In 2013, OPTrust:

Remained fully funded with a total surplus of $107 million, based on rate stabilization reserves of $520 million, which are sufficient to cover the current funding deficit of $413 million.

Achieved an investment return of 11.7%, net of external management fees, outperforming the Plan’s 8.7% composite benchmark return.

Generated net investment income of $1.6 billion, which helped increase the Plan’s net assets to $16 billion at year-end.

Received high marks from our members and retirees for the quality of service and communications we provide.
OPTrust’s Mission
OPTrust is a defined benefit, jointly sponsored pension plan. Our mission is to deliver sustainable pension security for all our members.
To fulfill this mission, OPTrust must:
▶ Ensure the Plan’s long-term, fully funded status
▶ Provide excellence in service delivery
▶ Foster a culture that motivates and retains talented people

OPTrust’s Values
To fulfill our mission, we will:
▶ Acknowledge excellence and constantly seek opportunities for improvement
▶ Ensure awareness, understanding and mitigation of the risks we take
▶ Reinforce an environment of integrity and trust
▶ Collaborate and communicate openly
▶ Promote an inclusive workplace characterized by mutual respect
▶ Hold ourselves accountable for our actions and our results

With invested assets of $16 billion, the OPSEU Pension Trust (OPTrust) manages one of Canada’s largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan with more than 84,000 members and retirees.

Funding Highlights

<table>
<thead>
<tr>
<th></th>
<th>2013 PRELIMINARY VALUATION</th>
<th>2012 FILED VALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets available for benefits</td>
<td>$15,952</td>
<td>$14,705</td>
</tr>
<tr>
<td>Actuarial smoothing adjustment</td>
<td>(811)</td>
<td>(528)</td>
</tr>
<tr>
<td>Present value of future contributions</td>
<td>4,958</td>
<td>4,918</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>20,099</td>
<td>19,095</td>
</tr>
<tr>
<td>Present value of future pensions</td>
<td>(19,802)</td>
<td>(19,061)</td>
</tr>
<tr>
<td>Allowance for strengthening mortality assumption</td>
<td>(190)</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>(19,992)</td>
<td>(19,061)</td>
</tr>
<tr>
<td><strong>TOTAL SURPLUS</strong></td>
<td>107</td>
<td>34</td>
</tr>
<tr>
<td>Rate stabilization reserves</td>
<td>520</td>
<td>564</td>
</tr>
<tr>
<td>Funding valuation deficit</td>
<td>(413)</td>
<td>(530)</td>
</tr>
<tr>
<td><strong>TOTAL SURPLUS</strong></td>
<td>$107</td>
<td>$34</td>
</tr>
</tbody>
</table>

Ensuring Sustainability for the Long Term
In 2013, OPTrust continued to improve the OPSEU Pension Plan’s funded status and strengthen its sustainability for the long term. Over the year, strong investment results helped increase the Plan’s net assets by approximately $1.3 billion.

As a result OPTrust was able to set aside a $190 million allowance to offset the cost of anticipated improvements in the Plan’s mortality assumption, while still reducing the current deficit to $413 million. At year-end, the Plan had rate stabilization reserves of $520 million. After accounting for these reserves the Plan was fully funded at December 31, 2013, with a total funding surplus of $107 million.
OPTrust's diversified investment portfolio achieved an 11.7% return in 2013, net of external management fees, outperforming the 8.7% return for our composite benchmark. Over the four years from 2010 to 2013, OPTrust’s average annual return has exceeded the Plan’s benchmark by 2.5%.

The Plan’s net assets rose to $16 billion in 2013, up by approximately $1.3 billion from the year before. The increase resulted from net investment income of $1.6 billion, less benefit payments and expenses that exceeded contributions by $368 million.

To meet the Plan’s long-term funding requirements, OPTrust’s investment returns are expected to match or exceed the Plan’s funding target return over longer time periods. For the 10 years ending December 31, 2013, OPTrust’s 7.1% annualized return, net of all investment expenses, exceeded the 6.8% funding target for the same period.

