ANNUAL REPORT 2002

Diligence, Service, Security

OPTrust

OPSEU Pension Trust

Fiducie du régime de retraite du SEFPO

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With assets under management of $8.5 billion, the OPSEU Pension Trust (OPTrust) manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan covering approximately 73,000 members and pensioners.

In 2002, OPTrust:

Exceeded our investment benchmark in a year of continued negative returns for Canadian and international stock markets. OPTrust's investment portfolio lost 7.2%, compared to a 7.8% drop in our market-based benchmark. Since 1995, the Plan has achieved an average annual return of 8.8%, outperforming the benchmark return of 8.0% for the period.

Recognized funding gains of $867 million, which were shared between OPTrust members and pensioners and the Government of Ontario. The results include benefit improvements for members and pensioners, an extended reduction in members' contributions, and the creation of separate funds to stabilize contributions for members and the Government in the future. A portion of the Government's share of gains was used to eliminate the balance of the Plan's initial unfunded liability.

Improved service to members and pensioners. In 2002, we responded promptly to important events affecting our members and retirees and their pensions. We continued to ask them about their service priorities – and provided them with accurate information and personal service tailored to their changing needs.

Diligence, Service, Security

AT OPTRUST THEY MEAN:

- GENERATING A RATE OF RETURN ON INVESTMENTS OVER THE LONG TERM THAT SUPPORTS OUR PENSION PROMISE
- PROVIDING THE FINEST SERVICE AND COMMUNICATIONS TO OUR MEMBERS AND PENSIONERS
- GIVING MEMBERS AND PENSIONERS A REAL VOICE IN THE PLAN THROUGH JOINT TRUSTEESHIP

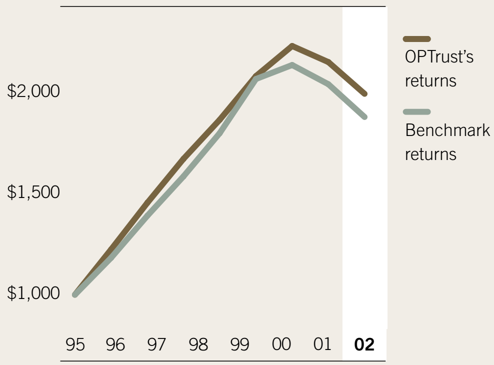
FINANCIAL HIGHLIGHTS

At December 31 ($ millions)	2002	2001
Net assets available for benefits	**8,493**	9,426
Actuarial smoothing adjustment	**1,023**	191
Actuarial value of net assets available for benefits	**9,516**	9,617
Accrued pension benefits	**8,389**	7,832
SURPLUS	**1,127**	1,785

MEMBERSHIP SNAPSHOT

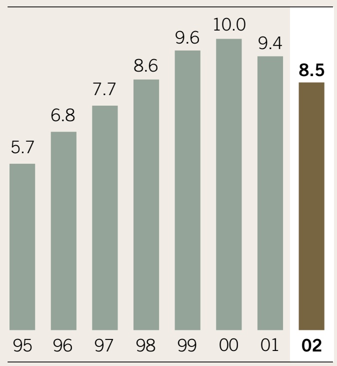
At December 31	2002	2001
Active members	**46,361**	48,221
Number of new members enrolled	**3,120**	4,237
Number of members terminating or retiring	**4,598**	5,971
Change in total members	**(1,478)**	(1,734)
Former members with entitlements in the Plan	**4,326**	3,944
Pensioners		
Current	**17,713**	16,282
Deferred	**4,252**	3,206
TOTAL MEMBERS AND PENSIONERS	**72,652**	71,653

Investment Growth
($1,000 invested in 1995)



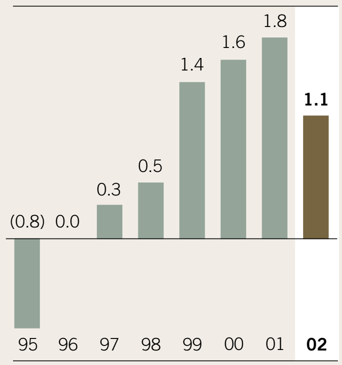
Despite the Plan's investment loss of 7.2% in 2002, OPTrust has achieved an average annual return of 8.8% since inception in 1995, outperforming the 8.0% average for our market-based benchmark.

Net Assets Available for Benefits
At December 31 ($ billions)



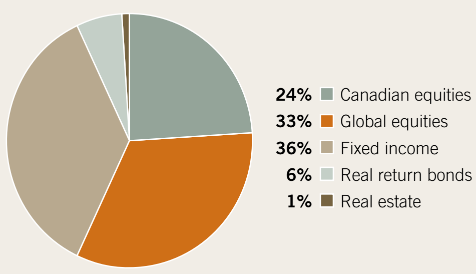
Investment losses and net benefit payments reduced the Plan's net assets by $933 million in 2002.

Financial Surplus (Deficiency)
At December 31 ($ billions)



OPTrust's financial statement surplus declined by $658 million in 2002.

OPTrust's Asset Mix
At December 31, 2002



OPTrust's $8.5 billion investment portfolio includes a diversified mix of Canadian and international equities and Canadian fixed income and inflation-sensitive investments.

Diligence, Service, Security

THE OPSEU PENSION TRUST WAS LAUNCHED IN 1995 WITH A CLEAR MANDATE FROM OUR SPONSORS – OPSEU AND THE GOVERNMENT OF ONTARIO – AND OUR MEMBERS AND PENSIONERS. OPTRUST'S BOARD OF TRUSTEES AND STAFF WERE CHARGED WITH DELIVERING ON THREE KEY GOALS:

- Generating a rate of return on the Plan's investments over the long term to fund OPTrust's pension promise, now and into the future
- Providing the finest service and communications to our members and pensioners
- Ensuring a real voice for members and pensioners in how their pension plan is run.

David Rapaport (right) is Chair of the Board of Trustees. **Stan Sanderson** is the Board's Vice-Chair. At the end of 2002, other Trustees included Bob Bellamy, Jennifer Brown, Alicia Czekierda, Heather Gavin, Don Jordan, Daniel Kott, Tony Ross and Deborah Stark.

The Board includes 10 Trustees, five appointed by OPSEU and five by the Government of Ontario. The Trustees serve in a voluntary capacity. Together, the Trustees are responsible to OPTrust's members, pensioners and sponsors for the sound investment and professional administration of the OPSEU Pension Plan.

Looking back, the past year was one of both important challenges and major achievements for OPTrust. On one hand, 2002 was dominated by negative business news. Like other large institutional investors, the OPSEU Pension Plan was affected by the global downturn in equities markets.

Yet 2002 also saw OPTrust deliver significant results in all three areas of our mandate, allowing our members, pensioners and sponsors to reap the tangible benefits of joint trusteeship.

Delivering over the Long Term

In a year when Canadian and international stock market indices registered double-digit losses, OPTrust's diversified investment portfolio lost 7.2%, despite strong performance by our non-equity holdings. This result compares favorably to our weighted market benchmark, which posted a drop of 7.8%. Nonetheless, 2002 represents the second consecutive year of negative returns for the Plan.

By contrast, OPTrust has achieved an average annual return of 8.8% since the Plan's inception. This exceeds both the average benchmark return of 8.0% for the period and the Plan's long-term target return of 7.5%, required to fund our anticipated pension obligations.

In 2002, OPTrust's independent actuaries conducted a funding valuation of the OPSEU Pension Plan for the years 1999, 2000 and 2001. Over the period, the Plan realized funding gains of $867 million, largely due to the delayed recognition of substantial investment earnings from the late 1990s. Under the sponsorship agreement, these gains were shared between the Province and OPTrust's members and pensioners.

A Voice for Members and Pensioners

With joint trusteeship, OPSEU Pension Plan members and pensioners had a say in how their $467 million share of unallocated gains was to be used. As a sponsor, OPSEU distributed surveys to every OPTrust member and pensioner and received more than 15,000 responses. Based on this input, OPSEU selected a package of temporary and permanent benefit improvements, extended a modified contribution reduction for members, and set aside $146 million to stabilize member contributions in the future.

A Fully Funded Plan

For its part, the Government used $63 million of its share of gains to eliminate the balance of the Plan's initial unfunded liability. The OPSEU Pension Plan is now fully funded, 27 years ahead of schedule. After reductions for the cost of negotiated benefit changes, the Province set aside the remaining $297 million to stabilize future Government contributions.

Responding to Members' and Pensioners' Needs

In 2002, we continued to deliver a high level of service to our members and pensioners, while responding quickly to events affecting them and their pensions. Following last spring's strike in the Ontario Public Service, for example, OPTrust issued special buyback statements to 30,000 affected members. More than 19,000 members took advantage of this opportunity to purchase credit for the strike period and protect the value of their pensions.

Gains allocation also generated several priority projects over the year. These included:

- implementing extensive computer systems changes to process the plan improvements
- issuing notices to all members and pensioners affected by the changes
- recalculating every OPTrust pension and paying immediate increases to more than 7,600 retirees.

Meanwhile, we took part in a study benchmarking our service levels and costs, and continued asking members and pensioners for their views on OPTrust's service and communications. Together, this information helps the Trustees to monitor performance and increase efficiency, while maintaining service levels and responding to our clients' changing needs.

Shared Risks and Rewards

By contributing to the OPSEU Pension Plan, members earn the right to a lifetime retirement income that does not depend on market conditions. OPTrust's "defined benefit" pension therefore represents a unique source of retirement security for our members and pensioners.

This pension promise also represents an obligation that OPTrust is required to fund. Joint trusteeship of the Plan means that funding gains are shared between the Government and OPTrust's members and pensioners. Any shortfall identified in the Plan's funding valuation would also be shared – to be made up through increased member and employer contributions.

In 2002, the Plan's net assets available for benefits fell by $933 million to $8.5 billion. However, the actuarial "smoothing" of investment losses over a four-year period reduced the immediate impact on OPTrust's financial statement surplus, which totalled $1.1 billion at year-end. At the same time, smoothing has left the Plan with a $1 billion deferred loss, which will significantly reduce the surplus over the next three years.

The size of the deferred loss and the possibility of continued low investment returns are a source of concern. While it is too soon to project the outcome of the Plan's next funding valuation, a decline in its funded status is likely. Should the valuation identify a loss, the sponsors have access to separate stabilization funds, which totalled $160 million for members and $315 million for the Government at year-end, including accrued interest. These funds can be used to offset the impact of a funding loss on member and employer contributions.

Planning for the Future

Faced with the decline in equity returns, the Trustees commissioned a major study testing the anticipated performance of the Plan's current and potential asset allocations against a wide range of possible economic scenarios. The results will be used to determine if changes to OPTrust's asset mix will better position the Plan to meet or exceed our funding obligations, while reducing the risk of contribution increases over the long term.

OPTrust will also continue our practice of carrying out interim valuations on a yearly basis. These studies help the Trustees to identify and respond to any emerging trends that could have a material impact on the Plan's liabilities.

Promoting Sound Corporate Governance

Over the year, the Trustees extended our active approach to promoting sound corporate governance and protecting shareholder value. As well as voting our shares according to detailed proxy voting guidelines, OPTrust joined the newly formed Canadian Coalition for Good Governance. The goal of this group of major institutional investors is to promote good corporate governance and accountability to shareholders.

In early 2002, OPTrust took on the role of lead plaintiff in a major U.S. class action lawsuit against Nortel Networks Corp. As lead plaintiff, OPTrust seeks to recover damages for all investors who purchased Nortel shares over a 16-week period in 2000-2001. Our role in the suit is consistent with OPTrust's interests as a major institutional investor with a long-term stake in the proper functioning of capital markets.

Changes in the Board

Over the past year, the Board welcomed two new Trustees. Alicia Czekierda is a Secretary with the Ministry of Education's Robarts/Amethyst Schools in London, and President of OPSEU Local 104. Deborah Stark is the Assistant Deputy Minister for Research and Corporate Services with Ontario's Ministry of Agriculture and Food in Guelph. Meanwhile, we said farewell and thank you to Paul Sharkey, who left the board after three years, including two years as Vice-Chair.

We are grateful to all the Trustees for their care and dedication, and look forward to working together with our colleagues on the Board and our sponsors, in the interests of OPTrust's members and pensioners.

David Rapaport
Chair

Stanley F. Sanderson
Vice-Chair

Improving Benefits, Enhancing Service

SERVICE HIGHLIGHTS

OPTRUST COMPLETED MORE THAN 88,000 MEMBER AND PENSIONER TRANSACTIONS, UP 33% FROM 2001.

7,672 RETIREES RECEIVED AN IMMEDIATE INCREASE IN THEIR OPTRUST PENSION DUE TO IMPROVEMENTS IN THE PLAN.

APPROXIMATELY 3,500 MEMBERS WILL QUALIFY TO RETIRE EARLY UNDER FACTOR 80, WHICH WAS EXTENDED TO MARCH 31, 2005.

Approximately 73,000 members and pensioners count on the OPSEU Pension Trust to provide them with a lifetime pension in their retirement years. They also rely on us to provide prompt, personalized service and timely information about their pension options and benefits. At OPTrust, we believe pension security means meeting both of these commitments.

In 2002, our members and pensioners shared in the Plan's funding gains from 1999-2001 – and had a say in how their gains were allocated. The results include benefit improvements, reduced member contributions and a substantial reserve to stabilize contributions in the future. Meanwhile, OPTrust staff continued to deliver service enhancements in response to our clients' changing needs.

THE SECURITY OF OPTRUST'S "DEFINED BENEFIT"

In periods of economic uncertainty, our members and pensioners have a unique source of financial security for their retirement. Unlike most individual investments, the value of an OPTrust pension does not rise and fall depending on market returns.

By contributing to the OPSEU Pension Plan together with their employers, members earn the right to a "defined benefit" pension, based on their salary and years of credit in the Plan. As long as they remain in the Plan, the value of their pension continues to grow. And once they retire, their pension will increase annually to keep pace with inflation.

DELIVERING PLAN IMPROVEMENTS

In December 2002, OPTrust implemented a package of substantial improvements to the Plan. The changes were paid for from the members' and pensioners' share of the Plan's $867 million in funding gains for the years 1999-2001. After a $6 million reduction to cover previously negotiated benefits, the membership's unallocated gains totalled $467 million.

As a plan sponsor, OPSEU chose the improvements after analyzing survey responses from more than 15,000 members and pensioners. For active members, deferred pensioners and retirees, the plan changes took effect on December 1, 2002. In early 2003, OPSEU approved the extension of the same benefit improvements to divested members, retroactive to December 1, 2002.

Taken together, the gains allocation will benefit every member and pensioner of the Plan, either now or in the future. The changes included:

Temporary Retirement Options

- Extending OPTrust's Factor 80 early retirement option to March 31, 2005. Under Factor 80, active and divested members can retire with an unreduced pension if their age plus credit total *exactly* 80 years.
- Extending the "Points Off" program to December 31, 2005. This provision increases the pension payable to active and divested members and deferred pensioners who retire with a *reduced* pension at age 55 or older.

