



2008

Annual Highlights Report to OPTrust Members



Meeting Challenges | Building Security

At the OPSEU Pension Trust (OPTrust), we are here to serve you. With invested assets of \$11 billion, we manage one of Canada's largest pension funds and administer the OPSEU Pension Plan, a defined benefit plan with more than 82,000 members and retirees.

Our mandate includes three key objectives:

- Generating the investment returns needed to support the Plan's pension promise
- Delivering the finest service and communications to our members and pensioners
- Ensuring that you have a real voice in your pension plan through joint trusteeship

2008 highlights

- Our funding valuation for 2005-2007 identified gains of \$841 million, eliminating the Plan's previous deficit and increasing the contribution rate stabilization funds to \$938 million at year-end.
- The Plan experienced an investment loss of 16.2%, compared to our weighted benchmark return of -16.8% in a year of sharp declines for stock markets worldwide.
- OPTrust adopted a comprehensive funding policy to ensure the long-term security of your pension and help keep contribution rates stable.



FUNDING HIGHLIGHTS

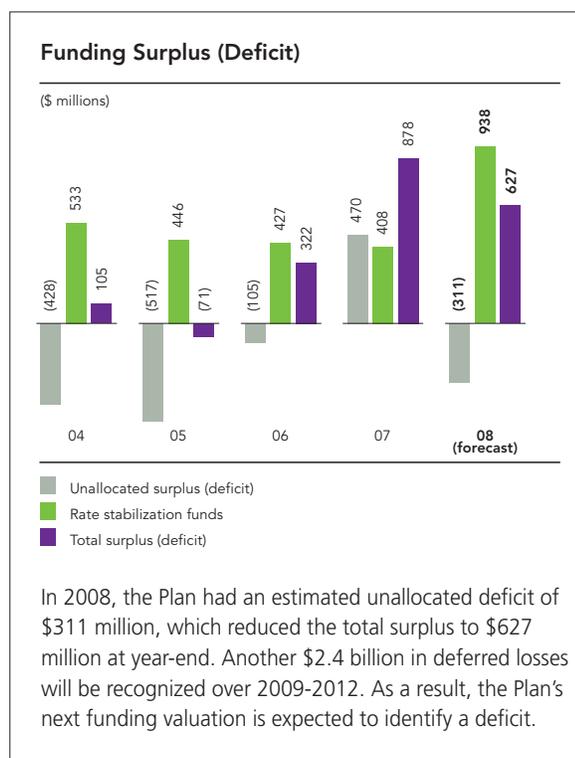
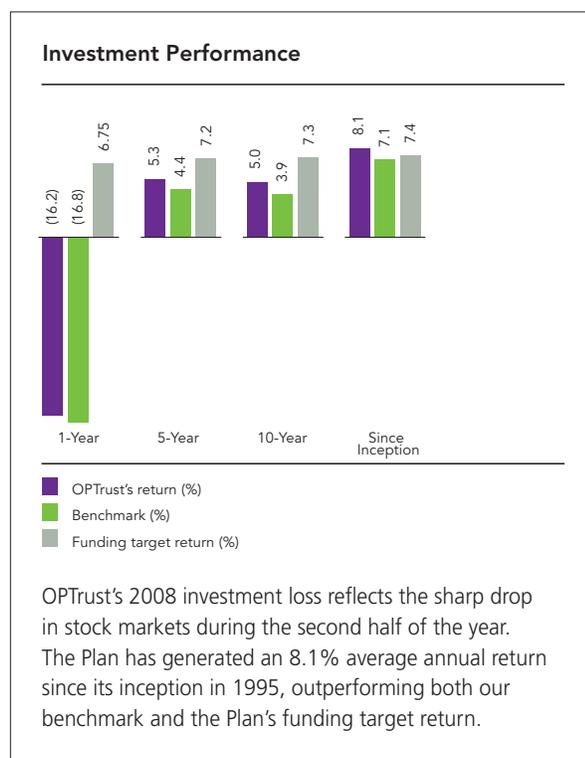
At December 31 (\$ millions)	Funding valuation	
	2008 (forecast)	2007
Net assets available for benefits	\$ 10,987	\$ 13,601
Actuarial smoothing adjustment	2,355	(643)
Actuarial value of net assets	13,342	12,958
Current cost of future pensions	12,715	12,080
Rate stabilization funds	938	408
Unallocated surplus (deficit)	(311)	470
Total surplus	\$ 627	\$ 878

UNDERSTANDING THE NUMBERS

OPTrust's funding valuations determine if the Plan has a surplus or deficit by comparing its assets to the projected cost of members' and retirees' pensions. The results are used to set member and employer contribution rates.