The Plan had a funding valuation deficit of $413 million at the end of 2013 and rate stabilization reserves of $520 million. After accounting for the stabilization reserves, the Plan’s total funding surplus was $107 million at December 31, 2013, up from $34 million in 2012.

“The long-term security that comes with contributing to an OPTrust pension means I can shift my focus to other important goals such as starting a family. The fact that the Plan is jointly sponsored is important because members like me have a voice.”

JESSICA SIKORA

OPTrust Member
Ontario Disability Support Program Caseworker
Ministry of Community and Social Services
FOR OPTRUST, 2013 was a year in which we made notable progress in our efforts to make certain the OPSEU Pension Plan is sustainable over the long term for our 84,000 members and retirees, and our sponsors, OPSEU and the Government of Ontario.

Planning for the future
During the year, we were pleased to approve OPTrust’s new five-year strategic plan. The strategic plan will serve as a roadmap for the future, and reflects our revised mission of delivering sustainable pension security and our updated organizational values. This five-year plan also includes a wide-ranging series of initiatives that we believe will enhance organizational capabilities, deliver value to Plan members and help OPTrust achieve its mission.

During 2013, a new function, enterprise risk management, was established, along with the role of Chief Risk Officer (CRO). The CRO is mandated to work with the CEO to deliver quarterly reports to the Board on the most significant risks facing the organization, or more frequently if a material risk arises. The CRO is also authorized and expected to report directly to the Board on any extraordinary situation requiring the Trustees’ attention.

The Board also approved the groundwork for future advocacy and public education to help all Canadians understand the role that defined benefit pensions play in creating a healthy retirement system and strong economy.

Our strategic governance role
The Board made great strides in further defining its strategic governance role for the organization to ensure OPTrust is meeting the needs of its members, pensioners and sponsors. Continuing to build on the strong working relationship our Trustees have with the CEO and OPTrust management, we:

- made further delegations of authority for operational matters to the CEO
- re-aligned the mandates of the standing committees of the Board to provide more efficient oversight
- approved policies on Board evaluation, Trustee self-evaluation and Trustee education and training
- considered and approved Principles for the roles of Trustee, Chair and Vice-Chair that further build on our strategic governance model.

Strong oversight
One of the Board’s most critical roles is to provide strong oversight to OPTrust as a whole as it works to ensure pension sustainability for the long term. To this end, each year, we consider and review recommendations from management as to how the organization can run more effectively.

In 2013, we reviewed and approved updates and enhancements to the organization’s policies on conflict of interest, procurement, personal trading and whistleblowing. We also approved the establishment of an internal audit function including an internal audit charter, plan and scorecard to provide an additional layer of oversight and rigor for OPTrust’s operations.

As well, the Trustees initiated and approved actuarial research to study the impact of demographic and membership changes, long-term mortality rates, and potential short-term investment losses on the Plan’s funded status. This research identified the funding impact of members’ and pensioners’ increased longevity, low interest rates and lower than expected investment returns. The result was a number of adjustments to our funding valuation assumptions, which will help to sustain the Plan for the long term. At the same time, we continue to consider the impact of the Plan’s continuing maturation and examine strategies to address the declining number of active members.

We wish to express our thanks and appreciation to all our fellow Trustees and to OPTrust’s management and staff for the hard work and commitment they show each day. We look forward to continuing to work with them to continue providing a secure, sustainable retirement to the Plan’s 84,000 members and pensioners for years to come.
Message from the President and CEO

OPTrust members. I want to thank all of my colleagues within OPTrust for their hard work this year and their commitment to the sustainable retirement security of the members who place their trust in us.

Although we achieved good results again this year, OPTrust continues to face significant headwinds. The Plan has seen a major change since its inception. It has matured rapidly, with the number of people collecting a pension growing dramatically and the number of people contributing to the Plan shrinking over time. Canadians are also living longer, and need pension incomes for longer. These demographic shifts are happening against a backdrop of continued volatility in global capital markets, which requires careful consideration of how to achieve the required investment returns to meet our funding objectives without exposing the Plan to undue risk. More than ever, it is critical for OPTrust to have the right elements in place to meet those challenges.