Permanent Benefit Improvements

- Increasing retirees' pensions at age 65, through a permanent reduction in the Plan's "CPP offset." OPTrust pensions are reduced at age 65 for "integration" with the Canada Pension Plan. This reflects the lower contributions members pay on earnings covered by CPP. As of December 2002, this CPP offset is calculated using a factor of 0.655%, down from 0.675%. The result is a higher pension for every member and pensioner, either now or in the future.
- Improving survivor benefits in cases where an OPTrust retiree dies before age 65. With the change, the survivor's pension will not be reduced for CPP integration until the date on which the retiree would have reached age 65.

Extended Contribution Reduction

- Since 1999, members' contributions have been reduced by 4% of earnings. This reduction was set to expire on November 30, 2002. Contributions will now rise more gradually, by steps of 1% of the member's earnings per year, starting in December 2002. As a result, member contributions are not scheduled to reach the normal rate of 8% of earnings until December 2005.

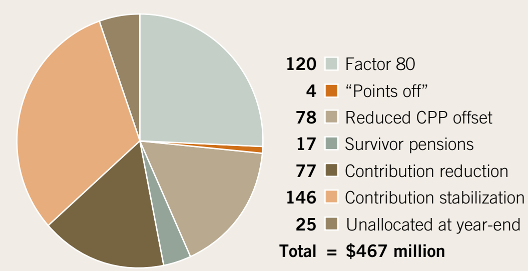
A SECURE PENSION

OPTRUST MEMBERS EARN THE RIGHT TO A LIFETIME PENSION BASED ON THE FOLLOWING FORMULA:

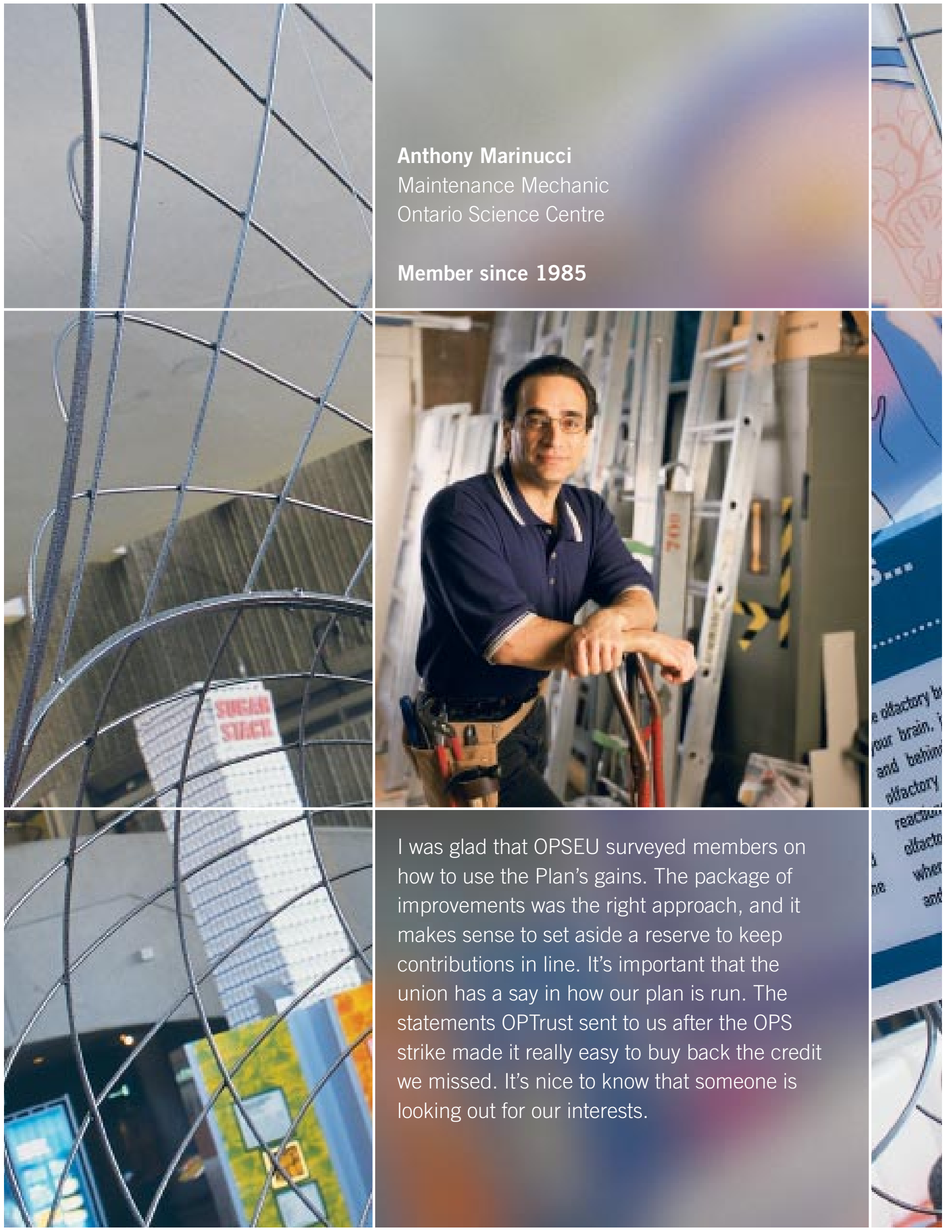
	2%
times	***best five-year average annual salary***
times	***years of credit in the Plan***
minus	***CPP integration (a reduction at age 65)***

- The Plan provides early retirement options, inflation protection and survivor benefits.
- For qualifying members, post-retirement health, dental and life insurance benefits are provided separately by the Government of Ontario.

Allocation of Members' and Pensioners' Gains
($ millions)



An additional $6 million of members' gains was used to pay for previously negotiated benefits. In early 2003, the remaining $25 million in unallocated gains was used to extend benefit improvements to divested members.



Anthony Marinucci
Maintenance Mechanic
Ontario Science Centre

Member since 1985

I was glad that OPSEU surveyed members on how to use the Plan's gains. The package of improvements was the right approach, and it makes sense to set aside a reserve to keep contributions in line. It's important that the union has a say in how our plan is run. The statements OPTrust sent to us after the OPS strike made it really easy to buy back the credit we missed. It's nice to know that someone is looking out for our interests.

Contribution Stabilization

- Finally, OPSEU set aside $146 million to stabilize member contributions. If the Plan experienced a funding loss in the future, both the member and employer contribution rates would be increased. The members' stabilization fund is available to offset the impact on member contributions, providing added security in a period of reduced investment returns.

The Government of Ontario's share of the gains from 1999-2001 was $394 million. Of this total, $63 million was used to eliminate the balance of the Plan's initial unfunded liability, $34 million was used to cover the Province's share of negotiated benefit improvements, and $297 million was set aside in a contribution rate stabilization fund for the Government of Ontario.

ADDRESSING EMERGING NEEDS

Throughout 2002, OPTrust responded quickly to important events affecting members and retirees.

In the spring, some 30,000 plan members missed a period of service during the eight-week strike by OPSEU members in the Ontario Public Service. To inform them of the option to buy back credit for the strike period – and process their transactions efficiently – OPTrust mailed detailed statements to each affected member. By year-end, 19,400 members had opted to purchase credit for the strike period, maximizing the value of their pensions. Another 1,600 members were offered convenient options for making up existing buyback payments that were interrupted during the strike.

Over the summer, we provided OPSEU with technical assistance in surveying approximately 68,000 members and pensioners on the use of funding gains. Once both sponsors had signed the selected plan changes in November, we distributed personalized notices to every affected member and pensioner detailing the improvements. We also recalculated the pension entitlements of our retirees, implementing immediate increases for the more than 7,600 who qualified, in time for their December pension payment.

ACTING ON MEMBERS' AND PENSIONERS' INPUT

When it comes to evaluating the quality of the services OPTrust provides, the experts are the thousands of members and retirees who contact us about their pensions every month.

In 2002, we surveyed almost 6,000 individuals who had recently completed transactions with OPTrust. Members and pensioners continue to value the personal service they receive from OPTrust staff, the information we provide, and the assistance we offer during individual transactions. One key area where they consistently look for improvement is the time it takes to process complex transactions, such as buybacks and transfers.

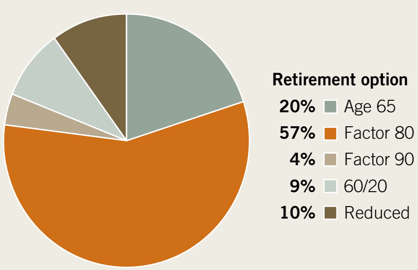
We also conducted a series of focus groups evaluating OPTrust's communications materials. While participants gave high marks to our newsletters and booklets, they are increasingly interested in online access to pension information through OPTrust's Web site.

Together, this information, as well as comments and suggestions from individuals, will help OPTrust focus resources on priorities identified by our members and pensioners.

ENHANCING SERVICE

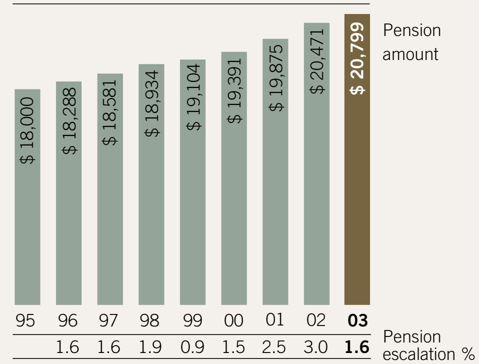
In 2002, we maintained our commitment to providing members and pensioners with prompt, direct telephone access to our staff. Over the year we fielded more than 61,000 calls, a 50% increase from 2001. Despite this jump in volume, callers waited less than 10 seconds on average before they were answered in person by an OPTrust staff member.

2002 Retirement Snapshot



Age 65: The normal retirement age under the OPSEU Pension Plan.
Factor 80: Age plus years of credit total exactly 80 on or before March 31, 2005.
Factor 90: Age plus years of credit total at least 90.
60/20: Age 60 or older plus at least 20 years of credit.
Reduced: Available starting at age 55 to vested members who do not qualify for an unreduced pension.
Note: Chart does not include deferred, disability or survivor pensions.

Inflation Protection for Pensioners
1995-2003



OPTrust pensions are adjusted annually for inflation. An OPTrust pensioner who received a typical annual pension of $18,000 in 1995 would receive $20,799 in 2003. Plan improvements have resulted in additional increases, primarily for those age 65 and older.

Meanwhile, the number of individual transactions we completed rose from approximately 66,000 in 2001, to more than 88,000 in 2002.

Behind the scenes, systems enhancements allowed OPTrust to improve efficiency. In 2002, we assumed direct responsibility for verifying buyback payroll deductions and issuing income tax notices, buyback tax receipts and other pension-related tax documents. We also moved the processing of our pensioner payroll in-house, laying the basis for the rapid recalculation of retirees' pensions to reflect the plan improvements.

In 2003, with the key components of our pension administration systems in place, and the gains-related changes complete, our Member and Pensioner Services staff will focus on improving transaction times and eliminating the remaining backlog of outstanding cases.

KEEPING MEMBERS AND PENSIONERS INFORMED

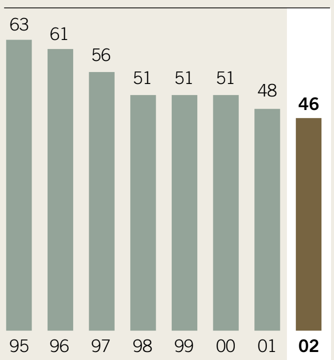
As well as handling their pension transactions, members and pensioners expect OPTrust to keep them informed about their entitlements and options under the OPSEU Pension Plan. In 2002, we:

- introduced a new Annual Buyback Statement to update members on the status of any purchase that is ongoing at year-end
- improved members' Annual Pension Statements to more accurately reflect credit purchased over the preceding year
- mailed special notices to 47,000 members clarifying the significance of the Plan's 10-year, 3-month buyback payment time limit
- delivered pension information sessions attended by more than 1,200 members and pensioners in 30 different Ontario communities.

Members and pensioners use a variety of media to stay informed about their pensions. They continue to rely on OPTrust's publications, including the *OPTions* and *Pension Connection* newsletters and our series of detailed booklets. At the same time, the use of OPTrust's Web site increased sharply in 2002, to more than 70,000 visits *versus* 27,000 the year before.

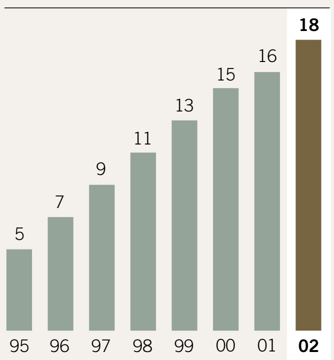
In 2003, we will add new functionality to our Web site, including the ability to perform certain transactions and send and receive e-mail notices through a

OPTrust's Active Membership
At December 31 (thousands)



The number of active members in the Plan continued to decline in 2002, reflecting ongoing changes in Ontario's public sector.

OPTrust's Current Pensioners
At December 31 (thousands)



The extension of Factor 80 and the availability of other early retirement options contributed to the steady growth in OPTrust's pensioner population.

secure, password-protected area of the site. Other communications initiatives for 2003 include:

- launching a new Annual Retirement Statement, giving pensioners a yearly update on the status of their pensions and any changes that may affect them.
- publishing two new booklets on buybacks and divestments – areas where members have told us they need more detailed information
- adding a series of lunchtime seminars, to be held in members' workplaces
- introducing a new outreach program to inform contract, "unclassified" and other non-permanent employees of their option to join the OPSEU Pension Plan.

OPTRUST'S CHANGING DEMOGRAPHICS

The membership profile of the OPSEU Pension Plan continued to evolve in 2002. Among the factors shaping this process are the normal maturing of the membership base, the extended availability of the Factor 80 early retirement option, and ongoing changes in Ontario's public sector.

In 2002, the number of active members in the Plan fell by more than 1,800, to 46,361 at year-end. One factor in the decline in active members was the transfer of 1,300 civilian members employed by the Ontario Provincial Police to the Public Service Pension Plan. The number of current pensioners maintained its steady upward trend, reaching 17,713.

The growth in the number of "deferred" pensioners and "former members with entitlements in the Plan" reflects the divestment of members whose jobs have been transferred out of the Ontario Public Service. When divested members move to an employer that provides another registered pension plan, they stop contributing to the OPSEU Pension Plan. Under Ontario law, however, their previous pension entitlement remains with OPTrust, in the form of a "special deferred pension."

Because divested members retain important rights in the Plan, OPTrust continues to provide them with information on their OPTrust pensions, including pension seminars, regular newsletters and a special version of our Annual Pension Statement. Over the coming year, OPTrust will keep supporting members affected by public sector restructuring, providing them with the information they need to make informed decisions and monitoring legislative changes to ensure their rights are protected.

Charlene Tardiel
Correctional Officer
Toronto Youth Assessment Centre

Member since 1999

I'm in an unclassified position, so I didn't have to join the pension plan, but it seemed like a smart investment. It's an easy way to save for the future, and it's great that my employer matches my contributions. I hope to stay with the Government, so it made sense to enrol with OPTrust up front, rather than making a buyback later. My pension is guaranteed and the survivor benefits are important, too. It is a security factor for myself and my daughter.

