OPTrust

OPSEU Pension Trust
Fiducie du régime de retraite du SEFPO

CONFIDENTIAL – CONTAINS COMMERCIALLY SENSITIVE INFORMATION

January 4, 2018

Minister Sandals and President Thomas,

As our Sponsors, we know you share our commitment to the long-term sustainability of the OPSEU Pension Plan, and we thank you for your recent correspondence to OPTrust confirming your support for its plan expansion proposal. We also share a belief in the importance of good governance and we understand from conversations with our respective sponsors that there are aspects about OPTrust that you would like to better understand. As OPTrust is a trust, each member of the Board is a fiduciary, with the responsibility and duty under trust law to act independently and in the best interests of the Plan and its members. As part of our fiduciary duty to the beneficiaries we serve, we want to provide you with the following information to aid in your future discussions about the Plan.

OPTrust is a well-governed, well-managed plan

The measure that matters most for any pension fund is its funded status, as it directly determines the likelihood the plan will be able to pay the promised benefits at the current cost. On this measure — as well as many others — OPTrust continues to deliver strong results for its members. OPTrust is well-funded with deferred gains. We also note that we are currently the only jointly-sponsored pension plan that both provides guaranteed indexation and is fully funded.

The discount rate is a key element of looking at funded status as a gauge of how well a defined benefit pension plan is being run. The discount rate is the single most important assumption used by a plan and if set inappropriately high, could mask funding issues, since the higher the discount rate the lower the liability of the Plan. For example, at OPTrust, a one per cent increase in the discount rate would decrease the liability by approximately 19 per cent. Generally, a higher discount rate as justified by the actuary reflects the higher investment risk taken by the plan's administrator. This has the effect of lowering the plan's liability but fails to acknowledge or account for the increased risk.

OPTrust has the second-lowest discount rate (second only to the Ontario Teachers' Pension Plan) among our Ontario peer plans at 5.4 per cent as of December 31, 2016. Furthermore, we expect the discount rate to continue to decline for the December 31, 2017 filed actuarial valuation report. We believe that our discount rate is appropriate, reflective of market realities and prudently conservative, and again, even with a relatively low discount rate, the Plan remains well-funded.

As Trustees, we continue to be mindful of the Plan's demographics. We are a mature plan and our maturity imposes certain constraints on our ability to accept risk since funding risk can only be borne by active members and their employers. In light of this, OPTrust has taken active steps to ensure it is able to maintain the funded status of the Plan and deal with a potential, and likely inevitable, downturn in the markets. One of these steps was the introduction of OPTrust's member-driven investing (MDI) strategy. This strategy seeks to strike the right balance between sustainability, or generating sufficient returns to keep the Plan fully-funded, and stability, or working to keep contributions and benefits as stable as possible over time. It recognizes that as a mature pension plan, we cannot bear risk to the same extent that a younger plan could. Instead, risk is treated as a scarce resource which must be purposefully and efficiently allocated. MDI is not about trying to earn outsized returns by taking excessive risk. It is about aligning with members' interests and increasing pension certainty for them.

In 2017, OPTrust internalized a significant portion of its public market assets as part of its MDI strategy. OPTrust's new capital markets capabilities complement its existing internal capabilities in real estate, private equity and infrastructure. Internal management has enhanced the organization's ability to execute its investment strategy at a lower level of risk, given it a greater ability to respond nimbly to market developments, and allowed it to operate in a more cost-effective manner. Although internalization has been in place for under a year, the organization is already realizing cost savings through more efficient trade execution and reduced reliance on external service providers. The Board and management are cost-conscious stewards of the assets with which we have been entrusted. OPTrust, when it reports its expenses in a manner consistent with its peers, runs the plan at a cost of 35 basis points (24 basis points for investment costs and 11 basis points for plan administration). These costs are comparable with its peers. The Board also oversees and reviews the organization's financial performance against its budget on an ongoing basis.

Finally, we are proud of the fact that OPTrust is increasingly recognized for its leadership in the global pension industry. In 2017, OPTrust was ranked in the top-10 plans globally for the service it provides to its members by CEM Benchmarking. The organization has also received accolades for initiatives such as its research on climate change and its recent leadership in a World Bank report on the Canadian pension model.

The Board of Trustees has had an equally productive year. Trustees continue to build on a working relationship that is collegial and respectful of the diverse perspectives of each Trustee, which allows the Board to act as a cohesive team on behalf of the Plan's beneficiaries. The Board continues to work with management on strategic measures to address plan maturity and long-term sustainability, including OPTrust's plan expansion proposal and this year's development of a new five-year strategic plan.

In 2017, in addition to our oversight of management's activities, we completed a substantial review of the Board's governance, implementing further refinements and enhancements to our practices.

