OPTrust

OPSEU Pension Trust

Fiducie du régime de retraite du SEFPO

Keeping the promise.

ANNUAL REPORT 2005

Contents

OPSEU Pension Trust

With assets under management of $11.8 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 more than 75,000 members and pensioners.

IN 2005, OPTRUST:

* Achieved an investment return of 15.6%, exceeding both the long-term funding target and market benchmarks
* Filed an actuarial valuation with regulatory authorities that confirmed a total funding deficit of $428 million at the end of 2004
* Used funds set aside from the gains of earlier years to stabilize member and employer contribution rates at normal levels, rather than increasing rates to cover the funding deficit
* Made significant progress on a major multi-year expansion of the Plan's portfolio of real estate investments.

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

2005 at a glance

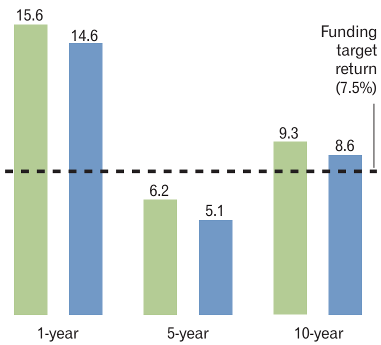
FINANCIAL HIGHLIGHTS

	Financial statement valuation		Actuarial valuation
At December 31 ($ millions)	**2005**	2004	2004
Current cost of future pensions	**$ 9,944**	$ 9,525	$ 10,300
Actuarial smoothing adjustment	**899**	(30)	69
Rate stabilization funds	**446**	533	533
Unallocated surplus/(deficit)	**526**	446	(428)
Net assets available for benefits	**$ 11,815**	$ 10,474	$ 10,474

MEMBERSHIP SNAPSHOT

At December 31	**2005**	2004
Active members	**44,568**	44,243
Former members with entitlements in the Plan	**1,240**	1,333
Pensioners		
Current	**21,439**	20,246
Deferred	**8,422**	7,973
Total members and pensioners	**75,669**	73,795
Number of new members enrolled	**3,400**	3,917
Number of members terminating or retiring	**3,168**	9,358
Change in total membership	**232**	(5,441)

Investment Performance

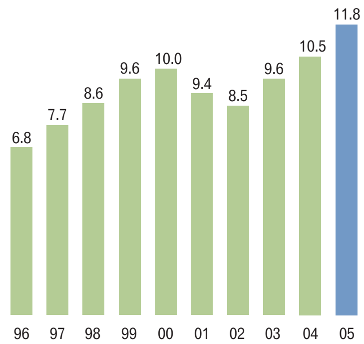


OPTrust's return (%)
Benchmark (%)

Strong investment returns of 15.6% in 2005 exceeded both our long-term funding target and market-based benchmarks.

Net Assets Available for Benefits

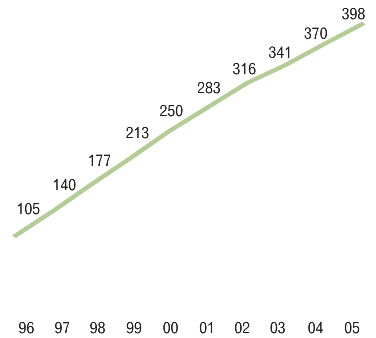
At December 31 ($ billion)



The Plan's net assets increased to $11.8 billion in 2005, driven by investment earnings of $1.6 billion.

Growth in Pension Payroll

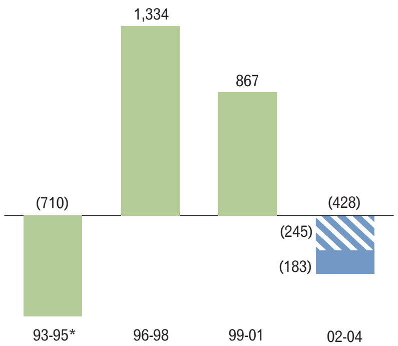
($ millions)



OPTrust's pension payroll continued to increase rapidly as eligible members elected early retirement options and retiree pensions rose annually to keep pace with inflation.

Actuarial Funding Gains and Losses

($ millions)



Net balance of 02-03 funding valuation
Funding valuation 04

Actuarial valuations carried out in 2004 and 2005 confirmed a total funding deficit of $428 million, reflecting investment losses from 2001 and 2002.

* includes balance of initial unfunded liability as at December 31, 1995

Message from the Chair and Vice-Chair

2005 HIGHLIGHTS

- Prudent management is ensuring the continued soundness of the OPSEU Pension Plan, in contrast to many other plans
- Strong investment returns in 2005 further improved the Plan's financial position
- The Board of Trustees authorized a private markets initiative that seeks to further diversify the portfolio and reduce volatility

2005 was a year of significant progress for OPTrust, as strong investment returns further strengthened the Plan's ability to keep our pension promise to members and retirees.

The financial soundness of OPTrust stands in sharp contrast to the difficulties being experienced by some other pension plans and reflects the prudent approach the Board of Trustees and sponsors continue to take in managing the Plan's financial position.

A Year of Very Strong Investment Performance

The main contributor to the financial strength of the Plan in 2005 was the strong performance of our investments. OPTrust achieved an overall investment return of 15.6% in 2005, the third year in a row that returns have significantly exceeded our rate-of-return target. This strong performance – following returns of 11.7% in 2004 and 17.3% in 2003 – increased total assets available for benefits to more than $11.8 billion.

Average annual returns since the Plan's inception increased to 10.4%, surpassing both our benchmark returns and the long-term funding target.

However, one of the important lessons from investment history, which has been reinforced during the past half-decade, is that strong investment results in any given period are invariably followed by weaker results or outright losses in other years. Market volatility can have sudden and significant impacts on the pension industry and the millions of Canadians who rely on pensions for current and future income.

Prudent Approach Will Continue

That is why the Board of Trustees has taken, and will continue to take, appropriate measures to manage the Plan's exposure to market volatility, while at the same time striving to ensure that the assets in the Plan earn sufficient returns to continue funding important benefits such as inflation indexing.

One measure undertaken in recent years to enhance the diversification of the Plan's assets was our decision, in 2003, to significantly increase our investments in real estate. During 2005, about $232 million was directed to new real estate investments, including, for the first time, direct property purchases. In the next several years, this growth in real estate investment is expected to increase until about 9.5% of our total assets are allocated to this portfolio. The increase in real estate investment is being funded by proportionally reduced investments in fixed income assets.

During 2005 – and consistent with the goal of reducing the Plan's exposure to the volatility of publicly traded equities – the Board of Trustees approved an allocation to private market investments, including a target allocation to private equity and infrastructure. Private equity encompasses a range of investments, including venture capital and leveraged buyouts. Infrastructure includes investments in projects such as regulated utilities, toll roads and other assets. These projects, with their long service lives and regulated rates of return on invested capital, are an excellent match for the long-term indexed liabilities of our pension plan.

The targeted allocations to private equity and infrastructure will be implemented gradually, over a period of years, as has been the case with our investment in real estate assets, and will be carefully monitored by staff and the Board of Trustees.

Actuarial Valuation Filed

OPTrust takes a prudent approach to managing the Plan's funding situation. We work hard to avoid funding shortfalls and contribution rate increases.

Managing the timing of funding valuations is one method of promoting stability in contribution rates. During 2005, the Board of Trustees oversaw the completion and filing with government regulators of an actuarial funding valuation – our second in as many years.

Pension regulations in Ontario require an actuarial valuation to be carried out at least once every three years. Our last valuation was completed up to the end of 2003, so the next one would not normally have been required until the end of 2006.

However, the Trustees decided to proceed with a valuation for the one-year period ending December 31, 2004. Filing the valuation allowed us to accelerate the use of stabilization funds to pay down deferred investment losses from 2001 and 2002.

The latest valuation showed a net funding deficit of $428 million at the end of 2004 – representing about four percent of the total assets in the fund at that time – compared with a deficit of $255 million at the end of 2003. This amount did not include net deferred gains of $69 million that will eventually be used to reduce the unfunded liability.

Contribution Rates Stable

Since OPSEU and the Government of Ontario jointly sponsor the OPSEU Pension Plan, both employers and members are equally responsible for making up any funding deficits – just as both benefited equally from funding gains in prior years.

A funding deficit would normally trigger an immediate increase in member and employer contributions above the normal rate. However, both OPSEU and the Government of Ontario prudently set aside a part of the funding gains that occurred during the late-1990s in separate funds that could be used to stabilize contribution rates. Each sponsor decided to use a portion of these funds to cover the unfunded liability payments that were identified in the recent actuarial valuations.

Subsequent to the 2004 valuation, OPTrust completed a major review of actuarial assumptions that resulted in changes to certain assumptions to reflect actual experience more closely. The key change was a reduction in the assumed rate of inflation to 3.0% from 3.5%. The assumed long-term rate of return required on the Plan's assets was correspondingly reduced to 7.0% from 7.5%, so that the real rate of return target remained unchanged at 4.0%

Financial Position Remains Strong

Despite the growth in the funding deficit, there are sound reasons for confidence in the overall financial strength of the Plan.

First, the Government of Ontario and OPSEU together have $446 million in their rate stabilization funds at the end of 2005, an amount that exceeds the total funding deficit.

A second reason for optimism is that net deferred investment gains totalling $899 million will have an increasingly positive impact on our funding position as they are recognized over the next four years.

Benefits and Contribution Rates

During the 1990s, booming stock markets created funding surpluses for many pension plans. Some plans responded by introducing *permanent* benefit improvements that – following stock-market setbacks and lower interest rates in the early years of this decade – are now becoming difficult to fund without significant increases in member contribution rates or other measures.

OPSEU also introduced important permanent benefit improvements during the late 1990s, such as increased benefits for surviving spouses. However, the OPSEU sponsor placed greater emphasis on *temporary* benefit improvements that would place less of a burden on future pension obligations.

During 2005, two temporary benefit enhancements ended that had been paid for from past funding gains – Factor 80 and Points Off. Factor 80, which allowed eligible members to retire early with an unreduced pension, ended on March 31, 2005. Points Off, which provided eligible members 55 and older with a smaller reduction if they took early reduced retirement, ended on December 31, 2005.

Message from the Chair and Vice-Chair

CONT'D

Contribution rates remained at normal levels for both members and employers in 2005. Based on current projections, if the Plan achieves its targets for investment returns during the period leading up to December 31, 2007, (the next required time for an actuarial valuation), and if rate stabilization funds are not used for other purposes, members can look forward to stable contribution rates and pension benefits through the end of the decade.

Service Excellence

An important goal of OPTrust is to provide excellent service and communication for members and pensioners. During 2005, several important results were achieved:

- A new design and new functionality were introduced to the OPTrust website. Through the secure, personalized section of the website, members can now apply online to buy back pension credit, while pensioners can view monthly updates of their pension payments and deductions.
- Surveys of those who have contacted OPTrust for service continued to rate the service received very highly, at 8.5 out of a possible 10, up from the previous high of 7.9 in 2004.
- As well, the significant improvements in timeliness of service and reductions in overdue cases that were achieved in 2004 were extended in 2005.

Corporate Governance

Corporate events during the past few years have dramatically underscored the importance of sound governance in preserving confidence in the capital markets that underpin our economy. While those who do not participate directly in the stock market may think they are immune from the effects of lapses in corporate governance, the reality is that every person who is a member of a pension plan such as ours has a vested interest in good governance.

As a member of the Canadian Coalition for Good Governance, OPTrust continues to work with other major institutional investors to promote improvements in governance practices.

Consistent with that goal, OPTrust played a leading role in a class action lawsuit against Nortel Networks Corp., alleging serious disclosure and accounting irregularities by Nortel between October 24, 2000, and February 15, 2001. In February 2006, a tentative agreement was reached whereby Nortel would pay financial compensation of about $2.4 billion (U.S.)(based on their share price at the time of the settlement), consisting of $575 million (U.S.) in cash and about 628 million common shares. Assuming approval of the settlement, the compensation will be shared equally among members of the OPTrust class action and those in a subsequent action.