MEMBERSHIP STATISTICS

At December 31	2002	2001	2000	1999	1998	1997	1996	1995
Active members	**46,361**	48,221	50,993	51,363	51,491	56,177	60,724	63,389
Female/male ratio	**58:42**	59:41	58:42	56:44	55:45	54:46	54:46	52:48
Average age	**44.2**	44.0	44.0	44.0	43.9	43.7	42.6	41.9
Average salary	**$ 45,232**	$ 43,055	$ 42,017	$ 42,112	$ 40,646	$ 40,232	$ 40,600	$ 39,809
Average years of credit in the Plan	**11.4**	11.6	12.0	12.2	12.4	12.3	11.6	11.1
Number of new members enrolled	**3,120**	4,237	3,640	3,882	2,854	1,737	1,055	2,070
Number of members terminating or retiring	**4,598**	5,971	4,440	3,740	4,474	6,284	3,720	1,944
Net change in total membership	**(1,478)**	(1,734)	(800)	142	(1,620)	(4,547)	(2,665)	126
Former members with entitlements in the Plan	**4,326**	3,944	2,906	3,336	3,066	–	–	–
Deferred pensioners	**4,252**	3,206	1,929	1,116	597	412	199	45
Current pensioners	**17,713**	16,282	14,711	12,971	11,024	9,001	7,012	4,836
Average age	**62.6**	64.0	63.0	62.0	60.0	60.0	60.0	59.9
Average annual pension	**$ 18,434**	$ 17,963	$ 17,734	$ 17,615	$ 17,370	$ 17,390	$ 16,942	$ 17,953
Current pensioners by type of pension								
Normal and early unreduced	**15,199**	14,079	12,747	11,286	9,569	7,839	6,190	4,360
Reduced	**1,376**	1,274	1,163	1,021	908	734	518	307
Survivor	**1,107**	911	792	656	540	423	301	167
Disability	**31**	18	9	8	7	5	3	2
TOTAL MEMBERS AND PENSIONERS	**72,652**	71,653	70,539	68,786	66,178	65,590	67,935	68,270

"Former members with entitlements in the Plan" includes members whose termination or divestment was unprocessed at year-end.
"Deferred pensioners" includes members whose termination or divestment has been processed and who continue to have accrued benefits in the Plan.

Investing for the Future

INVESTMENT HIGHLIGHTS

SINCE 1995, OPTRUST HAS EARNED AN AVERAGE ANNUAL RETURN OF 8.8%, EXCEEDING THE PLAN'S 7.5% FUNDING TARGET RETURN AND OUR MARKET BENCHMARK OF 8.0%.

THE PLAN LOST 7.2% IN 2002, DRIVEN BY SLUMPING GLOBAL EQUITY MARKETS. OVER THE YEAR, WE OUTPERFORMED OUR WEIGHTED MARKET BENCHMARK, WHICH DROPPED BY 7.8%.

OPTRUST COMMISSIONED A DETAILED ASSET/LIABILITY STUDY IN 2002 AIMED AT OPTIMIZING THE PLAN'S ASSET MIX.

LONG-TERM PERFORMANCE

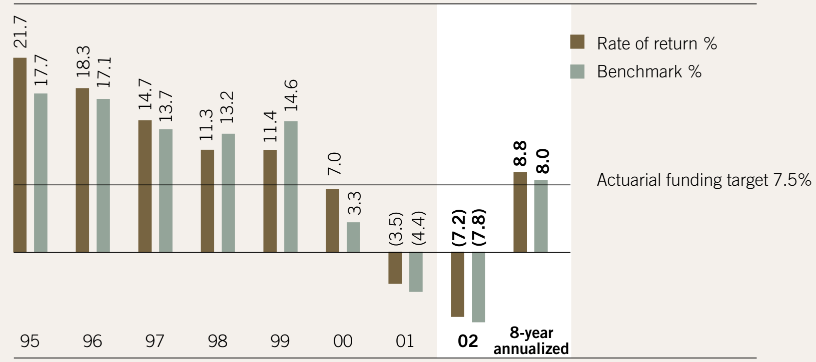
Our investment goal reflects the Plan's pension promise: achieving the long-term growth needed to pay for members' and pensioners' earned benefits now and into the future.

To meet our projected funding obligation, OPTrust's investment portfolio must achieve an average annual return of 7.5%. This target return provides a useful measure of the Plan's investment performance, particularly over the long term. It is also a key criterion for evaluating the Plan's asset mix and potential alternative asset allocations.

In addition, OPTrust compares our investment returns to indices or "benchmarks" that track the overall performance of the markets in which we invest.

Over the eight years since the launch of the OPSEU Pension Plan, OPTrust has achieved an average annual return of 8.8%, exceeding the funding target return by 1.3% per year. The Plan has also outperformed the portfolio's weighted benchmark return, which averaged 8.0% annually during the same period.

Returns vs. Benchmarks, 1995-2002



Investment returns have outperformed the Plan's market-based benchmark in 6 out of the past 8 years. The 8-year annualized return exceeded both the actuarial target and the benchmark return.

2002 INVESTMENT OVERVIEW

In 2002, the continued decline in global stock markets saw most major indices post double-digit losses for the second consecutive year. Against this backdrop, OPTrust's diversified portfolio fared comparatively well, with strong positive returns from fixed income and real estate investments partly offsetting the losses from Canadian and global equity holdings. Nonetheless, with approximately 60% of the portfolio allocated to Canadian and international stocks, the Plan's performance is significantly tied to equity market returns.

Over the year, OPTrust experienced an overall loss of 7.2%, outperforming our weighted benchmark, which registered a drop of 7.8% for the year.

Canadian Equities

During 2002, the benchmark S&P/TSX Composite Index (which replaced the former TSE 300 Index), fell by 12.4%. However, the Toronto Stock Exchange performed better than most other global equity markets due to its significant exposure to commodity-based stocks.

The two top performing index sectors in the S&P/TSX Index in 2002 were energy and materials, as oil and gold prices rose to recent highs.

OPTrust's Canadian equity portfolio performed better than the benchmark, returning a loss of 10.2% for the year. Since the Plan's inception, the Canadian equity portfolio has been a significant source of growth, returning an average of 8.6% per year. The S&P/TSX Composite Index registered an average return of 7.6% over the same period.

Global Equities

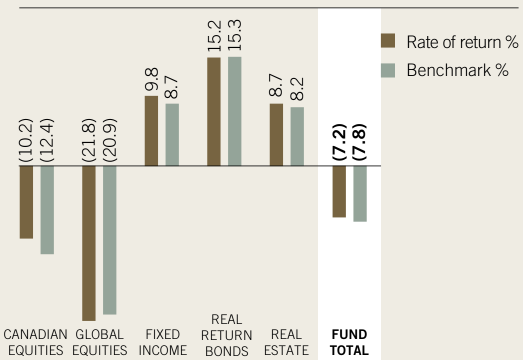
The Plan's global stock portfolio is designed to mirror, as closely as possible, the performance of the MSCI World Index (excluding Canada). This index tracks developed markets in 22 countries, including the United States, Europe and Japan. In 2002, OPTrust's global equity portfolio lost 21.8% of its value, while the benchmark index declined 20.9%.

U.S. equities, which make up the largest portion of our non-Canadian equity holdings, were down 22.9% for the year, as measured by the S&P 500 Index. This represents the third consecutive year of negative returns for the index, and the longest annual losing streak for U.S. equities since 1939-41. Information technology and telecommunications stocks were the worst performers for the year, although all 10 sectors of the index had negative returns.

Other major global equity markets in Europe, Australasia and the Far East lost 16.8% in 2002, as measured by the MSCI EAFE Index. In 2001 and 2000, the index experienced declines of 16.7% and 11.2% respectively. In 2002, all twenty-one EAFE countries posted losses, reinforcing the global nature of the equity market slump.

Over the Plan's eight years of operation, our global equities portfolio has generated an average positive return of 6.6%, versus 6.0% for our performance benchmark, the MSCI World Index (excluding Canada).

2002 Returns vs. Benchmarks



The loss from OPTrust's Canadian and global equities over the year was partly offset by the strong performance of the Plan's fixed income and inflation-sensitive investments.

Fixed Income and Inflation-Sensitive Assets

Partly offsetting the Plan's equities losses in 2002 was the relatively strong performance of our non-equity investments, which comprise approximately 40% of the Plan's invested assets. Over the year, nominal and real return bond portfolios and real estate holdings generated significant positive returns, illustrating the benefits of asset class diversification. Fixed income and real estate investments tend to provide greater certainty of returns than stocks, and are typically subject to less volatility. This stability generally comes at a cost, however, as these investments are expected to achieve lower growth rates than stocks over the long term.

With interest rates falling to 40-year lows in 2002, OPTrust's actively managed bond portfolio returned 9.6%, outperforming the benchmark Scotia Capital Universe Bond Index return of 8.7%. Over the same period, the Plan's Government of Ontario debentures returned 9.8%. As a result, the overall return for our fixed income investments was 9.8% for the year.

OPTrust's real return bond portfolio had an outstanding year, returning 15.2%, as demand for assets with inflation protection characteristics increased.

Our real estate investments, although currently a very modest part of the overall portfolio, had another strong year, as well. In 2002, our real estate holdings posted a healthy 8.7% return, exceeding the Russell Canadian Property Index benchmark return of 8.2%.

DIVERSIFICATION

Diversification is a key element of OPTrust's investment strategy. Over time, individual investments and markets are expected to register gains and losses as part of the business cycle. In principle, investing in a diversified mix of asset types, markets, and industry sectors broadens the range of opportunities for growth while reducing the Plan's exposure to downturns affecting specific sectors or regions.

In 2002, diversification was only partly effective for the Plan. On one hand, diversification by asset class played a major positive role. Over the year, OPTrust benefited from the strong growth of fixed income and inflation-sensitive assets, which helped to offset the negative returns on equities. On the other hand, geographical diversification was less successful over the year. With the global nature of the "bear market" in equities, no region offset the general pattern of declining stock values. Moreover, with almost 60% of our equity holdings

Joseph Rampersad
CAST (Client Application Solutions Team) Analyst, OPSEU Pension Trust

Staff member since 1997

Our team works with programmers to develop and test OPTrust's computerized pension systems. These are the tools our Member and Pensioner Services staff uses to handle the full range of pension transactions – from enrolling new members to paying the pensions of our 18,000 retirees every month. Between the plan improvements and the OPS strike buybacks, we had a busy year, but I enjoy the challenge. It's good to know that our work contributes to quality service for our members and pensioners.

invested in the U.S. and abroad, the Plan had significant exposure to losses on foreign markets, which declined more sharply than the Canadian market.

Given OPTrust's funding target return of 7.5%, the pattern of negative global equity returns is a concern over the short term, particularly if this trend continues into 2003.

PREPARING FOR THE FUTURE

Anticipating the high probability that equity returns may remain below long-term historical averages over the coming decade, OPTrust contracted with a U.S. firm to conduct an asset/liability study for the Plan. Using leading edge financial modeling technology, the study examined future prospects for the Canadian and U.S. economies, global capital market returns, and their implications for the Plan's investment performance over a 10-year horizon.

As part of the study, the performance of a wide range of asset categories and portfolio allocations was evaluated against 600 projected economic scenarios. The Plan's current asset mix and potential alternative allocations were then further subjected to a rigorous "stress testing" process. This process examined portfolio performance and downside risk – including the implications for funding the Plan's liabilities – in the event of a significant economic decline over the next decade.

The purpose of this study was to identify and evaluate asset mixes that have a high probability of meeting the Plan's long-term return objectives, while reducing the risk of contribution increases due to funding shortfalls. Among its findings the study indicated that:

- Asset classes that offer a hedge against inflation, such as real estate and real return bonds, showed up well. Real estate also stands out as a portfolio diversifier.
- Canadian equities continue to be attractive. They hold the prospect of comparable returns to U.S. equities, without exposure to currency risk or unforeseen events in the United States not reflected in the Canadian market. The performance of Canadian equities is also more likely to match changes in the Plan's funding requirements.
- Emerging market equities offer the potential for higher returns than U.S. stocks, although with some additional risk. At the same time, their performance has a weaker relationship to the rest of the Plan's portfolio, raising their value as a source of diversification.
- Despite expected lower equity returns over the next decade, the Plan has a high probability of meeting its target investment return over the long term.

The results of this study were presented to the Board of Trustees in late 2002. The Board will consider whether adjustments to OPTrust's asset mix in 2003 will be required to best meet the Plan's future funding obligations, while giving consideration to changes in the asset mix that can be expected to reduce the volatility of contribution rates.

OPTRUST'S ASSET MIX

	Actual (%)		Policy (%)	
At December 31	**2002**	2001	Target	Range
Canadian equities	**24**	23	20	15 – 25
Global equities	**33**	38	40	35 – 45
Equities	**57**	61	60	50 – 70
Fixed Income	**36**	33	33	20 – 50
Real return bonds	**6**	5	2.5	–
Real estate	**1**	1	4.5	–
Inflation-sensitive	**7**	6	7	0 – 10
TOTAL	**100**	100	100	

The Trustees will review potential changes to the Plan's asset mix in 2003, based on the results of an asset/liability study performed in 2002. The portfolio was not rebalanced to the asset mix target at year-end, pending the outcome of this process.

INVESTMENT MANAGEMENT

In 2002, OPTrust continued to use selected external investment managers to manage the Plan's equity assets and a portion of its fixed income investments. Each manager is assigned a specific mandate and contracted to manage a portfolio based on detailed requirements established by OPTrust. During the year, the Trust's two active foreign equity managers were replaced with a transitional mandate based on the MSCI World Index (excluding Canada), until a foreign equity manager structure is approved in 2003.

In 2002, OPTrust achieved an important strategic objective, gaining internal control of its investment data through the implementation of a sophisticated electronic "data warehouse" system. The new system gives OPTrust's Investment Division staff access to detailed information on investment holdings and transactions on a daily basis. The result significantly enhances our ability to monitor and analyze investment manager performance, track compliance on a daily basis and monitor factors affecting investment risk.

CORPORATE GOVERNANCE

In 2002, OPTrust moved the responsibility for voting our shares from our investment managers to a leading independent proxy voting organization. This move allows us to benefit from detailed research on voting issues and ensures that our voting rights are exercised consistently.

The Plan's shares are voted according to detailed guidelines approved by the Trustees. The *Proxy Voting Guidelines* address key governance issues such as the appointment of independent auditors and directors, the approval of compensation and stock option plans and the approval of mergers and acquisitions. They also address a range of social, ethical and environmental concerns. Where voting issues arise that fall outside the guidelines, the voting fiduciary refers the matter to OPTrust for guidance.

As part of our ongoing effort to promote sound corporate governance, OPTrust joined the newly created Canadian Coalition for Good Governance in 2002. This organization includes a number of leading Canadian pension plans and institutional investment managers. The coalition's objective is to improve shareholder value by sharing information on proxy voting issues and advocating the adoption of good governance practices by Canadian corporations.

