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RESPONSIBLE INVESTING REPORT

For OPTrust, the purpose of responsible investing lies in the recognition that environmental, social and governance (ESG) factors can impact investment risk and return. We seek to identify, assess and manage ESG factors in a manner that supports both our mission to deliver sustainable pension security and our fiduciary duty to its members.

APPROACH TO RESPONSIBLE INVESTING

Responsible Investing (RI) is an approach to investment that explicitly acknowledges the potential relevance of ESG factors to the sustainability of investment performance and to the health and stability of the market as a whole.

EXAMPLES OF ESG FACTORS

<table>
<thead>
<tr>
<th>ENVIRONMENT</th>
<th>SOCIAL</th>
<th>GOVERNANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Climate change</td>
<td>• Labour standards</td>
<td>• Board composition</td>
</tr>
<tr>
<td>• Pollution</td>
<td>• Human rights</td>
<td>• Executive compensation</td>
</tr>
<tr>
<td>• Water scarcity</td>
<td>• Supply chain</td>
<td>• Shareholder rights</td>
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<td></td>
<td>• Conflict regions</td>
<td>• Risk oversight</td>
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PRINCIPLES FOR RESPONSIBLE INVESTMENT

OPTrust is a signatory to the UN-supported Principles for Responsible Investment (PRI). The PRI is an international network of more than 1,200 investment organizations working together to put the PRI’s six Principles of Responsible Investment into practice.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.
These principles provide a framework for implementing a responsible investment strategy that is adaptable to the unique structure of each investor.

Along with OPTrust’s responsible investment policy (the SRIP), and related internal policies, the PRI Principles form the foundation for OPTrust’s RI strategy.

STRATEGY

OPTrust’s responsible investing strategy is implemented through four key areas:

1. RI Governance
2. ESG Integration
3. Active Ownership
4. Stakeholder Engagement

and supported by the organization’s mission and values.

FOCUS AREAS

1. Engagement: We make an effort to engage with portfolio companies, external managers and other Trust assets on ESG issues. We do not put emphasis on either positive or negative screening investments unless required by law or international conventions (e.g. anti-personnel land mines and cluster munitions).

2. Labour Rights and Public Services: We emphasize the right of workers to organize and bargain collectively, and are sensitive to the stability of public services.

3. Materiality: We focus our understanding on factors that are material to producing long-term, sustainable investment returns.

4. Reputation: We recognize that controversy about our investment activities can negatively impact our relationship with beneficiaries, sponsors, staff, the broader public, and potential and current external investment partners.

5. Collaboration: We contribute to broader discussions of RI as it applies to various asset classes with like-minded institutions.
RI GOVERNANCE

RI governance includes having the policies, structures and business practices in place to effectively execute our RI strategy.

OPTrust’s commitment to RI and consideration of ESG factors is outlined at the highest level in three Board-approved policies:

- Statement of Investment Policies and Procedures (SIP&P)
- Statement of Responsible Investing Principles (SRIP)
- Proxy Voting Guidelines

The SRIP outlines the key principles our investment teams consider when making investment decisions. They include supporting good governance practices, environmental protection, labour and human rights as well as a duty to be aware of ESG risks that may affect our ability to fulfill our mission to deliver sustainable pension security. While the application of the SRIP varies among our investment teams, the processes used for making decisions for both internally- and externally-managed assets incorporates the principles.

The Chief Investment Officer (CIO) is responsible for ensuring that OPTrust adheres to the SRIP and approves the RI strategy and activities. The RI Committee, established in 2013 and chaired by the CIO, includes senior management representation from key departments across the organization. The RI Committee monitors the implementation of OPTrust’s RI strategy and responds to emerging issues. The responsibility for executing the SRIP lies with the investment teams.

HIGHLIGHTS

- Establishment of the RI Committee successfully increased communication across the organization on RI through 2014.
- RI policy (SRIP) comprehensively reviewed and updated.

