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CHANGING *the*
CONVERSATION

2016 FUNDED STATUS REPORT TO MEMBERS

Changing the Conversation

At OPTrust, our mission is to pay pensions today and preserve pensions for tomorrow. Each day we work to ensure our members receive the benefits they have earned, with our investment and service strategies designed to deliver on this goal.

The Plan's funded status is our measure of success and ensures we are well positioned to meet our pension promise of providing certainty, sustainability and security in retirement.

With this report we are **changing the conversation**, one that began more than a year ago about the importance of remaining fully funded. It has been renamed the *Funded Status Report to Members* as a direct outcome of this conversation and highlights our efforts over 2016 in meeting our objective.

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Abidh Khan
OPTrust Retiree
Centre for Addiction
and Mental Health

We do important work at CAMH, but most of our members don't make a lot of money. So, it makes a difference that we have a strong pension plan to count on when we retire. After four decades of working and contributing to the Plan, I was very happy to get my first cheque from OPTrust.

Liz Bradley
OPTrust Retiree
Ministry of Community
and Social Services

I liked working in the Ontario Public Service (OPS), but sometimes when the right opportunity comes along, you just have to take it. Paying the full [actuarial] cost of my buyback was more expensive than if I had signed up when I rejoined the OPS, but for me it was worth it. Now I'm running dragon boat clinics in Florida and Spain and travelling to races around the world. My OPTrust pension gives me the financial security to do what I love.



My work is important, so I'm glad I've been able to make a career in the public service. Our pension plan is one of the reasons I stayed with the Ontario Public Service. And the fact that OPSEU has an equal say along with the government in how the Plan is run is important to me. Retirement is still a few years away, but having a secure pension will allow me to travel and stay active in the community.

Patrick Riley

OPTrust Member

Mass Spectrometry Technologist,
Ministry of the Environment and
Climate Change



Sofia Argiropoulos
OPTrust Member
Court Enforcement Officer,
Ministry of the Attorney General

This job can be tough, but it's good to know I'm part of a secure pension plan. I joined the Plan while I was still a fixed-term employee. I didn't think much about it at the time, but looking back it was the smartest thing I could have done. I'm a long way from retirement, but I check my annual pension statement closely. It feels good to see my pension grow and to see that clock tick down every year.

2016 Highlights



Fully funded

defined benefit pension plan



Almost
90,000
members and retirees

A+

Received A+ for our overarching approach to responsible investing from the PRI (Principles for Responsible Investment)



Hosted our first Global Pension Leadership

Summit

in November 2016

Received an average member satisfaction score of

9.1 / 10

FUNDING HIGHLIGHTS

At December 31 (\$ millions)

	2016 VALUATION	2015 VALUATION
Net assets available for benefits	\$ 19,045	\$ 18,399
Actuarial smoothing adjustment	(681)	(1,102)
Present value of future contributions	5,395	5,062
TOTAL ASSETS	23,759	22,359
Present value of future benefits	(23,332)	(21,942)
Provision for future expenses	(294)	(289)
TOTAL LIABILITIES	(23,626)	(22,231)
TOTAL SURPLUS	\$ 133	\$ 128



\$19
billion in
net assets



6%
net investment
return



Board-approved projects: internalization of the majority of public market assets and strategies, and upgrade to pension administration system underway



Recipient of the 2016 Industry Leadership Award from Benefits Canada's Workplace Benefits Awards

Message from the Chair and Vice-Chair

2016 WAS A YEAR of accomplishment and success for OPTrust. First and foremost, the Plan continues to be fully funded, which is the truest measure of success for a pension plan.

The year saw OPTrust take on a greater leadership role in the pension industry, advocating for solutions to enhance retirement income security for all. In November, it held the OPTrust Global Pension Leadership Summit, an immensely successful conference which brought together the world's leading pension minds, investors, policy-makers and academics to discuss long-term investment challenges and opportunities for collaboration.

The many accomplishments of the organization were recognized externally as CEO Hugh O'Reilly received the 2016 Industry Leadership Award from Benefits Canada's Workplace Benefits Awards in October.

At OPTrust we are proud of our accomplishments, but recognize that the challenges the pension industry faces are not going away.