OPTrust is pleased with the progress to date of this historically significant settlement, which we undertook as part of our responsibility to members and pensioners, and as a major institutional investor with long-term interests in the proper functioning of capital markets.

Organizational Changes

There were a number of significant organizational changes at OPTrust in 2005. Colleen Parrish, who played a major role in the creation of the organization and served as President and Plan Manager since 1996, retired early in the year. Over the years, Colleen made many important contributions to the evolution of OPTrust into the superior organization that it is today. On behalf of the Trustees, we would like to convey to Colleen both our heartfelt thanks and our best wishes for the future.

Heather Gavin, who was OPSEU's lead negotiator in the creation of the pension plan and has served as a Trustee of the Plan since its inception, was chosen to replace Colleen as Chief Administrative Officer and Plan Manager. Our thanks to Heather for her decade of service on the Board of Trustees, most recently as Chair of the Audit Committee, and our best wishes for continued success in her new role. The OPSEU appointee replacing Heather on the Board of Trustees was Maurice Gabay, who works for the Ministry of Finance as a corporation tax auditor.

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 46 and 48 of this report.

David Rapaport and Stan Sanderson – each of whom has served in previous years as both Chair and Vice-Chair of the Board of Trustees – also stepped down after many years of valued service. Our thanks to both David and Stan for their numerous and varied contributions.

David's position on the Board was filled by OPSEU appointee Ruth Galinis, a former government employee and retired OPSEU official who becomes the first OPSEU retiree to serve on the Board. The Government of Ontario appointee replacing Stan was Richard Johnston, a former NDP MPP who served in the Ontario legislature from 1979 to 1990.

Robert Bellamy also resigned after more than five years of service on the Board of Trustees, with our sincere thanks for his many contributions. Robert's replacement as government appointee was Michael Beswick, who recently retired from the position of Senior Vice-President, Pensions, for the Ontario Municipal Employees Retirement System (OMERS).

Protecting the pension promise and respecting our fiduciary commitments to Plan members and retirees is both a major responsibility and a significant personal commitment for members of the Board and OPTrust staff. We are grateful to our fellow Trustees and to our professional staff for their care and dedication to the interests of more than 75,000 members and pensioners. We look forward to working with them, our sponsors and OPTrust's management and staff during the coming year.

Deborah Stark

Chair

Jordan Berger

Vice-Chair

Eldon McCready

Living the Dream

Eldon McCready dreamed about creating a new recreational activity for the people of Wolfe Island, near Kingston. The day after he retired from the Ministry of Transportation after 34 years of service he began converting his family farm on the island into a nine-hole golf course. In 2003, after two years of hard work, the course opened and has been building business ever since.

"Without my OPTrust pension, there wouldn't have been a golf course. But with a steady source of pension income providing reliable cash flow, I had the confidence to borrow the money to build the course."

Membership services

2005 HIGHLIGHTS

- New proactive services introduced
- 60,000 transactions were completed on behalf of members and pensioners
- Website design and functionality enhanced

The most important function carried out by the OPSEU Pension Trust for members and pensioners is the promise of a secure pension paid for life.

Unlike RRSPs and other types of investments, the value of an OPTrust pension does not change with fluctuating market conditions. Instead, it is based on salary and number of years of employment and service credit. As long as members continue to contribute, the value of their pension continues to grow. And once they retire, their pension will increase to offset the impact of inflation.

Proactive Initiatives

There were a number of measures undertaken during the year to provide members with information on issues of importance, including:

1996 strike buybacks – in November, more than 5,000 notices were mailed to Plan members who were still eligible to buy back pension credit related to the Ontario Public Service strike in 1996. Each notice contained an updated quotation on the cost of buying back service credit for the strike period, as well as payment options for the buyback. Under the OPSEU Pension Plan buyback rules, all payments for the buyback must be completed by March 31, 2007, the date on which the option to buy back service for the 1996 strike ends.

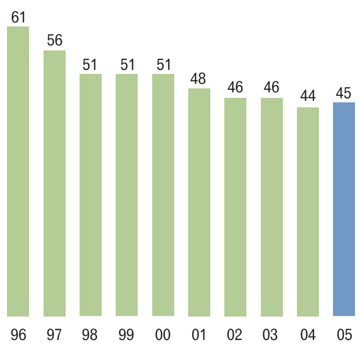
Detailed pension estimates – in December, all Plan members 55 years of age and older were, for the first time, sent an estimate of the amount of pension they will be eligible to receive for each year between now and when they reach the age of 65. Previously, estimates were provided only for significant milestones such as age 60. The purpose of the detailed annual estimates is to provide members with specific information that will assist them in the retirement planning process.

Service Improvements

Significant gains that were made during 2004 in improving the timeliness of service were maintained and extended in 2005. The number of cases overdue for more than 30 days was 5.7% at year-end, well below the target level of 10% of total cases. This target is quite aggressive because about one in five cases is delayed for reasons beyond the control of OPTrust – for example, waiting for information from third parties like other pension plans or employers.

The total number of transactions processed during the year was about 60,000, compared with about 47,000

OPTrust's Active Membership
At December 31 (thousands)



The number of active members in the Plan increased slightly in 2005.

Membership services

CONT'D

the previous year. The main reason for the increase was the proactive service initiatives described earlier.

Members and pensioners have told us that they particularly appreciate the rapid service they receive on phone inquiries, which most of them use to initiate a transaction or to obtain information. During the year, more than 48,000 phone calls were received from members and pensioners, with an average response time of 11 seconds. More than 98% of those who call us talk to a "real person" rather than hearing a recorded message. We are proud of this level of personal service.

Temporary Plan Provisions

During 2005, two temporary benefits funded by past investment gains ended:

- Factor 80 was an early retirement option that allowed active and divested members to retire with an unreduced pension if their age plus years of service added up to exactly 80 years. This benefit expired on March 31, 2005.
- Points Off increased the pensions of active and divested members and deferred pensioners who retired with a reduced pension at age 55 or older. This benefit ended on December 31, 2005.

These temporary benefits were funded from the strong investment performance of the Plan in the mid-to-late 1990s. Investment losses incurred by OPTrust in 2001 and 2002 meant that the Plan did not have gains available to extend the funding of these benefits.

Survey Results

Since 2001, OPTrust has been surveying members and pensioners on a quarterly basis to measure the level of satisfaction with the services provided.

During 2005, more than 5,600 surveys were distributed to a random sample of members and pensioners who had contacted the Plan with a variety of pension-related requests. About 15% of those contacted responded to the survey, enough to provide a valid sample of opinion. The results showed that overall satisfaction with our service was 8.5 out of 10, compared with 7.9 in 2004.

The main reasons cited for the higher score were improved timeliness of service, the proactive initiatives undertaken and better quality data.

Website Functionality Enhanced

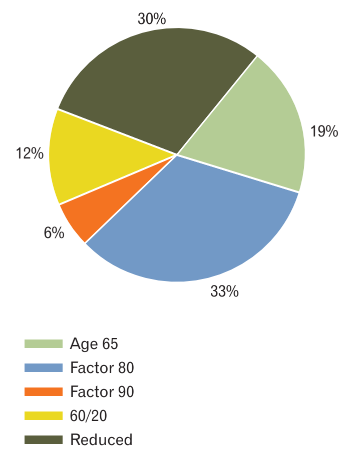
Based on research with members and pensioners, OPTrust introduced a new website design and enhanced navigation in 2005. The new format presents information based on the "life stage" of the visitor, which enables them to find pertinent information more quickly.

Additional services were also made available to both members and pensioners through a secure, password-protected section of the OPTrust website (www.optrust.com).

Enhancements in 2005 included:

- The ability to buy back pension credits online. Eligible members can apply online to buy back credit for leaves of absence that ended anytime in the past 24 months. A quotation is then posted to their personalized web page showing, among other information, how long it will take to pay for the buyback and how much it will affect the earliest retirement date (if applicable).
- Pensioners can now view monthly online updates to their Pension Information Change Statement, which includes the current deposit amount.

2005 Retirement Snapshot



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

Online Services can also be used to:

- Check and update personal information at any time, from any location
- Update beneficiary information
- View T4A slips well in advance of mailing
- View and print an Annual Pension Statement
- Ask questions, exchange information and receive answers in a special message area that is more secure than normal e-mail
- Subscribe to an online version of *OPTions* or *The Pension Connection* newsletter, and
- Sign up for e-mail notification about OPTrust news.

By the end of 2005, more than 9,200 members and pensioners had signed up for the secure Online Services, a significant increase from 5,000 at the end of the previous year.

As a deliberate part of our web strategy, OPTrust is not adding the capability to undertake a number of more complex transactions online.

Instead, we continue to encourage members to contact our experienced staff before making what may be irrevocable decisions about their future retirement income. We believe that it's in the best interests of our members to have access to complete information when making these crucial decisions.

Total Member and Pensioner Population Grows

The ranks of OPTrust current pensioners continued to grow, reaching 21,439 at the end of 2005, compared with 20,246 at the end of the previous year. Of the Plan's new pensioners during the year, 70% retired with an unreduced pension under one of the Plan's retirement options.

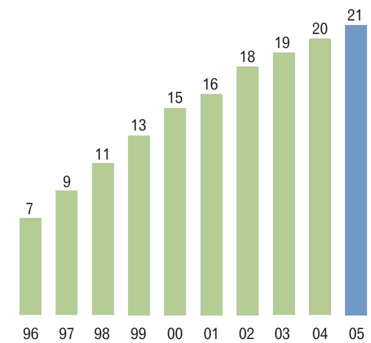
The number of active members in the Plan increased to 44,568 in 2005, compared with 44,243 at the end of the previous year.

Inflation Protection for Pensioners

OPTrust pensions are adjusted annually for inflation. A pensioner who received a typical annual pension of $18,000 in 1995 will receive $22,332 in 2006.

OPTrust's Current Pensioners

At December 31 (thousands)



The number of OPTrust pensioners continued to grow in 2005, supported both by general population trends and the availability of flexible retirement options.

Membership services

CONT'D

Membership statistics

(at December 31)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Active members	44,568	44,243	45,836	46,361	48,221	50,993	51,363	51,491	56,177	60,724
Female/male ratio	60:40	59:41	59:41	58:42	59:41	58:42	56:44	55:45	54:46	54:46
Average age	44.7	44.4	44.3	44.2	44.0	44.0	44.0	43.9	43.7	42.6
Average salary	$50,627	$49,085	$46,922	$45,232	$43,055	$42,017	$42,112	$40,646	$40,232	$40,600
Average years of credit in the Plan	11.6	11.5	11.3	11.4	11.6	12.0	12.2	12.4	12.3	11.6
Number of new members enrolled	3,400	3,917	3,935	3,120	4,237	3,640	3,882	2,854	1,737	1,055
Number of members terminated or retiring	3,168	9,358	3,605	4,598	5,971	4,440	3,740	4,474	6,284	3,720
Former members with entitlements in the Plan*	1,240	1,333	5,181	4,326	3,944	2,906	3,336	3,066	–	–
Net change in total members	232	(5,441)	330	(1,478)	(1,734)	(800)	142	(1,620)	(4,547)	(2,665)
Deferred pensioners**	8,422	7,973	4,610	4,252	3,206	1,929	1,116	597	412	199
Current pensioners	21,439	20,246	18,977	17,713	16,282	14,711	12,971	11,024	9,001	7,012
Average age	64.5	63.9	63.4	62.6	64.0	63.0	62.0	60.0	60.0	60.0
Average annual pension	$18,642	$18,616	$18,430	$18,434	$17,963	$17,734	$17,615	$17,370	$17,390	$16,942
Current pensioners by type of pension										
Normal and early unreduced	17,318	16,653	16,180	15,199	14,079	12,747	11,286	9,569	7,839	6,190
Reduced	2,528	2,168	1,466	1,376	1,274	1,163	1,021	908	734	518
Eligible survivors	1,541	1,378	1,289	1,107	911	792	656	540	423	301
Disability	52	47	42	31	18	9	8	8	5	3
Total members and pensioners	75,669	73,795	74,604	72,652	71,653	70,539	68,786	66,178	65,590	67,935

* "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 assets in the Plan.

