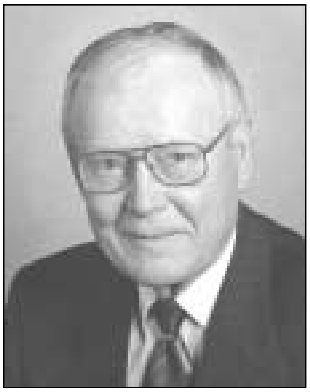
Ontario Pension Board 2000 Annual Report to Members and Pensioners



A Message from the Chairman

This is the eleventh Annual Report which I have authored as Chairman of the Ontario Pension Board. It is also my last as I am retiring on December 31, 2000. We commenced business as a corporation on January 1, 1990. At that time we had a funding deficit of some $2.5 billion, which the Government of Ontario agreed to pay over 40 years.

In the past year, we had our actuary William M. Mercer Limited prepare a new actuarial report as of December 31, 1999 which showed a surplus of $335 million. We are all thrilled to reach the milestone of having all our pensions fully funded, some 30 years ahead of the original schedule.

Investment policy is set by the Board of Directors and is implemented by the Investment Committee and our Senior Vice President of Investments, Mr. Robert Kay. The Investment Committee was comprised of Mr. William J. Corcoran, Ms. Debbie McKenna, Mr. Donald Weiss and myself. The Board of Directors was composed of the aforementioned along with Dr. Bob Christie and Mr. William J. Fisher. Mr. Donald Weiss joined the Board of Directors in April, 2000 and in December was appointed Chairman and Chief Executive Officer effective January 1, 2001. Mr. Geoffrey Collins was appointed to the Board of Directors effective January 1, 2001. Mr. Collins will be appointed Chairman of the Investment Committee, replacing Mr. Corcoran who resigned on December 31, 2000 to take on new responsibilities elsewhere. Both Mr. Weiss and Mr. Collins bring many years of experience in the financial services and investment industry. Mr. Corcoran will remain as an advisor to the Investment Committee. Mr. Corcoran has been a Director, Vice-Chairman and Chairman of the Investment Committee since 1990 and has made an outstanding contribution to the Board. Fortunately, as an advisor we will continue to have the benefit of his knowledge and experience. I thank Mr. Corcoran for his dedicated service.

We continue to have all of our funds managed by high quality outside managers. In June, we diversified by adding GE Asset Management Inc. who will manage a Global mandate of approximately 4% of our funds. The other managers are Jarislowsky Fraser Limited, Jones Heward Investment Counsel Inc., J.P. Morgan Investment Management Inc., Perigee Investment Counsel Inc., Phillips Hager & North Investment Management Ltd. and Sceptre Investment Management Limited.

As we have been predicting for the past three years the market finally hit the skids and there have been enormous ups and downs. The investment policy of the Ontario Pension Board remains the same; i.e. to obtain the maximum return on assets with the minimum of risk. Quality of assets and preservation of capital are foremost considerations in our investment policy.

Our return on investment improved significantly in 2000. The Fund return in 2000 was 10.19% compared to 5.37% in 1999. For the past ten years the Fund return has averaged 11.83% per year.

Last year I mentioned that the markets in Canada and the United States had been dominated by technology and Internet stocks and that the public had committed an extraordinary amount of their assets to the purchase of these securities. This continued until March of 2000 and then abruptly stopped. The Nasdaq Stock Index, which is comprised primarily of technology companies, reached over 5,000 in March but had fallen to 2,470 at year-end. Internet stocks have not only declined but many dot.com companies have gone out of business.

The technology and telecom mania has now turned to a rout as companies such as Nortel Networks have fallen from a high of 124 in July to 48, Microsoft from 120 to 44 and AT&T from 61 to 17. These companies and others are fine businesses but had become very significantly over priced during the overly exuberant period in the stock markets.

