value
diligence
trust

delivering service today, building security for the future

annual report 2003

confidence
growth
service
accountability
balance
responsibility

OPTrust

OPSEU Pension Trust

Fiducie du régime de retraite du SEFPO

With assets under management of $9.6 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 almost 75,000 members and pensioners.

Contents

In 2003, OPTrust:

Achieved an investment return of 17.3%, outperforming our weighted 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 implemented a significant restructuring of the Plan's foreign equity portfolio to better position the Plan to meet 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 our members and pensioners.

OPSEU Pension Trust

Since OPTrust's launch in 1995, we have worked to provide service and security to the members and retirees of the OPSEU Pension Plan. Our mandate reflects three key objectives:

Generating a long-term rate of return on investments that supports our pension promise

Delivering the finest service and communications to our members and pensioners

Ensuring members and pensioners have a real voice in the Plan, through joint trusteeship

2003 at a glance

Financial Highlights

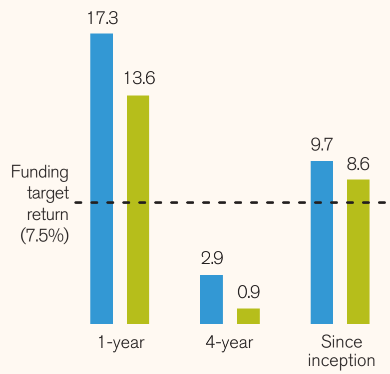
At December 31 ($ millions)	2003	2002
Current cost of future pensions		
Active members	**4,096**	3,861
Pensioners	**4,077**	3,791
Deferred and divested members	**692**	737
Total	**8,865**	8,389
Actuarial smoothing adjustment *	**(704)**	(1,774)
Surplus*	**1,483**	1,878
NET ASSETS AVAILABLE FOR BENEFITS	**9,644**	8,493

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

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
Change in total membership	**330**	(1,478)
Pensioners		
Current	**18,977**	17,713
Deferred	**4,610**	4,252
TOTAL MEMBERS AND PENSIONERS	**74,604**	72,652

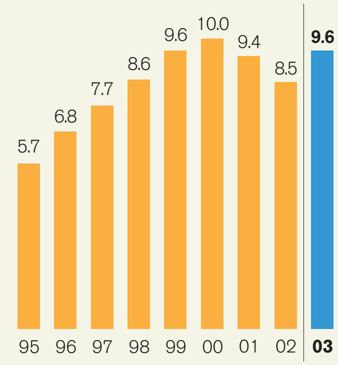
Investment Performance



Despite the volatility of the financial markets, OPTrust has achieved an average annual return of 9.7% since 1995, outperforming both the 8.6% average for our market-based benchmark and the Plan's 7.5% funding target return.

Net Assets Available for Benefits

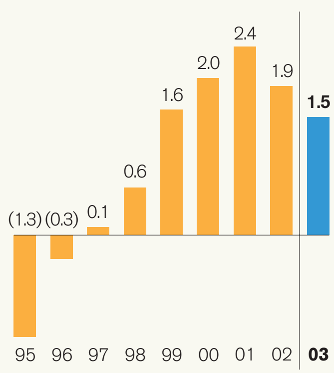
At December 31 ($ billions)



The Plan's net assets increased to $9.6 billion in 2003, driven by investment gains of more than $1.4 billion.

Financial Surplus (Deficiency)

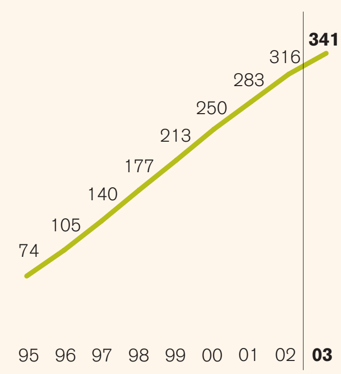
At December 31 ($ billions)



OPTrust's financial statement surplus decreased by $395 million in 2003, due to the recognition of investment losses from 2001–2002. The surplus has been restated to reflect a change in the Plan's actuarial smoothing method approved in 2003.

Growth in Pension Payroll

($ millions)



OPTrust's pension payroll continues to increase rapidly as eligible members take advantage of the Plan's early retirement options and retirees' pensions rise annually to reflect inflation.

stability

care

diligence

trust

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 description of the Board's structure and mandate and a list of the Trustees, please see pages 47-48 of this report.

Almost 75,000 members and pensioners count on the OPSEU Pension Trust to provide them with a secure income in their retirement, and service and communications tailored to their needs.

As Trustees, we are accountable to them and to the Plan's sponsors – the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario – for delivering on this mandate, today and into the future.

integrity

Message from the Chair and Vice-Chair

A Long-Term Commitment

By contributing to the OPSEU Pension Plan together with their employers, OPTrust members earn the right to a "defined benefit" pension, based on their salary and years of credit in the Plan. To our members and retirees, this pension promise is a unique source of financial security. To OPTrust, it represents a major, long-term commitment.

At OPTrust, our most fundamental responsibility is to ensure that funds are available to pay the projected cost of members' and retirees' pension benefits, while minimizing the risk that members' and employers' contributions may rise above the Plan's normal rate.

To support our estimated funding obligation, we need to generate an average annual investment return of 7.5%. Our actuarial projections indicate that this funding target return is both realistic and achievable over the long term. Since OPTrust's inception in 1995, the Plan's investment returns have varied considerably from year to year, as a result of volatility in the financial markets. Over the past year, this volatility had significant implications – both positive and negative – for the OPSEU Pension Plan.

Responding to Changing Conditions

In 2003, OPTrust achieved an overall investment return of 17.3% as the world's major equity markets rebounded sharply following two consecutive years of double-digit losses. As a result, the Plan's net assets available for benefits increased by $1.2 billion, to $9.6 billion at year-end. Since 1995, we have achieved an average annual return of 9.7%, outperforming both our market benchmark and the Plan's 7.5% target return.

At the same time, however, OPTrust is managing the effects of investment losses from 2001 and 2002. While the Plan's long-term outlook remains strong, we expect the 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.

Investing for the Future

OPTrust's investment program is designed to realize the 7.5% investment return needed to fund members' pensions over the long term, while keeping investment risk within acceptable limits. With this goal in mind, the Trustees approved a number of changes to the Plan's investment policies in 2003. These included:

- maintaining the Plan's 60% allocation to equities, while increasing our exposure to Canadian, EAFE (Europe, Australasia and the Far East) and emerging markets
- implementing a new investment manager structure for our foreign equity holdings
- increasing the Plan's target real estate allocation to 9.5% of the portfolio, to be implemented over a period of several years.

These measures reflect the findings of a detailed asset/liability study carried out in 2002, and will strengthen the Plan's ability to meet our target return over the long term.

Managing the Plan's Liabilities

With the prospect of a funding loss in the short term, the Board of Trustees also adopted an enhanced liability management strategy in the fall of 2003.

As part of this strategy, we have revised the Plan's "actuarial smoothing" method. Smoothing reduces the short-term impact of volatile investment returns by deferring – or "smoothing" – part of each year's gains or losses over several years. By adjusting the way smoothed amounts are calculated, and recognizing them over a longer period, our new method will help ensure a more stable funding base for the Plan's pension liabilities.

In addition, we plan to file our next actuarial funding valuation as of December 31, 2003 – one year earlier than legally required. This timing will result in earlier funding improvements, and manage past losses over the Plan's next two funding valuations. The Board will confirm this decision once the 2003 actuarial valuation is completed, in mid-2004.

Benefits and Contribution Rates

While the liability management strategy will help mitigate the impact of a funding shortfall, the projected loss has implications for two temporary benefit enhancements, which have been funded from the members' share of past gains in the Plan.

"Factor 80" and "Points-Off" are time-limited early retirement options that are scheduled to expire on March 31 and December 31, 2005, respectively. With an anticipated funding loss, the Plan will not be in a position to extend these temporary benefits, unless the sponsors negotiate additional funding. The funding loss will have no impact on the Plan's permanent benefit provisions or pension payments, or on these temporary retirement benefits up to their expiry dates.

Previous plan gains have also been used to pay for a temporary reduction in member contributions. Typically a funding loss would trigger an immediate increase in both member and employer contributions above the Plan's normal rate. However, OPSEU and the Government have the option of drawing on separate contribution stabilization funds for members and employers, which they prudently established from past gains. With the filing of the 2003 funding valuation, we expect these funds will be sufficient to prevent contributions from rising above normal levels until at least 2007, when the situation will be assessed based on the next scheduled valuation.

Under the liability management strategy, we expect member contributions to return to normal rates on January 1, 2005 – 11 months sooner than previously scheduled. This will help maintain the members' stabilization fund at a level that reduces the risk of additional contribution increases in the future.

Enhancing Service
As well as ensuring a stable funding base for members' and pensioners' earned benefits, OPTrust is committed to providing them with high-quality, cost-effective service and communications. In 2003, we continued to expand the range and improve the timeliness of these services, in response to members' and pensioners' feedback.

Over the year, for example, OPTrust reduced the backlog of overdue transactions by more than 50%. This has positioned us to establish a set of service standards that members and pensioners, staff and the Board can use to measure the timeliness of key transactions, starting in 2004. We expanded the range of information and services we provide online, while maintaining prompt, personal service, both over the telephone and in face-to-face presentations in communities across Ontario. We also launched a special outreach program for contract employees, to ensure they are aware of their option to enrol in the Plan voluntarily – and receive the same pension benefits as permanent employees, for whom membership is mandatory.

Best Practices
The Trustees are committed to ensuring that the OPSEU Pension Plan is professionally managed and carefully governed. In 2003, we established a Governance and Compensation Committee to review OPTrust's governance practices and monitor the performance and compensation of its senior managers. We also benchmarked our governance practices against draft guidelines developed by the Canadian Association of Pension Supervisory Authorities. This comparison showed that OPTrust compares very favorably to the best practices advocated by this organization, which represents Canada's federal and provincial pension regulators.

The Board consults with independent professional advisors as well as OPTrust's management team to ensure that decisions are based on the best available advice. In 2003, the Trustees personally reviewed the services provided by our legal counsel and external investment consultants. We also established a schedule for evaluating our other professional advisors and agents in future years, as part of an ongoing monitoring program. At the same time, we strengthened our policy on non-audit services, to further reinforce the independence of our external auditors.

Corporate Governance
In 2003, events in the corporate sector again demonstrated the importance of sound governance practices in preserving and enhancing shareholder value. As a member of the Canadian Coalition for Good Governance, OPTrust is working with other major institutional investors to promote effective corporate governance reform. We also actively vote our shares in publicly traded companies according to our detailed *Proxy Voting Guidelines*, which address a range of best practices in corporate governance.

OPTrust is the lead plaintiff in a major U.S. class action lawsuit against Nortel Networks Corp. In 2003, the class action was certified by a New York court, and the certification was later upheld on appeal. OPTrust's role as lead plaintiff in this case is consistent with our position as a major institutional investor with a long-term interest in the integrity of the capital markets.

Board Changes
In 2003, we welcomed one new Trustee to the Board. Jordan Berger is OPSEU's Supervisor of Strategic Planning and Policy Development, and returns to the Board after serving in an interim capacity in 2001. We also said farewell and thank you to Daniel Kott, who left the Board after three years.

Serving on the Board is both a major responsibility and a significant personal commitment. We are grateful to all our fellow Trustees for their care and dedication to the interests of our members and pensioners. We look forward to working with them, our sponsors, and OPTrust's management and staff over the coming year.

David Rapaport
Chair

Stanley F. Sanderson
Vice-Chair

care
reliability
communication
diversity

service

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 my pension means we qualify for health and dental benefits helps a lot, too.

SERVICE HIGHLIGHTS

In 2003, we completed almost 54,000 transactions on behalf of our members and pensioners, reducing the number of overdue cases by more than 50%.

OPTrust's Web site received over 91,000 visits, up 27% from the previous year.

More than 1,400 contract employees chose to join the Plan voluntarily in 2003, in response to OPTrust's outreach program.

