

www.opb.on.ca

Our Promise

Success. Long Term.



Ontario Pension Board

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Ontario Pension Board

2003 REPORT TO PENSIONERS

OUR MISSION

OPB's mission is to excel in the provision of pension benefits by:

- Delivering high-quality, cost-effective services to Plan participants
- Enhancing fund value by the prudent maximization of long-term investment returns

OUR OBJECTIVES

- Provide security for promised benefits
- Minimize the risk of an unfunded liability
- Allow our sponsor to provide stable and reasonable contribution rates

OUR CORE VALUES

- Commitment to excellence
- Achievement through teamwork, leadership and client service
- Trust, fairness and respect in the treatment of Plan participants
- Accountability to Plan participants

Client Profile

as at December 31, 2003



WHO WE ARE The Ontario Pension Board's (OPB) prime goal is to secure the pension promise to beneficiaries of the Public Service Pension Plan ("PSPPlan"). OPB operates on an arm's-length basis from the Plan's sponsor, the Province of Ontario, which sets contribution rates, defines pension benefits, and guarantees the pensions 100%. This guarantee is unique among public service pension plans in Ontario.

OPB is both trustee and administrator of the Plan, one of Canada's largest pension plans, with assets in excess of \$12 billion, and has approximately 31,450 contributing members employed by the various Ontario ministries, agencies, boards and commissions, and approximately 38,400 pensioners and their survivors.

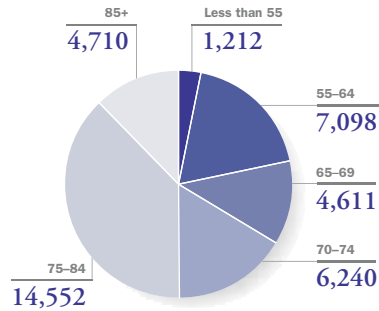
Dating from 1920, the PSPPlan is also one of Canada's oldest pension plans, and as a result of a long series of amendments, legislative changes, and changes to its own provisions, it is one of the most complex pension plans to administer.

38,400 Active Pensioners

The PSPPlan fully protects pensioners from inflation. Under the terms of the Plan, every year pensioners receive an adjustment for inflation, which is called the “Escalation Factor.” Effective January 1, 2004, pensions were adjusted by an Escalation Factor of 3.3%. Pensioners who retired in 2003 receive a pro-rated adjustment based on the number of months they were on pension in 2003.

The Escalation Factor is calculated based upon changes in the Consumer Price Index for the 24-month period ending on September 30 of the preceding year. Although increases are capped at 8% a year, any excess is carried forward.

Age Distribution of Active Pensioners
as at December 31, 2003



4,300 Deferred Pensioners

Prior to age 55, members who terminate from the Plan are provided the option of either receiving their entitlement as a pension at a future date or transferring it outside the PSPPlan. Those 55 and over are required to take a pension at a future date. A deferred pension is calculated according to the normal retirement pension formula as payable from the normal retirement date (age 65). About 74% of our deferred pensioners are under age 55.

Pensioners	2003	2002
Number of active pensioners at beginning of year	39,000	39,300
Additions, including new retirees, previously deferred	1,150	1,400
Deceased pensioners	(1,150)	(1,100)
Deceased survivors of original pensioner	(600)	(600)
Number of active pensioners at end of year	38,400	39,000

Responding to Pensioner Needs	2003
Telephone calls	19,763
Information Changes	13,778

Experience Governance and the Board of Directors

The Board of Directors has a minimum of four members. All members are appointed by the Lieutenant Governor in Council, normally for three-year terms which may be renewed. At least one Director must represent Plan members who are members of a bargaining agent with whom the Ontario government has a collective agreement. Board appointees may be selected for their expertise in the management, investment or administration of pension plans or to represent the concerns of the Crown, members who contribute to the Fund or Plan pensioners.

