of management and administration experience in the public health care sector.



Alnasir Samji

An employer Trustee since 2010, Mr. Samji sits on the Investment Committee and the Audit Committee. Managing Principal at Alderidge Consulting Inc., he

has been a Principal at Towers Perrin (now Towers Watson), specializing in pension and actuarial consulting. He is Chair of the Pension Committee on the Torstar Board of Directors, and has chaired the Pension Committee of the United Way of Greater Toronto.



Don Smith

Mr. Smith joined the Board in 2013 as an employee Trustee and sits on the Finance and Administration Committee and the Audit Committee. He is a

faculty member in the School of Business at Georgian College, where he has served for 20 years. As a Chartered Accountant, Mr. Smith has been a member of CICA and OICA committees concerned with member education and accounting standards development.



Donald Wright

An employee Trustee since 2000, Mr. Wright is Co-Chair of the Audit Committee and Co-Chair of the Investment Committee. A General Accountant and Continuing

Education instructor at George Brown College, he is Treasurer for OPSEU Local 557. Mr. Wright is also Treasurer of St. Hugh and St. Edmund Anglican Church as well as the Cornwall College Old Boys Association.

Bernard Belanger and **Pierre Giroux** (employee representatives) and **James Simpson** (employer representative) completed their mandates in 2012. Don Smith, Lynda Rattenbury, and Stephen Campbell assumed their responsibilities as of January 1, 2013.

The Board of Trustees adopted Terms of Reference for the new Appeals Subcommittee, and approved updates to these policies for Trustees: the Code of Conduct, Acceptance of Trust and Annual Affirmation, the Service Provider Selection and Review Process, and the Board's Education Policy and Budget Expense Policy.

The policies as a whole give Sponsors' Committee members and Trustees a full set of governance criteria. All policies are reviewed periodically to ensure they remain accurate and relevant.

ONGOING EDUCATION – In 2012, Plan governors attended a variety of conferences and seminars, along with a two-day retreat, to broaden their knowledge in the areas of growth, risk tolerance, risk management, and investment topics. 

As fiduciaries, Trustees are legally bound to act in the interests of all Plan members.

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 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 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 16, 2013

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 statement of financial position as at December 31, 2012, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in deficit for the year 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 audit. We conducted our audit 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 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, 2012, and the changes in its net assets available for benefits, changes in its pension obligations and changes in its deficit for the year then ended in accordance with Canadian accounting standards for pension plans.



Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants

April 16, 2013
Toronto, ON

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, 2011 and December 31, 2012, 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, 2011, and December 31, 2012,
- membership data provided by the Board as at December 31, 2010, and December 31, 2011,
- 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, 2011, and December 31, 2012, 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 2011 and 2012, 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 16, 2013



Paul Forestell, F.C.I.A.

Statement of Financial Position

December 31

(\$ thousands)	2012	2011
ASSETS		
Investment assets		
Investments (Note 3)	\$ 6,339,821	\$ 5,660,650
Accrued income	14,075	15,850
Unsettled trades receivable	72,247	77,764
Derivative-related receivables (Note 5)	9,487	23,917
Employer contributions receivable	11,216	11,731
Member contributions receivable	12,228	11,975
Other assets (Note 7)	5,236	3,965
	6,464,310	5,805,852
LIABILITIES		
Investment liabilities		
Unsettled trades payable	183,934	165,243
Derivative-related liabilities (Note 5)	9,819	4,361
Accounts payable and accrued liabilities (Note 8)	10,651	9,085
	204,404	178,689
Net assets available for benefits	\$ 6,259,906	\$ 5,627,163
Pension obligations (Note 9)	7,231,559	7,028,718
Regulatory surplus (deficit) (Note 10)	346,698	153,737
Measurement differences between regulatory and accounting deficit (Note 10)	(1,318,351)	(1,555,292)
Deficit	(\$ 971,653)	(\$ 1,401,555)

Approved by the Board of Trustees

Colleges of Applied Arts and Technology Pension Plan



Donald Wright, Trustee



John Rigsby, Trustee

Statement of Changes in Net Assets Available for Benefits

(\$ thousands)	Year ended December 31	
	2012	2011
Increase in net assets available for benefits		
Contributions (Note 11)	\$ 354,767	\$ 312,210
Investment income (Note 12)	624,391	177,368
	979,158	489,578
Decrease in net assets available for benefits		
Benefits (Note 13)	332,420	301,635
Administrative expenditures (Note 14)	13,995	12,508
	346,415	314,143
Net increase in net assets available for benefits	632,743	175,435
Net assets available for benefits, beginning of year	5,627,163	5,451,728
Net assets available for benefits, end of year	\$ 6,259,906	\$ 5,627,163