Responding to Members' and Pensioners' Needs

Our members and pensioners rely on the OPSEU Pension Trust to provide them with a lifetime pension in their retirement years. They also expect prompt, personalized service and timely information about their pension options and benefits. At OPTrust, we are dedicated to meeting both of these commitments.

A Secure Pension

For OPTrust members and pensioners, the OPSEU Pension Plan represents a unique source of financial security for their retirement years. Unlike many RRSPs and other individual investments, the value of an OPTrust pension does not fluctuate with changing market returns. Instead, each member's "defined benefit" pension is based on his or her salary and years of pension credit. As long as members contribute to the Plan, the value of their pension continues to grow. And once they retire, their pension increases annually to keep pace with inflation.

Temporary Plan Provisions
In addition to the Plan's regular provisions, members enjoyed a number of time-limited enhancements in 2003, funded from past gains in the Plan. These included:

- Factor 80 – an early retirement option that allows active and divested members to retire with an unreduced pension if their age plus credit total *exactly* 80 years
- "Points Off" – which increases the pensions for active and divested members and deferred pensioners who retire with a *reduced* pension at age 55 or older
- Reduced member contributions – for most of 2003, the member contribution rate was 5% of salary, integrated with the Canada Pension Plan. On December 1, this increased to 6%. The Plan's normal contribution rate is 8%.

Factor 80 and Points Off will expire on March 31, 2005 and December 31, 2005 respectively. Members' contributions are scheduled to increase by a further 1% on December 1, 2004. Under OPTrust's new liability management strategy, a final 1% increment to bring members' contributions to the Plan's normal rate is expected to take effect on January 1, 2005. This will help preserve the existing member contribution stabilization fund, to offset potential increases above normal rates in the future.

Listening to Our Members and Pensioners
At OPTrust, we make a point of seeking our members' and pensioners' input to help us deliver high quality services that respond to their needs and priorities.

In 2003, we distributed questionnaires to more than 6,000 individuals who completed transactions with OPTrust, as part of our ongoing client satisfaction survey. Respondents were asked to evaluate the service they received and identify areas for improvement. We also used telephone surveys and focus groups to gather members' and pensioners' views on specific topics.

Together, the responses paint a clear picture of our clients' service priorities – and how we measure up. In particular, we found that members and pensioners:

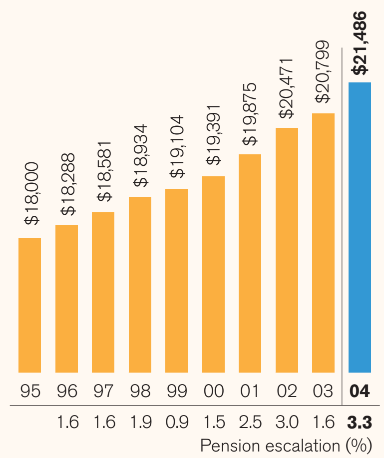
- value the personal service they receive from OPTrust staff
- give us high marks for providing accurate information quickly and courteously
- find our newsletters, booklets and other communications useful and informative
- are increasingly interested in communicating with OPTrust and accessing their personal pension information online
- want us to improve the time it takes to process more complex transactions.

OPTrust's pension promise

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)**

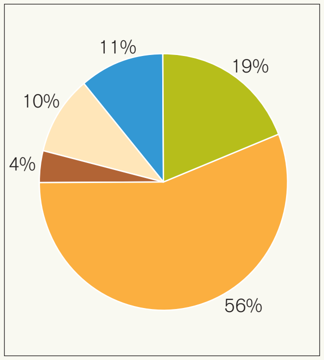
- Additional plan features include early retirement options, inflation protection and survivor benefits.
- For qualifying members, post-retirement health, dental and life insurance benefits are provided separately by the Government of Ontario.



Inflation Protection for Pensioners
1995-2004

OPTrust pensions are adjusted annually for inflation. A pensioner who received a typical annual pension of $18,000 in 1995 would receive $21,486 in 2004.

2003 Retirement Snapshot

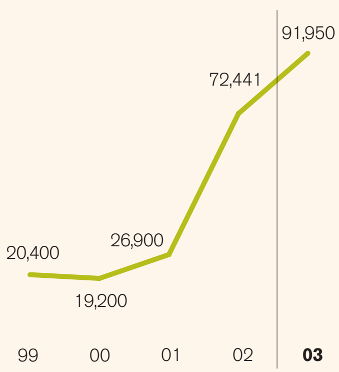


Retirement Option

- Age 65
- Factor 80
- Factor 90
- 60/20
- Reduced

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.

Web Site Visits
1999-2003 (total visits)



The number of visits to our Web site (www.optrust.com) continues to increase rapidly, reflecting members' and pensioners' growing interest in online service and communications.

This information, as well as comments and suggestions from individuals, continues to help us respond to members' and pensioners' evolving needs.

Providing Timely, Efficient Service

In 2003, our Member and Pensioner Services staff made significant headway in improving the timeliness of our services. Over the year, we completed 53,880 individual pension transactions, while reducing the number of overdue cases to 2,523 at year-end. This represents a cut of more than 50% in our case backlog, compared to the previous year. In the meantime, we maintained the prompt, personal telephone service our members and pensioners have come to expect from OPTrust, answering almost 55,000 calls with an average response time of just 10 seconds.

Service Standards

Building on these improvements, we have established a new set of service standards to be implemented in 2004. These standards set out target times for the completion of a wide range of pension transactions – from enrolling new members to processing retirements. The result is a series of benchmarks that we will use to measure our performance and identify areas where we need to direct available resources.

The new standards also reflect our ongoing commitment to quality assurance. By incorporating the time our staff needs to check each transaction for accuracy, we will continue to ensure that members receive the full value of the benefits they are entitled to and have accurate information on which to base important financial decisions.

Anticipating Members' Needs

As well as responding promptly and efficiently to requests from members and pensioners, OPTrust has begun to apply a proactive service model, to ensure that members are aware of pension options that are available to them.

In 2003, for example, we introduced a service enhancement for newly enrolled members who are eligible to buy back credit for periods of past service. Wherever possible, OPTrust now sends these members a buyback cost quote automatically, rather than waiting for them to submit an application. As well as providing the information they need to make their buyback decision, this reduces the risk that they will miss the Plan's 24-month buyback application deadline. In many cases, however, OPTrust cannot automatically identify eligible periods of past service. As a result, members who do not receive a buyback quote from OPTrust must still submit an application within the 24-month time limit.

Over the past year, we used this proactive approach to reach another group: contract (or "unclassified") employees who have the option to join the Plan voluntarily. Through our outreach program, we provided thousands of potential members with information on the Plan's benefits and their option to enrol. In the program's first year, more than 1,400 contract employees elected to join – and earn the same pension benefit as permanent employees, for whom membership is mandatory.

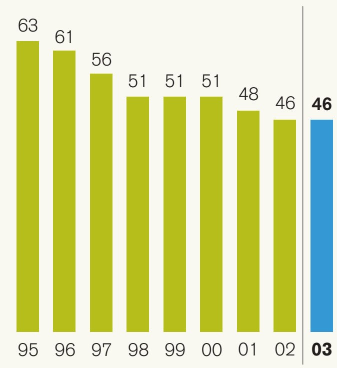
Communicating through Multiple Channels

To make sound decisions about their pensions and financial futures, members and retirees need clear, practical information about their options and entitlements under the Plan. In 2003, we continued to use a variety of media to provide them with the information they need, where and when they need it. Our communications products range from printed newsletters, brochures and personal statements to CD-ROMs and the OPTrust Web site (www.optrust.com).

- Over the year, we published new booklets on purchasing, or "buying back," credit and on divestments, two areas where members have told us they need more detailed information.
- We enhanced our Pensioner Information Change Statement, to provide retirees with regular, personalized updates on their OPTrust pensions, including the Plan's annual inflation-related increase.
- We launched a new series of lunchtime pension seminars in members' workplaces, in addition to our continuing pension information sessions delivered in community settings. Overall, more than 1,250 members attended one of 50 presentations, held in 38 different Ontario communities.

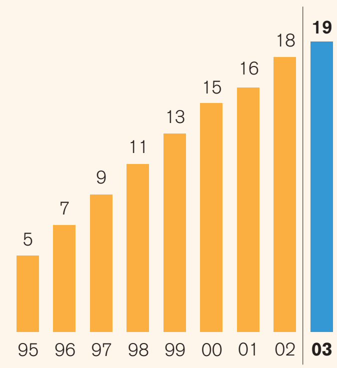
Web-Based Services

Since we launched OPTrust's Web site (www.optrust.com) in late 1998, our members' and retirees' interest in accessing pension information online has grown steadily. In 2003, the site registered more than 90,000 visits, an increase of 27% over the previous year – and more than 240% since 2001.



OPTrust's Active Membership
At December 31 (thousands)

The decline in the number of active members slowed considerably in 2003, after a drop of more than 4,600 members over the previous two years.



OPTrust's Current Pensioners
At December 31 (thousands)

The availability of the temporary Factor 80 provision, together with the Plan's other early retirement options, continued to drive steady growth in OPTrust's pensioner population.

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.

In response, we continue to increase the range of information and planning tools we provide online. In 2003, for example, we enhanced our popular pension estimator and launched a new retirement income calculator, which allows both members and pensioners to estimate their total retirement income under a wide range of scenarios. Later in the year, we launched *Online Services*, a personalized, password-protected area of our Web site for members and pensioners.

Online Services allows members and pensioners to view and update personal information such as the beneficiaries they have identified and their mailing addresses, telephone numbers and e-mail addresses. They can also choose to receive OPTrust newsletters and other communications in an electronic format. In 2004, we will add new functions to the secure *Online Services* site, including:

- two-way messaging allowing registered users to retrieve OPTrust's responses to their confidential pension questions
- an option for members to view and print their Annual Pension Statements
- an online buyback feature that members can use to calculate the cost of purchasing credit for leaves of absence and select their payment option
- options allowing pensioners to view and update their banking instructions, income tax information and insured benefits coverage.

OPTrust's Changing Demographics

Over the year, the number of active members in the Plan dropped slightly, declining by 525 to 45,836 at year-end. The number of current pensioners maintained its steady upward trend, increasing by almost 1,300 to 18,977. Of the Plan's new pensioners in 2003, 70% retired with an unreduced pension under one of the Plan's early retirement options.

The transfer of provincial government services to other employers continued to have an impact on OPTrust's membership in 2003:

- Approximately 550 members left the Plan as a result of the transfer of provincial Driver Examination Centres to a private sector employer.
- More than 130 former members retained the right to a "special deferred pension" from OPTrust, following the divestment of the Province of Ontario Savings Office.
- Approximately 500 employees at the former Lakehead Psychiatric Hospital remained as active plan members under the Plan's "grandfathering" provision, following the hospital's divestment to the St. Joseph's Health Care Group.

membership statistics

At December 31	**2003**	2002	2001	2000	1999	1998	1997	1996	1995
Active members	**45,836**	46,361	48,221	50,993	51,363	51,491	56,177	60,724	63,389
Female/male ratio	**59:41**	58:42	59:41	58:42	56:44	55:45	54:46	54:46	52:48
Average age	**44.3**	44.2	44.0	44.0	44.0	43.9	43.7	42.6	41.9
Average salary ($)	**46,922**	45,232	43,055	42,017	42,112	40,646	40,232	40,600	39,809
Average years of credit in the Plan	**11.3**	11.4	11.6	12.0	12.2	12.4	12.3	11.6	11.1
Former members with entitlements in the Plan	**5,181**	4,326	3,944	2,906	3,336	3,066	–	–	–
Total membership	**51,017**	50,687	52,165	53,899	54,699	54,557	56,177	60,724	63,389
Number of new members enrolled	**3,935**	3,120	4,237	3,640	3,882	2,854	1,737	1,055	2,070
Number of members terminating or retiring	**3,605**	4,598	5,971	4,440	3,740	4,474	6,284	3,720	1,944
Net change in total membership	**330**	(1,478)	(1,734)	(800)	142	(1,620)	(4,547)	(2,665)	126
Deferred pensioners	**4,610**	4,252	3,206	1,929	1,116	597	412	199	45
Current pensioners	**18,977**	17,713	16,282	14,711	12,971	11,024	9,001	7,012	4,836
Average age	**63.4**	62.6	64.0	63.0	62.0	60.0	60.0	60.0	59.9
Average annual pension ($)	**18,430**	18,434	17,963	17,734	17,615	17,370	17,390	16,942	17,953
Type of pension									
Normal and early unreduced	**16,180**	15,199	14,079	12,747	11,286	9,569	7,839	6,190	4,360
Reduced	**1,466**	1,376	1,274	1,163	1,021	908	734	518	307
Survivor	**1,289**	1,107	911	792	656	540	423	301	167
Disability	**42**	31	18	9	8	7	5	3	2
Total members and pensioners	**74,604**	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.