At the end of 2008, the Plan had an "actuarial smoothing adjustment" of \$2.4 billion. This represents deferred investment losses that will reduce the total surplus over the next four years. Without smoothing, the Plan was in a net deficit position at year-end.

In 2008, the \$470 million unallocated surplus identified in the 2007 funding valuation was added to the Plan's rate stabilization funds. The stabilization funds can be used to help reduce the impact of the deferred losses on future contribution rates.



For more information on OPTrust's investment and financial results for 2008, please see our full annual report available at www.optrust.com.

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Message from the Chair and Vice-Chair

The past year has been one of significant challenges for the OPSEU Pension Plan, our sponsors and the members and pensioners we serve.

Meeting challenges

Like most major institutional investors, OPTrust experienced investment losses in 2008 in a year of sharp declines for global stock markets. The Plan's return for the year was -16.2%, compared to -16.8% for our weighted benchmark. Over the long term, the Plan has achieved an 8.1% average annual return since OPTrust's launch in 1995.

Our negative returns in 2008 left the Plan with \$2.4 billion in deferred investment losses at year-end. These losses will be recognized over the next four years.

As a result, we expect the Plan's next funding valuation to identify a deficit. Normally, this funding shortfall would trigger an immediate increase in members' and employers' contribution rates.

Fortunately, the Plan started the year with a surplus, based on past investment gains. As sponsors, OPSEU and the Government of Ontario have prudently set this surplus aside in separate rate stabilization funds.

These funds – which reached \$938 million at year-end – can be used to help manage the impact of future funding deficits. As a result, it may be possible to limit or avoid an immediate contribution rate increase when OPTrust files the Plan's next funding valuation.

2008 HIGHLIGHTS

- Diversification partly offset the impact of the sharp drop in global stock market returns.
- Actuarial smoothing helped cushion the short-term impact of our negative investment returns, deferring losses of \$2.4 billion for recognition in 2009-2012.
- The Plan's next funding valuation is expected to identify a deficit. The Plan's stabilization funds can be used to help reduce the impact on members' and employers' contribution rates.

Building security

While the past year produced significant challenges for the Plan, your OPTrust pension remains an important source of financial security for your future.

As an OPTrust member, you are part of a "defined benefit" pension plan. This means the value of your earned pension is not affected by volatile investment returns. Instead, your pension is based on your best average annual salary and your years of credited service in the Plan.

This pension entitlement is supported by an \$11 billion investment fund and the contributions paid by more than 48,000 active members and their employers in Ontario's public sector.

In 2008, there were many ways we worked to build the long-term security of your pension.

- We continued to implement a multi-year investment diversification strategy. This helped limit our losses in 2008 and puts us in a strong position for growth over the long term.
- We made a tactical decision to reduce our investment risk by transferring 10% of the Fund's assets out of public equities and into a short-term money market portfolio.
- We adopted a comprehensive funding policy to help manage the risk of funding deficits, keep contribution rates stable and ensure the Plan can meet our pension obligations decades into the future.
- We provided information and services to help you maximize the value of your pension and plan for your retirement.

Looking ahead

Going forward, our deferred losses will present a significant funding challenge over the next several years. OPTrust's staff and Trustees will continue to closely monitor the Plan's funded status and identify options for managing the impact of these losses.

We will also review the Plan's long-term asset mix targets in 2009 and continue implementing our diversification strategy. This will strengthen our ability to meet the Plan's funding requirements while keeping risk at an appropriate level.

Together with our fellow Trustees, the Plan's sponsors and OPTrust's management and staff, we look forward to building on the Plan's record of success and responding to the challenges and opportunities ahead.





Tony Ross
Chair



Doug Paolini
Vice-Chair

Investment Strategy and Performance

OPTrust's investment program is designed to meet one overriding objective: generating the investment returns needed to provide our members and retirees with a secure lifetime pension.

Long-term objective

To meet that goal, our investment portfolio needs to achieve our funding target return of 6.75% over the long term.

At the same time, we expect the Plan's investment results to vary from year to year in response to changing market conditions. So, we also compare our returns to benchmarks, which track the performance of the markets we invest in and are weighted to reflect the Plan's asset mix.