Judy Cant

Feeling Secure

Judy Cant has been a horticultural technician at the Butterfly Conservatory near Niagara Falls since before it opened in 1996. Her job is to rotate plants in and out of the 18,000- square-foot conservatory to ensure that there are always enough blooms to feed about 3,000 tropical butterflies. Although in mid career, she says it's good to know that there will be a secure pension waiting when the time comes to retire.

"My husband and I have known people who have spent their whole career with one company and, a year or two before they retire, something happens to the company and they end up with far less retirement income than expected. So it's good to know that when the time comes to retire, I can count on receiving a secure and predictable pension."

Investment performance

2005 HIGHLIGHTS

- Investment returns of 15.6% exceeded both the long-term funding target and the benchmark return of 14.6%
- Active management strategies added $85.4 million in value
- More than $200 million was invested in real estate during the year, bringing this segment to 4% of total Plan assets
- The Plan's allocation to cash was temporarily raised as part of a rebalancing strategy that reduces investment risk

OPTrust's investment objective is shaped by our obligation to provide our members and pensioners with a defined retirement income for life, indexed for inflation. To meet this obligation the Plan must achieve, on average, a real investment return (after inflation) of 4.0% a year. This target is a key consideration in structuring the investment portfolio and determining the amount of risk that must be assumed.

During our first 11 years of operation, the OPSEU Pension Plan has achieved an average real return of 8.4%, exceeding the funding return target by 4.4 percentage points.

During this period, investment returns have fluctuated substantially from year to year in response to worldwide market conditions. For this reason, we also measure the relative performance of the portfolio against indices – or "benchmarks" – that enable us to gauge our performance against the overall performance of the markets in which we invest.

The Plan's 10.4% average annual return (including inflation) since inception has significantly outperformed the portfolio's weighted benchmark, which registered an average return of 9.4% annually during the same period.

2005 Investment Overview

In 2005, returns from Canadian and global equity markets continued to be very positive. The strong performance of the Toronto Stock Market resulted from its relatively high weighting of energy and materials stocks, both of which made substantial gains. The S&P/TSX Composite Index returned 24.1% during the year, compared with 14.5% in 2004.

Markets in the United States did not perform as well. The U.S. S&P 500 Index returned 2.3% compared with 2.8% in 2004 (all returns are in Canadian dollar terms unless otherwise noted).

Results from longer-term Canadian bonds were also strong, generating returns of 13.8% according to the Scotia Capital Long Term Bond Index. The broader bond market had more modest returns of 6.5%, as measured by the Scotia Capital Universe Bond Index.

The Plan's overall investment return in 2005 was 15.6%, compared with 11.7% in 2004. Net investment income totalled $1.6 billion, compared with $1.1 billion the previous year.

The Plan's weighted benchmark return was 14.6% in 2005. This above-benchmark performance resulted mainly from superior returns on the Plan's global equity and real estate portfolios.

Global Equities

Global equities, which include stocks from the United States, Europe, Asia and other developed and emerging markets, make up a major component of the Plan's investment portfolio. The return on this group of investments was 16.7% during the year, compared with 13.1% in 2004.

By comparison, our weighted global equity benchmark returned 14.6% in 2005.

During the second half of 2003, we restructured our global equity portfolio by adding active management to our investments in developed foreign markets, and by adding a component of emerging markets equity, also actively managed. In 2005, this active management approach added a net value of about $76 million, with seven out of eight actively managed global equity portfolios outperforming their benchmarks.

Since inception, our global equity portfolio has generated an average annual return of 9.1%, versus 8.5% for our combined foreign equity benchmark.

Given the size of the Plan's foreign equity holdings, which represent about one-third of our total assets, changes in the relative value of the Canadian dollar can have a significant impact on the portfolio. To counter this we use currency hedging strategies that protect against fluctuations in exchange rates. During 2005 – with the appreciation of the Canadian dollar against a range of foreign currencies, including the U.S. dollar – the Plan's strategic and active currency management program added value of about $155 million, compared with a strategy of not hedging.

Canadian Equities
Canadian equities returned 22.1% in 2005, compared with 13.4% the previous year.

Returns on our weighted benchmark index were 23.4 % in 2005. The below benchmark performance resulted mainly from the Plan's lower holdings of equities in the top-performing energy and materials sectors, compared with the S&P/TSX Composite Index.

Fixed Income
Canadian fixed income investments, including non-marketable Ontario debentures, constitute another major component of the Plan's portfolio and returned 9.7% in 2005, compared with 9.2% the previous year. The 2005 result matched the return of 9.7% on our fixed income benchmark.

With their lower risk profile, fixed income investments are expected to return less than equities over the long term. However, they tend to provide greater certainty of returns than stocks, pay predictable income and are an important source of diversification for the overall portfolio.

OPTrust's actively managed bond portfolio returned 13.0% in 2005, versus 13.6% on the benchmark portfolio. Within our actively managed fixed income portfolio, the long-term-bond component, which was put in place during the second half of 2004, returned 14.7% in 2005, compared with a return of 15.3% on the comparable index.

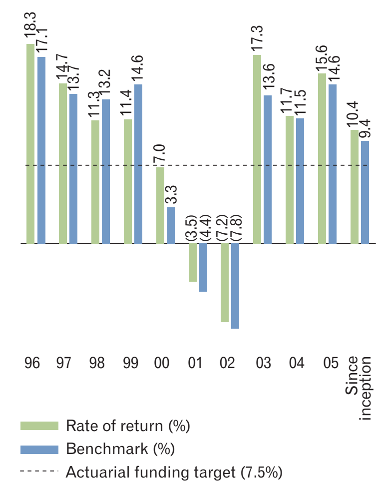
OPTrust's Government of Ontario debentures, a legacy investment that was transferred to the Plan in 1995, returned 4.4% in 2005, compared with a return of 6.5% on the Scotia Capital Universe Bond Index. The debentures underperformed due to their shorter term to maturity versus the benchmark. These debentures will gradually be liquidated according to a fixed schedule, but in the meantime cannot be sold.

Real return bonds (whose returns are linked to inflation) are designed to provide protection from increases in the cost of living. As a result, they offer a measure of protection against inflation-related increases in the value of members' and retirees' pensions. Our portfolio of real return bonds posted gains of 18.2% in 2005, compared with 18.5% the previous year and 15.2% by the benchmark index.

The overall return on our fixed income investments was 9.7% during the year, matching benchmark returns, as superior performance by two of the three actively managed portfolios and the real return bond portfolio was offset by underperformance from the Ontario debentures and one of the actively managed bond portfolios.

Real Estate
In 2005, OPTrust's real estate portfolio grew significantly from about 2% of total

Returns vs. Benchmarks
1996 – 2005



OPTrust's investment portfolio has outperformed the Plan's market-based benchmark for the past six years and returns continue to exceed the long-term return target by a significant margin.

Investment performance

CONT'D

Plan assets to more than 4%. The portfolio posted returns of 14.7% in 2005, compared with 12.9% the previous year.

Returns on our real estate benchmark were 6.2%, which consists of 4.0% plus the rate of change in the consumer price index. The out-performance in 2005 was driven by strong capital appreciation in several of our real estate investment funds, as well as solid income returns from the entire portfolio.

Investment Strategy Evolution

During 2005, the implementation of major changes to the OPTrust investment portfolio continued based on a restructuring plan approved by the Board of Trustees in 2003. The main purpose of the restructuring is to achieve the required long-term investment goal at lower levels of volatility than have been targeted in the past.

The major initiatives in 2005 were a significant increase in our real estate holdings, approval of a target allocation to private equity and infrastructure investments, the establishment of a Private Markets Group to manage these investments and a temporary increase in the balances of short-term fixed income and cash held by the Plan.

Real Estate

Net investments in real estate rose to $491 million by the end of the year, from $220 million in 2004. This represented 4.2% of total Plan assets.

During the next several years, we plan to increase real estate investments to 9.5% of Plan assets, at which time the total portfolio will exceed $1 billion.

There are three main reasons for the decision to allocate a higher percentage of our investment portfolio to real estate:

- First, there is a low correlation between the performance of real estate and the performance of stock and bond markets, where most of the Plan's other assets are invested. This diversification of assets can be expected to provide more stable overall returns from the Plan's portfolio.
- Second, real estate tends to perform well during periods of inflation, providing an excellent match with our pension obligations, which also increase with inflation.
- Real estate also generates a steady stream of income that will be used to make ongoing pension payments once the program reaches its targeted weight.

2005 Real Estate Investments

OPTrust's strategy for the real estate portfolio is to hold a variety of investments that provide diversity by property type, geographical location, manager and investment style.

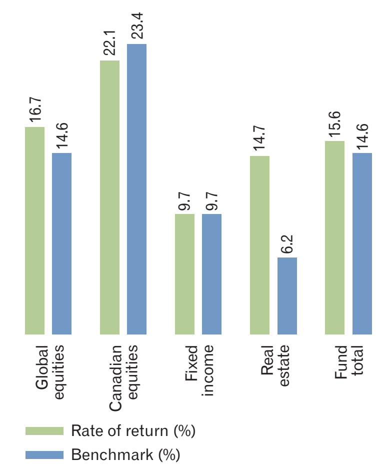
The Canadian portfolio consists of office, retail, industrial and multi-family properties that are owned directly by the Plan, as well as real estate funds. In this regard, the Plan made its first direct acquisition in 2005, with the purchase of a 50% interest in a 627,000 square foot "Class A" office building in downtown Calgary. This significant acquisition is secured by long-term leases with investment grade tenants.

Other direct acquisitions during the year included:

- Two retail shopping centres in British Columbia
- A single-tenant industrial building in Vancouver, B.C.
- And an apartment building in Peterborough, .

To complement the three real estate investment managers engaged by OPTrust in 2004 to assist in the

2005 Returns vs. Benchmarks



Above-benchmark returns on the Plan's global equity and real estate portfolios, combined with a robust performance by Canadian equity markets, produced another year of strong investment results.

Investment performance

CONT'D

acquisition of a portfolio of directly held Canadian properties, two additional managers were approved in 2005. As well, OPTrust committed more than $100 million to additional investments in Canadian real estate funds during the year.

Acquisitions of U.S. and international real estate are being carried out indirectly, through investments in real estate funds. During 2005, an additional $60 million (U.S.) was committed to international real estate funds. At year-end, more than 20% of the Plan's real estate investments were outside of Canada.

Private Markets
Another major element of the investment strategy evolution in 2005 was the approval by the Board of Trustees of a target allocation of the Plan's assets to private equity and infrastructure over a period of several years.

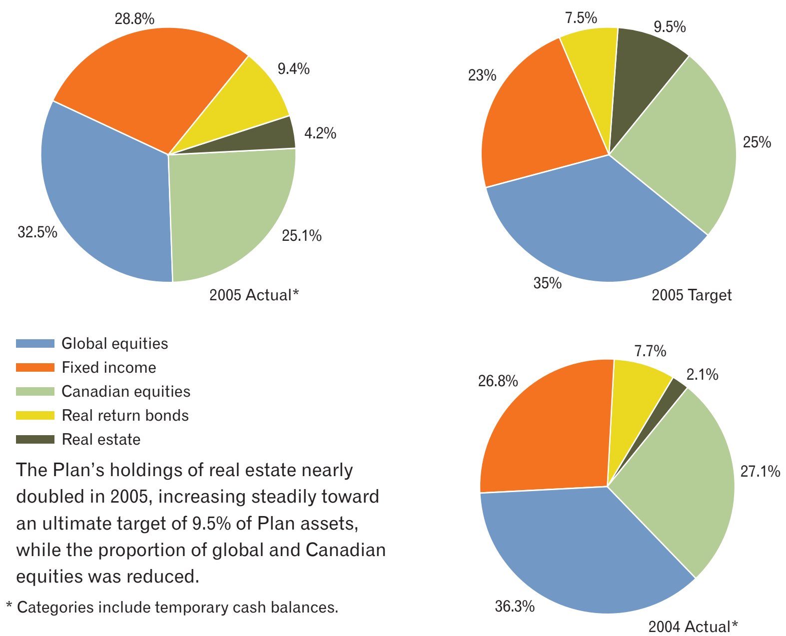
As is the case with the growth in real estate investments, private equity and infrastructure investments will increase the diversity of the Plan's overall portfolio and reduce its volatility, mainly by decreasing the percentage of total assets invested in public equity markets.

