OPTrust

20 Years of Delivering the Promise

Annual Report 2014

OPSEU Pension Trust

With invested assets of $17.5 billion, the OPSEU Pension Trust (OPTrust) invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan with more than 86,000 members and retirees.

Celebrating 20 Years of Excellence

OPTrust officially commenced operations on January 1, 1995 following an agreement between the Ontario Government and the Ontario Public Service Employees Union to establish a separate, jointly sponsored pension plan for employees represented by OPSEU.

Over the last 20 years, we've never lost sight of our primary goal – to pay pensions today and to preserve pensions for tomorrow. In other words, our more than 86,000 members can count on us for a predictable, steady stream of retirement income for the rest of their lives.

In this report

IN 2014, OPTRUST

Remained fully funded, while strengthening the long-term sustainability of the Plan

Achieved an investment return of 12%, net of external management fees, outperforming the Plan’s 6.2% composite benchmark return

Generated net investment income of $1.8 billion, which helped increase the Plan’s net assets to $17.5 billion at year-end

Received our highest marks to date from our members and retirees for the quality of service and communications we provide

On the cover

ANNIE LEGGE
OPTRUST MEMBER / TEAM LEAD
MINISTRY OF THE ATTORNEY GENERAL

“It’s wonderful to have the opportunity to contribute to a defined benefit pension. It’s a safe and secure way to set aside money for the future. When I do decide to retire, I know both my husband and I can count on a steady stream of income. I wish everyone had access to pay into a similar benefit.”

RAM SELVARAJAH
OPTRUST MEMBER/ SYSTEMS ANALYST
MINISTRY OF COMMUNITY SAFETY AND CORRECTIONAL SERVICES

“I never thought much about my pension until recently. Early in my career I was focused on raising my family. But with 15 years of service in the Plan, I see the value of my pension adding up over time. The Plan is professionally managed, and unlike an RRSP I don’t have to worry about market conditions.”

2014 At a Glance

Funding Highlights[1]

At December 31 ($ millions)		2014 VALUATION		2013 VALUATION
Net assets available for benefits	**$**	**17,481**	$	15,952
Actuarial smoothing adjustment		**(1,185)**		(811)
Present value of future contributions		**5,114**		4,958
TOTAL ASSETS		**21,410**		20,099
Present value of future benefits and expenses		**(21,296)**		(19,802)
Allowance for strengthening mortality assumption		**–**		(190)
TOTAL LIABILITIES		**(21,296)**		(19,992)
TOTAL SURPLUS	**$**	**114**	$	107
Rate stabilization reserves		**114**		107
TOTAL SURPLUS	**$**	**114**	$	107

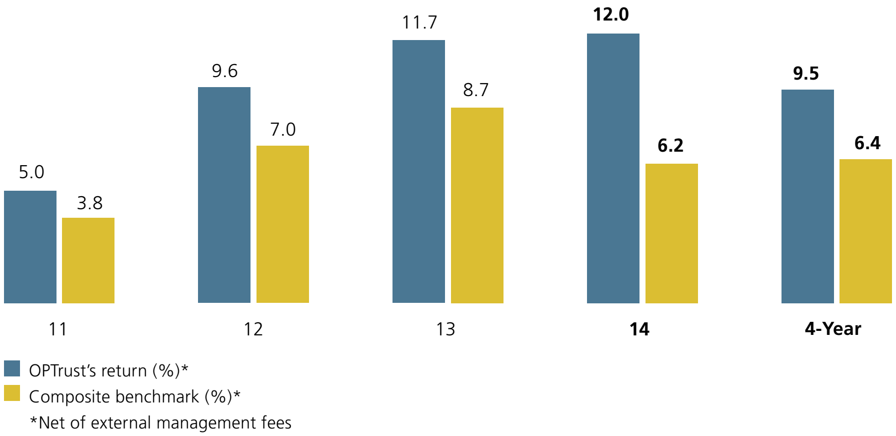
1 The differences between funding and financial statement valuations are described on page 37.

Strengthening the Plan for the Long Term

In 2014, OPTrust continued to improve the OPSEU Pension Plan's funded status and strengthen its sustainability for the long term. Over the year, strong investment results helped increase the Plan's net assets by $1.5 billion to $17.5 billion at year-end.

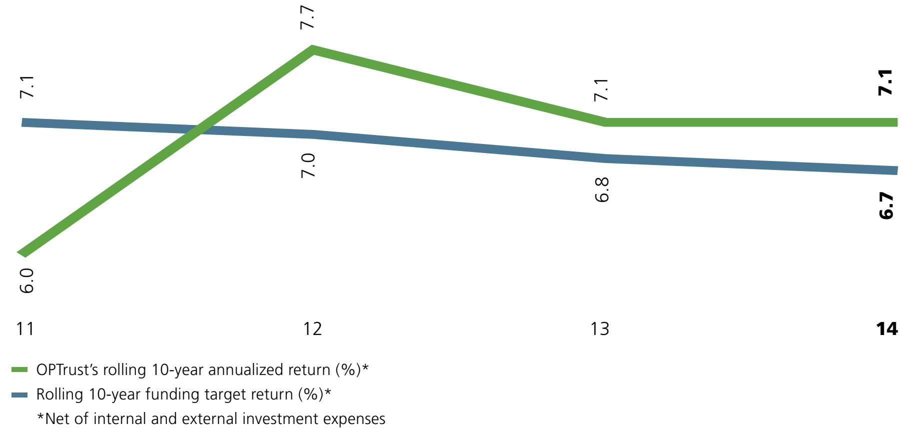
The Plan remained fully funded in 2014. Deferred investment gains of $1.2 billion – which will be recognized over the next four years – will further support the Plan's funded status in years to come. In addition, OPTrust continued to take meaningful steps to support the long-term funding health of the Plan by strengthening its mortality and economic assumptions for the second year in a row.

Total Fund Returns
At December 31 (%)



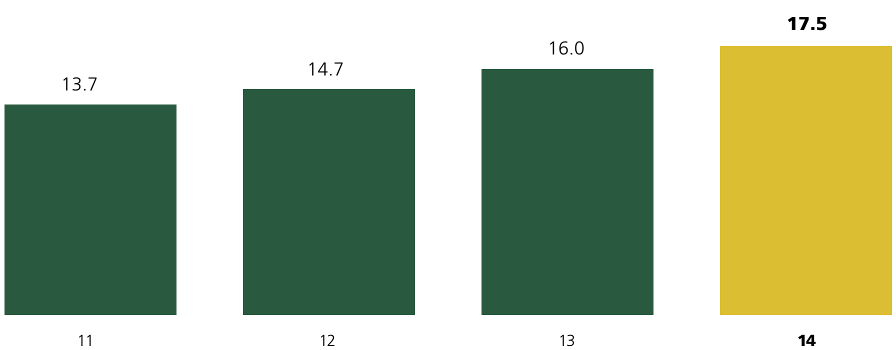
OPTrust's diversified investment portfolio achieved a 12% return in 2014, net of external management fees, outperforming the 6.2% return for our composite benchmark. Over the four years from 2011 to 2014, OPTrust's average annual return has exceeded the Plan's benchmark by 3.1%.

Long-Term Performance
At December 31 (%)



To meet the Plan's long-term funding requirements, OPTrust's investment returns are expected to match or exceed the Plan's funding target return over longer time periods. For the 10 years ending December 31, 2014, OPTrust's 7.1% annualized return, net of internal and external investment expenses, exceeded the 6.7% funding target for the same period.

Net Assets Available for Benefits
At December 31 ($ billions)



The Plan's net assets rose to $17.5 billion in 2014, up by approximately $1.5 billion from the year before. The increase resulted from net investment income of $1.8 billion, less benefit payments and expenses that exceeded contributions by $289 million.

Funding Surplus/(Deficit) and Smoothing*
At December 31 ($ millions)

Actuarial smoothing reduces the impact of volatile investment returns on the Plan's funding valuations. At the end of 2014, OPTrust was fully funded and had deferred investment gains of $1.2 billion.

Message from the Chair and Vice-Chair

It is an honour to serve the Plan's more than 86,000 members as Chair and Vice-Chair, particularly as OPTrust celebrates its 20th anniversary.

Twenty remains a relatively young age for a pension plan, which must, by its nature, focus on more than the needs of today and look ahead for many decades to come. And yet it is also a significant milestone for OPTrust. In just two decades, the Plan and the organization that supports it have grown from modest beginnings to become one of Canada's top public sector pension plans. OPTrust at 20 is a sophisticated global investor, a leader in service excellence and one of a select group of pension plans that is fully funded. It is proof of the effectiveness of the jointly-sponsored governance model.

2014 was another excellent year for OPTrust. The Plan continues to be fully funded. Investment staff executed the most significant transaction in the organization's history with the sale of Porterbrook Leasing Company Limited. The transaction was awarded the 2014 European Infrastructure Deal of the Year by *Infrastructure Investor*. The Plan's members and retirees gave staff an all-time high rating for their satisfaction with the service they receive.

While OPTrust has achieved great things over the past year and throughout its 20-year history, as Trustees we must also look ahead and ensure the Plan will both pay pensions today and preserve pensions for tomorrow.

It is a significant and increasingly challenging time for the pension industry. Retirement income security is being debated in our own province and nationwide. We continue to face low interest rates and volatile capital markets. And our Plan, like so many others, has matured and now has a more evenly weighted ratio of active members to retirees.

A strategy for the future

Against this backdrop, we must ensure that the decisions we make today position the Plan for long-term sustainability. Now more than ever, we must remain focused on the funded status of the Plan. The Board has approved a funding valuation that once again strengthens the Plan's actuarial assumptions, positioning it for greater long-term funding health.

Prudent funding decisions in the past and the strong results generated by OPTrust's investment professionals have been instrumental in giving the Plan the flexibility to make these necessary adjustments.

The Board will continue to consider and carefully monitor the Plan's funding strategies and status. As part of the ongoing implementation of the organization's strategic plan, OPTrust will explore an evolution of its investment strategy to ensure it is more strongly aligned with the Plan's liabilities. The organization also continues to consider avenues to increase the Plan's active membership and bring the advantages of a jointly sponsored defined benefit pension plan to a broader group of working people.

Leadership for the future

To lead the organization and continue the implementation of its long-term strategic initiatives, the Board appointed Hugh O'Reilly as the new President and CEO for OPTrust. Mr. O'Reilly is a prominent pension policy expert with deep experience in the operations and governance of jointly sponsored pension plans. His knowledge and his long-standing commitment to defending and advancing defined benefit pensions make Mr. O'Reilly the right leader to help OPTrust continue its growth and further develop its capabilities.

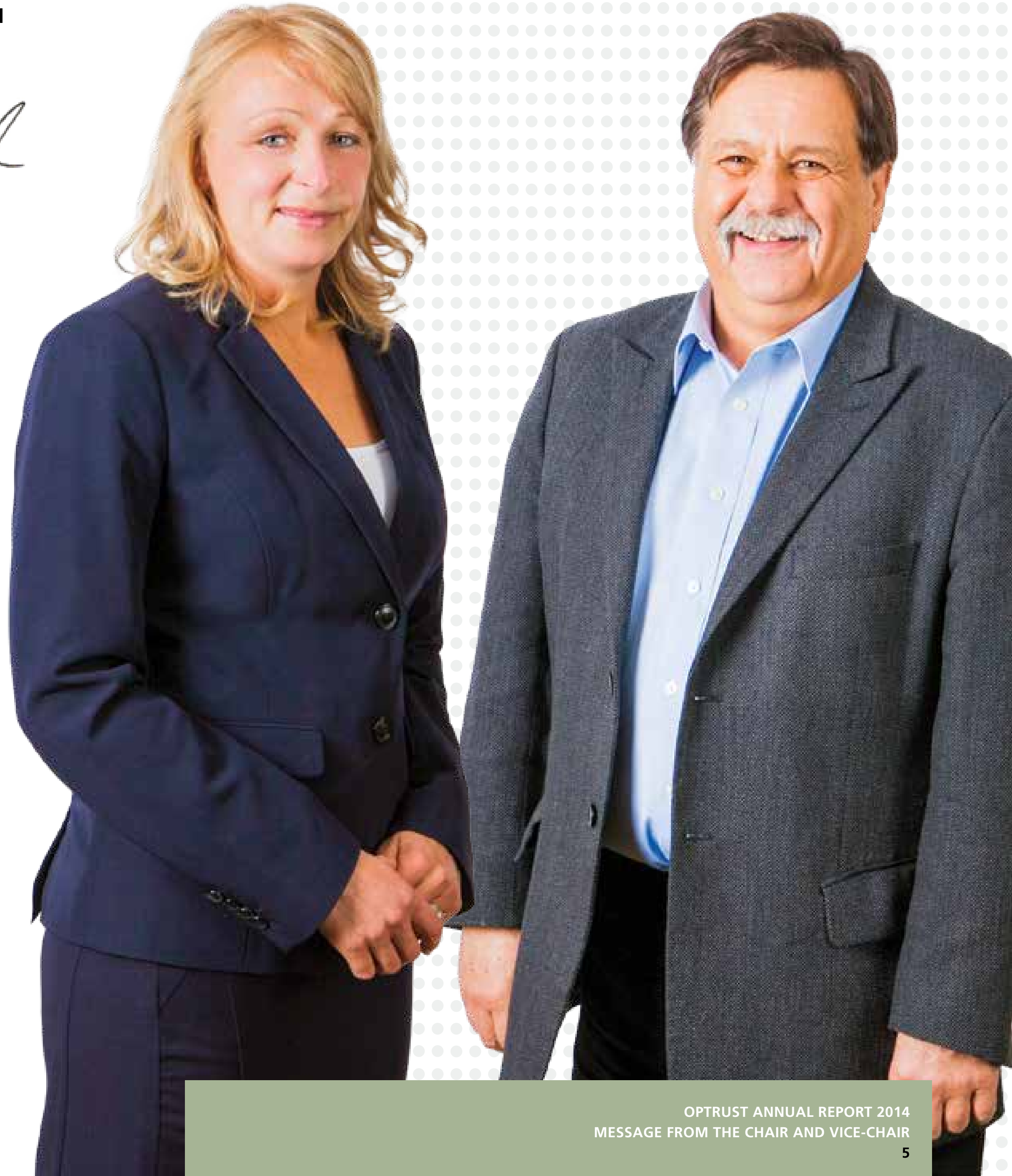
Board changes

In 2014, we welcomed a new Government appointee, Louise Tardif to fill the vacancy left by Tracie Crook in 2013. In addition, November saw changes to our roles with the former Vice-Chair, Michael Grimaldi, becoming Chair and a new Vice-Chair, Vicki Ringelberg, appointed from among the Government Trustees.

We wish to express our thanks and appreciation to all our fellow Trustees and to OPTrust's management and staff for the hard work and dedication they show each day. As we mark our 20th anniversary, everyone at OPTrust both celebrates what has been achieved and reaffirms our commitment to delivering pensions to our members for many decades to come.

MICHAEL GRIMALDI
Chair

VICKI RINGELBERG
Vice-Chair



Message from the President and CEO

I'm privileged to join OPTrust as its new President and Chief Executive Officer during a landmark year for the organization – its 20th anniversary.

This important milestone offers a number of exciting opportunities for everyone at OPTrust. First, it allows us to recognize the visionary individuals from OPSEU and the Government of Ontario who created the Plan 20 years ago. It also gives us a chance to look forward – to build upon our legacy of excellence, introduce innovative ideas to guide us for the future, and share our successes with the world. Most importantly, it's a time to celebrate more than 86,000 members and retirees for whom we are working to deliver retirement security today and for years to come.

As we move through this momentous year, we will be building upon the many successes of 2014. I'm pleased to report that as of December 31, 2014, OPTrust is fully funded. Although the Plan is currently in a fully funded position, we continue to look for ways to ensure that it remains sustainable for current and future generations, regardless of market fluctuations. This includes the ongoing strengthening of our actuarial assumptions and the development of investment strategies to better match our assets with our liabilities.

Excellence in member service

While our investment and funding strategies are integral to the success and sustainability of the Plan, it's our commitment to our members which drives everything that we do. We take pride in the fact that our members value the Plan and we work hard to provide them with excellent service at all times.

From the very beginning, we've taken a personalized and proactive approach to help our members make informed decisions about their financial futures. To make sure we're hitting the mark, we issue regular service satisfaction surveys. I'm pleased to report that in 2014, our members continued to rank our service very highly. In fact, our overall satisfaction results rose again in 2014 to an average score of 8.9 out of 10, delivering our highest overall client satisfaction scores to date. From simple requests to complex transactions, our Member Services staff have delivered excellent service across the board.

Investment success

OPTrust's investment approach has been highly successful over the years – and 2014 was no exception. Since the Plan was established in 1995, our investment portfolio has realized an average annual return of 8.4% net of internal and external investment expenses. I'm pleased to report that this year our annual rate of return was 12%, net of external management fees.

A number of important transactions led to these strong results, including the sale of our interests in Porterbrook Leasing Company Limited, a company which owns and leases approximately one-third of Great Britain's passenger and freight vehicles.

This year's investment success is complemented by our approach to responsible investing which continues to shape our investment program in a positive way. In 2014, we published our first public *Responsible Investing Report*. This important new report details how environmental, social and governance factors are integrated into all of our investment processes. It also highlights the work we do with other leading organizations to promote sound corporate governance, shareholder advocacy and responsible investing in Canada and around the world. We're proud of the achievements we have made in this area and were honoured to be nominated again in 2014 for a global RI Reporting Award recognizing excellence in responsible investing reporting.

Joining the retirement income debate

In 2014, we also contributed to the retirement income debate currently underway in Ontario with our co-sponsorship of research on the impact of converting defined benefit pensions to defined contribution. As government and policy makers continue to work on ways to improve retirement security, it is important to have a strong fact-base to inform public policy decisions.

OPTrust will continue to become more active in this area, through regulatory submissions, consultations, research, and participation in the ongoing debate about the future of retirement in our province and our country. At a time when two-thirds of Ontarians are concerned about having enough money for retirement, it is our responsibility as good pension citizens to make our voice heard.

Sharing the OPTrust story

OPTrust has a great story to tell. Our members and retirees know first-hand that our jointly sponsored defined benefit pension model works well. They can retire confidently, knowing they are able to count on a predictable and reliable stream of pension income for as long as they live.

2014 was a year of strong investment returns, a 101% funding level, and high service satisfaction scores. And these results were delivered at a cost-effective 53 basis points. When compared to some of the other big public sector pension plans, OPTrust is the hidden gem of the Canadian pension industry. My goal is for OPTrust to be known simply as the gem of the Canadian pension industry.

As we celebrate our 20th anniversary year, we will continue to deliver on our legacy of excellence and begin to share our story and expertise more widely, because, now more than ever, pensions matter.

HUGH O'REILLY
President and CEO

Remained fully funded, while strengthening the Plan's long-term sustainability

Increased the Plan's deferred investment gains to $1.2 billion, which will **reduce the impact** of short-term market fluctuations as they are recognized over the next four years

Continued to strengthen the Plan's discount rate and mortality assumptions, supporting its **long-term funding** health

Pension Funding

OPTrust's mission is to deliver sustainable pension security for our more than 86,000 members and pensioners. Directly related to this mission is our funding strategy – designed to secure the Plan's long-term sustainability, provide stable lifetime pension benefits to members and their families during retirement, and maintain stable contribution rates for both members and employers over time.

Long-term sustainability

To deliver on our mission, while ensuring the Plan remains fully funded, OPTrust:

- Carefully manages members' and employers' contributions and the Plan's $17.5 billion in net assets
- Invests the pension fund assets to achieve a risk-adjusted rate of return for the long term, while managing exposure to investment risk
- Routinely reviews the actuarial assumptions used to calculate the Plan's long-term pension obligations, for example, taking into account that pensioners are living longer
- Provides information and advice to our sponsors on the Plan's funded status and outlook, contribution rates, benefit levels, the maintenance and use of any surplus, as well as options for ensuring the Plan's sustainability over the long term
- Takes an active role in the pension debate and makes submissions on regulatory issues that could affect the Plan
- Monitors a wide range of factors that can affect the Plan's funded status

2014 funding valuation

OPTrust engages independent actuaries to perform regular valuations of the Plan to ensure there are enough assets to meet the projected cost of members' and retirees' lifetime pensions. These valuations provide a snapshot of the Plan's 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 2014 funding valuation shows that the Plan remained fully funded as of December 31, 2014. The funding valuation also confirmed deferred (or "smoothed") investment gains of $1.2 billion, which will be recognized over the next four years, further supporting the Plan's funded status in years to come.

Consistent with our approach over the past few years, OPTrust's 2014 funding valuation strengthened the Plan's actuarial assumptions to further improve its long-term sustainability. Our continued adjustment to the Plan's mortality assumptions reflects both the Plan's experience and the most recent Canadian pensioner mortality study prepared by the Canadian Institute of Actuaries.

We will continue to monitor the Plan's experience carefully over the next few years to ensure that our mortality assumptions continue to be reasonable and appropriate.

The Board of Trustees also approved a number of economic assumptions including a reduction in the Plan's discount rate and inflation assumption.

The Plan's discount rate was lowered, in 2014, to 3.85%, net of inflation, down from 3.90%. This change, which reflects the expectation of lower long-term investment returns, will reduce the risk of future experience losses due to investment returns falling short of the expected cost of members' and retirees' future pensions.

The assumed inflation rate was lowered, in 2014, to 2.0% down from 2.25%. This change reflects the expectation of lower long-term inflation rates. This change also assumes a decrease of 25 basis points (0.25%) to all other economic assumptions dependent on inflation such as assumed salary increases.