Both management and the Board share an unparalleled commitment to the members we serve. Each person at OPTrust is keenly conscious of the men and women who are counting on us to protect and preserve their retirement security. As Trustees, the fiduciary duty we have to the Plan's members is paramount in our oversight of, and decisions about the ongoing operations of OPTrust.

Effectively managing conflict of interest as Trustees and fiduciaries

There is no higher duty at law than being a Trustee and we welcome this opportunity to share OPTrust's approach to conflicts of interest with our Sponsors. We are confident that it is entirely consistent with long-standing fiduciary principles which apply equally to boards of trusts and corporations. That being said, the duties imposed by trust law upon a Trustee are high and cannot be easily resolved should a conflict arise.

The policy is found in section 3 of the Trustee Code of Conduct, a copy of which is attached as Appendix A. Section 3 describes two types of conflicts. It is important to point out that both types of conflicts arise at common law. We highlight them because it is important for trustees to turn their minds to these issues but the principles apply regardless of whether they are mentioned in the Code. The policy also includes a process for dealing with conflicts. A description of both types of conflicts, along with practical examples of situations where these types of conflicts have arisen is included in Appendix B of this document.

Finally, as a Board, we are very mindful of the damage that negative media attention could do to the trust our almost 90,000 members place in us. We are also mindful of our position as a public sector pension plan. To protect our reputation, the Code requires Trustees not only to avoid actual conflicts, but also situations where there could be the appearance of a conflict. Trustees are encouraged to seek legal counsel to help guide them in potential conflict situations and are supported by the Board's external independent counsel in this regard, as required.

An aligned and principled compensation strategy

Oversight of management compensation is considered a critical strategic matter by the Board and we have spent considerable time ensuring that our compensation principles and philosophy effectively support OPTrust's strategy and the best interest of the Plan's members. OPTrust's compensation framework serves to create and sustain a high performing organization in service of its beneficiaries. Its principles, disclosed publicly in the organization's Funded Status Report, are to:

- Align individual and team incentives with OPTrust's mission, values and investment strategy.
- Explicitly reward performance that helps OPTrust achieve its mission and mandate.
- Ensure we are able to attract and retain the highly-skilled professionals required to deliver on our mandate.
- Include an integrated design framework and performance management system.

- Support and reinforce the prudent risk-taking culture that is necessary to achieve our mission and mandate.
- Support a governance model that provides appropriate oversight and monitoring of the compensation strategy.

In addition to its own review and oversight of all compensation matters, the Board employs a compensation advisor, who provides independent advice, benchmarking and analysis of OPTrust's compensation programs.

The current management compensation framework was developed in 2015 and, after a unanimous endorsement of the redesign by the Board, implemented in 2016. Its design incents and aligns behaviours with OPTrust's mission, strategy and, ultimately, the best interest of the Plan's members – maintaining a fully funded pension plan. This framework introduced new metrics to align with the organization's investment and overall strategies, and we note that the current system did not result in any increase in compensation opportunity for staff when compared to the previous program. Our compensation levels are competitive when benchmarked against comparator peer groups. An overview of the elements of OPTrust's compensation framework can be found in Appendix C.

The development of the program followed a rigorous process to ensure it aligned appropriately with the compensation principles the Board has set out. Along with the Board's scrutiny of the proposed changes, the compensation framework was independently reviewed and endorsed by the Board's compensation advisor at the time, who also monitored the implementation of the compensation system to ensure it was achieving the intended alignment and outcomes.

Following a regular market review and thorough RFP process, the Board recently appointed Hugessen Consulting, a leading compensation consulting firm in Canada, as its new compensation advisor. In addition to its service to OPTrust, Hugessen currently serves as compensation advisor to some of Canada's leading pension organizations, including OMERS, CPPIB and the PSP Investment Board. They have also been retained by IMCO.

Hugessen has indicated that their early assessment is that our compensation framework is principled, responsible, and progressive in its alignment with members' interests. They believe there is some early indication that other Canadian pension funds may introduce or modify their performance metrics to have a similar alignment with members' interests in the near future. In their ongoing role as our advisor, they will continue to provide their independent assessment of compensation matters to assist the Board in its oversight duties.

Ensuring effective governance

The Board and the Plan's Sponsors share a belief in the importance of good governance. The Board believes that the varying work and life experiences of Trustees, their commitment to OPTrust's mission and the different perspectives they bring to the Board are strengths of the joint governance model, and that, collectively, they allow Trustees to effectively carry out their fiduciary duties. The Board complements its own experience with the use of external advisors, where warranted.

Recognizing the importance of diverse perspectives and skillsets, and the responsibility of the Sponsors to appoint Trustees, the Board has previously prepared guidance on desired attributes for members of the Board of Trustees, which we attach as Appendix D.

