

Want to find out more?

OPTrust's full annual report, including our audited financial statements, is available online at www.optrust.com, along with a list of OPTrust's investments with a value of \$10 million or more. To order a print copy of the annual report, please contact us.



How to Reach Us

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value
service
diligence
growth
**delivering
service today,
building security
for the future**
annual highlights
for members and
pensioners 2003



OPSEU Pension Trust

Fiducie du régime de
retraite du SEFPO



OPSEU Pension Trust

Fiducie du régime de
retraite du SEFPO

2003 at a glance

Financial Highlights

The OPSEU Pension Trust

Since the OPSEU Pension Trust (OPTrust) was launched in 1995, we have worked to provide service and security to you – and almost 75,000 other members and retirees of the OPSEU Pension Plan.

Our mandate is to:

- **Generate** a long-term rate of return on investments that supports our pension promise
- **Deliver** high-quality service and communications to our members and pensioners
- **Provide** you with a real voice in the Plan, through joint trusteeship.

In 2003, we:

- **Achieved an investment return of 17.3%**, outperforming our market benchmark by 3.7%. As a result, the Plan's net assets available for benefits increased by \$1.2 billion to \$9.6 billion at year end.
- **Revised our asset mix policy** and restructured the Plan's foreign equity portfolio. These changes will help ensure the Plan meets our funding target return over the long term.
- **Adopted an enhanced liability management strategy** to manage the effects of investment losses from past years while preserving the long-term security of the Plan.
- **Improved the way we deliver services**, in response to feedback from members and pensioners like you.

At December 31 (\$ millions)	2003	2002
Cost of future pension benefits	8,865	8,389
Actuarial smoothing adjustment*	(704)	(1,774)
Surplus*	1,483	1,878
Net assets available for benefits	9,644	8,493

* The actuarial smoothing adjustment and financial statement surplus for 2002 have been restated to reflect a change in the Plan's smoothing method approved in 2003.



A Long-Term Commitment

To you and almost 75,000 other members and retirees of the OPSEU Pension Plan, the promise of an OPTrust pension is a unique source of financial security for your retirement. To OPTrust's Board of Trustees and staff, it is a significant, long-term commitment.

To pay the estimated cost of members' and retirees' pensions, the Plan needs to earn an average annual investment return of 7.5%. Our projections tell us that this funding target return is both realistic and achievable over the long term.

Since OPTrust's launch in 1995, however, volatile financial markets have caused the Plan's returns to vary considerably from year to year. In 2003, this had major implications – both positive and negative – for the OPSEU Pension Plan.

Responding to Changing Conditions

On one hand, with the rebound of the world's major stock markets, OPTrust's investments performed very well in 2003, generating an overall return of 17.3%. As a result, the Plan's net assets available for benefits rose by \$1.2 billion, to \$9.6 billion at year-end.

On the other hand, OPTrust is managing the effects of substantial investment losses from 2001 and 2002. While the Plan's long-term outlook remains strong, we expect the Plan's next actuarial funding valuation to identify a net funding loss.

The Trustees have therefore made a number of strategic decisions over the past year, to further enhance the Plan's financial stability.

First, the Board approved a series of changes to OPTrust's investment policies. These measures will increase the Plan's ability to meet or exceed our target return over the long term, while keeping risk within acceptable limits.



David Rapaport
Chair, Board of Trustees



Stan Sanderson
Vice-Chair, Board of Trustees

OPTrust's Board includes 10 Trustees, five appointed by OPSEU and five by the Government of Ontario. For a list of the Trustees, please see page 16.

Second, the Board adopted an enhanced "liability management" strategy. As a result, we plan to file our next funding valuation as of December 31, 2003 – one year earlier than legally required. Together with other components of the strategy, this will help us:

- manage the impact of OPTrust's past investment losses
- reduce the risk of contributions rising above the Plan's normal rate over the next three years
- ensure a stable funding base for members' pensions over the long term.