The net effect of these assumption changes – which strengthen the Plan's long-term sustainability – was to increase fund liabilities by $624 million.

Sponsors' funding framework agreement

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

The Plan intends to file its 2014 funding valuation, showing that it is fully funded, with the regulator.

OPTrust's funding policy

Our Board of Trustees has established a comprehensive funding policy to help ensure that the Plan's assets are sufficient to meet its long-term pension obligations. This policy sets out three key funding goals:

Security of benefits: OPTrust's main goal is to provide members with a secure defined benefit pension in their retirement, based on their years of service and the Plan's pension formula. To achieve this, we must ensure that members' and employers' contributions, together with the Plan's expected investment returns, are sufficient to cover the projected costs of members' future pension benefits over the long term.

Stability of contributions: We aim to minimize the risk of significant changes in members' and employers' contribution rates. This is accomplished by setting contribution rates based on prudent assumptions about future investment returns and the growth of the Plan's pension obligations.

Fairness of funding among generations and other groups: Our framework aims to provide for stable contribution rates over each member's career and supports fairness, as does prudent and equitable distribution of any gains among different groups and generations of members. We must maintain adequate funding to avoid putting an undue burden on future generations. However, funding should not be managed so conservatively that large surpluses are transferred to future generations.

Tools to meet funding goals

Our funding policy provides for a range of tools and procedures to meet these objectives:

Actuarial assumptions: Because the Plan's obligations extend decades into the future, OPTrust uses actuarial assumptions to calculate its long-term funding requirements. These assumptions use judgement to estimate key economic and demographic factors such as the Plan's expected rate of return, future interest rates and the rate of inflation, changes in the Plan's active membership and retiree populations, members' salary rates and their expected retirement, termination and mortality rates.

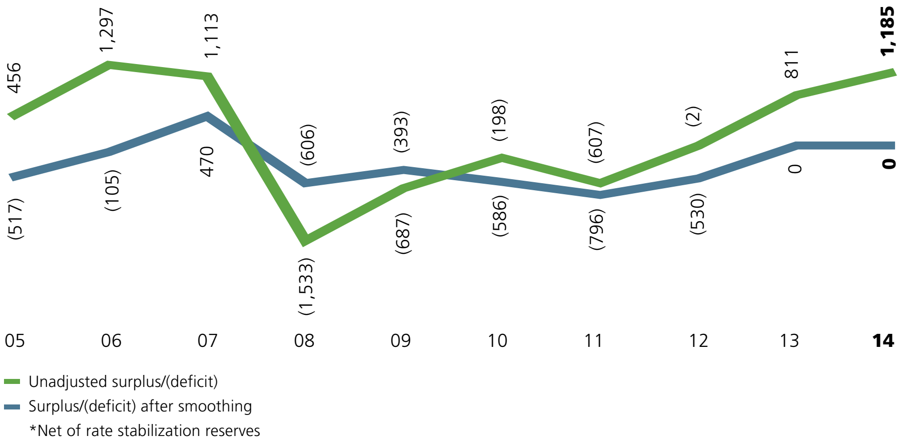
Margin of conservatism: To reduce the risk of funding shortfalls, we build a margin of conservatism into the investment return assumption used for funding purposes. The discount rate is set at least 25 basis points (0.25%) below the return the Fund is expected to achieve over time, based on our asset mix. Including an appropriate margin in the Plan's assumptions, increases the security of members' pension benefits.

Actuarial smoothing: While the Plan's investment strategy is intended to create returns that will meet or exceed the discount rate over time, actual investment returns will vary from year to year in response to changing market conditions. OPTrust uses an actuarial smoothing technique to recognize each year's investment gains or losses, relative to our discount rate, over a five-year period. This "actuarial asset value adjustment" reduces the short-term impact of volatile investment returns on the Plan's funded status and helps maintain relatively stable contribution rates.

Rate stabilization reserves: As plan sponsors, OPSEU and the Government of Ontario have prudently set aside a portion of past funding gains in separate member and employer rate stabilization reserves. The sponsors may use these reserves to limit the impact of future funding

Funding Surplus/(Deficit) and Smoothing*

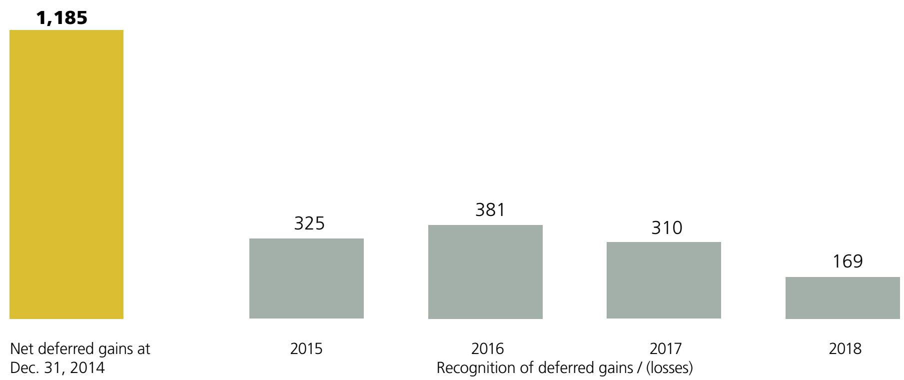
At December 31 ($ millions)



Actuarial smoothing reduces the impact of volatile investment returns on the Plan's funding valuations. At the end of 2014, OPTrust was fully funded and had deferred investment gains of $1.2 billion.

Recognition of Deferred Investment Gains/(Losses)

($ millions)



When OPTrust's annual investment return differs from the Plan's funding target, any gains or losses are recognized evenly over a five-year period. At the end of 2014, the Plan had net deferred gains of $1.2 billion, which had been set aside over 2011-2014. These deferred gains will further strengthen the Plan's funded position as they are recognized between 2015 and 2018.

losses on members' and employers' contribution rates and/or the value of members' future pension benefits. Any unallocated portion of these reserves can also be used to fund benefit improvements or reduce contribution rates, at each sponsors' discretion.

Funding valuations: By law, OPTrust is normally required to file a funding valuation with the provincial regulator at least once every three years. However, the funding valuation can be filed more frequently, at the Board's discretion. The decision whether to file a funding valuation is made by the Trustees, in consultation with staff, the Plan's actuaries and sponsors. Having the option to file a valuation earlier than required provides some flexibility for OPTrust in managing the impact of short-term changes in the Plan's funded status.

Funding outlook

The Plan's continued fully funded status in 2014 is the result of an ongoing strategy to improve its long-term sustainability and prudent decisions by the Plan's sponsors. The sponsors set aside past gains in rate stabilization reserves, which allowed the Plan to preserve stable benefit levels and mitigate the impact of the deficit incurred by the Plan in 2008. Since 2011, these reserves have exceeded the Plan's deficit giving the Plan an effective surplus; in 2013 the sponsors formally chose to use the reserves to eliminate the Plan's deficit outright, setting the stage for the Plan's current 101% funded position.

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

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

In 2014, some of these factors included the:

- Increase in members' life expectancy, increasing their retirement years and the Plan's long-term pension obligations
- 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
- 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 investment strategies to better match its assets with its liabilities
- The sponsors' 2013 agreement to amend the Plan to allow eligible groups of members whose jobs are affected by divestments from the Ontario Public Service to continue contributing to the Plan. The agreement also established a process for new employee groups in Ontario's broader public sector to join the Plan, subject to the approval of the Board of Trustees and the Ontario Ministry of Finance. These changes will help to stabilize the Plan's active membership over time.
- The increase in the Plan's deferred investment gains to $1.2 billion at the end of 2014, which should strengthen the Plan's funded status over the next four years as these gains are recognized.

In 2014, OPTrust 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 for its more than 86,000 members and retirees.

Sources of Gains and Losses

At December 31 ($ millions)	2014 VALUATION	2013 VALUATION
Recognized investment gains	521	459
Other economic gains	82	140
Demographic gains and (losses)	(36)	(77)
Changes in assumptions	(624)	(461)
Other gains and (losses)	57	(61)
Total	0	0

Funding Valuation Assumptions

At December 31	2014 VALUATION	2013 VALUATION
Inflation rate	2.00%	2.25%
Investment return (real)	3.85%	3.90%
Investment return (nominal)	5.85%	6.15%
Salary increases 2014 (nominal)[1]	N/A	1.00%
Salary increases after 2014 (nominal)[1]	2.75%	3.00%

1 Plus an amount for promotion, based on a long-term scale.

Sensitivity to Actuarial Assumption Changes[1]

($ millions)	+0.50%	-0.50%
Impact of change in inflation linked assumptions[2]	139	(142)
Impact of change in funding discount rate assumption[2]	1,507	(1,648)
Impact of change in assumed increase in pensionable earnings[1]	(407)	398

1 Assumes all economic assumptions dependent on inflation change as well.
2 Assumes all other assumptions remain unchanged.

Changes in the Plan's actuarial assumptions can have a major impact on the projected cost of members' pensions and the Plan's funded status. This table shows the impact (in millions of dollars) of a 0.5% change in certain key assumptions on the Plan's funded status.

2014 HIGHLIGHTS

Achieved an **investment return of 12%** net of external management fees in 2014, outperforming the Plan's 6.2% composite benchmark

Realized an **exceptional return in the infrastructure portfolio,** materially increasing the Plan's assets

Launched OPTrust's inaugural public Responsible Investing Report

Investment Strategy and Performance

Investing for the long term

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

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

In 2014, we expected the pension fund to achieve a real average annual return of 3.90% after inflation and investment expenses. Factoring in the Plan's 2.25% inflation assumption for 2014, our nominal long-term target return for funding purposes was 6.15% for the year.

Over OPTrust's 20 years of operation, the Plan's investment portfolio has realized an average annual return of 8.4%, net of internal and external investment expenses, exceeding our 7.1% average funding target return for the same period.

Total fund performance[1]

We also expect the Plan's investment results to vary from year to year as market conditions change. So, we compare OPTrust's total fund return to the performance of a composite "policy benchmark portfolio" designed to mirror the Plan's allocation to various asset classes.

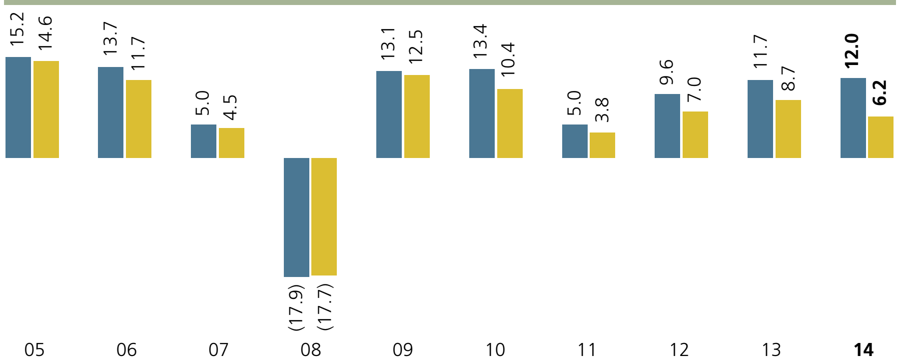
For most asset types, the benchmark portfolio is based on widely recognized indices; for alternative investments, the benchmark reflects a custom index or a proxy for the portfolio's expected long-term return. As a result, our composite benchmark return provides a useful point of reference for measuring the added value generated by OPTrust's active management of the Fund.

In 2014, OPTrust's investments achieved a 12% total fund return, net of external management fees, outperforming the 6.2% return for our composite benchmark portfolio.

The strong performance was the result of an exceptional return in the infrastructure portfolio and a solid year for the Plan's real estate portfolio and equity investments. OPTrust continues to benefit from its long-term diversification strategy, which again produced strong returns in our public equity, real estate, infrastructure, and private equity portfolios. These helped offset the steep decline in energy prices in the second half of 2014, which resulted in negative returns in the energy commodities portfolio.

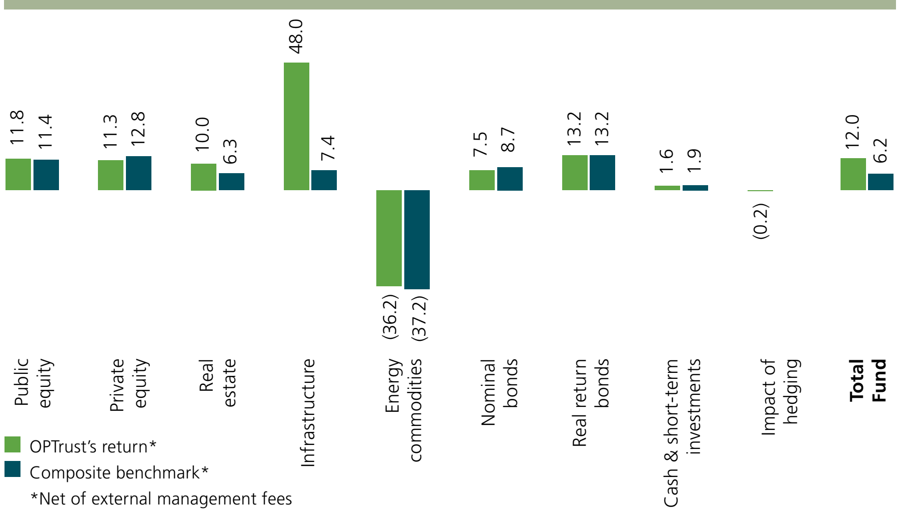
[1] See page 18 for a description of the method used in calculating OPTrust's investment returns.

Total Fund Returns vs. Benchmarks, 2005-2014
At December 31 (%)



In 2014, OPTrust achieved a strong investment return of 12% for the Total Fund, net of external investment management fees. This result exceeded the Plan's net composite benchmark return of 6.2% for the year.

Portfolio Returns vs. Benchmarks, 2014
At December 31 (%)



In 2014, diversification was critical to OPTrust's total fund return of 12%, net of external management fees. Over the year, an exceptional return in the Plan's infrastructure portfolio as well as solid returns for the Plan's real estate portfolio and equity investments helped offset a negative return in the energy commodities portfolio.

[1] See page 18 for a description of the method used in calculating OPTrust's investment returns.

Net investment income for 2014 was $1.8 billion, compared to $1.6 billion in 2013 when the Plan returned 11.7%, net of external management fees. The added value generated by active management of the Fund was 5.8% or $906 million in 2014.

2014 returns by portfolio[1]

Market overview

Global capital market returns were broadly positive in 2014, with the notable exception of energy. Key drivers included:

- **Divergent economic growth:** U.S. economic strength persisted in 2014, guiding global growth above 3%. The eurozone remained largely stagnant, while China continued to experience a structural economic shift that has reduced the pace of expansion to below 7%.
- **Accommodative monetary policy:** Global interest rates remained at historic lows. The U.S. Federal Reserve wound down its most recent quantitative easing program but kept its policy rate near zero. Central banks in Japan and the eurozone also maintained record monetary stimulus.
- **Low global inflation:** The absence of inflationary pressure allowed central banks to retain highly accommodative policy. The below-trend global economic recovery limited headline inflation in 2014, even before the precipitous decline in energy prices in the latter half of the year.
- **Oil price decline:** Oil prices fell by almost 50% in 2014, on the back of exceptional growth in U.S. oil production. Moderating Chinese demand and the decision by OPEC to maintain production quotas in the face of the decline also contributed to the sudden market correction.

Against this backdrop, global equity markets rose again in 2014, on the heels of a very strong performance in 2013.

The MSCI World Index (50% hedged) gained 12.4% in 2014, after posting a 32.4% gain in 2013. In Canada, oil price weakness weighed on the S&P/TSX but the index rebounded to close 10.6% higher in 2014.

Emerging market equity performance was mixed in 2014, as commodity-heavy indices such as Brazil and Russia declined. Overall, the MSCI Emerging Markets Index rose by 6.6%, with India a notable outperformer.

Nominal bonds also produced positive returns in 2014, reversing course after a difficult 2013. Yields declined in major markets, reflecting lower inflation expectations and accommodative monetary policy. As a result, the DEX Universe Index gained 8.8% in 2014, while DEX Universe Real Return Bonds Index returned 13.2%.

In 2014, our results were boosted by public equity performance, continued strong performance of our alternative portfolios and, in particular, exceptional performance in our infrastructure portfolio. OPTrust achieved a total fund return of 12%, net of external management fees, and exceeding our 6.2% benchmark return for the year.

Canadian equities

OPTrust's Canadian equity portfolio generated a net return of 10% in 2014, which slightly trailed the 10.5% return for the benchmark S&P/TSX Composite Index. The decline in energy prices produced a difficult environment for Canadian equity managers to navigate given the concentrated nature of the market. The Plan's Canadian equity managers continued to tilt their portfolios towards companies poised to take advantage of an improving outlook in the U.S., as well as a strong domestic financial industry.

Since the Plan's inception in 1995, the Canadian equity portfolio has achieved an average net annual return of 10.2%, outperforming its benchmark return of 8.6% over the same period.

Global equities

The Fund's global equity portfolio posted a strong net return of 12.7% in 2014, exceeding its benchmark return of 11.5%. The Plan's developed markets managers focused on less expensive regions of the developed markets such as Europe and Japan, while underweighting the more expensive U.S. market, which continued its run of outperformance versus other developed markets and the broad emerging markets.

Case Study:

Shopping Centre Development, Kapolei, Hawaii

In June 2014, OPTrust and DeBartolo Developments, a leading U.S. developer, formed a joint venture partnership to develop a 67 acre mixed-use development in Kapolei, Hawaii, which will include a 640,000 square foot, state-of-the-art open-air retail shopping centre anchored by Macy's and a 175 room hotel. Phase 1 construction began in March 2015, with a planned completion date in fall 2016.

Kapolei is a rapidly growing suburb of Honolulu, Hawaii's state capital and largest city, located approximately 40 kilometres west of downtown Honolulu. Kapolei is quickly becoming the second major urban centre on Oahu, Hawaii's most densely populated island. Much of Oahu's future population growth is projected to be in the Kapolei area. In addition, accessibility to Kapolei is being significantly improved by the construction of a U.S. $3.7 billion elevated rail line, connecting Kapolei to Honolulu, forecast to be completely operational by 2019. Kapolei has also received significant investments from the public and private sectors, including the construction of a new FBI headquarters, a new courthouse, the construction of a University of Hawaii campus and the planned construction of over 15,000 new single family homes.

The Real Estate Group's strategy in investing directly in development projects is to enhance the quality of OPTrust's real estate portfolio through selective development of high quality, new generation assets in locations with strong long-term underlying fundamentals. This investment was sourced directly by OPTrust through its existing network of relationships and will be managed internally.

Benchmarks Used to Measure Total Fund Performance

ASSET CLASS	BENCHMARKS
Canadian equity	S&P/TSX Composite Index
Global equity	Composite of MSCI World[1] and MSCI EMF Indices
Private equity	Custom Private Equity Benchmark[1]
Real estate	Custom IPD Index
Infrastructure	Consumer Price Index + 5.5%
Energy commodities	S&P/GSCI Enhanced Energy Index[1]
Nominal bonds	Nominal Bond Composite Benchmark
Real return bonds	OPTrust Real Return Bond Portfolio
Cash & short term investments	Cash Composite Benchmark

1 Benchmark returns for these indices incorporate a 50% currency hedge to reflect OPTrust's policy of passively hedging 50% of the Total Fund's exposure to developed market currencies.

Despite being underweight in the U.S., the Plan's managers were able to outperform the benchmark.

Emerging markets exposure lagged the developed markets as the economic conditions continued to improve relative to emerging markets. The developed markets continued to be aided by very accommodative monetary policy and the continued demand for higher yielding assets in more stable jurisdictions.

The S&P 500 earned 23.9% (in Canadian dollar terms) handily exceeding the S&P/TSX Composite Index return of 10.6% and MSCI EAFE Index return of 3.7% (in Canadian dollar terms). The MSCI Emerging Markets Index gained 6.6% for 2014. There was a real dichotomy within emerging markets as some countries such as India performed well, while on the other end of the spectrum other countries such as Brazil, China and Russia all experienced one or more challenges such as a slowdown in their economies, general weakness in their currencies, political uncertainties or economic sanctions.

Since 2008, our global equity holdings have produced an annual return of 12.8%, which is 2.5% above the 10.3% return for the portfolio benchmark.

Nominal and real return bonds

The Fund's allocation to fixed income assets provides a stable base of income to fund the Plan's pension obligations, liquidity needs and diversification.

OPTrust's fixed income investments include a core allocation to nominal bonds and a portfolio of Government of Canada real return bonds, which are linked to the Canadian rate of inflation. In addition, a satellite allocation was held in a variety of fixed income strategies designed to preserve capital in a rising interest rate environment as the economic environment was expected to improve.

SYLVIA HAMER
OPTRUST RETIREE
MINISTRY OF TRANSPORTATION

"I could not live without my pension. The added financial security it provides means I can focus on what I enjoy most in retirement from spending time with family and friends to volunteering and travelling. The insured benefits and inflation protection features provide an extra level of comfort, too."

In 2014, the Government of Canada Ten Year Bond Yield reversed last year's 1% increase with an approximate 1% decrease in yields. As a result of the declining interest rates, fixed income prices increased, which produced a 7.5% net return on the Plan's nominal bonds portfolio. This trailed the benchmark return of 8.7% as most of the Plan's fixed income managers had positioned the portfolio for rising, not falling rates.

The U.S. Federal Reserve and the Bank of Canada were on somewhat different paths in 2014. Given the severe downturn in the price of oil and the impact on the Canadian economy, the Bank of Canada has pursued a more accommodative path, resulting in a flat or declining interest rate policy. In the U.S., the Federal Reserve began its process of tightening monetary policy as economic growth continued to match or exceed expectations.