The Board also believes in the importance of complementing Trustees' existing experience with ongoing education and development activities. As a matter of policy, all new Trustees are encouraged to pursue formal director's education should they not already hold such a designation. The Board also holds regular education sessions and supports the continuing education activities of individual Trustees.

We trust the information we have provided will be helpful to the Sponsors and we look forward to your continuing support of the important work OPTrust does on behalf of its beneficiaries.

Sincerely,

Vicki Ringelberg
Chair

Tim Hannah
Vice Chair

Cc
Board of Trustees
Hugh O'Reilly, CEO of OPTrust
Hon. Kathleen Wynne, Premier of Ontario
Andrew Bevan, Chief of Staff (Office of the Premier)
Steve Orsini, Secretary of the Cabinet, Head of the Public Service and Clerk of the Executive Council
Jason Pichelli, Chief of Staff (Office of the Hon. Liz Sandals)
Helen Angus, Deputy Minister of the Treasury Board Secretariat
Marc Rondeau, Assistant Deputy Minister of the Treasury Board Secretariat
Gareth Jones, OPSEU Pension Liaison Committee
Len Elliott, OPSEU Pension Liaison Committee
Kim Macpherson, OPSEU Pension Liaison Committee

OPTrust

TRUSTEE CODE OF CONDUCT

Board Approved Policy

Effective date: October 5, 2017
Next review date: October 2019

Table of Contents

1 General

1.1 Purpose and Scope

The purpose of the Code of Conduct (the "Code") is to confirm principles and standards for the decision making and conduct of members of the Board of Trustees of OPTrust (collectively, the "Board" and each Trustee, a "Trustee"). The Code is intended to reflect and reinforce the standard of care and duty of loyalty to which pension administrators and trustees are subject and to foster confidence in OPTrust.

The Code does not address required or appropriate conduct for all circumstances; rather it is intended to provide a general framework of principles and standards as a guide to appropriate conduct and decision-making. Each Trustee, when conducting himself or herself or making decisions in the conduct of OPTrust business or activities, must have regard to this Code and must also continue to exercise his or her common sense and judgment.

The Code applies to all members of the Board and applies for the time an individual is a Board member and continues to apply after the member has left the Board, in respect of any conduct which continues to be relevant to OPTrust, such as confidentiality requirements. Once an individual leaves OPTrust he or she may not use information obtained in confidence from OPTrust for any reason or use any information obtained from OPTrust for personal gain.

1.2 Legal Framework

The principles which underpin the Code are rooted in the standards applicable to fiduciaries at common law and codified in the *Pension Benefits Act* (Ontario) (the "PBA"). Section 22 of the PBA imposes a duty of care on the Board as a whole and each Trustee. Under section 22(1) of the PBA, the Board and each Trustee are under a duty to "exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another person". The test is subjective: if the Board or a Trustee has relevant expertise, the Board or Trustee will be held to a higher standard.[1]

Section 22(4) of the PBA also imposes a duty of loyalty which requires the Board and each Trustee not to permit their interest to conflict with their duties and powers in respect of the Plan and related fund. This duty has been articulated by the courts as a duty to always act in the best interests of the Plan beneficiaries as a whole. This second duty is the focus of the Code. Among

[1] (PBA, s. 22(2)).

other things, this duty requires Trustees to avoid conflicts of interest, maintain the confidentiality of Plan information and make independent decisions.

1.3 Related Policies

This Policy is related to all of the internal governance Policies established by Trustees to govern the Board and individual Board members.

1.4 Guidelines and Procedures

From time to time guidelines and procedures, templates, forms and other material related to the implementation of the Code may be issued. Any such material will be posted on Diligent.

1.5 Attestation of Compliance

All Trustees will be required to attest compliance with the Code (including when first appointed and annually thereafter) using the form attached as Appendix "A" or such electronic system as may be established.

2 Accountabilities and Reporting

The Board is responsible for the ongoing maintenance, application and monitoring of this Policy.

The Managing Director General Counsel (or his or her delegate) will assist the Board and the Chair and Vice-Chair in carrying out their responsibilities under the Policy, with the Corporate Secretary providing administrative assistance as required.

3 Duty of Loyalty

3.1 Conflicts of Interest

The fiduciary duty of loyalty prohibits Trustees from letting their own interests conflict with the interests of the Plan members as a whole. There are two types of conflicts of interest: "duty-interest" conflicts and "duty-duty" conflicts. In both cases there may be an actual conflict or the appearance of a conflict. Fiduciaries should avoid situations which give rise not only to a conflict but also to the appearance of a conflict.