Index returns were directly affected by this plunge in technology. In Canada, Nortel, at one time, representing over 30% of the TSE 300 index fell but other business such as banks, insurance companies and oil companies had banner years so that the index actually rose 7.4% on the year.

The Standard and Poors 500 Index in New York fell 5.5%, the Dow Jones 2.5% , and the Nasdaq 36.9%. Most foreign stock markets fell with Europe down 4.5% and Japan 25%. The fund has a very small Far Eastern exposure and its investments in Europe are 6.8% of the total portfolio.

Bonds in Canada and the U.S. rose significantly.

Accordingly, on an overall basis, the fund returned 10.19% in a very demanding year. Our outlook is that 2001 will be equally demanding. It is apparent that the auto industry is slowing down and it's the most important industry in Ontario. However, we intend to continue our conservative policies and feel that these will result in satisfactory returns for 2001.

Our real estate investments remain the same; i.e. 8 regional shopping centres in Halifax, Ottawa, St. Catharines, Pickering, Winnipeg, Calgary and two in Vancouver. Real estate must be re-appraised every three years. Royal LePage Advisors Inc. completed a valuation as at March 31, 2000 which showed the value increasing by $39 million to $875 million. Overall, the real estate return for the year was 13.27%.

Highlights on real estate were: in Brentwood Mall, Vancouver, a new Sears store in the former Eaton's store and a new 34,000 sq. ft. London Drugs store; in Lougheed Mall, Vancouver, a remodeled Wal-Mart store; in Marlborough Mall, Calgary, a newly refurbished Sears store and a new Government lease; in St. Vital, Winnipeg, a new Sears store in the former Eaton's store; in Pickering Town Centre, a new Bay store in the former Eaton's store; in Pen Centre, St. Catharines, leases are being negotiated with Sportchek, Old Navy and other major retailers to occupy the former Eaton's space in 2001; In Halifax Shopping Centre, a new Sears store in the former Eaton's space, and the acquisition of 24 additional acres adjacent to the shopping centre for a Wal-Mart, a Sobeys and a Sears clearance store opening in 2001.

Our Plan sponsor, the Government of Ontario, introduced a new buyback window for the period February 1, 2000 to January 31, 2001. To date, we have received an additional 1,900 buyback requests.

In addition, the Government of Ontario as Plan Sponsor introduced a number of benefit improvements, namely a contribution reduction from August 1, 2000 to November 30, 2002 of 4% for both employer and employee contributions; an extension of Factor 80 retirement eligibility from April 1, 2000 to March 31, 2002 and elimination of the CPP disability offset.

The buyback window and the extension of the Factor 80 has increased the number of requests for pension estimates by 51% over the previous year. The staff completed 58,000 cases compared to 47,000 cases in the previous year. As well, staff delivered 47 divestment and pre-retirement seminars during the year. Another major workload in 2000 was the processing of transfers for members moving between the OPSEU Pension Trust and the Ontario Pension Board. Approximately 5,000 transfers have been processed to date. Current flows indicate that there are approximately 600-800 members coming into the OPB with a further 100 members leaving the OPB each year.

Systemwise there have been a number of activities. First, I am happy to report that all the work we had done in preparing for Y2K resulted in a successful complete transition. There were no problems. Second, late in 1999 the Bank of Montreal, our custodian since our inception, sold the custody business to CIBC Mellon. I am pleased to report that the transfer took place with a minimum of problems and is working well. Third, our major employer group implemented a new employee information system called WIN which resulted in a number of system changes. Our systems group and our administration group has continued their participation in the Pension Data Integrity Project led by Management Board Secretariat.

In the area of Human Resources, the Board ratified a new collective bargaining agreement with the OPSEU unionized staff on January 18th. The Board's negotiating team was comprised of Mr. William Fisher, Director of the Board, Ms. Linda Bowden and Mr. Mark Fuller.

2000 also saw the introduction of a pension administration certificate course for staff at the Board. This program has been developed and implemented in conjunction with Humber College.