Statement of Changes in Pension Obligations

(\$ thousands)	Year ended December 31	
	2012	2011
Accrued pension obligations, beginning of year	\$ 7,028,718	\$ 6,869,761
Increase in accrued pension obligations		
Interest on accrued benefits	416,908	415,897
Benefits accrued	203,724	212,655
Changes in actuarial assumptions	(89,995)	(123,234)
Experience (gains) / losses	4,624	(44,726)
	535,261	460,592
Decrease in accrued pension obligations		
Benefits paid (Note 13)	332,420	301,635
Net increase in accrued pension obligations	202,841	158,957
Accrued pension obligations, end of year	\$ 7,321,559	\$ 7,028,718

Statement of Changes in Deficit

(\$ thousands)	Year ended December 31	
	2012	2011
Deficit, beginning of year	(\$ 1,401,555)	(\$ 1,418,033)
Increase in net assets available for benefits	632,743	175,435
Net increase in accrued pension obligations	(202,841)	(158,957)
Deficit, end of year	(\$ 971,653)	(\$ 1,401,555)

Notes to Financial Statements

December 31, 2012

NOTE 1 – DESCRIPTION OF THE PLAN

The Colleges of Applied Arts and Technology Pension Plan (the “Plan” or “CAAT Pension Plan”) is a multiemployer jointly sponsored pension plan covering employees of the Colleges of Applied Arts and Technology in Ontario, and other 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 benefit 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. The Plan has no liabilities with respect to insufficient funding (if any) of the supplementary 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 may retire before this date with a reduced pension, subject to eligibility requirements.

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 vest immediately upon joining the Plan and are entitled to a deferred pension if they terminate employment with their employer prior to retirement. Prior to July 1, 2012, members who had been in the Plan less than two years were entitled to a refund of contributions made by them, plus interest.

Members not eligible for an immediate pension may also opt to transfer the commuted value of their benefit to another pension plan if that plan permits, or registered retirement vehicle after two years from the date of their last contribution, subject to locking-in provisions and certain age restrictions. Prior to July 1, 2012 there was no two-year wait period.

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 with the January 2014 increase.

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 contingency reserves. In the event a deficit is determined, inflation protection on post-2007 service would not be paid, and a decrease in future benefit accruals and/or an increase in contribution rates is required. Effective for December 31, 2012, in accordance with an agreement with the Province of Ontario, the funding policy was amended to include temporary measures in effect for valuations filed on or before December 30, 2017 for which in the event a deficit is determined, there would be no increases to contributions beyond those announced prior to December 31, 2012 and that future benefit accruals would be reduced.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

These financial statements present the information 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 (Section 4600 – Pension Plans of the Canadian Institute of Chartered Accountants ("CICA") Handbook ("Section 4600")). 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.

The Plan early adopted IFRS 13 Fair Value Measurement effective January 1, 2011. 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.

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

(\$ thousands)	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 562,231	\$ 561,383	\$ 288,232	\$ 286,602
Fixed income (Note 3b)	1,793,049	1,596,756	2,057,823	1,792,109
Equities (Note 3c)	3,289,782	2,973,492	2,749,546	2,731,608
Infrastructure	236,892	228,825	214,156	219,016
Real estate	339,188	250,000	301,450	250,000
Private equity	118,679	102,021	49,443	41,955
	\$ 6,339,821	\$ 5,712,477	\$ 5,660,650	\$ 5,321,290

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

	2012	2011
Short-term investments	8.8%	5.1%
Fixed income	28.3%	36.4%
Equities	51.9%	48.5%
Infrastructure	3.7%	3.8%
Real estate	5.4%	5.3%
Private equity	1.9%	0.9%
	100.0%	100.0%

3(b) – Fixed Income

Investments in fixed income include the following issuers:

(\$ thousands)	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Government of Canada	\$ 734,864	\$ 636,603	\$ 763,475	\$ 648,131
Provincial Governments	699,310	636,128	831,030	720,579
Municipal Governments	8,312	7,488	14,705	12,560
Corporate	255,815	227,021	327,569	286,364
Foreign	94,748	89,516	121,044	124,475
Total Bonds	\$ 1,793,049	\$ 1,596,756	\$ 2,057,823	\$ 1,792,109

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:

