



2010

Annual Highlights Report for Pensioners

At the OPSEU Pension Trust (OPTrust), we are here to serve you. With invested assets of more than \$13.3 billion, we manage one of Canada's largest pension funds and administer the OPSEU Pension Plan, a defined benefit plan with more than 83,000 members and retirees.

STRATEGY, PERFORMANCE, SECURITY, TRUST

OUR MANDATE FOCUSES ON THREE KEY OBJECTIVES:

- Generating the long-term rate of return on investments needed to support the pension promise
- Delivering the finest service and communications to our members and pensioners
- Ensuring that our membership has a real voice in the Plan through joint trusteeship

IN 2010, OPTRUST:

- Achieved an investment return of 13.9%, outperforming our 10.9% benchmark return and exceeding the Plan's 6.75% funding target for the second year in a row
- Implemented the first of three annual 1% increases in members' and employers' contribution rates, as part of our strategy to manage the Plan's funding deficit
- Received high marks from members and retirees for the quality of the service and communications we provide



2010 at a Glance

Funding Highlights

At December 31 (\$ millions)

| | 2010 VALUATION | 2009 VALUATION | 2008 VALUATION |
|--|-------------------|-------------------|-------------------|
| Net assets available for benefits | \$ 13,317 | \$ 11,989 | \$ 10,987 |
| Actuarial smoothing adjustment | (388) | 294 | 927 |
| Actuarial value of net assets | 12,929 | 12,283 | 11,914 |
| Present value of future contributions* | 5,025 | 4,747 | 4,653 |
| TOTAL ASSETS | \$ 17,954 | \$ 17,030 | \$ 16,567 |
| Current cost of future pensions | \$ 17,697 | \$ 16,595 | \$ 16,353 |
| Rate stabilization funds | 843 | 828 | 820 |
| TOTAL LIABILITIES | \$ 18,540 | \$ 17,423 | \$ 17,173 |
| SURPLUS (DEFICIT) | \$ (586) | \$ (393) | \$ (606) |

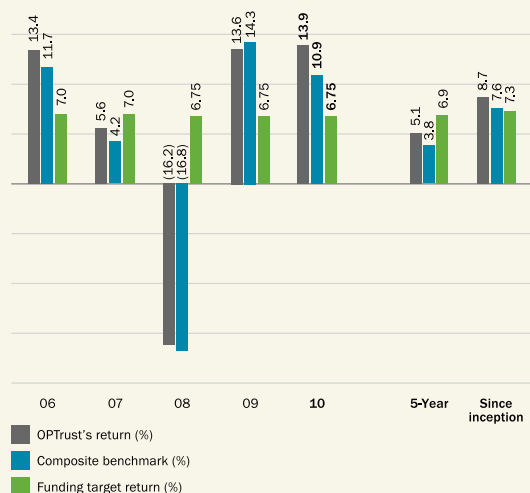
* Includes the full 3% increase in contribution rates approved by the Plan's sponsors.

Pension security for the long term

OPTrust's funding valuations determine if the Plan has a surplus or deficit by comparing its assets to the projected cost of members' and retirees' pensions. In 2009, OPTrust worked with the Plan's sponsors – OPSEU and the Government of Ontario – to put in place a strategy for managing the impact of the Plan's 2008 investment losses while avoiding any reduction in the value of members' future pensions.

In 2010, as part of this strategy, OPTrust implemented the first of three annual 1% increases in members' and employers' contribution rates. We also strengthened the Plan's actuarial assumptions, which increased the Plan's current deficit, but reduced the risk of future funding shortfalls. At the end of 2010, the Plan's funding deficit was \$586 million, compared with rate stabilization reserves of \$843 million.

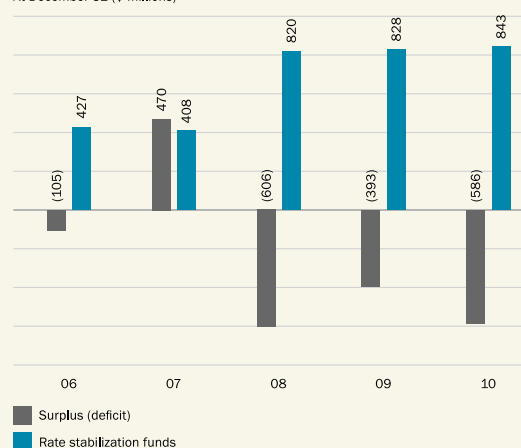
Investment Performance



OPTrust's diversified portfolio achieved a 13.9% return for 2010, substantially outperforming both our 10.9% composite benchmark return and the Plan's 6.75% funding target return. OPTrust's average return of 8.7% since the Plan's launch in 1995 exceeds both our benchmark and the Plan's funding target for the same period.