ESG INTEGRATION

INVESTMENTS

Investors around the world have adopted a broad spectrum of strategies to address ESG factors including full integration, active ownership, positive and/or negative screening, best-in-class approaches and thematic investments. OPTrust integrates the consideration of ESG factors into our investment and risk management processes.

We prefer to integrate material ESG factors into all of our investment processes, rather than exclude or divest from certain assets based on ESG factors alone. This is done through the identification, assessment and management of ESG risks and opportunities in a manner that best suits the characteristics of each investment. We monitor best practices in the industry to stay up-to-date on new investment tools and activities that support integration.

Each asset class has diverse characteristics, opportunities and risks, which are managed in a variety of ways by OPTrust. When we do not have sufficient security level transparency or when the investment vehicle structure does not allow us to direct investment decisions (e.g. pooled funds), the approach to RI and adherence with the SRIP is more challenging.

The ESG integration approach practiced by each team is outlined below.
PUBLIC MARKETS

OPTrust may own interests in public equities directly through portfolios managed by internal or external managers; managed pooled funds; exchange-traded funds; and listed and privately-structured derivatives, including options on individual stocks and portfolios of stocks such as indices.

The investment team includes ESG factors in external manager search, selection and monitoring processes. The external managers are expected to demonstrate an understanding of ESG issues and explain how these issues are integrated into their decision-making process. We monitor the managers’ portfolios to identify companies that may have exposure to financial, reputational or other risks arising from ESG issues. The results of these reviews are used to engage the investment managers and to evaluate the effectiveness of each manager in integrating ESG factors.

External managers are required to adhere to the SRIP, which is mandated in their investment contracts.

Within our segregated accounts, we do not invest in public companies that conduct business in breach of certain international treaties and maintain a security exclusion list for companies that are involved in the manufacturing of anti-personnel landmines or cluster munitions. These companies are engaged in business activities that violate the Ottawa Convention and the Convention on Cluster Munitions.

PRIVATE EQUITY AND INFRASTRUCTURE

The investment team works to identify, exploit, manage, and/or mitigate ESG risks and opportunities. A standard SRIP clause is included in each investment proposal to confirm that the team has examined and dealt with material ESG risks. When working with external partners (e.g. General Partners), we discuss OPTrust’s approach to RI and reporting expectations. Activities can also include background checks, legal and environmental due diligence, labour and human rights research, and site visits.

Given the nature of this asset class, the key characteristics compared to Public Markets include a higher degree of control (and thus potentially responsibility); far less public transparency; usually less regulatory oversight; generally smaller and less resourced external partners; and within portfolio companies, corporate structures, and targeted investment periods which are longer than those seen in Public Markets, but far shorter than the obligations of the Trust.

HIGHLIGHTS

- ESG factors integrated into portfolio management tool.
- Results of our fourth annual ESG portfolio review demonstrated that the ESG score of our total equity portfolio continues to be slightly above that of our performance benchmark.
- ESG considerations and reporting incorporated into new Hedge Fund program.
- Further incorporation of ESG considerations into Fixed Income investments; hired first external manager that reports portfolio’s ESG scores.

- Made first investment in China with a focus on rising brands, including clothing, following ESG research on working conditions, basic union rights, and the fashion industry as well as forensic due diligence on our proposed partners.
- Research continued on ESG issues in other emerging markets, including further developing relationships with development finance institutions.
REAL ESTATE

The investment team has integrated ESG matters in its investment underwriting, portfolio management and reporting processes. The team’s comprehensive due diligence questionnaire incorporates ESG issues. For every new investment, we formally advise our partners and managers on our approach to RI and the importance of labour rights to OPTrust. A SRIP clause is included in all investment summaries for new investments confirming that the team has examined and identified any ESG risks.

We also conduct extensive environmental and legal due diligence. For our direct real estate portfolio, we provide OPTrust’s SRIP to our managers and require full adherence to the principles. On an ongoing basis, the team assesses all investments with an Investment Monitoring Scorecard which includes ESG issues.