Since 2002, the nominal bonds portfolio has produced an average net annual return of 7.0%, slightly below its 7.1% benchmark return for the same period.

Energy commodities

In 2014, OPTrust's energy commodities portfolio delivered a net loss of -36.2% compared to the benchmark return of -37.2%. Positive results from the hedge funds program (which was initiated in 2014) helped soften the decline. During the year, oil prices declined as a result of decreased demand and an increase in supply, particularly in the U.S. The Organization of Petroleum Exporting Countries (OPEC) set aside decades of policy and pledged to maintain oil output despite the excess global supply. Energy markets were acutely impacted, as the price of WTI crude oil declined to $54 a barrel at year-end from over $100 at the end of 2013, and after peaking at about $106 a barrel in July.

Real estate

OPTrust's real estate program was initiated in 2004 to provide diversification to the Plan's overall investment program, preserve investment capital, generate attractive risk-adjusted returns, and provide a steady flow of current income and a hedge against inflation.

Over the past 11 years, OPTrust's Real Estate Group has grown the Plan's real estate portfolio to $2.4 billion at year-end 2014, an increase from $2.2 billion at year-end 2013. The real estate portfolio represented 13.6% of Plan assets at year-end 2014, just below the long-term allocation of 15%.

Our real estate strategy includes holding a variety of investments that provide diversity by property type, geography and investment style. Investments are sourced, underwritten, acquired and managed by our internal Real Estate Group.

Our Canadian real estate portfolio primarily consists of office, retail, industrial and multi-family residential investments that are owned directly by the Plan. OPTrust also invests in a number of international markets to access compelling investments and to enhance the diversification of the real estate portfolio. At year-end 2014, 41.9% of the Fund's real estate portfolio by market value was invested internationally.

In 2014, the real estate portfolio generated a strong net return of 10%, outperforming the real estate benchmark return of 6.3%. Since the launch of our internal real estate program in 2004, OPTrust's portfolio has achieved an average net annual return of 9.2%, outperforming the real estate benchmark return of 5.9%.

In 2014, the Real Estate Group committed to 15 new investments, including eight in Canada and seven in international markets, most notably six in the U.S. A common theme for the new real estate investments was to seek good relative value and the ability to grow income streams over time, as well as the opportunity to upgrade and modernize the existing real estate portfolio. At the same time, the Real Estate Group continued to rebalance OPTrust's existing portfolio to sell investments where business plans had been achieved and exit pricing was attractive.

Private markets

OPTrust's private markets program was launched in 2006 to build diversified private equity and infrastructure portfolios that will eventually account for 30% of the Plan's total assets (15% each). In 2014, these portfolios reached a combined market value of $3.3 billion at year-end, up from $3.1 billion in 2013. Infrastructure represented 11.7% of plan assets at year-end down from 14.5% at year-end 2013. Private equity represented 7.3% of plan assets, up from 4.9% at year-end 2013.

Fiscal 2014 was a productive year for the Private Markets Group, and in particular, the private equity portfolio, in which 12 new commitments were made to both fund and direct investments. The current portfolio, comprised of 54 investments, is well diversified across a base of parameters including investment strategy, geography, and vehicle. The infrastructure portfolio, comprised of 14 investments, is also well diversified across similar parameters including sub-asset class, geography, vehicle, and investment type.

The infrastructure portfolio performance was exceptional in 2014, generating a net return of 48%, which is above the infrastructure benchmark return of 7.4%. While this outstanding result was affected by the sale of our interests in

WEI XIE
INVESTMENT STRATEGIST
OPTRUST EMPLOYEE

"Over 86,000 members and retirees count on OPTrust for retirement security. We know how important it is to make the right decisions about where to invest and without undue risk. The Global Investment Strategy Group helps to determine how much exposure we have to different asset classes and geographies and assess new investment areas for OPTrust."

Porterbrook Leasing Company Limited (see separate case study), the remainder of the portfolio continued to perform strongly as well. Since the portfolio's inception in 2006, OPTrust's infrastructure investments have generated an average net annual return of 18.9% compared to 6.8% for the portfolio benchmark.

Private equity holdings generated a net return of 11.3% for the year behind the benchmark return of 12.8%. Since its inception in 2007, the portfolio has generated an average annual return of 4.9% compared to 5.1% for the portfolio benchmark. As the portfolio matures, it is expected to exceed relevant benchmarks.

Calculating investment returns

OPTrust uses a time-weighted return (TWR) methodology to calculate returns for the total fund and asset class portfolios.

OPTrust's total fund returns reflect our policy of passively hedging 50% of the Fund's exposure to developed market currencies at the total fund level. At the portfolio level, returns are reported on the basis on which each is managed. As a result, returns for our public market assets are reported on an unhedged basis. Returns reported for our real estate, infrastructure and private equity portfolios reflect 100% hedging of their foreign currency exposure.

All returns for 2014 are reported net of external investment management fees.

Responsible investing

Responsible investing (RI) is an approach to investing that acknowledges the relevance of environmental, social, and governance (ESG) factors to investment performance.

For OPTrust, the purpose of RI lies in the recognition that ESG factors can create both investment risks and opportunities. We seek to identify, assess and manage ESG factors in a manner that supports our mission to deliver sustainable pension security and our fiduciary duty to our members. OPTrust also recognizes and monitors the potential reputational risk that may arise due to ESG issues.

This approach is aligned with the United Nations-supported Principles for Responsible Investment (PRI), to which the Fund is a signatory.

In 2014, OPTrust launched its inaugural public *Responsible Investing Report*. The report outlines the key pillars of OPTrust's RI approach; RI governance, ESG integration, active ownership and stakeholder engagement. OPTrust's commitment to excellence in responsible investment reporting was recognized in 2014 with a global RI Reporting Award nomination. A summary of the 2014 report is included below; for further detail, please visit our website at optrust.com.

RI governance

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), and *Proxy Voting Guidelines*.

The SRIP outlines the key principles our investment teams consider when making investment decisions. While the application of the SRIP varies among our investment teams, the process used for making decisions for both internally- and externally-managed assets incorporates the principles.

The Chief Investment Officer is responsible for ensuring that OPTrust adheres to the SRIP and approves the RI strategy and activities. The responsibility for executing the SRIP lies with the investment teams.

ESG integration

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.

Each asset class has diverse characteristics, opportunities and risks, which are managed in a variety of ways by OPTrust.

Public Markets

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

The investment team considers ESG factors in the external manager search, selection and monitoring process. We expect our external managers to demonstrate how ESG is considered in their investment process. Our external managers are generally required to adhere to the SRIP; a commitment which is mandated in their investment contracts.

Private Markets

The Private Markets Group 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 our reporting expectations. Activities can also include background checks, legal

Case Study:

Porterbrook Leasing Company, United Kingdom

In January 2009, the OPTrust's Private Markets Group invested in Porterbrook Leasing Company Limited (Porterbrook), one of three leading rolling stock companies in the U.K. Porterbrook owns a substantial portfolio of rail passenger and freight vehicles which it leases to U.K. rail operating companies. OPTrust invested in Porterbrook alongside a number of partners including iCON Infrastructure and Antin Infrastructure Partners. The transaction took place during an extremely challenging macroeconomic period in the U.K. which resulted in a complex acquisition.

The Private Markets Group worked alongside the other shareholders and the management team in the business to de-risk and grow Porterbrook with a number of initiatives including accessing the debt markets to gradually lengthen the tenor of financing, investing substantial amounts to increase the remaining life of existing assets and investing in new rolling stock assets.

In 2014, the Private Markets Group made the decision to pursue an exit in the investment alongside our partners, as part of a competitive auction process. The sale process was successful and the business was sold in late 2014.

and environmental due diligence, labour and human rights research, and site visits.

Real Estate

The Real Estate Group has integrated ESG matters in its investment underwriting, portfolio management and reporting processes. The group's comprehensive due diligence questionnaire includes ESG issues and a standard SRIP clause is included in all investment summaries for new investment.

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 (e.g., rooftop solar panels). Where possible, we have achieved independent third-party certification for environmental stewardship and energy efficiency.

Please see the RI Report on our website for more specific details on integration within each asset class.

As OPTrust further develops its risk management function, we are working to ensure that appropriate RI considerations are included. In 2014, OPTrust incorporated RI into its Enterprise Risk Management program.

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 address particular ESG issues and to generally improve their ESG performance, monitoring, and 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.

OPTrust is committed to active ownership of the Fund's assets through our corporate engagement strategy. During 2014, we partnered with other investors to engage directly with corporations that we have invested in to address specific ESG issues. OPTrust has made a commitment to expand our engagement activities in 2015.

OPTrust works with leading organizations that seek to promote sound corporate governance, shareholder rights and RI in Canada and around the world. The Canadian Coalition for Good Governance (CCGG) and the Pension Investment Association of Canada (PIAC), for example, provide OPTrust and our peers with a forum for coordinating engagement with companies and regulators on a range of governance and responsible investment issues.

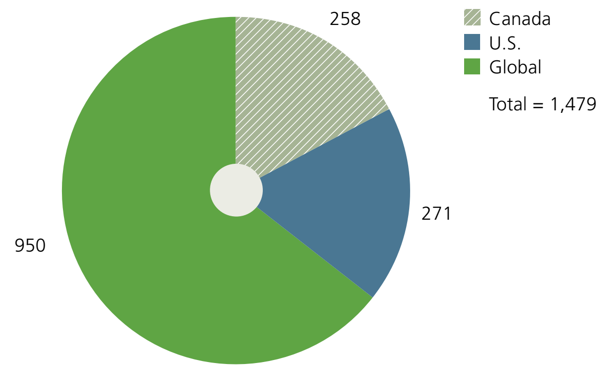
Proxy voting

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.

Proxy voting is conducted in-house, with the support of a proxy voting advisor, to vote at all of OPTrust's publicly-listed investee companies. Votes are executed according to OPTrust's *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 to December 31, 2014, we voted on more than 25,000 proposals at 1,479 company meetings.

OPTrust believes in transparency about our voting activities and we publicly disclose our vote record on our website.

Shareholder Meetings Voted by OPTrust, 2014



In 2014, OPTrust voted at 1,479 shareholder meetings, voting against management 11% of the time.

2014 HIGHLIGHTS

Implemented a fully operational **enterprise risk management** program led by the Chief Risk Officer

Established the foundations of a strong **asset-liability management process** focusing on integrated asset and liability decisions

Established a **Liquidity Risk Management Committee** to monitor and dynamically manage Total Fund liquidity

Managing Risk

Risk is inherent in any business. In some cases, OPTrust must take a degree of risk to achieve its long-term objectives. Understanding, mitigating and effectively managing the risks faced by the Plan is key to ensuring its long-term sustainability and the focus of our risk management operations.

Asset liability management

The objective of our asset liability management (ALM) framework is to support OPTrust's mission by informing and providing transparency into both investment strategy and Plan design recommendations. This ensures that all investment strategy and Plan design recommendations balance tradeoffs in short-term funding requirements with long-term Plan sustainability, and that they give due consideration to macroeconomic, regulatory, and political factors as well as to sponsor and member considerations. In 2014 a formal process was developed with the set up of an Asset Liability Committee which created a robust discussion forum for making integrated decisions.

As part of our ALM framework, we regularly conduct asset/liability studies with the last study completed in 2012. The long-term strategic asset mix resulting from these studies reflects the optimal mix to meet our long-term funding and sustainability needs. The strategic asset mix is not only our starting point for defining an investment strategy, it also informs our risk management framework. It establishes our risk tolerance for the overall level of risk in the Total Fund and our intended exposures to different sources of risk, such as equity, inflation and interest rates.

More information about the liability assumptions and our funding approach is further discussed in the Pension Funding section on page 8.

Enterprise risk management framework

In 2013, based on a best-practice risk governance model, OPTrust established the foundation for a comprehensive enterprise risk management (ERM) program under the leadership of the Chief Risk Officer (CRO). ERM supports sustainable performance, through the efficient identification, assessment, and management of OPTrust's material risks.

The ERM program was fully developed and established in 2014, including introducing requirements for best-practice risk governance.

The Enterprise Risk Management Committee (ERMC), which is chaired by the CRO and made up of OPTrust's executive team and relevant risk professionals, became fully operational in 2014. The organization's top enterprise risks were determined through an integrated and comprehensive assessment approach involving all business groups in the organization. The ERMC provided oversight and leadership to the identification of the top risks and monitored the implementation of additional controls and mitigating strategies.

BRIAN HAWRYSH
OPTRUST EMPLOYEE
MANAGER
MEMBER SERVICES DATA MANAGEMENT

"Accurate data is vital so that members can rely on the information provided by Member Services. It's also an important part of ensuring that the Plan makes informed decisions when analyzing and projecting our liability. As part of our ongoing Centre of Excellence project, we have worked diligently to investigate historical data to prepare OPTrust for a new era of data management."

An enterprise-wide Risk Appetite Statement, providing a set of overarching principles which guide management in its approach to assessing, understanding and taking risks was approved by the Board in 2014. These principles are operationalized through various board and management policies which further articulate the necessary actions to ensure adherence to the Risk Appetite Statement.

The board also approved the ERM policy providing the risk management framework used to identify and manage the material enterprise risks on an integrated basis. The policy details the ERM framework and process, as well as the methodology used to assess the impact of risks. The major risk classifications that reflect OPTrust's risk profile are: governance risk, strategic risk, investment risk, operational risk, legal and regulatory risk, and reputational risk.

OPTrust's enterprise risks and emerging risks, and any additional related mitigating strategies, are monitored on an ongoing basis by the ERM function and reported to the ERMC and Board of Trustees on a quarterly basis.

The ERM function collaborates with business units across the organization to implement risk management processes and promote cultural change to improve awareness, understanding, and mitigation of the risks that OPTrust takes.

Managing investment risk

Investing the Plan's assets to achieve the return needed to fund members' lifetime pensions necessarily involves assuming a level of investment risk. Without taking measured and appropriate investment risks, the volatility of the cost of the Plan's benefits could increase, jeopardizing the sustainability of the Plan.

OPTrust's investment risk management efforts focus on both absolute risk and active risk. Our risk tolerance and expectations are set in discussion with OPTrust's Board and through the review and approval of changes to the Plan's overall asset mix.

Diversification continues to be critical to our investment strategy, both with respect to the mix of assets we invest in and the range of risk factors to which the Fund is exposed. We have made significant progress in the last several years towards balancing sources of absolute risk across the Fund, increasing our exposure to real estate, infrastructure and private equity as well as investing in more active strategies in equities and fixed income. Nevertheless, equities remain the single largest source of investment risk in the portfolio, contributing 74% of the Fund's overall risk.

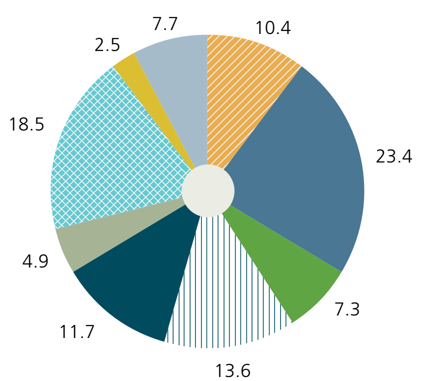
In addition, we manage the risk resulting from active management of the Fund's assets – or "active risk" – on an ongoing basis against a limit defined in our *Investment Risk Policy*. This limit is an expression of the risk tolerance of the Board of Trustees, relative to the policy benchmark. Our active risk limit is high enough to permit flexibility to achieve our value-added return targets, but not so large as to put the Total Fund at risk of significantly underperforming its benchmark.

In 2014, we moved forward on strategic initiatives to increase insight into our Total Fund investment risks. These initiatives ensure that we provide the support and investment risk reporting necessary to manage OPTrust's investment-related risks.

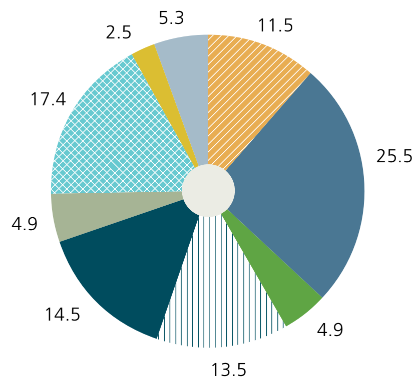
Liquidity risk is monitored and managed on a dynamic basis by an internal Liquidity Risk Management Committee (LRMC), which was established in 2014. This monitoring includes metrics and scenarios to ensure OPTrust can meet all cash payments under different events and market conditions. Our ongoing analysis shows that OPTrust has a very strong liquidity position.

Asset Mix

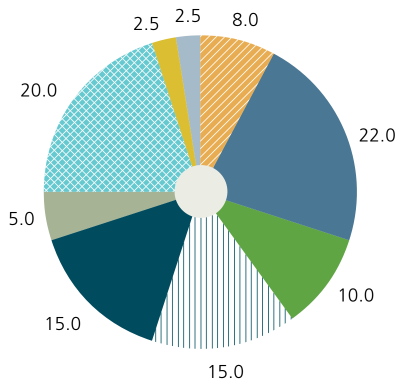
At December 31



2014 Actual[1] (%)



2013 Actual[1] (%)



Long-Term Target[2] (%)

Canadian equities
Global equities
Private equity
Total equity: 41.1%

Real estate
Infrastructure
Energy commodities
Total real assets: 30.2%

Nominal bonds
Real return bonds
Cash and short-term investments
Total fixed income: 28.7%

[1] Categories include temporary cash balances.

[2] In 2012, the Board approved a three- to five-year target weighting of 10% for our growing private equity portfolio, while maintaining the long-term objective of 15%.

OPTrust's asset mix policy, which defines the asset classes we invest in and their respective allocations, reflects our funding obligation. In 2014, OPTrust continued to improve the diversification of the Plan's asset mix to reduce investment risk and volatility at the total fund level, while strengthening OPTrust's ability to meet the Plan's target return under a range of scenarios.

2014 HIGHLIGHTS

Earned our **strongest overall satisfaction rating** to date – **8.9 out of 10** – from our members and retirees with 51% giving us a rating of **10 out of 10**

Held **80 Direct Contact sessions** across the province (and online) which earned an overall satisfaction rating of **92%** from the more than **3,300** in attendance. More than **500** members also participated in **special sessions** for past divestment transfers

Reviewed over 90% of historical member data to improve accuracy resulting in faster service times

Membership Services

At OPTrust, providing excellent service is at the heart of everything we do. It is a key component of our mission to deliver retirement security for our more than 86,000 members and retirees. We know that providing our membership with proactive, efficient service and information helps them understand the value of their OPTrust pension and make informed decisions about their retirement options. We take pride in what we do and are unwavering in our commitment to delivering exceptional customer service at all times.

Service excellence

Providing a consistently high level of service and communication is important to all of us at OPTrust. Whether we are answering questions over the phone or developing new online resources, our staff is always looking for ways to help our membership make informed decisions about their pension benefits.

Since we began surveying our membership in 2002, our client satisfaction results have continued to improve year over year. Our results in 2014 were no exception. In fact, in 2014, we received the highest overall client satisfaction score to date from our membership.

Our Centre of Excellence Project continued in 2014. Its goal is to improve the timeliness, range and quality of our services while remaining cost-efficient. As part of this project, we undertook several improvement initiatives in 2014.

The following are a few examples:

- **Data clean-up project:** Member Services staff worked to investigate more than 90% of historical member data records. When necessary, staff worked directly with employers to correct any inaccuracies. This process confirmed that the historical service, salary and pension contribution information received from employers is accurate. With this extensive data review well underway, OPTrust is now positioning itself for a new era of data management in which data is proactively audited and ready before a member transaction occurs. As a result, transactions can be processed more quickly and with fewer complications. We anticipate full migration to the new model in a few years as systems are also being assessed.
- **Enhanced proactive communications outreach:** We distributed two new personalized communications to help members nearing retirement understand their pension options and to help ensure their beneficiaries and other personal data is up-to-date well before their retirement deadline.
- **Extended telephone service hours:** We also continued testing our new extended telephone service hours throughout the year. OPTrust Member Services staff are available until 6 p.m. from Monday to Thursday.

Our staff also prepared detailed communications, personalized statements and transfer election forms for 2,800 members in response to new rules under the *Pension Benefits Act*. Member Services staff worked to answer questions about these changes related to past divestments and processed transfers as required during 2014.

Measuring performance

OPTrust offers a number of different service options to meet the needs of our diverse membership. For some members, the telephone is the best way to communicate with us, while others prefer the convenience of accessing their pension information securely online.

Given the variety of ways that we interact with members, we measure our performance against key targets to ensure that the level of service we are providing is consistent across the board. In 2014:

- We completed **39,884 member transactions** with our on-time case completion rate remaining steady at 88% slightly below the 90% target we set for 2014.
- Our staff answered more than **52,000 calls** from our membership – up from the 47,000 calls we answered in 2013.
  - The average response time for each call to our Member Services line was 11.7 seconds, well below our 15-second target.
- Members continued to respond positively to our secure ***Online Services*** website.
  - The total number of registered users increased to 40,463 from 37,977 in 2013.
  - The number of online transactions increased to 16,133 from 15,087 in 2013.
  - The use of the online pension estimator tool more than doubled in 2014 with 38,081 estimates generated up from 16,735 in 2013.

Gathering feedback

Feedback from our members and retirees is one of the most important indicators of how well we are serving our membership. This valuable input is used to measure the quality of our service and to help determine the areas where we can improve.