Fixed Income
OPTrust added substantially to the proportion of cash and short-term investments in its fixed-income portfolio during 2005, mainly through sales of global and domestic equities. There were two main reasons for this action:

- The strong performance of equity markets had caused the total value of some types of equities to approach the maximum levels set out by the Board of Trustees. Some of the sales were therefore necessary to rebalance the portfolio and maintain asset allocations within policy guidelines.
- The decision to allocate the proceeds to short-term money-market instruments reflects the Plan's risk preferences and is based on approved allocations. These funds will be used for increased investments in real estate and private markets.

A significant portion of the funds raised through the sale of equities was also used to add to the Plan's portfolio of real return bonds.

OPTrust's Asset Mix*



The Plan's holdings of real estate nearly doubled in 2005, increasing steadily toward an ultimate target of 9.5% of Plan assets, while the proportion of global and Canadian equities was reduced.

* Categories include temporary cash balances.

Joseph Lyn

Diversifying the Portfolio

Joseph Lyn, Manager of Real Estate Investments at OPTrust, is part of a small team that is gradually building a portfolio of real estate investments from nearly nothing a few years ago to an ultimate target of 9.5% of total Plan assets. Last year, the real estate portfolio grew from 2% of total Plan assets to more than 4% and achieved a return of 14.7%.

"Real estate is an excellent way to diversify the Plan's portfolio and achieve more stable returns overall. There's a low correlation between the performance of real estate and public stock and bond markets, and real estate offsets the effects of unexpected inflation. Plus it provides a steady stream of income to make pension payments."

Pension funding

2005 HIGHLIGHTS

- A funding valuation was filed for the second consecutive year in 2005
- The valuation confirmed a deficit of $428 million at the end of 2004, up from $255 million in the previous valuation
- Stabilization funds are being used to maintain contributions at normal rates
- Certain assumptions were changed to reflect actual experience

As a registered pension plan, OPTrust is legally required to complete a funding valuation that is filed with Ontario regulatory authorities at least once every three years.

The purpose of a funding valuation is to determine whether the Plan's assets, together with investment earnings and contributions expected to be made in the future, are sufficient to fund the members' promised benefits at retirement.

In actual practice, however, OPTrust reviews its valuation position every year. Our purpose is to determine whether the Plan has enough assets to pay all the pension benefits that members expect when they retire. Annual valuations ensure that the Trustees have access to up-to-date information on factors affecting the Plan's funding situation, and that decisions are based on accurate information.

An actuarial funding valuation presents financial information about a pension plan in a manner prescribed by regulatory authorities. It is used to determine if there are losses that may affect contribution rates, or gains that can be distributed as benefit improvements at the discretion of the sponsors. Actuarial funding valuations are therefore an essential element in the overall management of a pension plan.

Funding Valuation Completed for the Second Year in Succession

As a continuing part of the liability management strategy adopted by the Board of Trustees in 2003, OPTrust decided to complete an actuarial valuation for the year 2004, following the valuation covering 2002 and 2003 that was completed during the previous year.

Filing the valuation for 2004 allowed us to accelerate the use of stabilization funds to pay down deferred investment losses from 2001 and 2002.

The valuation also provided the Plan with the option of deferring the next valuation until 2007 – at which time the deferred losses from earlier in the decade will have been fully recognized.

The valuation for 2004 was filed with the Financial Services Commission of Ontario in September 2005. The valuation indicated an actuarial loss of $183 million for the year 2004, which, when combined with the loss of $245 million remaining from the valuation filed the preceding year, brought the total funding deficit to $428 million. The reasons for the 2004 change are outlined in the following table:

Sources of gains and losses – 2004 funding valuation

($ millions)

Investment loss (primarily the amortization of investment losses from prior years)	(325)
Other economic experience gain	119
Demographic experience loss	(6)
Assumption changes	78
Other losses	(49)
	(183)

Stabilization Funds to Be Used

Since OPSEU and the Government of Ontario jointly sponsor the OPSEU Pension Plan, both members and employers are equally responsible for making up any funding deficits (as well as sharing in the benefits of funding gains). A funding deficit would therefore normally require an immediate increase in member and employer contribution rates.

However, part of the funding gains that resulted from the strong investment performance of the Plan in the mid-to-late 1990s were set aside by both OPSEU and the Government of Ontario to create stabilization funds that could help offset any future funding deficits. In 2004 and 2005, both sponsors used a portion of their stabilization funds to pay an additional $38 million each into the Plan towards their current share of the funding losses identified in the two most recent funding valuations.

Pension funding

CONT'D

Stabilization Payments Continuing

Payments from the stabilization funds will continue in 2006, which will avoid the need for any immediate increase in member contribution rates.

At year-end 2005, the total amount in the members' stabilization fund was $174 million, compared with $185 million the previous year. The reason for the reduction was that the amount used to meet the funding deficiency was larger than the interest earned on the stabilization fund.

The balance of the employer stabilization fund was $272 million, compared with $348 million the previous year. The main reason for the change was that the Government of Ontario used some of the funds to extend the Surplus Factor 80 benefit, which had been scheduled to end on December 31, 2004, and is now scheduled to end on December 31, 2008.

Financial Position Strengthening

While the investment losses of 2001 and 2002 continued to have an impact on the Plan's 2005 financial statements – and the 2002 loss will continue to be felt in 2006 – strong investment results during the past three years have created a balance of deferred gains totalling $899 million for financial statement purposes that will continue to influence the Plan's financial and funding position through 2009. These gains will help OPTrust withstand any market downturns that may occur during the next few years.

As well, members and employers still have the security of significant stabilization fund reserves to help offset future demands on contribution rates. Based on current projections, if the Plan achieves its targets for investment returns during the period leading up to December 31, 2007, members should be able to look forward to stable contribution rates and pension benefits through the end of the decade.

Actuarial Assumptions Modified

The assumptions that a pension plan makes about factors such as inflation, investment returns, interest rates, salary increases and longevity can have a major impact on the amount of current funding required by the plan. In order to provide a measure of safety for keeping the pension promise, OPTrust uses assumptions that reflect a judicious assessment of current conditions, and reviews them regularly to ensure they continue to be appropriate.

Sensitivity analyses are also carried out to test the impact of potential changes to assumptions. As well, a margin of conservatism is included in assumptions about the inflation-adjusted rate of investment return on the Plan's assets.

For the purpose of its most recent funding valuation, OPTrust used the same assumptions as had been used for the valuation completed the previous year.

However, OPTrust also conducts regular studies to test whether particular actuarial assumptions underlying the Plan need to be revised in light of actual experience. In 2005, all of the Plan's significant economic and demographic assumptions were reviewed in a major study and the Board of Trustees approved the following changes:

- The assumed inflation rate was reduced to 3.0% from the previous rate of 3.5%.
- Effective January 2006, the assumed long-term rate of return on the Plan's assets was reduced to 7.0% from 7.5%.
- The assumed rate of increase in pensionable earnings was reduced to 3.75%.

	Next valuation	2004 valuation	2003 valuation
Investment return	7.00%	7.50%	7.50%
Inflation rate	3.00%	3.50%	3.50%
Salary escalation	3.75%[3]	4.50%[2]	4.50%[1]

1) 4.25% after three years, plus an amount for promotion, based on a long-term scale.

2) 4.25% after two years, plus an amount for promotion, based on a long-term scale.

3) Plus an amount for promotion, based on a long-term scale.

Risk management

2005 HIGHLIGHTS

- Equities were sold to rebalance the portfolio
- Additional measures to reduce volatility were initiated
- Operational risk program continued

The primary responsibility of the OPSEU Pension Trust is to ensure that the pension entitlements earned by members during their working years are fully paid during their retirement years. A number of known risk factors could impair our ability to meet that commitment, so an important element of the Plan's overall activities is to ensure that those risks are effectively managed.

The risks fall into three main categories:

- Liability risk – arises if estimates of future pension obligations are too low. This could occur if future salary increases are higher than forecast, if inflation is greater than expected or if life expectancy improves significantly because of medical breakthroughs, among other factors.
- Investment risk – arises if average future returns on a pension plan's investment portfolio are lower than the long-term returns assumed in the overall funding plan.
- Operational risk – could arise from a lack of proper safeguards and controls that lead to higher expenses or asset losses.

Enhanced Liability Management Strategy

Liability management entails ensuring that estimates of the cost of future pensions are based on the best possible information, so that contribution rates and investment targets can be set at realistic levels to fund future pension entitlements.

Liability management strategies include:

- Building margins of conservatism into actuarial assumptions.
- Establishing reserves such as stabilization funds that can be used to fund temporary shortfalls that would otherwise require member contribution rates to rise above normal levels.
- Establishing asset-smoothing techniques that reduce the impact of investment volatility on a plan's funded position.
- And adjusting the timing of actuarial valuations to better manage the impact of investment losses and gains.

In 2005, the liability management strategy adopted in 2003 continued to be carried out. Foremost among these activities was the filing of an actuarial valuation, which confirmed an increase in the funding deficit to $428 million from $255 million the previous year. Details of the valuation are contained in the section of the report entitled *Pension Funding*.

Investment Risk

The assets in the Plan must grow enough to match the future growth in pension liabilities. The current investment target used for funding valuation purposes needed to match the growth in future obligations is a nominal return of 7.0% on the assets in the Plan, effective January 1, 2006. This consists of a real return of 4.0%, plus inflation of 3.0%.

In order to achieve a real return of 4.0%, based on current fixed income yields, the Plan cannot simply place the assets into risk-free or low risk fixed income investments. Instead, we must invest a significant proportion of the Plan's assets in higher-risk financial instruments such as equities (stocks), real estate, and other asset classes that have the potential for higher returns but can fluctuate significantly in value over the short term.

There are a number of techniques we use to manage investment risk:

Diversification is the common sense technique of not "putting all your eggs in one basket". To achieve diversification, the OPSEU Pension Plan invests in a broad range of global and Canadian stocks and nominal bonds, as well as in real estate and real return bonds. The Plan's specific asset mix is based on the risk and return characteristics of each category of asset, how they are expected to respond to various economic and market conditions, and how well they relate to the Plan's liabilities, among other factors. The Board of Trustees establishes the Plan's target asset mix, based on the principles outlined in our Statement of Investment Policies and Procedures. The year end allocation to various asset classes is:

Risk management

CONT'D

- Global equities – 32.5%
- Canadian equities – 25.1%
- Domestic bonds – 23.0%
- Real estate – 4.2%
- Real return bonds – 9.4%
- Cash and equivalents – 5.8%

An important initiative in the continued diversification of the Plan's portfolio in 2005 was a significant increase in real estate investments, which are projected to grow over the next several years to about 9.5% of total Plan assets. Real estate is an ideal investment for increasing the diversification of a portfolio because there is a low correlation between returns from investing in private real estate markets versus returns from investing in public stock markets.

Rebalancing is a way of ensuring that the Plan's asset mix remains within the ranges that have been established for various types of investments and investing styles. The need for rebalancing arises because different asset classes grow at different rates at different times.

For that reason, OPTrust has established a rebalancing policy to keep the Plan's asset mix within a specific percentage range above or below the target allocation for each asset class. The percentage range of assets that may be allocated to the two basic investment strategies – active versus passive – has also been established.

The policy also provides for dynamic and flexible rebalancing of the investment portfolio, which allows us to consider short-term market conditions, as well as ensuring that the costs of rebalancing do not offset the benefits. A final consideration in the rebalancing policy is to ensure sufficient liquidity to pay pension benefits.

During the year, OPTrust sold about $700 million in foreign and domestic equities to rebalance them within percentage targets after strong investment gains. Proceeds of the sales were used mainly to build reserves of cash and other short-term investments, as well as to purchase real return bonds.