As such, 2016 was also a year of looking to the future. In particular, the Board considered and approved two major organizational projects: the update of OPTrust's pension administration system, and the internalization of the majority of the Plan's public market assets and strategies.



Board changes

We were pleased and honoured to assume the roles of Chair and Vice-Chair in November and thank outgoing Chair Michael Grimaldi for his leadership and his continuing service to OPTrust as a Trustee. We also thank Ron Langer, an OPSEU appointee, who stepped down from the Board in September after serving seven years as a Trustee. This summer, we welcomed two Trustees: Giulia Volpe, appointed by OPSEU in July and Alan Hibben, appointed by the Government of Ontario in June.

As Trustees, we are keenly aware of the responsibility we have to our members and retirees who count on OPTrust for their financial future. Workplace pensions matter. Everyone at OPTrust, from Trustees to staff, is focused on ensuring that the Plan's members

receive the pensions they are counting on, and that workplace pensions remain strong and sustainable for the long term.

We wish to express our thanks to each person who works at OPTrust and our fellow Trustees for the dedication they demonstrated in 2016 to those ideals. We look forward to continuing to build on that work in 2017.

Vicki Ringelberg
Chair

Tim Hannah
Vice-Chair

Message from the President and CEO

FULLY FUNDED. In those two seemingly simple words rests the fulfillment of our promise to our members. No matter what we do, it is our ultimate goal and the bottom line – the only measurement that matters. To underscore its importance, we renamed the document you are reading to our *Funded Status Report to Members*.

Along with everyone who works at OPTrust, I am proud to report that the Plan continued to be fully funded in 2016, a year that presented numerous external challenges, from market volatility to ongoing low interest rates. These are not short-term challenges.

We are risk allocators not asset allocators. Creating sustainability over the long term means embracing innovation and always looking for ways to improve.

In 2016, we began to fully implement our member-driven investing strategy, which was designed to enhance the likelihood of pension certainty, sustainability and stability, and made the decision to manage the majority of our public market assets and strategies in-house. This will allow us to support our investment strategy and our goal of keeping the Plan fully funded.

Serving our members

All of our people care deeply about the members we serve and that care is often most evident in those who work in Member Services. During 2016, there were increased volumes in retirements, enrolments and other transactions.

Despite this, our team continued to provide the timely, excellent service our members have come to expect, achieving an average overall satisfaction score of 9.1 out of 10 from our members.

Serving our members requires more than great people. It also needs great technology. That's why we embarked on a multi-phase project to upgrade our pension administration system in 2016. Spanning several years, this project will provide the flexibility to meet future needs of members.

A winning culture

The culture at OPTrust is also a significant resource we are able to bring to bear on each project we undertake. Collaboration and idea sharing are essential, along with listening to the perspectives of others. I believe a winning culture embraces diversity, inclusiveness and different perspectives.

Facing the future

It's been said that a pension organization must think in decades. Taking the long view can be difficult, especially in the face of short-term concerns. However, we cannot afford to ignore the future. We must face it, head on, with our eyes open to both the challenges and opportunities it will present.

At OPTrust, we are an organization ready to embrace those challenges and opportunities. We will continue to advocate for strong workplace pensions and work with our sponsors



to be able to offer the Plan to a greater number of Ontario workers. We will continue to deliver excellence in everything we do for our members and look for ways to innovate and improve. Going forward, we will maintain our focus on the most important measure of a pension plan's success: our funded status.

A handwritten signature in black ink, appearing to read 'Hugh O'Reilly', written over a white background.

Hugh O'Reilly
President and CEO

Strategy: Changing the Conversation

IT'S TIME TO CHANGE the conversation about how we measure success. Being adept at investing is important, but we are more than just investors. Delivering excellent service to plan members is vital, but we are more than just service providers. We are a pension management organization.

Our members rely on us for certainty, stability and sustainability and we meet those expectations by keeping the Plan fully funded. For a defined benefit pension plan, there can be no more important achievement.

OPTrust's philosophy of being member driven supports everything we do. Our members are the foundation of our strategies and the reason our mission is to pay pensions today and preserve pensions for tomorrow.