The objective of OPB’s Board of Directors is to ensure that the Plan’s two main responsibilities, as trustee and administrator of the Plan, are fulfilled in the best interests of the beneficiaries of the Public Service Pension Plan. The Board must also ensure compliance with the Plan text and all applicable legislative and regulatory standards, principally the *Public Service Pension Act (PSPAct)*, the *Pension Benefits Act (Ontario)* and the *Income Tax Act (Canada)*.

OPB has a set of governance policies and guidelines which are designed to permit the Board of Directors to represent the interests of the Plan’s members, pensioners and other beneficiaries. We recognize that governance principles are continuously evolving, and these policies and guidelines are regularly reviewed, evaluated and modified to meet the changing needs of OPB’s stakeholders. We also recognize that good governance depends on the integrity of our Board of Directors and our employees at all levels.

Leadership Letter from the Chairman & CEO, and President

We welcome this opportunity to report on the investment performance of the Fund's assets in 2003, as well as on our administrative achievements and activities. In so doing, we add to a steady record of effectively fulfilling our mandate to our members and pensioners.

OPB's mandate is twofold. On the investment side, our mandate is to achieve consistent and steady growth of fund assets over the longer term. We accomplish this through prudent decision-making and a disciplined approach focused on capital preservation, recognizing the need for steady cash flow generation to satisfy the requirement to pay our pensioners. Our primary focus is the real rate of return requirement to fund our pension promise, and our objective is to achieve growth over the long term that exceeds the rate of inflation by at least 3.75% per year on average.

The foundation for our investment philosophy is derived from our history and the Fund's unique characteristics. Unlike most major public sector pension plans, we have more pensioners and other beneficiaries than we have contributing active members. Also, our single Plan Sponsor sets both pension benefits and contribution rates, and fully guarantees pension payments.

We outsource investment management to eight highly skilled external fund managers who invest under specific long-term market sector mandates. The success of our investment strategy is evident in our performance since the establishment of the Plan in 1990. Our average annual return from inception to the end of 2003 was 10.37%. This long-term average has placed us among the leaders for public sector pension plans in Canada. Our rate of return in 2003 was 10.77%.

The second part of our mandate is to excel in the provision of pension benefits by delivering the highest quality service to members and pensioners at a reasonable cost. In 2003, we made significant progress in enhancing the services we provide through the registration of our business processes under ISO 9001:2000. ISO, a worldwide organization of national standards bodies, conducts independent reviews of our business by examining both our documented processes and how we execute them.

Communicating timely and accurate information to Plan members and beneficiaries is a keystone of our role as the Plan's Administrator. Our communications, e-communications and member enrolment business processes obtained ISO certification in 2003, and we will continue to certify key business processes in 2004. A key product of ISO certification is enhanced content on the OPB Web site, a source of timely, relevant and clear information for members and pensioners, enabling them to make the right choices for their specific needs.

In our commitment to upholding our current service level standards, we continue to upgrade our telephone system, call handling procedures and staff training. Our telephone response time is under 13 seconds and our call abandonment rate is down to less than 1%.

Pension plan administrators require access to specific private information about members and beneficiaries. We are refining our own privacy protection practices, using guidelines set down by the Canadian Standards Association and federal legislation as a model. Our objective is to ensure the personal information provided to us by members is protected from unauthorized use, and treated with confidentiality and respect.

FUTURE CHALLENGES OPB faces a number of challenges over the coming years. The Special Province of Ontario Debentures, which are a significant component of our fixed return investments and provide excellent returns, will mature over the next 11 years. We are actively identifying investments with similar attributes that will gradually be added to the portfolio over this time frame.

Finally, we are strengthening our adaptability to changes in legislation and pension plan design to ensure we continue to fulfill the pension promise to all beneficiaries in an efficient, accurate and cost-effective way. OPB's approach to its investment mandate will continue to be carefully maximizing our investment returns while preserving capital. We set a strategy more than a decade ago that has kept us at the forefront of the pension industry, and we believe it remains the right strategy for today and for tomorrow.



LEONARD LU
President



DONALD D. WEISS
Chairman & CEO

Commitment Investing the Plan's Assets

OPB's objective is prudent maximization of long-term investment returns. Capital preservation is a guiding principle for us, and investment decisions follow careful consideration of risk to reward balance.