INVESTMENT MANAGERS AND STRATEGIES

	Manager	Strategy	Focus
Canadian Equities	TD Asset Management Beutel, Goodman and Company Ltd. J.R. Senecal & Associates Guardian Capital Inc.	Quantitative Active Active Active	S&P/TSX Composite Index Individual security values Market themes or sectors Individual growth securities
Global Equities	Barclays Global Investors State Street Global Advisors	Quantitative Quantitative	Synthetic global index strategy MSCI World Index (ex Canada)
Fixed Income	Phillips, Hager & North Investment Management Ltd.	Active	Interest rate trend and corporate-government mix
Real Estate	Penreal Capital Management	Closed-end Funds	Diversified portfolio of office, retail and industrial space in Canada

Managing Risk

RISK MANAGEMENT HIGHLIGHTS

OPTRUST APPLIES RESULTS-ORIENTED RISK MANAGEMENT PROCESSES TO MAINTAIN A STRONG FOUNDATION FOR THE OPSEU PENSION PLAN.

OUR RISK MANAGEMENT PROGRAM FOCUSES ON THREE KEY AREAS: INVESTMENT RISK, LIABILITY RISK AND OPERATIONAL RISK.

THE PLAN'S SPONSORS HAVE SET ASIDE SEPARATE CONTRIBUTION RATE STABILIZATION FUNDS THAT CAN BE USED TO REDUCE THE IMPACT ON MEMBERS' AND THE GOVERNMENT OF ONTARIO'S CONTRIBUTIONS, SHOULD THE PLAN EXPERIENCE A LOSS IN THE FUTURE.

The OPSEU Pension Trust exists to provide members and retirees with a secure lifetime pension and a high level of service and communications. Anticipating risk, taking appropriate steps to limit exposure and managing the results – both positive and adverse – are integral to maintaining a strong financial foundation for the OPSEU Pension Plan. OPTrust applies results-oriented risk management processes focusing on three key areas: investments, liabilities and operations.

A LONG-TERM COMMITMENT

The pension benefits earned by members are guaranteed by the OPSEU Pension Plan Trust Fund and cannot be reduced. As a result, we are responsible for ensuring that funds are available to meet this obligation over the long term. To do this we first make actuarial assumptions about both the future cost of benefits and the investment income and contribution levels needed to fund those benefits. We then manage the Plan with the goal of meeting these actuarial targets.

The main risk to the Plan is the possibility that assets may not be sufficient to pay our pension obligations. This funding risk results from two separate areas of exposure: that investment income may fall short of the Plan's target rate of return (investment risk), and that the cost of members' benefits may be higher than projected (liability risk).

Actuarial gains and losses occur when the Plan's experience differs from the actuarial assumptions. Net gains identified in the Plan's three-year funding valuation can be used by the sponsors to improve benefits, reduce contributions or be set aside in rate stabilization funds to cushion the impact of future contribution increases. If the Plan experiences a net loss, the shortfall would be funded through automatic contribution increases, which could be offset through the use of established contribution stabilization funds.

INVESTMENT RISK

OPTrust's *Statement of Investment Policies and Procedures* sets out our overall approach to managing a range of investment risk factors, including the diversification of assets, investment management styles, liquidity and creditworthiness.

The most important factor in determining investment return – and the level of assumed risk – is the composition of the Plan's investment portfolio. OPTrust invests in a diversified mix of assets, including Canadian and international equities, fixed income investments, real return bonds and real estate. The objective is to combine various asset classes to produce the required return over time, while reducing overall risks through diversification. The Plan's asset mix is determined based on the characteristics of each asset category, including anticipated returns, potential return volatility, and expected value as a hedge against inflation. Although higher investment returns are typically associated with higher risk, an appropriately diversified portfolio of assets offers the prospect of reasonable returns while moderating risk.

OPTrust undertakes periodic studies of historical and expected rates of return and the interrelationship among investment categories. This information is used to optimize the asset mix and establish realistic return expectations for the Plan. Acceptable ranges for each investment category are developed allowing OPTrust to consider short-term market conditions in the execution of the long-term investment strategy.

In addition to maintaining a diversified portfolio, OPTrust uses an actuarial "smoothing" technique to manage the short-term impact of fluctuations in yearly investment returns. Smoothing involves recognizing each year's investment gains or losses over a four-year period. This means that a portion of investment income is set aside in good years, while in poor years a portion of investment losses is deferred for recognition in later years. While it does not decrease the risk of lower than expected returns over long periods, smoothing mitigates the effects of volatile returns over the short-term, reducing the risk of variable contribution rates.

While they have less impact on overall returns, OPTrust also manages exposure to investment losses from currency and individual security risks. Geographic, credit and liquidity risk are discussed separately in Note 4 to the financial statements, included in this report.

LIABILITY RISK

The management of the Plan's liability risk focuses on ensuring that estimates of the cost of members' pension entitlements are sound. OPTrust's investment strategy is designed to fund the anticipated cost of members' pension benefits. Significantly under-estimating the Plan's actual obligations could result in funding shortfalls. OPTrust's approach to liability risk management is designed to minimize this risk.

Pat Saunders
Social Worker (retired)
Hamilton Psychiatric Hospital

Pensioner since 1995

I feel very fortunate to have my OPTrust pension. I have my own investments, so it isn't my only source of income, but it is the most secure one. My pension goes up each year to keep pace with inflation, and it was nice to get an additional increase in December because of the Plan's gains. I work as a volunteer with the Hamilton Police Service. My pension lets me contribute to my community without having to worry about a paycheque.

OPTrust conducts and files actuarial funding valuations at least once every three years. These valuations compare actuarial assumptions concerning the Plan's pension obligations with its actual experience, and identify any funding implications. At the same time, they provide a basis for considering whether particular assumptions need to be revised in response to emerging trends.

In addition, OPTrust carries out more detailed studies of specific assumptions regarding demographic, employment and economic factors that determine the Plan's funding liability. We also conduct annual interim valuations based on current data, to monitor trends and ensure that decisions affecting the Plan are based on accurate information.

While appropriate assumptions are important, accurate data concerning members' entitlements is also critical. At the end of 2001, OPTrust and the Government of Ontario completed a multi-year review of all members' service history to the end of 1998. Corrections to this data resulted in positive adjustments to members' earned benefits and a payment of $99 million to OPTrust to fund these benefits.

Since 1999, OPTrust has also invested $16 million in developing systems to capture and test the accuracy of pension information and improve the speed and accuracy of individual pension transactions. As well as providing OPTrust with accurate information on the Plan's liabilities, these systems help keep members informed about their earned pensions and ensure that they receive the benefits to which they are entitled. These systems also help participating employers and OPTrust staff ensure that required contributions are calculated accurately and submitted in a timely fashion.

OPTRUST'S FUNDING OUTLOOK

Based on historical experience, OPTrust anticipates that investment returns will be subject to economic cycles in which periods of strong growth are followed by economic downturns, then new cycles of growth. A critical issue, however, is to determine the impact of negative returns experienced in 2001 and 2002 on the Plan's long-term economic assumptions. While we anticipate an economic recovery, the timing and the extent to which investment returns will rebound are uncertain.

OPTrust has established target real rates of return – based on the Plan's demographic profile and projected funding requirements – of 4% for funding valuation purposes, and 4.25% for financial statement purposes. These targets fall within the current forecast range and are considered realistic and achievable over the long term.

Over the short term, however, OPTrust faces a significant challenge. On one hand, the Plan is fully funded and has a financial statement surplus of $1.1 billion. On the other hand, the smoothing of annual investment returns means that OPTrust has $1.0 billion in deferred investment losses, which will be recognized over the next three years. It is too early to predict the outcome of the Plan's next funding valuation. However, unless the OPTrust out-performs the long-term target return in 2003 and 2004, the Plan could experience a net funding loss.

The Plan's next funding valuation, covering the years 2002-2004, is currently scheduled for 2005. Any actuarial losses identified will be made up through contribution increases, which would normally be amortized over a 15-year period. Members currently contribute at a reduced rate. These contributions are scheduled to rise annually, until they return to the normal rate on December 1, 2005. Both OPSEU and the Government of Ontario have set aside rate stabilization funds, which can be used to offset required contributions in excess of normal rates.

OPERATIONAL RISK

Operational risk is managed through a process that focuses on establishing clear objectives, understanding the risks related to these objectives and ensuring processes are undertaken to manage these risks.

In 2002, we implemented a new pensioner information management system that for the first time integrates an individual's active membership data with their post-retirement information, providing us with a continuous record of their activities. We updated our extensive training curriculum, ensuring staff have access to training material tailored to their specific needs. We also started a process of comparing our service costs to a broad group of large pension plans from Canada and the United States. We anticipate that by identifying and streamlining areas of high cost, we can increase the overall efficiency of our operations without compromising service.

OPTrust has put in place a program, reporting to the Audit Committee, to systematically review areas of significant potential risk in its administration operations, address potential concerns, incorporate best practices and ensure sound change management. In 2002, we completed risk assessments for our information technology and human resource functions and began conducting selected compliance tests in areas such as pensioner payroll and net asset management. We design and evaluate our risk safeguards with the assistance of external risk management specialists.

2002 Financial Overview

FINANCIAL HIGHLIGHTS

THE PLAN'S 2002 FUNDING VALUATION IDENTIFIED $867 MILLION IN ACTUARIAL GAINS. THE SPONSORS SET ASIDE MORE THAN HALF OF THIS TOTAL IN SEPARATE FUNDS TO STABILIZE FUTURE CONTRIBUTION RATES.

OPTRUST'S FINANCIAL STATEMENT SURPLUS DECLINED TO $1.1 BILLION IN 2002. THE SMOOTHING OF NEGATIVE INVESTMENT RETURNS LEFT THE PLAN WITH A DEFERRED LOSS OF $1.0 BILLION AT YEAR-END.

THE PLAN IS FULLY FUNDED FOR THE FIRST TIME IN ITS 8-YEAR HISTORY. HOWEVER THE DOWNTURN IN EQUITY MARKETS POSES A SIGNIFICANT CHALLENGE FOR THE COMING YEARS.

OPTrust is committed to ensuring the security of the pension promise to our members and pensioners, now and into the future. We therefore take a long-term financial perspective, which has enabled the Fund to weather the negative capital markets of the past two years. Since the Plan's inception in 1995, we have achieved an average annual rate of return of 8.8%, exceeding the actuarial funding target of 7.5%.

Over this period, funding gains have allowed the Plan to extinguish the total initial unfunded liability, provide permanent and temporary benefit improvements for members and pensioners and fund temporary reductions in member contributions. In addition, the sponsors have established separate contribution rate stabilization funds for members and the Government. At December 31, 2002, these funds totalled $160 million and $315 million respectively, including accrued interest.

The Plan's financial statement surplus declined to $1,127 million at year-end, down from $1,785 million in 2001.The reduced surplus resulted from an increase in the cost of members' accrued pension benefits, gains-related benefit improvements and the recognition of a portion of the Plan's investment losses.

In 2002, the continuing downturn in capital markets resulted in a 7.2% investment loss for the Plan. The actuarial smoothing of investment returns reduced the impact on the OPTrust's financial statements for 2002. However, at year-end, the Plan had a deferred investment loss of $1,023 million, which will be recognized over the next three years, further reducing the surplus in the future.

ACTUARIAL VALUATIONS

OPTrust's members, pensioners and sponsors have two key yardsticks for measuring the continuing health of the OPSEU Pension Plan: the *funding valuation* for the years 1999 – 2001, released in 2002, and OPTrust's financial statements for 2002.

Both the three-year funding valuation and the annual financial statements rely on actuarial valuations of the Plan's assets and the cost of members' and pensioners' benefits. OPTrust uses two valuation techniques in determining its accrued pension benefits. The projected unit credit cost method is used for financial statement presentation while the aggregate method is used in the funding valuation. The financial statement valuation is based on members' current service information, whereas the funding valuation includes both current and projected future service, making the funding valuation inherently more conservative.

The financial statement valuation and the funding valuation both use actuarial assumptions concerning the growth of the Plan's assets and the future cost of members' and pensioners' benefits. These assumptions address a range of economic and demographic factors, including: inflation rates, investment returns, members' salaries, their age of retirement or termination, benefit levels and pensioners' life expectancy. Because its results are used to determine benefit and contribution levels, the funding valuation relies on more conservative actuarial assumptions than those used in the valuation for financial statement purposes.

In 2002, OPTrust reviewed the Plan's economic assumptions in concert with the Plan's actuaries. Based on that review, no changes were made to these assumptions, as they continue to reflect the long-term prospects of the Plan.

OPTrust is required to complete a funding valuation at least every three years whereas the financial statement valuation is performed annually. The latest valuations for financial and funding purposes were performed as at December 31, 2001.

Funding Valuation

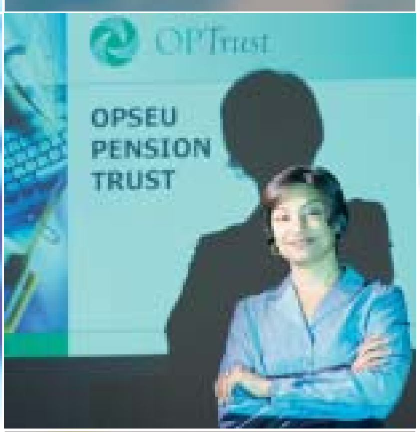
During 2002, a triennial funding valuation of the Plan as at December 31, 2001 was completed and filed with the Financial Services Commission of Ontario ("FSCO"). The valuation disclosed actuarial gains of $867 million for the years 1999 to 2001.

Actuarial gains identified in the Plan's three-year funding valuations are shared between the Plan's membership and the Government of Ontario according to the Sponsorship Agreement, which provided for a one-time adjustment to reflect differences between the Government's and members' share of gains in the Plan's early years. Of the $867 million in actuarial gains, the members' share represented $473 million while the Government of Ontario was allocated $394 million.

ECONOMIC ASSUMPTIONS:
FUNDING VS. FINANCIAL STATEMENT VALUATIONS

	Funding Valuation	Financial Statement Valuation
Investment return	7.50%	7.75%
Inflation rate	3.50%	3.50%
Salary escalation	4.50%	4.50%

Part of my job is to deliver OPTrust's pension information sessions in communities across Ontario. These seminars are a great way for members and pensioners to learn more about their pensions directly from an OPTrust representative. Pension rules can be complicated, so people really appreciate getting a chance to ask questions face-to-face. It feels good to help people understand their options so they can make informed decisions for the future.



Salimah Kassim-Lakha
Benefits Specialist
OPSEU Pension Trust

Staff member since 1999

Gains Allocation

As a plan sponsor, OPSEU is responsible for determining how to use the members' share of gains. OPSEU selected a package of benefit improvements totalling $219 million, while $6 million was allocated to pay for previously negotiated benefits. Another $77 million was used to fund an extended contribution reduction, while $146 million was set aside to stabilize member contributions in the future. In early 2003, OPSEU used the remaining $25 million to extend the package of benefit improvements to members who had been divested from the Plan.

The Government of Ontario, as the Plan's other sponsor, used $63 million to extinguish the balance of the Plan's initial unfunded liability and $34 million to fund negotiated benefit improvements. In mid-January 2003, the Government of Ontario allocated the remaining $297 million to establish a separate fund to stabilize Government contribution rates.