Pensions need to take a long-term view. Too often, however, the industry is focused on the short term and on short-term measures, like annual investment returns, to gauge success. Returns are important, but as pension plans our investment approach must be inextricably linked to the goal of keeping the Plan fully funded. We must balance the need to generate returns with the need to manage risk effectively. And when we look back over a single year or a decade, the true measure of whether we have delivered on our promise is the funded status of the Plan.

RESPONSIBLE INVESTING

As part of our responsible investing program, OPTrust commits to the integration of material environmental, social and governance (ESG) factors into our investment decision-making processes and ownership practices. This approach reflects our fiduciary duty to the Plan's members and is aligned with the Principles for Responsible Investment (PRI), to which the Plan is a signatory. Our investment groups seek to identify, assess and manage ESG risks and opportunities in a manner that supports both our mission and mandate, and are held accountable for doing so.

Designing solutions for today's challenges

Demographic maturity. Low interest rates. Volatile markets and the likelihood of low investment returns. The fundamental challenges the Plan faces are persistent and have affected our ability to bear risk. Operating in this environment and keeping the Plan fully funded requires new approaches and a willingness to innovate.

In 2016, we began implementing our member-driven investing (MDI) strategy, which was designed to increase the likelihood of plan certainty for members by balancing the objectives of sustainability and stability.

A focus on members

Rooted in our overarching philosophy of being member driven, our service delivery strategy uses a member-direct approach to deliver valued-added services to members. Under this member-direct model, we continue

to tailor our service offerings to meet our members' needs and focus on offering them a variety of ways to communicate with us directly. While we know members are embracing web technology in ever increasing numbers, we also know they value the opportunity to speak personally with our staff. Pensions can be complex and there are times when members want to speak directly with an OPTrust representative, so telephone support remains a critical service channel for OPTrust.

Providing excellent member-valued services means being flexible and available when and where our members need us. Our extended telephone hours ensure critical phone support from a pension professional for members navigating life events, including retirement preparation, pension service buybacks, membership terminations or spousal relationship changes. At OPTrust, we understand these more complex questions require

personalized service, and we are here to provide it, in the channel of our members' choice.

Looking forward

While the conversation has changed, the dialogue must continue. Delivering sustainability and stability for our members requires us to embrace change as an organization. This requires both innovation and resilience, as we need to face the future well prepared to adapt and thrive in any environment.

To that end, in 2017, we will develop a new, multi-year strategic plan, which will guide us as we continue to change the conversation in our industry, while remaining true to our core purpose: paying pensions today and preserving pensions for tomorrow.

A MULTI-CHANNEL APPROACH TO MEMBER SERVICE



Online communications: offers flexibility, convenience and education



Face-to-face interactions: offers one-on-one and group sessions that provide tailored pension information



Telephone support: links members directly with an OPTrust representative



Traditional paper-based communications: offers members support for those who do not have easy access to electronic tools or prefer print communications



CLIMATE CHANGE

OPTrust recognizes that bold steps will be required to help investors understand the risks that climate change presents. We worked to better understand the impacts of climate change to our investment portfolios and released a position paper and report detailing our findings. We will continue to work collaboratively to improve our understanding of these impacts and seek solutions as we head toward a carbon-neutral future.

Pension Funding

2016 funding valuation

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

The Plan's 2016 funding valuation showed it remained fully funded as of December 31, 2016. The funding valuation also confirmed deferred (or "smoothed") investment gains of \$681 million, which will be recognized over the next four years and should further improve the Plan's funded status in years to come.

Consistent with our approach over the past few years, OPTrust's 2016 funding valuation strengthened the Plan's real discount rate to further improve its long-term sustainability. The Board of Trustees approved the following economic assumption:

- Reducing the Plan's real discount rate to 3.40%, net of inflation, down from 3.55% in 2015. This change reflects the expectation of lower long-term investment returns and reduces the risk of future losses due to investment returns falling short of the expected cost of members' and retirees' future pensions.

The net effect of the real discount rate change increased the total fund liabilities by \$502 million to add additional margins for conservatism for the purpose of strengthening the Plan's long-term sustainability.

In 2017, OPTrust is expected to file the Plan's December 31, 2016 funding valuation with the regulator showing that it is fully funded.

Funding outlook

The Plan's continued fully funded status is the result of an ongoing strategy to improve its long-term sustainability and prudent decisions by its sponsors.