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 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.

growth
confidence
trust
responsibility

INVESTMENT HIGHLIGHTS

OPTrust achieved an investment return of 17.3% in 2003, outperforming the 13.6% rise in the Plan's weighted market benchmark.

In 2003, we implemented a new foreign equity portfolio structure, adding both active equity and active currency management.

The Trustees approved a strategic plan for increasing OPTrust's real estate investments to 9.5% of the portfolio.

security

Investing for the Future

Performance over the Long Term

OPTrust's investment objective is shaped by our obligation to provide our members and pensioners with a secure lifetime income in their retirement. To do this, the Plan must achieve the long-term growth needed to support the pension promise, while assuming a prudent degree of risk.

To meet this funding commitment, OPTrust's investment portfolio must produce an average real rate of return (after inflation) of 4.0% per year, over the long term. Assuming inflation of 3.5% per year, the Plan's nominal target return for funding purposes is 7.5%. This target is both a key determinant in structuring the Plan's investment portfolio and an important measure of our investment performance.

Over the nine years since OPTrust began investment operations, the OPSEU Pension Plan has achieved an average annual return of 9.7%, exceeding the funding target return by 2.2%. During this period, investment returns have varied substantially from year to year in response to changing market conditions. For this reason, we also measure the relative performance of the portfolio against indices – or "benchmarks" – that track the overall performance of the markets in which we invest. The Plan's 9.7% average annual return since 1995 has outperformed the portfolio's weighted benchmark, which registered an average return of 8.6% annually for the same period.

2003 Investment Overview

In 2003, we benefited from a strong recovery in the world's equity markets. At the same time, OPTrust's investment strategy generated additional gains, driven largely by two factors:

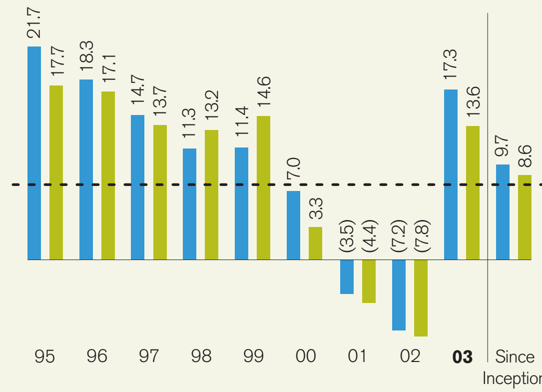
- the continued hedging of approximately 50% of the Plan's foreign currency exposure, and
- the restructuring of our foreign equity portfolio, in the second half of the year, to increase the proportion that is actively managed and add exposure to emerging markets.

Over the year, OPTrust's portfolio achieved a return of 17.3%, generating net investment income of $1.4 billion. Our benchmark, in contrast, registered a return of 13.6%. The weighted benchmark represents the return the Plan would have achieved based on a purely passive management style. As a result, OPTrust's investment strategy added value of 3.7%, or approximately $310 million before fees.

Canadian Equities: Like most other developed stock markets, the Toronto Stock Exchange experienced a significant upturn in 2003, returning 26.7% as measured by the benchmark S&P/TSX Composite Index. By comparison, OPTrust's Canadian equity portfolio registered a 28.3% return, outperforming the benchmark by 1.6%. The difference, equal to approximately $33 million, represents the value added by OPTrust's active Canadian equity managers, who are responsible for approximately 50% of the total Canadian equity portfolio.

Since the Plan's inception, our Canadian equity portfolio has been a significant source of growth, returning an average of 10.7% per year, compared to an average return of 9.6% for the S&P/TSX Composite Index over the same period.

Global Equities: After two years of double-digit losses, most of the world's major equities markets rebounded sharply in 2003. Against this backdrop, OPTrust's global equity portfolio returned 20.6% for the year, outperforming our weighted benchmark by 8.4%.



Returns vs. Benchmarks, 1995-2003

OPTrust's investment portfolio has outperformed the Plan's market-based benchmark in 7 out of the past 9 years. The 9-year annualized return exceeds both our funding target and the benchmark return.

In 2003, our foreign currency hedging program added value of approximately $254 million, compared to an unhedged strategy. In the second half of the year, the addition of active equity management for developed foreign markets resulted in approximately $8 million in added value before fees, while the new allocation to emerging markets added value of approximately $42 million before fees. Over the Plan's nine years of operation, our global equities portfolio has generated an average annual positive return of 7.8%, versus 6.7% for our combined foreign equity benchmark.

Fixed Income: Canadian fixed income investments, which accounted for approximately 32% of the Plan's portfolio, returned less than OPTrust's equities in 2003. With their lower risk profile, fixed income investments are expected to return less than equities over the long term. Fixed income investments, however, tend to provide greater certainty of returns than stocks, and are an important source of diversification for the overall portfolio.

OPTrust's actively managed bond portfolio returned 7.2% in 2003, outperforming the Scotia Capital Universe Bond Index benchmark return of 6.7%. Over the same period, the Plan's Government of Ontario debentures, which we measure against the same benchmark, returned 6.7%. As a result, the overall return for our fixed income investments was 6.8% for the year, representing $4 million in added value.

Inflation-Sensitive Investments: Real return bonds and real estate are expected to perform well in periods of rising inflation. As a result, these investments offer a measure of protection against inflation-related increases in the value of members' and retirees' pensions. In 2003, our real return bond portfolio had a solid year, returning 13.4%. Our real estate investments, which account for 0.4% of the total portfolio, posted a healthy 12.9% return, exceeding the 8.1% return of the benchmark Investment Property Databank Ltd. Canadian Property Index.

Note: For a list of OPTrust's investments with a value over $10 million, please visit the OPTrust Web site at www.optrust.com.

Asset Mix Changes

Diversification is a key element of OPTrust's long-term investment strategy. 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 asset classes.

In 2003, OPTrust began implementing a number of significant changes to the Plan's overall asset allocation. The Trustees approved this restructuring of the investment portfolio based on an extensive study of alternative portfolio allocations that was completed in late 2002.

Equities: While the overall target allocation to equities (60%) did not change, certain components of the asset mix were adjusted, based on 10-year economic and capital market forecasts:

- Canadian equities were increased by 5% to a target of 25%. This change reflects both a slightly higher long-term growth forecast used for Canada's gross domestic product (GDP) compared to that for the United States, and the closer link between factors that affect Canadian equity values and the Plan's Canadian-dollar pension obligations.
- Part of the Plan's target foreign equity allocation was shifted out of U.S. stocks to markets in Europe, Australasia and the Far East (EAFE) and emerging markets. These changes were made to achieve greater diversification and take advantage of the higher expected rate of return for non-U.S. equities.

Inflation-Sensitive Investments: The Trustees also approved a 10% increase in the Plan's inflation-protection portfolio, with a corresponding reduction in the Plan's allocation to "nominal" fixed income investments. The increased use of inflation-sensitive investments provides a better match with the Plan's inflation-linked liabilities. The changes, some of which will be implemented over several years, include:

- increasing the Plan's target real estate allocation to 9.5%
- increasing the real return bond portfolio to 7.5%
- reducing nominal fixed income investments to 23%.

Active Equity Management

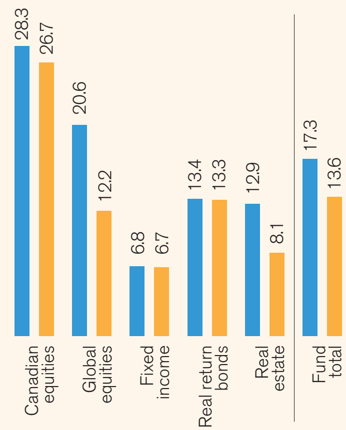
In 2003, OPTrust's Investment Division implemented an "active" investment strategy for the majority of the OPSEU Pension Plan's foreign equity holdings. Approximately three-quarters of the Plan's $3.4 billion global stock portfolio is now actively managed.

Active vs. Passive Strategies: Like most large institutional investors, OPTrust uses a combination of "active" and "passive" strategies for managing the Plan's equity investments. Under a passive, or "index" strategy, the manager maintains a mix of assets that is designed to track the movement and match the performance of a major stock market index – such as the S&P/TSX Composite Index in Canada or the S&P 500 Index in the United States. With an "active" mandate, in contrast, managers are authorized to buy and sell stocks as they see fit, subject to limits set out in their investment management agreements with OPTrust. In general, active strategies offer the possibility of higher returns than the given market index, but typically carry higher investment management fees and a higher level of risk.

Foreign Equity Management Structure: At the same time as the Board of Trustees approved the shift to a largely active strategy, it adopted a new structure for the management of the Plan's foreign equity portfolio. OPTrust's non-Canadian equities are now managed by nine specialist investment management firms. Eight of these firms have been hired with active investment mandates, focusing on specific international markets. A ninth, Barclays Global Investors, continues to manage two portfolios using a "synthetic" strategy, designed to match passively managed portfolios of U.S. and EAFE stocks.

The new foreign equity management structure allows OPTrust managers to match their investment strategies to the local conditions in particular markets. For example, with U.S. "large capitalization" equities, studies have shown that relatively few active managers consistently outperform the benchmark S&P 500 Index. In other markets – including EAFE and the emerging markets – most active managers are expected to perform better than their respective index, after costs, over the long term.

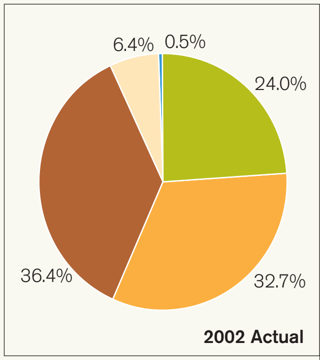
2003 Returns vs. Benchmarks



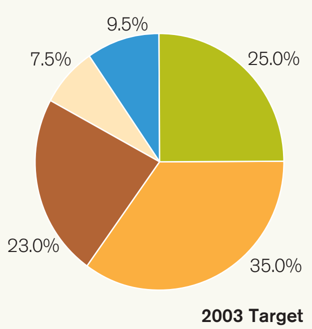
Strong returns from OPTrust's Canadian and global equities, together with OPTrust's strategy for managing foreign currency risk, generated robust growth for the portfolio in 2003.

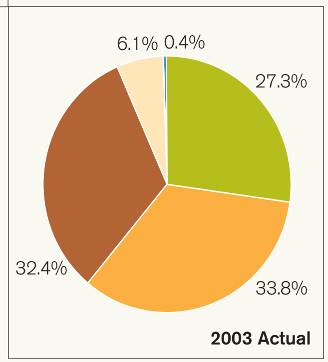
OPTrust's Asset Mix

- Canadian equities
- Global equities
- Fixed income
- Real return bonds
- Real estate



In 2003, OPTrust implemented a series of changes in the portfolio's equity allocations. An increase in the Plan's real estate investments will be implemented over several years.





Management of Foreign Currency Exposure

As part of our review of the Plan's asset mix and foreign equity manager structure, OPTrust undertook an analysis of the Fund's foreign currency exposure. As a result, we confirmed our long-term approach to managing foreign currency risk by hedging about 50% of our foreign currency exposure in relation to movements in the Canadian dollar.

Additional analysis determined that active management of the Fund's foreign currency exposure is likely to add value relative to passive management. As a result, the Fund retained two active currency managers in the second half of 2003.