	2012		2011	
	Fair Value (\$ thousands)	%	Fair Value (\$ thousands)	%
United States	\$ 1,204,799	36.6	\$ 970,403	35.3
Canada	812,822	24.7	734,160	26.7
Europe (excluding United Kingdom)	321,268	9.8	291,025	10.6
United Kingdom	133,000	4.0	153,287	5.6
Japan	198,032	6.0	209,568	7.6
Other Asia / Pacific	149,305	4.6	138,900	5.0
Latin America	53,086	1.6	27,598	1.0
Other Emerging Markets	417,470	12.7	224,605	8.2
Total Equity	\$ 3,289,782	100.0	\$ 2,749,546	100.0

3(d) – Summary of Significant Investments

At December 31, 2012, 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	\$ 63,354	\$ 63,354
United States Treasury Bills	303,816	303,018
Fixed income		
CIBC Pooled Long-Term Bond Index Fund	\$ 401,488	\$ 362,136
Government of Canada Bonds	624,857	537,377
Province of Ontario Bonds	202,028	188,265
Province of Quebec Bonds	194,984	169,570
Equities		
Bridgewater Pure Alpha Fund II	\$ 181,602	\$ 134,315
SPDR Trust Series I	162,257	134,383
Vanguard Emerging Markets Stock Index Fund	325,245	318,193
GMO Emerging Markets Opportunities Fund	103,473	100,542
Infrastructure & Real estate		
Greystone Real Estate Fund	\$ 339,188	\$ 250,000
A European-based infrastructure fund	68,133	67,782
A North American-based infrastructure fund	68,536	72,665

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, 2012, the Plan's investments

included loaned securities with a fair value of \$989,240 thousand (2011 – \$1,065,618 thousand). The fair value of collateral received in respect of these loans was \$1,033,097 thousand (2011 – \$1,106,872 thousand). Net income earned from securities lending for the year was \$2,239 thousand (2011 – \$1,696 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"), which 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:

(\$ thousands)	2012		2011	
	EXPOSURE Before Hedging	EXPOSURE After Hedging	EXPOSURE Before Hedging	EXPOSURE After Hedging
Canadian Dollar	\$ 2,971,268	\$ 4,205,331	\$ 3,122,412	\$ 4,277,980
United States Dollar	2,279,241	1,492,119	1,516,807	785,685
Euro	341,358	115,856	314,746	99,721
Japanese Yen	198,230	116,594	208,705	144,709
Hong Kong Dollar	79,868	66,284	46,211	40,450
Swiss Franc	36,080	18,862	41,086	18,190
British Pound Sterling	134,151	76,634	157,327	87,350
Other	205,815	150,197	187,857	154,492
	\$ 6,246,011	\$ 6,241,877	\$ 5,595,151	\$ 5,608,577

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

As at December 31, 2012, 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 \$101,827 thousand decrease/increase (2011 – \$66,530 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, 2012, the duration of the fixed income portfolio was 14.1 years (2011 – 14.4 years). If interest rates were to rise by 1%, the fair value of the fixed income portfolio would decline by approximately \$239 million (2011 – \$286 million). Conversely, if interest rates were to fall by 1%, the fair value of the fixed income portfolio would increase by approximately \$241 million (2011 – \$288 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, 2012, a 10% decrease in the

price of equities would result in a \$328,978 thousand (2011 – \$274,955 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 nonfinancial assets are excluded.

(\$ thousands)	2012	2011
Short-term investments	\$ 562,231	\$ 288,232
Fixed income	1,793,049	2,057,823
Derivative-related receivables	9,487	23,917
Interest receivable	7,178	9,682
Loaned securities	989,240	1,065,618
Credit default derivatives – written	21,593	46,909
Total maximum exposure	\$ 3,382,778	\$ 3,492,181

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

(\$ thousands)	2012	2011
AAA	\$ 778,300	\$ 819,899
AA	410,474	497,582
A	540,808	644,827
BBB or lower	63,467	95,515
	\$ 1,793,049	\$ 2,057,823

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 government bonds, that can be sold or funded on a secured

basis as protection against any unforeseen interruption to cash flow. As at December 31, 2012, the fair value of such bonds held by the Plan was \$1,434,174 thousand (2011 – \$1,594,505 thousand). In addition, the Plan's portfolio of short-term investments of \$562,231 thousand (2011 – \$288,232 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.