We administer four types of surveys to take feedback from our members and retirees throughout the year. These include:

- A regular **transaction survey** which measures satisfaction with the service received from OPTrust's Member Services' representatives. The survey is administered to a random selection of members and retirees by e-mail two weeks after they complete a transaction with us.

MARIA DELARA
OPTRUST MEMBER
ENFORCEMENT SERVICES OFFICER
MINISTRY OF COMMUNITY AND SOCIAL SERVICES

"I love my job. You hear a lot of stories about what people are going through and it's important to find the right solution. I always say to my clients, have you done right from your child's perspective? The pension plan is a great idea. It's an invaluable reward that I look forward to after my career ends."

- A monthly **pensioner survey** which asks retirees to rate OPTrust's services. This survey is administered by phone to retirees who have called Member Services during that month.
- A monthly **general satisfaction survey** which measures the value of the pension plan and the overall perception of members' experiences with OPTrust. It also provides an opportunity for input on our communications and an option for general comments. This survey is emailed to randomly selected members who have not received an OPTrust survey in the past 18 months.
- A regular **web survey** which tests satisfaction with the overall experience on our secure website and gathers input for future online tools and resources. This survey is administered throughout the year when members log out of the secure site.

A composite of scores from the first three surveys forms our overall service satisfaction rating. In 2014, overall satisfaction was rated 8.9 out of 10, surpassing our 8.7 out of 10 target for the year. Results indicate that OPTrust members and retirees continue to be very pleased with the service they receive.

Making the pension experience simple and easy

Every year, more and more of our members and retirees are looking to get information about their pension options online. OPTrust makes a number of different online service and communication tools available to those who prefer using the Internet to access information.

- Our website – **optrust.com** – is the main hub for information about the OPSEU Pension Plan. We regularly refresh the content with news about the Plan, updates on our investments and publications designed to help members, retirees and employers learn more.
- Our password-protected ***Online Services*** site allows users to communicate with OPTrust staff using encrypted web-based messaging and process a variety of different types of pension transactions in a secure environment. Registered users can also get future pension estimates using our estimator tool and set their preferences to have OPTrust newsletters, personalized pension statements and other communications delivered to their e-mail inbox.

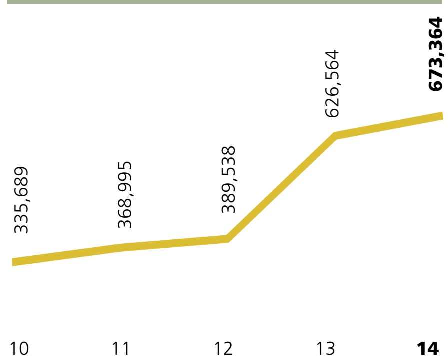
The number of our members and pensioners who are using our online resources to access information about their benefits continues to rise.

In 2014:

- The total number of registered users for the *Online Services* site exceeded 40,000 – almost doubling the number of those registered five years ago.
- The number of online service transaction rose again to more than 16,000 accounting for approximately 28% of transactions overall.
- The number of estimates generated using OPTrust's pension estimator rose to 38,081 – 127% more than in 2013.
- Over 60,000 statements were viewed and printed from the secure *Online Services* site.

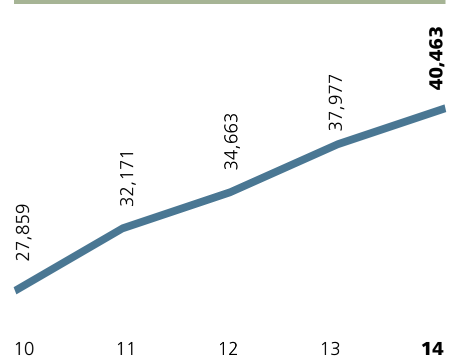
In 2014, we continued to expand the types of information available to our members and retirees online. Several new informational videos were created to address some of the frequently asked questions received by our Member Services staff. These videos are available on our website and are also posted on OPTrust's YouTube channel where they can be easily shared with others. The number of visits to our website continued to rise steadily with more than 673,000 visits in 2014.

Website Visits
At December 31



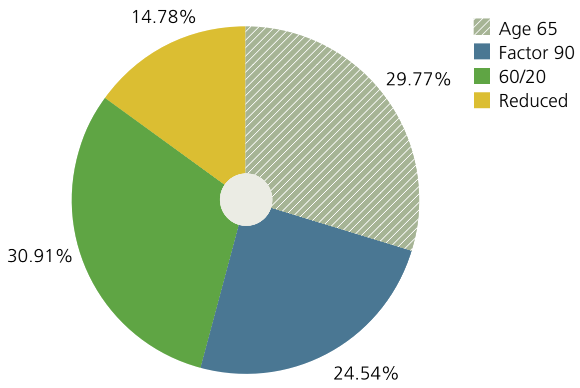
In 2014, we continued to expand the types of information available on our website. Detailed communications were prepared to explain new rules in the *Pension Benefits Act* and several new informational videos were created to address some of the frequently asked questions received by our Member Services staff.

Online Services Registrations
At December 31



Each year, more members and retirees opt for the convenience and security of OPTrust's *Online Services* site. In 2014, the number of registered users increased by 6.5% to 40,463, while online transactions rose by 6.9% to 16,133.

2014 Retirement Snapshot



In 2014, over 1,900 OPTrust members retired under one of the following options bringing the total number of pensioners to 31,946 by year-end:

Age 65: The normal retirement age under the Plan

Factor 90: Age plus years of pension service total at least 90

60/20: Age 60 or older plus at least 20 years of pension service

Reduced: Available starting at age 55 to members who do not qualify for an unreduced pension

Note: Chart does not include deferred, disability or survivor pensions.

Planning ahead: proactive communications

In addition to all of the communication tools and resources available to our members and retirees, OPTrust also creates and distributes personalized and timely information at various points in our members' lives and careers.

In 2014, we introduced two new personalized communications for members nearing retirement – a survivor pension benefit statement and a birthday greeting email. The survivor pension benefit statement, which is mailed approximately two years before retirement, provides members with their options for increasing survivor pension benefits. It includes a personalized table outlining the four percentage options available, the corresponding adjustment to the member's pension and the specific pension amount a survivor would be eligible to receive under each scenario. We have also begun sending a birthday greeting email to members who are three years from their earliest possible retirement date. This greeting is designed to help members ensure that the personal data OPTrust has on file for them is up-to-date before retirement.

In addition to these new communications, we also:

- Mailed information packages to more than 1,400 retirees nearing age 65 about age-related changes to their monthly OPTrust pensions.
- Mailed over 1,400 quotes to eligible new members to remind them of the costs and deadlines to buy back service.
- Sent over 3,500 notices to let fixed term, contract and casual employees know about their option to join the Plan.
- Hosted 80 Direct Contact pension seminars in person and online, reaching about 3,300 members and/or their family members.
- Sent more than 166,000 special purpose e-mail notices, updates and newsletters to members and retirees.

Membership changes

The OPSEU Pension Plan's total membership increased to 86,213 in 2014, up from 84,468 in 2013. In 2014, the number of OPTrust pensioners continued its steady growth. The number of active members increased marginally for the first time in five years.

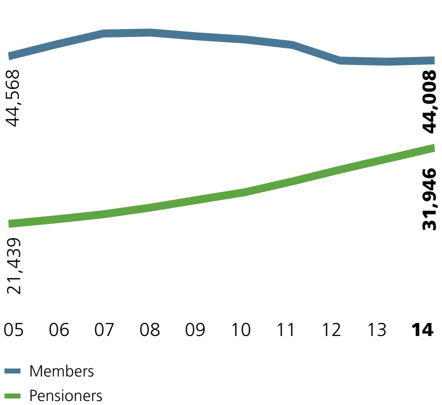
At the end of 2014, the Plan had 44,008 active members, up from 43,827 at the end of 2013. Over the year, we welcomed 4,170 new members, including 2,002 fixed term or temporary employees, for whom participation is optional. At the same time, 3,989 members retired or left the Plan.

There was a net increase of 1,520 OPTrust pensioners in 2014, bringing the total number of pensioners to 31,946 at year-end. Eighty-five percent of retirements processed in 2014 were for an unreduced pension, with 55% retiring under one of the Plan's early retirement options and 30% retiring at age 65 or older. The average age of our overall pensioner population increased slightly to 69.8 years, up from 69.3 years in 2013.

Despite the slight increase in the number of active members in 2014, the ratio of active members to pensioners remained steady at 1.4:1, reflecting the continued growth of our pensioner population.

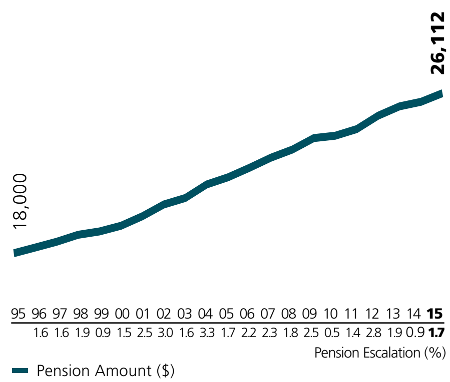
As part of our strategic approach to managing the Plan's funding, OPTrust tracks changes in the Plan's active membership and our pensioner population, and models the potential impact on the Plan's pension liabilities.

OPTrust's Active Members and Pensioners
At December 31



In 2014, OPTrust's active membership increased marginally to 44,008 up by 181 from the previous year, while the number of pensioners increased by 1,520 (after adjusting for deceased retirees), to 31,946 at year-end.

Inflation Protection for Pensioners
At December 31



OPTrust pensions are adjusted annually for inflation to protect retirees' purchasing power. In January 2015, payments to pensioners rose by 1.7%, reflecting changes in Canada's Consumer Price Index. A retired member who received a typical annual pension of $18,000 in 1995 will receive **$26,112** in 2015.

*Pension figures in graph are not adjusted for CPP integration at age 65.

Membership Statistics

At December 31	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
Active members	**44,008**	43,827	43,981	46,134	46,893	47,316	47,850	47,717	46,208	44,568
Female/male ratio	**60:40**	61:39	60:40	59:41	60:40	60:40	60:40	60:40	60:40	60:40
Average age	**46.3**	46.5	46.4	46.0	45.9	45.7	45.3	45.1	44.9	44.7
Average salary	**$ 62,417**	$ 62,391	$ 61,791	$ 60,567	$ 58,958	$ 57,235	$ 55,671	$ 53,646	$ 52,072	$ 50,764
Average years of credit in the Plan	**12.5**	12.7	12.9	12.6	12.0	11.9	11.7	11.5	11.6	11.6
Number of new members enrolled	**4,170**	3,453	2,225	2,398	2,595	2,825	3,682	3,802	4,373	3,400
Number of members terminated or retiring	**3,989**	3,607	4,274	3,124	3,018	3,378	3,549	3,290	3,365	3,168
Former members with entitlements in the Plan*	**1,735**	1,471	1,882	1,405	1,434	1,278	1,782	1,375	608	1,240
Deferred pensioners**	**8,524**	8,744	8,966	8,850	8,924	8,990	8,806	8,741	8,703	8,422
Current pensioners	**31,946**	30,426	28,916	27,308	25,813	24,758	23,686	22,756	22,058	21,439
Average age	**69.8**	69.3	69.2	68.6	67.9	67.4	66.8	65.9	65.3	64.5
Average annual pension	**$ 20,519**	$ 20,351	$ 20,005	$ 19,467	$ 19,285	$ 19,278	$ 18,976	$ 18,838	$ 18,697	$ 18,642
Current pensioners by type of pension										
Normal and early unreduced	**24,582**	23,504	22,243	21,096	19,937	19,274	18,600	18,006	17,638	17,318
Reduced	**4,086**	3,852	3,761	3,507	3,349	3,178	2,970	2,811	2,656	2,528
Eligible survivors	**3,172**	2,965	2,800	2,599	2,429	2,214	2,031	1,862	1,691	1,541
Disability	**106**	105	112	106	98	92	85	77	73	52
Total members and pensioners	**86,213**	84,468	83,745	83,697	83,064	82,342	82,124	80,589	77,577	75,669

* "Former members with entitlements in the Plan" includes members whose termination or divestment was unprocessed at year-end.
** "Deferred pensioners" includes former members whose termination or divestment has been processed and who continue to have entitlements in the Plan.

2014 HIGHLIGHTS

Appointed Hugh O'Reilly as **OPTrust's President and CEO** to lead the organization and continue the implementation of its long-term strategic initiatives

Approved and monitored a variety of **internal audit projects** under the newly established internal audit process

Incorporated **risk management principles** into all Board sub-committee mandates

Plan Governance

OPTrust was established in 1995 to give members a voice in key decisions affecting their pensions through a joint sponsorship model that recognizes the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario as equal sponsors of the Plan. The Plan's governance model clearly sets out the roles and responsibilities of the Plan's sponsors, its Board of Trustees, OPTrust's Chief Executive Officer and its management and staff to ensure OPTrust's ability to deliver retirement security to its more than 86,000 members, pensioners, and their dependants.

OPTrust's governance structure

In their role as the Plan's sponsors, OPSEU and the Government of Ontario each appoint five Trustees to OPTrust's 10-member Board. The sponsors are also responsible for changes to the Plan's design, the benefits the Plan provides and the contribution rates paid by members and employers.

Within this joint sponsorship and governance structure, OPSEU and the provincial government share equally in the financial risks and rewards of the Plan. When a surplus is identified in a funding valuation filed with the provincial regulator, it is divided equally between the sponsors. Each sponsor may set aside their share of any surplus in separate reserves to stabilize member and employer contribution rates in the event of future losses, or use their share of the surplus to pay down any previous deficit, enhance benefits or reduce contributions.

Conversely, if the Plan experiences a funding deficit, the difference must be made up through an increase in member and employer contribution rates, a reduction in the benefits members earn on their future service, or the use of existing stabilization reserves, at the sponsors' discretion. In November 2012, OPTrust's sponsors established a five-year funding framework agreement that caps member and employer contribution rates until December 30, 2017. Any shortfall identified in a funding valuation filed during the freeze period will be addressed by reducing the pension benefits members earn for future service, subject to certain limits. The agreement also establishes minimum funding levels that must be maintained as a condition of any plan benefit improvements during the freeze period.

Board of Trustees

Once appointed, the Trustees of the OPSEU Pension Plan collectively monitor all aspects of the Plan's operations. All Trustees have the fiduciary obligation to execute their responsibilities independently of the sponsors and OPTrust management, on behalf of the Plan's membership. One Government appointee and one OPSEU appointee fill the positions of Chair and Vice-Chair, with the roles alternating between Government and OPSEU appointees every two years.

SANDRA MCINTOSH
OPTRUST MEMBER
OFFICE COORDINATOR
ONTARIO SCIENCE CENTRE

"I'm an 18-year cancer survivor, and I know the best is yet to come. I plan to spend my retirement with my husband on a horse farm just outside of Toronto. My mom is an OPTrust pensioner and I'm very confident that my pension will provide my husband and me with the same security her pension has given her."

The Board of Trustees' responsibilities include:

- Monitoring and approving OPTrust's strategic plan
- Approving OPTrust's investment policies and monitoring the investment portfolio's performance to ensure that long-term investment returns will be sufficient to pay members' and pensioners' benefits
- Ensuring that the Plan's pension liabilities are properly valued and that funds are available to pay for members' and retirees' pensions over their lifetimes
- Reviewing reports from OPTrust's independent auditors and verifying that the Plan's financial statements accurately reflect its financial position
- Monitoring the Plan's administration to ensure that members and pensioners receive the benefits to which they are entitled, along with timely and effective information and services
- Reviewing and approving OPTrust's annual operating budget
- Monitoring the organization's risk mitigation practices

The Trustees monitor OPTrust's performance in each of these areas and ensure compliance with Board policies and objectives through the Chief Executive Officer (CEO) to whom they have delegated responsibility for OPTrust's day-to-day operations.

Standing committees of the Board

The Trustees have established five standing committees reporting to the Board:

The **Audit, Finance and Risk Committee** monitors OPTrust's expenditure management, financial reporting, tax compliance, enterprise risk management, internal and external audit, custodial functions, insurance, and information technology. The committee requires that OPTrust's financial statements are complete and objective, reviews the Plan's accounting and financial policies.

The **Governance and Administration Committee** monitors and makes recommendations on board governance, administrative policies and the preparation of actuarial valuations. The committee also monitors the legislative and regulatory environment, considers recommendations for Plan Text changes, and monitors the Trust's advocacy program.

The **Human Resources and Compensation Committee** is responsible for monitoring of the organizational structure; performance and compensation of the Chief Executive Officer; succession planning and total compensation philosophy, principles and parameters.

The **Investment Committee** monitors the performance of the OPSEU Pension Trust Fund and its investment professionals and external managers, and reviews their compliance with OPTrust's investment policies and related legal and regulatory requirements. It also considers and approves changes to the Plan's investment and risk policies, strategic asset mix, and performance benchmarks.

The **Adjudication Panel** gives plan members and pensioners access to a review process in the event of disputes concerning OPTrust's decisions on eligibility, benefit entitlements or other pension-related rights under the OPSEU Pension Plan.

Strategic governance model

As part of their fiduciary responsibility to represent the interests of members and pensioners, the Board of Trustees' main role is to provide strategic direction to OPTrust on how to manage Plan assets and administer Plan benefits.

In 2014, working with our staff and our advisors, we created a rigorous process for the evaluation of our effectiveness as a Board and as Trustees and conducted that evaluation for the first time. To enhance our ability to meet our fiduciary duties, the Board has agreed to a set of guidelines to assist the sponsors in selecting Trustees who can complement the work of the Board. In addition, we created terms of reference for the roles of the Board Chair and Vice-Chair.

Chief Executive Officer

As part of OPTrust's strategic governance model, the Board delegates broad authorities to the President and Chief Executive Officer (CEO). Leaving the day-to-day operations of the Plan in the hands of the CEO allows the Trustees to focus on strategic and policy matters that are critical to the long-term functioning of the Plan. The Board also monitors performance of the CEO and his or her leadership of the organization to ensure that OPTrust is able to deliver on its mission to provide sustainable, long-term pension security to its more than 86,000 members and pensioners.

In 2014, the Board appointed Hugh O'Reilly as OPTrust's CEO. Mr. O'Reilly is one of Canada's leading experts on pensions and brings a significant depth of expertise in the operation and governance of jointly sponsored pension plans to OPTrust.

Corporate Secretary's Office

To help carry out its oversight of the Plan and OPTrust's operations, the Board of Trustees is supported by the Corporate Secretary's Office, under the direction of its Corporate Secretary. The Corporate Secretary is responsible for assisting the Trustees in all matters of governance, including:

- The development and implementation of OPTrust's strategic governance model and other board governance enhancements
- Trustee orientation
- Developing a comprehensive continuing education program for Trustees
- Ensuring that matters put before the Board are dealt with effectively and efficiently
- Maintaining a complete record of all board and committee meetings and decisions

The Corporate Secretary is also a member of OPTrust's executive committee to ensure effective communication between management and the Board.

Board Advisors

The Board appoints independent advisors to assist the Board in meeting its responsibilities. These advisors are reviewed and evaluated annually based on the objectives set for them by the Board.

Strong oversight

The Board undertakes initiatives each year as part of its strategic oversight responsibilities. In 2014, the Board continued the work begun the previous year to further develop a strong enterprise risk management ("ERM") program for the organization. This year, we worked with staff to create a robust framework for identifying and managing enterprise risks. In the future, this will be expanded to have staff complete detailed assessments of operational risk at the business unit level.

Related to our ERM program, the Board passed a policy that articulates its overarching principles for risk tolerance – both for investments and for operational matters – as well as revising Board sub-committee mandates to incorporate our commitment to risk management.

Risk management is also addressed in part by our internal audit process. This year, the Board approved a variety of audit projects to examine the organization's internal controls.

The Board also approved a new governance policy for our hedge fund program and amended our investment valuation policy and investment risk policy. We reviewed and enhanced policies on expense reimbursement, Board advisors, education and training, and the OPTrust Code of Conduct.

Compensation program

The Board of Trustees recognizes the importance of a balanced and competitive compensation program in supporting OPTrust's operational effectiveness and long-term performance. The Board is responsible for approving OPTrust's management compensation policies and has oversight of the compensation program through the Human Resources and Compensation Committee.

OPTrust's management compensation program is based on a compensation philosophy and principles, which form the basis of a comprehensive set of pay parameters. These in turn provide a framework for designing a consistent and competitive compensation plan. This program is regularly reviewed by the Board of Trustees.

Our compensation principles guide the design and implementation of our management compensation program. Compensation for all OPTrust management personnel must:

- Align with members' interests and the objectives established by the Board of Trustees
- Support OPTrust's business strategies and priorities over various time horizons
- Support an appropriate balance between pay-for-performance and risk management
- Be fair, clear, understandable and transparent in terms of design and process
- Reflect a common, integrated design framework, while providing an appropriate degree of flexibility for business units, functions and work locations
- Be market competitive and affordable

The Board of Trustees has direct responsibility for key compensation decisions, including:

- Determining the annual and long-term incentive plan (LTIP) awards for the CEO
- Approving the CEO's recommendations on aggregate annual bonuses (short-term incentive program (STIP) and LTIP awards) for the CEO's direct reports and all other management personnel
- Reviewing and approving amendments to OPTrust's compensation structure and policies as required

OPTrust's CEO has overall responsibility for establishing the compensation of other management personnel, including annual and LTIP payments, in accordance with the compensation philosophy and principles approved by the Board. Participation in OPTrust's annual short-term incentive program was extended to all management staff beginning in 2011.