New Real Estate Program

In 2003, the Board of Trustees approved a significant increase in the Plan's allocation to real estate, as part of a new program to be developed over a period of several years. Real estate is expected to provide a better return over the long term than fixed income investments, which it will gradually replace in the Plan's asset mix. At the same time, expanding our real estate portfolio offers an important hedge against inflation risk and provides additional diversification to offset volatility in other asset classes.

To achieve the objectives for this program, OPTrust has retained a specialized real estate consulting firm and made a commitment to the development of a real estate group within our Investment Division.

OPTrust's Investment Managers

In 2003, OPTrust reconfirmed our strategic philosophy of using selected external investment managers to manage the Plan's equity assets and a portion of our fixed income portfolio. Using external firms allows us to benefit from the specialized expertise of a wide range of investment professionals. By the end of 2003, OPTrust had implemented significant changes and additions to our line-up of investment managers as a result of the active strategy for foreign equities discussed above.

Each of our investment managers is assigned a specific mandate and contracted to manage a portfolio based on detailed requirements established by OPTrust. All of our investment managers are actively monitored by OPTrust's Investment Division staff, to assess their performance and ensure that they are operating within their designated mandates.

Investment Managers and Strategies

	Manager	Strategy	Focus
Canadian Equities	TD Asset Management	Passive	S&P/TSX Composite Index
	Beutel, Goodman and Company Ltd.	Active	Canadian large capitalization
	J.R. Senecal & Associates	Active	Canadian large capitalization
	Guardian Capital Inc.	Active	Canadian large capitalization
Foreign Equities	Barclays Global Investors	Passive	Synthetic foreign index strategies
	Wellington Asset Management	Enhanced passive	U.S. large capitalization
	JL Kaplan	Active	U.S. small-medium capitalization
	Rothschild Asset Management	Active	U.S. small-medium capitalization
	Grantham Mayo Otterloo	Active	Foreign ex-U.S.
	Walter Scott Partners	Active	Foreign ex-U.S.
	Alliance Bernstein	Active	All foreign markets
	Marathon London	Active	All foreign markets
	Baillie Gifford	Active	Emerging markets
Foreign Currency	Barclays Global Investors	Active and Passive	Developed market currencies
	Lee Overlay Partners	Active and Passive	Developed market currencies
Fixed Income	Phillips, Hager & North Investment Management Ltd.	Active	Canadian government and corporate bonds
Real Estate	Penreal Capital Management	Closed-end funds	Canadian retail, office and industrial properties

Corporate Governance

As a major institutional investor, OPTrust has an interest in promoting high standards of corporate governance and ensuring the effective functioning of capital markets.

Proxy Voting: OPTrust uses a leading independent proxy voting organization, Institutional Shareholder Services (ISS), to actively vote our shares. This approach 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 *Proxy Voting Guidelines* approved by the Trustees. These guidelines address key governance issues such as the appointment of independent auditors and directors, compensation and stock option plans, and 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.

Advocacy on Governance Issues: As part of our ongoing commitment to promoting sound corporate governance, OPTrust continued in 2003 as an active member of the Canadian Coalition for Good Governance (CCGG). This organization includes a number of leading Canadian pension plans and institutional investment managers, representing over $500 billion in institutional investment assets. The coalition's mission is to represent Canadian institutional shareholders through the promotion of corporate governance best practices and to align the interests of boards and management with those of shareholders.

diligence
reliability
balance
foresight

Douglas Chau
Investment Research Analyst
OPSEU Pension Trust

In the Investment Division we continued with the development of systems that enhance our ability to analyze the performance of our external investment managers, and monitor their compliance with investment mandates set by OPTrust. This is particularly important with the increase in the proportion of the fund that is actively managed. We also use these systems to analyze investment risk and ensure that the Plan's exposures don't exceed limits set by the Trustees.

RISK MANAGEMENT HIGHLIGHTS

Our results-oriented risk management program focuses on three key areas: investment risk, liability risk and operational risk.

In 2003, OPTrust adopted an enhanced liability management strategy to reduce contribution volatility and help ensure the Plan's financial stability over the long term.

The Trustees approved a change to the method for smoothing OPTrust's investment returns, providing a better match with the Plan's pension obligations.

stability

Managing Risk

OPTrust has a fiduciary obligation to work to ensure the long-term security of our members' and retirees' pensions. We therefore take a systematic approach to risk management. Anticipating potential risks, 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.

A Long-Term Perspective

The pension benefits earned by members are underwritten by the OPSEU Pension Plan Trust Fund and cannot be reduced while the Plan remains in effect. As a result, we are responsible for ensuring that funds are available to meet this obligation now and into the future. 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 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 anticipated (liability risk).

Actuarial gains and losses occur when the Plan's liability or investment experience differs from our actuarial assumptions. Net gains identified in a funding valuation are shared between the Plan's members and pensioners and the Government of Ontario. Gains may be used by the sponsors to improve benefits, reduce contributions or add to contribution rate stabilization funds, to reduce the impact of future contribution increases.

If a funding valuation identifies a net actuarial loss, the shortfall must be funded through automatic contribution increases. These increases can be offset, in whole or in part, through the use of established stabilization funds. The Plan has $172 million in a member contribution stabilization fund as at December 31, 2003, and $338 million in a stabilization fund for employers. As sponsors, OPSEU and the Government of Ontario are responsible separately for decisions on the use of the respective stabilization funds.

Investment Risk

OPTrust has established target nominal rates of return of 7.5% for funding valuation purposes, and 7.75% for financial statement purposes. The Trustees recognize that to meet these return objectives, the Plan must assume a reasonable degree of investment risk. OPTrust's *Statement of Investment Policies and Procedures* sets out our overall approach to managing a range of investment risks.

Diversification: A key factor in determining OPTrust's investment return – and the level of assumed risk – is the composition of the Plan's investment portfolio. OPTrust currently invests in a diversified mix of assets, including Canadian and international equities, fixed income investments, real return bonds and real estate. The Plan's asset mix is established based on the risk and return characteristics of each asset category, how the different asset classes correlate to each other, and how they correlate to the Plan's liabilities. 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.

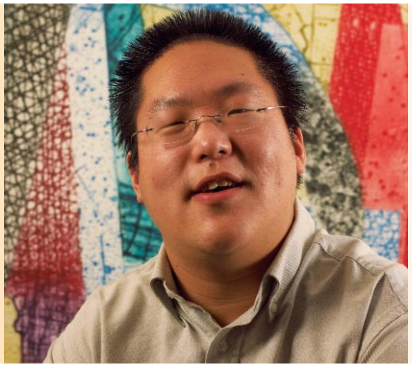
OPTrust undertakes periodic asset/liability studies to determine the asset mix that has the highest probability of meeting the Plan's long-term funding requirements, while reducing the risk of contribution increases. In 2002, OPTrust commissioned a detailed study that tested the performance of a wide range of asset categories and potential portfolio allocations under some 600 projected economic scenarios. After further analysis, the Board of Trustees adopted a number of strategic changes to the Plan's asset mix policy in 2003. These changes, which are discussed in detail on pages 15–17, are expected to provide the best balance between anticipated return and risk over the long term, based on the Plan's projected liabilities and funding requirements.

Rebalancing: Over time, differences in returns for various asset classes mean that the Plan's actual asset allocation will tend to diverge from the target allocations. OPTrust therefore applies a rebalancing policy to maintain the Plan's asset mix policy – and the appropriate balance between risk and return.

In 2003, we revised the rebalancing policy to manage significant variations from our target asset class allocations, while keeping risk within established limits. The policy sets ranges for the proportion of the Fund that may be allocated to each asset class, to provide for the dynamic and flexible rebalancing of the portfolio. This allows OPTrust to consider short-term market conditions, and ensures that the costs of rebalancing do not offset the benefits.

Risk Budgeting: In addition to the changes in the Plan's asset mix, OPTrust increased the proportion of the Plan's investment portfolio that is actively managed. This change was implemented during the second half of 2003 using a "risk budgeting" framework.

The rationale for adding active management is the potential to achieve a higher investment return than a passively managed portfolio. However, active management typically involves additional risk, also known as "active risk." The goal of risk budgeting is to achieve an optimal combination of passive and active investment styles, within a predefined limit for the total risk assumed by the Plan.



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.

By using this method, OPTrust has been able to expand the proportion of the Fund that is actively managed without exceeding fixed limits on the active risk allocated to each asset class or to individual active managers.

Other Investment Risks: OPTrust manages the Plan's exposure to earnings volatility resulting from changes in currency exchange rates, as discussed on page 17. Our approach to managing a range of investment risks – including currency, interest rate, geographic, credit, liquidity and individual security risks – is also discussed in Note 4 to the financial statements, included in this report.

Liability Risk

OPTrust takes a systematic approach to managing liability risk. This involves ensuring that estimates of the cost of members' and retirees' earned pensions are sound and that contributions and investment income will be sufficient to fund these entitlements. We therefore review the Plan's actuarial assumptions on a regular basis, testing them against the Plan's experience and projections regarding future conditions. We also carry out sensitivity analyses to determine the potential impact should experience differ from assumptions regarding investment income and the cost of members' entitlements.

In 2003, the Trustees adopted an enhanced liability management strategy to help ensure the long-term financial stability of the Plan. The goal is to manage the funding implications of the Plan's investment losses during the market downturn of 2001 and 2002. The strategy includes three key components:

- adjusting OPTrust's actuarial smoothing methodology to better reflect the Plan's liabilities
- advancing the date of the Plan's next actuarial funding valuation
- increasing the ongoing monitoring and analysis of trends that could affect the Plan's funded status in the future.

Revised Smoothing Method: In 2003, the Trustees adopted a revised actuarial smoothing method for both funding and financial statement purposes, based on a detailed analysis of the Plan's liabilities. "Smoothing" is an accepted actuarial technique that involves recognizing a portion of each year's investment gains or losses over a number of years. This means that in good years part of the Plan's investment income is set aside, while in poor years a portion of any loss is deferred. While smoothing does not decrease the impact of lower than expected returns over long periods, it mitigates the effects of volatile returns over the short term. The result is a better match between the "actuarially adjusted" value of the Plan's assets and our long-term pension obligations.

Under OPTrust's previous smoothing method, the Plan's realized and unrealized investment gains or losses were recognized evenly over four years. With the new method, smoothing is applied to the difference between the Plan's 7.75% expected long-term rate of return for financial statement purposes and the actual investment return for the year, while smoothed amounts are recognized over a five-year period. In addition, smoothing is now applied to interest and dividend income, which was previously recognized in the year it was earned.

Using the expected long-term rate of return both to discount the Plan's pension obligations and to smooth investment income provides for the most consistent matching of assets and obligations. By the same token, recognizing smoothed income or losses over an additional year reduces the impact of short-term earnings volatility and better reflects the structure of the Plan's long-term liabilities.

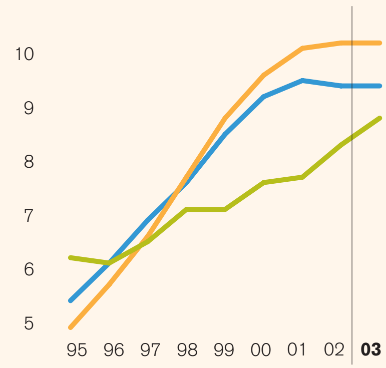
Compared to OPTrust's previous technique, the new smoothing method tends to increase the deferral of losses and reduce the amount of deferred gains. However, the method maintains a conservative bias in periods when the Plan meets or exceeds our long-term investment target. To provide for an additional margin of conservatism, the rate of return used to calculate smoothed income is reduced by 0.75% to 7.0% for the Plan's funding valuations.

The effect of the change in smoothing methods, which has been applied retroactively, is described in Note 3 to the financial statements.

Funding Outlook

OPTrust is required to conduct and file actuarial funding valuations at least once every three years. In addition, we carry out annual interim valuations as part of our liability management program. These valuations ensure that the Trustees have access to current data on factors affecting the Plan's funding situation and ensure that decisions are based on accurate information. They also provide a basis for considering whether particular actuarial assumptions need to be revised in response to emerging trends.