Financial Statement Valuation

OPTrust completes a financial statement valuation on an annual basis. The Plan's accrued pension liabilities have been extrapolated to December 31, 2002 in order to prepare the financial statements as of that date, using current market values. Because of differences in calculation methods, timing and assumptions, noted earlier, amounts vary from those in the funding valuation.

NET ASSETS AND ACTUARIAL "SMOOTHING"

In 2002, the Plan's net assets available for benefits dropped by $933 million from the previous year, to $8.5 billion at year-end. Net assets fell as a result of investment losses of $688 million, benefit payments that exceeded contributions by $223 million, and operating expenses of $22 million. The decline in net assets was offset by an $832 million increase in the actuarial asset value adjustment. As a result, the actuarial value of net assets available for benefits remained relatively stable at $9.5 billion, compared with $9.6 billion in the previous year.

The actuarial asset value adjustment is an accepted technique used to cushion the Plan against significant fluctuations in annual investment earnings. This maintains each year's investment gains or losses in a "reserve" to be recognized over a four-year period. This "smoothing" helps provide a more stable funding base for the Plan's long-term pension obligations.

The smoothing process means that deferred losses from 2002 will be recognized over the following three years. This will reduce any potential future investment income that will be available for funding purposes. The total value of the deferred losses in the smoothing reserve increased from $191 million at the end of 2001 to $1,023 million at the end of 2002. OPTrust's smoothing reserve was in a surplus position prior to 2001.

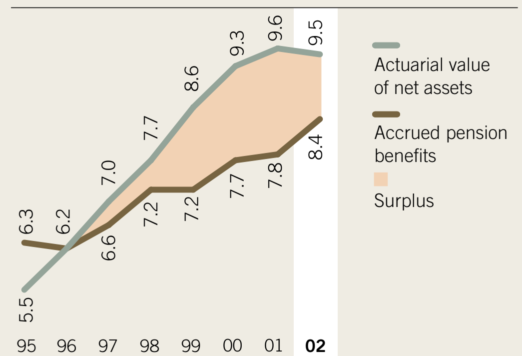
ACCRUED PENSION BENEFITS

OPTrust's accrued pension benefits represent the actuarial present value of the benefits owed to plan members and pensioners. At year-end, accrued pension benefits were valued at $8,389 million, up

VALUE OF INVESTMENT ASSETS

At December 31 ($ millions)	2002	2001
Marketable fixed income	879	854
Government of Ontario debentures	2,200	2,243
Fixed income	**3,079**	3,097
Canadian equities	2,017	2,192
Global equities	2,784	3,546
Equities	**4,801**	5,738
Real return bonds and real estate	**590**	537
Accrued income	**21**	22
FUND TOTAL	**8,491**	9,394

Actuarial Assets, Accrued Benefits and Surplus At December 31 ($ billions)



The financial statement surplus declined in 2002. The actuarial value of net assets reflects the smoothing of each year's investment gains or losses over a 4-year period, reducing the impact of the 2002 investment loss.

$557 million from 2001. Normal growth in the Plan's accrued pension benefits of $254 million was offset by a $61 million reduction to reflect actuarial gains arising from differences between assumptions and the Plan's actual experience. At the same time, the implementation of benefit improvements resulted in an increase in accrued pension benefits of $268 million. These benefit improvements are described in detail on pages 7-9.

SURPLUS AND RATE STABILIZATION FUNDS

The Plan's financial statement surplus decreased by $658 million in 2002, to $1,127 million at year-end. This decline reflects the $557 million increase in accrued pension benefit liabilities, including $268 million due to benefit improvements from the distribution of actuarial gains. Also contributing to the drop in surplus was the $101 million decrease in the actuarial value of net assets.

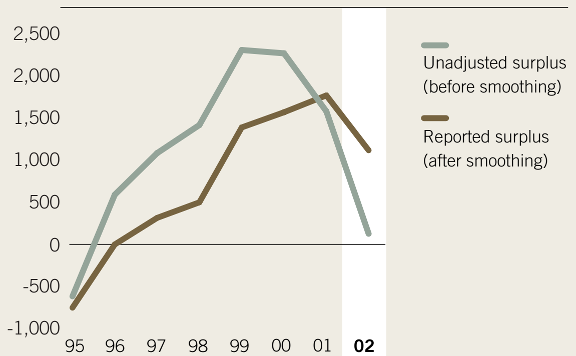
The Plan's deferred investment loss of $1,023 million will be recognized over the next three years, reducing OPTrust's financial statement surplus.

The rate stabilization funds established by the sponsors represent allocations from actuarial gains determined for funding valuation purposes. These amounts are reflected in the financial statement surplus. The stabilization funds can be used at the discretion of each sponsor to reduce contributions that would otherwise be payable as a result of a future funding shortfall.

CHANGES IN NET ASSETS

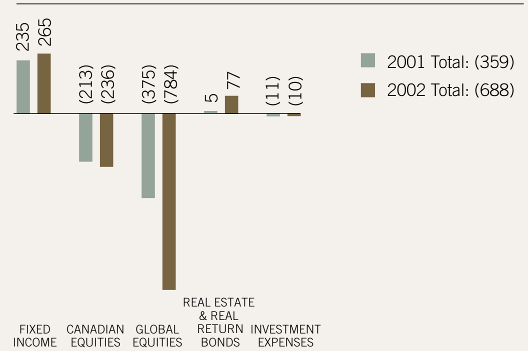
Investment income and contributions from members and employers are used to fund payments to pensioners, other payments to or on behalf of terminating members, and operating expenses.

Actuarial Smoothing and Surplus
At December 31 ($ millions)



By smoothing investment gains or losses over a 4-year period, the actuarial asset value adjustment reduces the short-term impact of changes in annual investment results. At the end of 2002, the Plan had a deferred loss of $1.0 billion, which will reduce the surplus over the next three years.

Net Investment Income
($ millions)



The Plan's investment income for 2002 reflects the continued decline experienced by Canadian and international stock markets.

Net Investment Income

OPTrust incurred a net investment loss of $688 million during the year, compared to a loss of $359 million in 2001. This negative return reflected the continued poor performance of Canadian and global equity markets.

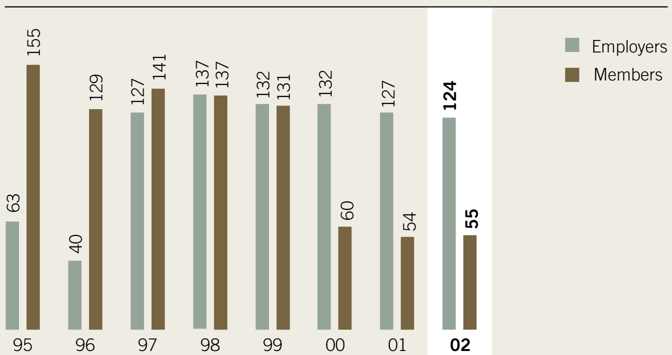
Contributions

Regular contributions totalled $179 million, slightly down from $181 million in 2001. The decrease reflects a decline in the number of contributing members. Divestments out of the Ontario Public Service continue to reduce the Plan's active membership. A strike by OPSEU members in 2002 also reduced contributions, although a significant number of members opted to purchase service credit for the period after the strike ended.

Starting in December 1999, members' contributions were reduced by 4% of earnings, until November 31, 2002. In 2002, a portion of the members' share of gains was used to extend a modified contribution reduction for a three-year period. As a result, member contributions rose by 1% of earnings as of December 1, 2002. Contributions are currently scheduled to increase by an additional 1% on each of December 2003 and 2004, returning to the normal rate of 8% of earnings, integrated with CPP, in December 2005. Employer contributions continue at the normal rate.

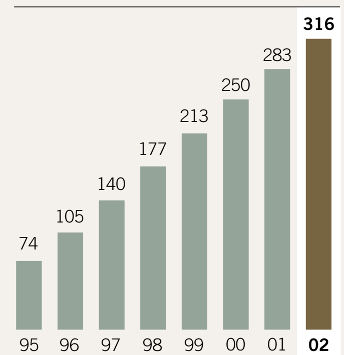
The application of $63 million in actuarial gains by the Government of Ontario has extinguished the balance of its initial unfunded liability obligation. As required by law, the Government had continued to make unfunded liability payments totalling $31 million to the end of September when the funding valuation was filed. A portion of the resulting overpayment was used to offset required regular contributions during the balance of 2002. The remaining $15 million will be applied against required contributions in 2003.

Contributions
($ millions)



Effective December 1, 2002, member contributions increased by 1% of salary until November 30, 2003. Regular employer contributions continued at the normal rate of 8%, and do not reflect the special $99 million payment made by the Province in 2002.

Pension Payments
($ millions)



Pension payments have increased rapidly as eligible members take advantage of early retirement options and pensioners receive inflation increases and gains-related improvements in their pensions.

OPTrust received $99 million from the Government of Ontario in 2002, in settlement of "data purification adjustments." The Government and OPTrust completed a review of the accuracy of member information provided by the Province when the Plan was established and up to December 31, 1998. Altogether, more than 64,000 member records were reviewed, taking over three years to complete. As a result of this process, adjustments have been made to the original data concerning members' service, salaries and earned benefits. The Plan's original funding valuation as at December 31, 1992 was revised and a "restated" valuation was prepared to reflect these data corrections. The restated valuation identified additional liabilities of $99 million, including interest to March 31, 2002. The Government of Ontario paid this amount in 2002, in accordance with the Plan's Sponsorship Agreement.

Pension Payments

OPTrust's pensioner population continued to grow in 2002, reaching 17,713 pensioners at year-end. Pension payments increased by 12% to $316 million, compared with $283 million in 2001. The Factor 80 early retirement provision, which has been extended to March 31, 2005, has been a significant element in the rapid growth of OPTrust's pensioner population. OPTrust's pensions were increased by 3% in 2002 (2.5% in 2001) under the Plan's inflation protection provision.

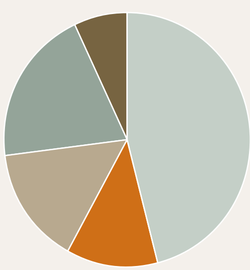
Terminations and Transfers

Refunds and transfers out of the Plan increased to $201 million in 2002 from $145 million in 2001. Most of this increase resulted from the transfer of approximately 1,300 civilian members employed with the Ontario Provincial Police to the Public Service Pension Plan.

Administrative Expenses

Administrative expenses totalled $22.2 million in 2002 compared to $19.7 million in 2001. The increase in expenditures reflects OPTrust's continued systems development and comprehensive communications program. OPTrust continues to focus on providing excellent service to members and pensioners by recruiting and developing committed and knowledgeable staff.

2002 Administrative Expenses



46% Salaries and benefits
12% Professional and administrative services
15% Office premises and operations
20% Information technology
7% Communications

OPTrust's administrative expenses totalled $22.2 million in 2002.

Financial Statements

AUDITORS' REPORT

To the Board of Trustees of the OPSEU Pension Trust,
Administrators of the OPSEU Pension Plan

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the Ontario Public Service Employees Union Pension Plan (the Plan) as at December 31, 2002 and December 31, 2001 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the years then ended. These statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's administrator as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2002 and December 31, 2001 and the changes in its net assets available for benefits, accrued pension benefits and surplus for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada

February 5, 2003

PRICEWATERHOUSECOOPERS

ACTUARIES' CERTIFICATE

We performed an actuarial valuation of the Ontario Public Service Employees Union Pension Plan (the OPSEU Pension Plan) for funding purposes as of December 31, 2001 as stated in Note 7 of these financial statements. In respect of that valuation, we hereby certify that, in our opinion, the assumptions are, in aggregate, appropriate for the purposes of the valuation and the data is sufficient and reliable for the purposes of the valuation. The valuation was prepared, and our opinions given, in accordance with accepted actuarial practice.

As further stated in Note 7 of these financial statements, we have prepared an actuarial valuation of the OPSEU Pension Plan accrued pension benefits for financial statement purposes as at December 31, 2002 in accordance with the Canadian Institute of Chartered Accountants Handbook Section 4100. The valuation was based on an extrapolation of the December 31, 2001 accrued pension benefits determined using membership data from December 31, 2001, the projected unit credit cost method prorated on service and management's best estimate assumptions for financial statement purposes as set out in Note 7. In our opinion, the assumptions are, in aggregate, appropriate for the purposes of the financial statement valuation.

In our opinion, the December 31, 2002 actuarial valuation for financial statement purposes was prepared in accordance with accepted actuarial practice.

Peter C. Hirst
Fellow, Institute of Actuaries
Fellow, Canadian Institute of Actuaries

W. Scott Simpson
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

February 5, 2003

BUCK CONSULTANTS

The management of the OPSEU Pension Trust (OPTrust) is responsible for the integrity and objectivity of the financial information presented in this annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and comply with the financial reporting requirements of the *Pension Benefits Act* of Ontario. The financial statements include amounts that must of necessity be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Management has recognized the importance of OPTrust maintaining and reinforcing a high standard of conduct in all of its actions, including the preparation and publication of statements fairly presenting the financial condition of the OPSEU Pension Plan and OPSEU Pension Plan Trust Fund. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are properly authorized, assets are safeguarded against unauthorized use or disposition and proper records maintained. The system is augmented by the careful training and selection of qualified staff, the establishment of organizational structures providing for a well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout OPTrust.

The Board of Trustees has the ultimate responsibility for the financial statements presented to plan members. An Audit Committee, consisting of Trustees appointed by each of the Government and OPSEU, reviews the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets on a regular basis with management and with the external auditors to review the scope of the audit and discuss their findings and to satisfy itself that their responsibilities have been adequately discharged.

PricewaterhouseCoopers LLP, the external auditors, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such examination in their report to the Board of Trustees. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of the system of internal controls.