Although the Plan continues to be fully funded, we need to ensure that it remains sustainable for current and future generations, regardless of market fluctuations.

To mitigate risks, OPTrust's staff continue to monitor a wide range of funding issues and analyze their potential impact on the sustainability of the Plan.

In 2016, some of these factors included:

- the increase in life expectancy, increasing 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, if required

- the uneven economic recovery, which has sharply increased market volatility and investment risk over the past several years.

These risks are partly offset by recent developments, including:

- OPTrust's continued strengthening of the Plan's actuarial assumptions
- OPTrust's review of our investment philosophies to better match its assets with its liabilities as part of our member-driven investing strategy
- the Plan's deferred investment gains of \$681 million at the end of 2016, which should strengthen its funded status over the next four years as these gains are recognized.

In 2016, OPTrust's staff provided the Trustees and the Plan's sponsors with information and technical advice on these and other factors that might challenge the Plan's funding over the next several years. OPTrust's Board and staff will continue to work closely with the sponsors to address these challenges, propose solutions and support the long-term sustainability of the Plan.

Investment Performance

Member-driven investing

We are a pension management organization. Our members depend on us to provide secure, predictable income in retirement. As such, how we think about investing and how we manage our plan needs to fully align with our members' interests.

We strive to keep the Plan in balance at all times to protect its funded status and improve plan certainty. There are three key components: **contributions** and **investment returns** on one side, and **benefits** on the other.

To achieve our primary goal of plan certainty, we need to strike the appropriate balance between two objectives:

- **Sustainability:** Generating sufficient returns to keep the Plan fully funded; and,
- **Stability:** Keeping contributions and benefits as stable as possible over time.

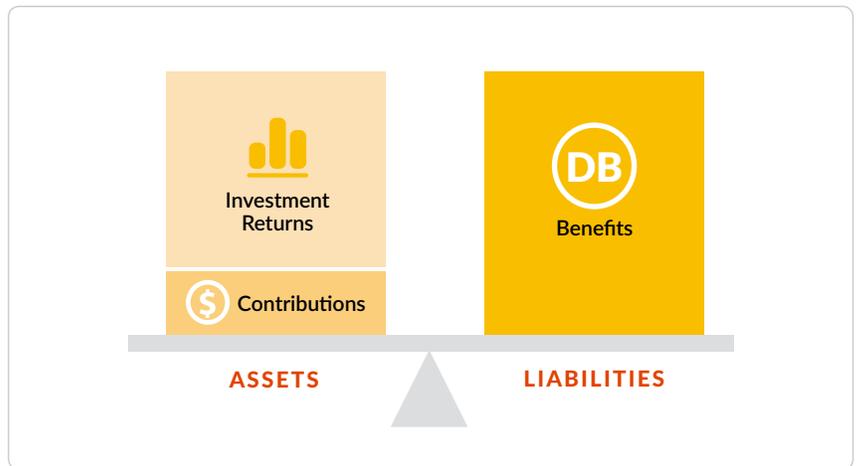
However, there are two primary challenges facing these objectives:

- **Demographics:** Aging membership limits our ability to take on investment risk.
- **Low expected returns:** Low interest rates and high valuations make earning investment returns more challenging.

In this challenging investment environment, we are committed to protecting our funded status and avoiding undue risk. This is why we are continuing to execute on our member-driven investing (MDI) strategy.

Fully funded despite uncertain markets

We continued to focus on our most important metric of performance – our funded status. Despite the overall challenging market environment in 2016, OPTrust achieved a 6% net investment return and the Plan remained fully funded.



RESPONSIBLE INVESTING ACTIVITIES IN 2016

- Continued advocacy for global climate policy
- Engaged 351 companies globally on key environmental, social and governance issues
- Conducted portfolio climate risk assessment of the total fund
- Voted at 2,340 company meetings worldwide
- Participated in the consultation with the Task Force on Climate-related Financial Disclosures
- CIO joined the PRI's Asset Owner Advisory Council

Serving Members



SERVICES WE PROVIDE

- new member enrolments
- leaves and past service
- transfers into and out of the Plan
- membership terminations
- spousal separation quotes
- pension estimates
- payment of monthly pensions
- address and beneficiary updates
- tax reporting

Dedication. Commitment. Service.