The "duty-interest" conflict is a situation where a person has a financial or personal interest in a particular transaction or decision of the organization. For example, a board may be considering appointing a firm as an advisor where one of the partners at the firm is a close relative of a Board member. In that circumstance there is a conflict or the appearance of a conflict due to the Board member's personal relationship with the partner of the proposed advisor. This type of conflict can normally be managed by excluding the conflicted individual from the decision-making process. The process that should be followed if a Trustee realizes they have this type of conflict is set out in Appendix "B".

"Duty-duty" conflicts of interest arise where an individual owes fiduciary duties to two principals at the same time. As long as the interests of the two principals are aligned, no conflict arises and the individual can carry out his or her duties to both principals. However, if the interests of the principals cease to be aligned and the individual is required to put the interests of one of the principals ahead of the other, the individual may be in a conflict of duty situation. A common example of this type of conflict is where a person obtains confidential information about one principal by virtue of his or her position with the other. The person may have a duty to disclose the information to the second principal but doing so might be in breach of their duty to the first principal. A Trustee who finds him- or her-self in that situation, or thinks he or she may be in that situation, should seek legal advice from the Managing Director General Counsel, who can assist them in finding appropriate counsel if necessary.

3.2 Conflicts Specific to Appointed Trustees

Trustees of a jointly sponsored pension plan are appointed by the sponsors of the plan. In OPTrust's case, five Trustees are appointed by the Government of Ontario and five by the Ontario Public Service Employees Union ("OPSEU") (the "Sponsors"). The Trustees appointed by each Sponsor bring different perspectives to the Board, which is one of the strengths of a joint governance model. A Trustee who brings the perspective of their appointing Sponsor to the Board's deliberations is not in breach of his or her fiduciary duty. However, when making Plan decisions, Trustees have a duty to act solely in the best interests of the Plan members and beneficiaries as a whole, independent of the interests of the appointing Sponsor.

A conflict can also arise where a Trustee is in a fiduciary relationship or has a position of trust with another organization, and in that role, obtains confidential information which could affect OPTrust. As set out in Section 5, Trustees are under a strict duty of confidentiality and therefore may not disclose confidential information about OPTrust to the other organization. However, Trustees equally need to avoid situations where they obtain confidential information from the other organization which could be relevant to OPTrust because their duty to OPTrust may require them to share the information with OPTrust in breach of their confidentiality obligation to the other organization. A Trustee in this position should immediately seek guidance from the Managing Director General Counsel.

Note that these are only examples of conflicts which Trustees of OPTrust could encounter. Trustees should be vigilant about becoming involved with any organization or individual which could put them into a situation where their duties to OPTrust may come into conflict with the duties to the other person.

3.3 Gifts

If individuals or firms who provide services to OPTrust make gifts to Trustees with whom they work, there is a potential for a conflict or perceived conflict. Where the gifts are modest in value and take the form of meals and/or entertainment, and are consistent with normal business practice, such gifts may provide useful and acceptable opportunities for the service providers and Trustees to develop a better working relationship. If such gifts are more than modest in value, are in the form of cash (or its equivalent), or are otherwise of a nature that could reasonably be expected to unduly influence the Trustee's decision to engage the source of the gift as a service provider to OPTrust, or could otherwise damage OPTrust's reputation, then the gifts should not be accepted. Similarly, no Trustee should give a gift that could reasonably be expected to influence or be seen to influence the performance of their duties and responsibilities, or which could damage OPTrust's reputation.

Trustees should also never solicit any gifts, donations, benefits or other favours, except for the solicitation of donations in connection with approved charitable causes.

4 Confidentiality and Security

Trustees have a fundamental duty to maintain the confidentiality and security of information about OPTrust that is known to be, or should reasonably be known to be, sensitive or confidential unless the disclosure is expressly authorized by the Chair and/or Vice-Chair of the Board. The duty of confidentiality extends to all Board materials, all discussions at Board and Committee meetings, and any other information provided to the Trustees in the course of performing their duties whether oral, in print, or in electronic form (i.e., in a computer or tablet). The only information not considered confidential is that which is publicly known and already in the public domain, including any information on the OPTrust website. For greater certainty, the non-disclosure obligation extends to all external third parties (other than the Board's advisors), including the Sponsors.

Breach of the duty of confidentiality and security may contravene the Trustees' fiduciary duties of care and loyalty to OPTrust under the PBA and at common law and may expose OPTrust to liability to third parties, damage OPTrust's reputation or otherwise adversely affect OPTrust. Breaches or suspected breaches will be dealt with through the process in Section 9.

5 Personal Trading

OPTrust must conduct its business free of conflicts in the investment area and in compliance with applicable securities laws. Therefore, the personal trading of OPTrust personnel (including Trustees) and the investment activities of OPTrust must be carried out in a way that protects against the risk of insider trading and any other legal liability that could result.