Funding Surplus (Deficit) and Rate Stabilization Funds

At December 31 (\$ millions)



The Plan had a funding deficit of \$586 million at the end of 2010 and rate stabilization funds of \$843 million, which were set aside by the sponsors from past funding gains. In 2009 the sponsors approved the use of the stabilization reserves to pay down the 2008 funding deficit of \$606 million over a maximum of 15 years. The stabilization reserves are sufficient to address the 2010 funding deficit, at the sponsors' discretion.

For more information on OPTrust's investment and financial results for 2010, please see our full annual report available at www.optrust.com.

Message from the Chair and Vice-Chair

2010 HIGHLIGHTS

- OPTrust continued our strategic approach to managing the Plan's funding deficit while maintaining the future value of members' pensions.
- The Trustees completed a full review of OPTrust's governance practices to ensure effective decision-making for the Plan.
- The Board established the role of President and CEO at OPTrust, appointing Stephen J. Griggs to the position in June 2011.



Since 1995, OPTrust has provided you with a secure pension, quality service and a say in your pension plan through joint trusteeship. This report describes the strategies we have adopted to continue delivering on the pension promise.

Sound investment strategy

To pay for members' and retirees' pensions, the Plan is expected to generate an average real rate of return (after inflation) of 4.0% per year.

To help meet this objective, we are continuing the multi-year implementation of changes to the Plan's asset mix, which were approved by the Board in 2009. These changes will help to reduce the Fund's overall investment risk while increasing our ability to meet the Plan's funding target return over the long term.

In 2010, the Plan generated a strong return of 13.9%, substantially outperforming our composite benchmark return of 10.9%, and more than doubling our 6.75% funding target return for the year. This performance helped increase the Plan's net assets by \$1.3 billion, to \$13.3 billion at year-end.

Deficit management

The Board continues to closely monitor the Plan's funding status and the implementation of the deficit management strategy that was put in place in 2009.

As part of this strategy, OPTrust introduced the first of three annual 1% increases in members' and employers' contribution rates in 2010, as approved by the Plan's sponsors. The sponsors also authorized a series of payments from the member and employer rate stabilization funds to pay down the Plan's 2008 deficit of \$606 million over a maximum of 15 years.

In 2010, the Board strengthened the economic and demographic assumptions that are used to calculate the cost of members' and retirees' future pensions. While this prudent decision reduced the risk of future funding shortfalls, it also increased the Plan's pension liabilities.

As anticipated, the Plan remains in a deficit position, and is expected to continue to show a deficit for some time to come. Our most recent funding valuation identified a deficit of \$568 million at the end of 2010. At the same time, the Plan's

funding situation has improved substantially. At year-end the Plan had deferred investment gains of \$388 million, compared to a deferred loss of \$294 million at the end of 2009. These gains will be recognized between 2011 and 2014. The Plan also had rate stabilization reserves totalling \$843 million.

The Board has thoroughly examined whether it would be possible to eliminate the final 1% contribution increase scheduled for 2012. Given the continuing deficit, implementing the full 3% increase remains critical to the Plan's long-term financial health. We will continue to monitor the Plan's funding and advise the sponsors if there are opportunities to readjust contribution rates downward in the future.

Plan governance

Over the year, the Trustees conducted a full review of internal governance at OPTrust. As a result, the Board made a series of refinements to the organization's structure and practices.

The most significant change was to create the new position of President and CEO. In June 2011 the Board appointed Stephen J. Griggs to the position. In this role, he will be responsible for all OPTrust's operations, under the policy direction and delegated authority of the Board. Other steps included establishing a new position of Corporate Secretary, approving a policy ensuring regular reviews of the Board's professional advisors, and implementing more regular communications with the Plan's sponsors.