Over our 14 years of operation, OPTrust has posted an average return of 8.1%, outperforming both the Plan's funding target and our benchmark for the same period.

Impact of the market crisis¹

In 2008, the global financial crisis produced steep losses for most major pension funds, including OPTrust.

Over the year, the Plan experienced an investment loss of 16.2%, slightly better than the -16.8% return for our weighted benchmark. While substantial, this loss compares favorably to the 30% to 40% drop in major stock market indices. The difference reflects the value of our long-term diversification strategy.

In 2008, our Canadian equity portfolio lost 30.1%, while our global equities lost 37.4% in Canadian-dollar terms. These losses were partly offset by strong positive returns from other asset classes.

2008 HIGHLIGHTS

- OPTrust's investment portfolio lost 16.2% in 2008, reflecting the steep drop in global stock markets.
- Strong returns from fixed income, real estate and infrastructure investments helped offset sharply negative public equity returns.
- A tactical reallocation of 10% of the Plan's assets from stocks to money-market investments reduced the Fund's exposure to public equity market volatility.

The Plan's fixed income investments generated a return of 7.5% over the year. Our growing real estate and infrastructure portfolios produced returns of 9.4% and 12.1%, respectively. Our private equity portfolio also performed well compared to public equities, posting a return of -2.1% for the year.

Diversification

These results show the importance of diversification. By investing in an appropriate mix of assets and markets we aim to manage investment risk, reduce volatility and meet the Plan's target return over the long term.

For the past several years, OPTrust has been gradually reducing the Plan's weighting to public equities. At the same time, we have been building significant real estate, infrastructure and private equity portfolios. When our diversification strategy is fully implemented, these portfolios will account for 10%, 15% and 10% of the Fund, respectively.

Managing investment risk

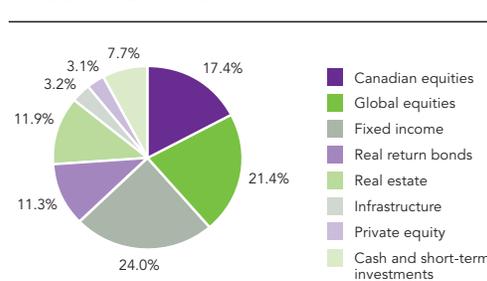
OPTrust has a robust program for managing investment risk at the total fund level and for each asset class, portfolio and investment manager. This includes close monitoring of each portfolio's performance and our managers' compliance with OPTrust's investment policies.

As the market crisis deepened in the fall of 2008, we moved 10% of the Plan's assets – valued at nearly \$1 billion – from public equities into more stable money-market investments. While this reduced our risk exposure, the Fund's overall volatility remains high compared to historical levels.

Our conservative approach to credit risk meant that the Plan held no "toxic" sub-prime mortgage assets. Our exposure to non-bank asset-backed commercial paper is also negligible.

With the challenging investment outlook for 2009, our goal is to preserve the Fund's capital and achieve the best possible risk-adjusted returns over the long term. We will continue to apply our diversified investment strategy and closely monitor the Fund's performance and risk exposure.

OPTrust's Asset Mix*



In 2008, the Plan's real estate, infrastructure and private equity investments increased to 11.9%, 3.2% and 3.1% of the Fund, respectively. There were corresponding reductions in our Canadian and global equity portfolios.

*Categories include temporary cash balances.

¹ For more information on OPTrust's investment strategy and performance for 2008, please see our full annual report available at www.optrust.com.

Pension Funding

2008 HIGHLIGHTS

- Gains from the Plan's 2007 funding valuation were used to eliminate the Plan's previous deficit and increase the rate stabilization funds to \$938 million at year-end.
- The Plan entered a net deficit position due to investment losses of \$2.4 billion. Actuarial smoothing is used to spread the impact of these losses evenly over a five-year period.
- The Plan's next funding valuation is expected to identify a deficit. In this case, the stabilization funds can be used to help reduce or avoid the need for a contribution rate increase.

Like all registered pension plans in Ontario, OPTrust must file a funding valuation with the provincial regulator at least once every three years. These valuations compare the Plan's assets to the projected cost of members' and retirees' future pensions to determine if the Plan has a funding surplus or a deficit.

Because the Plan is jointly sponsored, OPTrust's membership and the Government of Ontario have an equal share in any funding surplus. They also share the responsibility for making up any deficit, through increased member and employer contributions.