The OPTrust Personal Trading Policy applies to OPTrust personnel other than the Trustees. However, each Trustee must abide by the following principles that underlie the Personal Trading Policy:

- A Trustee must not purchase or sell securities with knowledge of material information in relation to such securities where the material information has not been generally disclosed to the public, otherwise known as insider trading;
- A Trustee must not inform, other than in the necessary course of your duties to OPTrust, another person about material information in relation to an issuer of a security, before the information has been generally disclosed to the public, otherwise known as tipping;
- A Trustee must not trade in securities based upon knowledge of OPTrust's or an OPTrust external investment manager's future trading intentions, otherwise known as frontrunning;
- A Trustee must not engage in short-term trading or day trading, which is defined as the purchase or sale of a security with a subsequent trade in the opposite direction of the same security within 10 business days; and
- Activities related to personal trading must not interfere with the performance of a Trustee's duties and responsibilities to OPTrust.

6 Use of the OPTrust Affiliation

Trustees should avoid using their title as a Trustee of OPTrust in their signature line in emails or other correspondence or in any business dealings unless they are acting in the capacity as a Trustee.

Trustees who speak at conferences, panels or similar events because of their role as a Trustee must state at the beginning of their speech that they are speaking in their capacity as a Trustee of OPTrust. If the Trustee is speaking in his or her capacity as an employee, Government or OPSEU official or in their personal capacity, then the Trustee should make it clear that he or she is not speaking as a Trustee on behalf of OPTrust.

7 Speaking Engagements

Trustees should ensure that the Chair and Vice-Chair and the CEO are aware of the speaking engagement and should obtain the Chair and Vice-Chair's approval. If there are prepared remarks they should be reviewed by the Chair and Vice-Chair of the Board and the CEO or his or her delegate as contemplated in the Advocacy and Public Education Policy. If there are no prepared remarks because, for example, the Trustee has been asked to participate in a panel discussion, the Trustee should be briefed on the subject-matter by the CEO or his or her delegate for consistency of messaging.

8 Register of Directors' Positions and Business Relationships

Trustees are required to inform the Managing Director General Counsel of any Board positions which they hold when they join the Board and to notify the Managing Director General Counsel of any new directorships or changes in their Board positions throughout their tenure as Trustees. Trustees are also required to notify the Managing Director General Counsel of any business relationships they have or are proposing to enter (e.g., consulting engagements) which could potentially give rise to a conflict so that any such conflict can be appropriately managed. The Managing Director General Counsel shall maintain a confidential register of the information disclosed by the Trustees under this provision.

9 Process for Addressing Concerns about Trustee Conduct

If a Trustee is, in good faith, concerned that another Trustee may be in breach of his or her obligations under the Code or a related policy or is otherwise acting in a manner that appears to be inconsistent with his or her duties as a Trustee, he or she may report the concern to the Chair and Vice-Chair. If the matter concerns the Chair or Vice-Chair, the Trustee will report the matter to the person who is not the subject of the concern. If the concern relates to both the Chair and Vice-Chair, the Trustee with the concern will report the matter to the Managing Director General Counsel in his or her capacity as counsel to the Board.

The process for dealing with a concern about a Trustee will depend on the nature of the concern. The first step should be to obtain advice from the Managing Director General Counsel who shall consult with the CEO and other members of management and the independent Board counsel or other qualified counsel, as appropriate, and propose a course of action (including whether or not the complained-against Trustee should have legal representation), to the Chair and Vice-Chair (or one of them or the complainant(s) if the Chair and Vice-Chair are the subject of the complaint) with a view to resolving the matter as expeditiously as possible in the circumstances.

If a breach is found to have occurred, the Trustees concerned with the matter (normally the Chair and Vice-Chair), in consultation with the Managing Director General Counsel and the independent Board counsel, may make a recommendation for the Board's consideration. The Board may take any remedial action it deems appropriate within its powers and on the advice of legal counsel, including introducing a motion censuring the conduct of the Trustee at a Board meeting. For extremely serious breaches or situations which are ongoing or not resolved, the Board may take the necessary action to seek to have the Trustee removed from the Board.

10 Term of Policy

This policy is subject to review every two years.

Appendix "A"

Declaration: Board of Trustees Roles and Responsibilities

I, ______________________, have read the Trustee Code of Conduct and understand my duties and responsibilities as a Board member under the Code and certify that I have complied with the Code during the __________________ calendar year and will comply with it during the _______ calendar year.

