Annual Report 2023

Leading with a long-term vision

tpp.pensionsbc.ca

Contents

Executive summary

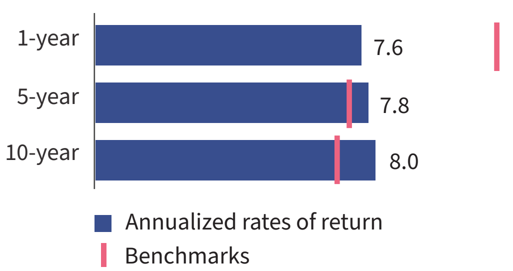
Investments

From geopolitical uncertainty to rapidly rising interest rates, the plan continued to face a variety of macroeconomic challenges during 2023. However, the global economy gradually regained strength over the second half of the year.

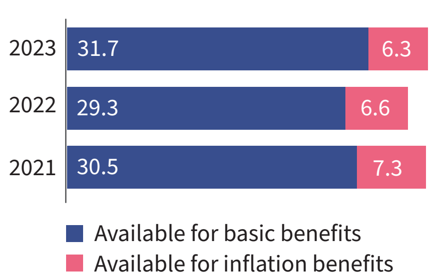
NET ASSETS ($ MILLIONS)

Net assets (Jan 1 2023)		Investment returns		Contributions		Pensions, benefits, expenses		Net assets (Dec 31 2023)
$35,913	+	2,740	+	914	–	1,608	=	$37,959

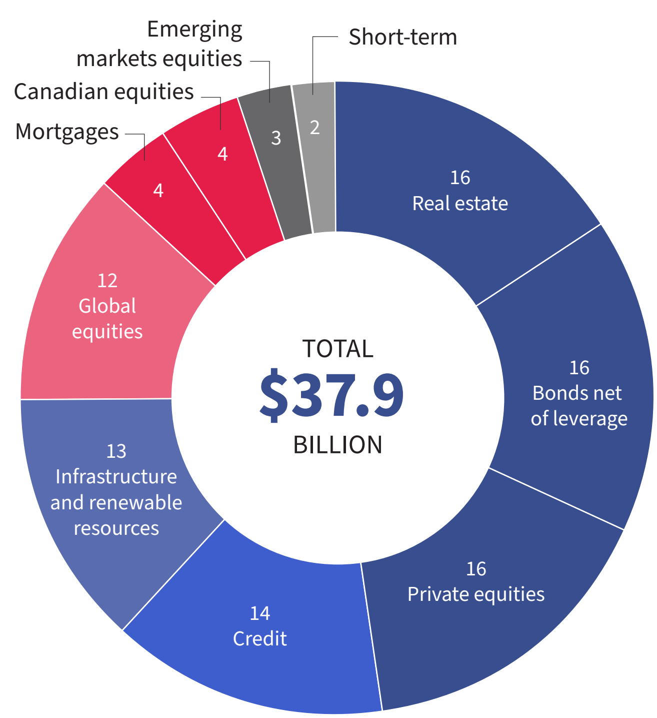
ANNUALIZED RATES OF RETURN VS. BENCHMARKS (%)
as at December 31, 2023



NET ASSETS AVAILABLE FOR BENEFITS ($ BILLIONS)
as at December 31

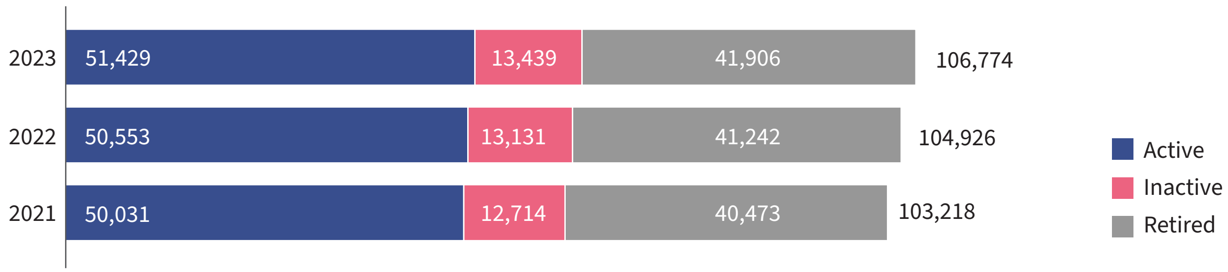


INVESTMENT HOLDINGS (%)
as at December 31, 2023

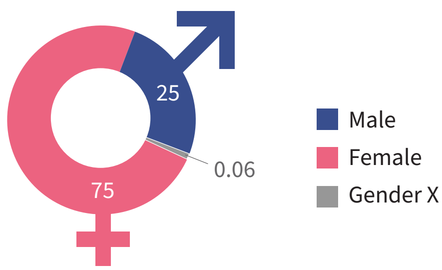


Membership

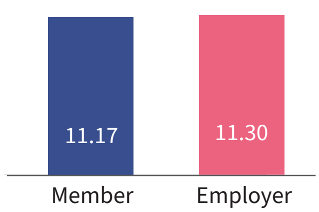
NUMBER OF MEMBERS
as at December 31



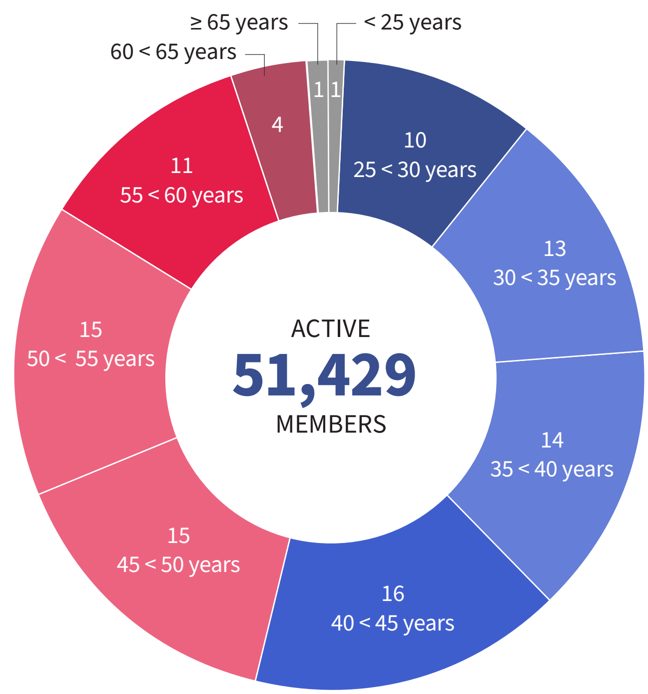
ACTIVE MEMBERS BY GENDER (%)
as at December 31, 2023



CONTRIBUTION RATES AS A PERCENTAGE OF SALARIES (%)
effective since January 1, 2019



ACTIVE MEMBERS BY AGE (%)
as at December 31, 2023



THE PLAN PAID OUT

$1,504 million in benefits in 2023

41,906 members receiving a pension

as at December 31, 2023

$35,176 Average annual pension

$35,345 Median annual pension

Leading with a long-term vision: Read our lesson plan

Strong and sustainable, the plan provides retirement security and dignity

Janet Eviston, member, SD39 (Vancouver)

The Teachers' Pension Plan was established more than 95 years ago, on April 1, 1929.

While the benefits for retired teachers back in the plan's earliest days were slim (teachers received a maximum pension of about $400 a year, in 2023 dollars), the foundations for the long-term health of the plan were in place. Those foundations remain today.

In recent years, the shaky economy and other factors have challenged the plan and society in general, but these are things the plan is designed to handle.

Strong and sustainable, the plan provides retirement security and dignity to tens of thousands of retired—and future retired—educators living throughout the province and around the world, just as it has done for the past 95 years.

Our vision: Investing for the long term

When the plan encounters short-term economic fluctuations, it's okay—the plan invests for the long term. How long? The most senior plan members were born before the plan existed, while some of the youngest members may be beneficiaries of a pension at the dawn of the next century.

We of course monitor our annual returns—down in 2022 and up in 2023—but we pay more attention to the 5- and 10-year returns, and those have exceeded our return objective of 5.75 per cent.

One way we make sure we are on track for the long term is by having an independent actuary perform a valuation every three years. As part of a valuation, the actuary reviews the plan's assets and compares them to the amount of money expected to be needed for pensions now and in the future.

Our most recent valuation, in 2020, showed the plan had a surplus, meaning it had more money than needed to fund pensions now and into the future. At the time, in anticipation of an economic downturn, a portion of the surplus funds was used to stabilize contribution rates, and the remainder was kept in the plan's Basic Account to help the plan's financial position for the 2023 valuation. We'll announce the results of that valuation later in 2024.

This careful approach to managing the pension fund has allowed us to pay cost-of-living adjustments (COLAs) for decades, including in both 2022 and 2023, a period of generationally high inflation. Funds for retired members' non-guaranteed COLAs are paid from the plan's Inflation Adjustment Account, which we manage the same way we manage all plan assets—prudently and carefully.

You can read more about returns in this report.

Our vision: Helping members appreciate the value of their pension contributions

It can be difficult for members to see pension contributions deducted from their pay while handling the competing priorities of housing, food, transportation and other day-to-day expenses.

We're meeting this challenge by helping our members better understand the value of their pension over the long term. Here are some key ideas we continue to communicate:

- A member with a typical career and typical life expectancy in retirement can expect to receive a pension nine times more than what they contributed. In fact, a member's pension might be their most valuable financial asset over their lifetime. This nine-times return is made possible by the plan prudently and effectively investing member and employer contributions.
- The Canadian Public Pension Leadership Council (CPPLC), of which we are a member, conducted a study on the social implications of pensions. This study centred on the retirement pension income received by members of the Ontario Municipal Employees Retirement System, a defined benefit plan like the Teachers' Pension Plan. The findings reveal that, even with equal contributions, members of defined benefit plans receive more than double the lifetime pension income compared to those without such plans. The full study is available on the plan's website (tpp.pensionsbc.ca) and on CPPLC's website (cpplc.ca).
- Defined benefit pension plans like the Teachers' Pension Plan are better for working members' mental health. How do we know this? A second CPPLC study, on the perceptions of retirement, demonstrated that many working Canadians are stressed not only about investing appropriately for retirement, but also about running out of money in retirement. Canadians with a defined benefit pension, however, have their contributions invested on their behalf and, in addition, have the reassurance they will have retirement income throughout their lives. The full study is available on CPPLC's website (cpplc.ca).

We're also working to produce more short educational videos on pension-related topics, such as nominating a beneficiary. We think they're ideal for Generation Z plan members who have grown up with the internet and might prefer videos as a way to learn about their pensions.

Our vision: Modernizing the plan's retirement health coverage for retired members of today and tomorrow

Back in 2022, with rising drug costs and changing member needs, we decided the time was right to review the plan's retirement health coverage program. While retirement health coverage is funded by members, it's made available and administered through the plan.

Our goal is to modernize the program to better meet the needs of plan members while balancing the costs of premiums and coverage provided. During 2022 and 2023, we heard from more than a thousand members through focus groups, multiple forums and a comprehensive survey on the future of the health coverage program. Member feedback was an important factor in our decision, which we announced in the summer edition of *Pension Life*, now available on the plan website.

Mike Ross, retired member

Our vision: Finding the right person for the job—welcoming our new executive director

When the position of executive director for both our plan and the Public Service Pension Plan (PSPP) opened in early 2023, we knew that filling it would be an exciting opportunity. After a thorough search in collaboration with the PSPP and our support staff at the Pension Board Secretariat, we were thrilled to announce the appointment of Stuart Morgan as our new executive director.

Stuart is a fellow of the Canadian Institute of Actuaries and the United Kingdom's Institute and Faculty of Actuaries, and he brings to us a wealth of pension and actuarial experience. He previously served at a consulting firm, where he collaborated with us and other BC public sector pension boards of trustees to create a new in-house curriculum that supports trustees from the moment they join the board through the length of their terms.

Stuart excels in providing advice on complex pension issues, covering funding, plan design, risk management and governance. As the executive director, he plays a crucial role in our ongoing collaboration with pension plan partners and agents to help carry out our vision.

Thank you

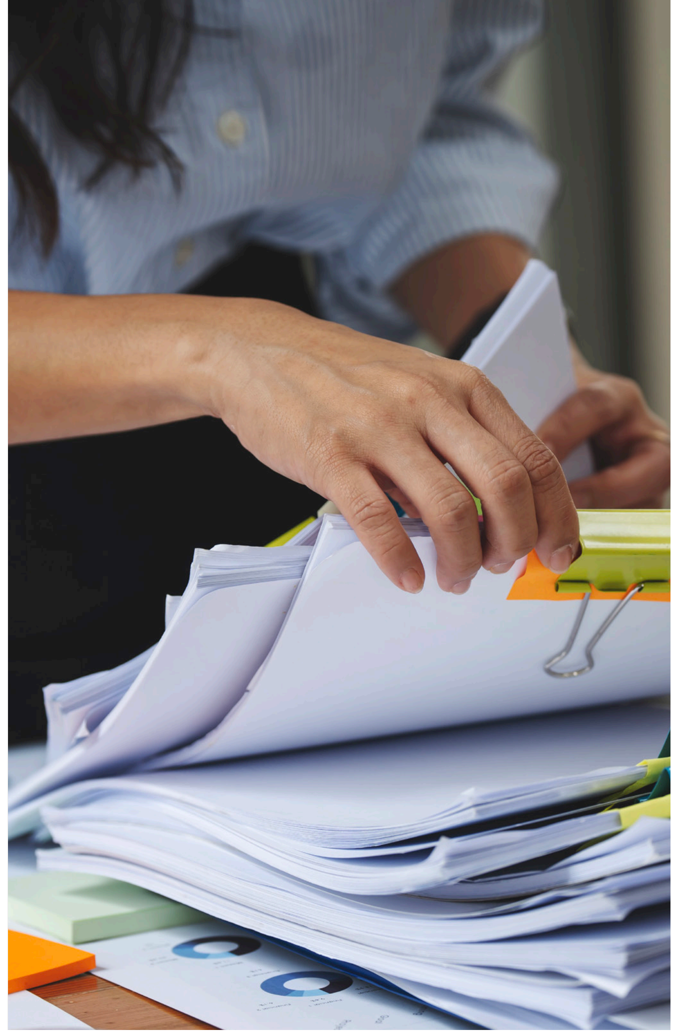
Thank you for reviewing this report.

The plan has a 95-year history. As the current board of trustees, we're honoured to oversee this plan for a small portion of its long journey. We are dedicated to maintaining the plan's strength and sustainability as we pass it on to future trustees, just as it was entrusted to us.

Jackie and Josh Heinrich, members, SD67 (Okanagan Skaha)

Plan financials

Secure and stable over the long term



Investment strategy

The primary objective of the Teachers' Pension Board of Trustees is to ensure the pension plan is secure and stable over the long term. Meeting this objective depends on several factors, including whether the plan earns enough through returns on its investments.

The board delegates investment management duties to its agent, BCI. The board sets investment beliefs and financial goals of the plan through the Statement of Investment Policies and Procedures, while BCI carries out investment strategies to accomplish those goals. The board is responsible for overseeing BCI's performance and progress.

The plan's commitment to its members is long term. Therefore, the board takes the same approach to investing. The main financial goal of the plan is to meet or exceed its long-term investment return objective. This is the minimum amount the plan needs to earn through its investment activities each year to pay for its obligations, including pensions. The board sets investment policies and guidelines that are designed to meet this goal without taking on excess risk.

Shuk Yan and Joan Jung, members, SD39 (Vancouver)

Risk management is a primary responsibility of both the board and BCI. This includes analyzing risks in the short and long term and taking the appropriate steps to limit exposure to certain risks or reduce their impact. Different types of risks can arise from market volatility or environmental, social and governance (ESG) factors like climate change.

To manage risk effectively, the board and BCI have constructed a diversified portfolio that is invested in multiple asset types, industries and geographies. Holding diverse investments provides better protection against lower returns from any one type of asset or during any given period. For example, when inflation is high, bonds tend to perform poorly, while infrastructure generally performs well. Depending on changing market conditions, the plan's investment holdings will be adjusted accordingly to maintain and grow the portfolio value.