Colleen Parrish
President and Plan Manager

Charlie Eigl
Vice-President, Finance

As at December 31 ($ millions)	**2002**	2001
ASSETS		
Investments (Note 5)	**8,491**	9,394
Contributions receivable		
Members	**7**	6
Employers	**25**	21
Property and equipment, net	**13**	12
	8,536	9,433
LIABILITIES		
Accounts payable and accrued charges	**(43)**	(7)
NET ASSETS AVAILABLE FOR BENEFITS	**8,493**	9,426
Actuarial asset value adjustment (Note 6)	**1,023**	191
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS	**9,516**	9,617
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (Note 7)	**8,389**	7,832
Surplus (Note 8)	**1,127**	1,785
ACCRUED PENSION BENEFITS AND SURPLUS	**9,516**	9,617

On behalf of the Board of Trustees

David Rapaport
Chair

Stanley F. Sanderson
Vice-Chair

For the years ended December 31 ($ millions)	2002	2001
NET ASSETS, BEGINNING OF YEAR	9,426	10,002
Net investment loss (Note 9)	(688)	(359)
Contributions (Note 11)	294	231
Benefit payments		
Retirement pensions	(316)	(283)
Refunds and commuted value transfers	(40)	(57)
Transfers to other plans	(161)	(88)
Operating expenses (Note 12)	(22)	(20)
NET DECREASE IN ASSETS AVAILABLE FOR BENEFITS	(933)	(576)
NET ASSETS, END OF YEAR	8,493	9,426

For the years ended December 31 ($ millions)	2002	2001
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	**7,832**	7,713
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on accrued pension benefits	**613**	601
Benefits earned	**254**	263
Benefit improvements	**268**	–
	1,135	864
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits paid	**517**	428
Experience gains	**61**	317
	578	745
NET INCREASE IN ACCRUED PENSION BENEFITS	**557**	119
ACCRUED PENSION BENEFITS, END OF YEAR	**8,389**	7,832

STATEMENT OF CHANGES IN SURPLUS

For the years ended December 31 ($ millions)	2002	2001
SURPLUS, BEGINNING OF YEAR	**1,785**	1,583
(DECREASE)/INCREASE IN ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS		
Decrease in net assets available for benefits	**(933)**	(576)
Change in actuarial asset value adjustment	**832**	897
	(101)	321
NET INCREASE IN ACCRUED PENSION BENEFITS	**(557)**	(119)
NET (DECREASE)/INCREASE IN SURPLUS	**(658)**	202
SURPLUS, END OF YEAR (Note 8)	**1,127**	1,785

1. Plan profile

OPSEU PENSION PLAN

The OPSEU Pension Plan (the Plan) provides pension benefits for employees of the Province of Ontario (the Province or Government of Ontario) in bargaining units represented by the Ontario Public Service Employees Union (OPSEU) and certain other bargaining units and employers. The Plan was established under the terms of the April 18, 1994 Sponsorship Agreement between the Province and OPSEU, which also established the OPSEU Pension Plan Trust Fund (the Fund) to hold the net assets available for benefits of the Plan. These financial statements reflect the aggregate financial position of the Plan, including net assets available for benefits, accrued pension benefits and surplus of the Plan.

The OPSEU Pension Plan is registered under the *Pension Benefits Act* of Ontario and the *Income Tax Act* (Canada), registration number 1012046. The Plan is a Registered Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

OPSEU PENSION TRUST

The Sponsorship Agreement establishes the Province and OPSEU as joint sponsors of the Plan. The Board of Trustees of the OPSEU Pension Trust (OPTrust) is responsible for the administration and management of both the OPSEU Pension Plan and the OPSEU Pension Plan Trust Fund, as described in the Trust Agreement between the sponsors. The Board of Trustees comprises five persons appointed by each of the Province and OPSEU.

2. Description of the OPSEU Pension Plan

The OPSEU Pension Plan is a contributory defined benefit pension plan. Membership within the Plan consists of members represented by OPSEU or certain other designated bargaining agents and employed by the following organizations:

- The Province of Ontario (civil servants and crown employees)
- Alcohol and Gaming Commission of Ontario
- Centre for Addiction and Mental Health (Addiction Research Foundation and Queen Street Mental Health Centre divisions)
- Liquor Control Board of Ontario (represented by the Ontario Liquor Boards Employees' Union)
- Ontario Teachers' Pension Plan Board
- Ontario Pension Board
- Ontario Lottery Corporation
- OPSEU Pension Trust (includes non-bargaining unit employees)
- Ontario Public Service Employees Union (seconded or acting employees)
- New Democratic Party Caucus
- Niagara Parks Commission
- St. Lawrence Parks Commission
- Workers' Compensation Appeals Tribunal

During 2002, approximately 90 employees of the Ontario Lottery Corporation joined the Plan.

Effective January 3, 2002, approximately 1,300 civilians employed with the Ontario Provincial Police were transferred to the Ontario Pension Board. In total, $61 million in accumulated pension benefits were transferred to the Ontario Pension Board in 2002 in respect of this transfer.

FUNDING

Contributions and investment earnings fund plan benefits. The determination of the value of the benefits and required contributions is based on the periodic actuarial valuations for funding purposes.

CONTRIBUTIONS

The OPSEU Pension Plan is integrated with the Canada Pension Plan (CPP). Required contributions to the OPSEU Pension Plan were as follows:

Earnings	Maximum Earnings	Contribution Percentage: Effective December 1, 2002		Contribution Percentage: December 1, 1999 to November 30, 2002	
		Employer	Member	Employer	Member
Below the Year's Basic Exemption (YBE)	$ 3,500	8.0%	5.0%	8.0%	4.0%
Between YBE and the CPP Year's Maximum Pensionable Earnings (YMPE)	$39,100	6.2%	3.2%	6.2%	2.2%
In excess of the YMPE, up to	$98,916	8.0%	5.0%	8.0%	4.0%

The normal contribution rate for members and employers is 6.2% of CPP pensionable earnings and 8% of other eligible earnings up to a maximum of $98,916.

Effective December 1, 1999, member contributions were reduced by 4% of members' salaries for a three-year period, while employer contributions stayed at the higher level. As a result of a distribution of actuarial gains arising from the most recent funding valuation, the member contribution reduction has been extended at a 3% reduction from normal contribution levels until December 1, 2003 when it will rise by 1%. In each of December 2004 and 2005 rates will increase by another 1%.

PURCHASE OR BUYBACK OF PAST SERVICE
Eligible members of the Plan can purchase or "buy back" credit for past service for certain absences or non-contributory service, subject to CCRA limits. For some types of buybacks, employers make a matching payment.

PENSION BENEFITS
The Plan provides for the payment of a pension benefit equal to 2% of the average of the best five consecutive years of salary, for each year of credited service. An unreduced pension can be received at age 65, or before age 65 if the member's age and credit total 90 (Factor 90) or when the member reaches age 60 and has 20 or more years of credit.

When a member reaches age 65, his or her pension is reduced by an amount that reflects the lower contributions made for earnings between the YBE and the YMPE (referred to as the CPP offset). Effective December 1, 2002, the CPP offset was permanently reduced to 0.655% from its previous level of 0.675%.

There is a time-limited provision that provides for an enhanced retirement opportunity for those members of the Plan whose age and credit total 80 (Factor 80) by March 31, 2005.

Reduced pensions are available to members who retire after age 55 and before age 65 who are not entitled to unreduced benefits. Typically, the pension reduction is equal to 5% for each year that the member is under age 65 when he or she retires. For members retiring prior to December 31, 2005, the reduction is calculated based on the number of years from the date of retirement to the earliest date at which the member would have been eligible for an unreduced pension (other than Factor 80) had they remained active in the plan.

INFLATION PROTECTION
An adjustment to pension benefits for inflation is made annually based on the Consumer Price Index to a maximum of 8% in any one year. Where the inflation adjustment exceeds 8% in any one year, the excess is carried forward to any subsequent year when the adjustment is less than 8%. The adjustment is made to both current pensions and the future value of deferred pensions.

DEATH BENEFITS
Upon the death of a member or pensioner, death benefits are available to a surviving eligible spouse, eligible children, designated beneficiary, refund recipient or estate. The death benefit may be in the form of a survivor pension, a lump sum payment or both. The Plan provides a 60% survivor pension to an eligible spouse at no cost to the pensioner. Survivor pensions are also available to the pensioner's children in certain circumstances.

In the case of limited life expectancy, provisions exist to access lump sum payouts, provided spouses waive their survivor pension.

DISABILITY PENSIONS
A disability pension is available to members with a minimum of 10 years of credit in the Plan and who meet the criteria as established in the Plan document. The amount of the disability pension depends on the years of credit and the average salary of the disabled member.

DEFERRED PENSIONS
Members who terminate from the Plan before age 55 have the option of leaving their money in the Plan and receiving a pension on retirement. In addition, members who are moved to other employers in a divestment situation and enrolled in a new pension plan may be required by law to accept a deferred pension from the OPSEU Pension Plan in order to protect benefits earned.

The value of deferred pensions increases annually by the annual inflation protection adjustment.

TERMINATION PAYMENTS

Subject to certain restrictions, a member who terminates employment may be entitled to transfer the commuted value of his or her pension and/or a refund of contributions to a registered retirement savings plan, or use these funds to purchase a life annuity. Some refunds of contributions or excess contributions may also be paid in cash, subject to withholding of income taxes.

TRANSFERS

In certain circumstances, a member who terminates employment may be entitled to transfer the value of his or her pension to another pension plan if OPTrust has a reciprocal transfer agreement with this plan. In addition, members who do not terminate employment but must move to the Public Service Pension Plan due to a change in bargaining unit status are subject to mandatory transfer arrangements.

3. Significant accounting policies

Presentation

These financial statements are prepared on the going concern basis in accordance with accounting principles generally accepted in Canada. The statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of the participating employers, bargaining units, plan members and pensioners. Certain comparative amounts that may affect the values of assets and liabilities, income and expenses and related disclosures have been reclassified to conform to the current year's presentation.

Valuation

Surplus results from the excess of the actuarial value of net assets available for benefits over the accrued pension benefits. The actuarial value of net assets available for benefits comprises net assets available for benefits and the actuarial asset value adjustment.

Net assets available for benefits are carried at values that approximate their fair value. The actuarial asset value adjustment provides for the smoothing of gains and losses over a four-year period, mitigating their volatility and providing a more stable basis for determining surplus. If gains and losses were not subject to smoothing, surplus would be decreased by $1,023 million as at December 31, 2002 ($191 million at December 31, 2001).

Accrued pension benefits are valued using economic assumptions developed by reference to long-term market conditions at a particular reporting date.

Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, income and expenses and related disclosures. Actual amounts could differ from those estimates.

INVESTMENTS

Investment transactions are recognized on the trade date.

Valuation of investments

Invested assets are accounted for using market values, as determined by independent third parties, on the valuation date.

Category	Basis of valuation
Exchange traded equity securities and equity index futures contracts	Closing quoted market price. Where a market price is not available, market value is determined by reference to current market information
Marketable debt securities, including short-term investments and real return bonds; currency futures or forward contracts	Average of closing bid and ask prices
Non-marketable debt securities	Estimated market values based on the market yields of comparable securities
Real estate	Estimated market values based on annual appraisals

These valuation principles are applied whether the investments are held directly, through pooling arrangements, or through limited liability companies.

Equity index futures contracts are derivative financial contracts whose value is derived from movements in the underlying basket of equity securities upon which they are based. A currency futures or forward contract is a derivative financial contract between two parties to exchange currencies at a designated price and future delivery date.

Income recognition

Investment income comprises earned income (interest and dividends), realized gains and losses on disposal of investments, and unrealized gains and losses resulting from changes in the market value of investments.

Category	Basis of valuation
Interest income	Accrual basis
Dividend income	Accrual basis on the ex-dividend date
Realized gains and losses for investments sold	Difference between proceeds on disposal and the average cost
Unrealized gains and losses for investments held	Difference between market value and the average cost at year end

Average cost reflects the purchase cost of the investment, including direct acquisition costs.

ACCRUED PENSION BENEFITS

The value of accrued pension benefits is determined based on actuarial valuations prepared by an independent actuarial firm. Actuarial valuations are prepared every year for financial statement reporting purposes (financial statement valuations) and every three years for purposes of determining funding requirements (funding valuation). Because of reporting delays, the accrued pension benefits reported in these financial statements as at December 31, 2002 and 2001 are based on data extrapolated from actuarial valuations for financial reporting purposes as at December 31, 2001 and 2000 respectively.

Financial statement valuation

For financial reporting purposes, the Canadian Institute of Chartered Accountants (CICA) requires that pension plans report the actuarial value of accrued pension benefits using management's best estimate assumptions and the projected unit credit cost method prorated on service. This method calculates the actuarial value of pension benefits accrued up to the financial reporting date after the projected benefits have been attributed equally to each year of a member's service.

Funding valuation

The aggregate funding method considers a time horizon that includes accumulation of benefits and receipt of contributions in future periods. Generally, the actuarial assumptions used to determine the pension liabilities for funding purposes are more conservative than those used for the financial statement valuation. The triennial funding valuation is required by regulatory authorities and is used to identify gains or losses; sponsors make decisions with respect to the allocation of such gains to affect contributions and/or benefit improvements. If a funding valuation filed with regulatory authorities discloses a deficit, both member and employer contributions may be increased, depending on the utilization of any rate stabilization funds.

Contributions

Contributions from members and employers including those relating to purchases of credit for prior employment or leave, and transfers into the Plan that are due at year-end are recorded as a receivable.

Payments

Payments of pensions, refunds and transfers are generally recorded in the period in which they are incurred. Certain transfers to pension plans are accrued and recognized as an accrued liability.

Rate stabilization funds

Plan sponsors have the option of allocating any portion of their share of gains to a rate stabilization fund. The stabilization funds can be used as a reserve against future contribution increases. The rate stabilization funds form part of surplus and earn income at the funding valuation interest rate.

Initial unfunded liability

A funding valuation was performed as at December 31, 1995, which established the balance of the initial unfunded liability of the Plan at $710 million. The Province of Ontario assumed responsibility for this amount, including accumulated interest, and agreed to its reduction through a combination of payments and the application of its portion of actuarial gains. The unfunded liability as at December 31, 2001 of $63 million was fully extinguished in 2002 through the application of actuarial gains and special payments by the Province of Ontario. Payments made by the Province of Ontario in 2002 totalling $31 million are being offset by withholding normal service contributions. At December 31, 2002, a total of $15 million remained available to the Province of Ontario to offset normal service contributions in 2003.

Pension data purification adjustment

In 2001, the Government of Ontario and OPTrust completed a review of the accuracy of member data provided to OPTrust when the Plan was established. The review resulted in the need to adjust some of the original member data that was used in the original funding valuation as at December 31, 1992. The Sponsors had agreed that the 1992 valuation was to be re-performed or "restated" and financial adjustments made based on the revised data.

The Plan's external actuaries completed the restated valuation as at December 31, 1992 in 2001 and identified an increase of $56.8 million in the actuarial liability. The Province of Ontario made a payment of $99 million, including interest, in settlement of this obligation, on April 1, 2002.

ACTUARIAL ASSET VALUE ADJUSTMENT

The actuarial value of investments as at the reporting dates has been determined using a formula that smoothes out the effects of the changes in market values over a four-year period. This formula recognizes the realized gains and losses and the changes in unrealized gains and losses occurring in a particular year evenly over the current and the following three years. Earned income is excluded for purposes of smoothing the assets over this period of time. The actuarial asset value adjustment reflects the portion of gains or losses not yet recognized for purposes of determining the actuarial net assets available for benefits.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The market value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end. The resulting unrealized gain or loss is included in the Statement of Changes in Net Assets Available for Benefits.

4. Risk management

The Plan is subject to certain risks and engages in risk management practices to help ensure that sufficient assets will be available to fund pension benefits. These risks relate primarily to the uncertainty inherent in achieving sufficient investment returns and in making forecasts with respect to the ultimate pension liability. Investment risk management involves optimizing investment returns in this climate of uncertainty.

The Plan has established an asset mix policy of approximately 60% equities, 33% fixed income securities and a 7% inflation-sensitive component (real return bonds and real estate). The returns on the fixed income component reflect the changes in nominal interest rates, while the equity returns have, over the long term, demonstrated a positive correlation to changes in inflation and salary increases.

Additional information on risk related to accrued pension benefits is included in Note 7.

RISKS RELATED TO INVESTMENT RETURNS

Interest rate risk

Interest rate risk arises from interest rate fluctuations that may adversely affect the Plan's cash flows or the value of financial instruments. The potential exposure is as a result of either changes in floating rates reducing cash flows, or changes in the asset values for fixed rate securities (e.g., bonds).