OPTrust has implemented portfolio-wide programs to improve the environmental performance of our Real Estate portfolio. These programs include energy efficiency, water and waste management, and renewable energy (rooftop solar panels). Where possible, we have achieved independent third party certification for environmental and energy efficiency.

<table>
<thead>
<tr>
<th>HIGHLIGHTS</th>
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<tbody>
<tr>
<td>• As at June 30, 2014, 63% of our direct real estate portfolio (by net asset value) achieved Building Owner’s and Manager’s Association – Building Environmental Standards (BOMA BEST) certification.</td>
</tr>
<tr>
<td>• 777 Bay Street in Toronto, one of our directly owned office properties, has achieved LEED Gold certification under the Existing Buildings: Operations &amp; Maintenance program presented by the Canada Green Building Council. This is the first property in our directly owned portfolio to achieve LEED certification as a result of our continued commitment to improving energy and water use and reducing greenhouse gas emissions.</td>
</tr>
<tr>
<td>• We have enrolled our direct office real estate portfolio in REALpac’s Energy and Water Benchmarking Program in an effort to develop tools to enable the real estate industry to understand their energy and water use and measure it in a meaningful way.</td>
</tr>
<tr>
<td>• Our direct industrial real estate portfolio is utilizing its rooftops for the purpose of renewable energy generation. Construction of the first rooftop solar energy system has been completed, with two other installations underway.</td>
</tr>
<tr>
<td>• Several of our real estate managers have been recognized for their commitment to sustainability including Bentall Kennedy, who was ranked among the top North American firm of its type by GRESB (Global Real Estate Sustainability Benchmark) in late 2014.</td>
</tr>
</tbody>
</table>

RISK

A newer area of exploration for OPTrust is ESG integration with risk functions. This requires ensuring RI issues are considered in the evaluation of both reputational and investment risk to OPTrust. Focus has traditionally been on ESG risks of a specific investment, however, there are cross sector and cross geography ESG risks (e.g. climate change) that could be examined at a Total Fund level to determine the impact.

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<thead>
<tr>
<th>HIGHLIGHT</th>
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<tr>
<td>• RI session included in the development of OPTrust’s Enterprise Risk Management program.</td>
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</table>
ACTIVE OWNERSHIP

Active ownership involves investors using formal rights (e.g. the ability to vote shareholdings) and informal influence (e.g. the ability to engage) to encourage companies to improve their management systems, their ESG performance and their reporting.

Being an active owner helps investors to mitigate ESG risks by working with companies, regulators, policy-makers and industry peers to improve long-term investment performance and market sustainability.

While OPTrust has not ruled out excluding or divesting from companies that pose significant financial or reputation risk due to mismanagement of ESG concerns, it is not the preferred course of action. Institutional investors have found that engagement has proven a more effective tool for bringing about change and a better alignment with their fiduciary duties.

CORPORATE ENGAGEMENT

An important tool used in active ownership is corporate engagement. In some cases, companies within our equities portfolio will have exposure to ESG issues that carry with them potential financial, reputational or other risks. A corporate engagement strategy provides OPTrust staff with a mechanism to address potential risks.

OPTrust has been taking steps to increase engagement efforts in recent years. We have explored three methods for engagement to boost this capacity:

1. **Direct**: We identify the engagement and lead the company dialogue either alone or in partnership.

2. **Collaborative-direct**: We engage collaboratively with other investors, in a leading or supporting role in these dialogues (e.g. PRI).

3. **Collaborative-indirect**: OPTrust lends its name to an engagement conducted by a group we belong to (e.g. CCGG, CDP), but does not actively participate.