Signed: ____________________ Date: ____________________
Trustee

Appendix "B"

Process for Managing Conflicts of Interest

If a Trustee finds him- or her-self in a conflict of interest position, the Trustee should always treat the interests of OPTrust (and Plan beneficiaries) as paramount and take the following steps:

(a) Make appropriate disclosure to the Chair and Vice-Chair of the facts giving rise to the conflict or potential conflict. If the Trustee is the Chair, he or she should make the appropriate disclosure to the Vice-Chair, and vice versa. The disclosure should be made as soon as the conflicted Trustee becomes aware of the issue. If the Trustee first becomes aware of the conflict at a meeting, he or she will disclose the conflict at the meeting.

(b) The conflicted individual should avoid participating in any decision or exercising any influence in connection with the matters giving rise to the conflict and may not vote on the matter which is the subject of the conflict.

(c) The role of the Chair or Vice-Chair to whom disclosure is made is to ensure that appropriate practical or procedural safeguards are put in place and maintained to prevent the conflict of interest from resulting in impropriety or damage to OPTrust's reputation.

Appendix B – Conflict of Interest

OPTrust's Trustee Code of Conduct describes two types of conflict of interest.

The first type of conflict is where a trustee has a financial or personal interest in a transaction or decision. Modern business statutes set out a process for dealing with this type of conflict. Since we are not subject to the business statutes, we developed our own process (set out at Appendix B to the Code.) You will find that it is not prescriptive, which recognizes the fact that each situation is unique and requires its own treatment. A recent example of the use of this process was the exclusion of a trustee from the discussion by the Board of a particular matter at the recommendation of Treasury Board Secretariat (a recommendation with which the Board's legal counsel, the Board and the affected trustee were in full agreement).

The second scenario described in Section 3 of the policy is more nuanced because it may, but does not automatically, result in a conflict. This situation arises where a trustee owes fiduciary duties not only to OPTrust, but also to another entity, for example, a corporation of which the trustee is director. As long as OPTrust and the other entity do not interact (as is most common) or the interests of OPTrust and the other entity are aligned, there is no conflict. However, if the interests of OPTrust and the other entity cease to be aligned and the trustee is required to put the interests of one entity ahead of the other, the trustee may be in a conflict. For example, the trustee may obtain confidential information as a result of his or her position on one board which he or she is under a duty to share with the other, in breach of his or her duty to the first. This type of conflict is not unique to trusts; it also occurs in the corporate world. Unfortunately, a conflict of duty is often not easily resolved. Again, the Code of Conduct is not prescriptive. The Code simply indicates that a trustee who thinks he or she may be in this type of scenario should seek advice from the Board's General Counsel who will help the trustee find independent counsel as required. A practical example of a situation where this type of conflict arose is described below.

Example of a Scenario 2 Conflict

A scenario 2 conflict could arise when a trustee holds a position on the Board of another company in addition to his or her role on the Board of OPTrust, particularly a company in which OPTrust could potentially invest or transact with in some manner. In some cases, a trustee in such a situation could resolve potential conflicts by declaring them and not participating in votes on related matters. However, this may be insufficient to resolve certain conflict situations.

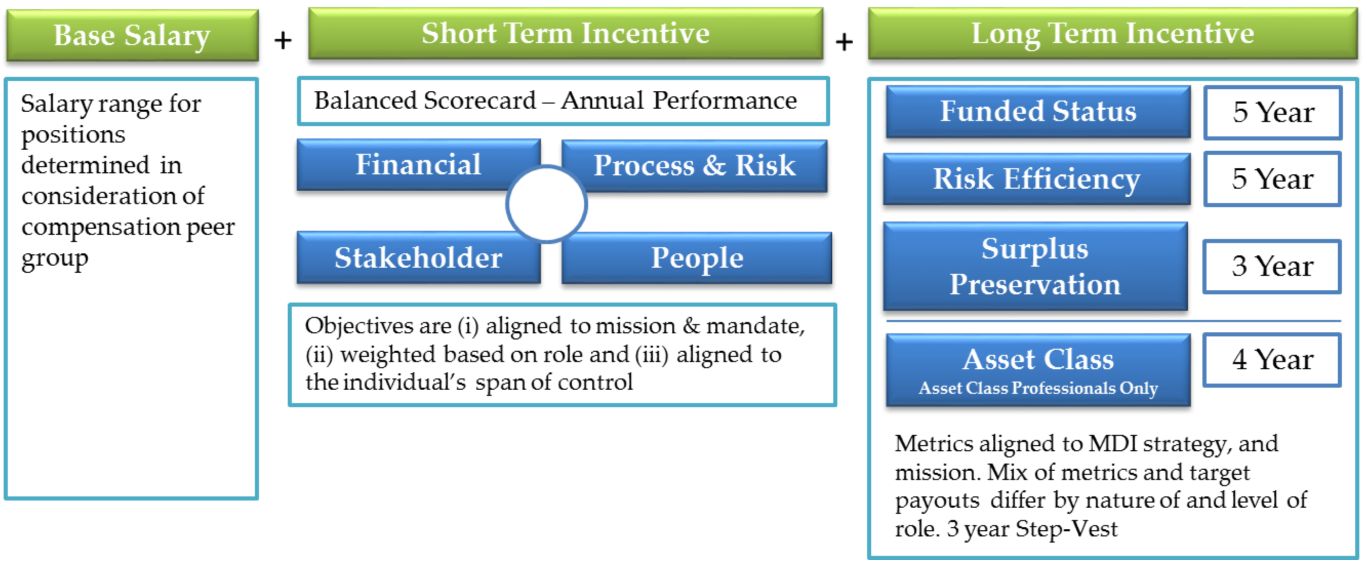
Where a potential conflict arises because OPTrust is transacting with the company on whose Board the trustee sits, the trustee must also consider his or her access to information as a director of that company, particularly in a situation where a director may be involved in the day-to-day management of a company. In such a scenario the trustee could be expected to have confidential information about specific transactions that could directly impact the plan.