Factor 80 Set to Expire

This strategy will help us manage the anticipated funding shortfall. However, the Plan will not be able to extend the temporary "Factor 80" and "Points-Off" early retirement options, which have been paid for with past gains. As a result, these benefits will expire as scheduled, on March 31 and December 31, 2005, respectively, unless the Plan's sponsors – OPSEU and the Government of Ontario – negotiate additional funding.

The anticipated funding loss will have no impact on the Plan's permanent benefit provisions, retirees' pension payments, or the availability of Factor 80 and Points-Off up to their current expiry dates.

Member Contributions Returning to Normal Rate

Past OPTrust gains have also been used to pay for a temporary reduction in member contributions. Typically, a funding loss would trigger an immediate increase above the Plan's normal contribution rate. However, OPSEU and the Government wisely put aside part of the Plan's previous gains in separate contribution stabilization funds for members and employers. The sponsors have the option of using these funds to offset contribution increases that would otherwise be required.

By filing the 2003 funding valuation, we expect these funds will be enough to keep contributions from rising above normal levels until at least 2007. At that point, we will reassess the situation, based on the results of the Plan's 2006 valuation.

In the meantime, following amendments to the plan text, we expect member contributions will return to the Plan's normal rate on January 1, 2005 – 11 months sooner than previously scheduled. This will help preserve the members' stabilization fund, reducing the risk of additional increases in the future. Employer contributions will continue at the normal rate.

Service and Security

As well as ensuring a stable financial base for your pension, OPTrust continues to focus on delivering high-quality, cost-effective service and communications. In 2003, we made improvements in both the range and the timeliness of these services, in response to feedback from members and pensioners like you.

The Trustees are committed to ensuring that the OPSEU Pension Plan is professionally managed and carefully governed. In 2003, we strengthened OPTrust's policy ensuring the independence of our external auditors. We reviewed the services provided by our external investment advisors and legal counsel. And we benchmarked our governance practices against draft guidelines developed by the Canadian Association of Pension Supervisory Authorities.

We also take an active approach to protecting the value of OPTrust's investments. As a member of the Canadian Coalition for Good Governance, we are working to promote effective corporate governance reform. We systematically vote our shares in publicly traded companies according to our detailed *Proxy Voting Guidelines*. In addition, we are continuing as lead plaintiff in a major U.S. class action lawsuit against Nortel Networks Corp.

Looking ahead, OPTrust is in a strong position to ensure the security of your pension now and into the future, and to continue delivering services that meet your changing needs.

David Rapaport
Chair

Stanley F. Sanderson
Vice-Chair

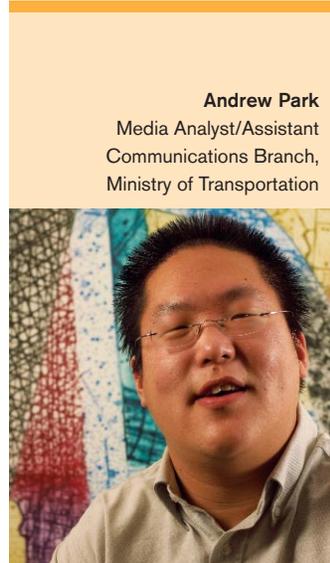
confidence

Your OPTrust Pension – A Promise You Can Count On

As a member or retiree of the OPSEU Pension Plan, your “defined benefit” pension offers a unique source of financial security for your retirement years. Unlike most RRSPs and other individual investments, the value of your OPTrust pension does not rise and fall depending on market returns.

Instead, by contributing to the OPSEU Pension Plan together with your employer, you earn the right to a lifetime pension based on your salary and your years of credit in the Plan.

As long as you continue to earn credit, the value of your pension keeps growing. And once you retire, your pension will increase annually for inflation.



Andrew Park
Media Analyst/Assistant
Communications Branch,
Ministry of Transportation

I work in an unclassified position, so I didn't have to join the pension plan. When I thought about it, though, it seemed like a good idea. My contributions are deducted from my pay, so it's a really convenient way to put money aside for the future. It's great that my employer is contributing to my pension, too. And if I leave my job, I'll have some options for what to do with my pension. I'm a long way from retirement, but I think it's important to plan ahead.