Summary of corporate engagements for the reporting period:

<table>
<thead>
<tr>
<th>ENGAGEMENT SUBJECT</th>
<th>STATUS</th>
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<tbody>
<tr>
<td>Bangladesh Supply Chain</td>
<td>Phase I - Completed</td>
</tr>
<tr>
<td>Corporate Governance - Canada</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Climate Change</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Anti-Corruption</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Hydraulic Fracturing</td>
<td>Ongoing</td>
</tr>
<tr>
<td>CDP Non-Disclosure</td>
<td>Completed</td>
</tr>
<tr>
<td>Compensation</td>
<td>Completed</td>
</tr>
</tbody>
</table>
ENGAGEMENT CASE STUDY:
BANGLADESH TEXTILE FACTORY TRAGEDIES

Bangladesh has become the world’s sewing room. The Bangladeshi ready-made garment manufacturing sector has boomed into a $19 billion dollar a year industry, making the country the world’s second largest apparel exporter behind China. This currently represents 78% of Bangladesh’s total exports, and fuelled by duty free access to European and North American markets, the industry continues to grow rapidly.

Approximately four million people, mostly women, are employed by the Bangladeshi ready made garment industry; an industry where wages are low, compliance with health and safety standards is erratic and the protection of workers’ rights is virtually non-existent. Since 2005, Bangladesh has suffered the tragic loss of over 1,800 peoples’ lives and thousands more injured due to factory fires and building collapses. These incidents reveal a pattern of unsafe building practices and dubious working conditions presenting operational, safety, legal and reputational risks to the global garment industry supply chain. Even so, this industry is extremely important to Bangladesh’s economic sustainability.

In April 2013, Rana Plaza, an eight-storey building housing several garment factories collapsed, killing more than 1,100 people and injuring 2,500 more. The tragedy at Rana Plaza gained worldwide attention; it was the worst garment-factory accident in history. The event prompted trade unions, labour rights’ organizations and concerned citizens to call upon global retailers to intervene. Two separate multi-stakeholder initiatives were born – the Bangladesh Accord (Accord) and the Alliance for Bangladesh Worker Safety (Alliance). The objectives of each are similar – to address factory and worker safety for garment workers in Bangladesh within a five-year time frame. Collectively, signatories represent a majority of global brands, sourcing from almost half (2,000) of all garment factories in Bangladesh.

OPTRUST’S RESPONSE

OPTrust’s RI team was seriously concerned about this grave disaster and determined that as investors in public companies that source from Bangladesh, we needed to respond. We partnered with AIMCo in a joint engagement with these companies to discuss their response to prevent another accident of this scale. Both funds’ view worker safety and respect for human rights as a fundamental corporate responsibility that, if not properly managed, can present risk to the companies’ reputation and performance. Both organizations prefer to engage with companies to encourage them to adopt best practices rather than divest, which is in-line with OPTrust’s approach to RI.

Collaborative engagement fosters synergy and enhanced accountability. The purpose of this engagement was to initiate conversation and give companies an opportunity to address our concerns over time. We began by identifying apparel manufacturers and retailers that source garments from Bangladesh within OPTrust’s equity portfolio and reached out to these companies to initiate a conversation on our concerns. We contacted 16 companies and 14 responses were received. In person meetings were conducted with five companies and conference calls were held with several others. Future meetings are scheduled and communication is ongoing.

LEARNINGS AND OUTCOMES

OPTrust expects companies to have strong risk management practices in jurisdictions with weak governance controls, like Bangladesh. Most companies we spoke with have changed their global sourcing practices since the Rana Plaza tragedy to increase transparency, accountability and control. Several companies stated they now have local company representatives or designated agents to oversee factory inspections and monitor factory capacity issues. Most companies contacted are instituting fire and emergency evacuation protocols and training, and members of the Accord and Alliance are conducting building safety audits.