THE PORTFOLIO Our portfolio asset mix is diversified among quality stocks, fixed income securities and real estate. We periodically modify the portfolio mix based on a number of factors and continually look for investment opportunities that meet our investment objectives. We meet frequently with our investment managers to ensure their positioning meets our long-term performance objectives and is consistent with our investment beliefs.

MARKETABLE SECURITIES The major portion of our portfolio of marketable securities is managed by eight external fund managers. Their activities are closely monitored through comprehensive financial reporting and regular performance reviews to ensure that investments remain in high-grade securities.

SPECIAL PROVINCE OF ONTARIO DEBENTURES

The Debentures were provided to the Plan as a funding mechanism in 1990. They provide consistent, secure cash flow and high coupon rates of return.

REAL ESTATE AND PARTICIPATING MORTGAGES

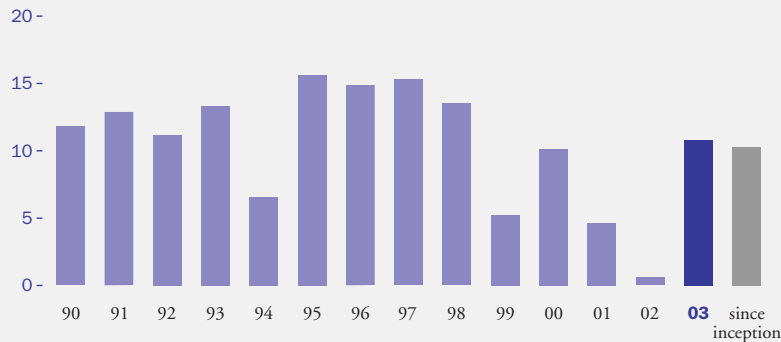
Since our first purchase in 1994, real estate has been an effective investment category for the Fund. OPB continually evaluates new and current properties and other real estate categories that meet our investment objectives.

Investment Review

In order to meet the Fund's liabilities for pension benefits, a long-term return of 3.75% in excess of inflation is necessary. OPB achieved a rate of return of 10.77% in 2003 compared with 0.48% in 2002.

Total Investment Returns

percent per annum

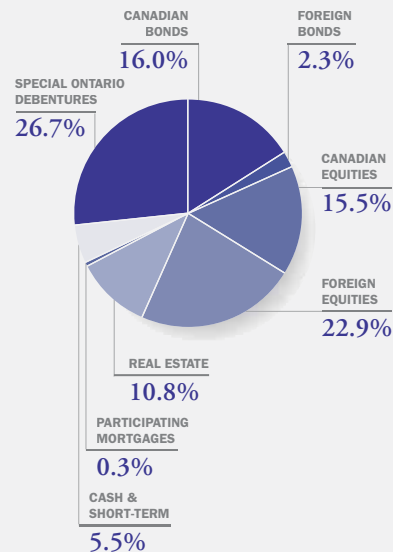


Since the OPB's inception in 1990, the Fund achieved an average annual rate of return of 10.37% with positive returns generated each year. These results reflect the OPB's steady record of long-term performance.

Our investments can be grouped into three broad categories:

Marketable Securities This portfolio of equities, bonds and cash equivalents is managed by eight portfolio managers and represents 61.7% of our investment portfolio. In 2003, our marketable security investments returned 10.32% (2002 – negative 5.99%).

Asset Mix
as at December 31, 2003



Fund managers adjust our exposure to particular securities, industries or geographic sectors or hold cash if they believe that market movements are not justified by fundamentals.

Special Province of Ontario Debentures The return on the Debentures – maturing over the next 11 years – was 11.89% in 2003 (2002 – 11.80%). (Based upon cost, as presented in the financial statements.)

The Debentures were provided to the Plan as a funding mechanism when it was first formed in 1990. It continues to be prudent to hold the Debentures to maturity since they provide consistent, secure high rates of return as well as stable cash flows.