(\$ thousands)	2012			2011		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Positive	Negative		Positive	Negative
Equity Derivatives						
Futures	\$ 352,096	\$ 2,712	(\$ 1,616)	\$ 547,692	\$ 4,794	(\$ 1,811)
Fixed Income Derivatives						
Futures	92,247	18	(141)	29,980	-	(246)
Currency Derivatives						
Forwards	1,736,879	-	(4,133)	1,931,742	13,433	-
Options	40,286	24	-	36,283	838	-
Swaps	47,200	-	(505)	47,200	-	(1,352)
Interest Rate Derivatives						
Swaps	140,372	-	-	461,368	785	(408)
Options	(27,801)	104	(48)	149,059	46	(146)
Credit Default Derivatives						
Swaps – purchased	47,697	233	(207)	53,557	3,790	(164)
– written	21,593	309	(337)	46,909	231	(234)
Commodity Derivatives						
Futures	304,525	6,087	(2,832)	-	-	-
	\$ 2,755,094	\$ 9,487	(\$ 9,819)	\$ 3,303,790	\$ 23,917	(\$ 4,361)

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

(\$ thousands)	2012	2011
Under 1 year	\$ 2,519,457	\$ 2,697,607
1 to 5 years	204,579	546,382
Over 5 years	31,058	59,801
	\$ 2,755,094	\$ 3,303,790

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:

2012				
(\$ thousands)	Level 1	Level 2	Level 3	Total
Short-term Investments	\$ -	\$ 562,231	\$ -	\$ 562,231
Fixed Income	-	1,793,049	-	1,793,049
Equities	2,977,023	312,759	-	3,289,782
Infrastructure	-	-	236,892	236,892
Real estate	-	-	339,188	339,188
Private equity	-	-	118,679	118,679
Derivative-related receivables	8,817	670	-	9,487
Derivative-related liabilities	(4,589)	(5,230)	-	(9,819)
	\$ 2,981,251	\$ 2,663,479	\$ 694,759	\$ 6,339,489

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

There were no significant transfers of investments between Level 1 and Level 2 during 2012 or 2011.

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:

2012				
(\$ thousands)	Infrastructure	Real Estate	Private Equity	Total
Opening Balance	\$ 214,156	\$ 301,450	\$ 49,443	\$ 565,049
Acquisitions	19,189	-	74,724	93,913
Dispositions	(12,422)	-	(17,551)	(29,973)
Realized Gains/(Losses)	3,041	-	2,893	5,934
Unrealized Gains/(Losses)	12,928	37,738	9,170	59,846
Closing Balance	\$ 236,892	\$ 339,188	\$ 118,679	\$ 694,759

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	\$ 49,443	\$ 565,049

NOTE 7 – OTHER ASSETS

Other assets consist of fixed assets with a net book value of \$3,738 thousand (2011 – \$2,785 thousand), and miscellaneous receivables and prepaid expenses in the amount of \$1,498

thousand (2011 – \$1,180 thousand). Fixed assets are stated at cost and are depreciated or amortized on a straight-line basis.

(\$ thousands)	2012			2011
Fixed Assets	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Systems software	\$ 3,142	\$ 378	\$ 2,764	\$ 1,668
Leasehold improvements	776	478	298	353
Computer equipment	690	392	298	263
Furniture, fixtures & equipment	1,134	756	378	501
	\$ 5,742	\$ 2,004	\$ 3,738	\$ 2,785

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities is an accrual of \$4,386 thousand (2011 – \$4,362 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 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, 2017 and pre-1992 service to January 1, 2014 and exclude further increases thereafter. Pension obligations and the resulting surplus (deficit) for financial statement purposes are different than for regulatory purposes (refer to Note 10). In accordance with an agreement with the Province of Ontario, on a temporary basis to December 30, 2017, regulatory valuations must be filed with FSCO at a minimum once every four years. As subsequent to year-end, a regulatory valuation was filed as at January 1, 2013; the next regulatory valuation is required to be filed as at January 1, 2017.

Pension obligations as at December 31, 2012 were \$7,231,559 thousand (2011 – \$7,028,718 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 noneconomic 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:

	2012	2011
Investment return	5.80%	5.90%
Salary escalation rate	3.75%	3.75%
Inflation rate	2.00%	2.00%
Real discount rate	3.80%	3.90%

Changes in actuarial assumptions between 2011 and 2012 resulted in a decrease in the pension obligation of \$89,995 thousand (2011 – decrease of \$123,234 thousand) stemming from a revision of retirement rate assumptions to reflect actual experience of later retirements, offset in part by a decrease in the investment return assumption.