Calculating Your Pension

Your OPTrust pension is based on the following formula:

$$\begin{aligned}
 & 2\% \\
 & \text{times Your best five-year average} \\
 & \text{annual salary} \\
 & \text{times Your years of credit in the Plan} \\
 & \text{minus CPP integration} \\
 & \text{(a reduction at age 65)}
 \end{aligned}$$

- The OPSEU Pension 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.

To estimate your OPTrust pension, visit our online calculator on the OPTrust Web site at www.optrust.com.

Our 7.5% target investment return is a useful tool for measuring OPTrust's investment performance, particularly over the long-term. Since 1995, the Plan has achieved an average annual return of 9.7%.

Over the shorter term, investment results will vary from year to year in response to changing market conditions. So, we also measure our returns against indices – or “benchmarks” – that track the performance of the markets we invest in.

2003 Results

In 2003, OPTrust benefited from a strong recovery in the world's major stock markets. Over the year, we achieved a 17.3% return, compared to 13.6% for our weighted benchmark. The difference – equal to approximately \$310 million – represents the added value generated by OPTrust's investment strategy.

Asset Mix Changes

Diversification is a key element of OPTrust's long-term investment strategy. By investing in different asset types, markets, and industry sectors, we increase our opportunities for growth. At the same time, diversification helps limit the Plan's exposure to downturns affecting specific asset classes.

In 2003, OPTrust adopted a number of significant changes to the Plan's asset mix. These included:

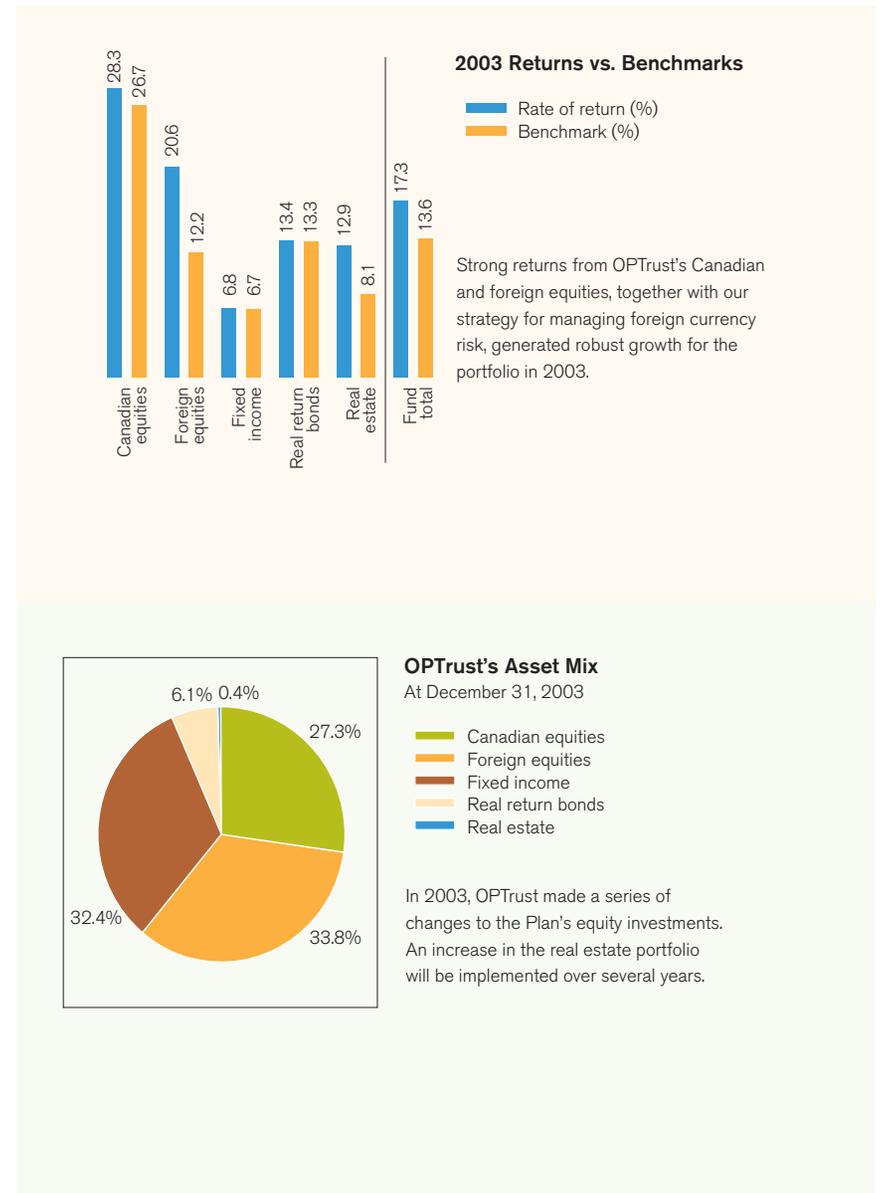
- increasing our investment in stocks from Canada, Europe, Australasia and the Far East (EAFE), and emerging markets
- adopting an “active” investment strategy for approximately three-quarters of our foreign equity portfolio
- increasing our target real estate allocation to 9.5% of the Fund, to be implemented over several years.