Building our organizational capabilities
In 2013, we invested significant effort in building out areas that support our core activities. These investments in talent, capability and capacity will increase our efficiency as an organization and our ability to deliver effectively on our mission.

We developed a more collaborative and holistic approach to funding, setting up a framework that ensures we look at the asset and liability sides of our business in concert. We also established an enterprise risk management capability and appointed OPTrust’s first Chief Risk Officer. Over the next few years we will be working hard to understand, manage and mitigate the risks OPTrust faces.

Another continuing area of focus for the organization is technology, because strong infrastructure and systems capabilities are cornerstones for any business. During the year, we made further investments in building our information technology team, while laying the groundwork for enhancements to core systems.

Additionally, we completed foundational work on our advocacy strategy. It is increasingly important for all people to understand what our members already know – that defined benefit pensions are a key part of Canada’s retirement system and contribute significantly to our overall economy.

Member services
As a pension delivery organization, providing high quality service to our members has always been a top priority. I’m pleased to report that in 2013, our members continued to tell us through these surveys that they are highly satisfied with the service we provide.

This year, we began piloting extended telephone service hours to accommodate members’ busy schedules. We undertook a major refresh of our public website to make it more user-friendly and easier to navigate. OPTrust also launched an enhanced online pension estimator, as part of our secure Online Services site, which allows members to calculate their pensions based on a range of different retirement dates using their current personal pension data.

Our commitment
From our member services staff to the investment team, from my role as CEO to that of the Board, we have collectively recognized the importance of working as one team with one goal – to ensure our hard working members, who have placed their trust in us, can have certainty around their pension income.

We understand that sustainable pension security requires a consistent focus and commitment over the long term. Rest assured – we have that focus and commitment, and will continue to demonstrate it in 2014, and for years to come.
Achieved an investment return of 11.7% net of external management fees in 2013, outperforming the Plan’s 8.7% composite benchmark return.

Continued to implement the Plan’s long-term diversification strategy, increasing real estate, infrastructure and private equity to 32.9% of the Total Fund.

Limited the Fund’s exposure to rising interest rates by moving into less interest rate sensitive investments.

Investing for the long term

**OPTRUST’S INVESTMENT MANDATE**

focuses on achieving the investment returns needed to fund members’ and retirees’ pensions over the long term. To accomplish this we build an asset portfolio that will achieve our funding target return over a long time horizon, while avoiding substantial negative returns in the short term.

OPTrust’s asset mix policy, which defines the asset classes we invest in and their respective allocations, reflects our funding obligation. It also represents the starting point for determining both our investment strategy and the level of investment risk we expect to undertake to reach our objectives.

In 2013, we expected the pension fund to achieve a real average annual return of 4.0% after inflation and investment expenses. Factoring in the Plan’s 2.25% inflation assumption for 2013, our nominal long-term target return for funding purposes was 6.25% for the year.

Over OPTrust’s 19 years of operation, the Plan’s investment portfolio has realized an average annual return of 8.3%, net of all investment management expenses, exceeding our 7.2% average funding target return for the same period.

**Total fund performance**

We also expect the Plan’s investment results to vary from year to year as market conditions change. So, we compare OPTrust’s investment return to that of our composite "policy benchmark portfolio," which measures the performance of key indexes for the markets we invest in and is weighted to reflect OPTrust’s asset mix.

In 2013, OPTrust’s investments achieved an 11.7% total fund return, net of external management fees, outperforming the 8.7% return for our composite benchmark portfolio.

In 2013, OPTrust continued to improve the diversification of the Plan’s asset mix; continuing to increase our positions in the alternative asset classes: real estate, infrastructure and private equity. These changes are designed to reduce investment risk and volatility at the total fund level, while strengthening OPTrust’s ability to meet the Plan’s funding target return under a range of scenarios.

The strong performance was the result of another very solid year for equity markets.