Active Risk Budgeting

The reason for using active management strategies for certain types of investments is to achieve higher returns than would be available using passive strategies. However, the use of active management introduces the risk that the overall risk/return performance of the portfolio or an asset class will be worse than the passive profile targeted in the asset allocation process.

The goal of our risk budgeting process is to ensure that we manage the deployment of active management strategies to achieve the highest risk-adjusted returns, net of fees.

Currency Risk

Although investing in global stocks increases diversification and can significantly improve returns over time, it does introduce currency risk. In particular, changes in the value of the Canadian dollar versus other currencies like the U.S. dollar that have occurred in recent years can have a sizeable impact on net investment returns.

To help manage this risk, since 1998 the Plan has employed a strategy of using derivative products to actively manage our exposure to currency fluctuations.

Additional information on the Plan's approach to managing investment risks is contained in note 4 to the financial statements on page 38.

Operational Risk

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

OPTrust has put in place a program, which includes regular reporting to the Audit Committee, to systematically review areas of risk in our administrative operations, address potential concerns and incorporate best practices for managing risks on an ongoing basis.

In 2005, we completed an assessment of investment objectives and strategies and their relationship to the actuarial liabilities of the Plan. A key outcome of this assessment will be the development of a formal funding policy in 2006. The purpose of the new policy is to better integrate asset and liability management objectives and to develop a strategy for managing any surpluses that the Plan may experience in future.

Changes to assumptions made by a pension plan can have a major impact on its funding requirements. The following table shows the impact of a 0.5% change in certain assumptions on the Plan's accrued pension benefits:

Sensitivity analysis of actuarial assumption changes[1]

($ millions)	+0.5%	-0.5%
Assumed rate of inflation[2]	$ (47)	$ 49
Assumed actuarial rate of return on plan assets	(626)	701
Assumed rate of pensionable earnings increases	155	(144)

1) Assumes all other assumptions remain unchanged.

2) Assumes that real return rates and earnings remain unchanged.

Lyril Browne

Looking Forward

Lyril Browne, a receptionist at the Whitby Mental Health Centre, has more than 19 years of credited service in the OPSEU Pension Plan. She's looking forward to the time, in the next few years, when she will have the option of retiring with an unreduced pension under the Plan's 60/20 rule, which allows members to retire at age 60 with a full pension if they have at least 20 years of service.

"Now that it's coming up to my time to retire, I'm pleased with the options that are available and very satisfied that everything is going to be fine. It's also good to know that if I die before my husband, he will be eligible to receive survivor benefits."

Financial statement overview

2005 HIGHLIGHTS

- **Net assets available for benefit payments rose $1,341 million to $11.8 billion by year-end**
- **The Plan's financial statement unallocated surplus increased to $526 million in 2005, reflecting experience gains**

The financial position of the OPSEU Pension Plan is presented following two different methods:

1. An actuarial funding valuation, which was described in a preceding section of the report entitled *Pension Funding*, presents the financial information as required by regulatory authorities. Its purpose is to determine whether the Plan's assets, together with investment earnings and contributions expected to be made in the future by and for current members, are sufficient to fund the members' promised benefits at retirement. It identifies any gains and losses that have occurred since the previous funding valuation and establishes the overall contribution requirements until the next valuation. This method includes margins of conservatism in the setting of economic assumptions.
2. A financial statement valuation, which must be completed annually (unlike the actuarial valuation), is prepared in accordance with generally accepted accounting principles and provides members, pensioners and other stakeholders with a snapshot of our financial position on December 31st of a particular year. The financial statement valuation is prepared using "best estimate" assumptions and does not incorporate margins of conservatism.

Differences between Financial Statement and Funding Valuations

Preparation of the financial statements differs in several important ways from the methodology and assumptions used to develop the funding valuation that we filed with financial regulators in 2005.

Methodology

The actuarial funding and financial statement valuations use different methods to determine both total pension benefits payable and the assets available to make those payments.

In an actuarial funding valuation, both the past service and the expected future service of existing members are used to determine a pension plan's liability for making future payments. To meet that liability, a funding valuation counts both the current assets in the plan and the present value of future contributions to the plan by existing members and their employers. (This is known as the *aggregate* method.)

By contrast, in a financial statement valuation, the determination of future benefits payable is based solely on the pension credits that existing members have built up at the date of the valuation (not a projection of their future service credits). Similarly, the assets available to make those payments are the ones currently in the plan, and do not include the present value of expected future contributions. (This is known as the *projected unit credit* method, *prorated on service*.)

Assumptions

Because an actuarial funding valuation assesses the ability of a plan to keep its pension promise over a very long period of time, the assumptions used are more conservative than the assumptions used for developing a financial statement valuation.

The results of the differences between the two approaches are highlighted in the table on the following page, which features results from the most recent funding valuation carried out for the year ending December 31, 2004, and compares them with the 2004 financial statement valuation.

As indicated in the table on this page, the financial statement valuation shows an unallocated surplus of $446 million, whereas the funding valuation shows an actuarial loss, or deficit, of $428 million. The main reasons for the difference of $874 million are as follows:

- The largest factor is the difference in methodologies used to calculate the funding and financial statement valuations, as described in the preceding section entitled *Methodology*.
- The second major factor is the lower real rate of return assumption (which excludes the effects of inflation) of 4% used for the funding valuation. This compares with the real return assumption of 4.25% used in the financial statement valuation.
- The final factor is the different nominal (real return plus inflation) rate of return assumptions used for the actuarial asset value adjustment, or smoothing. The funding valuation in 2004 used a nominal return assumption of 7.0%, while the financial statement valuation used a higher assumed return of 7.25%.

Review of 2005 Financial Statements

The following review of key elements of the financial statements provides an explanation of some of the important measures of the continuing health and soundness of the Plan.

Net Assets Available for Benefits

In 2005, the Plan's net assets available for benefits rose by $1,341 million, to $11.8 billion at year end. The increase resulted from net investment income of $1.6 billion. Partly offsetting that income was benefit payments that exceeded contributions by $201 million during the year, and operating expenses of $22 million.

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

Differences in financial statement and funding valuations

As at December 31, 2004	Financial	Funding	Difference
Net assets	10,474	10,474	–
Actuarial asset value adjustment	30	(69)	99
Present value of future contributions	–	2,934	(2,934)
Accrued pension benefits related to prior service	(9,367)	(9,637)	270
Provision for pension benefits related to future service	–	(3,494)	3,494
Provision for administrative expenses	(158)	(175)	17
Rate stabilization funds	(533)	(533)	–
Less allocation to enhanced benefits	–	72	(72)
Financial statement unallocated surplus/ (Funding valuation actuarial deficit)	$ 446	$ (428)	$ 874

Financial statement overview

CONT'D

Accrued Pension Benefits

Accrued pension benefits are determined by calculating future benefits payable in respect of service prior to the valuation date and discounting them back to the current date using the financial statement rate-of-return assumption of 7.25%.

At year-end 2005, accrued pension benefits were valued at $9,944 million, up $419 million from 2004. Of this increase, $494 million reflects normal growth in the Plan's accrued benefits. This includes income required on previously earned benefits and benefits earned during 2005, offset by payments to pensioners and terminating members. Also offsetting in part the overall increase in 2005 was a net reduction of $75 million that resulted from experience gains and changes to actuarial assumptions, which more than offset an increase resulting from benefit improvements.

Actuarial Asset Value Adjustment ("Smoothing")

Actuarial smoothing is a prescribed technique used for the purposes of actuarial valuation in the pension industry. Its purpose is to recognize that, while the returns from various types of investments such as stocks may fluctuate considerably from year to year, over the longer term they have tended to provide relatively predictable returns. Smoothing therefore "irons out" the short-term peaks and valleys in investment returns to provide a more stable view of results over a period of years.

At OPTrust, our smoothing methodology compares our actual return in any given year with the target rate of return we need to make over the long term to keep the pension promise. Any amounts above or below that target are considered gains or losses subject to smoothing. One-fifth of the gain or loss is recognized in the results of the current year, while the balance is recognized in four equal installments during each of the next four years.

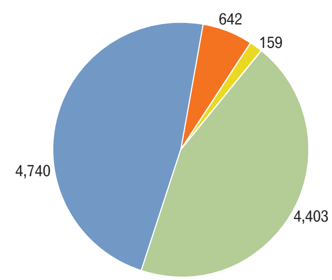
At the end of 2005, the Plan's actuarial value adjustment was a deferred gain of $899 million, compared with a deferred loss of $30 million the previous year. The main reason for the change was the deferral of gains from 2005.

Surplus

The Plan's financial statement surplus was $972 million at year-end, compared with $979 million at the end of 2004.

Accrued Pension Benefits

At December 31 ($ millions)



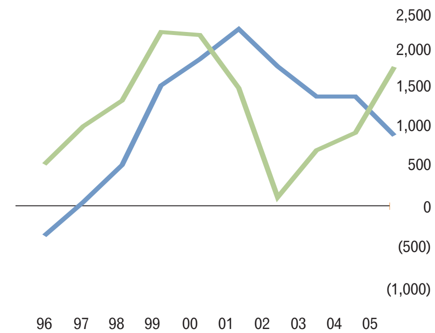
- Active members
- Current pensioners
- Divested members and deferred pensioners
- Provision for administrative expenses

Total: $9,944

At the end of 2005, active members accounted for 44% and pensioners accounted for 48% of the Plan's accrued benefits. The remaining 8% of the accrued liability represents the value of deferred pensions and a provision for administrative expenses.

Financial Statement Surplus and Smoothing

At December 31 ($ millions)



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

The Plan's financial statement surplus was $972 million at the end of 2005, about the same as the previous year.

The total surplus includes contribution rate stabilization funds established by the sponsors using a part of the actuarial gains identified in the 2001 funding valuation. During 2005, $24 million from each of the members' and employers' stabilization funds was used to make up the difference between the actual contributions made and the contributions needed to pay this year's share of the funding shortfall identified in the previous actuarial funding valuation.

At year-end 2005, the balance of the member stabilization fund stood at $174 million, compared with $185 million at the same time in 2004, as payments made during the year exceeded income on that fund. The balance of the employer stabilization fund was $272 million at the end of 2005, compared with $348 million at the same point in 2004. The main reason for the reduction was that stabilization funds were used to extend the Surplus Factor 80 benefit.

At December 31, 2005, the Plan's unallocated surplus, excluding the stabilization funds, stood at $526 million.

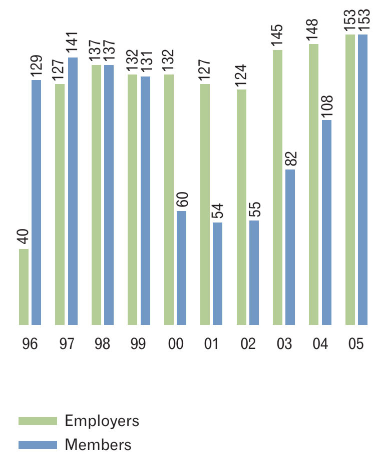
Changes in Net Assets

Investment income and contributions are the primary sources used to fund payments to pensioners, other payments to or on behalf of terminating members, and operating expenses. Changes in net assets available to the fund are recognized when the inflows from investments and contributions are greater or less than the outflows from payments during the period.

Investment Income
Net investment income was $1,564 million in 2005, compared with $1,069 million the previous year. Positive returns from all asset classes – led by Canadian and global equities – contributed to this result.

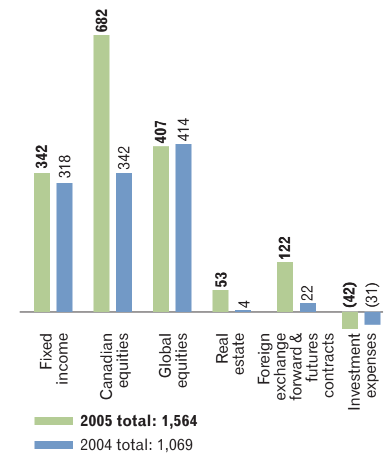
Investment expenses were higher than in 2004. Since investment fees are directly related to the size of the portfolio, some of the increase in fees resulted from the higher asset base. Higher investment management fees also resulted from the increased portion of actively managed assets in the foreign and domestic equity and real estate portfolios.