These changes were approved based on an extensive study that tested different potential asset mixes to determine the best match for OPTrust's funding requirements.

Managing the Plan's Investments

OPTrust's equities and part of our fixed income portfolio are managed externally by professional investment managers. Each manager is assigned a specific mandate and monitored by our Investment Division. The Investment Division's staff also researches investment opportunities, tracks and analyses performance and monitors factors affecting investment risk.

A list of the Plan's significant investments is available on our Web site at www.optrust.com.



stability

Funding Outlook

By law, OPTrust must carry out an "actuarial funding valuation" at least once every three years. The purpose of the valuation is to confirm whether the Plan's assets are enough to pay the projected cost of members' and retirees' pensions.

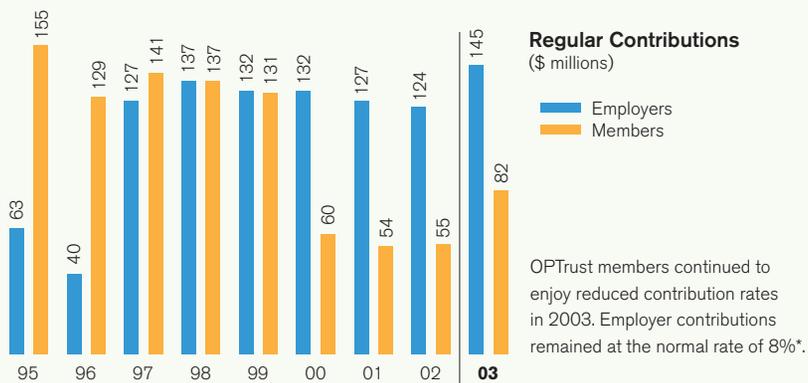
Shared Risks and Rewards

Under joint trusteeship, any gains identified in a funding valuation are shared between OPTrust's members and pensioners and the Government of Ontario. As the Plan's sponsors, OPSEU and the Government can use gains to improve benefits, reduce contributions or add to contribution stabilization funds.

If there is a funding loss, members and the Government share responsibility for making up the shortfall. Normally, this would mean an immediate increase in contributions. However, the sponsors have set aside past gains in separate contribution stabilization funds, which can be used to offset required contribution increases. At the end of 2003, the members' stabilization fund stood at \$172 million, while the employers' fund stood at \$338 million.

Anticipated Funding Loss

Despite our strong investment results in 2003, we expect the Plan's next funding valuation to identify a funding loss. Why? Because OPTrust is still managing the impact of negative investment returns from 2001 and 2002.



* OPTrust contributions are "integrated" with the Canada Pension Plan. As a result, your OPTrust contributions are lower for the part of your salary that is covered by CPP.

Wendy Ness
OPTrust Pensioner



My husband and I are really enjoying our retirement. We go to fitness classes at the YMCA every day. I think it's important to stay active. We have other savings, but my OPTrust pension accounts for the biggest part of our income. It's important to us that my pension is something we can rely on, and that it will keep up with inflation. It's also a big comfort to know that my husband will get a survivor pension, if I die before him. The fact that we qualify for health and dental benefits helps a lot, too.