At the same time, OPTrust benefited from robust double-digit returns in our public equity, real estate, infrastructure, private equity and energy commodity portfolios. These helped offset negative returns from our fixed income investments.
Net investment income for 2013 was $1.6 billion, compared to $1.2 billion in 2012 when the Plan returned 9.6%, net of external management fees. The added value generated by active management of the Fund was 3.0% or $435 million in 2013.

**Responsible investing**

OPTrust recognizes that environmental, social and governance (ESG) factors have the potential to affect the Plan’s long-term investment performance. OPTrust’s responsible investing program includes a range of measures to identify, monitor and assess these factors as part of our investment activities. This approach reflects OPTrust’s fiduciary responsibility to the Plan’s members and sponsors.

OPTrust is a signatory to the UN-supported Principles for Responsible Investment (PRI), which provides a practical framework for implementing responsible investment and ownership practices.

In 2013, OPTrust enhanced its governance of our responsible investing program, by convening a new organization-wide Responsible Investing (RI) Committee, chaired by the Chief Investment Officer with representation from key departments across the organization. The mandate of the RI Committee is to monitor the implementation of OPTrust’s responsible investing strategy, while discussing and responding to emerging issues.

OPTrust’s public market portfolios are managed externally by professional investment managers that are expected to demonstrate an understanding of ESG issues, and how they factor that understanding into their decision-making process.

Our internal real estate, private equity, and infrastructure groups ensure that all potential new investments are screened for ESG-related risks and that ESG criteria are part of ongoing monitoring and management of these assets.

The private equity and infrastructure groups made a number of significant investments in renewable energy projects as part of our infrastructure portfolio. Investments in these regulated assets both contribute to and benefit from global efforts to reduce carbon emissions and other pollutants associated with many traditional sources of energy.

In September 2013, OPTrust finalized its 50% investment in an office development project located at 351 King Street East, Toronto, in partnership with First Gulf Corporation. The Globe and Mail is relocating from its current location to be the lead tenant in the new “Globe and Mail Centre”, leasing five floors, along with First Gulf which will lease 2 ½ floors. With confirmation of these two tenancies, construction began in the fall of 2013, with a planned completion date in early 2016.

On completion, the Globe and Mail Centre will be a state-of-the-art 17-storey office tower totalling 537,000 square feet, including 20,000 square feet of ground floor retail space, that will target LEED (Leadership in Energy and Environmental Design) Gold certification. Located in the emerging hub of urban activity and corporate head offices on King Street East, the building features innovative architectural design and extensive outdoor amenity spaces.

This modern office development is a first for OPTrust’s Real Estate Group, designed to complement OPTrust’s existing real estate portfolio alongside other innovative development strategies.
OPTRUST’S MISSION is to deliver sustainable pension security for our 84,000 members and pensioners for the long term. Directly related to this mission is our funding strategy – designed to secure the Plan’s long-term sustainability, provide secure lifetime pension benefits to members and their families during retirement, and maintain stable contribution rates for both members and employers over time.

Long-term sustainability
To deliver on our mission, while ensuring the Plan remains fully funded, OPTrust:

- carefully manages members’ and employers’ contributions and the Plan’s $16 billion in net assets
- invests the Plan’s assets to achieve our expected rate of return for the long term, while managing exposure to investment risk
- routinely reviews the actuarial assumptions used to calculate the Plan’s long-term pension obligations, taking into account that pensioners are living longer
- monitors a wide range of factors that can affect the Plan’s funded status
- provides information and advice to our sponsors on the Plan’s funded status and outlook, contribution rates, benefit levels, the maintenance and use of any surplus, as well as options for ensuring the Plan’s sustainability over the long term.

Funding valuation
OPTrust engages independent actuaries to perform regular funding valuations of the Plan to ensure there are enough assets to meet the projected cost of members’ and retirees’ lifetime pensions. These valuations provide a snapshot of the Plan’s funded status and ability to meet its pension obligations, while providing a review of gains and losses experienced since the last valuation.

The Plan’s 2013 funding valuation shows that the Plan remained fully funded as of December 31, 2013 with a total surplus of $107 million after accounting for the Plan’s $520 million rate stabilization reserves. The funding valuation also confirmed smoothed (deferred) investment gains of $811 million, which will be recognized over the next four years, further improving the Plan’s funded status in years to come.