Smoothing, Net Assets and Liabilities
At December 31 ($ billions)



Our new smoothing method provides a better match between the actuarial value of the Plan's net assets and the projected cost of members' pensions.

In August 2003, the Trustees received the results of the Plan's interim funding valuation as at December 31, 2002. This valuation and additional analyses established that the Plan's economic and demographic assumptions remain realistic and provide a sound basis for establishing our funding requirements.

At the same time, actuarial projections indicated that the Plan faces the probability of a funding loss when the next funding valuation is filed. This is primarily the result of negative investment returns from 2001 and 2002.

Funding Valuation: As part of the Plan's enhanced liability management strategy, the Trustees have indicated an intention to file an actuarial funding valuation as at December 31, 2003 – one year earlier than required. With this approach, the impact of the Plan's investment losses from 2001 and 2002 would be spread across two funding valuation cycles. Part of these losses would be recognized for funding purposes as of December 31, 2003. The balance would be recognized three years later. The Trustees will confirm the decision to file the 2003 valuation once its results are available, in mid-2004.

Contribution Rates: Any actuarial loss identified in a funding valuation must be paid down through contribution increases sufficient to amortize the loss over a maximum of 15 years. However, the Plan's existing stabilization funds can be used to reduce contributions that would otherwise be payable.

Current projections indicate that if OPTrust files the 2003 funding valuation, the members' and employers' respective stabilization funds will be sufficient to maintain contributions at the Plan's normal level for a three-year period. Under this scenario, member contributions would return to the Plan's normal rate on January 1, 2005. Members currently enjoy a reduced contribution rate as a result of past gains in the Plan.

As sponsors, OPSEU is responsible for decisions on the use of the members' stabilization fund while the Government of Ontario is responsible for decisions regarding the employer's stabilization fund.

Liability Monitoring: Whether additional losses emerge in subsequent funding valuations is dependent, in part, on future investment earnings. However, actuarial smoothing means that the Plan will enter the next valuation cycle with deferred losses totalling $568 million, for funding valuation purposes. OPTrust will therefore continue actively monitoring trends that could affect the Plan's liabilities and funding position and exploring options for ensuring the long-term stability of plan benefits and contribution rates.

Operational Risk

At OPTrust, we manage operational risk through a process that focuses on establishing clear objectives, identifying the risks related to these objectives and establishing processes to manage these risks.

OPTrust has put in place a program, reporting to the Audit Committee, to systematically review areas of risk in our administration operations, address potential concerns and incorporate best practices for managing these risks on an ongoing basis. In 2003, we completed risk assessments for our member and pensioner services functions and conducted independent tests of the effective operation of key controls in the Administration Division. We also carried out tests of our disaster recovery program, as part of an overall management plan to ensure critical functions such as payment of pensions would continue, even in adverse circumstances.

We design and evaluate our risk safeguards with the assistance of external risk management specialists. The operational risk management program will be expanded to include investment operations in 2004.

responsibility growth integrity confidence

Steve Foote
Senior Financial Analyst
OPSEU Pension Trust

Detailed, reliable financial analysis and reporting is essential for an organization like OPTrust. By providing senior management and the Board of Trustees with a clear picture of the Plan's financial position, we are helping them make sound decisions to safeguard the Plan's assets over the long-term. As an organization, we take our responsibility to members and pensioners very seriously. That's why we're committed to applying best practices in financial reporting.

FINANCIAL HIGHLIGHTS

The Plan's net assets available for benefits rose to $9.6 billion in 2003, driven by investment income of more than $1.4 billion.

OPTrust's financial statement surplus decreased by $395 million to $1.5 billion, reflecting the recognition of investment losses from 2001 and 2002.

With OPTrust's revised smoothing method, the Plan had a deferred investment loss of $704 million at year-end, which will reduce the surplus in future years.

accountability

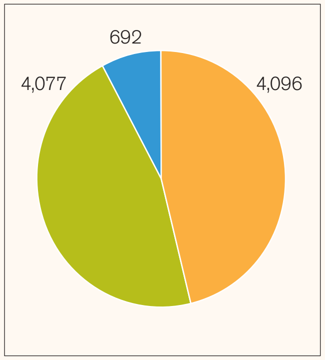
2003 Financial Overview

At OPTrust, we take a long-term financial perspective to help ensure the security of the pension promise now and into the future. This approach has enabled the Fund to weather considerable capital market volatility over the nine years since our inception.

The financial statements offer our members, pensioners and sponsors a snapshot of the OPSEU Pension Plan's financial position as at December 31, 2003. The statements also provide a number of key measures of the continuing security of members' and retirees' pension benefits. These include the Plan's net assets available for benefits, the value of accrued pension benefits, the impact of actuarial smoothing of investment gains and losses, and the Plan's financial surplus at year-end.

Net Assets Available For Benefits

In 2003, the Plan's net assets available for benefits rose by $1,151 million, to $9,644 million at year-end. The significant increase in net assets was due to the Plan's strong investment performance, which generated income of $1.4 billion. The net assets also reflect benefit payments that exceeded contributions by $234 million over the year, and operating expenses of $23 million.

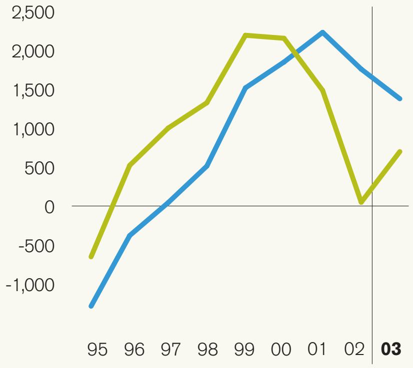


Accrued Pension Benefits
At December 31 ($ millions)

- Active members
- Current pensioners
- Divested members and deferred pensioners

Total: 8,865

Active members and pensioners each account for 46% of the Plan's accrued benefits. The remaining 8% of the accrued liability, represents the value of deferred pensions owed to terminated and divested members.



Actuarial Smoothing and Surplus
At December 31 ($ millions)

- Unadjusted surplus (before smoothing)
- Reported surplus (after smoothing)

The reported surplus has been restated to reflect changes in the Plan's smoothing method. At the end of 2003, the Plan had a net deferred loss of $704 million, which will reduce the surplus over the next four years.

Net assets include the Plan's investments as well as contributions receivable, capital assets and other accrued income. These amounts are offset by liabilities that are in the process of being settled at year-end.

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 $8,865 million, up $476 million from 2002. Of this increase, $438 million reflects normal growth in the Plan's accrued benefits. This includes income required on previously earned benefits and benefits earned over the year, offset by payments to pensioners and terminating members. Experience losses and the extension of certain benefit improvements to divested members increased accrued pension benefits by an additional $38 million.

"Actuarial Smoothing"

Actuarial smoothing is an accepted technique used to cushion the Plan against significant short-term fluctuations in annual investment earnings. Smoothing involves deferring part of each year's investment gains or losses for recognition in future years. The deferred portion of gains or losses is referred to as the "actuarial asset value adjustment."

In 2003, the Board of Trustees adopted a revised smoothing methodology. As a result, we now apply smoothing based on the difference between OPTrust's expected rate of return and the actual return achieved in any given year. Smoothed amounts are recognized over a five-year period. This change, which is discussed in detail on pages 21 and 22, provides for more consistent matching of the Plan's assets and liabilities.

The revised smoothing method represents a change in accounting policy and has been applied retroactively, as described in Note 3 to the financial statements. The change does not affect past funding valuations.

As at the end of 2003, the actuarial asset value adjustment comprised deferred losses totalling $704 million. This represents a decrease of $1,070 million, from a deferred loss of $1,774 million at the end of 2002.

2003 financial overview

Surplus

The Plan's financial statement surplus decreased to $1,483 million at year-end, down from $1,878 million at the end of 2002. The decrease resulted primarily from the recognition of deferred investment losses from prior years. The financial statement surplus is not an actuarial gain for funding purposes that can be used by the sponsors to improve benefits or reduce contributions.

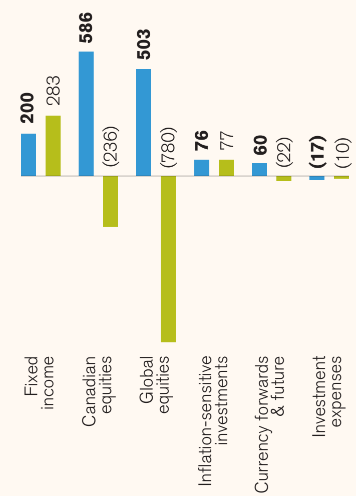
Rate Stabilization Funds: The surplus includes contribution rate stabilization funds established by the sponsors using actuarial gains identified in the 2001 funding valuation. The separate stabilization funds can be used, at the discretion of each sponsor, to reduce contributions that would otherwise be payable as a result of a future funding shortfall.

At December 31, 2003, these funds totalled $172 million for the member stabilization fund and $338 million for the employer stabilization fund, including accrued interest.

Changes in Net Assets

OPTrust uses investment income and contributions to fund payments to pensioners, other payments to or on behalf of terminating members, and operating expenses. When investment income and contributions are greater than these payments, the excess is reinvested in the Plan, increasing the net assets available for benefits. A decrease in net assets would result if benefit payments and expenses exceed income and contributions.

Investment Income: In 2003, OPTrust earned net investment income of $1,408 million, compared to a loss of $688 million in 2002. The strong performance of the Plan's Canadian and foreign equities contributed the bulk of our investment gains over the year. Investment expenses rose by $7 million, to $17 million. This reflects the higher investment fees resulting from the increase in the proportion of the Plan's foreign equities that were actively managed in the second half of the year.



Net Investment Income
($ millions)

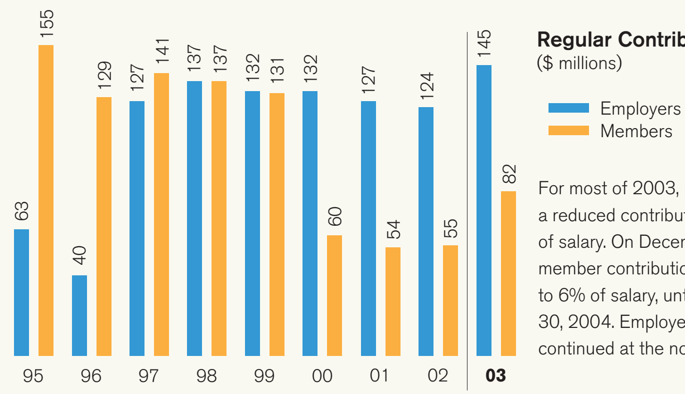
2003 total : 1,408
2002 total: (688)

The Plan's investment income for 2003 reflects the strong performance of the Canadian and international stock markets.

Value of Investment Assets

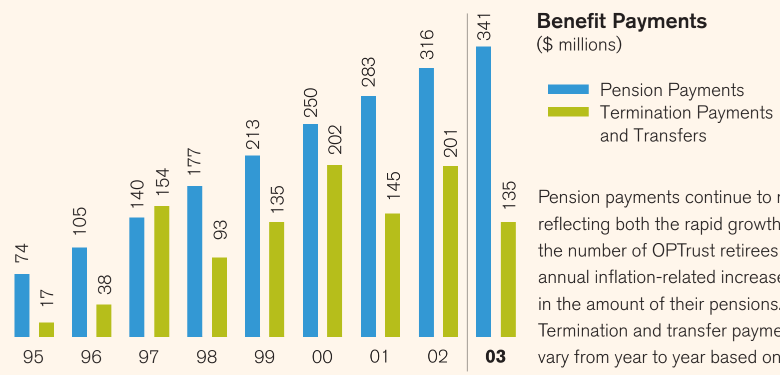
At December 31 ($ millions)	**2003**	2002
Marketable fixed income	**1,025**	890
Government of Ontario debentures	**2,090**	2,200
Fixed income	**3,115**	3,090
Canadian equities	**2,601**	2,017
Global equities	**3,265**	2,784
Equities	**5,866**	4,801
Inflation-sensitive investments	**622**	590
Investment-related receivables	**108**	23
Investment-related liabilities	**(88)**	(12)
Net Investments	**9,623**	8,492

Note: For a list of OPTrust's investments with a value over $10 million, please visit the OPTrust Web site at www.optrust.com.