Like most major pension plans, OPTrust "smooths" each year's investment income or losses over several years. This helps stabilize the Plan by reducing the short-term impact of volatile investment earnings. However, smoothing also means that the Plan still has a substantial deferred loss from 2001–2002, which will be recognized over the next several years.

Managing the Shortfall

Given this funding outlook, the Board plans to file OPTrust's next funding valuation in mid-2004. This timing will increase the Plan's financial stability by spreading the impact of the deferred investment loss over two funding valuations.

Filing the funding valuation in 2004 will also help avoid contribution increases above the Plan's normal rates. Instead, we expect the members' and employers' stabilization funds will be enough to keep contributions at the normal rate of 8% of salary until the next valuation is filed in 2007.

Benefits and Contribution Rates

The funding loss will have no impact on the Plan's permanent benefits or the pensions paid to OPTrust retirees. However, the Plan will not be able to fund an extension of the temporary "Factor 80" and "Points Off" early retirement options, which have been paid for from past gains. As a result, Factor 80 and Points Off will end on March 31 and December 31, 2005, respectively, unless the sponsors negotiate additional funding.

Past gains have also been used to reduce members' contributions since late 1999. For most of 2003, the member contribution rate was 5% of salary, compared to the Plan's normal rate of 8%. On December 1, member contributions rose to 6%, and are set to reach 7% in December 2004.

Under OPTrust's liability management strategy, the final 1% increase to reach the normal contribution rate will take place on January 1, 2005 – 11 months earlier than originally scheduled. This will help preserve the member contribution stabilization fund, to help offset possible increases in the future.

service

Responding to Your Changing Needs

At OPTrust, we make a point of getting input from our members and pensioners, to help us deliver high-quality services tailored to your needs. Through surveys and focus groups you have told us that:

- You value the personal service you receive from OPTrust staff.
- You give us high marks for providing accurate information quickly and courteously.
- You are increasingly interested in communicating with OPTrust – and accessing your personal pension information – online.
- You want us to reduce the time it takes to process complex pension transactions.

Focusing on Prompt, Efficient Service

In response, our staff made significant headway in improving the timeliness of our services in 2003. Over the year, we completed 53,880 individual pension transactions and reduced the number of overdue cases by more than 50%. We also maintained the prompt, friendly telephone service you have come to expect, answering almost 55,000 calls with an average response time of just 10 seconds.

To further improve our service we have established new target transaction times – or “service standards.” Starting in 2004, these standards will help us measure our performance and identify areas where we need to continue improving.

Audrey Forbes
Manager, Member and Pensioner Services
OPSEU Pension Trust



At OPTrust we aim to see the OPSEU Pension Plan from our members' and pensioners' perspective. The Plan's rules sometimes seem quite complicated, and individual members and pensioners have their own unique needs. So, part of our job is to listen carefully and provide clear, accurate information to help them understand their pension options. We then follow through with timely and reliable service – an area where we are continuously trying to improve. Part of providing excellent service is having our members and pensioners come away knowing that they are important to us.

Anticipating Your Needs

As well as responding to your requests, we have begun to use a “proactive” approach to help ensure members are aware of options that may be available. In 2003, for example, we:

- began automatically providing cost quotes, where possible, to new members who are eligible to buy back periods of past service
- launched an outreach program for contract and unclassified employees, which saw 1,400 new members make the decision to join the Plan.

Keeping You Informed

Over the year we continued to keep you informed about your OPTrust pension through a variety of media. Our communications products include print and online versions of our newsletters, booklets and brochures; a range of personalized statements; a CD-ROM for new members; and our extensive Web site. We also continued to deliver pension seminars in workplaces and communities across Ontario.

Online Services

In 2003, we launched a new, password-protected area of our Web site for members and pensioners. Once you register for *Online Services*, you can:

- view and update your personal and beneficiary information
- choose to receive our newsletters and other communications online
- retrieve OPTrust's responses to your confidential pension questions
- view and print your Annual Pension Statement (members)
- view and update your banking instructions, income tax information and insured benefits options (pensioners).