Looking ahead

We would like to thank our fellow Trustees and OPTrust's management and staff for their dedication to the interests of our more than 83,000 members and pensioners. We look forward to working with them and the Plan's sponsors as we continue to ensure the security of your OPTrust pension.

Maurice Gabay
Chair

Scott Campbell
Vice-Chair

Photo: Maurice Gabay (left), Scott Campbell (right).

Investment Strategy and Performance

2010 HIGHLIGHTS

- OPTrust's diversified portfolio generated a return of 13.9%, outperforming both our 10.9% benchmark and the Plan's 6.75% funding target return.
- We launched the first phase of an enterprise-wide investment risk system, enhancing our ability to model and track risks affecting the Fund.
- OPTrust extended its responsible investing program, becoming a signatory to the United Nations' Principles for Responsible Investment (PRI) and joining the Carbon Disclosure Project.

Long-term objective

OPTrust's investment program is designed to meet one overriding objective: generating the long-term investment return needed to provide you and more than 83,000 other members and retirees with a secure lifetime pension.

To meet this funding requirement, the Plan's investment portfolio must achieve a real average annual return of 4% after inflation, over the long term. Factoring in the Plan's 2.75% inflation assumption for 2010, our nominal target return for funding purposes was 6.75% in 2010.

Over OPTrust's 16 years of operation, the Plan's investment portfolio has realized an average annual return of 8.7%, exceeding our funding target by 1.4% over the same period.

Investment performance

In 2010, OPTrust's investment portfolio achieved a robust 13.9% return, substantially outperforming our composite benchmark return of 10.9% for the year. Total investment earnings were \$1,530 million in 2010, up from \$1,348 million in 2009, when the Plan returned 13.6%.

Over the year, each of OPTrust's major portfolios achieved double-digit returns. This reflected both the continued market recovery following the recession of 2008 and early 2009, as well as \$363 million in value added by active management of the Fund's investments.

OPTrust's total fund return has more than doubled our 6.75% funding target for the past two years running. Since 1995, the Plan has bettered our benchmark return by an average of 1.1% annually.

Diversification strategy

The overarching investment risk the Plan faces is that of not generating sufficient returns to fund current and future pension entitlements while keeping contribution rates at reasonable levels. To help manage this risk, we conduct periodic asset/liability studies. These studies are used to help ensure that our investment portfolio is structured to meet our funding requirements over the long term, while keeping investment risk within limits established by OPTrust's Board.

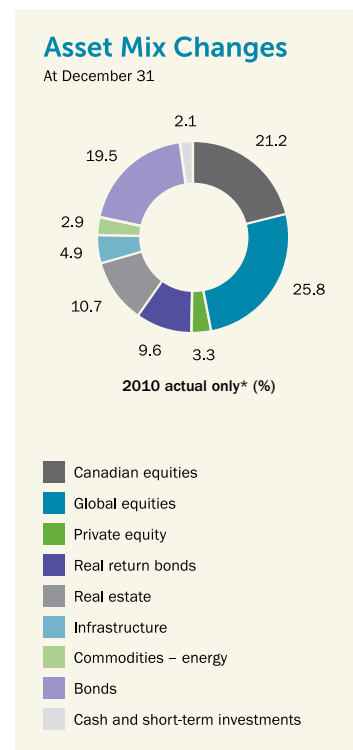
Our most recent asset/liability study was completed in 2009.

The result was a series of changes to our long-term asset mix targets approved by the Board of Trustees. These changes are expected to improve the Plan's ability to meet our funding target over the long term, while reducing the overall volatility of the Plan's returns.

Asset mix changes

In 2010, OPTrust's Investment Division continued to execute our multi-year strategy for achieving the Plan's long-term asset mix targets. Over the year, OPTrust increased funding to all four of the Plan's alternative portfolios:

- The real estate portfolio increased to \$1,419 million, up \$139 million from 2009.
- Net infrastructure and private equity investments grew to \$648 million and \$430 million, respectively. Together these portfolios accounted for 8.2% of the fund at year-end.
- OPTrust launched our new energy commodities portfolio. Valued at \$389 million or 2.9% of the Fund at year-end, the portfolio was increased to 5% of plan assets in early 2011.