2007 valuation

In 2008, OPTrust filed the Plan's funding valuation for the three years ending December 31, 2007. This valuation identified net gains of \$841 million, largely due to strong investment returns between 2003 and 2006.

Of these gains, \$371 million were used to pay down the balance of the Plan's funding deficit from the 2004 valuation. In their role as sponsors, OPSEU and the Government of Ontario added the remaining \$470 million to the Plan's separate member and employer rate stabilization funds.

Stabilization funds

By the end of 2008, the stabilization funds reached a total of \$938 million. If a future valuation identifies a deficit, these funds can be used to offset the contribution increases that would otherwise be required.

This approach has worked well in the past. Between 2003 and 2007, the stabilization funds allowed OPTrust to manage a deficit of more than \$400 million without raising contribution rates above the Plan's normal rate.

Funding outlook

OPTrust uses a technique called "actuarial smoothing" to spread each year's investment gains or losses over a five-year period. At the end of 2008, the Plan had \$2.4 billion in deferred losses, which will be recognized between 2009 and 2012.

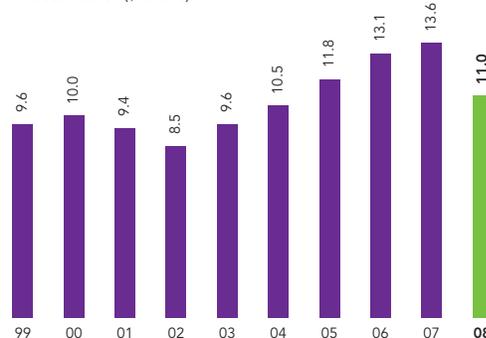
We therefore expect our next funding valuation to identify a deficit. The size of the shortfall will depend on a number of factors, including the timing of the valuation and how quickly investment markets recover.

When the next funding valuation is filed, the sponsors may use the stabilization funds to cover some or all of the required deficit payments. As a result, it may be possible to reduce or avoid an immediate increase in contribution rates.

OPTrust will continue to monitor the Plan's funding situation closely and explore options for managing our deferred losses. In the meantime, members and pensioners can take comfort in the continued security of their earned OPTrust pension.

Net Assets Available for Benefits

At December 31 (\$ billions)



The Plan's net assets fell to \$11 billion in 2008, down from \$13.6 billion the year before. The decline in net assets is the result of a \$2.4 billion investment loss and benefit payments and expenses that exceeded contributions by \$179 million.

Membership Services

In 2008, OPTrust met ambitious targets for delivering prompt, friendly and efficient service while responding to members' and pensioners' changing needs.

Service standards

Our staff processed 63,761 individual transactions – from enrolments, pension transfers and buybacks to pension estimates, terminations and retirements – up 9% from 2007. At the same time, we:

- completed 85% of cases on time, even though one in five is delayed for reasons outside OPTrust's control
- reduced the number of cases overdue by more than 30 days to 5%, down from 7% in 2007
- received more than 49,000 calls from our members and pensioners, answering 98% with an average response time of just 11 seconds.

Proactive services

We delivered a range of proactive services to help members and retirees maximize their pensions and plan for the future. In 2008, we:

- sent e-mail and printed notices to more than 7,200 contract employees reminding them about their option to join the Plan; more than 1,500 enrolled over the year

2008 HIGHLIGHTS

- OPTrust completed almost 64,000 individual transactions, a 9% increase over 2007.
- Growing demand for online services and communications resulted in a 12% increase in visits to our website.
- Since 2004, we have reduced administration costs by 20% per member while maintaining our high quality of service.

- provided buyback cost quotes to 1,300 new members
- sent reminders to another 3,000 members whose buyback application deadlines were about to expire
- mailed pension estimates to almost 9,000 members aged 55 or older
- sent information about CPP integration and their OPTrust pensions to more than 1,000 retirees who were nearing their 65th birthdays.



Joel Daoust

OPTrust Member
Aviation and Forest Fire Management Branch
Ministry of Natural Resources

"I just joined OPTrust when I started full-time last spring, but my pension is an important part of my financial plan. That's why I took advantage of the opportunity to buy back my past contract service. It will increase my pension and it may allow me to retire sooner. And paying by instalments makes it easier to afford. It's important to plan ahead."