Regular Contributions
($ millions)

For most of 2003, members paid a reduced contribution rate of 5% of salary. On December 1, 2003, member contributions increased to 6% of salary, until November 30, 2004. Employer contributions continued at the normal rate of 8%.



Benefit Payments
($ millions)

Pension payments continue to rise, reflecting both the rapid growth in the number of OPTrust retirees and annual inflation-related increases in the amount of their pensions. Termination and transfer payments vary from year to year based on changes in members' employment.

Contributions: Regular pension contributions from members and employers totaled $227 million in 2003, up from $179 million in 2002. For most of 2003, member contributions were reduced by 3% of salary. The reduction was adjusted to 2%, effective December 1, 2003. This temporary reduction has been funded with a portion of the members' share of actuarial gains from 1999-2001. Employer contributions continued at the Plan's normal rate throughout 2003.

Total contributions to the Plan were $242 million in 2003, a decrease of $52 million from the previous year. In 2002, OPTrust received a one-time $99 million payment from the Government of Ontario, in settlement of a liability arising from the restatement of the Plan's original funding valuation as at December 31, 1992.

Pension Payments: OPTrust's pensioner population continued to grow in 2003, reaching 18,977 pensioners at year-end. Pension payments increased by 7.9% to $341 million, compared with $316 million in 2002. The Factor 80 early retirement provision, which expires on March 31, 2005, continues to be a significant factor in the rapid growth of OPTrust's pensioner population.

OPTrust pensions are adjusted annually for inflation. In January 2003, retirees received a pension increase of 1.6% (compared to 3% in 2002) under the Plan's inflation protection provision.

Terminations and Transfers: Refunds and transfers out of the Plan decreased to $135 million in 2003 from $201 million in 2002. Transfers to the Public Service Pension Plan (PSPP) account for a significant proportion of this total, as OPTrust members move to management or other positions that require membership in the PSPP. The higher amount for 2002 reflects the transfer of 1,300 members of the Ontario Provincial Police Association out of the Plan during that year.

Administrative Expenses: Administrative expenses increased marginally to $22.8 million in 2003, compared to $22.2 million in 2002.

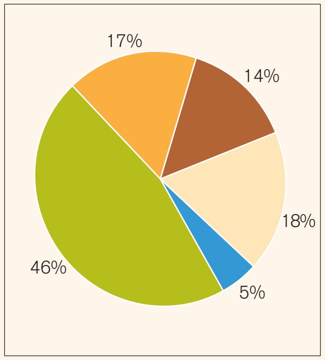
Actuarial Valuations
OPTrust relies on periodic actuarial valuations to assess the value of the Plan's assets and its ability to pay for members' and pensioners' earned benefits. As a registered pension plan, OPTrust is legally required to complete an actuarial funding valuation at least once every three years. A separate valuation is performed annually for use in preparing the Plan's financial statements.

The funding and financial statement valuations rely on different valuation techniques to determine the Plan's accrued pension benefits. The financial statement valuation uses the "projected unit credit cost" method; the funding valuation uses the "aggregate" method. The financial statement valuation is based on members' current service information. In contrast, the funding valuation includes both current and projected future service, resulting in a greater degree of conservatism.

In addition, both valuations use actuarial assumptions concerning the growth of the Plan's assets and the future cost of members' and pensioners' benefits. 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.

Funding Valuation: The Plan's most recent funding valuation as at December 31, 2001 was completed and filed with the Financial Services Commission of Ontario in 2002. The valuation disclosed actuarial gains of $867 million for the years 1999 to 2001.

Under the Plan's Sponsorship Agreement, actuarial gains identified in a funding valuation are shared between the Plan's members and pensioners and the Government of Ontario. Of the $867 million in gains identified in 2002, the membership's share represented $473 million while the Government of Ontario's share was $394 million.



2003 Administrative Expenses

- Salaries and benefits
- Professional and administrative services
- Office premises and operations
- Information technology
- Communications

OPTrust's administrative expenses totalled $22.8 million in 2003.

Gains Allocation: As a plan sponsor, OPSEU is responsible for determining how to use the members' share of gains. In 2002, OPSEU used $302 million to fund a package of benefit improvements and a modified 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 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. The Government allocated the remaining $297 million to establish a separate fund to stabilize employer contribution rates.

Financial Statement Valuation: OPTrust completes a financial statement valuation on an annual basis. The Plan's accrued pension liabilities have been extrapolated for 12 months from an interim valuation conducted at December 31, 2002, in order to prepare the financial statements as of December 31, 2003. Because of differences in actuarial methodology, timing and assumptions, amounts vary from those in the funding valuation.

Actuarial Assumptions: OPTrust reviews the Plan's economic assumptions annually to ensure they reflect management's expectations of future trends. We also carry out sensitivity analyses to test the impact of potential adjustments to the assumptions. In 2003, OPTrust concluded that the assumptions continued to be realistic and appropriate.

Economic Assumptions: Financial Statement vs. Funding Valuations

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

*Percentage shown does not include assumed promotion-related salary increases.

Auditor Independence

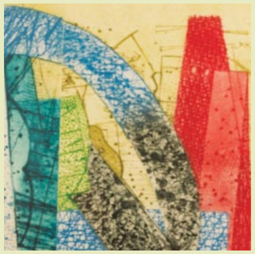
During 2003, the Board of Trustees approved a policy for the pre-approval of services performed by the external auditor, PricewaterhouseCoopers. This policy was developed to preserve and enhance the accountability and independence of the external auditor. The new policy supplements the current policy on the use of professional advisors and significant agents, which has been effective since 2002.

The pre-approval process requires that the Audit Committee review and approve a schedule of anticipated permissible services required from the external auditor. Permissible services include the statutory audit, tax consulting services, risk management and other audit-related services. The external auditor may not perform specific services such as bookkeeping, systems implementation, services for actuarial, valuation or internal audit purposes, and other services that could compromise audit independence.

Auditor's Fees, 2003 vs. 2002

($ thousands, including taxes)	**2003**	2002
External audit	**110**	108
Risk management	**88**	162
Tax services	**29**	16
Audit-related membership rollforward	**–**	38
Total	**227**	324

accountability
balance
value
diligence
trust
confidence
service
responsibility



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, actuarial asset value adjustment and surplus of the Ontario Public Service Employees Union Pension Plan (the Plan) as at December 31, 2003 and December 31, 2002 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for each of the two 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 audits 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, actuarial asset value adjustment and surplus of the Plan as at December 31, 2003 and December 31, 2002 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 2, 2004

PRICEWATERHOUSECOOPERS

actuaries' certificate

We performed an interim actuarial valuation of the Ontario Public Service Employees Union Pension Plan (the OPSEU Pension Plan) for funding purposes as of December 31, 2002 as stated in Note 6 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 6 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, 2003 in accordance with the Canadian Institute of Chartered Accountants Handbook Section 4100. The valuation was based on an extrapolation of the interim valuation as at December 31, 2002 and the accrued pension benefits determined using membership data from December 31, 2002, the projected unit credit cost method prorated on service and management's best estimate assumptions for financial statement purposes as set out in Note 6. In our opinion, the assumptions are, in aggregate, appropriate for the purposes of the financial statement valuation.

In our opinion, the December 31, 2003 actuarial valuation for financial statement purposes was prepared in accordance with accepted actuarial practice.

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

Charlene Moriarty
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

February 2, 2004

Mellon

management responsibility for financial reporting

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 selection and training 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 themselves 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

Colleen Parrish
President and Plan Manager

Charlie Eigl

Charlie Eigl
Vice-President, Finance

statement of net assets available for benefits and accrued pension benefits, actuarial asset value adjustment and surplus

As at December 31 ($ millions)	2003	2002
ASSETS		
Investments (Note 5)	**$ 9,711**	$ 8,504
Contributions receivable		
Employers	**24**	25
Members	**7**	7
Property and equipment, net	**10**	13
	9,752	8,549
LIABILITIES		
Accounts payable and accrued charges	**(20)**	(44)
Investment-related liabilities (Note 5)	**(88)**	(12)
	(108)	(56)
NET ASSETS AVAILABLE FOR BENEFITS	**$ 9,644**	$ 8,493
ACCRUED PENSION BENEFITS (Note 6)		
Active members	**4,096**	3,861
Pensioners	**4,077**	3,791
Deferred and divested members	**692**	737
	8,865	8,389
ACTUARIAL ASSET VALUE ADJUSTMENT (Note 7)	**(704)**	(1,774)
SURPLUS (Note 8)		
Rate stabilization funds	**510**	475
Unallocated surplus	**973**	1,403
	1,483	1,878
ACCRUED PENSION BENEFITS, ACTUARIAL ASSET VALUE ADJUSTMENT AND SURPLUS	**$ 9,644**	$ 8,493

On behalf of the Board of Trustees

David Rapaport
Chair

Stanley F. Sanderson
Vice-Chair

statement of changes in net assets available for benefits

For the years ended December 31 ($ millions)	2003	2002
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	**$ 8,493**	$ 9,426
Net investment income/(loss) (Note 9)	**1,408**	(688)
Contributions (Note 11)	**242**	294
Benefit payments		
Retirement pensions	**(341)**	(316)
Transfers to other plans	**(100)**	(161)
Refunds and commuted value transfers	**(35)**	(40)
Operating expenses (Note 12)	**(23)**	(22)
NET INCREASE/(DECREASE) IN ASSETS AVAILABLE FOR BENEFITS	**1,151**	(933)
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**$ 9,644**	$ 8,493

statement of changes in accrued pension benefits

For the years ended December 31 ($ millions)	2003	2002
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	**$ 8,389**	$ 7,832
INCREASE IN ACCRUED PENSION BENEFITS		
Income required on accrued pension benefits	**655**	613
Benefits earned	**259**	254
Experience losses	**13**	–
Benefit improvements	**25**	268
	952	1,135
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits paid	**476**	517
Experience gains	**–**	61
	476	578
NET INCREASE IN ACCRUED PENSION BENEFITS	**476**	557
ACCRUED PENSION BENEFITS, END OF YEAR	**$ 8,865**	$ 8,389

statement of changes in surplus

For the years ended December 31 ($ millions)	2003	2002
EXPERIENCE GAINS/(LOSSES) RELATED TO INVESTMENTS		
Net investment income/(loss)	**$ 1,408**	$ (688)
Change in actuarial asset value adjustment	**(1,070)**	1,000
Income required on accrued pension benefits	**(655)**	(613)
	(317)	(301)
OTHER EXPERIENCE GAINS/(LOSSES)		
Benefits earned in excess of contributions	**(17)**	(59)
Operating expenses	**(23)**	(22)
Experience (loss)/gain on demographic assumptions	**(13)**	61
	(53)	(20)
OTHER CHANGES IN SURPLUS		
Benefit improvements	**(25)**	(268)
Pension data purification project adjustment (Note 11)	**–**	99
	(25)	(169)
NET (DECREASE) IN SURPLUS	**(395)**	(490)
SURPLUS, BEGINNING OF YEAR	**$ 1,878**	$ 2,368
SURPLUS, END OF YEAR	**$ 1,483**	$ 1,878

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, actuarial asset value adjustment 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)
- New Democratic Party Caucus
- Niagara Parks Commission
- Ontario Lottery Corporation
- Ontario Pension Board
- OPSEU Pension Trust (includes non-bargaining unit employees)
- Ontario Public Service Employees Union (seconded or acting employees)
- Ontario Teachers' Pension Plan Board
- St. Joseph's Health Care Group (Lakehead Psychiatric Hospital)
- Workplace Safety and Insurance Appeals Tribunal

Funding

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

Contributions

The OPSEU Pension Plan's contributions and benefits are integrated with the Canada Pension Plan (CPP). Required contributions to the OPSEU Pension Plan were as follows:

		Contribution Percentage			
		Effective December 1, 2003		December 1, 2002 to November 30, 2003	
Earnings	Maximum Earnings	Employer	Member	Employer	Member
Below the Year's Basic Exemption (YBE)	$ 3,500	8.0%	6.0%	8.0%	5.0%
Between YBE and the CPP Year's Maximum Pensionable Earnings (YMPE)	$39,900	6.2%	4.2%	6.2%	3.2%
In excess of the YMPE, up to	$99,178	8.0%	6.0%	8.0%	5.0%

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 $99,178.