The plan's commitment to its members is long term.

In recent years, the plan's long-term asset mix policy has increased investments in private markets and real assets (tangible investments such as land and buildings). These types of assets typically increase in value over time and help safeguard the portfolio against short-term volatility that is common in public markets. Many of these investments also allow BCI to manage assets directly and influence the companies' strategic direction to create long-term value for the plan.

Investment highlights

From geopolitical uncertainty to rapidly rising interest rates, the plan continued to face a variety of macroeconomic challenges during 2023. However, the global economy gradually regained strength over the second half of the year. Major central banks signalled a pause, or even a potential reversal, of monetary tightening. This was positive for fixed income and equity markets, driving broad market gains. Developed markets equity stood out as the main driver of returns over the year. The rest of the portfolio also performed well overall. It bounced back from the negative return in 2022 and exceeded its investment objective.

Overall plan performance

For the year ended December 31, 2023, the plan returned 7.6 per cent. This exceeded the plan's return objective of 5.75 per cent but fell short of the benchmark return of 11.5 per cent. The plan's assets increased from $35.9 billion to $38.0 billion. This outcome demonstrates the benefits of diversification and sound investment strategies.

Almost all asset classes contributed positively to the total fund return. In addition to the notable developed markets equity performance, the fund's next two largest contributors were government bonds and credit. The only asset class with negative returns was real estate equity, which was affected by broad market challenges that continued to weigh down the sector.

The plan also outperformed on a five-year basis, returning 7.8 per cent against the performance benchmark of 7.4 per cent. Increased allocations to both private equity and infrastructure and renewable resources, both of which have performed well, contributed the most to positive excess returns in the long run.

Public markets

Within public markets, the plan is invested in public equities (e.g., publicly traded stocks) and fixed income (e.g., government and corporate bonds).

Public equity had strong double-digit performance for the year, returning 18.8 per cent against the 17.0 per cent benchmark. Developed markets equity was the main driver of outperformance as global equity markets had one of the strongest rallies in decades in November. Emerging markets also posted solid gains but lagged behind developed markets as Chinese equities declined. On a long-term basis, public equity outperformed as well, returning 10.8 per cent compared to the 10.3 per cent benchmark.

Fixed income also posted positive returns, benefiting from increased bond prices because of falling yields. It returned 7.6 per cent, short of the 7.7 per cent benchmark. However, it outperformed on a long-term basis and returned 2.3 per cent against the 2.0 per cent benchmark.

Performance results

NET ASSETS

$38.0 billion
December 31, 2023

$35.9 billion
December 31, 2022

FIVE-YEAR RETURN (%)

7.8
2018–2023

7.4
Benchmark

Private equity

Private equity activity declined for the second consecutive year amidst a general industry slowdown, which led to reduced returns. It still posted a positive return of 6.5 per cent, well below the benchmark of 20.9 per cent. The notable underperformance can be largely attributed to the sharp rally of the “magnificent seven” mega-cap technology stocks during the year. These stocks are included in the index that private equity is benchmarked against.

As always, the plan remains focused on long-term results as they more accurately reflect the quality and positioning of the portfolio. Private equity’s long-term results were positive and outperformed the benchmark. Over five years, it returned 16.0 per cent against the 13.0 per cent benchmark.

Real estate

Real estate equity was the only asset class that posted negative returns over the year. It underperformed the 6.8 per cent benchmark, returning -4.9 per cent. Multiple factors led to short-term underperformance. For one, global real estate activity was low, with investment volumes down substantially. In the near term, conservatism from tenants and investors is expected to continue to affect investment activity and sentiment. Property sectors are also seeing widespread value decreases as capitalization rates continue to increase because of rising interest rates. Looking forward, a return to positive performance for real estate equity is anticipated, assuming that inflation continues to ease and central banks lower policy rates. Over five years, real estate equity had a positive return of 4.8 per cent against a benchmark return of 6.5 per cent.

Real estate debt, on the other hand, posted positive returns on both a short- and long-term basis. Investments continued to be in property sectors of high conviction, such as industrial, residential and alternatives. The asset class returned 6.9 per cent over the year, compared to the 7.7 per cent benchmark. Over five years, it returned 4.6 per cent and outperformed the 3.8 per cent benchmark.

Infrastructure and renewable resources

Infrastructure and renewable resources (IRR) returns were also impacted by rising interest rates and a decline in fundraising activity across the industry. Despite these challenges, the portfolio contributed positive returns of 6.8 per cent over the year, exceeding the 6.3 per cent benchmark. On a five-year basis, IRR outperformed, returning 8.6 per cent against the 6.6 per cent benchmark. In the long term, more investment opportunities are expected to arise in digital infrastructure assets and decarbonization. IRR is actively seeking opportunities in these areas.

Performance results (%)

FIVE-YEAR PERFORMANCE (2018–2023)

	Fixed income	Private equity	Real estate equity	IRR
Return	2.3	16.0	4.8	8.6
Benchmark	2.0	13.0	6.5	6.6

Responsible investing

Responsible investing is a key part of the plan's investment approach and a strategic priority for the board. It involves integrating environmental, social and governance (ESG) factors into investment decisions. The board and BCI agree that ESG integration is fundamental to growing and protecting the value of the plan. ESG factors range from being company-specific, such as board compensation or employee safety, to being widespread and systemic, like climate change. Companies that have strong ESG practices are better positioned to generate long-term, sustainable investment returns.

As the plan's investment agent, BCI integrates ESG in the following ways:

- Evaluates and monitors investments using both ESG and traditional financial analysis
- Influences companies and policy-makers to uphold good ESG practices and policies
- Invests in ESG-related opportunities that have positive risk/return characteristics
- Uses ESG-related insights to improve investment strategies and better support the plan's investment goals

As a large, long-term investor, BCI uses its influence on behalf of the plan to encourage companies and partners to adopt ESG best practices. To improve investment values and outcomes, BCI may exercise shareholder voting rights, engage with companies directly, make policy submissions or sit on the boards of companies.

BCI is actively engaged in responsible investing initiatives around the world. As a founding signatory of the Principles for Responsible Investment, BCI participates in regular assessments of its responsible investing activities and progress. BCI is also a member of the steering committee for the 30% Club Canada, which promotes greater board diversity and inclusion in addition to increased transparency in ESG reporting.

To learn more about BCI's ESG activities, visit bci.ca/ESG.

Climate change

Climate change is a complex global issue and remains a concern for the board, plan members, BCI and global investors. It affects many dimensions of ESG, from biodiversity to income inequality. Climate change must be stabilized, and net-zero emissions achieved globally by 2050, to reduce the most severe physical and economic impacts of climate change.

BCI is committed to supporting the global goal of achieving net-zero greenhouse gas emissions by 2050. Its Climate Action Plan provides a road map for fulfilling this commitment while creating and preserving financial value for the plan. This is done by managing climate change risk across all asset classes and pursuing opportunities.

BCI also collaborates with other organizations to advance its objectives in mitigating climate change risks. One initiative BCI participates in is Climate Action 100+, where it engages with some of the world's largest greenhouse gas emitters to take necessary action on climate change.

Transparency plays a major role in climate action. BCI follows best practices for climate-related disclosures and has been reporting in alignment with the Task Force on Climate-Related Financial Disclosures. BCI will continue to enhance its climate-related reporting in line with emerging best practices, such as the standards of the International Sustainability Standards Board.

BCI is committed to supporting the global goal of achieving net-zero greenhouse gas emissions by 2050.

BCI actively seeks opportunities related to the global energy transition across its portfolio. One such investment is sustainable bonds, which provide strong risk-adjusted returns as well as exposure to positive environmental and social outcomes. As of December 31, 2023, BCI's total historical participation in sustainable bonds was over $4.8 billion. BCI anticipates reaching $5 billion by 2025.

To read more about BCI's Climate Action Plan activities, visit bci.ca/approach/climate-action.

Divestment and engagement

Divestment is a practice in which an investor sells their shares in a company that may not be meeting its ESG goals. Neither the board nor BCI believes that broad-based divestment is an effective strategy to address long-term and persistent ESG risks. Instead, by engaging with companies and using their ownership rights, investors can raise concerns and influence corporate ESG practices. Divestment eliminates a shareholder's right to engage and promote change with management. Divestment may also compromise the plan's investment strategy, increase risks and costs, negatively affect investment returns and fail to result in absolute emissions reductions. Separate from an ESG-driven view on divestment, BCI will not invest in companies that produce products prohibited by Canadian legislation or international agreements.

Investment costs

BCI operates on a cost-recovery, not-for-profit basis, meaning the plan pays fees only to cover the cost of managing the investments. Since BCI manages a large amount of assets, it has access to significant economies of scale when investing on behalf of the plan. Managing investment costs is important to the board, and BCI's fees continue to be competitive with its peers and much lower than those charged by investment managers in the private sector. Investment management fees are affected by the types of assets, the plan's asset mix (what is in the portfolio) and BCI's investment strategy. Some asset classes that produce higher returns are complex and more expensive to manage, which in turn affects fees. The objective is to earn enough investment income to fulfil the plan's pension commitments at a reasonable cost.

BCI has access to significant economies of scale when investing on behalf of the plan.

Actuarial valuation: The plan's report card

The actuarial valuation is the most important measurement of the plan's health. Using a series of economic and demographic assumptions, it determines how much money the plan needs to pay current and future pensions. An independent actuary—a professional with specialized training in financial modelling, laws of probability and risk management—performs the valuation at least every three years. For the valuation, the actuary compares current assets, future contributions and investment returns against the money to be paid out in the future for pension benefits.

The results of the December 31, 2023, valuation will be published in the last quarter of 2024.

VALUATION HISTORY ($ MILLIONS)

as at December 31

	Basic pension benefit surplus		
	2020	**2017**	**2014**
For funding purposes (entry-age basis)	**$1,584**	$644	$449
Funding ratio (%)	**105.3**	102.5	102.0

Tables, charts and graphs

ASSET MIX AND PERFORMANCE (%)

as at December 31, 2023

	Approved ranges	Target asset mix	Actual asset mix	Rate of return	Performance benchmark
Leverage	**(15)–0**	**(10)**	**(9.9)**	**4.9**	**4.9**
Short-term	0–8	2	2.0	3.7	3.3
Government bonds	15–33	25	25.7	6.0	6.1
Credit	3–25	18	14.4	11.5	11.5
Fixed income	**22–55**	**45**	**42.1**	**7.6**	**7.7**
Developed markets[1]	3–30	13	15.7	12.4	11.3
Emerging markets	0–8	2	3.3	8.9	6.9
Private equity	8-20	13	15.7	6.5	20.9
Equity	**16–52**	**28**	**34.7**	**13.8**	**18.5**
Real estate[2]	12–32	22	20.4	(2.3)	5.2
Infrastructure and renewable resources	6–20	15	12.8	6.3	6.3
Real assets	**18–50**	**37**	**33.2**	**0.4**	**6.7**
Other	**0–5**	**0**	**(0.1)**	**–**	**–**
Total asset mix		**100**	**100.0**	**7.6**	**11.5**

1 Canadian and global equities. Returns are for the period April 1, 2023 to December 31, 2023.
2 Real estate equity and mortgages. Returns are for the period April 1, 2023 to December 31, 2023.

INVESTMENT PERFORMANCE (%)

year ended December 31

	Rate of return	Performance benchmark
Annual rates		
2023	**7.6**	**11.5**
2022	(3.4)	(5.9)
2021	11.6	8.4
2020	10.7	11.2
2019	13.1	13.1
5-year annualized rates		
2023	**7.8**	**7.4**
2022	6.7	5.2
10-year annualized rates		
2023	**8.0**	**7.2**
2022	8.6	7.3

FIVE-YEAR FINANCIAL SUMMARY ($ MILLIONS)

year ended December 31

	2023	2022	2021	2020	2019
Increase in assets					
Investment income	**$ 2,740**	$ (1,205)	$ 4,049	$ 3,392	$ 3,712
Contributions					
Members	**450**	414	401	384	365
Employers	**454**	417	404	387	368
Transfers from other plans	**10**	12	10	11	6
Total increase (decrease) in assets	**3,654**	(362)	4,864	4,174	4,451
Decrease in assets					
Pension benefits	**1,504**	1,396	1,318	1,293	1,248
Transfers to other plans	**5**	9	11	6	3
Investment and administration costs[1]	**99**	87	50	95	64
Total decrease in assets	**1,608**	1,492	1,379	1,394	1,315
Increase in net assets	**2,046**	(1,854)	3,485	2,780	3,136
Net assets available for benefits at beginning of year	**35,913**	37,767	34,282	31,502	28,366
Net assets available for benefits at end of year	**$37,959**	$35,913	$37,767	$34,282	$31,502
Investment and administration costs as a percentage of net assets (%)[1,2]					
Investment management[1,2]	**0.39**	0.41	0.24	0.38	0.35
Benefits administration	**0.05**	0.04	0.05	0.05	0.05

1 Investment costs as a percentage of net assets include certain external investment management costs totalling $59.5 million (2022: $75.8 million; 2021: $52.2 million; 2020: $36.9 million; 2019: $55.7 million) that are netted against investment income; they are not included in investment and administration costs in the financial statements.

2 Investment costs as a percentage of net assets exclude external indirect investment management costs netted against investment income on the statement of changes in net assets available for benefits. This is consistent with current industry practice; including these costs using the budgeted amount would have increased investment management costs as a percentage of net assets by an estimated 49 basis points in 2023. External indirect investment management costs include limited partnership management fees and other fees principally incurred within investments held in the private equity, infrastructure and real estate asset classes.

INVESTMENT PORTFOLIO

as at December 31, 2023

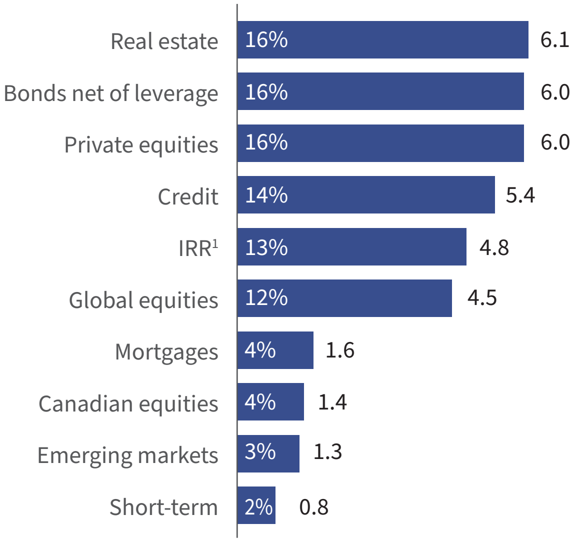
	Market value ($ millions)	Asset mix market value (%)
Short-term	$ 770	2.0
Leverage	(3,740)	(9.9)
Bonds	9,746	25.7
Credit	5,435	14.4
Mortgages	1,643	4.3
Canadian equities	1,391	3.7
Global equities	4,515	12.0
Emerging markets equities	1,266	3.3
Real estate[1]	6,109	16.1
Private equity[1]	5,959	15.7
Infrastructure and renewable resources	4,849	12.8
Centralized currency management	(84)	(0.2)
Cash and unsettled trades	47	0.1
Total investments	**$37,906**	**100.0**
2022 comparison	**$35,897**	