In 2010, OPTrust continued the multi-year implementation of changes to the Plan's long-term asset mix. The changes are designed to further reduce investment risk and volatility at the total fund level, while strengthening our ability to meet the Plan's target return under a range of scenarios.

*Categories include temporary cash balances.

For more information on OPTrust's investment strategy, please see our full annual report at www.optrust.com.

Funding the Pension Promise

2010 HIGHLIGHTS

- OPTrust implemented the first of three annual 1% contribution rate increases as part of our deficit management strategy.
- The Plan's actuarial assumptions were strengthened to better reflect factors that affect the future cost of members' pensions.
- A second year of strong investment returns left the Plan with deferred investment gains of \$388 million, which will be recognized between 2011 and 2014.

Deficit management strategy

Like most pension plans and institutional investors, the Plan faced serious challenges as a result of the global financial crisis in 2008. The impact on the Plan was a \$2.4 billion investment loss that year, and a challenging funding situation going forward.

Since then, OPTrust has worked with the Plan's sponsors to implement a comprehensive strategy for managing the Plan's funding deficit. This strategy is designed to:

- address the funding shortfall
- preserve the value of members' future pensions
- moderate the impact on member and employer contribution rates, and
- reduce the risk of further contribution increases in the future.

As part of this strategy, the Plan's sponsors approved a series of three annual 1% increases in members' and employers' contribution rates. The first two increases took effect at the start of 2010 and 2011, with the third scheduled for January 2012. At the same time, OPSEU and the Government of Ontario authorized a series of payments from the member and employer rate stabilization funds to eliminate the Plan's remaining deficit over a period of up to 15 years.

The deficit management strategy has had no impact on current retirees' pensions, which are protected under Ontario pension law and will continue to increase each year to keep pace with inflation.

2010 funding valuation

OPTrust's most recent funding valuation identified a deficit of \$586 million at the end of 2010, up from \$393 million the previous year.

Despite this increase in the deficit, the Plan's overall funding situation improved significantly in 2010. Several factors contributed to this positive outlook:

- OPTrust strengthened the demographic and economic assumptions that are used to project the cost of members' future pensions. While these changes increased the Plan's liabilities by \$452 million, they significantly reduced the risk of funding shortfalls in the future.

- Part of OPTrust's double-digit investment returns from 2009 and 2010 have been deferred, or "smoothed," for recognition in the future. At the end of 2010, the Plan had deferred gains of \$388 million, which will reduce the Plan's deficit between 2011 and 2014.
- The Plan's rate stabilization funds increased by \$15 million in 2010, to \$843 million at year-end. The reserves are sufficient to cover the 2010 deficit, at the sponsors' discretion.

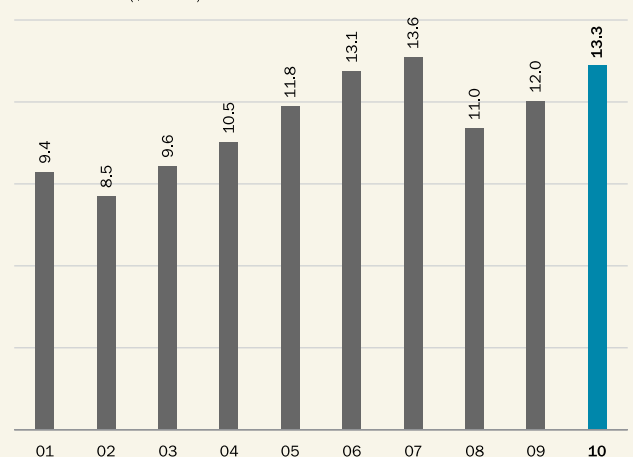
Funding outlook

The Board has reviewed the Plan's funding outlook and concluded that the full 3% increase in members' and employers' contribution rates is needed to return the Plan to a surplus position. This reflects the fact that the full increase in future contributions has already been included in calculating the Plan's assets for funding purposes.

In the meantime, as an OPTrust retiree, you have the security of knowing that your OPTrust pension is supported by a \$13.3 billion investment fund and the contributions of almost 47,000 active members and their employers.