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 triennial funding valuation as at December 31, 2001, the member contribution reduction was extended at a 3% reduction from normal contribution levels until November 30, 2003. The extension is continuing as a 2% reduction from December 1, 2003. In December 2004 rates will increase by another 1%. Contributions at the normal rates will be in place in 2005.

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. Effective December 1, 2002, the CPP offset was permanently reduced to 0.655% from its previous level of 0.675%. The reduction at age 65 for CPP integration equals: 0.655% multiplied by the lesser of: best average annual salary or final 5-year average of YMPE, multiplied by years of credit after 1965, to a maximum of 35 years.

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 financial 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.

Change in accounting policy – Actuarial asset value adjustment

The Board of Trustees approved a liability management program that included a change to the smoothing technique for calculating the actuarial value of assets to better address OPTrust's liability management objectives. Asset smoothing is the process of spreading annual fluctuations in investment earnings over a period of time to mitigate the impact of investment earnings volatility. The actuarial asset value adjustment discloses the investment earnings that are deferred to future years. The timing of recognition is based on the term of smoothing.

The Board approved the "expected return" approach in establishing the level of smoothing, whereby the difference between the expected and actual returns is deferred and recognized over a five-year period, for all Plan assets. The "expected" return is based on management's expectations of returns over the smoothing cycle. In prior years, the smoothing method recognized realized gains and losses and changes in unrealized gains and losses occurring in a particular year, evenly over four years. Earned income was excluded for purposes of smoothing.

The change in accounting policy has been applied retroactively in the financial statements and has the following impact on the 2002 figures previously reported:

As at December 31 ($ millions)	2002 Reported	2002 Restated
Net assets available for benefits	**8,493**	**8,493**
Accrued pension benefits	8,389	8,389
Actuarial asset value adjustment	(1,023)	(1,774)
Surplus	1,127	1,878
Accrued pension benefits, actuarial asset value adjustment & surplus	**8,493**	**8,493**

The adoption of the new method increased surplus at the end of 2002 by $751 million.

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 a trade date basis.

Valuation of investments

Invested assets are accounted for at fair value, being the consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Assets are valued as of the valuation date by independent third parties.

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	As these securities are non-marketable the market values have been estimated assuming the assets will not be sold and based on the market yields of securities with comparable credit risk
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	Change in the difference between market value and the average cost at year end

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

Actuarial asset value adjustment
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. The actuarial asset value adjustment provides for the smoothing of gains and losses, mitigating volatility and providing a more stable basis for determining surplus.

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 five-year period. The approach recognizes differences between the actual and management's best estimate of the return on investments in income evenly over the current and following four years. Management's best estimate of investment return is 7.75% for financial statement purposes, which is recognized as income yearly and adjusted by the effect of smoothing from the current and previous four years.

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 at least 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, 2003 are based on data taken from the interim actuarial valuation for funding purposes as at December 31, 2002.

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 funding valuation is based on the aggregate funding method. This 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 funding valuation, required at least every three years by regulatory authorities, 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. Accrued pension benefits are valued using economic assumptions developed by reference to long-term market conditions as at the particular reporting date.

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 (Note 8) and earn income at the funding valuation interest rate.

Surplus

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.

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 as a target an asset mix policy of 60% equities, 23% fixed income securities, 9.5% real estate and 7.5% real return bonds.

Additional information on risk related to accrued pension benefits is included in Note 6.

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 changes. 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 fluctuate.

The Plan has exposure to interest risk as follows:

As at December 31 ($ millions)	2003					2002	
	Term of maturity						
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	**Yield to maturity**	Total	Yield to maturity
Short-term investments	**114**	**–**	**–**	**114**	**2.6%**	200	2.7%
Government of Ontario debentures	**62**	**533**	**1,495**	**2,090**	**4.1%**	2,200	4.5%
Bonds							
Canadian government	**–**	**131**	**187**	**318**	**4.3%**	267	4.4%
Provincial governments	**–**	**–**	**205**	**205**	**5.1%**	162	5.3%
Corporate	**11**	**133**	**186**	**330**	**4.6%**	257	5.4%
Real return	**–**	**–**	**582**	**582**	**2.3%**	549	2.9%
TOTAL	**187**	**797**	**2,655**	**3,639**	**3.9%**	3,635	4.2%

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, 2003, the Plan held $2,234 million (2002 – $2,282 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 two minimum ratings 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 two minimum ratings of "AA-" or equivalent as at the contract date. As at December 31, 2003 and 2002, 100% of the short-term investment portfolio met the credit rating criteria. As of December 31, 2003, 98.6% (2002 – 99.9%) 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 foreign investments will be affected by changes in foreign currency exchange rates for Canadian dollars. OPTrust employs currency managers that utilize currency forward contracts to manage the Plan's foreign currency exposure. The Plan's policy is to hedge approximately 50% of its currency exposure to investments in developed markets. In addition to the Plan's policy hedging program, the active currency managers may take positions that deviate above or below the 50% target.

The Plan's exposure to foreign exchange risk is as follows:

As at December 31 ($ millions)		2003			2002
	Gross exposure	**Policy hedge**	**Active exposure**	**Net exposure**	Net exposure
Canadian	**7,232**	**814**	**(22)**	**8,024**	7,080
Investments subject to currency risk					
Developed markets					
United States	**838**	**(170)**	**(255)**	**413**	812
United Kingdom	**225**	**(116)**	**(23)**	**86**	167
Eurozone	**379**	**(201)**	**147**	**325**	188
Asia Pacific	**573**	**(271)**	**194**	**496**	171
Other	**93**	**(56)**	**(41)**	**(4)**	74
Emerging markets	**283**	**–**	**–**	**283**	–
	2,391	**(814)**	**22**	**1,599**	1,412
NET INVESTMENTS	**9,623**	**–**	**–**	**9,623**	8,492

The policy hedge and active exposure set out above represent the notional values of currency forward contracts and not the actual assets or liabilities of the Plan. Notional values are the basis on which fair values are determined and cash flows exchanged in respect to currency hedging, and therefore do not represent the potential gain or loss associated with the market or credit risk of these instruments.

The Plan's policy hedging program incorporates the foreign pooled equity linked investments, which are fully hedged to the Canadian dollar and therefore classified as gross Canadian currency exposures.

All currency forward contracts have a term to maturity of less than one year. The credit risk of the contracts, representing the replacement cost of all contracts that have a positive fair value at current market prices, as at December 31, 2003 is $64 million (2002 – $nil).

Geographic risk reflects the risk related to operating in foreign jurisdictions including legal, political, settlement and market risk associated with various jurisdictions.

The Plan's exposure to geographic risk is as follows:

As at December 31 ($ millions)	**2003**	2002
Canada	**7,235**	6,680
Investments subject to geographic risk		
Developed markets		
United States	**690**	1,033
United Kingdom	**227**	213
Eurozone	**380**	249
Asia Pacific	**537**	220
Other	**104**	97
Emerging markets	**450**	–
	2,388	1,812
NET INVESTMENTS	**9,623**	8,492

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. In addition, 78% (2002 – 74%) 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. As at December 31, 2003, the Plan's investments included loaned securities with a fair value of $234 million (2002 – $118 million). The fair value of securities collateral received in respect of these loans was $251 million (2002 – $126 million). Income earned from this program for the year was $448 thousand (2002 – $541 thousand).

5. Investments

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

	2003			2002		
As at December 31 ($ millions)	**Market Value**	**Average Cost**	**Percentage of Assets**	Market Value	Average Cost	Percentage of Assets
Fixed income						
Cash	**58**	**59**	**1%**	4	4	– %
Short-term investments	**114**	**114**	**1%**	200	199	2%
Canadian bonds	**853**	**829**	**9%**	686	663	8%
Government of Ontario debentures	**2,090**	**1,578**	**22%**	2,200	1,664	26%
	3,115	**2,580**	**33%**	3,090	2,530	36%
Equities						
Canadian	**2,601**	**1,924**	**27%**	2,017	1,927	24%
Foreign	**2,358**	**2,246**	**25%**	1,817	2,234	22%
Foreign pooled equity linked investments	**907**	**951**	**9%**	967	1,331	11%
	5,866	**5,121**	**61%**	4,801	5,492	57%
Inflation sensitive						
Real return bonds	**582**	**395**	**6%**	549	410	6%
Real estate	**40**	**33**	**– %**	41	36	1%
	622	**428**	**6%**	590	446	7%
Investment-related receivables						
Accrued income	**24**	**24**	**– %**	22	22	– %
Due from brokers	**20**	**20**	**– %**	1	1	– %
Unrealized gains and amounts receivable on derivative contracts	**64**	**–**	**1%**	–	–	– %
	108	**44**	**1%**	23	23	– %
TOTAL INVESTMENTS	**9,711**	**8,173**	**101%**	8,504	8,491	100%
Investment-related liabilities						
Due to brokers	**(11)**	**(11)**	**– %**	(1)	(1)	– %
Unrealized losses and amounts payable on derivative contracts	**(77)**	**–**	**(1%)**	(11)	–	– %
	(88)	**(11)**	**(1%)**	(12)	(1)	– %
NET INVESTMENTS	**9,623**	**8,162**	**100%**	8,492	8,490	100%

6. Accrued pension benefits

Financial Statement Valuation as at December 31, 2003

The accrued pension benefits in the financial statement valuation as at December 31, 2003 was $8,865 million. This is based on data taken from the interim actuarial valuation for funding purposes as at December 31, 2002. Forty-six percent of the accrued pension benefits are on behalf of current members of the plan. An equal percentage is on behalf of pensioners. Eight percent of the accrued pension benefits are for deferred and divested members of the plan.

The financial statement valuation disclosed an experience loss, for financial statement purposes, of $13 million (2002 – experience gain of $61 million) resulting from actual salary, YMPE, inflation and demographic experience being different from assumptions. Benefit improvements totaling $25 million (2002 – $268 million) were distributed during the year. A separate valuation for funding purposes is prepared, as discussed in the next section.

Actuarial Funding Valuation as at December 31, 2001

The last triennial funding valuation filed with the Financial Services Commission of Ontario was prepared by Mellon as at December 31, 2001. The actuarial gains reported under the funding valuation for the three-year period totaled $867 million.

OPSEU utilized the members' and pensioners' share of the funding gains of $473 million to provide benefit improvements and 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 totaling $394 million was 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 trends. Based on that review no changes were made. 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 increase by $5 million at December 31, 2003. Similarly, a 0.25% decrease in the investment return assumption would have resulted in accrued pension benefits increasing by $314 million as at December 31, 2003.

The key economic assumptions used for the extrapolation of the financial statement valuation as at December 31 are as follows:

	2003	2002
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

7. 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 five-year period. The adjustment represents the deferred portion of gains or losses resulting from the difference between the actual and management's best estimate of the return on those investments. Differences are deferred and recognized evenly over the current and following four years. The change in the actuarial asset value adjustment for the year was a reduction of $1,069 million (2002 – increase of $1,000 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)	**2003**	2004	2005	2006	2007	2002
1999	**–**	–	–	–	–	(60)
2000	**16**	16	–	–	–	32
2001	**450**	225	225	–	–	675
2002	**845**	282	282	281	–	1,127
2003	**(607)**	(151)	(152)	(152)	(152)	–
TOTAL	**704**	372	355	129	(152)	1,774

If net investment income were not subject to smoothing, surplus would be decreased by the amount of the actuarial asset value adjustment.