Compensation for non-management employees, who are members of the Ontario Public Service Employees Union, is administered according to the terms of the collective agreement between OPTrust and OPSEU.

Management compensation

OPTrust's management compensation program includes three main elements: base pay, an annual bonus and, for selected staff, a long-term incentive program (LTIP). The relative mix of each of these pay elements varies based on market comparators, an employee's role, level and relative ability to influence the overall results of the organization.

Within the two variable compensation programs – STIP and LTIP – the weighting of the performance components varies depending on each individual's role. The program uses a range of performance metrics, including total fund, asset class, corporate, divisional and individual measures.

Compensation disclosure

The Trustees are committed to transparency regarding the compensation program and details about the base salary and other compensation paid to the CEO and certain members of the executive management team are found on page 33.

Incentive payments – Payments under OPTrust's annual and long-term incentive programs are reported for the year in which they are earned, but are paid in the subsequent calendar year.

Post-employment benefits – All OPTrust employees are eligible to contribute to the OPSEU Pension Plan, which provides pension benefits based on their years of pension service and average salary up to the maximums allowed under the *Income Tax Act*. Employees whose salary exceeds this maximum contribute to a supplementary pension plan established by the Province of Ontario, which provides pension benefits based on the same formula as the OPSEU Pension Plan. The post-employment benefits disclosed on page 33 reflect the present value of the increase in the future benefit accrued since the end of the previous year, less employee contributions paid during the year.

Other benefits – The amounts disclosed above include vacation payouts, other taxable benefits and the employer's share of all employee benefit premiums and contributions (excluding the supplementary pension benefit) made on behalf of employees.

Executive Compensation

($ thousands)	Year	Base earnings	Annual incentive	Long-term incentive	Retention award	Post-employment benefits	Other benefits	Total
Bill Hatanaka[1]	2014	423	739	784	300	58	38	2,342
President and Chief Executive Officer	2013	415	400	–	–	53	15	883
	2012	38	69	–	–	8	2	117
Alex Macdonald	2014	364	581	–	–	38	14	997
Chief Investment Officer[2]	2013	47	–	–	–	8	2	57
Bill Foster	2014	333	281	133	–	113	53	913
Chief Administrative Officer	2013	326	211	–	–	127	30	694
	2012	323	200	–	–	114	30	667

1 Mr. Hatanaka joined OPTrust as President and CEO in November 2012. Amounts shown for 2012 reflect compensation from that date.

2 Mr. Macdonald joined OPTrust as Chief Investment Officer in November 2013. Amounts shown for 2013 reflect compensation from that date.

Trustees' expenses

The Trustees of the Plan do not receive compensation from OPTrust. Reimbursement for Trustee-related incidental expenses and education received by Trustees totaled $98,000 in 2014 (2013 – $57,000). Trustees appointed by the Province of Ontario receive $200 per meeting that they attend and are paid directly by the Province. Trustees appointed by OPSEU are compensated by the union for any loss of regular income as a result of time spent fulfilling their duties as a member of OPTrust's Board.

Auditor independence

The Board of Trustees has established a policy for pre-approval of services performed by the external auditor, PricewaterhouseCoopers LLP.

The pre-approval process requires the Audit, Finance and Risk Committee to review and approve a schedule of anticipated permissible services required from the external auditor. These services include the statutory audit, tax consulting, risk management and other audit related services. Prohibited services include bookkeeping, systems implementation, services for actuarial valuation or internal audit purposes, and other services that could compromise the independence of the external auditor.

External Auditors' Fees, 2014 versus 2013

($ thousands, including taxes)	2014	2013
External audit	$ 281	$ 261
Tax services	33	30
Valuation review	28	24
Total	$ 342	$ 315

Trustees and Senior Management

Members of the Board of Trustees

At December 31, 2014

Michael Grimaldi, Chair[1]
Worker Advisor (retired)

Ministry of Labour

Appointed in 2012, Chair since November 2014

Governance & Administration (Chair), Investment Committees; Adjudication Panel

Vicki Ringelberg, Vice-Chair[2]
Former Chief Financial Officer & Chief Operating Officer

AIC Limited & Portland Investment Counsel

Appointed in 2011, Vice-Chair since November 2014

Governance & Administration, Audit, Finance & Risk, Investment (Chair) Committees

Scott Campbell[2]
Corporate Chief Information Officer (retired)

Government of Ontario

Appointed in 2009

Governance & Administration, Investment, Human Resources & Compensation Committees; Adjudication Panel

Tim Hannah[1]
Senior Environmental Officer

Ministry of the Environment and Climate Change

Appointed in 2012

Audit, Finance & Risk, Human Resources & Compensation (Chair) Committees; Adjudication Panel

Ron Langer[1]
Senior Business Advisor

Ministry of Economic Development, Employment and Infrastructure

Appointed in 2009

Audit, Finance & Risk, Governance & Administration, Investment Committees; Adjudication Panel

Executive Committee

As at publication date

Hugh O'Reilly
President and CEO

Jordan Berger
Corporate Secretary

Anca Drexler
Chief Risk Officer & Senior Vice President, Enterprise Risk Management and Asset Mix Research

Doug Michael
Chief Financial Officer

Tim Shortill
Vice President, Strategy, Communications and Public Affairs

Reg Swamy
Chief Pension Officer & Senior Vice President, Human Resources

John Walsh
Managing Director, General Counsel

Kevin Whyte
Chief Operating Officer

Professional Advisors

Actuaries
Towers Watson & Co.

Auditor
PricewaterhouseCoopers LLP

Compensation
Meridian Compensation Partners LLC

Custodian
Northern Trust Corporation

Internal Auditor
Ernst & Young LLP

Investment Consultant
Templar Investments Ltd.

Legal Counsel
Cavalluzzo Shilton McIntyre & Cornish LLP

Patricia Li[2]
Assistant Deputy Minister, Direct Services Division

Ministry of Health and Long-Term Care

Appointed in 2011

Audit, Finance & Risk (Chair), Human Resources & Compensation Committees; Adjudication Panel

Linda MacKinnon[1]
Senior Law Clerk

Alcohol and Gaming Commission of Ontario

Appointed in 2013

Governance & Administration, Human Resources & Compensation Committees

Tony Ross[2]
Vice-Chair (retired)

Merrill Lynch Canada

Appointed in 2000

Investment, Human Resources & Compensation Committees; Adjudication Panel

Randy Marie Sloat[1]
Customer Care Representative

Ministry of Government and Consumer Services

Appointed in 2012

Audit, Finance & Risk, Investment, Human Resources & Compensation Committees

Louise Tardif[2]
Vice President (retired)

National Bank Financial

Appointed in 2014

Audit, Finance & Risk, Governance & Administration Committees

[1] Appointed by OPSEU
[2] Appointed by the Government of Ontario

2014 HIGHLIGHTS

Net investment income of $1.8 billion helped **increase the Plan's net assets to $17.5 billion** at year-end

The value of members' and retirees' **earned pension benefits increased to $16 billion,** increasing the Plan's pension obligations by $979 million from 2013

The Plan's total financial statement **surplus increased by $550 million,** to $1.5 billion at year-end

Financial Overview

At OPTrust, we take a long-term perspective on the Plan's finances to help ensure retirement security for our over 86,000 members and pensioners. The following overview summarizes key elements from the Plan's 2014 financial statements, including significant changes during the year. The financial statements are prepared in accordance with Canadian accounting standards for pension plans and differ from the results of the funding valuation, which are discussed earlier in the report.

During 2014, the Plan benefited from net investment income of $1.8 billion, largely due to an exceptional return in the infrastructure portfolio and a solid year for the Plan's real estate portfolio and equity investments. As a result, the Plan's net assets increased by 1.5 billion, to $17.5 billion at year-end, after accounting for members' and employers' contributions, pension payments and administrative expenses.

The Plan's total financial statement surplus increased by $550 million, largely due to strong net investment income during 2014. The total surplus at year-end stood at $1.5 billion. The financial statement surplus is not the same as a surplus identified in a funding valuation. By regulation, only a funding valuation surplus can be used to reduce contribution rates or enhance benefits. For a comparison of financial statement and funding valuation methods, see page 38.

Financial statement and funding valuations

The financial position of the OPSEU Pension Plan is presented using two different methods: actuarial funding valuations and financial statement valuations.

Actuarial funding valuations

An actuarial funding valuation presents the Plan's financial information in a manner set out by OPTrust's Board of Trustees and it is subject to regulatory constraints. It determines if the Plan's assets, together with expected investment income and current members' projected future contributions, are sufficient to fund the members' promised benefits at retirement.

This valuation approach is known as the modified aggregate method. It identifies any gains and losses that have occurred since the last funding valuation and establishes the overall contribution requirements until the next valuation. The funding valuation includes a margin of conservatism in the setting of economic assumptions, with respect to the rate of return.

Ontario regulations require an actuarial funding valuation to be filed with provincial authorities at least once every three years. The most recent filing was done in 2014, for the funding valuation prepared as of December 31, 2013. Please see note 6 to the financial statements on page 62 for further discussion.

Financial statement valuations

The Plan's financial statements rely on an actuarial valuation prepared in accordance with Canadian accounting standards for pension plans. The financial statement valuation is prepared using "best estimate" assumptions and does not incorporate margins of conservatism.

A formal valuation is prepared based on membership data at year-end. The valuation recognizes the increase in value of future obligations over time, and pension-related receipts and disbursements. Experience gains or losses on investment activities are recognized in the year incurred. Experience gains or losses related to other assumptions are recognized in conjunction with the funding valuation.

ALLAN SPENCER
OPTRUST RETIREE
MINISTRY OF HEALTH

> **"My pension means the world to me and the insured benefits are a valuable feature. I've been retired for almost 19 years and love every minute of it. I've served as a treasurer for my local church, and I get to visit my sons and grandchildren in Toronto and Windsor on a regular basis. I also have time to spend on woodworking and bird carving."**

In a financial statement valuation, future benefits payable are determined solely by the pension credit that members have built up as of the valuation date, with no projection of their future service. Similarly, the assets available to make those payments do not include the present value of expected future contributions. This approach is known as the projected unit credit method, prorated on service.

Comparing valuations

Differences between the two approaches are illustrated in the table below, which compares the results of the 2014 financial statement valuation and the 2014 funding valuation.

The difference in the unallocated deficit reflects the differences in the methodologies described above. One notable difference is that the 3.85% real rate of return assumption used for the funding valuation reflects a margin of conservatism, while the 4.10% used for financial statement purposes is a best estimate assumption.

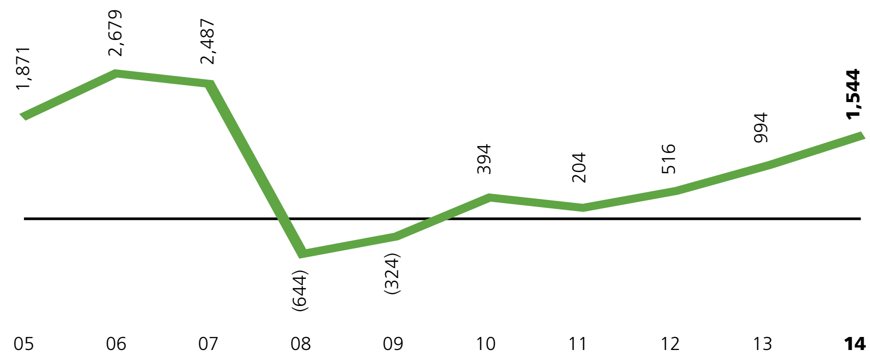
The actuarial funding valuation method uses an actuarial asset value adjustment. This adjustment reduces the short-term impact of volatility in the Plan's annual investment returns by deferring a portion of each year's investment gains or losses for recognition over the following four years.

Financial Statement vs. Funding Valuations

At December 31 ($ millions)	Financial	Funding	Difference
Net assets	17,481	17,481	–
Actuarial asset value adjustment	–	(1,185)	1,185
Present value of future contributions	–	5,114	(5,114)
Pension obligations	(15,937)	(21,296)	5,359
Rate stabilization reserves	114	114	–
Financial statement unallocated surplus / Funding valuation actuarial surplus	1,430	–	1,430
Total financial statement surplus / Total funding valuation surplus	1,544	114	1,430

Financial Statement Surplus/(Deficit)[1]

At December 31 ($ millions)

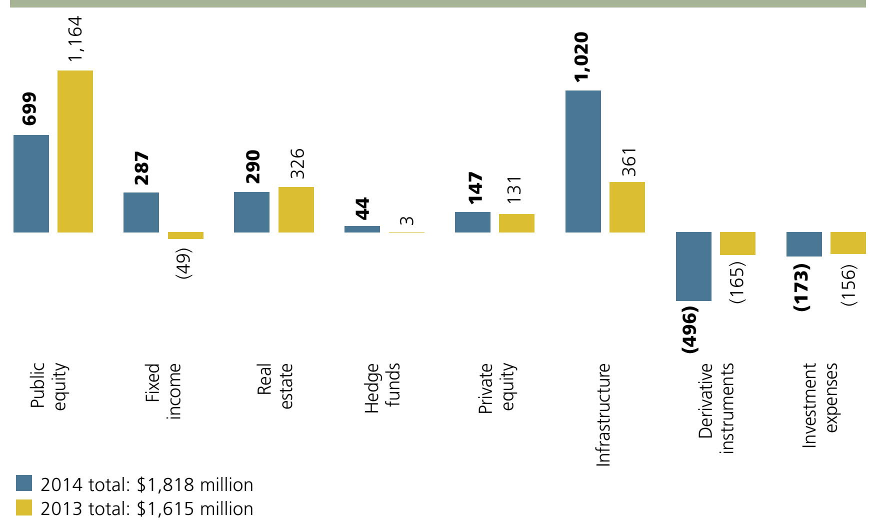


The Plan's total financial statement surplus increased to $1,544 million at the end of 2014, up $550 million from the previous year. Over the year, the Plan's net assets increased by $1,529 million, while the Plan's pension obligations rose by $979 million.

1 Graph shows financial statement surplus/(deficit).

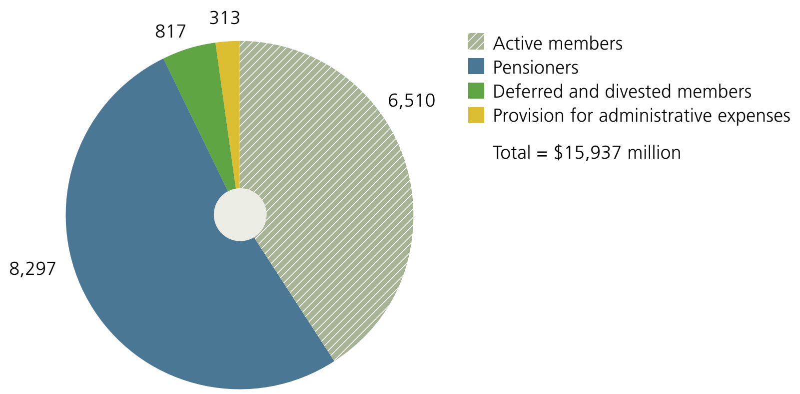
Net Investment Income

($ millions)



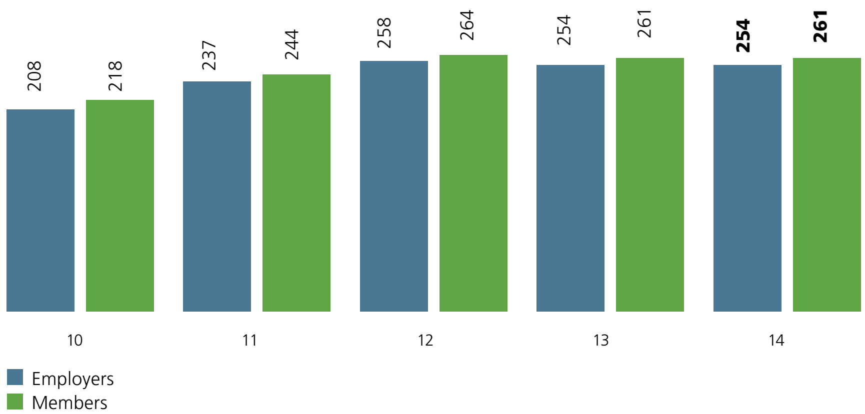
OPTrust's $1.8 billion investment income in 2014 reflected a strong growth in the values of the Plan's equity and infrastructure portfolios continuing from the previous year.

Pension Obligations
At December 31 ($ millions)



At the end of 2014, active members and pensioners accounted for 41% and 52%, respectively, of the Plan's pension obligations. The remaining 7% of the accrued liability represents the value of deferred pensions for terminated and divested members and a provision for administrative expenses.

Member and Employer Contributions
($ millions)

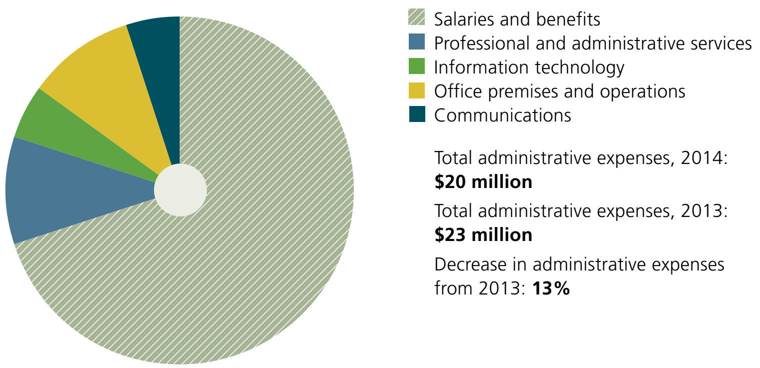


Regular contributions remained level in 2014. The Plan is funded equally by employers and members, see Note 10 – Contributions on page 65 for more information.

Benefit Payments
($ millions)

Pension payments continued to rise in 2014, reflecting both steady growth in the number of OPTrust retirees and the impact of inflation-related increases on their annual pensions. Termination and transfer payments decreased in 2014 mainly due to a decrease in transfers to other plans and refunds, and commuted value transfers.

2014 Pension Administrative Expenses



Administrative costs decreased by 13% in 2014. OPTrust continues to improve processes to deliver a high level of service and communications to our members and pensioners while ensuring the cost-effectiveness of our operations.

Financial Statements

Independent Auditor's Report

To the Trustees of the Ontario Public Service Employees Union Pension Plan Trust Fund, Administrator of the Ontario Public Service Employees Union Pension Plan

We have audited the accompanying financial statements of Ontario Public Service Employees Union Pension Plan, which comprise the statements of financial position as at December 31, 2014 and 2013 and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Public Service Employees Union Pension Plan as at December 31, 2014 and 2013 and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

May 28, 2015

Actuaries' Opinion

Towers Watson Canada Inc. (Towers Watson) was retained by the Board of Trustees of the Ontario Public Service Employees Union Pension Plan (the Plan) to perform an actuarial valuation of the Plan as at December 31, 2014. The purpose of this valuation is to determine the pension obligations of the Plan as at December 31, 2014, for inclusion in the Plan's financial statements in accordance with Section 4600 of the Chartered Professional Accountants of Canada (CPA Canada) Handbook.

We have undertaken such a valuation and provided our related report. As this valuation was undertaken for purposes of the Plan's financial statements under the CPA Canada Handbook Section 4600, it might not be appropriate for other purposes and should not be relied upon or used for any other purpose.

The results of the valuation disclosed total going concern pension obligations of $15,937 million in respect of service accrued to December 31, 2014.

The valuation of the Plan's going concern pension obligations was based on:

- members' demographic data provided by OPTrust staff as at October 18, 2014 projected to December 31, 2014, using management's estimates of experience for the intervening period;
- the actuarial cost method prescribed by the CPA Canada Handbook Section 4600; and
- assumptions about future events (for example, economic factors such as future rates of inflation and returns on the pension fund, as well as demographic factors) which were developed by OPTrust management in consultation with Towers Watson and have been adopted by OPTrust management and approved by the Board.

Changes have been made to the actuarial assumptions affecting the pension obligations since the previous valuation for the purpose of the Plan's financial statements at December 31, 2013, as described in the notes to the financial statements.

We have reviewed the data used for the valuation and have performed tests of reasonableness and consistency.

In our opinion,

- the membership data are sufficient and reliable for the purpose of the valuation;
- the assumptions adopted are appropriate for the purpose of the valuation;
- the methods employed in the valuation are appropriate for the purpose of the valuation; and
- the valuation has been completed in accordance with our understanding of the requirements of the Chartered Professional Accountants of Canada (CPA Canada) Handbook Section 4600.

Nonetheless, differences between future experience and the assumptions about such future events will result in gains or losses which will be revealed in future valuations.

Our valuation was prepared and our opinions given in accordance with accepted actuarial practice in Canada.

Towers Watson Canada Inc.

IAN MARKHAM
Fellow,
Canadian Institute of Actuaries

LAURA NEWMAN
Fellow,
Canadian Institute of Actuaries

Toronto, Ontario
May 28, 2015

Management's Responsibility for Financial Reporting

Management of the OPSEU Pension Trust ("OPTrust") is responsible for the integrity and fairness of the data presented in the financial statements and the financial information presented in the annual report. The financial statements have been prepared in accordance with Canadian accounting standards for pension plans and comply with the financial reporting requirements of the Pension Benefits Act of Ontario. The financial statements include amounts that must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout the annual report is consistent with the financial statements.