The Plan manages interest rate risk by establishing a target asset mix that provides an appropriate mix between interest-sensitive investments and those subject to other risks. A portion of the interest-sensitive portfolio is actively managed, allowing managers to anticipate interest rate movements to mitigate or take advantage of interest rate movements. The passive portion of the portfolio, held in non-marketable debentures of the Government of Ontario, is subject to changes in market value as interest rates change.

The Plan has exposure to interest risk as follows:

As at December 31 ($ millions)	**2002**					2001	
	Term of maturity						
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Yield to maturity**	Total	Yield to maturity
Short-term investments	**200**	**–**	**–**	**200**	**2.7%**	159	2.6%
Government of Ontario debentures	**52**	**460**	**1,688**	**2,200**	**4.5%**	2,243	5.1%
Bonds	**26**	**184**	**1,025**	**1,235**	**4.1%**	1,150	4.4%
TOTAL	**278**	**644**	**2,713**	**3,635**	**4.2%**	3,552	4.8%

Credit risk
Credit risk refers to the potential loss arising from a security issuer being unable to meet its financial obligations.

The greatest credit exposure for the Plan is with the Province of Ontario. As of December 31, 2002, the Plan held $2,282 million (2001 – $2,301 million) in short term investments and bonds issued or guaranteed by the Government of Ontario, including special Government of Ontario debentures.

Investment restrictions within the Plan have been set to limit the credit exposure to security issuers. Bonds and debentures require a minimum rating of “A” or equivalent at time of purchase, short-term investments require a rating of “R-1” or equivalent and counterparties to over the counter (OTC) contracts require a rating of “AA-” or equivalent as at the contract date. As at December 31, 2002 and 2001, 100% of the short-term investment portfolio met the credit rating criteria. As of December 31, 2002, 99.9% (2001 – 98.8%) of the fixed income portfolio (which includes bonds and the Government of Ontario debentures) was rated “A” or better.

Foreign exchange and geographic risk
Foreign exchange risk is the risk that the value of investments will be affected by changes in foreign currency exchange rates for Canadian dollars, whereas geographic location reflects the risk related to operating in foreign jurisdictions including legal, political, settlement and market risk.

The Plan has hedged approximately 50% of its foreign currency exposure. The Plan’s exposure to foreign exchange and geographic risk is as follows:

	Geographical Location		Net Currency Exposure	
As at December 31 ($ millions)	**2002**	2001	**2002**	2001
Canadian	**6,679**	7,108	**6,676**	7,108
Investments subject to currency and geographic risk				
United States	**1,033**	1,270	**1,049**	1,306
United Kingdom	**213**	247	**213**	247
Eurozone	**249**	429	**246**	422
Asia Pacific	**220**	231	**220**	221
Other	**97**	109	**87**	90
	1,812	2,286	**1,815**	2,286
TOTAL INVESTMENTS	**8,491**	9,394	**8,491**	9,394

Market risk
Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether specific to the individual security or its issuer, or to factors affecting all securities in the market.

The Plan accepts market risk as a natural consequence of investing. However, investment management practices are designed to optimize the relationship between risk and return. These practices include diversification across investment managers and styles, geographic boundaries and alternate types of investments. In addition, the Plan takes a long-term perspective for its investments generally, emphasizing investment strategies and accounting and valuation practices that focus on trends rather than short-term fluctuations.

Liquidity risk
Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and expenses as they become due.

Cash inflows are derived from member and employer contributions, earned income, principal repayments on fixed income investments and the proceeds from sales of other securities. Excess cash flows, after meeting pension obligations and operating expenses, are re-invested. The Plan forecasts and manages cash flows to ensure it meets its obligations when due, without unintended early liquidation of assets. The Plan has standby lines of credit totalling $5 million to assist with addressing short-term cash requirements. In addition, 74% (2001 – 76%) of the Plan’s investments are marketable and can be liquidated relatively quickly.

Securities lending
To enhance portfolio returns, the Plan participates in a securities lending agreement with its custodian, Royal Trust. The securities lending program operates by loaning the Plan’s available securities to approved borrowers. Credit risk associated with this program is mitigated by requiring the borrower to provide daily collateral of at least 105% of the market value of the loaned securities.

5. Investments

The following schedule summarizes the market value and cost of the Plan's investments, including the effect of derivative financial instruments.

	2002			2001		
As at December 31 ($ millions)	**Market Value**	**Average Cost**	**Percentage of Assets**	Market Value	Average Cost	Percentage of Assets
Fixed income						
Cash	**(7)**	**4**	**–**	37	43	–
Short-term investments	**200**	**199**	**2%**	159	159	2%
Canadian bonds	**686**	**663**	**8%**	658	649	7%
Government of Ontario debentures	**2,200**	**1,664**	**26%**	2,243	1,744	24%
	3,079	**2,530**	**36%**	3,097	2,595	33%
Equities						
Canadian	**2,017**	**1,927**	**24%**	2,192	1,845	23%
Foreign	**1,817**	**2,234**	**22%**	2,264	2,169	24%
Foreign pooled equity linked investments	**967**	**1,331**	**11%**	1,282	1,343	14%
	4,801	**5,492**	**57%**	5,738	5,357	61%
Inflation sensitive						
Real return bonds	**549**	**410**	**6%**	492	408	5%
Real estate	**41**	**36**	**1%**	45	40	1%
	590	**446**	**7%**	537	448	6%
Accrued income	**21**	**21**	**–**	22	22	–
TOTAL INVESTMENTS	**8,491**	**8,489**	**100%**	9,394	8,422	100%

The market value of cash includes net unrealized losses on currency forward exchange contracts of $11.5 million as at December 31, 2002 (2001 – $5.4 million including forward exchange and futures contracts).

6. Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined by using a formula that smoothes out the effects of the changes in market values over a four-year period. The adjustment represents the deferred portion of gains or losses resulting from the difference between the actual and management's best estimate of the return on those investments. Annual returns that are in excess of (gains) or below (losses) management's best estimate of returns are deferred and recognized evenly over the current and following three years. The change in the actuarial asset value adjustment for the year was $832 million (2001 – $897 million).

The following schedule provides the composition of the actuarial asset value adjustment as at December 31:

	Deferred (gains)/losses	Timing of future recognition			Deferred (gains)/losses
($ millions)	**2002**	2003	2004	2005	2001
1999	**–**	–	–	–	(163)
2000	**(81)**	(81)	–	–	(162)
2001	**344**	172	172	–	516
2002	**760**	253	253	254	–
TOTAL	**1,023**	344	425	254	191

7. Accrued pension benefits

Financial Statement Valuation as at December 31, 2002

The Accrued Pension Benefits as at December 31, 2002 are based on member data from a triennial valuation for funding purposes prepared by Buck Consultants as at December 31, 2001. This data reflects any adjustments that had been made to member data as part of the Pension Data Purification Adjustment (note 3) at the time the valuation was conducted.

The financial statement valuation disclosed an experience gain, for financial statement purposes, of $61 million (2001 – $317 million) resulting from actual salary, YMPE, inflation and demographic experience being different from assumptions. Benefit improvements totalling $268 million (financial statement basis) were distributed during the year. A separate valuation for funding purposes was prepared and filed as discussed in the next section.

Actuarial Funding Valuation as at December 31, 2001

Buck Consultants prepared the latest triennial valuation of the Plan as at December 31, 2001. The actuarial gains reported under the funding valuation for the three-year period totalled $867 million.

OPSEU utilized the members' and pensioners' share of the funding gains of $473 million under the funding valuation to provide benefit improvements, an extended but modified contribution reduction, and to fund the members' contribution rate stabilization fund. The Government of Ontario's share of the actuarial gains totalling $394 million has been used to extinguish its remaining unfunded liability and to establish a stabilization fund for the Government of Ontario (note 8).

Actuarial Assumptions

The Plan annually reviews the economic assumptions used in the financial statement valuation to ensure that they reflect management's best estimate of expected long-term trends. The key economic assumptions used for the extrapolation of the financial statement valuation as at December 31 are as follows:

	2002	2001
Investment return	**7.75%**	7.75%
Inflation rate	**3.50%**	3.50%
Salary escalation*	**4.50%**	4.50%

* percentage shown plus service-related promotion scale

The Plan also reviews the appropriateness of economic and demographic assumptions used in the financial statement and funding valuations. Based on this review, the actuarial assumptions for 2002 were not changed. As part of the review, the sensitivity of the financial valuation to changes in these assumptions was considered. Holding all other factors constant, a 0.25% decrease in the inflation rate assumption would have caused accrued pension benefits to decline by $1 million at December 31, 2002. Similarly, a 0.25% decrease in the investment return assumption would have caused accrued pension benefits to increase by $307 million at December 31, 2002.

During 2000, early retirement and termination assumptions were adjusted to reflect experience and the adoption of more current mortality tables. Concurrently, small adjustments were made to assumptions related to long-term inflation, investment return and salary escalation. The net impact of those changes was an increase in accrued pension benefits. The impact of those changes was incorporated into the financial statement valuations as at December 31, 2002 and 2001, and the recent triennial funding valuation as at December 31, 2001.

8. Surplus

The funding valuation as at December 31, 2001 identified actuarial gains, a portion of which remained available to fund future benefits, to lower current contributions or to mitigate the impact of potential contribution increases. At December 31, 2002, the members had $160 million in rate stabilization funds (2001 – $39 million) and $26 million in unallocated gains (2001 – nil) available. Subsequent to the 2002 year-end, OPSEU recognized the unallocated amount for benefit improvements for divested former members.

At December 31, 2002, the Government of Ontario had $315 million available in unallocated gains (2001 – nil). Subsequent to year-end, the Government transferred this amount to a contribution rate stabilization fund. The stabilization funds and unallocated actuarial gains as at December 31, 2002 form part of the financial statement surplus.

9. Net investment income/(loss)

For the years ended December 31 ($ millions) **2002**	**Earned Income**	**Realized Gains/ (Losses)**	**Unrealized Gains/ (Losses)**	**Net Investment Income/ (Loss)**
Fixed income				
Cash	**–**	**(12)**	**(6)**	**(18)**
Short-term investments	**6**	**–**	**–**	**6**
Canadian bonds	**44**	**12**	**14**	**70**
Government of Ontario debentures	**188**	**(19)**	**38**	**207**
	238	**(19)**	**46**	**265**
Equities				
Canadian	**38**	**(18)**	**(256)**	**(236)**
Foreign	**37**	**7**	**(513)**	**(469)**
Foreign pooled equity linked investments	**–**	**(12)**	**(303)**	**(315)**
	75	**(23)**	**(1,072)**	**(1,020)**
Inflation sensitive				
Real return bonds	**20**	**–**	**54**	**74**
Real estate	**3**	**–**	**–**	**3**
	336	**(42)**	**(972)**	**(678)**
Investment managers' fees				**(5)**
Other investment expenses				**(5)**
NET INVESTMENT LOSS				**(688)**

2001	Earned Income	Realized Gains/ (Losses)	Unrealized Gains/ (Losses)	Net Investment Income/ (Loss)
Fixed income				
Cash	3	–	(5)	(2)
Short-term investments	11	–	–	11
Canadian bonds	41	7	3	51
Government of Ontario debentures	193	(19)	1	175
	248	(12)	(1)	235
Equities				
Canadian	46	180	(439)	(213)
Foreign	23	(110)	(70)	(157)
Foreign pooled equity linked investments	–	5	(223)	(218)
	69	75	(732)	(588)
Inflation sensitive				
Real return bonds	20	2	(20)	2
Real estate	3	–	–	3
	340	65	(753)	(348)
Investment managers' fees				(9)
Other investment expenses				(2)
NET INVESTMENT LOSS				(359)

10. Investment returns and related benchmarks

Expressed in %	2002 Actual	2002 Benchmark	2001 Actual	2001 Benchmark
Fixed income	**9.8**	**8.7**	8.0	8.1
Canadian equities	**(10.2)**	**(12.4)**	(4.5)	(12.6)
Foreign equities	**(21.8)**	**(20.9)**	(12.7)	(11.6)
Real estate	**8.7**	**8.2**	9.0	10.7
Real return bonds	**15.2**	**15.3**	0.2	0.6
TOTAL PLAN	**(7.2)**	**(7.8)**	(3.5)	(4.4)

The plan uses investment benchmarks to evaluate the performance of the investment management process. Each portfolio is measured against the performance benchmarks, which reflect the results of the market in which they invest.

11. Contributions

For the years ended December 31 ($ millions)	2002	2001
Members		
Current service	**42**	45
Prior service	**11**	11
Long term income protection	**2**	(2)
	55	54
Employers		
Current service	**103**	115
Prior service	**15**	6
Long term income protection	**6**	6
	124	127
Pension data purification project adjustment	**99**	–
Unfunded liability payments – Government of Ontario	**–**	40
Transfers from other plans	**16**	10
TOTAL CONTRIBUTIONS	**294**	231

Unfunded liability payments of $31 million were received for the period January to September 2002. Based on the December 31, 2001 valuation results, the Government of Ontario has allocated a portion of its share of the actuarial gains recognized in that valuation towards extinguishing the initial unfunded liability. The original payments received on account of the initial unfunded liability have been used to offset the normal employer contributions of the Ontario Public Service. The remaining amount of $15 million as at December 31, 2002 is disclosed as part of Accounts payable and accrued charges.

12. Operating expenses

For the years ended December 31 ($ millions)	2002	2001
Salaries and benefits	**10.2**	10.1
Office premises and operations	**3.3**	3.3
Professional and administrative services	**2.7**	2.4
Communications	**1.5**	1.1
Information technology	**4.5**	2.8
TOTAL OPERATING EXPENSES	**22.2**	19.7

Audit expenses were $112 thousand in 2002 ($106 thousand in 2001).

13. Compensation

The Trustees of the Plan serve in a voluntary capacity and do not receive compensation for their services from the Trust. They are, however, reimbursed for travel-related expenses. Expenses for amounts paid to or on behalf of Trustees totalled $55 thousand in 2002 (2001 – $94 thousand).

Compensation to the senior management team comprises base salaries, pension and insured benefits, vacation entitlements and moving allowances, if any. Base salaries paid to the senior management team were as follows for 2002 (2001 – $1,169 thousand).

For the year ended December 31 ($ thousands)

Name	Position	Salary
Morgan Eastman	Chief Investment Officer	290
Colleen Parrish	President and Plan Manager	225
Bob Korkie	Head of Investment Research and Risk Management	219
Bill Foster	Vice-President, Member and Pensioner Services	152
Charlie Eigl	Vice-President, Finance	145
Graeme Isdale	Vice-President, Information Technology	144
Robert Breens	Vice-President, Policy and Communications	127
TOTAL SALARY COMPENSATION		1,302

Compensation arrangements with the Management team provide for the accumulation of pension benefits. Coverage of up to $98,916 (2001 – $99,037) of the individual's salary is provided under the OPSEU Pension Plan and amounts in excess are provided under separate pension arrangements. Both the member and the employer are required to contribute a percentage of the member's salary in excess of $98,916 (2001 – $99,037) to these separate arrangements. Insured benefits for management employees are the same as for bargaining unit employees. Management employees earn between four and six weeks vacation a year.