1 Asset classifications vary from the financial statements for the purpose of performance reporting.

TOP 25 SECURITY HOLDINGS
TOTAL PUBLIC EQUITY EXPOSURE—WORLDWIDE
as at December 31, 2023

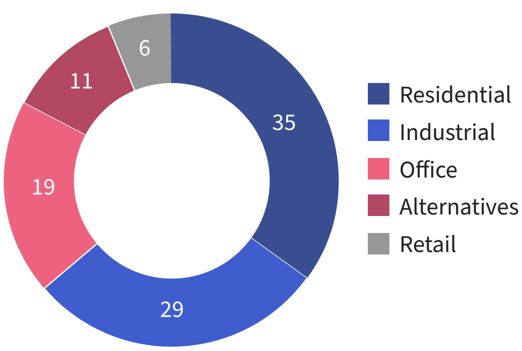
Company	Per cent of portfolio (%)	Total exposure ($ millions)
Microsoft Corp.	0.6	$216
Apple Inc.	0.4	164
Amazon.com, Inc.	0.3	114
NVIDIA Corp.	0.3	106
Taiwan Semiconductor Manufacturing Company Limited	0.3	99
Alphabet Inc.	0.3	98
Royal Bank of Canada	0.2	85
Toronto-Dominion Bank	0.2	74
Samsung Electronics Co. Ltd.	0.2	66
UnitedHealth Group Inc.	0.2	63
WSP Global Inc.	0.2	59
Bank of Montreal	0.2	57
Shopify Inc.	0.1	54
Mastercard Inc.	0.1	50
Meta Platforms, Inc.	0.1	49
Constellation Software	0.1	49
Canadian Natural Resources Ltd.	0.1	39
Alibaba Group Holding Ltd.	0.1	39
Tencent Holdings Ltd.	0.1	38
Tourmaline Oil Corp.	0.1	38
Metro Inc./CN	0.1	38
Tesla, Inc.	0.1	37
Broadcom Inc.	0.1	36
Intact Financial Corp.	0.1	34
BCE Inc.	0.1	32

INVESTMENT HOLDINGS ($ BILLIONS) **(MARKET VALUE)**
as at December 31, 2023

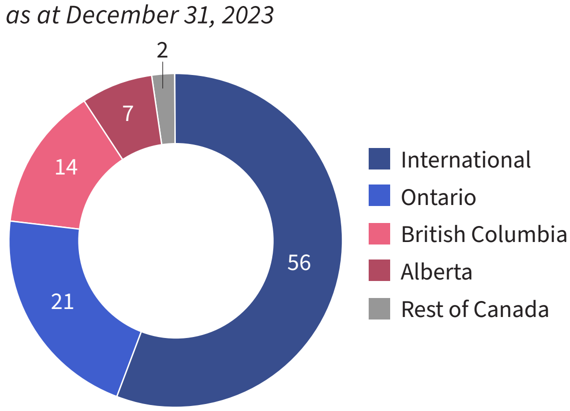


1 Infrastructure and renewable resources

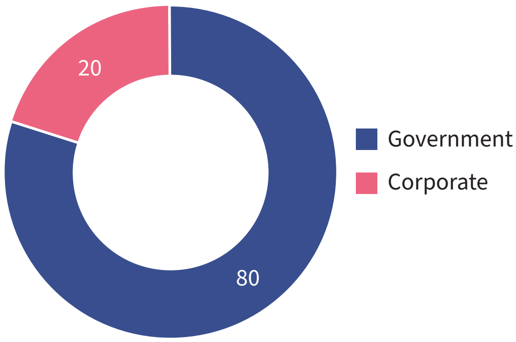
REAL ESTATE BY TYPE (%)
as at December 31, 2023



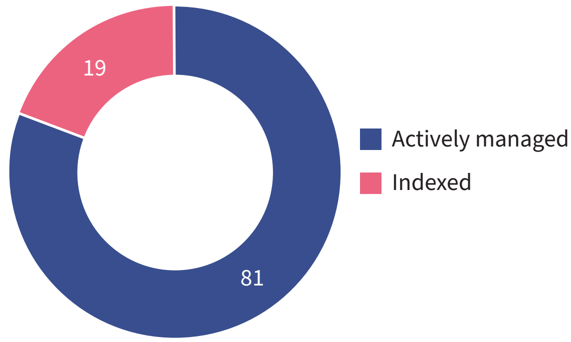
REAL ESTATE BY LOCATION (%)
as at December 31, 2023



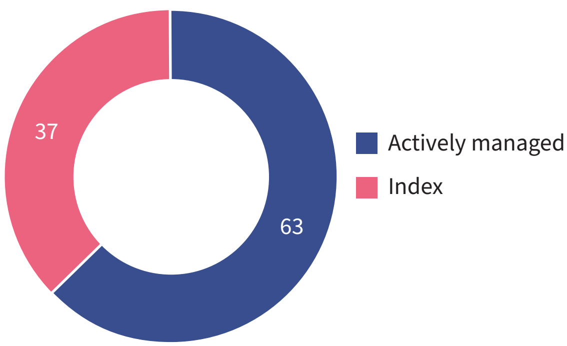
BONDS (MARKET VALUE) (%)
as at December 31, 2023



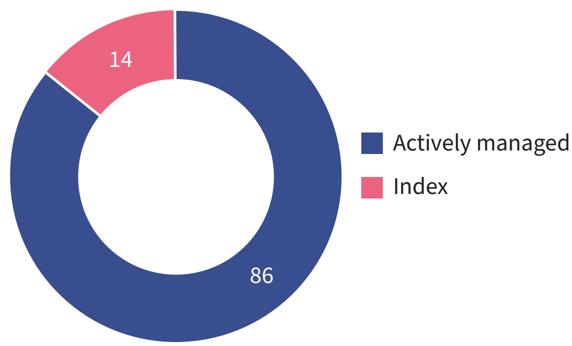
DEVELOPED MARKETS EQUITIES (MARKET VALUE) (%)
as at December 31, 2023



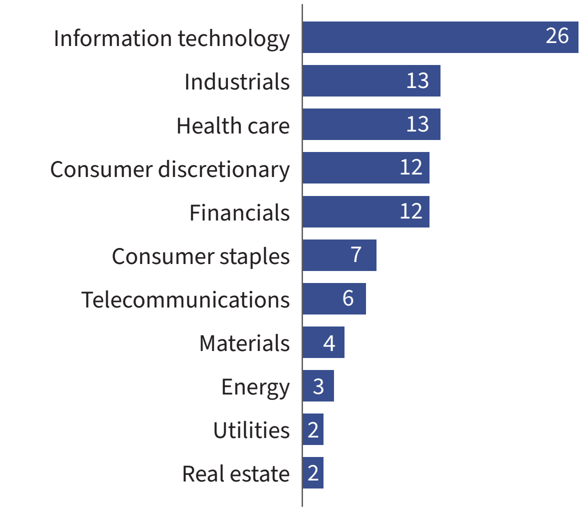
CANADIAN EQUITIES (MARKET VALUE) (%)
as at December 31, 2023



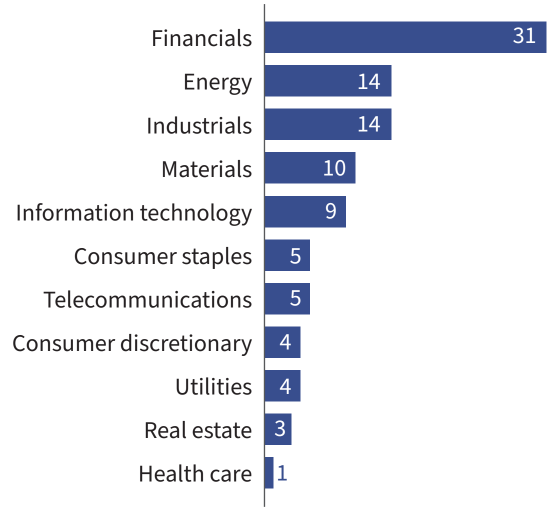
GLOBAL EQUITIES (MARKET VALUE) (%)
as at December 31, 2023



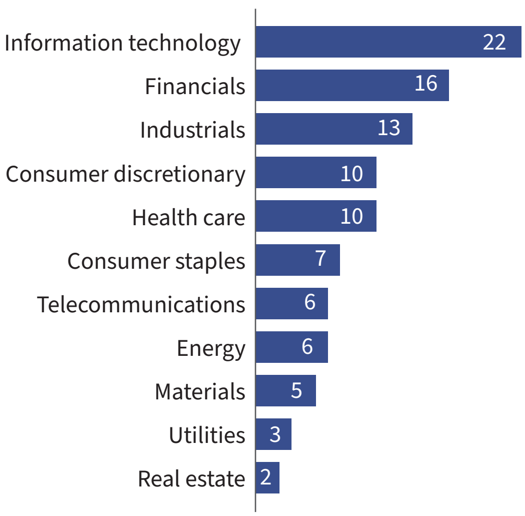
GLOBAL EQUITIES BY SECTOR (%)
as at December 31, 2023



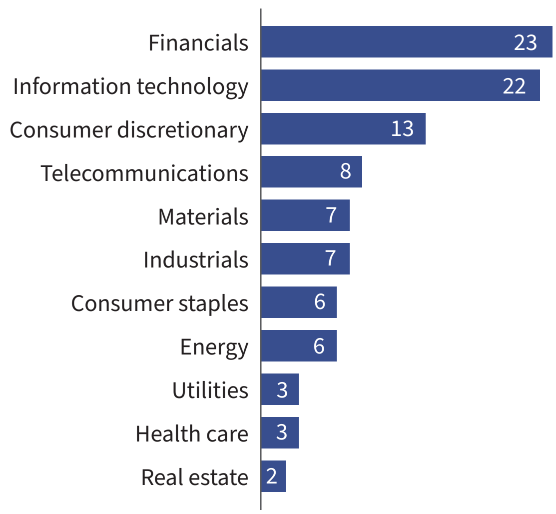
CANADIAN EQUITIES BY SECTOR (%)
as at December 31, 2023



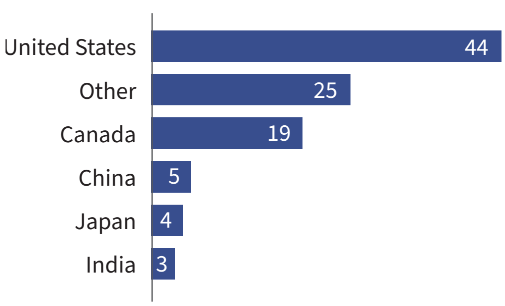
DEVELOPED MARKETS EQUITIES BY SECTOR (%)
as at December 31, 2023



EMERGING MARKETS EQUITIES BY SECTOR (%)
as at December 31, 2023

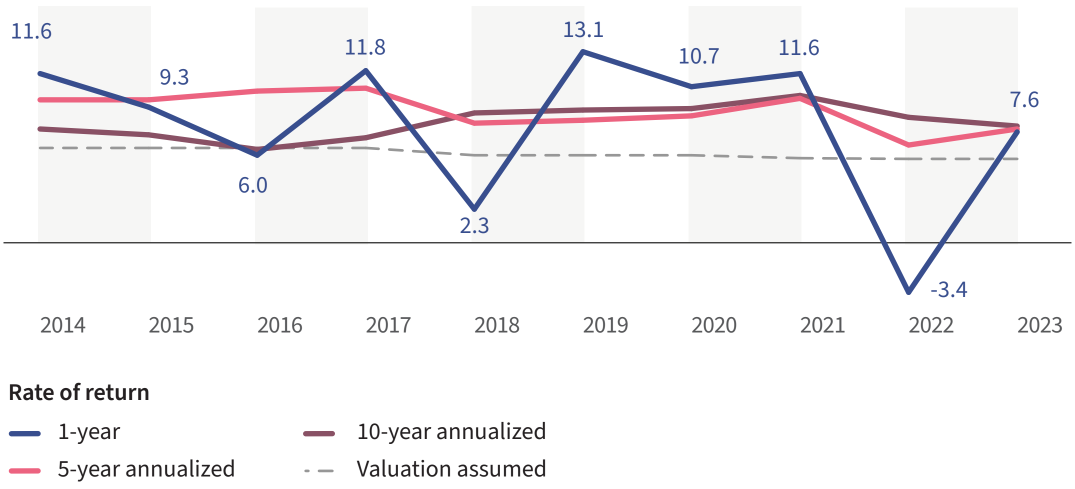


EQUITY EXPOSURE BY REGION (%)
as at December 31, 2023



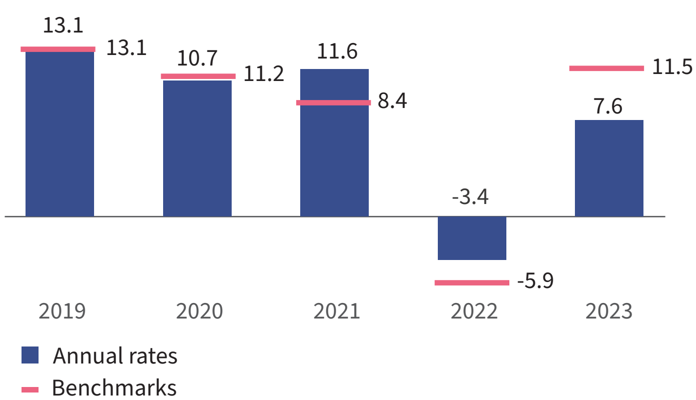
INVESTMENT RETURNS (%)

10-year history



ANNUAL RATES OF RETURN VS. BENCHMARKS (%)

as at December 31, 2023



The plan's five-year return of 7.8 per cent exceeds the return objective of 5.75 per cent.

Howe Sound

Who we are

The board's mission is "to provide retirement income to plan members by effectively and efficiently meeting the pension promise and fulfilling the joint trust placed on us by the plan partners."

The 2023 Teachers' Pension Board of Trustees

The board is made up of trustees appointed by the employer partner (Province of British Columbia) and the member partner (BC Teachers' Federation). The board appoints a chair and vice-chair.

The board's mission is "to provide retirement income to plan members by effectively and efficiently meeting the pension promise and fulfilling the joint trust placed on us by the plan partners."

As part of its responsibilities, the board appoints directors to the boards of BCI, which provides investment management services, and British Columbia Pension Corporation, which provides pension administration services.

Meet the trustees

as at December 31, 2023

REG BAWA | CHAIR

Appointed by Province of British Columbia
Committees Executive Forum, governance, interplan coordination (chair)
Trustee Since 2010

CHUNG YAN IP | VICE-CHAIR

Appointed by British Columbia Teachers' Federation
Committees Benefits and communications, Executive Forum, governance, interplan audit, interplan coordination
Trustee Since 2011

ELIZABETH BAVERSTOCK

Appointed by British Columbia Teachers' Federation
Other boards BC Pension Corporation Board of Directors (chair)
Committees Benefits and communications
Trustee Since 2018

AL CORNES

Appointed by British Columbia Teachers' Federation
Committees Benefits and communications
Trustee Since 2022

LUCAS CORWIN

Appointed by Province of British Columbia
Trustee Since 2023 (Lucas's term ended December 31, 2023)

CHERYL EASON

Appointed by Province of British Columbia
Other boards BC Pension Corporation Board of Directors
Committees Governance, interplan investment (chair)
Trustee Since 2018

ADAM MOLINEUX

Appointed by Province of British Columbia
Committees Interplan audit
Trustee Since 2023

LYNDA REEVE

Appointed by Province of British Columbia
Committees Benefits and communications, governance
Trustee Since 2020

LESLIE ROOSA

Appointed by British Columbia Teachers’ Federation
Committees Benefits and communications, governance (chair), interplan trustee education, interplan investment
Trustee Since 2019

ROB TAYLOR

Appointed by British Columbia Teachers’ Federation
Other boards BCI Board of Directors
Committees Benefits and communications (chair), interplan investment, interplan trustee education
Trustee Since 2015 (Rob’s term ended December 31, 2023)

Trustee remuneration

The plan compensates trustees or their employers for time spent on board business. Guidelines and rates are set out in the board's remuneration policy. Under the policy, remuneration may be adjusted annually by an amount equal to the cost-of-living adjustment made to pension payments.