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 2012, experience losses were \$4,624 thousand, (2011 – gains of \$44,726 thousand). Experience losses in 2012 stemmed from demographic experience losses offset in part by lower than assumed salary escalation. Experience gains in 2011 stemmed from lower than assumed salary escalation.

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 increased 0.8% on January 1, 2012, and will increase 0.4% on January 1, 2013, and 0.4% on January 1, 2014. The contribution rates in 2011 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), 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 12.1% of contributory earnings in excess of the YMPE.

In 2012 additional changes to contribution rates were announced upon the recommendation of the Plan Equity Review Task Force. The difference

between the low and high contribution rates was adjusted from 1.8% to 3.6%, resulting in contribution rates of 10.8% on contributory earnings up to the YMPE and 14.4% on contributory earnings above the YMPE (\$51,100 commencing January 1, 2013) commencing January 1, 2013, and 11.2% on contributory earnings up to the YMPE and 14.8% on contributory earnings above the YMPE commencing January 1, 2014 and going forward. Contribution rates for calendar year 2012 were 11.1% on contributory earnings up to the YMPE (\$50,100 in 2012) and 12.9% on contributory earnings above the YMPE.

In October 2012, the Plan reached an agreement with the Province of Ontario to limit further increases in contribution rates prior to December 30, 2017. Should a regulatory deficit occur during that time, the Plan's future benefits would need to be reduced up to a maximum of 20% of the present value of the Plan's future benefits measured against the level of benefits in effect on December 30, 2012, after which contribution increases could be made.

NOTE 10 – DEFICIT

The deficiency of net assets available for benefits against pension obligations results in the Plan being in a deficit of \$971,653 thousand as at December 31, 2012 (2011 – \$1,401,555 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 solvency deficits. The regulatory surplus of the Plan as at December 31, 2012, which has been filed with FSCO subsequent to year-end, is \$346,698 thousand (2011 – surplus of \$153,737 thousand). A 25 basis point decrease in the investment return assumption at December 31, 2012 would result in a decrease in the regulatory surplus of approximately \$324 million (2011 – \$297 million).

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

(\$ thousands)	2012	2011
Regulatory surplus / (deficit)	\$ 346,698	(\$ 153,737)
Actuarial asset value adjustment	(31,510)	(399,377)
Difference in actuarial methods	(1,286,841)	(1,155,915)
Measurement differences between regulatory and accounting deficit	(1,318,351)	(1,555,292)
Deficit for financial statement purposes	(\$ 971,653)	(\$ 1,401,555)

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 to smooth 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)		2012	2011
Gains / (Losses) to be recognized at the end of	2012	\$ –	(\$ 241,600)
	2013	8,617	(22,950)
	2014	(32,420)	(63,987)
	2015	(39,274)	(70,840)
	2016	31,567	–
		(\$ 31,510)	(\$ 399,377)

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)	2012	2011
Members		
Current service	\$ 165,794	\$ 146,476
Past service	8,450	6,164
Employers		
Current service	165,794	146,476
Past service	2,982	2,748
Transfers from other pension plans	11,747	10,346
	\$ 354,767	\$ 312,210

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)	2012	2011
Interest income	\$ 73,216	\$ 60,630
Dividend income	78,424	71,451
Other income	2,446	2,124
	154,086	134,205
Investment gains		
Realized gain	218,893	84,053
Change in unrealized appreciation of investments	283,486	451
	502,379	84,504
Investment income prior to investment expenses	656,465	218,709
Investment management fees	(27,516)	(36,433)
Transaction costs	(4,558)	(4,908)
	\$ 624,391	\$ 177,368

Investment income (loss) by asset class after the allocation of derivative investments and prior to investment expenses is as follows:

(\$ thousands)	2012	2011
Short-term investments	\$ 84,940	(\$ 42,676)
Fixed income	97,394	315,034
Equities	398,489	(126,426)
Infrastructure	23,944	26,756
Real estate	37,738	35,523
Private equity	13,960	10,498
	\$ 656,465	\$ 218,709

NOTE 13 – BENEFITS

(\$ thousands)	2012	2011
Pensions	\$ 299,240	\$ 276,407
Payment on termination of membership	29,935	22,938
Transfers to other pension plans	3,245	2,290
	\$ 332,420	\$ 301,635

NOTE 14 – ADMINISTRATIVE EXPENDITURES

(\$ thousands)	2012	2011
Salaries and benefits	\$ 8,357	\$ 6,805
Administration	2,164	1,953
Custodial fees	1,260	1,665
Actuarial fees	242	234
Audit fees	135	125
Other professional services	1,358	1,267
Depreciation and amortization	479	459
	\$ 13,995	\$ 12,508

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 \$2,221 thousand, with the following amounts payable over the next four years: 2013 – \$750 thousand, 2014 – \$762 thousand and 2015 – \$709 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, 2012, these commitments totalled \$318,271 thousand (2011 – \$231,451 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, 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 2012 were \$22 thousand (2011 – \$19 thousand).