The 2013 funding valuation also strengthened the Plan’s actuarial assumptions by establishing a $190 million reserve to cover the cost of changes to the Plan’s mortality assumptions that will come into effect for our 2014 valuation. OPTrust has gradually strengthened the mortality assumptions over the past few years to respond to pensioners’ increased longevity and the increased funding requirements to pay for their lifetime pensions.

Sponsors’ funding agreement
In 2012, the Plan’s sponsors entered into a funding framework agreement that prohibits any contribution rate increases for five years, except in exceptional circumstances. In effect until December 30, 2017, the agreement requires that if a funding valuation filed with the pension regulator identifies a funding shortfall, the shortfall must first be addressed by reducing the pension benefits that active members will earn for their future service. There would be no impact on the benefits members have earned for their past service or on the pensions paid to OPTrust’s retirees.

As a result, OPTrust continues to carefully manage the Plan with the goal of ensuring it remains in a surplus position throughout the agreement period. The Trustees expect to file the Plan’s 2013 funding valuation.
valuation, showing that it is fully funded, with the regulator.

**Funding outlook**

The Plan’s current fully funded status represents a significant accomplishment, and one that could not have been achieved without the prudent decision by the sponsors to set aside past gains in the Plan’s rate stabilization reserves. Since 2008, these reserves have allowed OPTrust to maintain stable benefit levels while moderating the impact of the Plan’s deficit on members’ and employers’ contribution rates.

However, the Plan’s total surplus has been reduced to $107 million, down from $878 million in 2007. This limits the reserves that are available to cover any future funding losses should investment returns fall short of the Plan’s target return and/or if the cost of members’ future pensions increases more quickly than anticipated.

To mitigate these risks to the Plan, OPTrust’s staff continues to monitor a wide range of funding issues and analyzes their potential impact on the sustainability of the Plan.

In 2013, some of these factors included:

- the uneven economic recovery, which has sharply increased market volatility and investment risk over the past several years
- the increase in members’ life expectancy, increasing their retirement years and the Plan’s long-term pension obligations
- the long-term decline in the ratio of OPTrust’s active members to retirees, which reduces the Plan’s ability to address funding shortfalls through increased contribution rates
- the 2013 funding framework agreement between the Plan’s sponsors.

These risks are partly offset by recent developments, including:

- OPTrust’s continued strengthening of the Plan’s actuarial assumptions
- the sponsors’ 2013 agreement to amend the Plan to allow eligible groups of members whose jobs are affected by divestments from the Ontario Public Service to continue contributing to the Plan. The agreement also establishes a process for new employee groups in Ontario’s broader public sector to join the Plan, subject to the approval of the Board of Trustees and the Ministry of Finance. Final approval of this agreement is being sought. These changes will help to stabilize the Plan’s active membership over time.
- the increase in the Plan’s deferred investment gains to $811 million at the end of 2013, which will strengthen the Plan’s funded position over the next four years as these gains are recognized.

OPTrust’s Board and staff will continue to work closely with the sponsors to ensure we can deliver on our mission of providing pension security to our 84,000 members and pensioners for the long term.
SERVICE EXCELLENCE is a cornerstone of OPTrust’s relationship with our 84,000 members and pensioners. We are unwavering in our commitment to provide OPTrust members and pensioners with prompt, efficient service tailored to their individual needs, while helping them better understand their pension options and plan for their retirement.

Service excellence
From simple requests to complex transactions, our Member Services staff strive to provide a consistently high level of service and communications, and to continually improve service quality and delivery, while looking for cost efficiencies to help sustain the Plan over the long term. Since we began surveying the membership in 2002, our client satisfaction results continue to improve year over year, with 2013 delivering our highest overall client satisfaction results to date.

Delivering exceptional service to our members and pensioners is a long-term commitment that inspired us to establish a wide-ranging, service excellence project in 2012. This project will be a key priority for our Member Services staff over the next several years. In 2013, our work in this area involved:

- a focus on training and development from a technical and customer service perspective to further enhance the service our members and pensioners receive
- operational changes to increase efficiency, reduce processing time and provide faster, more accurate service.