TRUSTEE REMUNERATION

year ended December 31, 2023

Trustee	Meeting days	Per diem	Annual stipend	Chair and vice-chair remuneration	Total payments	Paid to
Reg Bawa (chair)	20	$ 9,560.00	$ 4,780.00	$ 4,780.00	$ 19,120.00	Ministry of Finance
Chung Yan Ip (vice-chair)	34	16,252.00	–	–	16,252.00	BC Teachers' Federation
	–	–	4,780.00	2,390.00	7,170.00	Board member
Elizabeth Baverstock	19	9,082.00	–	–	9,082.00	Richmond Teachers' Association
	–	–	4,780.00	–	4,780.00	Board member
Al Cornes	26.5	12,667.00	4,780.00	–	17,447.00	Board member
Lucas Corwin[1]	5	2,390.00	2,390.00	–	4,780.00	Ministry of Finance
Cheryl Eason	24.5	11,711.00	4,780.00	–	16,491.00	Board member
Jonathan Foweraker[2]	7	3,346.00	2,390.00	–	5,736.00	Ministry of Finance
Adam Molineux[3]	12	5,736.00	3,585.00	–	9,321.00	Ministry of Finance
Lynda Reeve	15	7,170.00	–	–	7,170.00	Surrey School District
	–	–	4,780.00	–	4,780.00	Board member
Leslie Roosa	26	12,428.00	–	–	12,428.00	BC Teachers' Federation
	–	–	4,780.00	–	4,780.00	Board member
Chris Skillings[4]	4.5	2,151.00	1,195.00	–	3,346.00	Ministry of Finance
Rob Taylor	29	13,862.00	4,780.00	–	18,642.00	Board member
Total		**$106,355.00**	**$47,800.00**	**$7,170.00**	**$161,325.00**	

1 Term started July 2023.
2 Term ended June 2023.
3 Term started April 2023.
4 Term ended March 2023.

Trustee activities

In 2023, the board held five meetings over 10 days. Trustees also participated in standing and ad hoc committees.

Teachers' Pension Board of Trustees committees

Benefits and communications committee

This committee provides advice and recommendations to the board on benefits and communications issues and makes decisions under authority delegated by the board. It meets to address the following:

- Post-retirement group benefits
- Plan rule amendments
- Reciprocal transfer agreements
- Communications products, including *Report to Members* for active members, *Pension Life* for retired members and the *Annual Report*.

The committee met four times in 2023.

Governance committee

This committee assists the board in fulfilling its governance responsibilities by considering:

- Board policy development and review
- Risk management review
- Board strategic planning mechanisms
- Development of the board's assessment tools
- Succession planning
- Any other item referred by the board

This committee met three times in 2023.

Interplan committees and forums

Interplan committees and forums address issues common to the four BC public sector pension plans: Teachers', College, Municipal and Public Service pension plans. Members are trustees from three or four of these pension plans (some committees do not include the Municipal Pension Plan).

EXECUTIVE FORUM

This forum is designed to share areas of common interest among the Teachers', College, Municipal and Public Service pension plans and provide an opportunity for plan board chairs, vice-chairs and senior administrators to keep up with the activities of the boards.

The forum met twice in 2023.

INTERPLAN AUDIT COMMITTEE

This committee meets on behalf of the Teachers', College, Municipal and Public Service pension boards of trustees to help provide:

- A timely and cost-effective system of accounting and reporting
- Financial statements consistent with Canadian accounting standards for pension plans
- An independent audit of the financial statements
- An annual report with audited financial statements

This committee met three times in 2023.

INTERPLAN COORDINATION COMMITTEE

This committee facilitates communications to ensure the Teachers', College and Public Service pension boards of trustees meet their common governance and operational requirements. Additionally, it oversees the operations of the Pension Board Secretariat.

This committee met three times in 2023.

INTERPLAN INVESTMENT COMMITTEE

This committee examines investment issues common to the Teachers', College and Public Service pension boards of trustees. It makes recommendations to each board on generic investment policy and procedure statements, and on investment issues identified by a board, BCI or the committee itself. It considers:

- Investment industry trends
- Regulatory and legal developments
- Responsible investing issues
- Asset class reviews
- Updates on capital markets
- New investment products

This committee met four times in 2023.

INTERPLAN TRUSTEE EDUCATION COMMITTEE

This committee allows the Teachers', College, Municipal and Public Service pension boards of trustees to develop trustee knowledge and skills, work together on common educational issues and provide information on trends in a variety of jurisdictions (e.g., benefits, pensions, investments). This group organizes the annual BC Public Sector Pension Conference.

This committee met three times in 2023.

Agents and service providers

BCI

BCI provides investment management services on behalf of the board. BCI is one of Canada's largest institutional investors, with a portfolio of more than $200 billion as at March 31, 2023. It offers investment options across a range of asset classes, including public and private equity, real estate, and infrastructure and renewable resources.

British Columbia Pension Corporation

Pension Corporation provides professional pension services for the plan on behalf of the board. One of Canada's largest pension service providers, Pension Corporation serves the largest public sector pension plans in British Columbia, representing more than 650,000 members and their employers. Services include providing plan information to members and employers, managing contributions and member records, paying pensions and providing policy, financial and communications services to the board.

Eckler Ltd.

Eckler Ltd. serves as the plan's independent actuary. It conducts an actuarial valuation on the plan's funding every three years and supports the board in its decision making as appropriate. The results of the next valuation, as at December 31, 2023, will be published in the last quarter of 2024.

Green Shield Canada

Green Shield Canada provides retired plan members' access to voluntary group extended health care and dental coverage.

KPMG LLP

KPMG LLP provides external audit services to the plan.

Lawson Lundell LLP

Lawson Lundell LLP is the plan's legal counsel.

Pension Board Secretariat

The Pension Board Secretariat, a branch within Pension Corporation, provides day-to-day professional and operational support to help the board meet its governance and fiduciary obligations.

WTW (formerly Willis Towers Watson)

WTW is the board's benefits advisor.

Plan details

Growing together

Ross Scott, retired member

How a pension is built

Member and employer contributions

Members and employers both make contributions to the Teachers' Pension Plan.

Contributions are automatically deducted from a member's pay and sent directly to the plan along with employer contributions.

Contributions are based on a percentage of salary (effective since January 1, 2019):

- Members contribute 11.17 per cent of salary.
- Employers contribute 11.30 per cent of salary.

An independent actuary regularly monitors the plan's financial health. If the actuary finds that contributions are insufficient to pay current and future benefits, they will recommend increased contributions.

When the member and employer contributions are received by the plan, they are pooled and invested.

Investing contributions

BCI, the plan's investment management agent, determines how best to invest the plan's assets within guidelines determined by the plan's board of trustees. These guidelines include environmental, social and governance factors.

BCI's relatively low fees (about 0.39 per cent of net assets) help maximize the amount of money going toward pensions.

Over time, long-term investments form the basis of the plan's financial health, making up the largest portion of the money needed to pay pensions.

About 75 per cent of a member's pension is generated from investments.

Ready to retire: Calculating the pension

The plan provides members a lifetime defined benefit pension calculated based on:

- Years of pensionable service
- The average of the member's five highest years of salary (not necessarily the last five years)

The monthly pension payment the member receives also depends on factors that include:

- The member's age at retirement and, if applicable, their spouse's age
- The pension option they choose on retirement

After the member dies, depending on the pension option they chose at retirement, the plan may continue to pay:

- A pension to the member's spouse (if the member has one)
- Pension benefits to other beneficiaries
- A lump-sum payment to the member's estate or an organization the member has named as their beneficiary

Learn more about benefits for active and retired members starting on page 41.

Ahnnalee Elman, retired member

Why the plan is valuable

Beyond providing more than 100,000 education professionals a secure, predictable lifetime retirement income now and in the future, the plan is valuable to members and employers for many other reasons.

Ability to increase the pension

When a member goes on an approved leave of absence, they can buy the service for the leave, meaning they can increase their pension, which may allow them to retire earlier.

An impressive return on contributions

The average retired member receives far more in pension payments than they contribute (interest included) during their teaching career.

Protection for loved ones

Depending on the pension option chosen, a pension may continue to the member's spouse or beneficiaries after the member dies.

Portability

Members can move seamlessly between any of the employers in the plan with no effect on their pension. They may also be able to transfer service into and out of pension plans in other Canadian jurisdictions.

A strong recruitment and retention tool

By offering a defined benefit pension, plan employers have a powerful tool to recruit new teachers; the employer becomes an employer of choice.

Intergenerational fairness

Member lifetime pensions are pre-funded; the plan is designed fairly to ensure each generation pays in advance for its own benefits.

Tables, charts and graphs

AVERAGE AND MEDIAN PENSIONS IN PAY[1]

as at December 31, 2023

Average value[2]	$35,176
Median value[3]	$35,345

1 Includes bridge benefits for those receiving the pension before age 65.
2 The average value reflects the total value of all pensions paid by the plan divided by the total number of recipients in the plan.
3 The median value denotes the halfway point: half of the pensions paid by the plan are more than this amount and half are less.

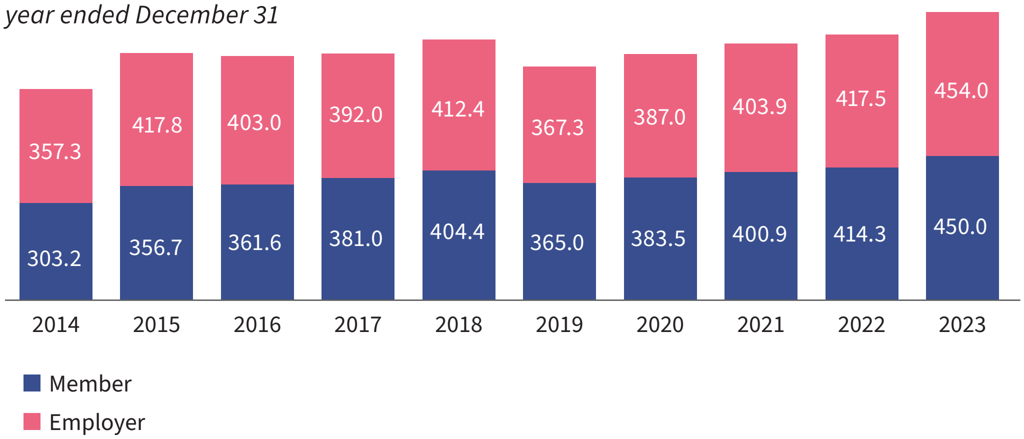
CONTRIBUTION RATES AS A PERCENTAGE OF SALARY

flat rate on all salaries (%)

	Effective January 1, 2018	Effective January 1, 2019
Member	12.92	11.17
Employer	13.23	11.30
Total	**26.15**	**22.47**

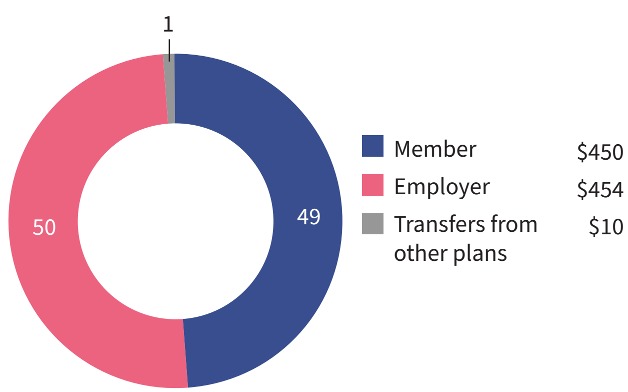
CONTRIBUTION REVENUE ($ MILLIONS)

year ended December 31



CONTRIBUTION REVENUE (%) ($ MILLIONS)

year ended December 31, 2023



PROFILE OF PENSIONS 2014–2023

year ended December 31

	New pensions	Pension terminations	In force at end of year	($ millions) Basic pensions paid	Cost-of-living adjustments paid	Total pensions paid
2023	**1,380**	**716**	**41,906**	**$1,099.7**	**$364.1**	**$1,463.8**
2022	1,497	728	41,242	1,068.5	283.5	1,352.0
2021	1,335	665	40,473	1,038.6	237.5	1,276.1
2020	1,258	601	39,803	1,014.3	239.8	1,254.1
2019	1,290	609	39,146	991.9	224.6	1,216.5
2018	1,333	438	38,465	969.9	206.0	1,175.9
2017	1,586	526	37,570	938.9	194.9	1,133.8
2016	1,518	607	36,510	906.2	187.8	1,094.0
2015	1,432	488	35,599	877.4	184.2	1,061.6
2014	1,687	482	34,655	846.7	171.4	1,018.1

NEW PENSIONS BY TYPE 2014–2023

year ended December 31, 2023

	Regular	Limited members	Survivor	Disability	LTD[1] to pension plus disability	Deferred	Total
2023	**1,001**	**39**	**17**	**—**	**98**	**225**	**1,380**
2022	1,214	31	12	—	96	144	1,497
2021	1,055	40	13	—	88	139	1,335
2020	989	28	15	—	83	143	1,258
2019	1,033	34	13	—	82	128	1,290
2018	1,080	38	17	—	82	116	1,333
2017	1,317	49	16	—	98	106	1,586
2016	1,256	36	12	—	92	122	1,518
2015	1,148	50	13	1	114	106	1,432
2014	1,421	54	13	—	108	91	1,687

1 Long-term disability

NEW PENSION PROFILE[1]

for the year ended December 31, 2023

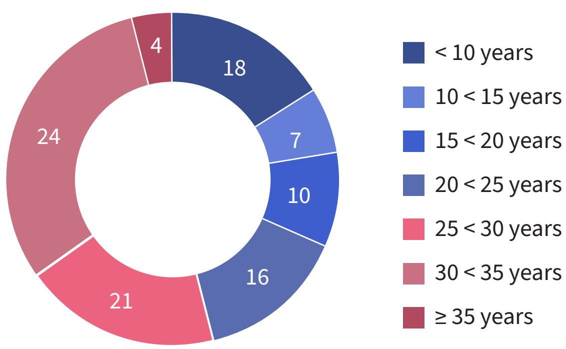
Years of service	Numbers of new pensions – Age at retirement < 55	55 < 60	60 < 65	≥ 65	Total	Average annual salary base	Average annual pension	Median annual pension	Average lifetime annual pension	Median lifetime annual pension
< 10	4	76	93	70	**243**	$ 75,000	$ 7,400	$ 6,100	$ 5,100	$ 4,200
10 < 15	1	47	34	20	**102**	88,000	20,500	20,000	15,300	14,600
15 < 20	1	59	52	31	**143**	91,000	28,300	28,500	21,800	21,000
20 < 25	2	87	86	41	**216**	95,000	38,200	38,100	29,900	29,400
25 < 30	1	128	132	22	**283**	97,000	49,900	48,500	38,000	36,600
30 < 35	—	188	118	29	**335**	100,000	60,800	59,000	46,800	43,600
≥ 35	—	5	25	28	**58**	106,000	66,300	60,900	59,400	54,400
Total	**9**	**590**	**540**	**241**	**1,380**					
Average						**$93,000**	**$39,500**	**$40,900**	**$30,600**	**$31,500**

	Average years of service < 55	55 < 60	60 < 65	≥ 65	Total
Male	12	26	24	18	24
Female	12	22	22	20	22
Average	**12**	**23**	**23**	**19**	**22**
Average age at retirement					**61**

1 Average value reflects the total value of new pensions granted during the year divided by the total number of recipients—in the case of median pensions, half of retirees receive more than this amount and half receive less; pensions started before age 65 typically include a bridge benefit, which ends at age 65.