We take pride in assisting our almost 90,000 members every step of the way as they move from enrolment to retirement.

In 2016, we sharpened our focus on our member-driven strategy to better connect with and respond to our members' needs. This approach positioned us to confidently pursue our goal of delivering a world-class pension experience to our members. From transactional services such as buybacks and transfers to providing information that enables members to make informed decisions regarding their pensions, we were here – on the phones, in person and at information sessions held at various locations across the province.

This year also saw a significant increase in retirement requests and other transactions associated with transitioning from active member status to retiree. Despite the increase in volumes, we continued to receive high service scores from members and equally high marks industry wide.

Delivering exceptional service

Our commitment to service was clearly demonstrated in 2016, when two of our pension experts delivered a pension information session to a group of members in a tool shed, the first-ever, near Six Mile Lake in the Port Severn area. While sessions typically take place in hotel meeting rooms, an employer site or at the OPTrust office, we travelled gravel roads, set up in a

unique space and delivered an engaging, tailored presentation that helped a small group of our members learn more about their pension options. Questions were answered and members left feeling secure in the knowledge that their pension plan is here for them. We pride ourselves on being here to support our members throughout their careers and provide answers to their questions in the most accessible way.

Strong performance

In addition to assisting almost 3,000 members as they retired in 2016, we also improved on service delivery. We delivered *Annual Pension Statements* and *Pension Information Change Statements* to members and retirees, respectively, up to three months earlier than usual. This improvement resulted in members receiving relevant information for tax and budget planning in a more timely manner.

In 2016, we served more members via webinars, benefiting those who live in remote areas and were unable to attend our pension information sessions. Members also used our instructional videos to help complete forms and navigate OPTrust information requirements.

Overall results

Our member-driven strategy guides all of our actions and drives us to provide a consistently high level of service. It provides us with a clear focus and ensures our members and their needs are at the core of everything we do.

2016 HIGHLIGHTS



9.1/10

Resounding success dealing with increased retirement volumes yet achieving solid member satisfaction



60%

increase in retirement volumes over 2015



69

pension information sessions

26 cities and towns across the province



532

members received services by paying us a visit in person



55,880

member requests received and processed by staff



84%

of overall member requests were processed within service standards



53,532

calls handled



18

second call response time



9,010

notices to fixed-term employees informing of option to join the Plan



76,437

online transactions



172,734

email notices on a variety of reporting and informational items



63%

of first-contact resolution



84/100

CEM Benchmarking Inc. score, exceeding the peer group's median score of 79

Members of the Board of Trustees

At December 31, 2016

Vicki Ringelberg, Chair²

Finance Consultant

Tim Hannah, Vice-Chair¹

Senior Environmental Officer
Ministry of the Environment
and Climate Change

Michael Grimaldi¹

Worker Advisor (retired)
Ministry of Labour

Alan Hibben²

Principal
Shakerhill Partners Ltd.

Patricia Li²

Assistant Deputy Minister,
Direct Services Division
Ministry of Health and
Long-Term Care

Tony Ross²

Vice-Chair (retired)
Merrill Lynch Canada

Randy Marie Sloat¹

Customer Care Representative
Ministry of Government and
Consumer Services

Louise Tardif²

Vice-President (retired)
National Bank Financial

Giulia Volpe¹

Pension Analyst
Ontario Pension Board

¹ Appointed by OPSEU

² Appointed by the Government of Ontario

How to Reach Us

OPSEU PENSION TRUST

1 Adelaide Street East, Suite 1200
Toronto, ON M5C 3A7

MEMBER SERVICES

Tel: **416 681-6100** in Toronto
1 800 637-0024 toll-free in Canada
Fax: 416 681-6175

GENERAL INFORMATION

Tel: **416 681-6161** in Toronto
1 800 906-7738 toll-free in Canada

optrust.com | email@optrust.com

GET THE BIG PICTURE

More information on OPTrust's strategy and results is available
in our full *Funded Status Report* at optrust.com.

Ce rapport est aussi disponible en français.

OPTrust's publications and other information about the OPSEU
Pension Plan are available online at optrust.com.

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

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OPSEU Pension Trust

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