Net Assets Available for Benefits

At December 31 (\$ billions)



The Plan's net assets rose to \$13.3 billion in 2010, up \$1.3 billion from the year before. The increase resulted from investment income of \$1.5 billion for the year. This was partly offset by benefit payments and expenses that exceeded contributions by \$202 million.

Membership Services

2010 HIGHLIGHTS

- Members and pensioners gave OPTrust high marks for providing excellent service and communications.
- OPTrust's public website received a record high 335,000 visits during the year.
- Registered users of our secure *Online Services* site topped 27,850, with 5,592 individuals signing up in 2010.
- OPTrust staff answered more than 53,500 telephone calls with an improved average response time of just 10 seconds.

OPTrust is dedicated to delivering on the Plan's pension promise. This means providing you and our more than 83,000 other members and retirees with a secure lifetime pension. It also means delivering high quality service and communications to help you understand how the Plan works and make informed decisions about your own pension.

Service excellence

As part of this commitment, OPTrust asks members and retirees who have recently completed a pension transaction with us to rate the quality of service they received. In 2010, members and pensioners gave us an overall satisfaction rating of 8.7 out of 10, bettering both our target score for the year and our 8.6 average rating in 2009.

Our telephone service received particularly high scores, with an average rating of 9.3 out of 10, up from 9.0 in 2009, and exceeding our target score for the second year in a row. Over the year, we received more than 53,500 telephone calls from members and pensioners, answering 98% of them with an average response time of just 10 seconds.

OPTrust staff processed more than 61,000 individual pension transactions in 2010. Of these, 81% were completed within our target transaction times, down from 85% in 2009. This dip in on-time case completions in 2010 reflected plan changes that generated a one-time spike of thousands of requests for buyback quotes, many of them requiring complex actuarial calculations.

Partly because of these changes, the number of overdue cases at year-end rose to 16.4%, up from 11.3% in 2010. With these major changes behind us, we expect a steady recovery in our on-time performance in 2011.

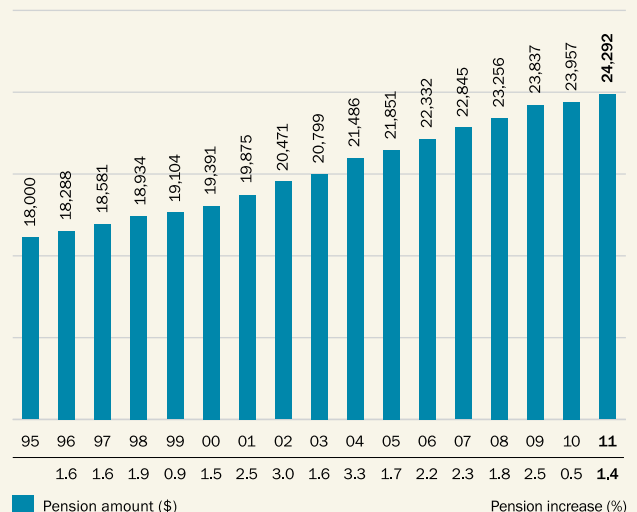
A proactive approach

OPTrust takes a proactive approach to providing members and retirees with targeted, personalized communications and services tailored to your changing needs.

In 2010, OPTrust staff:

- sent information to more than 1,100 pensioners who were nearing age 65 about CPP integration and its impact on their OPTrust pension
- provided more than 1,300 quotes to eligible new members on the cost of buying back periods of past service
- mailed letters to more than 9,700 members who had reached age 55, providing them with pension projections based on a range of possible retirement dates
- distributed more than 125,000 e-mail updates to members and pensioners
- delivered 60 pension seminars to more than 2,500 members at 31 locations across Ontario
- launched an online version of the seminar for members who may not be able to attend a session in their community.

Inflation Protection for Pensioners



OPTrust pensions are adjusted annually for inflation to protect retirees' purchasing power. In January 2011, payments to pensioners rose by 1.4%, reflecting changes in Canada's Consumer Price Index. A retired member who received a typical annual pension of \$18,000 in 1995 will receive \$24,292 in 2011 – an increase of 35% over 16 years.