Management has recognized the importance of OPTrust maintaining and reinforcing a high standard of conduct in all of its actions, including the preparation and publication of statements fairly presenting the financial position of the OPSEU Pension Plan (the "Plan"). Systems of internal control and supporting procedures are maintained to provide assurance that transactions are properly authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The systems are augmented by the careful selection and training of qualified staff, the establishment of organizational structures providing for a well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout OPTrust.

The Board of Trustees has the ultimate responsibility for the financial statements presented to plan members. The Audit/Finance and Risk Committee, consisting of Trustees appointed by each of the Government and OPSEU, reviews the financial statements with management and the external auditors before such statements are recommended to the Board of Trustees for approval. The Audit/Finance and Risk Committee meets on a regular basis with management and the external auditors to review the scope of the audit, discuss auditor findings, and satisfy themselves that their responsibilities have been adequately discharged.

PricewaterhouseCoopers LLP, the Plan's external auditors, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such examination in their report to the Board of Trustees. The auditors have full and unrestricted access to the Audit/Finance and Risk Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of the internal control systems.

HUGH O'REILLY
President and Chief Executive Officer

DOUG MICHAEL
Chief Financial Officer

May 28, 2015

Statement of Financial Position

As at December 31 ($ millions)	2014	2013
ASSETS		
Investments (Note 4)	**17,699**	16,225
Contributions receivable		
Employers	**32**	32
Members	**20**	26
Other assets	**4**	5
	17,755	16,288
LIABILITIES		
Accounts payable and accrued charges	**78**	69
Investment-related liabilities (Note 4)	**196**	267
	274	336
NET ASSETS AVAILABLE FOR BENEFITS	**17,481**	15,952
PENSION OBLIGATIONS (Note 6)		
Active members	**6,510**	6,315
Pensioners	**8,297**	7,587
Deferred and divested members	**817**	753
Provision for administrative expenses	**313**	303
	15,937	14,958

As at December 31 ($ millions)	2014	2013
SURPLUS		
Member rate stabilization reserves (Note 7)	**10**	216
Employer rate stabilization reserves (Note 7)	**104**	304
Unallocated surplus (Note 8)	**1,430**	474
	1,544	994
PENSION OBLIGATIONS AND SURPLUS	**17,481**	15,952

The accompanying notes are an integral part of these financial statements.

The financial statements were authorized for issue by the Board of Trustees on May 28, 2015 and were signed on its behalf by:

MICHAEL GRIMALDI
Chair

VICKI RINGELBERG
Vice-Chair

Statement of Changes in Net Assets Available for Benefits

For the years ended December 31 ($ millions)	**2014**	2013
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	**15,952**	14,705
Changes Due to Investment activities		
Investment income **(Note 5)**	**517**	478
Net gain on investments **(Note 5)**	**1,474**	1,293
Investment management expenses **(Note 5)**	**(173)**	(156)
	1,818	1,615
Changes Due to Pension activities		
Contributions **(Note 10)**	**529**	539
Retirement pension payments **(Note 11)**	**(646)**	(614)
Refunds and transfers **(Note 11)**	**(152)**	(270)
Pension administrative expenses **(Note 12)**	**(20)**	(23)
	(289)	(368)
NET INCREASE IN ASSETS AVAILABLE FOR BENEFITS	**1,529**	1,247
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**17,481**	15,952

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Pension Obligations

For the years ended December 31 ($ millions)	**2014**	2013
PENSION OBLIGATIONS, BEGINNING OF YEAR	**14,958**	14,189
INCREASE IN PENSION OBLIGATIONS		
Interest accrued on benefits	**946**	908
Benefits accrued	**442**	444
Assumption changes **(Note 6)**	**441**	329
	1,829	1,681
DECREASE IN PENSION OBLIGATIONS		
Benefit payments **(Note 11)**	**798**	884
Experience gains **(Note 6)**	**52**	39
Refund of collectively bargained temporary benefits	**–**	(11)
	850	912
NET INCREASE IN PENSION OBLIGATIONS	**979**	769
PENSION OBLIGATIONS, END OF YEAR	**15,937**	14,958

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Description of the OPSEU Pension Plan

The OPSEU Pension Plan (the Plan) is a contributory defined benefit pension plan that provides pension benefits for employees of the Province of Ontario (the Province or Government of Ontario) in bargaining units represented by the Ontario Public Service Employees Union (OPSEU) and certain other bargaining units and employers. The Plan was established under the terms of the April 18, 1994, Sponsorship Agreement between the Province and OPSEU (the sponsors), which also provided for the establishment of the OPSEU Pension Plan Trust Fund (the Fund) to hold the net assets available for benefits of the Plan.

The Sponsorship Agreement establishes the Province and OPSEU as joint sponsors of the Plan. The Trustees of the OPSEU Pension Plan Trust Fund (OPSEU Pension Trust, OPTrust or Trust) are responsible for the administration and management of both the OPSEU Pension Plan and the OPSEU Pension Plan Trust Fund, as described in the Trust Agreement between the sponsors and the Trust. The Board of Trustees comprises five persons appointed by each of the Province and OPSEU.

The Plan is registered under the *Pension Benefits Act* of Ontario and the *Income Tax Act* (Canada), registration number 1012046. The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and is not subject to income taxes in Canada. However, the Plan and its subsidiaries are subject to other federal, provincial and municipal taxes in Canada, and may be subject to taxes in other countries.

These financial statements reflect the aggregate financial position of the Plan, including the net assets available for benefits, pension obligations, and surplus/(deficit) of the Plan.

a. Membership

The Plan's membership comprises members represented by OPSEU or certain other designated bargaining agents and employed by the following organizations:

- The Province of Ontario (civil servants and crown employees)
- Alcohol and Gaming Commission of Ontario
- Centre for Addiction and Mental Health
- Legislative Assembly of Ontario
- Liquor Control Board of Ontario
- Niagara Parks Commission
- North Bay Regional Health Centre (Northeast Mental Health Centre)
- Ontario Agency for Health Protection and Promotion
- Ontario Lottery and Gaming Corporation
- Ontario Pension Board
- Ontario Public Service Employees Union (seconded or acting employees)
- Ontario Shores Centre for Mental Health Sciences
- Ontario Teachers' Pension Plan Board
- OPSEU Pension Trust (includes non-bargaining unit employees)
- Providence Continuing Care Centre
- St. Joseph's Care Group – Lakehead Psychiatric Hospital
- Waypoint Centre for Mental Health Care
- Workplace Safety and Insurance Appeals Tribunal

b. Funding

Contributions and investment earnings fund plan benefits. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes.

c. Contributions

The OPSEU Pension Plan's contributions and benefits are integrated with the Canada Pension Plan (CPP).

The contribution rate for both employers and employees was 9.4% (2013 – 9.4%) of salary up to the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan and 11.0% (2013 – 11.0%) of salary above the YMPE. Sponsors have agreed that the contribution rate, except in extenuating circumstances, will not exceed this level until at least December 31, 2017.

d. Purchase or Buyback of Past Service

Eligible members of the Plan can purchase or "buy back" past service for leaves of absences or employment service before joining the Plan (e.g. contract, casual, or Non Ontario Public Service employment), subject to *Income Tax Act* (Canada) limits. Member payments are required for all buybacks types and for some, employers make a matching payment.

e. Pension Benefits

Beginning in July 2012, member's benefits become immediately vested upon Plan enrollment. The Plan provides for the payment of a pension benefit equal to 2% of the average of the best five consecutive years of salary, for each year of pension service. An unreduced pension is payable at age 65 (the Plan's normal retirement age), or before age 65 if the member's age and years of pension service total 90 (Factor 90), or when the member reaches age 60 and has 20 or more years of pension service.

When a member reaches age 65, his or her pension is reduced by an amount that roughly estimates the amount of CPP benefits earned during membership as reflected by the lower contributions made for earnings up to the YMPE (The year's Maximum Pensionable Earnings). The reduction at age 65 equals 0.655% multiplied by the lesser of best 5-year average annual salary or final 5-year average of YMPE, multiplied by the member's years of pension service after 1965 (maximum of 35 years).

Reduced pensions are available to members who retire at or after age 55 and before age 65 who are not entitled to unreduced benefits. The pension reduction is equal to 5% for each year that the member is under age 65 when he or she retires.

f. Inflation Protection

An adjustment to pension benefits for inflation is made annually based on the Consumer Price Index to a maximum of 8% in any one year. Where the inflation adjustment exceeds 8% in any one year, the excess is carried forward to any subsequent year when the adjustment is less than 8%. The adjustment is made to both current and deferred pensions. The inflation adjustment was 1.7% at January 1, 2015 (January 1, 2014 – 0.9%).

g. Death Benefits

Upon the death of a member or pensioner, death benefits are available to a surviving eligible spouse, eligible children, designated beneficiary, or estate. The death benefit may be in the form of a survivor pension, a lump sum payment or both. The Plan provides a 60% survivor pension to an eligible spouse at no cost to the pensioner. Survivor pensions are also available to the member's or pensioner's children in certain circumstances.

In the case of limited life expectancy, provisions exist to access lump sum payouts, provided spouses waive their entitlement to a survivor pension.

h. Disability Pensions

A disability pension is available to members with a minimum of 10 years of pension service in the Plan and who meet the criteria as established in the Plan. The amount of the disability pension depends on the years of pension service and the average salary of the disabled member.

i. Deferred Pensions

Members who terminate membership in the Plan, have the option of leaving their money in the Plan and receiving a pension at retirement. In addition, members who are moved to other employers in a divestment situation and are enrolled in a new pension plan may be required by law to accept a deferred pension from the OPSEU Pension Plan in order to protect benefits earned. The value of deferred pensions increases annually by the annual inflation adjustment. Changes to the *Pension Benefits Act* of Ontario now allow divested persons to transfer their deferred pensions to another pension plan, subject to the negotiation of Reciprocal Transfer Agreements.

j. Termination Payments

Subject to certain restrictions, a member who terminates Plan membership may be entitled to transfer the commuted value of his or her pension to a registered retirement savings plan (RRSP), or use these funds to purchase a life annuity. Excess contributions may also be transferred to an RRSP or paid directly to the former member, subject to withholding of income taxes.

k. Transfers

In certain circumstances, a member who terminates employment may be entitled to transfer the value of his or her pension to another pension plan if OPTrust has a reciprocal transfer agreement with that plan. In addition, members who do not terminate employment but must move to the Public Service Pension Plan (administered by the Ontario Pension Board) due to a change in bargaining unit status are subject to mandatory transfer arrangements.

2. Significant Accounting Policies

a. Basis of Presentation

These financial statements are prepared in accordance with Chartered Professional Accountants (CPA) Canada Handbook Section 4600 – Pension Plans (s4600). This standard is the basis for Canadian accounting standards for pension plans. The recognition and measurement of OPTrust assets and liabilities are consistent with the requirements of s4600.

In the selection or change of accounting policies that do not relate to its investment portfolio or pension obligations, OPTrust has chosen to comply on a consistent basis with International Financial Reporting Standards (IFRS) to the extent that those standards do not conflict with the requirements of s4600.

The financial statements present the aggregate financial position of the Plan, including the OPSEU Pension Plan Trust Fund, as a separate financial reporting entity independent of the participating employers, bargaining units, plan members and pensioners. Certain prior year financial information has been reclassified to conform with the presentation adopted in the current year.

b. Use of Estimates

In preparing these financial statements, management must make certain estimates and assumptions that primarily affect the reported values of assets and liabilities, income and expenses and related disclosures. Actual amounts could differ from these estimates. Significant estimates included in the financial statements relate to the valuation of real estate investments, private market investments and the determination of the pension obligations.

c. Investments

Investments, investment receivables, investment payables and investment related obligations are designated as financial instruments, and are recognized on a trade date basis and stated at fair value. OPTrust uses IFRS 13 Fair Value Measurement in determining fair value whereby fair value is the most representative price within the bid-ask spread.

i) Valuation of investments

The fair value of investments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The determination of fair value is based on market conditions at a specific point in time and may not be reflective of future values. Fair values determined using valuation models and techniques require the use of assumptions that may not be supported by observable market transactions or available market data. In such cases, fair values may be significantly impacted by the choice of assumptions. In periods of economic turmoil or when markets are illiquid, the determination of fair value may be more difficult to establish.

Fair values are determined as follows:

Short-term Investments

Cost plus accrued interest where it approximates fair value, or the average of market quotes of closing bid and ask prices. Short-term investments comprise direct investments of the Plan and include reinvested cash collateral that is comprised of fixed rate instruments.

Bonds, Debentures and Real Return Bonds

Average of market quotes of closing bid and ask prices. Where quoted prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities or market information.

Pooled Funds

For pooled fixed income and equity funds, fair value is determined through reference to fair values as reported by the external fund manager.

Bank Loan Notes

Bank loan notes that are arranged by banks are comprised of debt from companies and are backed with collateral assets. The average of the institutional bid and ask evaluation prices is used when both are present. In the absence of institutional bid evaluation, vendor pricing based on proprietary models are used, which approximate the price a dealer would pay for a security.

Public Equity

Closing quoted market price is the most representative of fair value. Where a market price is not available, fair value is determined using comparable market information.

Hedge Funds

Hedge funds are recorded at fair value based on net asset values obtained from each of the funds' external administrators and are reviewed by management.

Real Estate

Fair value is determined using appropriate valuation techniques and management's and/or third party best estimates. Income producing properties are valued based on independent appraisals that are conducted at least once every three years. Investments held through limited partnerships or fund investments are valued using the carrying values reported by the external fund managers and updated for any specific market and other investment factors known to OPTrust that could affect the fair value of the investment.

Mortgages held on real estate investments are valued using discounted cash flows based on market yields of securities with comparable credit risk and term to maturity.

Private Markets

Private markets include private equity and infrastructure investments that are held directly or through ownership in limited partnership arrangements or via fund investments. Fair value is determined using appropriate valuation techniques and management's and/or third party best estimates. For investments held through limited partnerships or funds, fair value is generally determined based on carrying values and other relevant information reported by the external investment manager using accepted valuation methods.

Derivatives

Derivatives contracts are financial contracts, the value of which is derived from changes in underlying assets, interest rates, foreign exchange rates, commodities or indices. Market prices are used for exchange traded derivatives such as futures. Where quoted market prices are not available, appropriate valuation techniques are used to determine fair value. Derivative contracts are transacted by OPTrust either directly with counterparties in the over-the-counter (OTC) market or on regulated exchanges, and include the following types of contracts:

Interest rate swaps

An interest rate swap is a contractual agreement between two parties to exchange a series of fixed or floating cash flows based on a notional amount of principal. OPTrust utilizes interest rate swaps to manage interest rate exposures and extend duration.

Credit default swaps

A credit default swap is a contractual agreement between two parties to provide protection against a change in value of referenced debt instruments. The purchaser pays premiums to the seller on the credit default swap in return for payment related to a change in the value of the referenced asset in case of a credit event. OPTrust utilizes credit default swaps to promote credit diversification and for risk diversification.

Total return swaps

A total return swap is a contractual agreement between two parties to exchange cash flows based on changes in the value of the referenced asset. OPTrust uses total return swaps to gain exposure and benefit from referenced assets without having to own it.

Foreign exchange forwards

A foreign exchange forward contract is a contractual agreement between two parties to exchange a notional amount of one currency for another at a specified price for settlement on a predetermined date in the future. OPTrust uses foreign exchange forward contracts to modify currency exposure for both hedging and active currency management.

Bond forwards

A bond forward is a contractual agreement to buy or sell bonds or a bond index at a specified price and date in the future. OPTrust utilizes bond forward contracts to gain exposure to bond markets.

Commodity futures

Commodity futures are standardized contracts to either buy or sell a commodity index at a specific price and date in the future. Futures are transacted between counterparties on regulated future exchanges and are subject to daily cash settlement of changes in fair value. OPTrust utilizes commodity futures to obtain commodities exposure.

Equity and bond futures

Equity and bond futures are standardized contracts to either buy or sell specified equity/bond indices at a specific price and date in the future. Futures are transacted between counterparties on regulated futures exchanges and are subject to daily cash settlement of changes in fair value. OPTrust utilizes equity and bond index futures contracts to gain additional exposure to public equity and bond markets.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a security, exchange rate, interest rate or other financial instrument at a predetermined price at or by the specified future date. They may be acquired in standardized amounts on regulated exchanges or may be customized and acquired in the OTC market. OPTrust utilizes call options to manage interest rate and volatility exposures and uses put options to generate income in expected interest rate scenarios.

Swaptions

Swaptions are contractual agreements where the purchaser has the right but not the obligation to enter into or cancel a swap agreement at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right. OPTrust utilizes swaptions to manage exposures to market risks and to enhance returns.

ii) Income recognition

Net investment income includes interest and dividends, income from real estate and private market investments, realized gains and losses on disposal of investments, and unrealized gains and losses resulting from changes in the fair value of investments, net of incentive fees. Investment income is recognized when earned.

Realized gains and losses arise from the sale of the investment and represent the difference between proceeds on disposal and the average cost.

Unrealized gains and losses represent the change in the difference between the estimated fair value and cost of the investment held.

iii) Transaction fees

Transaction fees include incremental costs attributable to the acquisition, issue or disposal of investment assets or liabilities, and are expensed as incurred (Note 5).

iv) External manager fees

External manager fees for portfolio management are expensed and disclosed in Investment management expenses (Note 5).

d. Pension Obligations

The value of pension obligations is determined based on actuarial valuations prepared by an independent actuarial firm. Actuarial valuations are prepared every year for financial statement reporting purposes (financial statement valuations) and at least every three years for purposes of determining funding requirements (funding valuations).

For financial reporting purposes, the CPA Canada Handbook requires that pension plans report the actuarial value of pension obligations using management's best estimate assumptions and the projected unit credit method, prorated on service. This method calculates the actuarial value of pension benefits accrued up to the financial reporting date, after the projected benefits have been attributed equally to each year of a member's service. This method differs from the modified aggregate method used for funding purposes, which includes current members' expected future contributions and margins of conservatism in the setting of economic assumptions.

e. Contributions Receivable

Contributions from members and employers that are due at year-end, including those relating to purchases of credit for prior employment or leave, and transfers into the Plan, are recorded as a receivable.

f. Benefit Payments

Payments of pensions, refunds and transfers are recorded in the period in which they are incurred; amounts due at year-end are recorded in accounts payable and accrued charges.

g. Surplus/(Deficit)

Surplus or deficit results from the excess or shortfall of the value of net assets available for benefits over the actuarial value of pension obligations. Plan sponsors have established rate stabilization funds as a reserve against future contribution increases. The rate stabilization reserves form part of surplus/(deficit) and earn income at the funding valuation interest rate. Unallocated surplus/(deficit) is the remainder of surplus/(deficit) after considering the rate stabilization reserves.

h. Property and Equipment

Property and equipment included in other assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the property and equipment.

i. Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end. The resulting unrealized gain or loss is included in the statement of changes in net assets available for benefits.

j. Fair Value Disclosures

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical assets or liabilities in active markets.

Level 2 – inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the assets or liabilities.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. Refer to Note 4(a) for fair value hierarchy.

k. Accounting Standard Issued but not Applied

On July 24, 2014 the International Accounting Standards Board (IASB) issued IFRS 9 Financial Instruments (IFRS 9) replacing IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes new classification and measurement requirements for financial assets and liabilities. The new standard will come into effect for periods beginning on or after January 1, 2018 with early adoption permitted. OPTrust is currently assessing the impact of adopting IFRS 9 on future financial results.

3. Risk Management

a. Investment Risk

The Plan is subject to certain investment risks and engages in risk management practices to help ensure that sufficient assets will be available to fund pension benefits. Investment risks include market risk (interest rate risk, foreign currency risk, equity price risk, commodity risk and inflation risk), credit risk, as well as liquidity risk.

The management of these investment risks is addressed in a number of policies, including the Statement of Investment Policies and procedures, the Investment Risk Policy, Asset Mix policy, and Asset Class Investment Guidelines.

OPTrust's Liquidity Risk Management Committee monitors and manages the Fund's liquidity needs. From time to time, OPTrust may implement strategies to mitigate investment risks of the fund under adverse market conditions.

Investment risk includes the following types of risk:

i) Market risk

Market risk is the risk that the value of an investment will be adversely affected by changes in interest rates, foreign exchange rates, equity prices and/or commodity prices. Since OPTrust manages market risk through investment management practices designed to optimize the relationship between risk and return and the diversification of investments across a variety of asset classes, the plan mitigates some of the negative impact of market risk. In addition, risk mitigation strategies aimed at lowering the Total Fund's risk level is actively employed to manage market risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The potential exposure results from either changes in floating interest rates reducing cash flows, or changes in the asset values for fixed rate securities (e.g. bonds). During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. See Note 4 for sensitivity to changes in assumptions.

The Plan manages interest rate risk for investments by establishing a target asset mix that provides an appropriate mix between interest-sensitive investments and those subject to other risks. A portion of the interest-sensitive portfolio is actively managed, allowing managers to anticipate interest rate movements to mitigate or take advantage of interest rate changes. There are also certain private markets and real estate investments which may have interest rate components making them subject to interest rate exposure.

Duration is a measure of the sensitivity of portfolios subject to interest rates to parallel shifts in the yield curve. The table below shows the duration for each portfolio group in OPTrust's fixed income portfolio and their respective sensitivity to interest rate changes.