This would then put him or her into a potential conflict of duty situation – he or she would owe a fiduciary duty to the company to keep its plans confidential and at the same time owe a duty to the pension plan to disclose information that would be helpful to it in deciding whether to purchase assets from the company. This would be an irreconcilable conflict that could not be resolved through declaring the conflict and recusing himself or herself from discussion of the matter.

In an irreconcilable conflict situation, the only solution may be to resign from either the role as trustee or the role as director. However, at no time would the plan treat the conflict as automatic or insist that the trustee resign. Rather, the plan would take the steps necessary to protect the trustee, the plan's financial interests, and its reputation based on advice from external counsel, and would encourage the trustee to speak to the Board's independent counsel for advice and guidance tailored to the individual situation.

Appendix C – OPTrust's Compensation Framework

OPTrust's management compensation program supports the organization's mission of paying pensions today and preserving pensions for tomorrow. The redesign implemented in 2016 created better alignment with the organization's strategy. The variable compensation elements of this plan are made up of two components: a short-term incentive plan (STIP) and a long-term incentive plan (LTIP).



Compensation Comparators

OPTrust has identified comparator groups for the setting of our compensation levels. Our objective is to be competitive with those organizations against which we compete directly for investment opportunities and talent. The chart below captures the general parameters used to develop to our comparator groups.

Roles	Comparator Approach
Senior Management	Primary focus is pension funds with a scope adjustment factor as determined by the Board's independent compensation advisor to reflect OPTrust's size relative to each of our pension plan peers
Investment Professionals	Pension funds, asset management, real estate, private equity firms and banking
Corporate Functions	Pension funds and general industry – with primary focus on financial services where available
Pension Administration	Pension funds, consulting firms

Our Pension Plan Peers

Short-term Incentive Plan (annual incentive)

Redesigned and simplified to drive towards creating a high-performance organization, allowing OPTrust to attract and retain high-quality employees. It is based on individual performance and assessed against the objectives in individual balanced scorecards, within four quadrants directly aligned to OPTrust's annual business plan.

Balanced Scorecard Quadrant Definitions:

- **Financial** – prudent stewardship across key financial metrics and objectives including managing within approved budgets
- **Process & Risk** – continuous improvement, risk management and cost effectiveness
- **Stakeholder** – build and enhance relationship with key internal/external stakeholders
- **People** – improving the company's ability to adapt, innovate and grow

Long-term Incentive Plan (LTIP)

The LTIP was redesigned to align to the three key Member-Driven Investing (MDI) metrics that measure:

- Maintaining the fully funded status of the Plan
- Managing risk in an efficient and effective manner
- Preserving the surplus in the Plan

These new metrics measure performance over a three-to-five year period that better reflects the long-term perspective of the total fund portfolio. We are one of the first pension plans globally to align their LTIP directly to the members' interests with a focus on preserving the funded status of the Plan.

Appendix D – Guidance on Desired Attributes of Members of the Board of Trustees

OPTRUST GUIDANCE ON DESIRED ATTRIBUTES OF MEMBERS OF THE BOARD OF TRUSTEES

Preamble:
The Board acknowledges that the Sponsors have the exclusive authority to appoint Trustees. Recognizing the importance of Board capacities to good governance, and since these are not set out in any other documents including the Sponsorship Agreement and Trust Agreement, this Guidance sets out desired attributes of Members of the Board of Trustees.

Purpose:
The purpose of this Guidance is:

- to identify attributes and capacities for the Board and Sponsors,
- to use these to develop potential training and education plans for the Board and Trustees, and
- to identify expertise required when retaining external advisors.

The purpose is *not* to reiterate fundamental legal and statutory requirements and qualifications of Trustees, such as their fiduciary duty and prudent person standard of care, since these are covered elsewhere.