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than $10 million. A full list of investments is available upon request.

As at December 31, 2002	Number of shares	Market ($ millions)	Cost ($ millions)
CANADIAN COMMON STOCKS			
Royal Bank of Canada	1,701,304	98	51
BCE Inc.	3,410,375	96	82
Toronto Dominion Bank	2,544,640	87	61
Bank of Montreal	1,942,330	81	42
Bank of Nova Scotia	1,528,768	81	41
Manulife Financial Corp.	1,804,755	62	52
Canadian Imperial Bank of Commerce	1,420,079	62	43
Sun Life Financial Services of Canada Inc.	2,049,084	55	59
Alcan Inc.	1,148,741	53	52
EnCana Corp.	1,084,862	53	47
Magna International Inc.	581,885	51	47
Suncor Energy Inc.	1,921,660	47	30
Petro-Canada	950,250	46	19
Barrick Gold Corp.	1,606,286	39	44
Thomson Corp.	905,350	38	35
Potash Corp. of Saskatchewan Inc.	340,365	34	28
Biovail Corp.	751,570	32	29
Loblaw Companies Ltd.	551,268	29	23
Molson Inc.	863,430	29	17
Nortel Networks Corp.	11,058,496	28	215
Inco Ltd.	841,012	28	26
Rogers Communication Inc.	1,831,475	27	41
Placer Dome Inc.	1,483,690	26	29
Quebecor World Inc.	920,140	26	26
TransCanada Pipelines Ltd.	1,143,572	26	23
Enbridge Inc.	614,972	26	16
Canadian Pacific Railway Ltd.	796,788	25	21
Cameco Corp.	601,100	23	17
Canadian National Railway Co.	337,090	22	10
Talisman Energy Inc.	352,893	20	14
Power Financial Corp.	535,700	19	14
MDS Inc.	845,002	19	13
TransAlta Corp.	1,061,001	18	18
Fairmont Hotels & Resorts Inc.	479,504	18	10
TELUS Corp.	943,636	16	28

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than $10 million. A full list of investments is available upon request.

As at December 31, 2002	Number of shares	Market ($ millions)	Cost ($ millions)
CANADIAN COMMON STOCKS (cont'd)			
Abitibi-Consolidated Inc.	1,296,338	16	20
Nexen Inc.	481,716	16	15
Imperial Oil Ltd.	362,238	16	11
Cognos Inc.	441,310	16	10
QLT Inc.	1,122,200	15	41
Finning International Inc.	570,940	15	11
Bombardier Inc.	2,590,700	14	20
Onex Corp.	896,962	14	14
Canadian Natural Resources Ltd.	289,527	14	9
Trizec Canada Inc.	1,114,801	13	28
Aber Diamond Corp.	407,020	13	8
Celestica Inc.	526,600	12	18
Teck Cominco Ltd.	1,064,020	12	16
Investors Group Inc.	457,152	12	9
IPSCO Inc.	712,040	11	15
Canada Life Financial Corp.	263,765	11	8
SNC-Lavalin Group Inc.	311,595	11	7
NOVA Chemicals Corp.	331,349	10	10
National Bank of Canada	294,577	10	3
Royal Group Technologies Ltd.	501,155	8	12
Husky Energy Inc.	510,299	8	10
Angiotech Pharmaceuticals Inc.	121,715	7	10

As at December 31, 2002	Number of shares	Market ($ millions)	Cost ($ millions)
FOREIGN COMMON STOCKS			
General Electric Co.	923,090	36	57
Microsoft Corp.	424,826	35	45
Exxon Mobil Corp.	630,184	35	36
Pfizer Inc.	580,506	28	32
Citigroup Inc.	476,341	26	27
Johnson & Johnson	279,032	24	24
BP PLC	2,086,638	23	27
Wal-Mart Stores Inc.	269,483	22	21
International Business Machines Corp.	159,420	20	24
Merck & Co Inc.	211,249	19	22

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than $10 million. A full list of investments is available upon request.

As at December 31, 2002	Number of shares	Market ($ millions)	Cost ($ millions)
FOREIGN COMMON STOCKS (cont'd)			
American International Group Inc.	194,412	18	24
Vodafone Group PLC	6,332,443	18	21
GlaxoSmithkline PLC	564,308	17	23
Procter & Gamble Co.	114,455	16	13
Bank of America Corp.	141,532	16	12
Intel Corp.	621,931	15	33
Verizon Communications	253,127	15	19
HSBC Holdings PLC	869,246	15	15
Novartis AG	255,805	15	15
Cisco Systems Inc.	676,899	14	18
Royal Dutch Petroleum	196,607	14	17
Coca Cola Co.	207,114	14	15
SBC Communications Inc.	307,070	13	19
Philip Morris Companies Inc.	197,405	13	14
Total Fina Elf SA	59,128	13	10
Nestle SA	36,959	12	12
Wells Fargo & Co.	157,647	12	11
Nokia Corp.	434,728	11	14
PepsiCo Inc.	163,395	11	11
ChevronTexaco Corp.	99,155	10	13
Royal Bank of Scotland	252,610	10	10
AstraZeneca Group	160,936	9	12
Fannie Mae	92,631	9	12
Abbott Laboratories	136,799	9	11
Lili (Eli) and Co.	94,016	9	11
Shell Transport & Trading Co.	903,661	9	10
Toyota Motor Corp.	218,300	9	10
Viacom Inc.	137,153	9	10
AOL Time Warner Inc.	394,916	8	24
Home Depot Inc.	206,364	8	15
Bristol-Myers Squibb Corp.	179,850	7	16
BellSouth Corp.	174,465	7	11
JP Morgan Chase & Co.	184,362	7	10
Oracle Corp.	376,058	6	14
Tyco International Ltd.	186,055	5	12

Investments held by the OPSEU Pension Plan Fund with cost or market value greater than $10 million. A full list of investments is available upon request.

As at December 31, 2002	Number of units	Market ($ millions)	Cost ($ millions)
POOLED REAL ESTATE FUND			
Canadian			
Penreal Properties Fund II Ltd.	4,000,000	20	16
BG Preeco 7 Ltd.	20,000,000	20	20
POOLED BONDS FUNDS			
Canadian			
Phillips Hager & North Investment Grade Corporation Bonds Fund	12,059,999	123	120
POOLED EQUITY FUNDS			
Foreign			
Barclays Global Investors Canada Ltd., Hedged Synthetic US Equity Index Fund	28,280,974	575	768
Barclays Global Investors Canada Ltd., Hedged Synthetic EAFE Equity Index Fund	30,275,295	392	563

As at December 31, 2002	Coupon %	Par value ($ millions)	Market ($ millions)	Cost ($ millions)
FIXED INCOME				
Canadian bonds				
Special Ontario Government Debentures	9.82 – 16.06	1,536	2,200	1,664
Government of Canada (2004 – 2027)	3.50 – 10.50	646	819	675
Province of Ontario (2023 – 2027)	7.60 – 8.50	58	74	70
Province of Quebec (2009 – 2029)	5.50 – 6.25	33	35	33
Province of New Brunswick (2009 – 2012)	5.25 – 6.37	29	31	29
Bell Canada (2003 – 2032)	6.25 – 11.45	19	21	20
Bank of Montreal (2049)	6.68	14	15	14
Greater Toronto Airport Authority (2010 – 2012)	6.25 – 6.70	13	14	13
Merrill Lynch Canada Financial (2007)	5.35	11	11	11
Canadian short-term investments				
Phillips Hager & North Institutional Short Term Investment Fund			139	139
Royal Bank of Canada			28	28
Government of Canada Treasury Bills			17	17

As at December 31, 2002	Coupon %	Market ($ millions)	Cost ($ millions)
Maturity date			
2003 – 2007	9.00 – 9.99	$ 137	$ 125
	11.00 – 11.99	99	84
	12.00 – 13.99	120	97
	14.00 – 15.99	156	120
		512	426
2008 – 2012	10.00 – 10.99	253	185
	11.00 – 11.99	236	173
	12.00 – 12.99	373	284
	13.00 – 13.99	210	155
		1,072	797
2013 – 2014	11.00 – 11.99	616	441
		616	441
		2,200	1,664
Accrued interest		7	7
Total		2,207	1,671

($ millions)	**2002**	2001	2000	1999	1998	1997	1996	1995
CHANGES IN NET ASSETS								
Income								
Net investment (loss)/income	**(688)**	(359)	654	970	867	981	1,027	979
Contributions								
Members	**55**	54	60	131	137	141	129	155
Employers	**124**	127	132	132	137	127	40	63
Unfunded liability payments	**–**	40	38	36	34	24	–	–
Transfers from other plans	**16**	10	17	36	2	2	54	1
Pension data purification project adjustment	**99**	–	–	–	–	–	–	–
Total Income/(loss)	**(394)**	(128)	901	1,305	1,177	1,275	1,250	1,198
Expenditures								
Pension payments	**316**	283	250	213	177	140	105	74
Termination payments and transfers	**201**	145	202	135	93	154	38	17
Operating expenses	**22**	20	18	17	17	15	15	12
Total Expenditures	**539**	448	470	365	287	309	158	103
(DECREASE)/INCREASE IN NET ASSETS	**(933)**	(576)	431	940	890	966	1,092	1,095
NET ASSETS								
Investments								
Cash and short-term investments	**192**	195	515	192	210	200	171	97
Canadian bonds	**691**	664	544	549	483	621	404	341
Government of Ontario debentures	**2,207**	2,251	2,322	2,304	2,639	2,562	2,457	2,407
Equities – Canadian	**2,022**	2,192	3,180	2,876	2,247	2,314	2,028	1,601
Equities – Foreign	**2,787**	3,553	2,884	3,146	2,574	1,654	1,331	1,087
Real return bonds	**551**	494	498	442	420	341	289	89
Real estate	**41**	45	43	32	26	15	1	–
	8,491	9,394	9,986	9,541	8,599	7,707	6,681	5,622
Contributions receivable from:								
Members	**7**	6	7	7	13	14	11	11
Employers	**25**	21	19	22	19	21	20	19
Due from Ontario Pension Board	**–**	–	–	–	–	–	64	32
Property and equipment	**13**	12	5	5	3	4	4	3
TOTAL ASSETS	**8,536**	9,433	10,017	9,575	8,634	7,746	6,780	5,687
LIABILITIES	**(43)**	(7)	(15)	(4)	(3)	(5)	(5)	(4)
NET ASSETS	**8,493**	9,426	10,002	9,571	8,631	7,741	6,775	5,683
Actuarial smoothing	**1,023**	191	(706)	(928)	(926)	(776)	(596)	(136)
Actuarial value of net assets	**9,516**	9,617	9,296	8,643	7,705	6,965	6,179	5,547
Accrued pension benefits	**8,389**	7,832	7,713	7,242	7,201	6,648	6,180	6,306
SURPLUS/(DEFICIENCY)	**1,127**	1,785	1,583	1,401	504	317	(1)	(759)
PERFORMANCE (%)								
Rate of Return	**(7.2%)**	(3.5%)	7.0%	11.4%	11.3%	14.7%	18.3%	21.7%
After inflation	**(11.1%)**	(4.2%)	3.8%	8.8%	10.3%	14.0%	16.1%	20.0%
Benchmark	**(7.8%)**	(4.4%)	3.3%	14.6%	13.2%	13.7%	17.1%	17.7%
After inflation	**(11.7%)**	(5.1%)	0.1%	12.0%	12.2%	13.0%	14.9%	16.0%

The OPSEU Pension Trust was established to give plan members and the Government of Ontario an equal voice in the administration of the OPSEU Pension Plan through joint trusteeship. As sponsors, the Government of Ontario and the Ontario Public Service Employees Union (OPSEU) each appoint five Trustees to the OPTrust Board. One Government appointee and one OPSEU appointee fill the positions of Chair and Vice-Chair, with the roles alternating between Government and OPSEU appointees every two years.

The Trustees have a fiduciary responsibility for all aspects of the Plan's operation. They review OPTrust's investment policies and performance to ensure that money is available to pay members' and pensioners' benefits. They make sure that pension liabilities are properly evaluated and that the Plan's financial statements accurately reflect OPTrust's financial position. The Trustees also monitor the Plan's administration to satisfy themselves that members and pensioners receive the benefits to which they are entitled, and timely and effective information and services.

To fulfill these responsibilities, new Trustees receive an intensive orientation to the Plan and ongoing training in pension plan governance and administration. The Board retains independent legal, actuarial, investment and accounting professionals and an independent custodian. The Trustees also set policy and strategic priorities and monitor the performance of the OPSEU Pension Trust through its senior management team.

STANDING COMMITTEES OF THE BOARD

The Trustees have established four standing committees:

- The *Administration Committee* oversees the Plan's operations including its organizational plans and operating and capital budgets. It monitors and makes recommendations on administrative policies, plan amendments and legislative changes, and oversees the preparation of actuarial valuations.

- The *Audit Committee* ensures that OPTrust's financial statements are complete and objective, reviews the Plan's accounting and financial procedures, ensures OPTrust's systems and processes comply with legal and professional standards, and oversees OPTrust's risk management program.

- The *Investment Committee* monitors the performance of the OPSEU Pension Trust Fund and its custodian and investment managers, and ensures compliance with regulations and OPTrust's investment policies. It researches and recommends changes in investment policies, the Plan's asset mix or investment managers.

- The *Adjudication Panel* gives plan members and pensioners access to an impartial review process in the event of disputes concerning OPTrust's decisions on eligibility, benefit entitlements or other pension-related rights under the OPSEU Pension Plan.

At December 31, 2002

PROFESSIONAL ADVISORS TO THE TRUSTEES

Actuaries
Buck Consultants

Auditors
PricewaterhouseCoopers LLP

Custodian
Royal Trust Corporation of Canada

Investment Consultants
Hewitt Associates (James P. Marshall)

Legal Counsel
Koskie Minsky

SENIOR MANAGEMENT, ADMINISTRATION DIVISION

Colleen Parrish, LLB
President and Plan Manager

Robert Breens
Vice-President, Policy and Communications

Charlie Eigl, CA
Vice-President, Finance

Bill Foster
Vice-President, Member and Pensioner Services

Graeme Isdale
Vice-President, Information Technology

SENIOR MANAGEMENT, INVESTMENT DIVISION

Morgan Eastman
Chief Investment Officer

Anca Drexler
Manager, Investment Operations

Bob Korkie
Head, Investment Research and Risk Management

Member and Pensioner Services
1 800 637-0024 (toll-free in Canada)
416 681-6100 (Toronto)

General Information
1 800 906-7738 (toll-free in Canada)
416 681-6161 (Toronto)

Fax 416 681-6175

E-mail email@optrust.com

Web site www.optrust.com

OPSEU Pension Trust
1 Adelaide Street East
Suite 1200
Toronto, Ontario
M5C 3A7

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1 Adelaide Street East, Suite 1200
Toronto, Ontario
M5C 3A7
Telephone: 416 681-6161
Toll-free: 1 800 906-7738
Fax: 416 681-6175
www.optrust.com

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