As at December 31	Exposure	% of	Duration	Impact of 1% increase in interest rates	
Portfolio Group[a]	($ millions)	portfolio	(years)	($ millions)	(%)[c]
2014					
Swaps	**479**	**13%**	**5.4**	**(25)**	**-5.3%**
Fixed income	**2,796**	**75%**	**5.6**	**(140)**	**-5.0%**
Real return	**436**	**12%**	**16.0**	**(63)**	**-14.4%**
TOTAL	**3,711**	**100%**	**6.8**	**(228)**	**-6.1%**
2013					
Swaps	753	21%	5.8	(39)	-5.2%
Fixed income	2,117	60%	5.0	(92)	-4.3%
Real return	596	17%	16.3	(88)	-14.8%
Pooled funds[b]	76	2%	4.2	(3)	-3.9%
TOTAL	3,542	100%	7.1	(222)	-6.3%

a Portfolio group includes fixed income investments held by the investment managers based on their mandates.

b For the purposes of this table, the portfolio group only includes mortgage pooled funds. These funds were sold in 2014.

c Percent is calculated as impact over portfolio exposure.

Foreign Currency Risk

Foreign currency risk is the risk that the value of foreign investments will be affected by changes in foreign currency exchange rates for Canadian dollars. The Plan's policy is to hedge 50% of its reference portfolio currency exposure to investments in developed markets. In addition to the Plan's passive policy hedging program, certain active managers manage currency risks as part of their investment mandate.

The Plan's market value exposure to foreign exchange risk is as follows:

As at December 31 ($ millions)	2014 Gross exposure	2014 Impact of derivatives[a]	2014 Net exposure	2013 Net exposure
Canadian	**8,191**	**4,353**	**12,544**	10,784
Investments subject to currency risk				
Developed markets				
United States	**5,275**	**(2,427)**	**2,848**	2,595
Eurozone	**1,050**	**(1,032)**	**18**	600
United Kingdom	**730**	**(508)**	**222**	618
Asia Pacific	**848**	**(289)**	**559**	518
Europe – Other	**323**	**(90)**	**233**	11
Emerging markets	**1,086**	**(7)**	**1,079**	832
	9,312	**(4,353)**	**4,959**	5,174
NET INVESTMENTS	**17,503**	**–**	**17,503**	15,958

a The impact of derivatives represents the foreign currency exposure in developed markets hedged using forward currency contracts.

The impact of a 5% absolute change in the Canadian dollar against the top 5 currencies listed below, holding all other variables constant would have resulted in a $189 million change in the Plan's net assets available for benefits as at December 31, 2014 (2013 – $169 million).

As at December 31 ($ millions)	2014 Change in Canadian dollar	2014 Change in net assets available for benefits	2013 Change in net assets available for benefits
US Dollar	**+/- 5%**	**+/- 143**	+/- 128
Japanese Yen	**+/- 5%**	**+/- 12**	+/- 11
Hong Kong Dollar	**+/- 5%**	**+/- 12**	+/- 15
New Taiwan Dollar	**+/- 5%**	**+/- 11**	+/- 8
Indian Rupee	**+/- 5%**	**+/- 11**	+/- 7
TOTAL		**+/- 189**	+/- 169

Equity Price Risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in equity market prices whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. OPTrust is exposed to equity price risk through its investment in public and private equities. OPTrust manages equity price risk through the use of an Asset Mix policy as well as adherence to guidelines for the management of investments.

The table below shows the impact of a 10% change in the Canadian, emerging, developed and private equities markets.

As at December 31 ($ millions) Equity market[a]	Market benchmark	2014 Changes in market benchmark[b]	2014 Change in assets available for benefits	2013 Change in net assets available for benefits
Canadian	S&P/TSX Composite Index	+/- 10%	+/- 139	+/- 166
Emerging	MSCI Emerging Markets Index	+/- 10%	+/- 84	+/- 86
Developed	MSCI World Developed Index	+/- 10%	+/- 232	+/- 241
Private equities	MSCI World Developed Index	+/- 10%	+/- 103	+/- 81
TOTAL			+/- 558	+/- 574

a Equity market is based on the portfolio mandates of the investment managers.
b For each equity category, the expected effect of a 10% change in the stock market benchmark is estimated using the most recent 4 years of market data. Currency exchange rates are not affected by the change in benchmark indices.

Commodity Price Risk

Commodity price risk is the risk that the fair value of investments will fluctuate due to changes in market prices of commodities. OPTrust has energy commodity price risk through futures contracts. Futures contracts are exchange traded, and the prices are published daily. OPTrust manages commodity price risk through the use of an Asset Mix policy, as well as adherence to guidelines for the management of investments.

Inflation Risk

Inflation risk is the risk that fair value or future cash flows of an instrument will fluctuate because of change in current inflation or expected future inflation. OPTrust has direct inflation risk through investments in Canadian Real Return Bonds and indirect inflation risk through infrastructure and real estate investments where inflation inputs are used to determine the fair value of investments.

Value at Risk

OPTrust uses Value at Risk (VaR) methodology to monitor market risk in the overall fund. VaR is a statistical technique that is used to estimate the potential loss in a portfolio as a result of movements in market risk factors over a specified time period and for a specified confidence level. The VaR methodology uses at least 10 years of weekly returns to estimate VaR at the given confidence level scaled to a one-year holding period.

VaR is a valid measure under normal market conditions, and assumes that historic market data can be used to estimate future risk. If future market behaviour is significantly different from the past, or if severe market events occur, the actual losses could be materially different from the VaR estimates.

The table below highlights the loss, in normal markets, that could be expected in a year, based on the VaR methodology at the 95% confidence level.

	2014		2013	
As at December 31 ($ millions)	**Potential loss**	**% Potential loss**	Potential loss	% Potential loss
Net investments	**(1,997)**	**-11.4%**	(1,714)	-10.7%

In 2014, the increase in VaR is mainly the result of a change in risk methodology from using 4 years of historical data to using at least 10 years. As a result, the history includes more turbulent period scenarios resulting in a higher VaR.

In addition to the management of absolute risk, the Investment Risk Policy sets guidelines for the management of active risk by imposing a limit on the amount of active risk that the overall Total Fund portfolio can deviate versus its benchmark. The limit is designed to permit flexibility in achieving value added targets and also limit underperformance versus the benchmark. It is measured using a Value at Risk methodology and calculated at the 95th percent confidence level.

ii) Credit risk

Credit risk is the risk of financial loss due to a counterparty, borrower, an endorser, or a guarantor failing to make payments under its contractual obligations. OPTrust has exposure to credit risk through debt securities and over-the-counter derivatives.

OPTrust mitigates credit risk on debt securities through the use of an Asset Mix policy. In addition, the Investment Risk Policy defines limits on the Fund's exposure to single issuers, and limits on exposures by credit rating. Issuer type credit risk from over-the-counter derivatives is managed by only dealing with highly rated counterparties and requiring certain counterparties to post collateral in order to back the fair value of these derivative contracts.

The fair value of the investments exposed to credit risk, by credit rating, is as follows:

As at December 31 ($ millions)	**Short-term investments**	**Government, corporate bonds and bank loans**	**Real return bonds**	**Swaps**	**Forwards**	**Options**	**Total**
2014							
AAA/R-1 High	**852**	**465**	**444**	**–**	**–**	**–**	**1,761**
AA/R-1 Mid	**828**	**651**	**–**	**62**	**11**	**–**	**1,552**
A/R-1 Low	**417**	**453**	**–**	**1**	**10**	**1**	**882**
BBB/R-2 Low	**11**	**577**	**2**	**–**	**10**	**–**	**600**
TOTAL	**2,108**	**2,146**	**446**	**63**	**31**	**1**	**4,795**
2013							
AAA/R-1 High	1,357	356	577	–	–	–	2,290
AA/R-1 Mid	424	655	–	48	2	–	1,129
A/R-1 Low	174	392	–	1	20	1	588
BBB/R-2 Low	3	316	–	–	–	–	319
TOTAL	1,958	1,719	577	49	22	1	4,326

Collateral is collected from counterparties to manage credit risk from over-the-counter derivatives in accordance to the Credit Support Annex (CSA), which forms part of the International Swaps and Derivative's Association (ISDA) master agreements. It is common practice to execute a CSA in conjunction with an ISDA master agreement. Under the ISDA master agreement for over-the-counter derivatives, OPTrust has a right to offset in the event of default, insolvency, bankruptcy or other early termination. In the case of exchange traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision to offset against obligations to the same counterparty. As at December 31, 2014, collateral of $24 million (2013 – $8 million) was held by OPTrust.

Credit risk for investments in derivatives is measured by the positive fair value of the contractual obligations with the counterparties less any collateral or margin received as at the reporting date. The Plan has exposure to derivatives as follows:

	2014			2013		
	Notional	**Fair value**		Notional	Fair value	
As at December 31 ($ millions)	**amount**	**Assets**	**Liabilities**	amount	Assets	Liabilities
Forwards						
Currency	**20,800**	**19**	**(60)**	12,853	6	(79)
Interest rate	**10**	**13**	**(23)**	10	16	(6)
Futures						
Currency	**22**	**–**	**–**	–	–	–
Fixed income	**30**	**–**	**–**	43	–	–
Equity	**83**	**–**	**–**	47	–	–
Commodity	**851**	**–**	**–**	790	–	–
Options						
Currency	**20**	**1**	**–**	130	1	–
Interest rate	**15**	**6**	**–**	4	3	–
Swaption	**9**	**–**	**–**	8	–	–
Swaps						
Currency	**1**	**–**	**–**	–	–	–
Interest rate	**2,729**	**25**	**(3)**	1,516	7	(3)
Credit default	**1**	**–**	**–**	4	–	–
Total return	**105**	**38**	**–**	105	42	–
TOTAL DERIVATIVES	**24,676**	**102**	**(86)**	15,510	75	(88)

iii) Liquidity risk

Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and other commitments and expenses as they become due. OPTrust has exposure to liquidity risk through its investment commitments which are required to be funded in future periods, as well as through holding certain investments including hedge funds, private market and real estate investments, which by nature are less liquid than public market assets (see Note 13).

Cash inflows are derived from member and employer contributions, earned income, principal repayments on fixed income investments and the proceeds from sales of other investments. Excess cash flows, after meeting pension obligations and operating expenses, are re-invested. The Plan forecasts and manages cash flows to ensure it meets its obligations when due, without unintended early liquidation of assets.

In addition, 95% (2013 – 97%) of the Plan's public market investments are marketable and can be liquidated relatively quickly, while investments in real estate, private equity, infrastructure, certain hedge funds and non-marketable Province of Ontario debentures are typically less liquid.

The remaining terms to contractual maturity or repricing dates, whichever dates are earlier, of interest bearing investments, including derivatives and mortgages, are as follows:

	Term of maturity					
As at December 31 ($ millions)	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Yield to maturity
2014						
Short-term investments	**2,089**	**19**	**–**	**–**	**2,108**	**0.8%**
Bonds and bank loans						
Canadian government	**–**	**205**	**197**	**115**	**517**	**4.3%**
Provincial government	**–**	**55**	**250**	**399**	**704**	**2.7%**
Corporate	**2**	**424**	**366**	**133**	**925**	**3.2%**
Real return	**–**	**–**	**2**	**444**	**446**	**2.9%**
	2,091	**703**	**815**	**1,091**	**4,700**	
Swaps	**(85)**	**67**	**29**	**49**	**60**	**–**
Mortgages related to real estate	**(131)**	**(210)**	**(257)**	**(86)**	**(684)**	**4.1%**
	(216)	**(143)**	**(228)**	**(37)**	**(624)**	
TOTAL	**1,875**	**560**	**587**	**1,054**	**4,076**	
2013						
Short-term investments	1,931	27	–	–	1,958	0.7%
Government of Ontario debentures	177	–	–	–	177	1.3%
Bonds						
Canadian government	–	140	108	75	323	2.3%
Provincial government	–	76	171	265	512	3.5%
Corporate	2	355	245	105	707	2.8%
Real return	–	–	–	577	577	1.8%
	2,110	598	524	1,022	4,254	
Swaps	(144)	52	43	95	46	–
Mortgages related to real estate	(65)	(276)	(200)	–	(541)	4.4%
	(209)	(224)	(157)	95	(495)	
TOTAL	1,901	374	367	1,117	3,759	

OPTrust maintains $133 million (2013 – $133 million) of unsecured credit facilities to meet potential liquidity requirements primarily for investment purposes. The interest charged on the drawn portion of the credit facility is 0.75% (2013 – 0.75%). As at December 31, 2014, the total amount drawn on the credit facilities in the form of letters of credit was $40 million (2013 – $20 million).

b. Securities Lending

The Plan participates in a securities lending agreement whereby it lends securities to approved borrowers. OPTrust secures its exposure through the receipt of security or cash collateral of at least 102% of the value of the securities lent. All securities lent are recallable on demand at the option of OPTrust.

Credit risk associated with the borrower is mitigated by requiring the borrower to provide collateral with market values exceeding the market value of the loaned securities. Credit risk associated with the reinvestment of cash collateral is mitigated by the investment policies and practices agreed to with the lending agent, which emphasize preservation of capital.

As at December 31, 2014, the Plan's investments included loaned securities with a fair value of $1,560 million (2013 – $1,206 million). The fair value of collateral received in respect of these securities on loan was $1,646 million (2013 – $1,263 million) which includes cash collateral of $26 million (2013 – $63 million) and other securities of $1,621 million (2013 – $1,200 million).

4. Investments

The following schedule summarizes the fair value and average cost of the Plan's investments before allocating the market exposure related to derivative financial instruments to the asset classes to which they relate.

As at December 31 ($ millions)	2014 Fair value	2014 Cost	2014 % of net investments	2013 Fair value	2013 Cost	2013 % of net investments
Fixed income						
Cash	**642**	**642**	**4%**	317	317	2%
Short-term investments	**2,108**	**2,102**	**12%**	1,958	1,949	12%
Government and corporate bonds						
Canadian	**1,760**	**1,714**	**10%**	1,375	1,403	9%
Foreign	**241**	**245**	**1%**	77	75	0%
Real return bonds						
Canadian	**444**	**311**	**3%**	577	444	4%
Foreign	**2**	**2**	**0%**			
Bank loans	**145**	**139**	**1%**	90	88	0%
Pooled fixed income funds	**111**	**102**	**1%**	184	181	1%
Government of Ontario debentures	**–**	**–**	**0%**	177	163	1%
	5,453	**5,257**	**32%**	4,755	4,620	29%
Public equity						
Canadian	**1,862**	**1,484**	**11%**	1,858	1,468	12%
Foreign	**3,876**	**2,955**	**22%**	3,891	2,949	24%
Pooled equity funds	**89**	**74**	**1%**	107	96	1%
	5,827	**4,513**	**34%**	5,856	4,513	37%
Hedge funds	**532**	**492**	**3%**	165	164	1%
Real estate	**2,394**	**1,994**	**14%**	2,167	1,880	14%
Private markets						
Private equity	**1,284**	**1,071**	**7%**	794	675	5%
Infrastructure	**2,055**	**1,614**	**11%**	2,337	1,800	15%
	3,339	**2,685**	**18%**	3,131	2,475	20%
Investment related assets						
Accrued income	**28**	**28**	**0%**	24	24	0%
Due from brokers	**62**	**62**	**0%**	94	94	0%
Unrealized gains and amounts receivable on derivative contracts	**64**	**–**	**0%**	33	15	0%
	154	**90**	**0%**	151	133	0%
INVESTMENT ASSETS	**17,699**	**15,031**	**101%**	16,225	13,785	101%
Investment related liabilities						
Due to brokers	**(84)**	**(84)**	**0%**	(116)	(116)	-1%
Unrealized losses and amounts payable on derivative contracts	**(86)**	**(6)**	**-1%**	(88)	–	0%
Obligation under securities lending agreements	**(26)**	**(26)**	**0%**	(63)	(63)	0%
	(196)	**(116)**	**-1%**	(267)	(179)	-1%
NET INVESTMENTS	**17,503**	**14,915**	**100%**	15,958	13,606	100%

Net assets by portfolio mandate are:

As at December 31 ($ millions)	Fixed income	Public equity	Real estate	Private markets	Commodities	Total
2014						
Cash & short-term investments	**2,082**	**173**	**22**	**–**	**495**	**2,772**
Other investment assets	**2,955**	**5,746**	**3,040**	**3,351**	**362**	**15,454**
Investment related assets	**38**	**30**	**212**	**26**	**–**	**306**
Investment related liabilities	**(87)**	**(24)**	**(880)**	**(38)**	**–**	**(1,029)**
NET INVESTMENTS	**4,988**	**5,925**	**2,394**	**3,339**	**857**	**17,503**
2013						
Cash & short-term investments	1,323	163	17	–	790	2,293
Other investment assets	2,726	5,774	2,654	3,142	–	14,296
Investment related assets	153	35	184	35	1	408
Investment related liabilities	(242)	(56)	(688)	(46)	(7)	(1,039)
NET INVESTMENTS	3,960	5,916	2,167	3,131	784	15,958

The above table is disclosed on a consolidated basis whereby investment assets and investment liabilities are separately disclosed.

a. Fair Value Hierarchy

OPTrust's financial instruments are categorized within the fair value hierarchy as described in Note 2 as follows:

2014

As at December 31 ($ millions)	Level 1	Level 2	Level 3	Total
Fixed income				
Cash	**642**	**–**	**–**	**642**
Short-term investments	**8**	**2,100**	**–**	**2,108**
Government and corporate bonds	**–**	**2,001**	**–**	**2,001**
Real return bonds	**–**	**446**	**–**	**446**
Bank loans	**–**	**145**	**–**	**145**
Pooled fixed income funds	**6**	**105**	**–**	**111**
Government of Ontario debentures	**–**	**–**	**–**	**–**
Public equity				
Canadian and foreign equity	**5,731**	**7**	**–**	**5,738**
Pooled equity funds	**20**	**34**	**35**	**89**
Hedge funds	**–**	**–**	**532**	**532**
Real estate	**(2)**	**(684)**	**3,080**	**2,394**
Private markets	**21**	**–**	**3,318**	**3,339**
Investment related assets	**90**	**64**	**–**	**154**
Investment related liabilities	**(90)**	**(106)**	**–**	**(196)**
NET INVESTMENTS	**6,426**	**4,112**	**6,965**	**17,503**

2013

As at December 31 ($ millions)	Level 1	Level 2	Level 3	Total
Fixed income				
Cash	317	–	–	317
Short-term investments	–	1,958	–	1,958
Government and corporate bonds	–	1,452	–	1,452
Real return bonds	–	577	–	577
Bank loans	–	90	–	90
Pooled fixed income funds	5	179	–	184
Government of Ontario debentures	–	177	–	177
Public equity				
Canadian and foreign equity	5,745	4	–	5,749
Pooled equity funds	48	27	32	107
Hedge funds	–	–	165	165
Real estate	(2)	(541)	2,710	2,167
Private markets	9	–	3,122	3,131
Investment related assets	118	33	–	151
Investment related liabilities	(152)	(115)	–	(267)
NET INVESTMENTS	6,088	3,841	6,029	15,958

There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2014.

The following table presents a reconciliation of financial instruments included in Level 3 of the fair value hierarchy:

2014 **For the year ended December 31 ($ millions)**	**Hedge and Pooled funds**	**Real estate**	**Private markets**	**Total**
Balance, beginning of year	**197**	**2,710**	**3,122**	**6,029**
Investment income	**–**	**80**	**167**	**247**
Realized gains	**1**	**85**	**1,013**	**1,099**
Unrealized gains/(losses)[a]	**43**	**103**	**(15)**	**131**
Purchases	**336**	**542**	**625**	**1,503**
Sales	**(10)**	**(440)**	**(1,594)**	**(2,044)**
Transfers into or (out of) Level 3	**–**	**–**	**–**	**–**
BALANCE, END OF YEAR	**567**	**3,080**	**3,318**	**6,965**

2013 For the year ended December 31 ($ millions)	Hedge and Pooled funds	Real estate	Private markets	Total
Balance, beginning of year	–	2,655	2,453	5,108
Investment income	–	86	116	202
Realized gains	–	94	25	119
Unrealized gains[a]	4	121	357	482
Purchases	193	427	338	958
Sales	–	(673)	(167)	(840)
Transfers into or (out of) Level 3	–	–	–	–
BALANCE, END OF YEAR	197	2,710	3,122	6,029

a Unrealized gains are attributable to investments held at December 31, 2014 and December 31, 2013.

There were no settlements of Level 3 financial instruments for the years ended December 31, 2014 and 2013.

Sensitivity to changes in assumptions

Sensitivity information is available for direct investments in real estate and most infrastructure, and is presented in the table below. Sensitivity changes for the underlying investments in our hedge and pooled funds are immaterial.

As at December 31, 2014 ($ millions)	**Key factor**	**Fair value**	**+0.25%**	**-0.25%**
Real estate	Capitalization rate[a]	1,802	(65)	70
Mortgages related to real estate	Interest rate	684	(7)	7
Infrastructure	Discount rate[b]	738	(21)	21

a A rate of return to derive the value of an investment property based on it’s expected income stream.

b The interest rate used in a discounted cash flow analysis to determine the present value of future cash flows.

b. Significant Investments

At December 31, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets.

2014 As at December 31 ($ millions)	**Number of investments**	**Fair value**	**Cost**
Fixed income	3	662	529
Private markets	5	1,421	1,203

2013 As at December 31 ($ millions)	Number of investments	Fair value	Cost
Fixed income	7	1,534	1,378
Private markets	8	1,934	1,472

The investments where the individual issue has a cost or fair value exceeding 1% of the cost or fair value of net investment assets were comprised of one or more holdings of the following:

Fixed income:

Government of Canada

Private markets:

Kemble Water Holdings Limited, Harvest Pipeline Company, Star Atlantic Waste Holdings, Firelight Infrastructure Partners L.P. and Globalvia Infraestructuras, S.A.