8. Surplus

As at December 31, 2003, the surplus for financial statement purposes was $1,483 million (2002 – $1,878 million), which comprised rate stabilization funds and unallocated surplus. The rate stabilization funds result from the funding valuation as at December 31, 2001, which identified actuarial gains. A portion of these gains remained available to fund future benefits, to lower current contributions or to mitigate the impact of potential contribution increases. At December 31, 2003, the members had $172 million in rate stabilization funds (2002 – $160 million). The Government transferred its full $315 million in previously unallocated gains to a contribution rate stabilization fund. The Government's contribution rate stabilization fund was $338 million at year-end, including interest. Sponsor allocations to benefit improvements, contribution reductions or rate stabilization funds can only be made by attributing gains identified in funding valuations.

Changes in surplus result from differences between actual and expected investment return; differences between actual experience and that expected in accordance with the assumptions used in valuing the accrued pension benefit; and the use of surplus to fund benefit improvements and contribution reductions.

Experience gains or losses related to investment return represent the difference between actual investment earnings, adjusted for the impact of smoothing, and the income required on accrued pension benefits. The income required on accrued pension benefits is determined by reference to the investment return assumption (currently 7.75%) described in Note 6.

9. Net investment income/(loss)

For the years ended December 31 ($ millions) 2003	Earned Income	Realized Gains/ (Losses)	Unrealized Gains/ (Losses)	Net Investment Income/ (Loss)
Fixed income				
Cash and short-term investments	4	(1)	(1)	2
Canadian bonds	47	11	1	59
Government of Ontario debentures	182	(19)	(24)	139
	233	(9)	(24)	200
Equities				
Canadian	44	(45)	587	586
Foreign	44	(297)	529	276
Foreign pooled equity linked investments	–	(93)	320	227
	88	(435)	1,436	1,089
Inflation sensitive				
Real return bonds	20	3	48	71
Real estate	3	–	2	5
	23	3	50	76
Currency forward exchange and futures contracts	–	62	(2)	60
	344	(379)	1,460	1,425
Investment expenses				
Investment manager fees				(11)
Custodial fees				(1)
Other investment expenses				(5)
NET INVESTMENT INCOME				1,408

2002	Earned Income	Realized Gains/ (Losses)	Unrealized Gains/ (Losses)	Net Investment Income/ (Loss)
Fixed income				
Cash and short-term investments	6	–	–	6
Canadian bonds	44	12	14	70
Government of Ontario debentures	188	(19)	38	207
	238	(7)	52	283
Equities				
Canadian	38	(18)	(256)	(236)
Foreign	37	11	(513)	(465)
Foreign pooled equity linked investments	–	(12)	(303)	(315)
	75	(19)	(1,072)	(1,016)
Inflation sensitive				
Real return bonds	20	–	54	74
Real estate	3	–	–	3
	23	–	54	77
Currency forward exchange and futures contracts	–	(16)	(6)	(22)
	336	(42)	(972)	(678)
Investment expenses				
Investment manager fees				(5)
Custodial fees				(1)
Other investment expenses				(4)
NET INVESTMENT LOSS				(688)

10. Time-weighted investment returns and related benchmarks

Gross of fees Expressed in %	2003 Actual	2003 Benchmark	2002 Actual	2002 Benchmark
Fixed income	**6.8**	**6.7**	9.8	8.7
Canadian equities	**28.3**	**26.7**	(10.2)	(12.4)
Foreign equities	**20.6**	**12.2**	(21.8)	(20.9)
Real return bonds	**13.4**	**13.3**	15.2	15.3
Real estate	**12.9**	**8.1**	8.7	8.2
TOTAL PLAN	**17.3**	**13.6**	(7.2)	(7.8)

The Plan uses investment benchmarks to evaluate the performance of the investment management process. The benchmarks are weighted according to the Plan's asset mix policy. Each portfolio is measured against the performance benchmarks, which reflect the results of the market in which they invest.

Asset Class	Benchmark
Fixed income	Scotia Capital Universe Bond Index
Canadian equities	S&P/TSX Composite Index
Foreign equities	Blended MSCI ACWI Index , MSCI EAFE Index , MSCI EMF Index , Russell 2500 Index and S&P 500 Index , including the effects of hedging 50% of currency exposure in developed markets and expressed in Canadian dollars
Real estate	Investment Property Databank Ltd Canadian Property Index
Real return bonds	Scotia Capital Real Return Bond Index

Prior to July 2003, the foreign equities benchmark was based on the unhedged MSCI World ex Canada Index. Prior to January 2003, the real estate benchmark was based on the Russell Canadian Property Index.

11. Contributions

For the years ended December 31 ($ millions)	2003	2002
Members		
Current service	**71**	42
Prior service	**7**	11
Long term income protection	**4**	2
	82	55
Employers		
Current service	**124**	103
Prior service	**12**	15
Long term income protection	**9**	6
	145	124
Pension data purification project adjustment	**–**	99
Transfers from other plans	**15**	16
TOTAL CONTRIBUTIONS	**242**	294

The pension data purification project adjustment in 2002 was a result of the Government of Ontario paying the additional actuarial liability and accrued interest resulting from a revaluation effective December 31, 1992.

12. Operating expenses

For the years ended December 31 ($ millions)	2003	2002
Salaries and benefits	**10.5**	10.2
Information technology	**4.1**	4.5
Professional and administrative services	**3.8**	2.7
Office premises and operations	**3.2**	3.3
Communications	**1.2**	1.5
TOTAL OPERATING EXPENSES	**22.8**	22.2

Audit expenses were $108 thousand in 2003 ($106 thousand in 2002). Non-audit fees comprising tax and risk management services paid to PricewaterhouseCoopers, the plan auditor, totaled $89 thousand in 2003 ($237 thousand in 2002). Actuarial expenses paid to Mellon, the plan actuaries, were $1,129 thousand in 2003 ($1,029 thousand in 2002).

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 totaled $70 thousand in 2003 (2002 – $55 thousand).

Compensation to the senior management team comprises base salaries, any retroactive salary, pension and insured benefits, vacation entitlements and moving allowances, if any. The Plan does not provide bonuses or long-term incentive programs for its employees. Base salaries paid to the five highest paid members of the senior management team were as follows.

For the years ended December 31 ($ thousands)		**Base Salary**	
Name and position	**2003**	2002	2001
Morgan Eastman * Chief Investment Officer	**340**	290	272
Colleen Parrish * President and Plan Manager	**276**	225	225
Bob Korkie ** Head of Investment Research and Risk Management	**239**	219	–
Bill Foster Vice-President Member and Pensioner Services	**174**	152	141
Charlie Eigl Vice-President Finance	**172**	145	140

* In 2003 includes retroactive salary for prior periods
** Effective January 7, 2002

Compensation arrangements with the management team provide for the accumulation of pension benefits. Coverage of up to $99,178 (2002 – $98,916) 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 $99,178 (2002 – $98,916) 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.

historical review

At December 31	**2003**	2002	2001	2000	1999	1998	1997	1996	1995
CHANGES IN NET ASSETS									
Income									
Net investment income/(loss)	**1,408**	(688)	(359)	654	970	867	981	1,027	979
Member contributions	**82**	55	54	60	131	137	141	129	155
Employer contributions	**145**	124	127	132	132	137	127	40	63
Unfunded liability payments	**–**	–	40	38	36	34	24	–	–
Transfers from other plans	**15**	16	10	17	36	2	2	54	1
Pension data purification project adjustment	**–**	99	–	–	–	–	–	–	–
Total (loss)/income	**1,650**	(394)	(128)	901	1,305	1,177	1,275	1,250	1,198
Expenditures									
Pension payments	**341**	316	283	250	213	177	140	105	74
Termination payments and transfers	**135**	201	145	202	135	93	154	38	17
Operating expenses	**23**	22	20	18	17	17	15	15	12
Total expenditures	**499**	539	448	470	365	287	309	158	103
(DECREASE)/INCREASE IN NET ASSETS	**1,151**	(933)	(576)	431	940	890	966	1,092	1,095
NET ASSETS									
Investments									
Cash and short-term investments	**172**	204	202	514	192	209	200	170	97
Canadian bonds	**853**	686	658	506	542	477	612	393	334
Government of Ontario debentures	**2,090**	2,200	2,243	2,313	2,296	2,631	2,554	2,449	2,400
Equities – Canadian	**2,601**	2,017	2,192	3,184	2,873	3,279	2,310	2,021	1,598
Equities – foreign	**3,265**	2,784	3,546	2,884	3,145	1,529	1,652	1,330	1,085
Real return bonds	**582**	549	493	528	440	419	340	293	88
Real estate	**40**	41	45	43	32	26	15	1	–
Investment-related receivables	**108**	23	26	26	24	39	24	27	20
	9,711	8,504	9,405	9,998	9,544	8,609	7,707	6,684	5,622
Contributions receivable from:									
Members	**10**	7	6	7	7	13	14	11	11
Employers	**21**	25	21	19	22	19	21	20	19
Other assets	**10**	13	12	5	5	3	4	68	35
TOTAL ASSETS	**9,752**	8,549	9,444	10,029	9,578	8,644	7,746	6,783	5,687
Liabilities									
Accounts payable and accrued charges	**(20)**	(44)	(7)	(15)	(4)	(3)	(5)	(5)	(4)
Investment-related liabilities	**(88)**	(12)	(11)	(12)	(3)	(10)	–	(3)	–
NET ASSETS AVAILABLE FOR BENEFITS	**9,644**	8,493	9,426	10,002	9,571	8,631	7,741	6,775	5,683
Accrued pension benefits	**8,865**	8,389	7,832	7,713	7,242	7,201	6,648	6,180	6,306
Actuarial asset value adjustment	**(704)**	(1,774)	(774)	316	701	844	993	935	658
SURPLUS/(DEFICIENCY)	**1,483**	1,878	2,368	1,973	1,628	586	100	(340)	(1,281)
PERFORMANCE (%)									
Rate of Return	**17.3%**	-7.2%	-3.5%	7.0%	11.4%	11.3%	14.7%	18.3%	21.7%
After inflation	**15.3%**	-11.1%	-4.2%	3.8%	8.8%	10.3%	14.0%	16.1%	20.0%
Benchmark	**13.6%**	-7.8%	-4.4%	3.3%	14.6%	13.2%	13.7%	17.1%	17.7%
After inflation	**11.6%**	-11.7%	-5.1%	0.1%	12.0%	12.2%	13.0%	14.9%	16.0%

the OPTrust board of trustees

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 are responsible 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 take appropriate steps to 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 ensure that members and pensioners receive the benefits to which they are entitled, along with 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 five standing committees reporting to the Board:

- 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 policies and ensures OPTrust's systems and processes comply with legal and professional standards. The committee also oversees OPTrust's risk management program and the selection and monitoring of our professional advisors and agents.

- The *Governance and Compensation Committee* is responsible for reviewing OPTrust's internal governance practices, establishing performance criteria and objectives for OPTrust's President and Plan Manager and Chief Investment Officer, and evaluating their performance and compensation.

- The *Investment Committee* monitors the performance of the OPSEU Pension Trust Fund and its investment managers, and reviews their compliance with OPTrust's investment policies and related legal and regulatory requirements. It also researches and recommends changes to the Plan's investment policies, asset mix and investment managers.

- The *Adjudication Panel* gives plan members and pensioners access to a 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.

members of the board of trustees

At December 31, 2003

* Appointed by OPSEU
** Appointed by the Government of Ontario

professional advisors and senior management

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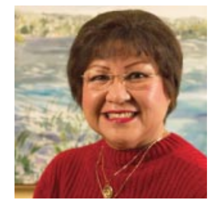
Your Pension and the Canada Pension Plan
Your Pension and Buying Back Credit
Your Pension and Leaving Your Employment
Your Pension and Divestments
Your Pension and Your Retirement
OPTrust Proxy Voting Guidelines
OPTions newsletter for plan members
The Pension Connection newsletter for pensioners

Many OPTrust publications are available online at www.optrust.com.

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

value
diligence
trust
confidence
growth
service
accountability
balance
responsibility



OPTrust

OPSEU Pension Trust

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Les états financiers de la Fiducie du Régime de retraite du SEFPO sont aussi disponibles en français.

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