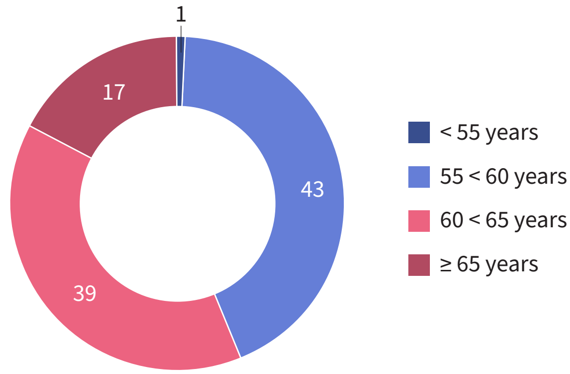
NEW PENSION RECIPIENTS, BY YEARS OF SERVICE (%)

as at December 31, 2023



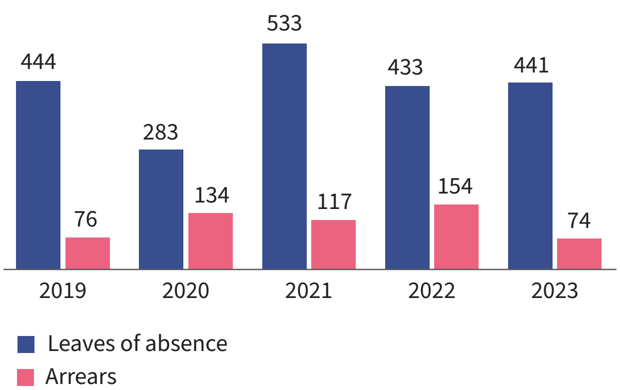
NEW PENSION RECIPIENTS, BY AGE AT RETIREMENT (%)

as at December 31, 2023



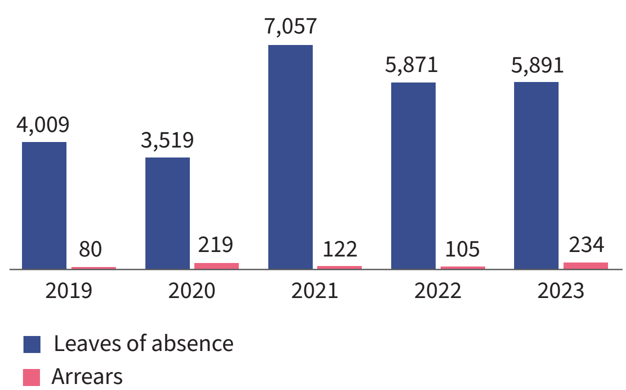
NUMBER OF PURCHASES

year ended December 31



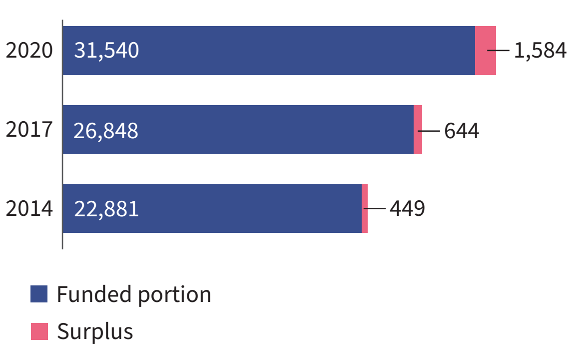
VALUE OF PURCHASES ($ THOUSANDS)

year ended December 31



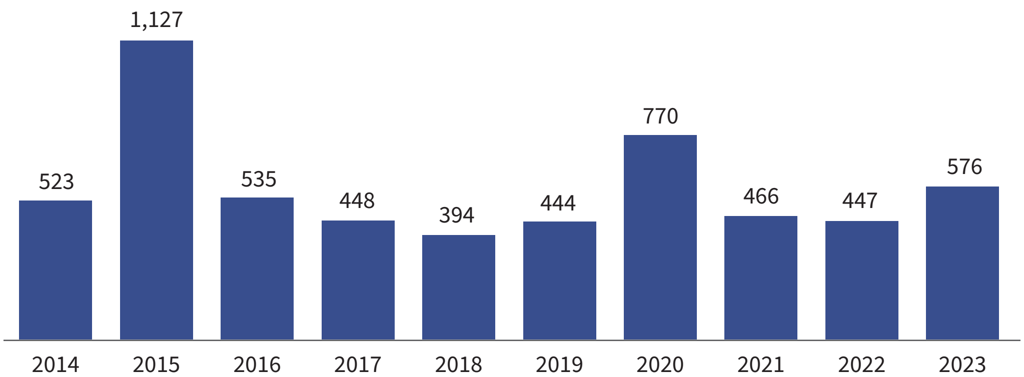
FUNDING OF THE TOTAL BASIC BENEFIT LIABILITY (ENTRY-AGE BASIS) ($ MILLIONS)

as at December 31



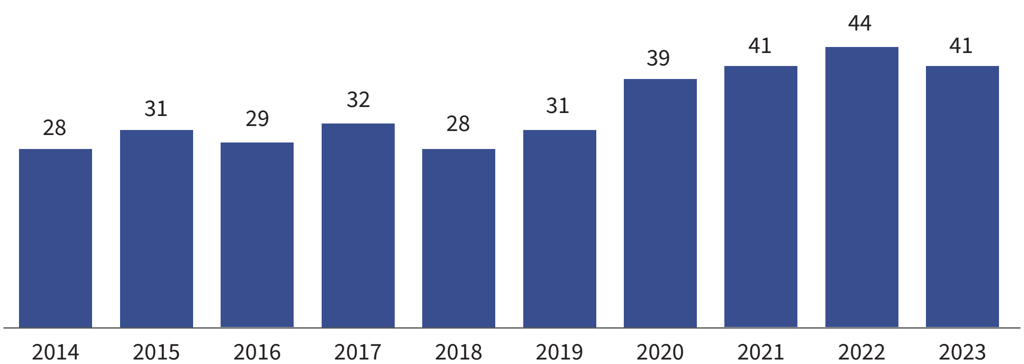
NUMBER OF TERMINATION AND REFUND BENEFITS PAID

year ended December 31



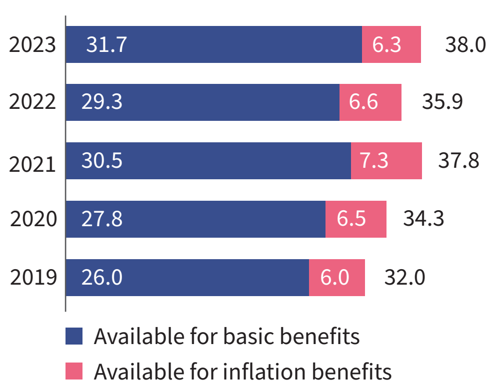
VALUE OF TERMINATION AND REFUND BENEFITS PAID ($ MILLIONS)

year ended December 31



NET ASSETS AVAILABLE FOR BENEFITS ($ BILLIONS)

as at December 31



Plan membership and services

Eligibility, member types and benefits

Harjinder Sandhu, member, SD39 (Vancouver)

Eligibility for membership

Plan membership is open to the following:

- Members of:
  - BC Principals' and Vice-Principals' Association
  - BC School Superintendents Association
  - BC Teachers' Federation
- Associated professionals appointed by a board of education in BC's public school system
- Eligible employees of employers approved by the board

New employees are immediately enrolled in the plan and cannot opt out.

Aaron Singh, member, SD39 (Vancouver)

Member types

Active members

Active members are those currently contributing to the plan, on an approved leave of absence or receiving benefits from an approved long-term group disability plan. There are 51,429 active members in the plan—a 1.7 per cent increase from 2022.

Inactive members

Members in this group have ended their employment with a plan employer but have chosen to leave their contributions in the plan and are therefore entitled to receive a benefit from the plan in the future. They may return to work for a plan employer, make contributions and accrue additional service. There are 13,439 inactive members in the plan—a 2.3 per cent increase from 2022.

Retired members

Retired members are those receiving a pension, including a survivor pension. For the purposes of this report, members receiving disability benefits from the plan are also counted in this group. There are 41,906 retired plan members—a 1.6 per cent increase from 2022.

Limited members

Former spouses of plan members fall into this category. Limited members are entitled to a portion of the plan member's pension. A person must apply to become a limited member, unlike other membership types, which have automatic enrolment. Limited members are included in the retired members total if they are receiving a pension.

Benefits for members

Basic lifetime pension benefit

The Teachers' Pension Plan is a defined benefit pension plan. Each time a member is paid their salary, both the member and the employer contribute to the plan. These contributions are pooled and invested so that members receive a lifetime monthly pension when they retire.

Once a member has made their first contribution to the plan, they can receive a pension at their earliest retirement age.

Bridge benefit

Members who retire before age 65 may receive a temporary monthly payment called a bridge benefit. The bridge benefit is earned on pensionable service accumulated in the plan up to and including December 31, 2017.

This benefit is designed to bridge the gap between early retirement income and income after the member turns 65, which may also include Canada Pension Plan and Old Age Security. The bridge benefit ends when the member turns 65 or dies, whichever happens first.

Pensionable service earned on or after January 1, 2018, does not add to a member's bridge benefit. Changes to the formula used to calculate pensions converted the bridge benefit to a lifetime pension benefit. This means members will receive a higher lifetime pension, since there is no bridge benefit that will stop at age 65.

Cost-of-living adjustments

Cost-of-living adjustments (COLAs) help retired members' pensions keep pace with increases in the cost of living.

COLAs are granted if there are available funds in the Inflation Adjustment Account (IAA); they are not guaranteed.

Both member and employer contributions, and the investment income on those contributions, fund the IAA.

Once a COLA is granted to retired members, it becomes part of their lifetime pension.

The board is dedicated to ensuring COLAs are sustainable over the long term to equitably support all members—past, present and future.

Traditionally, COLAs have been granted for the full Consumer Price Index (CPI) increase each year. However, the board may grant a COLA that is lower than the CPI increase.

COLAs add up over time. For example, if a member started receiving an annual pension of $25,000 in 2003, their annual pension in 2023 would be almost $38,000 because of COLAs approved by the board.

Access to retirement health coverage

The plan provides access to group extended health and dental care plans. Coverage is not guaranteed. This means the board may change coverage at any time.

The board recently completed a review of the plan's retirement health coverage to ensure it remains affordable and effective for retired members.

Temporary annuities

If a member retires before age 65, they may choose a temporary annuity to top up their pension. A temporary annuity increases a member's monthly payment until they reach age 65 or their death, whichever comes first. A temporary annuity reduces a member's lifetime pension after age 65.

There are a few reasons a member may choose a temporary annuity:

- Buying a temporary annuity may help members meet the initial expenses of retirement, such as paying off a mortgage.
- For those with significant taxable assets such as registered retirement savings plans, a temporary annuity can help lower income after age 65 and reduce tax on income.

Members must remember:

- A temporary annuity reduces lifetime pensions. The younger the member is when they retire, the bigger the impact on their pension after age 65.
- A reduced lifetime pension might have a significant impact on a member's spouse or dependants.
- The temporary annuity amount is based on the maximum Old Age Security benefit. Amounts may change from year to year to reflect fluctuations in Old Age Security, but payments will remain stable from the member's retirement date onward.

Termination benefits

A member who leaves the plan but has not yet reached the earliest retirement age may choose to do one of the following:

- Defer their pension. A member can keep their pension contributions with the plan until their earliest retirement age up to December of the year they turn 71 (at which time they have to start receiving their pension). When the member decides to start their monthly pension, they may receive non-guaranteed inflation adjustments and access to group extended health care and dental coverage.
- Transfer the commuted value of their pension to a locked-in retirement vehicle, such as a registered pension plan or a life income fund. The commuted value is the amount of money that would need to be set aside to pay for the member's future pension when they retire.

A member who terminates employment and has reached the earliest retirement age of 55 may choose to take an immediate pension (which may be reduced) at any time.

Buying service

Members may be able to increase their future pension by buying service. This means paying for periods of employment not already counted as service with the plan.

Examples include:

- Leaves of absence (such as maternity, parental and general leaves)
- Arrears contributions (occurring if a member was not enrolled properly or if their contributions were not deducted and remitted)
- Non-contributory service (employment service with a plan employer from before an employee became a member)

Depending on the type of service they choose to buy, members may be responsible for paying both the employee and employer portions or just the employee portion.

Services and communications

Plan website and My Account

The plan website provides resources and tools that members can access to better understand their plan and make informed decisions about their pension.

The most important part of a member's online experience is My Account, a secure online portal where members can review and update their personal pension information. My Account offers members personalized pension and purchase cost estimators to help with their planning, service and salary summaries, the ability to update their beneficiary information and the ability to apply for their pension online once they are ready to retire.

Members can update their personal information, including address, telephone number and spousal information. Members also have access to Message Centre, allowing them to send secure messages to the pension plan.

Pension communications

In addition to communications through the website and My Account, active and retired members can choose to receive their newsletters, reports and statements digitally or in print. Special bulletins are distributed to active members through their employer.

Member services

When members need more personalized support, the plan has staff available by phone and through Message Centre to assist with issues like marital breakdowns, the death of a spouse, retirement planning, employment transfers and more.

Members within one year of retirement can book personalized pension planning appointments to speak with a plan representative to discuss pension questions.

Online courses and webinars

Online educational resources for plan members include the introductory courses *Getting to Know Your Pension*, *Making the Most of Your Pension* and *Approaching Retirement*. *Making the Most of Your Pension* and *Approaching Retirement* are also offered as instructor-led webinars. Designed to help educate members at all career stages, these online courses and webinars make important information available to members at their convenience.

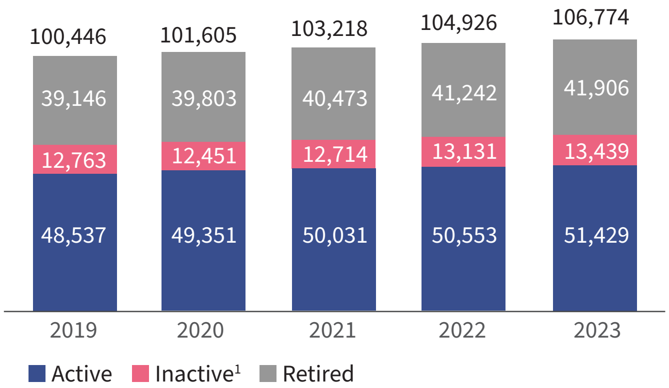
Employers

The following are the plan employers:

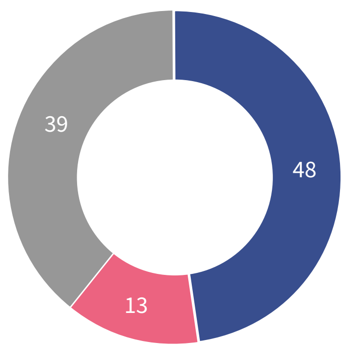
- School districts, including the Conseil scolaire francophone de la Colombie-Britannique
- BC Principals’ and Vice-Principals’ Association
- BC Public School Employers’ Association
- BC School Superintendents Association
- BC Teachers’ Federation
- Teacher Qualification Service

Tables, charts and graphs

NUMBER OF MEMBERS
as at December 31



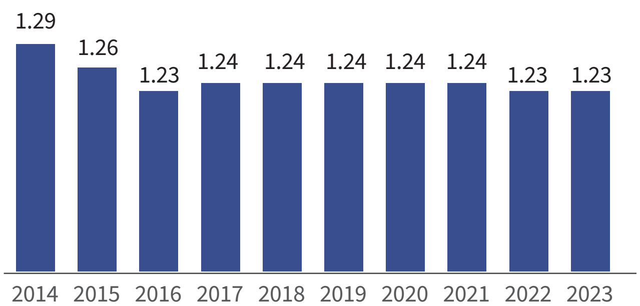
MEMBERSHIP PROFILE (%)
as at December 31, 2023



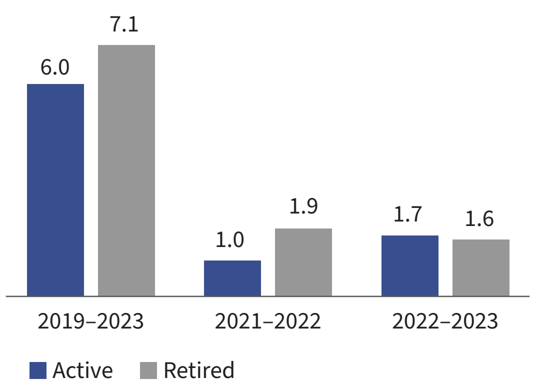
Active	51,429
Inactive[1]	13,439
Retired	41,906
Total	**106,774**