Guidance:
The Board of Trustees will from time to time assess what skills it requires to assist it in governing OPTrust. In making a determination about how best to fulfill its duties, the Trustees will consider and make use of all available alternatives including Sponsor appointments, Board educational activities, individual Trustee education initiatives, and advice from or appointment of external advisors.

A. While recognizing the diversity of experience, knowledge, and training that Trustees may possess, there are certain attributes that are beneficial for **all individual Trustees to possess or have the capacity to acquire**, so that the Board is able to perform its essential obligations. These attributes include:

Personal Qualities and Other Attributes	1. Loyalty	An abiding loyalty to the best interests of all of the Plan's beneficiaries.
	2. Collaborative, Team Player	Able and willing to work toward consensus collaboratively and co-operatively in a team environment. Works to ensure conflict is resolved respectfully and inclusively in order to maintain/restore healthy relationships.
	3. Strong Communicator	Gives and receives information with clarity, attentiveness, understanding and perception.

	4. Committed	Prepared to fulfil the time commitments necessary to attend to the duties required of a trustee as the steward of a very significant public sector pension, including training and development required as a trustee.
	5. Continuous Learner	The willingness and ability to dedicate the time and attention required to become knowledgeable about the business of OPTrust, the environment in which it operates, and the emerging trends and issues in the pension and investment industry within a reasonable time of joining the Board, to undertake training and development required as a trustee.
	6. Understanding Pension Environment and Relationships	A competent understanding of the pension environment in which the Plan operates, as well as of the economic and structural relationships among beneficiaries, Trustees, staff, consultants, agents, and investment managers.
	7. Ethical and Has Integrity	Act in the highest ethical manner and with integrity in all personal, business and professional dealings, including respecting matters of board confidentiality.
	8. Independent Minded	The capacity to disassociate one's personal viewpoints from the objective requirements of the Trustee's fiduciary obligations to all of the Plan's beneficiaries and being sufficiently independent from OPTrust so that decision-making is not impaired.
	9. Strategy	Ability to think strategically and participate in leading an organization in planning for its future.
	10. Sound Decision Maker	Proven decision-maker, able to think critically, understand complex issues, solve problems and make sound judgments.

B. In addition, the Board should have a sufficient number of members with functional skills and capacities, which **may be built and developed before and after appointment as Trustees,** so that the Board, acting as a collective entity, possesses a portfolio of skills and abilities that allow it to effectively discharge its fiduciary obligations. It would be beneficial that each Trustee bring with him or her and/or to develop through training and education, skills in **one or more** of these relevant disciplines:

Functional Skills	1. Financial Literacy	All Trustees will have, or develop over a reasonable period of time, the ability to read and understand financial statements, preferably of the size, scope and complexity of OPTrust.
	2. Geopolitical	Knowledge of geopolitical events and trends (e.g. relevant strategic, political, economic, demographic, sociological threats, risks and opportunities) that could impact the returns of the Plan.

	3. Leadership	Significant experience successfully leading and overseeing others in a complex organization.
	4. Risk	Ability to provide effective oversight of the enterprise risks that the Plan may face.
	5. Board or Governance Experience	Experience serving on governing bodies such as boards, committees and/or councils, including an awareness of board fiduciary duty, roles and responsibilities, current governance issues and trends.

C. The Board should have access to technical professional expertise in the primary disciplines necessary for effective governance and oversight of the Plan, so that the Board, acting as a collective entity, possesses or may access a portfolio of skills and abilities that allow it to effectively discharge its fiduciary obligations. The first of these below (Financial Expertise) is considered needed *both* through one or more Trustees having this expertise when appointed *and* through external professional advisors; the **others *may* be accessed as needed by the Board through external professional advisors**:

Primary Industry Expertise	1. Financial Expertise	Accounting credentials (CMA, CGA, CA, CPA): Experience preparing, auditing, analyzing, or evaluating financial statements. An understanding of generally accepted accounting principles and financial statements and their application including the ability to understand and ensure the effective oversight of financial risks including financial accounting, reporting, corporate finance, pension plan funding and actuarial valuations.
	2. Investment Management	Experience in institutional investment, investment risk management, capital markets, principles of finance and economics, including familiarity with all asset classes and particularly asset allocation methodologies.
	3. Actuary	Knowledge of broad actuarial principles, concepts, services and asset liability studies.
	4. Pension Plan Governance	Knowledge of pension plan design, operation, regulatory frameworks and funding principles.
	5. Pension and Labour Law	Knowledge of pension and labour law as these apply to issues related to oversight of OPTrust.
	6. Human Resources and Labour Relations	An understanding of labour relations, employee health and safety, organizational structure, human resources oversight and talent management.