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

NOTE 17 – GUARANTEES AND INDEMNIFICATIONS

The Plan provides indemnifications to its trustees, Sponsors' 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)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
FINANCIAL										
Short-term investments	562	288	501	249	174	161	192	900	984	1,127
Fixed income	1,793	2,058	1,940	2,007	1,768	2,190	2,072	1,898	1,698	1,518
Equities	3,290	2,750	2,635	2,309	2,214	3,101	3,177	2,126	1,700	1,379
Infrastructure	237	217	162	146	130	84	34	-	-	-
Real estate	339	301	241	138	39	-	-	-	-	-
Private equity	119	47	29	13	-	-	-	-	-	-
Derivatives (net)	-	20	19	22	(18)	16	(22)	(11)	10	-
Total investments	6,340	5,681	5,527	4,884	4,307	5,552	5,453	4,913	4,392	4,024
Other assets (liabilities) (net)	(80)	(54)	(75)	(39)	(74)	(100)	(101)	(124)	(94)	(60)
Net assets available for benefits	6,260	5,627	5,452	4,845	4,233	5,452	5,352	4,789	4,298	3,964
Contributions	355	312	296	262	227	186	167	161	156	116
Investment income (loss)	624	178	607	629	(1,183)	159	628	542	367	458
Benefit payments	(332)	(302)	(284)	(267)	(248)	(237)	(223)	(203)	(182)	(170)
Administrative expenses	(14)	(13)	(13)	(12)	(14)	(8)	(9)	(9)	(8)	(8)
Net change in net assets available for benefits	633	175	606	612	(1,218)	100	562	491	333	397
RETURNS										
Annual return, gross of fees	11.8%	4.1%	13.3%	15.2%	-21.4%	3.4%	13.6%	13.1%	9.7%	13.3%
Annual return, net of fees	11.3%	3.4%	12.6%	14.7%	-21.7%	3.1%	13.3%	12.8%	9.4%	13.1%
After inflation	10.4%	1.1%	10.2%	13.4%	-22.9%	0.7%	11.6%	10.7%	7.3%	11.0%
MEMBERSHIP										
Active members	21,400	20,500	19,600	19,500	18,800	18,000	17,400	16,800	16,400	16,100
Deferred members	1,300	1,100	1,100	1,100	1,100	1,100	1,000	1,000	1,000	1,000
Retired members	12,600	12,100	11,700	11,200	10,800	10,400	10,000	9,700	9,000	8,600
Total members	35,300	33,700	32,400	31,800	30,700	29,500	28,400	27,500	26,400	25,700
FUNDING STATUS (AS AT JANUARY 1 OF THE FOLLOWING YEAR)										
Surplus (deficit) \$ millions	\$347	\$154	\$88	(\$358)	(\$256)	\$320	(\$585)	(\$545)	\$90	\$65
Discount rate*	5.80%	5.90%	6.00%	5.85%	5.25%	5.74%	5.95%	5.60%	6.50%	6.00%

* The discount rate is the rate of interest used to calculate the value of future pensions. It is based on expectations for future long-term investment returns.

Our path is clear. Our team is strong.

The image of the skein of geese on the cover denotes our experience that collaboration with a common purpose is innately efficient and remarkably powerful.



Corporate Directory

Officers

Derek W. Dobson
CEO and Plan Manager

Julie C. Cays
Chief Investment Officer

Kevin Rorwick
Chief Financial Officer

Directors

Kevin Fahey
Director, Investments

Angela Goodchild
Director, Client Services

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.

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A Best Small and Medium Employer in Canada

In 2012, the CAAT Pension Plan made the list of the 50 Best Small and Medium Employers in Canada as determined by Aon Hewitt and Queen's University School of Business. We ranked 29 in Canada and nine in the Greater Toronto Area.

A member of the Green 30

The Plan was also recognized in 2013 as being among the top 30 organizations whose employees feel they have incorporated environmental stewardship into their business model and corporate culture.





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