1 Members no longer employed with a plan employer but with money in the plan.

RATIO OF ACTIVE TO RETIRED MEMBERS
as at December 31

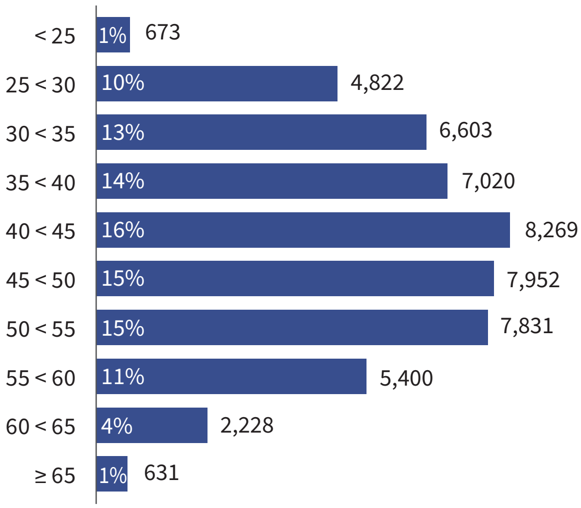


GROWTH OF ACTIVE VS. RETIRED MEMBERS (%)



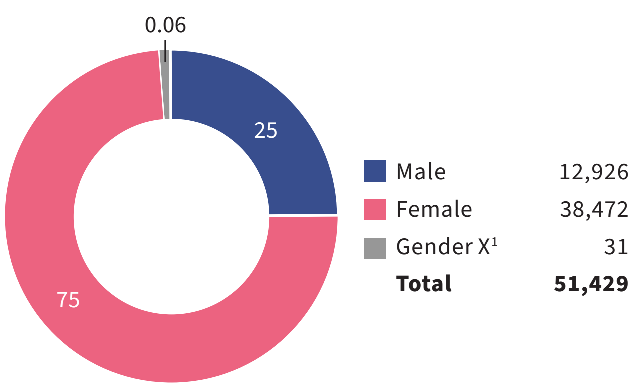
ACTIVE MEMBERS, BY AGE

as at December 31, 2023



ACTIVE MEMBERS BY GENDER (%)

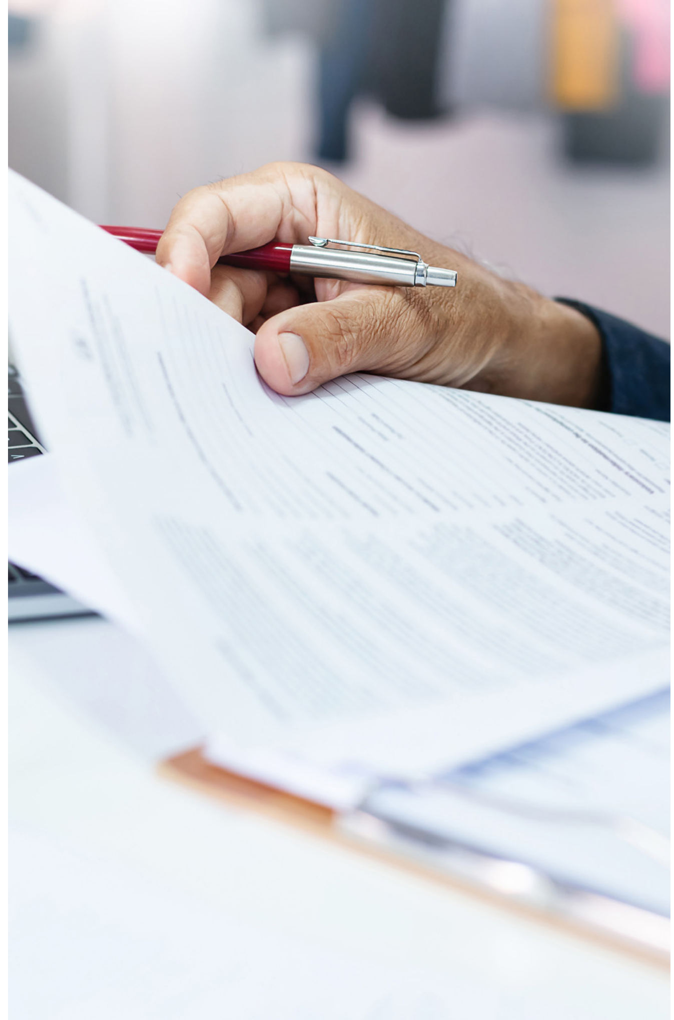
as at December 31, 2023



1 People who do not identify as female or male. Members who would like to identify as gender X should tell their employer, who will pass this information on to the plan.

Plan rule updates

Plan rule updates and amendments from 2022 and 2023



Employment Standards Act changes

EFFECTIVE JANUARY 1, 2022

Effective January 1, 2022, and as further amended effective March 31, 2022, illness or injury leave under the BC *Employment Standards Act* (ESA) is expanded to provide employees covered by the ESA with up to five days of paid leave, plus three days of unpaid leave, per calendar year for personal illness or injury reasons (e.g., sick leave). The plan rules did not require updating due to these ESA changes.

Financial statements

Teachers' Pension Plan 2023

BC PENSION CORPORATION

June 3, 2024

Re: Teachers' Pension Plan

Administrative agent's responsibility for financial reporting

The financial statements of the Teachers' Pension Plan were prepared by British Columbia Pension Corporation, the administrative agent for the Teachers' Pension Board of Trustees in accordance with Canadian accounting standards for pension plans. The Board is responsible for approving the Plan's financial statements. The Board is assisted by the Interplan Audit Committee, which is made up of representatives from the Public Service, Municipal, Teachers' and College pension boards of trustees. As part of its responsibility, the Committee reviews the financial statements, and performs steps and procedures, as necessary, prior to recommending them to the Board for approval.

Pension Corporation prepares the financial statements and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with Canadian accounting standards for pension plans. In discharging its responsibility, Pension Corporation maintains a system of internal controls designed to provide reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately safeguarded, ensuring the fair presentation of the financial statements. Pension Corporation has assessed that the Plan will continue as a going concern, and ensured that other financial information contained in the Teachers' Pension Plan *Annual Report* is consistent with these financial statements.

The Board appointed KPMG LLP as the independent auditor to the Plan. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent auditors' report attached to these financial statements.

Trevor Fedyna, CPA, CGA, C. Dir.	**Allan Chen, CPA, CA**
Vice-president, Strategy, Insights and chief financial officer British Columbia Pension Corporation	Controller, Financial Services British Columbia Pension Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Teachers' Pension Plan

Opinion

We have audited the financial statements of the Teachers' Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at December 31, 2023
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in accrued pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2023, and its changes in net assets available for benefits and its changes in accrued pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Teachers' Pension Plan
Page 2

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in the annual report as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Teachers' Pension Plan
Page 3

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
June 3, 2024

TEACHERS' PENSION PLAN

Statement of financial position

($ millions)

As at December 31	Note		2023		2022
Assets					
Investments	3a	$	**37,825**	$	35,934
Directly held derivatives	3b		**150**		298
Receivable for sale of investments			**47**		-
Contributions receivable			**59**		38
Interest and dividends receivable			**6**		4
Total assets			**38,087**		36,274
Liabilities					
Directly held derivatives	3b		**122**		338
Taxes payable			**-**		15
Accounts payable and accrued expenses			**6**		8
Total liabilities			**128**		361
Net assets available for benefits		**$**	**37,959**	**$**	**35,913**
Accrued pension obligations					
Accrued basic pension obligations	4a	$	**25,763**	$	24,213
Non-guaranteed pension obligations	4b		**6,288**		6,596
Accrued pension obligations			**32,051**		30,809
Surplus					
Accessible actuarial excess	5a		**3,514**		3,012
Measurement differences between funding and accounting positions	5a		**2,394**		2,092
Surplus			**5,908**		5,104
Accrued pension obligations and surplus		**$**	**37,959**	**$**	**35,913**

All accompanying notes are an integral part of the financial statements including:
Commitments (note 14)

Approved by the Teachers' Pension Board of Trustees:

Chung Yan Ip, Chair
Teachers' Pension Board of Trustees

Reg Bawa, Trustee
Teachers' Pension Board of Trustees

Al Cornes
Al Cornes, Trustee
Teachers' Pension Board of Trustees

TEACHERS' PENSION PLAN

Statement of changes in net assets available for benefits

($ millions)

For the year ended December 31	Note	Basic account	Inflation adjustment account	Supplemental benefits account	Totals 2023	Totals 2022
Increase in assets						
Investment income (loss)	8	$ 2,274	$ 466	$ -	**$ 2,740**	$ (1,205)
Contributions						
Members	9	371	79	-	**450**	414
Employer	9	369	84	1	**454**	417
		740	163	1	**904**	831
Transfers from other plans		8	2	-	**10**	12
Total increase (decrease) in assets		3,022	631	1	**3,654**	**(362)**
Decrease in assets						
Benefits	10	1,494	9	1	**1,504**	1,396
Transfers to other plans		4	1	-	**5**	9
Investment and administration costs	11	88	11	-	**99**	87
Total decrease in assets		1,586	21	1	**1,608**	**1,492**
Increase (decrease) in net assets before transfers		**1,436**	**610**	-	**2,046**	(1,854)
Account transfers	12	918	(918)	-	-	-
Increase (decrease) in net assets		**2,354**	**(308)**	-	**2,046**	(1,854)
Net assets available for benefits at beginning of year		29,317	6,596	-	**35,913**	**37,767**
Net assets available for benefits at end of year		**$ 31,671**	**$ 6,288**	**$ -**	**$ 37,959**	**$ 35,913**

The accompanying notes are an integral part of the financial statements.

TEACHERS' PENSION PLAN

Statement of changes in accrued pension obligations

($ millions)

For the year ended December 31	Note	2023	2022
Increase in accrued pension obligations			
Interest on accrued pension obligations		$ 1,422	$ 1,336
Benefits accrued		725	670
Account transfers		918	556
Total increase in accrued pension obligations		3,065	2,562
Decrease in accrued pension obligations			
Benefits paid		1,515	1,407
Total decrease in accrued pension obligations		1,515	1,407
Net increase in accrued pension obligations		1,550	1,155
Accrued basic pension obligations at beginning of year		24,213	23,058
Accrued basic pension obligations at end of year	4a	25,763	24,213
Non-guaranteed pension obligations			
Decrease in non-guaranteed pension obligations	4b	(308)	(650)
Non-guaranteed pension obligations at beginning of year		6,596	7,246
Non-guaranteed pension obligations at end of year	4b	6,288	6,596
Total accrued pension obligations		$ 32,051	$ 30,809

The accompanying notes are an integral part of the financial statements.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The following description of the Teachers' Pension Plan (Plan) is a summary provided for general information only. For more information, please refer to the Joint Trust Agreement (Agreement) and the Teachers' Pension Plan Rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued under a joint trust agreement authorized by the *Public Sector Pension Plans Act*, SBC 1999, c. 44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established effective April 5, 2001. The partners to the Agreement are the Province of British Columbia and the B.C. Teachers' Federation (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Plan is registered with the Superintendent of Pensions, who administers and enforces the *Pension Benefits Standards Act* (PBSA). The PBSA governs employment pension plans registered in British Columbia that have active, inactive and retired members.

Membership in the Plan is mandatory for all certified teachers (including teachers teaching on call), principals, vice-principals, superintendents, assistant superintendents, directors of instruction, associated professionals and certified professionals who are appointed by a board of education in the British Columbia public school system.

b) Roles and responsibilities

Partners

The Partners representing the plan members and employers are responsible for appointing 10 trustees to the Board. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, may direct amendments to the pension plan rules.

Board

The Board is responsible for the management of the Plan, including the investment of assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by the Plan's surpluses (subject to provisions on the use of surplus in the Agreement) or are cost-neutral to the Plan. Unless required to ensure compliance with regulatory enactments applicable to the Plan, only the Partners can initiate pension plan rule changes that result in contribution rate increases. The Chair and Vice-Chair are appointed by the trustees.

British Columbia Pension Corporation (Pension Corporation)

Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight-member board of directors of Pension Corporation.

British Columbia Investment Management Corporation (BCI)

BCI provides investment management services, including the valuation of investments, as an agent of the Board. The Board appoints one member to the seven-member board of directors of BCI.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on triennial actuarial valuations for funding purposes.

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

Basic Account

Members contributed 8.17% of salaries and employers contributed 8.17% of salaries, less amounts allocated to the Supplemental Benefits Account (SBA).

Inflation Adjustment Account

Members contributed 2.00% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 2.13% of salaries to the IAA, less amounts allocated to the SBA.

Rate Stabilization Account

Members and employers each contributed 1.00% of salaries to the Rate Stabilization Account (RSA). The RSA is held notionally within the Basic Account.

e) Pension benefits

All members are eligible for a pension benefit.

For service on or after January 1, 2018, the Plan provides a defined basic plan benefit of 1.85% of pensionable earnings for each year of pensionable service with no maximum. The defined basic plan benefit increased to 1.90% effective January 1, 2019. From January 1, 2018, onward, the increased rate applies to all service, but only for members who remain active on or after January 1, 2019.

Members are eligible for unreduced pension benefits

- at age 65;
- at age 61, with at least two years contributory service; or
- at age 55 or older, with at least 35 years of contributory service.

The early retirement reduction applicable for service accrued after 2017 is 4.5% for each year where members do not meet the unreduced pension benefit criteria above.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada consumer price index as at the previous September 30, subject to the availability of funds in the IAA. Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (CONTINUED)

f) Termination and portability benefits

Terminating members who have not yet reached the earliest retirement age may choose

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in retirement vehicle or similar tax-sheltered plan.

Terminating members may also choose to leave their benefit on deposit in anticipation of future re-employment with a plan employer.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer service to another pension plan.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability benefit is available to a member under age 61 who has terminated employment, becomes totally and permanently disabled as defined by the Plan, has at least two years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements.

The disability benefit is calculated using a member's years of pensionable service to the date of termination of employment and highest average salary. Disability benefits continue for the member's lifetime unless the member is no longer totally and permanently disabled before age 61 (since January 1, 2018) or returns to work.

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

Supplemental benefits are funded from the SBA.

h) Tax registration

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada) (registration number 0227462), except for any supplemental benefits, which are funded in addition to the RPP. The Plan is not subject to income tax but is subject to indirect taxes, including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of GST paid.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian accounting standards for pension plans, Part IV of the *Chartered Professional Accountants of Canada Handbook* (CPA Canada Handbook), and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension obligations.

b) Investments

Investments 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.

Investment purchases and sales are recorded on the trade date (the date on which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension obligations

Accrued pension obligations are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The Plan actuary is Eckler Ltd. The valuation of accrued pension obligations is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method pro-rated on service that incorporates the independent actuary's estimate of various economic and demographic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on an accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses that are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date, and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments based on unobservable inputs, as further described in note 7, and the calculation of the accrued pension obligations of the Basic Account for accounting and funding purposes as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

Fair value of investment holdings		2023		2022
Short-term	$	**769**	$	831
Bonds*		**11,460**		9,815
Repurchase agreements		**(3,495)**		(3,622)
		7,965		6,193
Canadian equities		**1,391**		1,007
Global equities		**4,516**		5,689
Emerging markets equities		**1,266**		1,752
Mortgages		**1,623**		1,258
Real estate		**6,066**		6,567
Private debt		**3,475**		2,827
Private equity		**5,959**		5,460
Infrastructure and renewable resources		**4,795**		4,350
	$	**37,825**	$	**35,934**

* Bonds net of unsecured debt

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate share in the value of the net assets of the pooled investment fund. The Basic Account and IAA are combined for investment management purposes.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

a) Investments (continued)

One or more pooled investment portfolios exist for different types of investments, such as short-term investments; bonds; Canadian, global and emerging markets equities; mortgages; real estate; private debt; private equity; and infrastructure and renewable resources. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments.

Short-term investments consist of Canadian and U.S. money market securities such as treasury bills with maturities of 15 months or less, and short-term bonds with one- to five-year terms. Short-term investments are valued using current market yields.

Bonds consist of government bonds, investment grade and non-investment grade corporate bonds, repurchase agreements, unsecured debt and debentures. Bonds are valued based on current market yields and, in some cases, quoted market prices. Bonds include the use of repurchase agreements to borrow money to create leverage to purchase other bonds and enhance yields through a leverage bond fund strategy. Unsecured debt are funds borrowed through the sale of bonds.

Equities consist primarily of publicly traded shares and are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. The mortgages are secured by real estate and valued using current market yields.

Real estate investments consist mainly of diversified Canadian and U.S. income-producing properties. Real estate investments are valued quarterly by external investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values.