MEMBERSHIP SNAPSHOT

| At December 31 | 2010 | 2009 |
|--|---------------|---------------|
| Active members | 46,893 | 47,316 |
| Former members with entitlements in the Plan | 1,434 | 1,278 |
| Pensioners | | |
| Current | 25,813 | 24,758 |
| Deferred | 8,924 | 8,990 |
| Total members and pensioners | 83,064 | 82,342 |

In 2010, OPTrust's active membership decreased to 46,893, down by 423 from the previous year. Over the year, the number of pensioners increased by 1,055, to 25,813 at year-end. As a result, the ratio of active members to pensioners has declined slightly to 1.8:1.

Online service and communications

OPTrust continues to respond to members' and retirees' increasing demand for online communications and services. In 2010, our website (www.optrust.com) received more than 335,000 unique visits, up by more than 50,000 from 2009.

The number of members and retirees registered for our secure *Online Services* site increased by 28% in 2010, to more than 27,800 at year-end. Over the year, users completed more than

13,000 individual transactions and sent us more than 7,600 secure messages through *Online Services*.

More than 14,500 members received their *Annual Pension Statements* online in 2010, a five-fold increase over the previous year. Taken together, this growing use of online communications is improving the way OPTrust delivers services and reducing our environmental footprint.



Shantha Dissanayake

OPTrust Retiree, Ministry of Municipal Affairs and Housing – OPTrust's 25,000th Pensioner

"I was nervous about the retirement process, but everyone I spoke to at OPTrust was excellent in guiding me. My OPTrust pension provides added security for my family and allows me to qualify for insured benefits, which means a lot to me."



Fred Sheehy

OPTrust Retiree, Ministry of Economic Development and Trade

"It took me a while to make the decision to retire. But when I sat down with the folks at OPTrust, they did the math and after taxes my income is almost the same as when I was working. My pension provides financial security for me and my wife, and I'm enjoying retirement more and more every day."

MEMBERS OF THE BOARD OF TRUSTEES

At December 31, 2010

The OPSEU Pension Trust was established to give members and the Government of Ontario an equal voice in the OPSEU Pension Plan through joint trusteeship. As sponsors, the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario each appoint five Trustees to the OPTrust Board. Together, the Trustees oversee all aspects of the Plan's operations in the interests of our more than 83,000 members and retirees.

Maurice Gabay, Chair**

Accountant
Ontario Public Service Employees Union (OPSEU)

Scott Campbell, Vice-Chair*

Corporate Chief Information Officer (retired)
Government of Ontario

Michael Beswick*¹

Senior Vice-President, Pensions (retired)
Ontario Municipal Employees Retirement System

Tracie Crook*

Former President and CEO
ResMor Trust Company

Alicia Czekierda**

Secretary, Robarts/Amethyst Schools
Ministry of Education

Richard Johnston*²

Owner, By Chadsey's Cairns Winery and Vineyard
Former MPP and President, Centennial College

Ron Langer**

Senior Business Advisor
Ministry of Economic Development and Trade

Patricia Li*³

Assistant Deputy Minister, Direct Services Division
Ministry of Health and Long-Term Care

Mahmood Nanji*⁴

Assistant Deputy Minister
Ministry of Economic Development and Trade

Tony Ross*

Vice-Chair (retired)
Merrill Lynch Canada

Dennis Wilson**

Construction Health & Safety Inspector
Ministry of Labour

Maureen Whyte**

Claims Assessor
Ministry of Health and Long-Term Care

* Appointed by the Government of Ontario

** Appointed by OPSEU

1 Mr. Beswick's term ended in April 2011

2 Mr. Johnston's term ended in December 2010

3 Ms. Li's term began in February 2011

4 Mr. Nanji's term ended in December 2010

HOW TO REACH US

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1-800-637-0024 toll-free in Canada
Fax: 416-681-6175



GET THE BIG PICTURE

More information on OPTrust's strategy and performance are available in our full annual report at www.optrust.com. A list of OPTrust's significant investments is also available on the OPTrust website.

This report summarizes certain provisions of the OPSEU Pension Plan. Please note that this report does not create any rights to benefits not provided for in the actual terms of the Plan. In the event of any conflict or omission, the legal requirements of the OPSEU Pension Plan will govern in all cases.

Ce rapport est aussi disponible en français.

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OPSEU Pension Trust

Fiducie du régime de
retraite du SEFPO