Regular Contributions
($ millions)



Contribution rates for members returned to normal levels in 2005, after five years of reductions that saved the average member about $7,700. Employer contributions remained at normal levels throughout this period.

Net Investment Income
($ millions)



2005 investment income reflected a strong performance from Canadian and global equity markets and domestic bond markets, as well as a growing contribution from real estate.

Financial statement overview

CONT'D

Contributions
Regular pension contributions from members and employers totalled $306 million in 2005, compared with $256 million in 2004, reflecting a return to normal contribution rates for employees on January 1, 2005.

Total contributions to the Plan were $323 million in 2005, compared with $276 million the previous year.

Pension Payments
OPTrust's pensioner population continued to grow in 2005, reaching 21,439 retirees at year-end. Pension payments increased by 7.6% to $398 million, compared with $370 million in 2004.

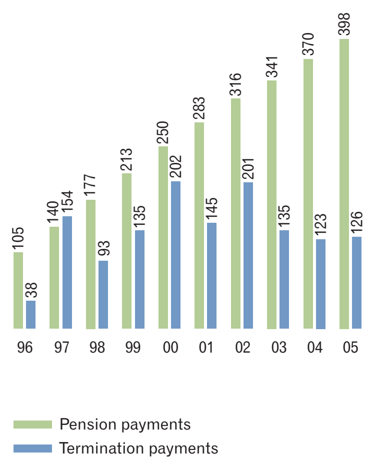
OPTrust pensions are adjusted annually for inflation. In January 2005, retirees received a pension increase of 1.7% (compared to 3.3% in 2004) under the Plan's inflation protection provision. The increase for 2006 is 2.2%.

Terminations and Transfers
Termination payments and transfers to other plans were $126 million in 2005, compared with $123 million in 2004.

Administrative Expenses

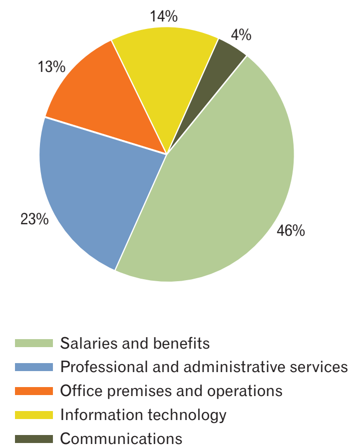
Administrative expenses were $22 million in 2005, the same as the previous year.

Benefit Payments
($ millions)



Pension payments continued to rise, reflecting both rapid growth in the number of OPTrust retirees and inflation-related increases in their pensions.

2005 Administrative Expenses



Administrative expenses were $22 million, unchanged from the previous year.

Financial statements

Auditors' report

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

We have audited the consolidated statement of net assets available for benefits, accrued pension benefits, actuarial asset value adjustment and surplus of the Ontario Public Service Employees Union Pension Plan (the Plan) as at December 31, 2005 and December 31, 2004 and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in surplus for the years then ended. These statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits, actuarial asset value adjustment and surplus of the Plan as at December 31, 2005 and December 31, 2004, 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 3, 2006

PRICEWATERHOUSECOOPERS

Actuaries' certificate

We performed an actuarial valuation of the Ontario Public Service Employees Union Pension Plan (the OPSEU Pension Plan) for funding purposes as of December 31, 2004 as stated in Note 9 of these consolidated financial statements. For the purposes of that valuation as stated in our valuation report dated September 15, 2005, we hereby certify that, in our opinion, the assumptions are, in aggregate, appropriate, the methods employed are appropriate, and the data are sufficient and reliable. The valuation was prepared, and our opinions given, in accordance with accepted actuarial practice.

As further stated in Note 6 of these consolidated financial statements, we have prepared an actuarial valuation of the OPSEU Pension Plan accrued pension benefits for financial statement purposes as at December 31, 2005 in accordance with the Canadian Institute of Chartered Accountants Handbook Section 4100. The valuation was based on an extrapolation of the valuation as at December 31, 2004 and the accrued pension benefits determined using membership data from December 31, 2004, the projected unit credit cost method prorated on service and management's best estimate assumptions for consolidated financial statement purposes as set out in Note 6. In our opinion, the assumptions are, in aggregate, appropriate and the methods employed are appropriate for the purposes of the financial statement valuation.

In our opinion, the December 31, 2005 actuarial valuation for financial statement purposes was prepared in accordance with accepted actuarial practice.

H. Clare Pitcher
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

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

February 3, 2006

buckconsultants
an ACS company

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 consolidated 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 consolidated 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 consolidated 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. 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 consolidated financial statements presented to Plan members. An Audit Committee, consisting of Trustees appointed by each of the Government and OPSEU, reviews the consolidated 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 auditor findings and to satisfy themselves that their responsibilities have been adequately discharged.

PricewaterhouseCoopers LLP, the external auditors, have conducted an independent examination of the consolidated 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.

Heather Gavin
Chief Administrative Officer
and Plan Manager

Charlie Eigl
Vice-President, Finance

Consolidated Statement of Net Assets Available for Benefits, Accrued Pension Benefits, Actuarial Asset Value Adjustment and Surplus

As at December 31 ($ millions)	2005	2004
ASSETS		
Investments (Note 5)	**$ 11,901**	$ 10,555
Contributions receivable		
Employers	**25**	24
Members	**12**	11
Property and equipment, net	**5**	7
	11,943	10,597
LIABILITIES		
Accounts payable and accrued charges	**(17)**	(25)
Investment-related liabilities (Note 5)	**(111)**	(98)
	(128)	(123)
NET ASSETS AVAILABLE FOR BENEFITS	**$ 11,815**	$ 10,474
ACCRUED PENSION BENEFITS (Note 6)		
Active members	**$ 4,403**	$ 4,214
Pensioners	**4,740**	4,470
Deferred and divested members	**642**	683
Provision for administrative expenses	**159**	158
	9,944	9,525
ACTUARIAL ASSET VALUE ADJUSTMENT (Note 7)	**899**	(30)
SURPLUS (Note 8)		
Member rate stabilization fund	**174**	185
Employer rate stabilization fund	**272**	348
Unallocated surplus	**526**	446
	972	979
ACCRUED PENSION BENEFITS, ACTUARIAL ASSET VALUE ADJUSTMENT AND SURPLUS	**$ 11,815**	$ 10,474

The accompanying notes to the consolidated financial statements are an integral part of this statement.

On behalf of the Board of Trustees

Deborah Stark

Deborah Stark
Chair

Jordan Berger

Jordan Berger
Vice-Chair

Consolidated Statement of Changes in Net Assets Available for Benefits

For the years ended December 31 ($ millions)	2005	2004
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	**$ 10,474**	$ 9,644
Net investment income (Note 10)	**1,564**	1,069
Contributions (Note 12)	**323**	276
Benefit payments (Note 13)	**(524)**	(493)
Administrative expenses (Note 14)	**(22)**	(22)
NET INCREASE IN ASSETS AVAILABLE FOR BENEFITS	**1,341**	830
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**$ 11,815**	$ 10,474

Consolidated Statement of Changes in Accrued Pension Benefits

For the years ended December 31 ($ millions)	2005	2004
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	**$ 9,525**	$ 8,865
INCREASE IN ACCRUED PENSION BENEFITS		
Income required on accrued pension benefits	**694**	701
Benefits accrued	**324**	268
Establishment of administrative expense provision	**–**	161
Experience losses	**–**	58
Benefit improvements	**84**	–
	1,102	1,188
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits payments	**524**	493
Experience gains	**93**	–
Changes in actuarial assumptions	**56**	20
Administrative expenses recognized	**10**	15
	683	528
NET INCREASE IN ACCRUED PENSION BENEFITS	**419**	660
ACCRUED PENSION BENEFITS, END OF YEAR	**$ 9,944**	$ 9,525

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Surplus

For the years ended December 31 ($ millions)	2005	2004
UNALLOCATED SURPLUS, BEGINNING OF YEAR	**$ 446**	$ 973
EXPERIENCE GAINS/(LOSSES) RELATED TO FINANCING PENSION BENEFITS		
Net investment income	**1,564**	1,069
Change in actuarial asset value adjustment	**(929)**	(674)
Income required on accrued pension benefits	**(694)**	(701)
	(59)	(306)
OTHER EXPERIENCE GAINS/(LOSSES)		
Contributions net of benefits accrued	**(1)**	8
Administrative expenses	**(12)**	(7)
Demographic assumptions	**93**	(58)
	80	(57)
OTHER CHANGES IN UNALLOCATED SURPLUS		
Establishment of expense provision	**–**	(161)
Changes in actuarial assumptions	**56**	20
Benefit improvements	**(84)**	–
Net transfer from (to) rate stabilization funds	**87**	(23)
	59	(164)
NET INCREASE/(DECREASE) IN UNALLOCATED SURPLUS	**80**	(527)
UNALLOCATED SURPLUS, END OF YEAR	**$ 526**	$ 446
MEMBER RATE STABILIZATION FUND, BEGINNING OF YEAR	**$ 185**	$ 172
Interest earned on funds	**13**	14
Gain due to early termination of member contribution reduction	**–**	13
Use of funds for funding deficiency	**(24)**	(14)
	(11)	13
MEMBER RATE STABILIZATION FUND, END OF YEAR	**$ 174**	$ 185
EMPLOYER RATE STABILIZATION FUND, BEGINNING OF YEAR	**$ 348**	$ 338
Interest earned on funds	**20**	24
Use of funds for funding deficiency	**(24)**	(14)
Use of funds for benefit improvements	**(72)**	–
	(76)	10
EMPLOYER RATE STABILIZATION FUND, END OF YEAR	**$ 272**	$ 348
TOTAL SURPLUS, END OF YEAR	**$ 972**	$ 979

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to the consolidated financial statements December 31, 2005

1. Plan profile

a. 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 consolidated 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.

b. 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
- Liquor Control Board of Ontario
- New Democratic Party Caucus
- Niagara Parks Commission
- Northeast Mental Health Centre
- Ontario Lottery and Gaming Corporation
- Ontario Pension Board
- Ontario Public Service Employees Union (seconded or acting employees)
- Ontario Teachers' Pension Plan Board
- OPSEU Pension Trust (includes non-bargaining unit employees)
- St. Joseph's Health Care Group – Lakehead Psychiatric Hospital
- Workplace Safety and Insurance Appeals Tribunal

a. 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.

b. Contributions

The OPSEU Pension Plan's contributions and benefits are integrated with the Canada Pension Plan (CPP).

Effective January 1, 2005, the normal contribution formula changed to 6.4% of salary up to the YMPE and 8% of other eligible earnings up to the maximum earnings of $113,460 for the year. The normal contribution formula was changed to ease its administration and has an immaterial impact on the determination of accrued pension benefits. Employers and members contributed at the normal contribution rates as of January 1, 2005.

Required rates of contribution for 2004 were as follows:

	Contribution Percentage		
	Employer	Member	
2004 Earnings		**12/1/2004 to 12/31/2004**	**1/1/2004 to 11/30/2004**
Below the Year's Basic Exemption (YBE) of $3,500	8.0%	7.0%	6.0%
CPP pensionable earnings – Year's Maximum Pensionable Earnings (YMPE) less the YBE	6.2%	5.2%	4.2%
In excess of the YMPE, up to maximum earnings of $104,914	8.0%	7.0%	6.0%

c. 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 *Income Tax Act* (Canada) limits. For some types of buybacks, employers make a matching payment.

d. 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 CPP pensionable earnings. The reduction at age 65 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 (maximum of 35 years).

Notes to the consolidated financial statements December 31, 2005

There was a time-limited provision that provided for an enhanced retirement opportunity for those members of the Plan whose age and credit totalled 80 (Factor 80) by March 31, 2005. Factor 80 was extended to December 31, 2008, to certain members of the plan who are laid off. The cost of this benefit was paid for as a charge to the Employer Rate Stabilization Fund.