Our Director and Chairman of the Human Resources Committee of the Board, Mr. William Fisher undertook an extensive review of salaries. As a result of this review, the Board approved the updated salary ranges and approved a number of salary increases. Mr. Mark Fuller, formerly Senior Vice President, General Counsel and Secretary was appointed Executive Vice President of the Board late in the year.

Under the direction of Mr. Mark Fuller, who has direct responsibility for pension policy, a great amount of time was spent in improving the adjudication process so as to provide a more efficient approach. It is our objective to provide the best possible service with a minimum of delay. In addition, a great amount of work was done towards improvement of portability between the various government-sponsored plans.

For 2001, we have engaged our auditors Ernst and Young to assist the Board in conducting an Enterprise Risk Management Program. This Program will allow us to revisit, identify, document and prioritize the risks facing the Plan in the future as well as establish our audit plan going forward.

Another key project slated for early 2001 is the implementation of the OPB Website.

I want to extend my gratitude to the Directors for their generous contribution to the Board during this past year. I also want to thank President Mr. Leonard Lu and his entire staff for their service and devotion during another very busy year. Mr. Lu's leadership has been outstanding. Our goal remains to provide the highest quality service to our pensioners and contributors. I would like to welcome Mr. Donald Weiss as our new Chairman. I have every confidence in Mr. Weiss who also shares my commitment to the principles of sound financial management of the Ontario Pension Board.

And finally ladies and gentlemen, I want to personally thank you for having given me the opportunity of leading the company through the past eleven exciting years.

WHSomerville

William H. Somerville
Chairman

Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Surplus

As at December 31

(in thousands of dollars)	2000	1999
Assets		
Investments	$11,952,232	$11,184,908
Contributions receivable	13,793	24,984
Capital assets	462	678
Total assets	11,966,487	11,210,570
Liabilities		
Income taxes withheld on pension payments	8,332	8,308
Accounts payable and accrued charges	6,583	5,930
Contributions payable	333	351
Total liabilities	15,248	14,589
Net Assets Available for Benefits	11,951,239	11,195,981
Actuarial asset value adjustment	921,280	808,746
Actuarial Value of Net Assets Available for Investments	$12,872,519	$12,004,727
Accrued Pension Benefits and Surplus		
Accrued Pension Benefits	$11,212,152	$10,994,073
Surplus	1,660,367	1,010,654
Total Benefits and Surplus	$12,872,519	$12,004,727

Consolidated Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31

(in thousands of dollars)	2000	1999
Increase in Net Assets		
Net investment income	$ 1,111,059	$ 569,051
Contributions	282,604	322,068
Transfers from other plans	143,204	38,086
Increase in net assets	1,536,867	929,205
Decrease in Net Assets		
Pensions paid	669,642	648,923
Termination payments and transfers	100,258	46,939
Operating expenses	11,709	11,217
Decrease in net assets	781,609	707,079
Net Increase in Net Assets For the Year	755,258	222,126
Net Assets, at Beginning of Year	11,195,981	10,973,855
Net Assets, at End of Year	$11,951,239	$11,195,981

Consolidated Statement of Changes in Accrued Pension Benefits

For the Year Ended December 31 (in thousands of dollars)	2000	1999
Accrued Pension Benefits, at Beginning of Year	$10,994,073	$10,903,192
Increase in Accrued Pension Benefits		
Interest on accrued pension benefits	747,243	735,233
Benefits accrued	289,533	206,891
Total increase	1,036,776	942,124
Decrease in Accrued Pension Benefits		
Benefits paid	721,900	695,862
Experience gains	96,797	155,381
Total decrease	818,697	851,243
Net Increase in Accrued Pension Benefits	218,079	90,881
Accrued Pension Benefits, at End of Year	$11,212,152	$10,994,073