MEMBERSHIP SNAPSHOT

At December 31	2008	2007
Active members	47,850	47,717
Former members with entitlements in the Plan	1,782	1,375
Pensioners		
Current	23,686	22,756
Deferred	8,806	8,741
Total members and pensioners	82,124	80,589

OPTrust's active membership remained stable in 2008, increasing by a total of 133 members to 47,850 at year-end. The number of current OPTrust pensioners continued to increase, reflecting the gradual maturing of the Plan's demographic profile.

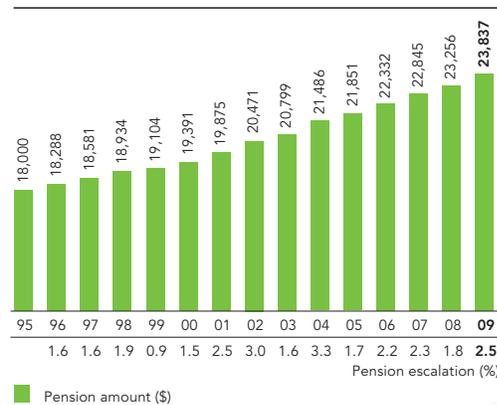
Responding to your needs

OPTrust also responded to members' and retirees' increasing demand for online service and communications. Over the year our public website received almost 280,000 visits, up 12% from 2007. At the same time, more than 5,400 new users signed up for our secure *Online Services* site.

Meanwhile, OPTrust members and pensioners continued to give us high marks for the quality of service we provide. Over the year, survey responses from almost 900 individuals who completed a pension transaction showed an overall satisfaction rating of 8.4 out of 10, maintaining our consistently high ratings of the past four years.

In 2009, we will continue providing quality services while exploring cost-effective options for meeting your changing needs.

Inflation Protection for Pensioners



OPTrust pensions are adjusted annually for inflation to protect retirees' purchasing power. In January 2009, payments to pensioners rose by 2.5%, reflecting changes in Canada's Consumer Price Index. A retired member who received a typical annual pension of \$18,000 in 1995 will receive \$23,837 in 2009 – an increase of 32% over 14 years.

Anita Porter

OPTrust Member
Communications and Information Branch
Ministry of Health and Long-Term Care

"I'm in the middle of my career, so I'm starting to think about my retirement. OPTrust does a good job keeping me up to date about my pension and helping me plan ahead. It's hard to find the money to put into an RRSP, so my pension is important to me. It means I'll have a secure income when I'm ready to retire. And it's a big plus that my employer contributes, too."

For more member and pensioner profiles, visit the online version of this report or our full annual report at www.optrust.com.



OPTRUST'S BOARD OF TRUSTEES

The OPSEU Pension Trust was established to give plan members and the Government of Ontario an equal voice in the OPSEU Pension Plan through joint trusteeship. As sponsors, the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario each appoint five Trustees to the OPTrust Board. Together, the Trustees oversee all aspects of the Plan's operations in the interests of our more than 82,000 members and retirees.

Members of the Board of Trustees at December 31, 2008

Tony Ross, Chair*

Former Vice-Chair (retired)
Merrill Lynch Canada

Doug Paolini, Vice-Chair**

Bilingual Employer Specialist
Office of the Employer Advisor
Ministry of Labour

Michael Beswick*

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

Alicia Czekierda**

Secretary, Roberts/Amethyst Schools
Ministry of Education

Maurice Gabay**

Accountant
Ontario Public Service Employees
Union (OPSEU)

Ruth Galinis**

Retired OPSEU local representative
Ministry of Culture and Ministry of
Tourism and Recreation

Richard Johnston*

Former administrator and counsellor
Trent University
Former President, Centennial College

Mahmood Nanji*

Assistant Deputy Minister
Strategic Asset Management Division
Ministry of Public Infrastructure Renewal

David Rapaport**

Project Coordinator
Ministry of Education

* Appointed by the Government of Ontario

** Appointed by OPSEU

HOW TO REACH US

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

Ce rapport est aussi disponible en français.

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Woodman Yeung

OPTrust Retiree
Centre for Addiction and Mental Health

"I used OPTrust's website to learn about the retirement process. I also attended an OPTrust seminar, which was really helpful. My pension is enough to cover my living expenses, so I have time for other things. I've been working with another OPTrust retiree, providing computer support for an agency that helps the homeless. But I've recently become a grandfather, so I'm planning to retire again and take care of my grandson."



GET THE BIG PICTURE

OPTrust's full annual report is available online at www.optrust.com. A list of OPTrust's significant investments is also available on the OPTrust site. To order a printed copy of the annual report, please contact us.