5. Net Investment Income

2014 For the years ended December 31 ($ millions)	Investment income	Realized gains/(losses)[a]	Unrealized gains/(losses)[a]	Total Investment income/ (losses)
Fixed income				
Cash and short-term investments	**11**	**45**	**(2)**	**54**
Government and corporate bonds				
Canadian	**51**	**13**	**74**	**138**
Foreign	**12**	**4**	**(4)**	**12**
Real return bonds				
Canadian	**10**	**53**	**–**	**63**
Foreign	**–**	**–**	**–**	**–**
Bank loans	**5**	**2**	**4**	**11**
Pooled fixed income funds	**1**	**–**	**7**	**8**
Government of Ontario debentures	**17**	**(2)**	**(14)**	**1**
	107	**115**	**65**	**287**
Public equity				
Canadian	**51**	**153**	**(12)**	**192**
Foreign	**88**	**436**	**(23)**	**501**
Pooled equity funds	**–**	**1**	**5**	**6**
	139	**590**	**(30)**	**699**
Hedge funds	**–**	**1**	**43**	**44**
Real estate	**102**	**85**	**103**	**290**
Private markets				
Private equity	**20**	**46**	**81**	**147**
Infrastructure	**149**	**967**	**(96)**	**1,020**
	169	**1,013**	**(15)**	**1,167**
Gains/(losses) from derivative instruments	**–**	**(549)**	**53**	**(496)**
	517	**1,255**	**219**	**1,991**
Investment management expenses				
External manager fees				**(85)**
Custodial fees				**(2)**
Transaction fees				**(16)**
Investment operating expenses				**(70)**
				(173)
NET INVESTMENT INCOME				**1,818**

a The change in the fair value of investment assets and liabilities of $1,474 million as disclosed in the Statement of Changes in Net Assets Available for Benefits reflects the total realized gains/(losses) and unrealized gains/(losses).

2013 For the years ended December 31 ($ millions)	Investment income	Realized gains/(losses)[a]	Unrealized gains/(losses)[a]	Total Investment income/ (losses)
Fixed income				
Cash and short-term investments	11	35	7	53
Government and corporate bonds				
Canadian	57	(9)	(61)	(13)
Foreign	1	(1)	2	2
Real return bonds[b]	19	146	(272)	(107)
Bank loans	2	–	2	4
Pooled fixed income funds	5	–	3	8
Government of Ontario debentures	39	(2)	(33)	4
	134	169	(352)	(49)
Public equity				
Canadian	47	88	195	330
Foreign	77	278	468	823
Pooled equity funds	1	1	9	11
	125	367	672	1,164
Hedge funds	–	1	2	3
Real estate	111	94	121	326
Private markets				
Private equity	11	20	100	131
Infrastructure	97	6	258	361
	108	26	358	492
Gains/(losses) from derivative instruments	–	(53)	(112)	(165)
	478	604	689	1,771
Investment management expenses				
External manager fees				(71)
Custodial fees				(2)
Transaction fees				(16)
Investment operating expenses				(67)
				(156)
NET INVESTMENT INCOME				1,615

a The change in the fair value of investment assets and liabilities of $1,293 million as disclosed in the Statement of Changes in Net Assets Available for Benefits reflects the total realized gains/(losses) and unrealized gains/(losses).

b There was no income related to foreign real return bonds.

6. Pension Obligations

a. Financial Statement Valuation

The Plan annually reviews the actuarial assumptions used in the financial statement valuation to ensure that they reflect management's best estimate of expected trends. The key assumptions used for the valuation are as follows:

As at December 31	**2014**	2013
Inflation rate	**2.00%**	2.25%
Discount rate (real)	**4.10%**	4.15%
Discount rate (nominal)	**6.10%**	6.40%
Salary increases (nominal)	**2.75%**	1.00% for 2014 and 3.00% thereafter

Experience gains of $52 million (2013 – $39 million) on the Plan's pension obligations are due to differences between actuarial experience and assumptions. The assumption change losses of $441 million (2013 – $329 million) on the Plan's pension obligations are due to the actuary's recommended revision of demographic assumptions in the amount of $235 million (2013 – $145 million), and economic assumptions in the amount of $206 million (2013 – $184 million).

The annual inflation assumption decreased from 2.25% as at December 31, 2013 to 2.00% as at December 31, 2014 to reflect lower inflation expectations. Correspondingly, all inflation linked assumptions, such as salary increases, have decreased by 0.25%.

The annual valuation discount rate decreased from 6.40% as at December 31, 2013 to 6.10% as at December 31, 2014 to reflect the reduction in the inflation assumption, changes to market conditions, expected return for the Plan, and a small increase in the margin reflecting the Plan's sustainability focus.

b. Funding Valuation

The funding valuation is based on the modified aggregate method. This method considers a time horizon that includes accumulation of benefits and receipt of contributions in respect of current members in future periods. Generally, the actuarial assumptions used to determine the pension obligations for funding purposes are more conservative than those used for the financial statement valuation. The funding valuation is used to identify gains or losses, which are allocated equally between members and the Government of Ontario. Gains are allocated at the discretion of the sponsors to fund benefit improvements, reduce contributions, reduce any existing funding deficiencies or are set aside in the form of rate stabilization reserves. Funding deficiencies resulting from losses are funded over a maximum of 15 years from either increased contributions or rate stabilization reserves. Pension obligations are valued using economic assumptions developed by reference to long-term market conditions.

In accordance with the *Pension Benefits Act* of Ontario and the *Income Tax Act* (Canada) and Regulations, an actuarial valuation for funding purposes is required to be filed at least every three years to estimate the Plan's gains or losses, and to determine the Plan's funding requirements. The last funding valuation was prepared by Towers Watson as at December 31, 2014, and is expected to be filed with the Financial Services Commission of Ontario (FSCO) in 2015. The key assumptions used for the funding valuation as at December 31, 2014 are the same as those used for the financial statement valuation, except that the assumed rate of return on plan assets is reduced by 0.25% as a margin of conservatism.

In October 2012, the Government of Ontario reached a five-year agreement with three jointly sponsored pension plans, including the OPSEU Pension Plan. During this period, the Plan is eligible for a single four year valuation filing cycle between December 31, 2012 and December 30, 2017. OPTrust filed the December 31, 2013 funding valuation and the next funding valuation is not required until December 31, 2017. The sponsors have agreed that the contribution rate will not exceed current levels and any deficits, should they occur, will be dealt with by reducing future benefits, until at least December 31, 2017. Accrued benefits are protected under the *Pension Benefits Act* of Ontario and cannot be reduced.

7. Rate Stabilization Reserves

For the years ended December 31 ($ millions)	2014	2013
Member fund		
Balance, beginning of year	**216**	379
Rate stabilization reserves draw down	**(206)**	(144)
Interest earned on funds	**–**	14
Use of reserves for funding deficiency	**–**	(33)
	(206)	(163)
BALANCE, END OF YEAR	**10**	216
Employer fund		
Balance, beginning of year	**304**	473
Rate stabilization reserves draw down	**(206)**	(144)
Interest earned on funds	**6**	19
Adjustment due to collectively bargained temporary benefits	**–**	(11)
Use of reserves for funding deficiency	**–**	(33)
	(200)	(169)
BALANCE, END OF YEAR	**104**	304

The sponsors have directed to fund the deficit identified in the December 31, 2013 funding valuation filed with FSCO in a lump sum payment of $206 million per sponsor.

8. Unallocated Surplus

For the years ended December 31 ($ millions)	2014	2013
Unallocated surplus/(deficit), beginning of year	**474**	(336)
Experience gains/(losses) related to financing pension obligations		
Net investment income	**1,818**	1,615
Interest accrued on benefits	**(946)**	(908)
	872	707
Other experience gains/(losses)		
Contributions net of benefits accrued	**87**	95
Assumption change losses	**(441)**	(329)
Experience gains	**52**	39
Administrative expenses	**(20)**	(23)
	(322)	(218)
Other changes		
Net transfer from rate stabilization reserves	**406**	321
	406	321
NET INCREASE IN UNALLOCATED SURPLUS	**956**	810
UNALLOCATED SURPLUS, END OF YEAR	**1,430**	474

9. Capital

OPTrust defines capital as the funded position of the Plan, whether in surplus or deficit, as referenced in Note 8 Unallocated Surplus. Surplus is generated during periods of strong economic performance and drawn down during periods of poor economic performance in order to maintain the Plan's capacity to pay its pension obligations without unduly affecting contribution levels.

The objective of managing capital is to ensure the Plan is fully funded to pay the plan benefits over the long term. A funding valuation is used to manage capital by identifying gains or losses as described in Note 6. The Plan prudently manages its investments, contribution rates and benefits to meet or exceed its long-term funding requirement in accordance with its Funding Policy, Asset Mix Policy and the Statement of Investment Policies and Procedures (SIP&P). The SIP&P was established in 1995 and was last amended November 2014. As part of this last review, the policy was updated to reflect considerations related to environmental, social and governance (ESG) factors and active ownership.

While OPTrust is not under regulatory requirements as it relates to capital, the *Pension Benefits Act* of Ontario requires that deficits be funded over a period not to exceed 15 years and that an actuarial valuation for funding purposes be filed periodically (refer to Note 6 for additional information).

The following asset classes are defined as part of the Reference Portfolio (Asset Mix) Policy and noted in the SIP&P:

Fixed Income
Cash, Nominal Bonds, Real Return Bonds.

Real Assets
Real Estate, Infrastructure, Commodities – Energy.

Equity
Canadian Public Equity, Developed Public Equity, Emerging Public Equity, Private Equity.

The Total Fund portfolio is managed within an active risk budget based on active VaR at 95% confidence level relative to the benchmark. As at December 31, 2014, the portfolio was below the limit. The SIP&P references the asset mix targets for the Long-Term Reference Portfolio. The following table presents the portfolio mandates and targets per the SIP&P and asset mix as at December 31, 2014.

	Asset allocation		
For the years ended December 31 (%)	SIP&P Target	2014 Actual	2013 Actual
Portfolio mandate			
Total equity			
Canadian public equity	8.0%	10.4%	11.5%
Developed public equity	14.0%	15.9%	16.8%
Emerging public equity	8.0%	7.5%	8.7%
Private equity	10.0%	7.3%	4.9%
	40.0%	41.1%	41.9%
Real assets			
Real estate	15.0%	13.6%	13.5%
Infrastructure	15.0%	11.7%	14.5%
Commodity – energy	5.0%	4.9%	4.9%
	35.0%	30.2%	32.9%
Fixed income			
Cash	2.5%	7.7%	5.3%
Nominal bonds	20.0%	18.5%	17.4%
Real return bonds	2.5%	2.5%	2.5%
	25.0%	28.7%	25.2%
TOTAL	100.0%	100.0%	100.0%

The Fund's investment positions are discussed in Note 4. The allocation of assets among the various asset categories is monitored on a daily basis. A comprehensive review is conducted quarterly by the Investment Committee which includes measurement of returns, comparison of returns to appropriate benchmarks and compliance with the risk budget.

The Fund's minimum required long-term rate of return (net of all expenses), established through the most recent actuarial valuation, is 5.85% nominal (2013 – 6.15%) and 3.85% real (2013 – 3.9%). The volatility of the Fund's return is directly related to market conditions, the asset mix, the investment structure, leverage and the use of active investment management. The expected volatility of the Fund's return over the long-time horizon should be similar to the volatility of the target asset portfolios. The since inception funding target is 7.1% (2013 – 7.2%) and the Total Fund return net of internal and external investment expenses is 8.4% (2013 – 8.3%).

The table below presents the net annual rate of investment return for each portfolio mandate and total investments, along with the relevant benchmarks.

For the years ended December 31 (%)	Benchmark	Net annual rate of investment return			
		Benchmark 2014	Benchmark 2013	**Actual 2014**	Actual 2013
Portfolio Mandate[a]					
Total equity					
Canadian equity	S&P/TSX Composite Benchmark	**10.5%**	13.0%	**10.0%**	21.0%
Developed equity	MSCI World Index	**14.3%**	35.1%	**14.4%**	34.5%
Emerging equity	MSCI EMF Index	**6.4%**	3.7%	**9.8%**	7.3%
Private equity	Custom Private Equity Benchmark	**12.8%**	27.1%	**11.3%**	10.8%
Real assets					
Real estate	Custom IPD Index	**6.3%**	7.9%	**10.0%**	12.4%
Infrastructure	Consumer Price Index + 5.5%	**7.4%**	6.3%	**48.0%**	11.6%
Energy commodities	S&P/GSCI Enhanced Energy Index[b] Benchmark	**-37.2%**	11.8%	**-36.2%**	12.7%
Fixed income					
Cash & short term investments	Cash Composite Benchmark	**1.9%**	0.6%	**1.6%**	0.8%
Nominal bonds	Nominal Bond Composite Benchmark	**8.7%**	-1.8%	**7.5%**	-0.9%
Real return bonds	Real Return Bond Composite Benchmark	**13.2%**	-12.7%	**13.2%**	-12.7%
TOTAL		**6.2%**	8.7%	**12.0%**	11.7%

a The asset categories are based on investment mandates and may not reconcile to accounting classifications.
b For 2013, the benchmark is S&P/GSCI Energy Index.

Investment returns are calculated net of external management fees and utilize a time-weighted rate of return methodology in accordance with industry standards. The returns for the Private Equity, Real Estate and Infrastructure asset categories are reported on a 100% hedged basis. The returns for all other asset categories are reported on an unhedged basis. The Total Fund return reflects the results of all currency hedging related activities.

10. Contributions

For the years ended December 31 ($ millions)	2014	2013
Members		
Current service[a]	**232**	232
Prior service	**15**	14
Long-term income protection[b]	**14**	15
	261	261
Employers		
Current service	**232**	231
Prior service	**8**	8
Long-term income protection	**14**	15
	254	254
Transfers from other plans	**14**	24
TOTAL CONTRIBUTIONS	**529**	539

a All contributions paid by members for current service are required contributions.
b The employer pays the members' contributions for long-term income protection.

OPTrust has an appropriate reconciliation process which reconciles contributions for each employer on a member by member basis. This detailed process ensures that contributions are consistent with member information supplied by the employers.

11. Benefit Payments

For the years ended December 31 ($ millions)	2014	2013
Retirement pensions	**646**	614
Transfers to Public Service Pension Plan	**69**	78
Transfers to other plans	**17**	86
Refunds, commuted value transfers and deaths	**66**	106
TOTAL BENEFIT PAYMENTS	**798**	884

12. Pension Administrative Expenses

For the years ended December 31 ($ millions)	2014	2013
Salaries and benefits	**14**	14
Professional and administrative services	**2**	4
Information technology	**1**	2
Office premises and operations	**2**	2
Communications	**1**	1
TOTAL PENSION ADMINISTRATIVE EXPENSES	**20**	23

Total professional and administrative services include external audit expense of $281 thousand in 2014 (2013 – $261 thousand) and actuarial expenses of $352 thousand in 2014 (2013 – $490 thousand). Towers Watson, the Plan's actuaries were appointed in July 2013.

13. Guarantees, Commitments and Contingencies

In the normal course of its business, the Plan may, from time to time, provide guarantees to various counterparties and enter into commitments which may be considered material within the context of the Fund. The Plan has committed to fund certain investments over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2014, these commitments totaled $2,581 million (2013 – $2,595 million).

OPTrust indemnifies its trustees and staff against certain claims that may be made against them to the extent that these individuals are not covered under other arrangements. There are no guarantees that might be considered material and outstanding as at December 31, 2014, and December 31, 2013.

As at December 31, 2014, the Plan was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims are often inherently difficult to predict. Any liability that may arise from these litigations have been recognized as appropriate or have been determined to have an immaterial impact on the financial statements of the Plan.

14. Related Party Disclosures

OPTrust, in the normal course of business, purchased bonds at the prevailing market prices that were issued by the Province of Ontario, a joint sponsor of the plan and whose employees are members of the Plan. The fair market value of the bonds as at December 31, 2014, was $484 million (2013 – $361 million). Earned income recorded on the bonds amounted to $20 million for the year ended December 31, 2014 (2013 – $18 million).

Upon inception of the Plan in 1995, Government of Ontario non-marketable debentures were issued to the Plan to cover part of the government's pension liability. These debentures matured in 2014. The fair value of these debentures including accrued interest as at December 31, 2013, was $177 million. Earned income recorded on the debentures amounted to $17 million for the year ended December 31, 2014 (2013 – $39 million).

The Trustees of the Plan do not receive compensation from OPTrust. Reimbursement for Trustee related incidental expenses and education received by Trustees totaled $98 thousand in 2014 (2013 – $57 thousand). The Trustees appointed by the Province of Ontario receive $200 per meeting that they attend and are paid directly by the Province. Trustees appointed by OPSEU are compensated by the union for any loss of regular income as a result of time spent fulfilling their duties as a member of OPTrust's Board.

15. Key Management Personnel Compensation

Key management personnel consist of senior executives at OPTrust having authority and responsibility for planning and directing the activities of the Trust. The aggregate key management personnel compensation is shown below:

For the years ended December 31 ($ thousands)	**2014**	2013
Salaries and short-term employee benefits	**3,127**	2,049
Post-employment benefits	**208**	237
Other long-term benefits	**917**	525
	4,252	2,811

Ten-Year Financial Review

($ millions)	**2014**	2013	2012	2011	2010*	2009	2008	2007	2006	2005
CHANGES IN NET ASSETS										
Changes due to investment activities	**1,818**	1,615	1,237	578	1,530	1,348	(2,435)	659	1,537	1,564
Changes due to pension activities	**(289)**	(368)	(235)	(192)	(202)	(346)	(179)	(197)	(213)	(223)
INCREASE/(DECREASE) IN NET ASSETS	**1,529**	1,247	1,002	386	1,328	1,002	(2,614)	462	1,324	1,341
NET ASSETS										
Investments										
Cash and short-term investments	**2,750**	2,275	2,251	2,296	1,395	2,149	3,251	3,165	3,419	874
Government and corporate bonds and debentures	**2,001**	1,629	1,887	2,201	2,282	2,242	2,405	2,782	2,967	2,689
Real return bonds	**466**	577	1,177	1,495	1,280	1,179	1,234	1,257	1,277	1,103
Bank loans	**145**	90	–	–	–	–	–	–	–	–
Pooled funds – fixed income and equity	**200**	291	126	–	170	156	60	79	399	566
Public equity – Canadian and foreign	**5,738**	5,749	4,664	4,213	5,731	5,051	3,976	7,038	6,827	6,031
Hedge funds	**532**	165	–	–	–	–	–	–	–	–
Real estate	**2,394**	2,167	2,148	1,802	1,419	1,582	1,521	1,201	777	542
Private markets	**3,339**	3,131	2,460	1,516	1,079	862	686	466	228	–
Investment related assets	**154**	151	149	265	142	131	231	76	96	96
	17,699	16,225	14,862	13,788	13,498	13,352	13,364	16,064	15,990	11,901
Contributions receivable	**52**	58	56	50	44	39	39	40	34	37
Other assets	**4**	5	5	6	2	2	3	3	4	5
TOTAL ASSETS	**17,755**	16,288	14,923	13,844	13,544	13,393	13,406	16,107	16,028	11,943
Liabilities										
Accounts payable and accrued charges	**(78)**	(69)	(64)	(64)	(57)	(79)	(41)	(32)	(25)	(17)
Investment related liabilities	**(196)**	(267)	(154)	(77)	(170)	(1,325)	(2,378)	(2,474)	(2,864)	(111)
TOTAL LIABILITIES	**(274)**	(336)	(218)	(141)	(227)	(1,404)	(2,419)	(2,506)	(2,889)	(128)
NET ASSETS AVAILABLE FOR BENEFITS	**17,481**	15,952	14,705	13,703	13,317	11,989	10,987	13,601	13,139	11,815
Accrued pension benefits	**15,937**	14,958	14,189	13,499	12,923	12,313	11,631	11,114	10,460	9,944
Actuarial asset value adjustment	**–**	–	–	–	–	(1,523)	(2,428)	565	1,341	899
Rate stabilization reserves	**114**	520	852	830	820	811	938	408	427	446
Unallocated surplus/(deficit)	**1,430**	474	(336)	(626)	(426)	388	846	1,514	911	526
SURPLUS	**1,544**	994	516	204	394	1,199	1,784	1,922	1,338	972
INVESTMENT PERFORMANCE (%)										
Rate of Return**	**12%**	11.7%	9.6%	5.0%	13.4%	13.1%	-17.9%	5.0%	13.7%	15.2%
After inflation	**10.5%**	10.5%	8.8%	2.7%	11.0%	11.8%	-19.1%	2.6%	12.1%	13.2%
Benchmark	**6.2%**	8.7%	7.0%	3.8%	10.4%	12.5%	-17.7%	4.5%	11.7%	14.6%
After inflation	**4.7%**	7.4%	6.2%	1.5%	8.0%	11.2%	-18.8%	2.1%	10.0%	12.5%

* Starting with 2010, amounts are presented in accordance with Chartered Professional Accountants (CPA) Canada Handbook Section 4600-Pension Plans and IFRS.
** Investment returns are calculated net of external management fees and utilize a time-weighted rate of return methodology in accordance with industry standards.

OPTrust

OPSEU Pension Trust

Fiducie du régime de retraite du SEFPO

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OPTrust Publications

It's Your Pension

Your Pension and Divestments

Your Pension and Planning Your Retirement

Your Pension during Retirement

OPTrust Proxy Voting Guidelines

OPTions – newsletter for plan members

The Pension Connection – newsletter for retirees

Fact Sheets – on various topics for members and retirees

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

ISSN 1204-0525