Investments Over $50 Million

As at December 31, 2000 (in thousands of dollars)	Maturities	Coupon %	Fair Value $	Cost $
Special Province Of Ontario Debentures	2001 – 2014	9.51 – 16.95	3,471,694	3,471,694
Cash and Short-term Investments				
Canadian				
Government of Canada			215,235	214,879
Bank of Montreal			50,110	50,340
Bonds				
Canadian				
Government of Canada	2001 – 2029	5.00 – 10.25	655,779	649,115
Province of Ontario	2002 – 2029	4.88 – 10.00	255,613	250,819
Phillips Hager & North High Grade Corporate Bond Fund	2002 – 2028	5.49 – 12.20	107,023	105,587
Royal Bank of Canada	2003 – 2011	5.40 – 7.29	51,958	51,221
Foreign				
Government of France	2005 – 2009	4.00 – 5.50	149,029	140,179
Government of Germany	2009 – 2028	3.75 – 5.63	116,146	110,977
Government of United Kingdom	2008	9.00	53,430	52,219
Real Estate			911,666	848,759

As at December 31, 2000 (in thousands)	Shares	Fair Value $
Equities		
Canadian		
Nortel Networks Corporation	2,084	100,571
Royal Bank of Canada	1,941	98,715
Manulife Financial Corporation	1,805	84,740
Bombardier Inc.	3,180	73,622
The Bank of Nova Scotia	1,697	73,302
Canadian Imperial Bank of Commerce	1,526	70,973
BCE Inc.	1,638	70,933
The Toronto Dominion Bank	1,608	69,850
Bank of Montreal	805	63,242
Alberta Energy Company Ltd.	814	58,451
Foreign		
Merck & Co. Inc.	542	76,160
Exxon Mobil Corporation	580	75,642
Pfizer Inc.	938	64,706
Bristol-Myers Squibb Company	544	60,367
Johnson & Johnson	335	52,741
General Electric Company	714	51,337

Board of Directors

William H. Somerville, O.Ont., LL.D.
Chairman
Ontario Pension Board

William J. Corcoran
Vice-Chairman
Ontario Pension Board

Robert Christie
Deputy Minister
Ministry of Finance

William J. Fisher
Retired Vice-President
Human Resources, Chrysler Canada Ltd.
Honourary Professor, University of Windsor
Faculty of Business Administration

Debbie McKenna
Executive Officer-Benefits
Ontario Provincial Police Association

Donald D. Weiss
Executive Director
P.C. Ontario Fund

Highlights of the Public Service Pension Plan

- The Public Service Pension Plan (the "PSPPlan") is a defined benefit pension plan established under the *Public Service Pension Act (Ontario)*, and subject to the *Pension Benefits Act (Ontario)* and t*he Income Tax Act (Canada)*.

- Annual pensions are calculated as 2% of the best, consecutive, 60 months average salary, multiplied by the member's number of years of credit in the PSPPlan. The pension is reduced at age 65.

- The PSPPlan is a fully indexed plan, which is subject to a limit of 8% inflation protection in any one year, with any excess carried forward.

- Survivor benefits are payable.

- The PSPPlan provides the option to purchase service for prior employment with the Province of Ontario while not a member of the PSPPlan by paying only the employee contribution (provided that eligibility requirements are met).

- In addition to early retirement, unreduced pensions at age 60 with 20 or more years of credit, age plus credit adds to 90 points or more, or age 50 plus 30 or more years of credited service (Ontario Provincial Police Force only) the PSPPlan currently provides an early retirement program which allows an unreduced pension benefit for those members whose age and years of credit in the PSPPlan adds to 80. This program is only available to members if they qualify prior to April 1, 2002 and elect within certain limited time frames to retire.

- Members and employers are currently enjoying a contribution reduction equivalent to 4% of salaries. This reduction expires November 30, 2002. In addition, members in the Ontario Provincial Police Force are not required to make their 2% supplementary contributions until March 31, 2002.

Member and Pensioner Statistics

As at December 31	**2000**	1999
Members	**25,324**	24,304
Pensioners	**39,495**	39,621