In late 2004, a new feature will allow members to calculate the actual cost of buying back leaves of absence and select their payment option online.

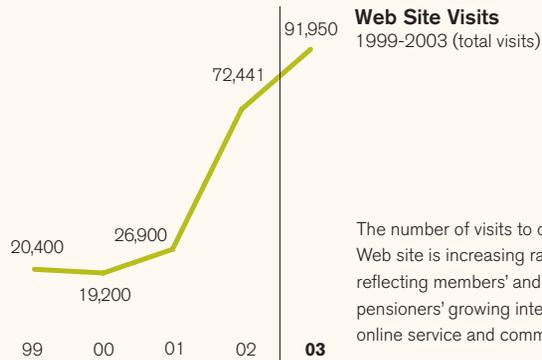
To register for *Online Services*, visit our Web site at www.optrust.com.

Membership Snapshot

At December 31	2003	2002
Active members	45,836	46,361
Former members with entitlements in the Plan	5,181	4,326
Number of new members enrolled	3,935	3,120
Number of members terminating or retiring	3,605	4,598
Current pensioners	18,977	17,713
Deferred pensioners	4,610	4,252
TOTAL MEMBERS AND PENSIONERS	74,604	72,652

OPTrust's active membership remained relatively stable in 2003, after a drop of more than 4,600 members over the previous two years. Factor 80 and the Plan's other early retirement options continued to drive steady growth in the number of current OPTrust pensioners.

12



The number of visits to our Web site is increasing rapidly, reflecting members' and pensioners' growing interest in online service and communications.

Ramona Solevilla
 Client Representative Assistant
 Office of Public Guardian and
 Trustee, Ministry of the
 Attorney General



I'm planning to retire next year. I know it will be a big change, but it's something I've been looking forward to – and getting ready for – for a long time. To me, my OPTrust pension represents security. It's something I know I can depend on. It also means that I will have the freedom to pursue other interests. I've been taking courses on flower arranging, and I'm looking into setting up my own business after I retire.

Each year, OPTrust's financial statements provide a snapshot of the continued strength of the OPSEU Pension Plan – and the long-term security of your pension benefits.

Key indicators include the Plan's net assets, the projected cost of members' and pensioners' earned benefits, smoothed investment gains or losses, and the Plan's financial statement surplus.

Net Assets

In 2003, the Plan's net assets available for benefits rose by \$1,151 million, to \$9,644 million at year-end. This 13.6% increase was due to our strong investment performance, which generated income of \$1.4 billion. Investment growth was partly offset by benefit payments, which exceeded contributions by \$234 million over the year, and by OPTrust's operating expenses, which rose slightly to \$23 million.

Cost of Future Pensions

At the end of 2003, the projected cost of members' and retirees' pensions stood at \$8,865 million, up \$476 million from 2002. This reflects the normal growth in earned benefits, as well as \$25 million to extend benefit improvements to divested members.

13

Actuarial Smoothing

Actuarial smoothing helps reduce the short-term impact of volatile investment returns by recognizing each year's income or losses over several years. In 2003, we revised the way smoothed amounts are calculated, and began recognizing them over five years instead of four. These changes will help provide a more stable base for our long-term pension obligations.

Because of OPTrust's negative returns in 2001–2002, smoothing meant that the Plan had a deferred investment loss of \$704 million at the end of 2003. The recognition of this loss will significantly reduce the Plan's surplus over the next several years.