Private debt consists of private debt instruments and private debt investee funds and are valued using discounted cash flows on current market yields and comparable securities, as applicable.

Private equity consists mainly of equity investments made outside the structure of public markets. Private equity investments are valued either quarterly or annually based on audited financial statements from external investment managers using a market-based approach.

Infrastructure and renewable resources consist of privately owned and managed infrastructure assets, as well as timber, agriculture and other renewable assets. Infrastructure and renewable resources investments are valued annually using a market-based approach or net asset value method.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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3. INVESTMENTS (CONTINUED)

b) Derivatives

Derivatives contracts are directly and indirectly held by the Plan. The details of these contracts are as follows:

Fair value of derivative contracts	2023		2022	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Directly held				
Foreign currency forwards	$ 150	$ (122)	$ 298	$ (338)
Indirectly held in pooled investment portfolios				
Foreign currency forwards	$ 123	$ (4)	$ 15	$ (206)
Options	24	(21)	-	-
Interest rate swaps	27	(13)	30	(6)
Total return swaps	130	(15)	83	(69)
	$ 454	$ (175)	$ 426	$ (619)

Derivatives by investment asset classification				
Short term	$ -	$ (1)	$ -	$ -
Bonds	60	-	30	(82)
Canadian equities	16	(3)	3	(3)
Global equities	161	(39)	75	(100)
Emerging markets equities	7	(4)	34	(6)
Mortgages	24	(15)	1	(34)
Real estate	64	(58)	25	(129)
Private debt	60	(6)	13	(112)
Infrastructure and renewable resources	62	(49)	245	(153)
	$ 454	$ (175)	$ 426	$ (619)

Derivative contracts consist of foreign currency forward contracts, options, interest rate swaps and total return swaps held directly by the Plan or indirectly through various pooled investment portfolios. Directly held and indirectly held derivative contracts are reflected at fair value based on expected settlement amounts at the date of the Statement of Financial Position. Directly held derivatives are disclosed on the face of the Statement of Financial Position while indirectly held derivatives are included in investments.

A foreign currency forward contract is a privately negotiated contractual obligation to exchange one currency for another at a specified price for settlement on a predetermined date in the future. Foreign currency forward contracts are held by the Plan to manage exposure to foreign currency risk.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Options are contracts that give the buyer the right, but not the obligation, to buy or sell a certain security or index at an agreed-upon price on or before a specified date. Options are held for synthetic indexing, a modern technique used to replicate the performance of a security or index without directly purchasing or selling the underlying assets and for risk control.

An interest rate swap is an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating interest rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally better interest rate than would have been possible without the swap.

A total return swap is a swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, including both the income it generates and any capital gains. In total return swaps, the underlying asset (referred to as the reference asset) is usually an equity index or basket of equity securities. Interest rate swaps and total return swaps are held indirectly through various pooled investment portfolios for synthetic indexing purposes.

Derivative transactions are supported with collateral to mitigate counterparty credit risk. A single net fair value amount is used to determine the value of collateral with each counterparty. Collateral approximately equal to the positive fair value of each derivative contract is provided by counterparties, and collateral approximately equal to the negative fair value of each derivative contract is delivered to counterparties. Acceptable forms of collateral are Canadian federal or provincial bonds, and U.S. federal government treasury bills and bonds.

The notional value of derivatives is the total value of a position, how much value a position controls, or an agreed-upon amount in a contract.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Absolute notional value of the Canadian denominated portion of derivatives is disclosed in the table below.

Notional value of derivatives				2023	2022
Terms to maturity	Within 1 year	1 to 5 years	Over 5 years	Total	Total
Derivatives by type of contract					
Directly held					
Foreign currency forwards	$ 14,796	$ -	$ -	$ 14,796	$ 14,431
Indirectly held in pooled investment portfolios					
Foreign currency forwards	$ 6,106	$ -	$ -	$ 6,106	$ 4,799
Options	527	237	-	764	-
Interest rate swaps	735	1,144	245	2,124	2,727
Total return swaps	5,157	239	-	5,396	5,922
	$ 27,321	$ 1,620	$ 245	$ 29,186	$ 27,879
Derivatives by investment asset classification					
Short-term	$ 31	$ -	$ -	$ 31	$ 28
Bonds	1,905	-	245	2,150	2,388
Canadian equities	454	197	-	651	246
Global equities	6,497	1,236	-	7,733	7,689
Emerging markets equities	509	187	-	696	1,139
Mortgages	2,012	-	-	2,012	779
Real estate	6,628	-	-	6,628	3,878
Private debt	3,111	-	-	3,111	2,616
Private equity	14	-	-	14	-
IRR*	6,160	-	-	6,160	9,116
	$ 27,321	$ 1,620	$ 245	$ 29,186	$ 27,879

* Infrastructure and renewable resources

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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3. INVESTMENTS (CONTINUED)

c) Repurchase agreements

The Plan has indirect exposure to repurchase agreements through its investment in the pooled investment portfolio underwritten on bond securities. Repurchase agreements are short-term agreements to sell securities in order to buy them back at a slightly higher price. The party selling the repurchase agreement is effectively borrowing, and the other party is lending, since the lender is credited the implicit interest in the difference in prices. Securities sold under repurchase agreements are accounted for as collateralized borrowing because they represent the sale of securities with a simultaneous agreement to buy them back at a specified future date. The securities sold under these agreements continue to be recognized on the Statement of Financial Position with any changes in fair value recorded as net gain (loss) on investments and included in investment income. Interest incurred on repurchase agreements is included in borrowing costs within investment-related expenses.

Repurchase agreements are carried at the amount at which the securities were initially acquired or sold, which, together with accrued interest income or expense, approximates fair value due to the short-term nature of these agreements.

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a. As part of the actuarial valuation, the Plan actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in note 5a. Also, for accounting purposes, the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension obligations at the valuation date is determined using the projected benefit method pro-rated on service.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2020, by Eckler Ltd. This valuation calculated the liability for accrued basic pension obligations for financial statement purposes to be $22,547 million (2017: $20,031 million).

Between valuations, an estimate of the actuarial position is required. This estimate, an extrapolation, has been made to December 31, 2023, using the following long-term actuarial assumptions:

- Annual investment return 5.75%
- Annual salary escalation rate 3.25%

The extrapolation calculated the liability for accrued basic pension obligations to be $25,763 million (2022: $24,213 million).

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (CONTINUED)

a) Basic Account (continued)

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings, and the incidence of retirements, withdrawals and changes in other factors may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of assumptions may be required.

The next full actuarial valuation will be carried out as at December 31, 2023, with the results included in the December 31, 2024, financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at December 31, 2020, a reduction in the investment return assumption from 5.75% to 5.50% would have increased the December 31, 2023, liability for accrued basic pension obligations of $25,763 million by $762 million or 2.96%, and the impact of a 1% change would be approximately four times the amount. Changes to assumptions included in the actuarial valuation are interrelated, and the cumulative impact of changed assumptions may be offsetting.

b) Inflation Adjustment Account (IAA), non-guaranteed pension obligations

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b). The non-guaranteed pension obligations are therefore equal to the net assets available for benefits in the IAA, 2023: $6,288 million (2022: $6,596 million). The net decrease of $308 million (2022: $650 million decrease) in the IAA balance consists of employee and employer contributions, investment income, and net transfers reduced by payments out of the account. (See note 12 for details on amounts transferred.)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA, an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension obligations to the financial statement date, and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry-age normal cost method (entry-age method).

This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate may be adjusted for the amortization of any actuarial funding surplus, and this rate will be adjusted for the amortization of any unfunded actuarial liability. Contribution rate determinations exclude consideration of the assets in the Rate Stabilization Account (RSA), which is held notionally within the Basic Account; if contribution rate increases are considered, funds will be transferred from the RSA to keep the rate at its current level or to minimize the increase.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The Basic Account is also the account from which any cost-of-living adjustments granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension obligations for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as-yet-unknown future cost-of-living adjustments.

Actuarial valuation

An estimate of the actuarial position of the Plan for funding purposes has been made to December 31, 2023, using the following long-term actuarial assumptions:

- Annual investment return 5.75%
- Annual salary escalation rate 3.25%

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

This estimate, an extrapolation, produced an estimated accessible actuarial excess of $3,514 million as at December 31, 2023 (2022: $3,012 million), as follows:

Funding extrapolation	2023	2022
Net assets available for basic pension benefits	$ 31,671	$ 29,317
Actuarial asset value adjustment	1,612	1,660
Smoothed assets for basic pension benefits	33,283	30,977
Rate stabilization account	(1,438)	(1,269)
Smoothed assets excluding rate stabilization account	31,845	29,708
Present value of future contributions (entry-age method)	8,070	7,424
Present value of temporary rate reduction below entry-age rate	(481)	(457)
Net actuarial assets for basic pension benefits	39,434	36,675
Actuarial liability for accrued and future basic pension benefits	(34,594)	(32,414)
Entry-age method actuarial surplus	4,840	**4,261**
PBSA 5% of net liabilities	(1,326)	(1,249)
Accessible actuarial excess	$ 3,514	$ **3,012**

Changes in the extrapolated entry-age method funded status	2023	2022
Extrapolated entry-age method actuarial surplus, beginning of year	$ 4,261	$ 2,809
Present value of temporary rate reduction below entry-age rate	(24)	(2)
Extrapolated change in actuarial liability for accrued and future basic pension benefits	(2,180)	(1,332)
Extrapolated change in actuarial assets for basic pension benefits	2,783	2,786
Entry-age method actuarial surplus, end of year	4,840	**4,261**
PBSA 5% of net liabilities	(1,326)	(1,249)
Accessible actuarial excess	$ 3,514	$ **3,012**

Based on the funded position at the last actuarial valuation, as the plan had Accessible Going Concern Excess (AGCE) and the entry age normal cost exceeded the current contribution, the Joint Trust Agreement required that the AGCE be used to fund a contribution rate reduction below the entry age normal cost. The extrapolation reflects the amount of surplus required for the contribution reduction as well as the 5% of net liabilities (total liabilities less the present value of future contributions at entry-age rate) that needs to be held in the Basic Account when the current contribution rate is below the entry age normal cost.

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, various factors, including actual wage increases, investment earnings, and the incidence of retirements and withdrawals, may vary significantly from the long-term assumptions used in the extrapolation.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

Measurement differences between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry-age method funding surplus and the financial statement accounting surplus are as follows:

Measurement difference between funding and accounting positions	2023	2022
Accessible actuarial excess	$ 3,514	$ 3,012
PBSA 5% of net liabilities	1,326	1,249
Actuarial asset value adjustment	(1,612)	(1,660)
Rate stabilization account	1,438	1,269
Difference in actuarial methods – present value of rate reduction	481	457
Difference in actuarial methods – present value of future contributions	(8,070)	(7,424)
Difference in actuarial methods – present value of future liabilities	8,831	8,201
Measurement differences between funding and accounting positions	2,394	2,092
Surplus for financial statement purposes	**$ 5,908**	**$ 5,104**

Actuarial asset value adjustment

To determine the entry-age method surplus for funding purposes, the actuarial value of net assets available for benefits is determined on an adjusted value basis that smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The funding policy requires that the value of the assets be smoothed within a certain corridor. In the 2020 valuation, the corridor required that the smoothed value be no more than 108% and no less than 92% of the market value of the assets. The smoothed value of the assets at December 31, 2023, was 105.1% of the market value of the assets (2022: 105.7%).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry-age method actuarial surplus. The amounts are based on that proportion of the total fund related to the Basic Account assets.

Actuarial asset value adjustment	2023	2022
2023	$ -	$ 49
2024	(260)	(287)
2025	(594)	(614)
2026	(792)	(808)
2027	34	-
Total adjustment	**$ (1,612)**	**$ (1,660)**

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

Rate Stabilization Account

Members and employers each contribute 1% to the RSA. The contributions are shifted from IAA to RSA with interest each fiscal year end. In fiscal 2023, the amount of $83 million (2022: $77 million), was transferred to the RSA, which is held notionally within the Basic Account.

Interest of $86 million (2022: $111 million) was transferred from the Basic Account to the RSA based on the 2023 opening balance and a smoothed rate of return of 6.80% (2022: 10.26%).

Rate stabilization account		2023		2022
Opening balance	$	1,269	$	1,081
Interest applied to balance		86		111
Contributions and interest		83		77
Ending balance	$	**1,438**	$	**1,269**

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method pro-rated on service, the pension liability for funding purposes uses an entry-age funding method, where the present value of future normal cost contributions, basic pension benefits for future service and future amortization amounts are included in the determination of the funded status of the Plan.

If an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for the granted cost-of-living adjustments, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level for future potential cost-of-living adjustments.

The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, BCI. The SIPP requires diversification of investments among asset classes, sets guidelines on investment categories, and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by BCI, and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board. Such risks include liquidity risk, as well as other financial risks, which comprise currency risk, interest rate risk, other price risk and credit risk.

Financial risks are disclosed on a unit-of-account basis (note 6b), which represents the legal ownership of securities held, and at the underlying securities level (note 6c), which provides additional insight to other risks that may impact the financial instruments of the Plan. Both forms of disclosure provide valuable perspectives on the financial risks that may directly or indirectly impact the financial statements and the funded status of the Plan. These two forms of risk disclosure are not additive to each other.

a) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, and investment and administration costs. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available.

The Plan's primary source of liquidity is income generated from the Plan's investments, and employer and employee contributions. Investments are primarily held in pooled funds, and the securities held are traded in active markets and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable of $6 million (2022: $8 million) are generally due within one month. Derivatives payable of $122 million (2022: $338 million) are due within the next fiscal year.

b) Financial risks on a unit-of-account basis

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate interest in the value of the net assets of the respective pooled investment fund. The unit-of-account for the majority of the Plan's investments is the units of the pooled investment funds.

Market risk is the risk that the fair value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk consists of currency, interest rate and other price risks.

Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the fund will fluctuate due to changes in foreign exchange rates. The Plan holds primarily Canadian dollar–denominated investment pooled fund units and is exposed to currency risk through holdings of small amounts of foreign currency–denominated debt investments. See note 6c for currency exposure related to underlying securities.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risks on a unit-of-account basis (continued)

Foreign denominated investments held by the plan are $484 million United States (US), 1.3% of total investments (2022: $447 million US, 1.2% of total investments).

As at December 31, 2023, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $48 million (2022: $45 million).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of plan investments will change as a result of future fluctuations in market interest rates. The majority of the Plan's investment assets are non–interest bearing and not subject to interest rate risk. See note 6c for interest rate risk related to underlying securities.

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate companies, held directly and through pooled investment portfolios. This risk is managed by diversifying investments across asset classes based on criteria established in the SIPP.

As at December 31, 2023, if the pooled investment fund unit prices increased or decreased by 10%, with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $3,783 million (2022: $3,593 million).

In February 2022, events concerning Russia and Ukraine have resulted in sanctions being levied against Russian interests by numerous countries. As a result of this ongoing situation, the price and liquidity of securities connected to Russia have declined significantly and were written down to zero. The duration and extent of the impact of this situation on the Plan's other investments remain unclear.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into, resulting in a financial loss to the Plan. The majority of the Plan's investments are held in securities that are not subject to credit risk. See note 6c for credit risk related to underlying securities.

Credit exposure exists for contributions receivable directly held by the Plan totaling $59 million (2022: $38 million), for the derivatives $150 million (2022: $298 million) and interest and dividends receivable $6 million (2022: $4 million).

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds

Pooled investment funds exist for different types of investments, such as short-term investments; bonds; Canadian, global and emerging markets equities; mortgages; real estate; private debt; private equity; and infrastructure and renewable resources. Examining the risks of the underlying securities contained in pooled investment funds provides additional disclosure to assess the overall financial risks of the Plan's investments. Viewing the financial risks of underlying securities is an alternative way of disclosing financial risks from the unit-of-account basis in note 6b. These risks are not considered additive to the financial risks already disclosed in note 6b.

Market risks are reduced through asset class diversification, diversification within each asset class and credit quality requirements on investments.