In 2013, we also began a test of extended telephone service hours to make it easier to reach us after the busy work day. We now have staff available until 6 p.m. from Monday to Thursday.

Measuring performance
OPTrust tailors service options, whether online, over the phone or in person, to meet the preferences of each individual. To make certain our members and pensioners experience top quality service across the board, we measured our performance against stringent standards for all 2013 transactions.

- Over the year, 96% of all member and pensioner transactions were completed to our quality assurance standards, with the remaining 4% adjusted to ensure accuracy.
- We increased our on-time case completion rate to 88% – matching our service standard – and up from 86% in 2012.
- The use of Online Services for transactions and pension estimates increased to 41,330 up from 13,783 in 2012; due mainly to the launch of our enhanced online pension estimator within the secure site.
- Our staff answered more than 47,000 calls from members and pensioners with an average response time of 11.5 seconds, well below our 15-second target.

Gathering feedback
We value members’ and pensioners’ feedback highly, and use it to measure our overall service quality and determine areas where we can improve. In addition to our client transaction survey, 2013 marked the second full year of a general satisfaction survey, which is sent to a random sample of our members and pensioners, whether or not they have completed a transaction with us in the past year.

In 2013, overall satisfaction was rated 8.75 out of 10, surpassing our target for the year. Across the board, results indicate that OPTrust members and pensioners continue to be very pleased with the service they receive. Satisfaction with transaction service levels was rated 8.7 out of 10, our pensioners rated our services a 9.4 out of 10 and general satisfaction levels achieved an 8.3 out of 10 rating. Our membership also demonstrated the value they place on our online offerings, giving them a rating of 8.7 out of 10.
Online service and communications
We appreciate that there are often circumstances where you may need to speak to one of our staff, such as when you have a decision to make, and we encourage this. At the same time, technology makes it possible for you to get information about your pension options online, simply and conveniently, which helps reduce plan costs.

OPTrust’s popular, password-protected Online Services site allows users to communicate with OPTrust staff in a secure environment using encrypted web-based messaging. Registered users can also set their preferences to receive OPTrust newsletters, personalized pension statements and other communications online to help preserve the environment.

In 2013 we launched an enhanced online pension estimator as part of our Online Services site. The estimator allows members to calculate their pensions based on a range of different retirement dates using their current personal pension data – all within a secured environment.

Our members and pensioners appreciate the opportunity to investigate their pension options online according to their own schedules. In 2013:

- 23% of service transactions were completed online, reaching an all-time high for OPTrust
- 28,593 pension estimates were generated using OPTrust’s new pension estimator

- Over 69,900 statements were viewed and printed from the secure Online Services site.

In 2013, we also redesigned OPTrust’s public website to make it more user-friendly, easier to navigate, and to allow faster access to information tailored to the needs of individual users. This redesign contributed to a 61% increase in site visits over 2012.

Proactive service
In addition to answering inquiries and enabling members and pensioners to educate themselves about their pensions online, OPTrust targets communications to provide tailored and timely information at various points in our members’ lives. In 2013, we:

- sent more than 226,000 e-mail notices, updates and newsletters to members and pensioners, up from 96,000 in 2012
- mailed over 1,200 quotes to eligible new members to remind them of the costs and deadlines to buy back service
- hosted 42 Direct Contact pension seminars and information booths across Ontario, reaching 1,945 members and pensioners looking for additional learning opportunities
- mailed information packages to more than 1,500 retirees nearing age 65 about age-related changes to their monthly OPTrust pensions
- sent over 3,000 notices to let fixed term, contract and casual employees know about their option to join the Plan.

Each year, more members and pensioners opt for the convenience and security of OPTrust’s Online Services site. In 2013, the number of registered users increased 9.6% to 37,977, while online transactions rose by 6.8% to 9,327.
The OPSEU Pension Trust was established to give 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 OPTrust’s Board. Together, the Trustees oversee all aspects of the Plan’s operations in the interests of our more than 84,000 members and retirees.