The first phase of this engagement has been completed. However, subsequent engagements are expected as companies update supplier codes of conduct and work to extend their new Bangladesh sourcing model to other emerging market sourcing countries over time.
PROXY VOTING

As an investor in public companies, we have the right to vote at shareholder meetings. Since most shareholders cannot or do not want to attend the annual and special meetings where voting occurs, corporations provide shareholders with the option to cast a proxy vote. Issues commonly decided by proxy vote include electing directors to the board, approving a merger or acquisition, and approving an executive compensation plan. Given the large number of public companies in our portfolio, and the concentration of votes during certain parts of the calendar year, we use a proxy voting service to facilitate the voting process.

Proxy voting is conducted in-house, with the support of ISS to vote at all of OPTrust’s publicly-listed companies. Votes are executed according to the Proxy Voting Guidelines, which exemplify best practice in board composition, executive compensation, shareholder rights, and disclosure on social and environmental factors. For the 12-month period from January 1, 2014 to December 31, 2014, we voted on more than 25,300 proposals at 1,479 company meetings.

Each quarter, we publish our voting record on our public website.

MEETINGS VOTED

- Canada: 17.4%
- Global: 18.3%
- U.S.: 64.2%

VOTES AGAINST MANAGEMENT

- Boards of Directors: 35.8%
- Capital Structure: 11.1%
- Director Compensation: 17.6%
- Executive Compensation: 20.6%
- Mergers and Acquisitions: 11.9%
- Other Issues: 0.4%
- Routine Business: 0.2%
- Shareholder Proposals: 0.2%
- Shareholder Rights: 0.6%
- Takeover Protection: 0.2%
ADVOCA CY

We engage policy makers and regulators in efforts to promote good governance practices and sustainable financial markets. This engagement is executed primarily through organizations we belong to, with the aim of ensuring that the perspectives of shareholders with a long-term view are maintained when policies and laws are revised or introduced.

Advocacy involves responding to regulators on proposed amendments to existing regulations or on new regulations, as well as to industry associations and organizations that develop best practices in areas of RI. This requires maintaining memberships at key organizations to ensure OPTrust is part of the dialogue in the development of policies and best practice guidance on issues related to RI.

We work with leading organizations that seek to promote sound corporate governance, shareholder advocacy and RI in Canada and around the world.

HIGHLIGHTS

• OPTrust Manager, Responsible Investing was appointed Chair, Corporate Governance Committee of the Pension Investment Association of Canada.

• Submitted direct response on a proposed Pension Benefits Act amendment regarding ESG disclosure in SIPPs to the Ontario Ministry of Finance.

• Provided guidance on several areas of the Canada Business Corporation Act (CBCA) including director elections, proxy access and ESG disclosure. Industry Canada is updating the CBCA for the first time since 2001.

• Submitted comments in support of the Ontario Securities Commission proposed disclosure requirements regarding the representation of women on boards and in senior management.

• Signed the 2014 Global Investor Statement on Climate Change.
STAKEHOLDER ENGAGEMENT

RI reporting adheres to OPTrust’s dedication to open communication. We are committed to communicating our responsible investing obligations and activities to staff, trustees, beneficiaries and the wider investment community.

As a PRI signatory, OPTrust is required to communicate its progress on implementing the PRI Principles on an annual basis. Starting in 2014, a portion of OPTrust’s submission has been made public and appears on the PRI website.

Information on OPTrust’s RI program can be found in:

• OPTrust’s Annual Report
• OPTrust’s website: dedicated RI page
• OPTrust’s member publications

RI staff have increased the communication of our RI program to OPTrust staff by holding information and education sessions throughout 2014.

HIGHLIGHTS

• Shortlisted for a global award recognizing excellence in responsible investment reporting for the second year in a row; nominees are selected from a pool of more than 1,000 pension funds worldwide.

• Successfully completed the PRI’s new reporting and assessment survey and received excellent results.

• Rolled out an RI overview training session for staff.

• Inaugural launch of our public RI Report.

2 http://www.unpri.org/areas-of-work/reporting-and-assessment/reporting-outputs/individual-2013-14/
3 http://www.optrust.com/investments/responsible-investing.asp