Reduced pensions are available to members who retire after age 55 and before age 65 who are not entitled to unreduced benefits. 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, however, 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.

e. 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. The inflation adjustment was 2.2% at January 1, 2006 (January 1, 2005 – 1.7%).

f. 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 entitlement to a survivor pension.

g. 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.

h. 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.

i. 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.

j. 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

a. Presentation
These consolidated 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.

b. Principles of consolidation
The consolidated financial statements include the accounts of the Plan's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation. The wholly owned subsidiaries were formed for the purpose of investing in certain real estate assets.

c. Use of estimates
In preparing these consolidated 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.

d. Investments
Investment transactions are recognized on a trade date basis.

i) Valuation of investments
Investments 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. Investments held directly are valued as of the valuation date by independent third parties, while investments held through pooling arrangements or limited liability companies are valued by external asset managers.

Notes to the consolidated financial statements December 31, 2005

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 based on the market yields of securities with comparable credit risk.
Real estate	Income producing properties are valued based on independent appraisals that are conducted at least once every three years. The purchase price plus closing costs generally approximate the fair value of properties acquired and held for less than one year.
Mortgages and loans payable	The market values have been estimated based on the market yields of securities with comparable credit risk and term to maturity.

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.

ii) 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 recognition
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 estimated fair value and the average cost at year end

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

e. 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 7.25% for both 2005 and 2004.

f. 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 valuations).

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.

g. 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.

h. 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. Any other benefit payment accruals not paid are reflected in the accrued pension benefits.

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

j. 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.

Notes to the consolidated financial statements December 31, 2005

k. 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 consolidated 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 a climate of uncertainty.

The Plan has established as a target an asset mix policy of 60.0% equities, 23.0% 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.

a. 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 results from 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 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)	2005					2004	
	Term of maturity						
	Within 1 year	1 to 5 years	Over 5 years	Total	Yield to maturity	Total	Yield to maturity
Short-term investments	$ 803	$ –	$ –	$ 803	3.2%	$ 159	2.5%
Government of							
Ontario debentures	75	640	1,068	1,783	4.3%	1,953	4.2%
Bonds							
Canadian government	–	–	266	266	4.0%	261	4.2%
Provincial governments	3	10	398	411	4.6%	307	5.0%
Corporate	–	44	185	229	4.8%	197	5.2%
Real return	–	–	1,103	1,103	1.4%	804	2.1%
TOTAL	$ 881	$ 694	$ 3,020	$ 4,595	3.5%	$ 3,681	3.8%

b. 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, 2005, the Plan held $2,001 million (2004 – $2,129 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, 2005 and 2004, 100% of the short-term investment portfolio met the credit rating criteria. As of December 31, 2005, 98.9% (2004 – 99.4%) of the fixed income portfolio (which includes bonds and the Government of Ontario debentures) was rated "A" or better.

c. 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)	2005				2004
	Gross exposure	Policy hedge	Active exposure	Net exposure	Net exposure
Canadian	$ 7,932	$ 1,670	$ (10)	$ 9,592	$ 8,470
Investments subject to currency risk					
Developed markets					
United States	1,590	(803)	246	1,033	427
United Kingdom	350	(169)	65	246	136
Eurozone	555	(272)	(163)	120	375
Asia Pacific	768	(373)	(185)	210	536
Europe – Other	93	(53)	47	87	(14)
Emerging markets	502	–	–	502	527
	3,858	(1,670)	10	2,198	1,987
NET INVESTMENTS	$ 11,790	$ –	$ –	$ 11,790	$ 10,457

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, 2005, is $51 million (2004 – $90 million).

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)	**2005**	2004
Canada	**$ 8,379**	$ 7,661
Investments subject to geographic risk		
Developed markets		
United States	**1,025**	747
United Kingdom	**349**	278
Eurozone	**547**	447
Asia Pacific	**772**	626
Europe – Other	**106**	126
Emerging markets	**612**	572
	3,411	2,796
NET INVESTMENTS	**$ 11,790**	$ 10,457

d. 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.

In addition to investment management practices designed to optimize the relationship between risk and return, the Plan uses asset smoothing and uses margins of conservatism in economic assumptions to provide capacity to mitigate the negative impact of market risk.

e. 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, 85% (2004 – 81%) of the Plan's investments are marketable and can be liquidated relatively quickly.

f. Securities lending

To provide incremental income, the Plan participates in a securities lending agreement with its custodian, RBC Dexia. 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, 2005, the Plan's investments included loaned securities with a fair value of $179 million (2004 – $138 million). The fair value of securities collateral received in respect of these loans was $190 million (2004 – $148 million). Income earned from this program for the year was $719 thousand (2004 – $557 thousand).

5. Investments

The following schedule summarizes the market value and average cost of the Plan's investments.

	2005			2004		
As at December 31 ($ millions)	**Fair Value**	**Average Cost**	**Percentage of Assets**	Fair Value	Average Cost	Percentage of Assets
Fixed income						
Cash	**$ 71**	**$ 72**	**1%**	$ 60	$ 60	1%
Short-term investments	**803**	**803**	**7%**	159	159	2%
Government and corporate bonds	**906**	**840**	**8%**	765	730	7%
Real return bonds	**1,103**	**900**	**9%**	804	730	8%
Government of Ontario debentures	**1,783**	**1,378**	**15%**	1,953	1,481	18%
	4,666	**3,993**	**40%**	3,741	3,160	36%
Equities						
Canadian	**2,917**	**2,096**	**25%**	2,792	2,110	27%
Foreign	**3,114**	**2,642**	**26%**	2,662	2,367	25%
Foreign pooled equity linked investments	**566**	**557**	**5%**	1,018	957	10%
	6,597	**5,295**	**56%**	6,472	5,434	62%
Real estate	**542**	**519**	**5%**	220	221	2%
Investment-related receivables						
Accrued income	**30**	**30**	**–%**	24	24	–%
Due from brokers	**15**	**15**	**–%**	8	8	–%
Unrealized gains and amounts receivable on derivative contracts	**51**	**–**	**–%**	90	–	1%
	96	**45**	**–%**	122	32	1%
INVESTMENT ASSETS	**$ 11,901**	**$ 9,852**	**101%**	$ 10,555	$ 8,847	101%
Investment-related liabilities						
Due to brokers and mortgages	**(77)**	**(77)**	**(1%)**	(10)	(10)	–%
Unrealized losses and amounts payable on derivative contracts	**(34)**	**–**	**–%**	(88)	–	(1%)
	(111)	**(77)**	**(1%)**	(98)	(10)	(1%)
NET INVESTMENTS	**$ 11,790**	**$ 9,775**	**100%**	$ 10,457	$ 8,837	100%

Notes to the consolidated financial statements December 31, 2005

At December 31, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets.

($ millions)	2005			2004		
	Number of Investments	**Fair Value ($)**	**Cost ($)**	Number of Investments	Fair Value ($)	Cost ($)
Non-Marketable Debentures	**10**	**1,783**	**1,378**	12	1,953	1,481
Public Market Investments	**6**	**2,553**	**2,173**	6	1,728	1,432
Real Estate	**–**	**–**	**–**	1	98	102

The public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets are comprised of: Manulife Financial Corp., Toronto-Dominion Bank, Government of Canada, Province of Ontario, Province of Quebec and the Barclays Global Investors US Equity Index Fund.

Investments are made in real estate through the wholly owned subsidiary OPTrust Realty Inc. For 2005 there were no real estate investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets.

6. Accrued pension benefits

a. Financial statement valuation as at December 31, 2005

The accrued pension benefits as at December 31, 2005, were valued at $9,944 million for financial statement purposes. This is based on data taken from the actuarial valuation for funding purposes as at December 31, 2004.

The financial statement valuation includes an experience gain of $93 million (2004 – experience loss of $58 million), a decrease in accrued pension benefits due to changes in actuarial assumptions of $56 million (2004 – $20 million), and an increase in Accrued Pension Benefits of $84 million representing the extension of the enhanced retirement opportunity to December 31, 2008, to certain members of the plan who are laid off.

b. 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, the assumed rate of pensionable earnings increase for 2006 was reduced from 4.0% to 3.75%.

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

	2005	2004
Assumed actuarial rate of return on plan assets	**7.25%**	7.25%
Assumed rate of inflation	**3.00%**	3.00%
Assumed rate of pensionable earnings increases (to end of 2006)*	**3.75%**	4.00%
Assumed rate of pensionable earnings increases (subsequent)*	**3.75%**	3.75%

*Percentage shown plus service-related promotion scale

The impact of a change (0.5%) in certain assumptions on Accrued Pension Benefits is shown in the table below, keeping all other assumptions unchanged. In measuring the effect of the change in the assumed rate of inflation, the assumed real rate of return on assets and the assumed real rate of increase in pensionable earnings remained unchanged.

($ millions)	+0.50%	-0.50%
Assumed rate of inflation	$ (47)	$ 49
Assumed actuarial rate of return on plan assets	(626)	701
Assumed rate of pensionable earnings increases	155	(144)

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

($ millions)	**Deferred gains/ (losses) 2005**	**Timing of future recognition of deferred gains/(losses) 2006**	**2007**	**2008**	**2009**	Deferred gains/ (losses) 2004
2001	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	$ (225)
2002	**(282)**	**(282)**	**–**	**–**	**–**	(564)
2003	**304**	**152**	**152**	**–**	**–**	456
2004	**227**	**76**	**76**	**75**	**–**	303
2005	**650**	**163**	**163**	**162**	**162**	–
TOTAL	**$ 899**	**$ 109**	**$ 391**	**$ 237**	**$ 162**	$ (30)

In addition to the amounts identified above, the recognition of investment gains and losses in years after 2005 is dependent on the extent to which actual returns will differ from management's best estimate of return in any given year. For 2005, that estimate is 7.25%.

If net investment income were not subject to smoothing, surplus would be increased (2004 – decreased) by the amount of the actuarial asset value adjustment.

8. Surplus

As at December 31, 2005, the surplus for financial statement purpose was $972 million (2004 – $979 million), which was comprised of rate stabilization funds of $446 million and unallocated surplus of $526 million. OPSEU and the Province of Ontario have each set aside a portion of the Plan's funding gains from 1999 – 2001 as rate stabilization funds.

Changes in surplus result from differences between actual and expected investment return; differences between actual experience and that expected in accordance with the

Notes to the consolidated financial statements December 31, 2005

assumptions used in valuing the accrued pension benefits; differences between the actual contributions made to the plan and the benefits accrued during the year; 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.

9. Funding gains and losses

In accordance with the *Pension Benefits Act* of Ontario and the *Income Tax Act* (Canada) and Regulations, an actuarial valuation for funding purposes is required to be filed at least every three years to estimate the Plan's gains or losses, and to determine the Plan's funding requirements.

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 respect of current members 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 is used to identify gains or losses, which are allocated equally between members and the Government of Ontario. Gains are allocated at the discretion of the sponsors to fund benefit improvements, reduce contributions, reduce any existing funding deficiencies, or are set aside in the form of rate stabilization funds. Funding deficiencies resulting from losses must be funded over a maximum of 15 years from either increased contributions or rate stabilization funds. Accrued pension benefits are valued using economic assumptions developed by reference to long-term market conditions.

The last funding valuation filed with the Financial Services Commission of Ontario was prepared by Buck Consultants as at December 31, 2004. The funding deficiency reported in that funding valuation was $428 million. The member and employer Rate Stabilization Funds are being utilized to fund each sponsor's respective share of contributions required to pay for this deficiency.