Currency risk

Currency exposure also arises from foreign currency denominated investments held directly and from underlying investments held indirectly in pooled investment funds. BCI has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward foreign currency contracts.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Currency risk (continued)

The Plan's total currency exposure, the impact of economic hedging activities, and it's net notional exposure as at December 31 are as follows:

Foreign denominated investment holdings (Cdn dollar equivalent)	Total exposure	Economic hedging	Net exposure	% of total
		2023		
United States	$ 16,755	$ 6,157	$ 10,598	56%
Euro countries	2,737	580	2,157	11%
United Kingdom	2,144	130	2,014	11%
Asia-Pacific, excluding Japan	2,104	118	1,986	10%
Other	1,397	-	1,397	7%
Other Europe	605	122	483	3%
Japan	340	-	340	2%
	$ 26,082	$ 7,107	$ 18,975	100%
		2022		
United States	$ 15,917	$ 4,713	$ 11,204	68%
Euro countries	3,127	496	2,631	16%
Asia-Pacific, excluding Japan	1,321	98	1,223	8%
United Kingdom	928	107	821	5%
Other	386	-	386	2%
Other Europe	191	102	89	1%
Japan	72	-	72	0%
	$ 21,942	$ 5,516	$ 16,426	100%

The net foreign currency exposure of its underlying investments represents 50% (2022: 46%) of the Plan's total investments.

Interest rate risk

The Plan's pooled investment funds hold interest-bearing financial instruments in short-term investments, bonds, mortgages and private debt. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and interest rate swaps, and general diversification by security type and geographic region. The Plan participates in a leveraged bond strategy using repurchase agreements that is included in the terms to maturity table below.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Interest rate risk (continued)

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment, portfolios, as at December 31, are as follows:

Terms to maturity of interest-bearing financial instruments

	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective yield to maturity
			2023			
Short-term	$ 768	$ -	$ 1	$ -	$ 769	5.30%
Bonds[1]	262	3,593	4,034	3,571	11,460	3.94%
Repurchase agreements	(3,495)	-	-	-	(3,495)	-5.03%
Mortgages[2]	321	1,166	121	15	1,623	7.48%
Debt[3]	-	2	2	-	4	4.80%
Private debt[2]	2,052	1,011	390	22	3,475	10.64%
	$ (92)	$ 5,772	$ 4,548	$ 3,608	$ 13,836	
			2022			
Short-term	$ 831	$ -	$ -	$ -	$ 831	4.40%
Bonds	188	3,121	3,248	3,258	9,815	4.21%
Repurchase agreements	(3,622)	-	-	-	(3,622)	-4.27%
Mortgages[2]	344	892	22	-	1,258	6.99%
Debt[3]	-	1	2	-	3	4.80%
Private debt[2]	1,322	776	704	25	2,827	10.80%
	$ (937)	$ 4,790	$ 3,976	$ 3,283	$ 11,112	

[1] Bonds net of unsecured debt

[2] Yield includes both fixed and variable interest rates.

[3] Grouped with real estate investment category.

As at December 31, 2023, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $881 million (2022: $743 million).

Other price risk

Other price risk associated with the underlying investments held in pooled investment funds is consistent with that described earlier in note 6b, which describes financial risks on a unit-of-account basis.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Credit risk

The Plan's underlying investment assets held in pooled investment funds attract credit risk. This is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. It is also the risk of losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties, and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages, debt, and private debt) held directly and through pooled investment portfolios are as follows:

Credit rating of financial instruments

	AAA/AA	A	BBB	Non-investment grade	Unrated	Total
2023						
Short-term	$ 615	$ 154	$ -	$ -	$ -	$ 769
Bonds*	8,376	1,924	413	713	279	11,705
Mortgages	-	-	-	-	1,623	1,623
Debt**	-	-	-	-	4	4
Private debt	54	-	9	247	3,165	3,475
	$ 9,045	$ 2,078	$ 422	$ 960	$ 5,071	$ 17,576
	51%	12%	2%	6%	29%	100%
2022						
Short-term	$ 619	$ 212	$ -	$ -	$ -	$ 831
Bonds	6,660	2,248	353	413	141	9,815
Mortgages	-	-	-	-	1,258	1,258
Debt**	-	-	-	-	3	3
Private debt	47	-	9	276	2,495	2,827
	$ 7,326	$ 2,460	$ 362	$ 689	$ 3,897	$ 14,734
	50%	17%	2%	5%	26%	100%

* Unsecured debt not included in bonds

** Grouped with real estate investment category.

The ratings used are defined by Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The counterparty's capacity to meet its financial commitment on the obligation is very strong. Bonds rated A, BBB or non-investment grade are weaker. A BBB rating denotes an obligation with adequate protection parameters and a non-investment grade rating denotes major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to the debtor's inadequate capacity to meet its financial commitment on the obligation.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are as follows:

Level 1

Inputs that are unadjusted quoted prices in active markets for identical assets or liabilities

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3

Inputs that are not based on observable market data

Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan's investments based on the fair value hierarchy as at December 31:

Fair value hierarchy	Level 1	Level 2	Level 3	Total
		2023		
Pooled fund units	$ 680	$ 17,365	$ 19,776	$ 37,821
Direct debt*	-	-	4	4
Investments	**$ 680**	**$ 17,365**	**$ 19,780**	**$ 37,825**
Derivatives	**$ -**	**$ 28**	**$ -**	**$ 28**
		2022		
Pooled fund units	$ 825	$ 17,870	$ 17,236	$ 35,931
Direct debt*	-	-	3	3
Investments	**$ 825**	**$ 17,870**	**$ 17,239**	**$ 35,934**
Derivatives	**$ -**	**$ (40)**	**$ -**	**$ (40)**

*Grouped with real estate investment category.

During 2023 and 2022, there were no significant transfers of investments between levels.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

a) Fair value hierarchy (continued)

The following table reconciles the Plan's level 3 fair value measurements:

Level 3 fair value hierarchy	Pooled fund units	Direct debt	Total
		2023	
Balance, beginning of year	$ 17,236	$ 3	$ 17,239
Net gain included in investment income	670	-	670
Purchases	6,309	1	6,310
Sales	(4,439)	-	(4,439)
Balance, end of year	**$ 19,776**	**$ 4**	**$ 19,780**
Unrealized gain included in investment income	$ 142	$ -	$ 142
		2022	
Balance, beginning of year	$ 14,396	$ 3	$ 14,399
Net loss included in investment income	(290)	-	(290)
Purchases	6,851	-	6,851
Sales	(3,721)	-	(3,721)
Balance, end of year	**$ 17,236**	**$ 3**	**$ 17,239**
Unrealized loss included in investment income	$ (971)	$ -	$ (971)

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

BCI uses widely recognized valuation methods for determining the fair value of common and less complex financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward or future currency contracts, and pooled funds.

The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

b) Valuation models (continued)

For more complex financial instruments, such as direct private debt investments held by the Plan, BCI uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates, or estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. BCI's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments, and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that BCI believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

c) Valuation framework

BCI has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private debt investments held by the Plan, external independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where BCI relies on the third-party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

In addition, BCI applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs
- Appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers
- Analysis and investigation of significant valuation movements
- Review of unobservable inputs and valuation adjustments

When third-party information, such as broker quotes or pricing services, is used to measure fair value, BCI assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- Verifying that the broker or pricing service is approved by BCI for use in pricing the relevant type of financial instrument
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions
- Understanding how the fair value has been determined when a number of quotes for similar financial instruments have been obtained

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

c) Valuation framework (continued)

- Understanding how prices for similar financial instruments used to measure fair value have been adjusted to reflect the characteristics of the financial instrument subject to measurement

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as level 3 in the fair value hierarchy.

Significant unobservable inputs used in measuring fair value

Description	Fair value	Valuation technique	Unobservable input	Amount/ range	Sensitivity to change in significant unobservable input
			2023		
					The estimated fair value would increase if:
Pooled fund units	**$ 19,776**	**Net asset value**	**Net asset value**	**$ 19,776**	**The net asset value increased**
Direct debt	**$ 4**	**Discounted cash flow**	**Discount rate**	**4.8%**	**The discount rate decreased**
			2022		
					The estimated fair value would increase if:
Pooled fund units	$ 17,236	Net asset value	Net asset value	$ 17,236	The net asset value increased
Direct debt	$ 3	Discounted cash flow	Discount rate	4.8%	The discount rate decreased

Net asset value

Net asset value is determined by BCI based on the fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions and, accordingly, BCI is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as level 3 within the fair value hierarchy.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

d) Significant unobservable inputs used in measuring fair value (continued)

Discount rate

This represents the discount rate applied to the expected future cash flows of the direct debt investments. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

e) Effects of unobservable input on fair value measurement

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used for a reasonable alternative assumption could have the following effects on net assets attributable to holders of redeemable units.

The pooled fund units and direct debt investments were valued based on information received from BCI, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by BCI. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of pooled fund units and direct debt investments have been calculated by adjusting the respective underlying net asset value by 10%.

Effects of unobservable input on level 3 fair value measurement

	2023		2022	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 1,978	$ (1,978)	$ 1,724	$ (1,724)
Direct debt	-	-	-	-
	$ 1,978	$ (1,978)	$ 1,724	$ (1,724)

f) Financial instruments not measured at fair value

The carrying value of contributions receivable, receivable from sale of investments, interest and dividends receivable, accounts payable and accrued expenses and payable for purchase of investments approximate their fair value given their short-term nature. These financial instruments are classified as level 2 in the fair value hierarchy because, while prices are available, there is no active market for these instruments.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

8. INVESTMENT INCOME

	2023			2022		
	Income allocation	Change in fair value	Total	Income allocation	Change in fair value	Total
Short-term	$ 41	$ (5)	$ 36	$ 14	$ 17	$ 31
Bonds	284	258	542	259	(1,748)	(1,489)
Canadian equities	38	106	144	28	(89)	(61)
Global equities	177	935	1,112	113	(1,020)	(907)
Emerging markets equities	52	95	147	54	(306)	(252)
Mortgages	75	5	80	107	(12)	95
Real estate	66	(411)	(345)	711	(160)	551
Private debt	157	231	388	72	6	78
Private equity	265	110	375	667	(411)	256
IRR*	430	(199)	231	381	144	525
	1,585	1,125	2,710	2,406	(3,579)	(1,173)
Directly held derivatives	-	30	30	-	(32)	(32)
	$ 1,585	$ 1,155	$ 2,740	$ 2,406	$ (3,611)	$ (1,205)

* Infrastructure and renewable resources

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder, and income from directly held investments. Income allocation is composed of interest, dividends and other investment payments. Change in fair value is composed of realized gains and losses on the disposal of investments and derivatives, and unrealized gains and losses on investments and derivatives held at year-end. All income earned within a pooled investment portfolio is reinvested within the portfolio.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2023		
Members' contributions				
Regular	$ 368	$ 78	$ -	$ 446
Past service purchases	3	1	-	4
	371	79	-	450
Employers' contributions				
Regular	367	83	1	451
Past service purchases	2	1	-	3
	369	84	1	454
	$ 740	$ 163	$ 1	$ 904
		2022		
Members' contributions				
Regular	$ 338	$ 72	$ -	$ 410
Past service purchases	3	1	-	4
	341	73	-	414
Employers' contributions				
Regular	338	75	1	414
Past service purchases	2	1	-	3
	340	76	1	417
	$ 681	$ 149	$ 1	$ 831

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

10. BENEFITS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2023		
Regular pension benefits	1,099	-	1	1,100
Indexing – regular pension benefits	364	-	-	364
Termination and refund benefits	16	5	-	21
Death benefit payments	15	4	-	19
	$ 1,494	$ 9	$ 1	$ 1,504
		2022		
Regular pension benefits	$ 1,068	$ -	$ 1	$ 1,069
Indexing – regular pension benefits	283	-	-	283
Termination and refund benefits	24	8	-	32
Death benefit payments	10	2	-	12
	$ 1,385	$ 10	$ 1	$ 1,396

11. INVESTMENT AND ADMINISTRATION COSTS

	2023	2022
Investment management	$ 81.7	$ 71.5
Benefit administration	15.6	14.3
Other professional services	0.6	0.4
Board secretariat costs	0.4	0.4
Board remuneration and expenses	0.3	0.2
Audit and actuary expenses	0.1	0.1
	$ 98.7	$ 86.9

BCI and Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover internal and external management costs incurred by BCI, except those external management fees related to investments managed by an underlying external manager, where management fees are embedded in the net assets of the respective investment. Underlying external investment management fees of $59.5 million (2022: $75.8 million) were netted against investment income.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

11. INVESTMENT AND ADMINISTRATION COSTS (CONTINUED)

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by Pension Corporation. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with supporting the Board.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

12. ACCOUNT TRANSFERS

	2023		2022	
	Basic account	Inflation adjustment account	Basic account	Inflation adjustment account
Indexing supplements	$ 913	$ (913)	$ 553	$ (553)
Indexing of deferred pensions	5	(5)	3	(3)
	$ 918	$ (918)	$ 556	$ (556)

The IAA is a separate account maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members, investment income earned and excess investment return earned in the Basic Account.

Cost-of-living adjusted pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. The Board considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any. As at January 1, 2023, retired members received a cost-of-living adjustment of 6.9% (2022: 4.4%), and indexing supplements were transferred.

When a deferred pension commences, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $52 million (2022: $36 million) of the current IAA balance is for cost-of-living adjustments already granted for deferred pensions but not yet transferred to the Basic Account.

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

($ millions except as otherwise noted)

12. ACCOUNT TRANSFERS (CONTINUED)

Excess investment return is based on investment income earned on those assets in the Basic Account required for pensions currently being paid, approximately $14.6 billion of assets for 2023 (2022: $13.6 billion). The excess investment return rate is determined by taking the difference between the actual five-year annualized market rate of return (7.80%) and the rate of return used by the Plan actuary (5.75%) in valuing the Plan's liabilities. The calculated excess investment return rate for 2023 was 2.05% (2022: 0.95%), resulting in a positive excess investment return amount of $300 million (2022: $129 million).

Plan rules allow the positive excess investment return transfer to occur at the discretion of the Board. Should the excess investment return in any year not be transferred to the IAA, it will be carried forward cumulatively with interest and if available, may be transferred to the IAA at the discretion of the Board in the future. If the balance is ever negative, it will be offset against future positive excess investment returns before transfers to the IAA will recommence. The excess investment interest is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance.

Excess investment return	2023	2022
Cumulative excess investment return, beginning of year	$ 2,622	$ 2,336
Interest applied to beginning of year amount	205	157
Excess investment return	300	129
Cumulative excess investment return, end of year	**$ 3,127**	**$ 2,622**

13. SUPPLEMENTAL BENEFITS ACCOUNT

The SBA funds certain supplemental benefits. For example, pension benefits that exceed *Income Tax Act* limits for registered pension plans are paid through this account.

14. COMMITMENTS

The Plan participates in private equity, international real estate, mortgages, and infrastructure and renewable resource pools. As at December 31, 2023, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $6,749 million (2022: $7,002 million).

TEACHERS' PENSION PLAN

Notes to the financial statements for the year ended December 31, 2023

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15. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively, and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP, which affects the earnings of the Plan, and, in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan's assets is reviewed by the Board on a regular basis and compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2020, and has two components: the Basic Account non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed IAA benefits. The next full actuarial valuation will be carried out as at December 31, 2023, with the results included in the December 31, 2024, financial statements.

The Act and the Board's funding policy require that contribution rates comply with the going-concern requirements of PBSA.

16. PRIOR YEAR COMPARATIVES

The prior year comparatives have been reclassified to conform to the current year presentation.

Teachers' Pension Plan

tpp.pensionsbc.ca

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Mail: Teachers' Pension Plan,
PO Box 9460, Victoria BC V8W 9V8

Cover photo: Jackie Heinrich, member, SD67 (Okanagan Skaha)

MISSION STATEMENT
To provide retirement income to plan members by effectively and efficiently meeting the pension promise and fulfilling the joint trust placed on us by the plan partners.

1998-067 TPP AR 2024.07.26