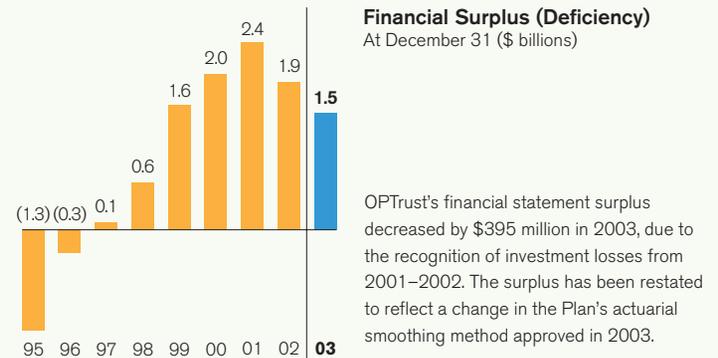
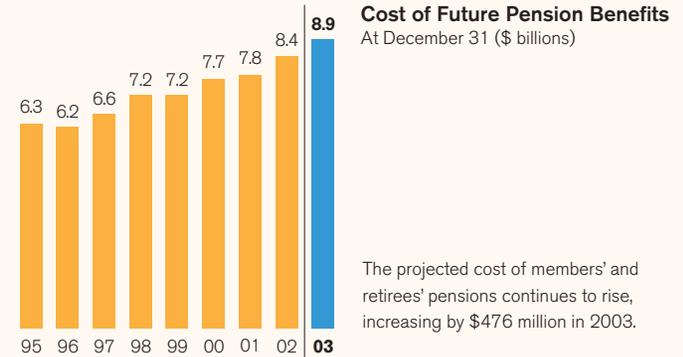
Surplus

In 2003, the Plan's financial statement surplus decreased to \$1,483 million at year-end, down from \$1,878 million in 2002. This drop was largely due to the recognition of part of the Plan's smoothed losses from prior years.

The financial statement surplus is not a funding gain that can be used to improve benefits or reduce contributions. Funding gains and losses are calculated in a separate actuarial funding valuation. The funding valuation uses more conservative projections of the cost of benefits and the Plan's investment growth than the financial statement valuation.

Funding Outlook

The Plan's next funding valuation, for the period ending December 31, 2003, will be filed in August 2004. We anticipate that this valuation will identify a funding loss. Please see pages 8-9 for information on how OPTrust is prudently managing this funding shortfall.



accountability

OPTrust's Board of Trustees

The OPSEU Pension Trust was established to give members and the Government of Ontario an equal voice in the administration of the OPSEU Pension Plan and the investment of the Plan's assets through joint trusteeship.

As sponsors, the Government of Ontario and the Ontario Public Service Employees Union (OPSEU) each appoint five Trustees to OPTrust's Board. The Trustees work together, in a voluntary capacity, to serve the interests of OPTrust's 75,000 members and pensioners.

Members of the Board

(At December 31, 2003)

David Rapaport, Chair*

Project Co-ordinator
Ministry of Education

Stanley F. Sanderson, Vice-Chair**

Former Vice-President (retired)
Assante Capital Management Ltd.

Robert Bellamy**

Former Vice-Chairman (retired)
Burns Fry Limited

Jordan Berger*

Supervisor, Strategic Planning and
Policy Development
Ontario Public Service Employees
Union (OPSEU)

Jennifer Brown**

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

Alicia Czekierda*

Secretary, Robarts/Amethyst Schools
Ministry of Education

Heather Gavin*

Administrator, Central Services
Ontario Public Service Employees Union
(OPSEU)

Don Jordan*

Occupational Health and Safety Officer
Ministry of Labour

Tony Ross**

Former Vice-Chair (retired)
Merrill Lynch Canada

Deborah Stark**

Assistant Deputy Minister, Agriculture
and Rural Division
Ministry of Agriculture and Food

One Trustee left the Board in 2003:

Daniel Kott*

Forest Technical Specialist
Ministry of Natural Resources

* Appointed by OPSEU

** Appointed by the Government of Ontario

Senior Management, Administration Division

Colleen Parrish, LLB

President and Plan Manager

Bob 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

August Cruikshanks

Managing Director, Investment Research

Anca Drexler

Managing Director, Investment
Operations and Risk Management

Robert Korkie

Head, Investment Research and Risk
Management

Professional Advisors to the Trustees

Actuaries

Mellon (formerly Buck Consultants)

Auditors

PricewaterhouseCoopers LLP

Custodian

Royal Trust Corporation of Canada

Investment Consultants

Hewitt Associates (James P. Marshall)

Legal Counsel

Koskie Minsky

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