The key economic assumptions used for the funding valuation as at December 31, 2004, were as follows:

	2004
Assumed actuarial rate of return on plan assets	**7.50%**
Assumed rate of inflation	**3.50%**
Assumed rate of pensionable earnings increases (for 2005 and 2006)*	**4.50%**
Assumed rate of pensionable earnings increases (after 2006)*	**4.25%**

*Percentage shown plus service-related promotion scale

10. Net investment income

For the years ended December 31 ($ millions) 2005	**Earned Income**	**Realized Gains/ (Losses)**	**Unrealized Gains/ (Losses)**	**Net Investment Income/ (Loss)**
Fixed income				
Cash and short-term investments	**$ 9**	**$ –**	**$ –**	**$ 9**
Government and corporate bonds	**32**	**36**	**31**	**99**
Real return bonds	**25**	**(2)**	**129**	**152**
Government of Ontario debentures	**168**	**(19)**	**(67)**	**82**
	234	**15**	**93**	**342**
Equities				
Canadian	**107**	**436**	**139**	**682**
Foreign	**74**	**140**	**177**	**391**
Foreign pooled equity linked investments	**–**	**70**	**(54)**	**16**
	181	**646**	**262**	**1,089**
Real estate	**30**	**3**	**20**	**53**
Foreign exchange forward and futures contracts	**–**	**107**	**15**	**122**
	445	**771**	**390**	**1,606**
Investment expenses				
Investment manager fees				**(31)**
Custodial fees				**(2)**
Other investment expenses				**(9)**
NET INVESTMENT INCOME				**$ 1,564**

2004	**Earned Income**	**Realized Gains/ (Losses)**	**Unrealized Gains/ (Losses)**	**Net Investment Income/ (Loss)**
Fixed income				
Cash and short-term investments	$ 5	$ –	$ 1	$ 6
Government and corporate bonds	38	23	12	73
Real return bonds	20	217	(114)	123
Government of Ontario debentures	176	(19)	(41)	116
	239	221	(142)	318
Equities				
Canadian	49	288	5	342
Foreign	65	61	183	309
Foreign pooled equity linked investments	–	–	105	105
	114	349	293	756
Real estate	12	–	(8)	4
Foreign exchange forward and futures contracts	–	6	16	22
	365	576	159	1,100
Investment expenses				
Investment manager fees				(22)
Custodial fees				(2)
Other investment expenses				(7)
NET INVESTMENT INCOME				$ 1,069

Notes to the consolidated financial statements December 31, 2005

11. Time-weighted investment returns and related benchmarks

Gross of fees	2005		2004	
Expressed in %	**Actual**	**Benchmark**	Actual	Benchmark
Fixed income	**9.7**	**9.7**	9.2	9.6
Canadian equities	**22.1**	**23.4**	13.4	14.5
Foreign equities	**16.7**	**14.6**	13.1	11.4
Real estate	**14.7**	**6.2**	12.9	6.2
TOTAL PLAN	**15.6**	**14.6**	11.7	11.5

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 markets in which they invest.

Asset Class	**Benchmark**
Fixed income	Blended SC Universe Bond Index, Custom Long Bond Index and Real Return Bond Index
Canadian equities	Blended S&P/TSX Composite Index and S&P/TSX Small Cap Index
Foreign equities	Blended MSCI ACWI Index, MSCI EAFE Index, MSCI EMF Index, Russell 2500 Index, S&P 500 Index and S&P 500 100% Hedged Index including the effects of hedging 50% of currency exposure in developed markets and expressed in Canadian dollars
Real estate	CPI Inflation + 4%

12. Contributions

For the years ended December 31 ($ millions)	2005	2004
Members		
Current service	**$ 136**	$ 93
Prior service	**10**	12
Long term income protection*	**7**	3
	153	108
Employers		
Current service	**136**	129
Prior service	**11**	13
Long term income protection	**6**	6
	153	148
Transfers from other plans	**17**	20
TOTAL CONTRIBUTIONS	**$ 323**	$ 276

*Employer pays members' contributions

13. Benefit payments

For the years ended December 31 ($ millions)	2005	2004
Retirement pensions	**$ 398**	$ 370
Transfers to the Ontario Pension Board	**79**	71
Transfers to other plans	**6**	9
Refunds and commuted value transfers	**41**	43
TOTAL BENEFIT PAYMENTS	**$ 524**	$ 493

14. Administrative expenses

For the years ended December 31 ($ millions)	2005	2004
Salaries and benefits	**$ 10.3**	$ 10.7
Information technology	**3.2**	3.7
Professional and administrative services	**5.0**	3.6
Office premises and operations	**2.8**	2.6
Communications	**0.9**	1.1
TOTAL ADMINISTRATIVE EXPENSES	**$ 22.2**	$ 21.7

Audit expenses were $0.2 million in 2005 (2004 – $0.2 million). Non-audit fees comprising tax and risk management services paid to PricewaterhouseCoopers LLP, the plan auditor, totalled $0.2 million in 2005 (2004 – $0.2 million). Actuarial expenses paid to Buck Consultants, the plan actuaries, were $ 0.9 million in 2005 (2004 – $0.8 million).

15. Compensation

The Trustees of the Plan do not receive compensation from the Trust. They are, however, reimbursed for travel-related expenses. Expenses for amounts paid to or on behalf of Trustees totalled $190 thousand in 2005 (2004 – $80 thousand).

Base salaries paid to the five highest paid members of the senior management team were as follows:

For the years ended December 31 ($ thousands)

Name and position	**2005**	2004	2003
Morgan Eastman Chief Investment Officer	$ 358	$ 333	$ 340
Kevin Warn-Schindel* Group Head and Managing Director, Private Markets Group	275	110	–
Bill Foster Vice-President, Member and Pensioner Services (Acting Chief Administrative Officer, May – December 2005)	243	180	174
Robert A.S. Douglas** Managing Director, Real Estate Investments	226	168	–
Charlie Eigl Vice-President, Finance	188	178	172

*Effective August 9, 2004
**Effective March 15, 2004

Compensation to the senior management team comprises base salaries and may also include retroactive salary, retention payments, pension and insured benefits, vacation entitlements and moving allowances. Management employees earn between four and six weeks vacation a year.

Notes to the consolidated financial statements December 31, 2005

Compensation arrangements with the management team provide for the accumulation of pension benefits. Coverage of up to $113,460 (2004 – $104,914) 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 $113,460 (2004 – $104,914) to these separate arrangements. Benefits for management employees are the same as for bargaining unit employees.

16. Guarantees, commitments and contingencies

In the normal course of its business, the Plan may, from time to time, provide guarantees to various counterparties which may be considered material within the context of the Fund. OPSEU Pension Trust indemnifies its trustees and staff against certain claims that may be made against them. Otherwise there are no guarantees that might be considered material outstanding as at December 31, 2005 and 2004.

The Plan has committed to fund certain investments over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2005, these commitments totalled $853 million (2004 – $92 million).

As at December 31, 2005, any liability that may arise from contingencies would not have a significant adverse effect on the consolidated financial statements of the Plan.

10 year review

For the years ended December 31 ($ millions)		2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CHANGES IN NET ASSETS											
Increase in net assets											
Net investment (loss)/income	$	**1,564**	1,069	1,408	(688)	(359)	654	970	867	981	1,027
Member contributions		**153**	108	82	55	54	60	131	137	141	129
Employer contributions		**153**	148	145	124	127	132	132	137	127	40
Transfers from other plans		**17**	20	15	16	10	17	36	2	2	54
Special and other payments		**–**	–	–	99	40	38	36	34	24	–
		1,887	1,345	1,650	(394)	(128)	901	1,305	1,177	1,275	1,250
Decrease in net assets											
Pension payments		**398**	370	341	316	283	250	213	177	140	105
Termination payments and transfers		**126**	123	135	201	145	202	135	93	154	38
Operating expenses		**22**	22	23	22	20	18	17	17	15	15
		546	515	499	539	448	470	365	287	309	158
INCREASE/(DECREASE) IN NET ASSETS		**1,341**	830	1,151	(933)	(576)	431	940	890	966	1,092
NET ASSETS											
Investments											
Cash and short-term investments		**874**	219	172	204	202	514	192	209	200	170
Government and corporate bonds		**906**	765	853	686	658	506	542	477	612	393
Real return bonds		**1,103**	804	582	549	493	528	440	419	340	293
Government of Ontario debentures		**1,783**	1,953	2,090	2,200	2,243	2,313	2,296	2,631	2,554	2,449
Equities – Canadian		**2,917**	2,792	2,601	2,017	2,192	3,184	2,873	3,279	2,310	2,021
Equities – Foreign		**3,680**	3,680	3,265	2,784	3,546	2,884	3,145	1,529	1,652	1,330
Real estate		**542**	220	40	41	45	43	32	26	15	1
Investment related receivables		**96**	122	108	23	26	26	24	39	24	27
		11,901	10,555	9,711	8,504	9,405	9,998	9,544	8,609	7,707	6,684
Contributions receivable from members		**12**	11	10	7	6	7	7	13	14	11
Contributions receivable from employers		**25**	24	21	25	21	19	22	19	21	20
Other assets		**5**	7	10	13	12	5	5	3	4	68
TOTAL ASSETS		**11,943**	10,597	9,752	8,549	9,444	10,029	9,578	8,644	7,746	6,783
Liabilities											
Accounts payable and accrued charges		**(17)**	(25)	(20)	(44)	(7)	(15)	(4)	(3)	(5)	(5)
Investment related liabilities		**(111)**	(98)	(88)	(12)	(11)	(12)	(3)	(10)	–	(3)
TOTAL LIABILITIES		**(128)**	(123)	(108)	(56)	(18)	(27)	(7)	(13)	(5)	(8)
NET ASSETS AVAILABLE FOR BENEFIT	$	**11,815**	10,474	9,644	8,493	9,426	10,002	9,571	8,631	7,741	6,775
Accrued pension benefits		**9,944**	9,525	8,865	8,389	7,832	7,713	7,242	7,201	6,648	6,180
Actuarial asset value adjustment		**899**	(30)	(704)	(1,774)	(774)	316	701	844	993	935
SURPLUS/(DEFICIENCY)	$	**972**	979	1,483	1,878	2,368	1,973	1,628	586	100	(340)
INVESTMENT PERFORMANCE (%)											
Rate of Return		**15.6%**	11.7%	17.3%	(7.2%)	(3.5%)	7.0%	11.4%	11.3%	14.7%	18.3%
After inflation		**13.4%**	9.6%	15.3%	(11.1%)	(4.2%)	3.8%	8.8%	10.3%	14.0%	16.1%
Benchmark		**14.6%**	11.5%	13.6%	(7.8%)	(4.4%)	3.3%	14.6%	13.2%	13.7%	17.1%
After inflation		**12.4%**	9.4%	11.6%	(11.7%)	(5.1%)	0.1%	12.0%	12.2%	13.0%	14.9%

Public market investment managers and strategies

as of December 31, 2005	**Manager**	**Strategy**	**Focus**
Canadian Equities	Beutel, Goodman and Company	Active	Canadian large capitalization
	Guardian Capital	Active	Canadian large capitalization
	PCJ	Active	Canadian large capitalization
	Sceptre	Active	Canadian small capitalization
	Barclays Global Investors	Enhanced passive	Canadian large capitalization
Foreign Equities	Barclays Global Investors	Quantitative	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	Active	Canadian government and corporate bonds
	Addenda Capital	Active	Canadian government and corporate bonds

Board of Trustees and committees

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 Chief Administrative Officer 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.

Corporate governance and auditor independence

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 2005 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.

Auditor Independence

The Board of Trustees has established a policy for pre-approval of services performed by the external auditor, PricewaterhouseCoopers, aimed at preserving and enhancing their accountability and independence.

The pre-approval process requires the Audit Committee to review and approve a schedule of anticipated permissible services required from the external auditor. These services include the statutory audit, tax consulting, risk management and other audit-related services. Prohibited services include bookkeeping, systems implementation, services for actuarial, valuation or internal audit purposes, and other services that could compromise the independence of the external auditor.

Auditors' Fees, 2005 versus 2004

($ thousands, including taxes)	**2005**	2004
External audit	**162**	156
Operational risk management[1]	**28**	74
Tax services	**112**	160
Best practices review	**–**	38
Total	**302**	428

1) In 2005, certain operational risk management services were provided by another professional organization.

Trustees, advisors and senior management

Professional Advisors to the Trustees

Actuaries
Buck Consultants, an ACS company

Auditors
PricewaterhouseCoopers LLP

Custodian
RBC Dexia Investor Services Trust

Investment Consultants
James P. Marshall, a Hewitt Company

Legal Counsel
Koskie Minsky

Senior Management, Administration Division

Heather Gavin
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