Real Estate and Participating Mortgages Our total real estate portfolio earned a return of 10.58% in 2003 and an annualized average of 9.61% over the past 10 years.

Our real estate portfolio is valued at \$1.3 billion. It consists of nine wholly-owned shopping centres in major cities across Canada and one office complex in Toronto. The properties are 98.5% leased, and earned \$99.3 million in operating income.

In 2003, OPB invested \$16.0 million in participating mortgages, bringing the total to \$36.3 million. In May 2003, OPB acquired Hillside Shopping Centre in Victoria, BC for \$86.4 million. In addition, OPB invested \$25.3 million in renovations of the existing properties, and is planning to expand leasable area by 125,000 square feet in 2004.

Contributions

The Plan Sponsor sets contribution rates for the Plan. For a year from March 2003, contributions for most members were reduced by 3% of salary while employers' contributions continued at the normal levels set out in the PSPPlan of 8% (with CPP integration). In addition, our contributing membership increased by 3.6% from 2002 to 2003.

Net Investment Income

Investment and custodial fees of \$13.6 million (2002 – \$13.6 million) were deducted from net investment income. These amounts consist primarily of fees paid to our fund managers as well as our custodian.

Transfers from Other Plans, and Termination Payments and Transfers

The day-to-day business of the Plan includes the transfer of commuted values and other accrued benefits between pension plans and to other beneficiaries. Many transfers are required when an employee becomes a PSPPlan member after transferring from an OPSEU represented position (or vice versa), often with the same employer. In 2003, there were 1,190 transfers into the Plan from the OPSEU Pension Trust (OPT) and 145 transfers out of the Plan to the OPT.

Pensions Paid

While there were fewer pensioners in 2003 than in 2002, the average pension paid increased. This was partly due to a 1.6% escalation in 2003. Our monthly cash requirement to pay our pensions is now \$60 million.

Operating Expenses

Operating expenses represent the costs of service to our members and continuing investment to improve the quality and timeliness of our service. Our 2003 expenses include a \$1.3 million cumulative catch-up adjustment to reflect the accrual of staff vacation and termination benefits. Operating expenses of \$16.4 million, together with investment management and custodial fees of \$13.6 million, represent less than \$0.25 per \$100 of assets (\$0.24 in 2002).

Five-Year Review

	2003	2002	2001	2000	1999
<i>(in millions of dollars)</i>					
Opening assets	\$ 11,489.6	\$ 11,945.1	\$ 11,951.2	\$ 11,196.0	\$ 10,973.9
Investment income	1,201.2	41.8	517.7	1,111.0	569.0
Regular contributions	270.9	135.2	130.2	176.5	200.8
Unfunded liability payments	–	–	–	106.1	121.3
Transfers	108.4	144.5	103.0	143.2	38.1
	1,580.5	321.5	750.9	1,536.8	929.2
Pension payments	728.5	721.2	695.9	669.6	648.9
Terminations	41.2	42.1	45.7	100.3	47.0
Operating expenses	16.4	13.7	15.4	11.7	11.2
	786.1	777.0	757.0	781.6	707.1
Closing assets	\$ 12,284.0	\$ 11,489.6	\$ 11,945.1	\$ 11,951.2	\$ 11,196.0
Rate of return:					
Annual percent	10.77	0.48	4.52	10.19	5.37

BOARD OF DIRECTORS

DONALD D. WEISS

Chairman and Chief Executive Officer
 Formerly a senior executive in the financial services industry with more than 34 years in investment and banking, including 10 years with Canada Permanent and 16 with Morguard Trust Company, where he was president and CEO.

Appointed to the Board
 on March 31, 2000.

GEOFFREY HAROLD COLLINS

Chair, Investment Committee
 and member of the Audit
 and Special Committees
 Formerly corporate manager of Pension Investments for the Hudson Bay Company, equity manager for the Ontario Municipal Employees Retirement System (OMERS) and for Eaton's, and managed pension and endowment funds at Royal Trust.

Appointed to the Board
 on January 1, 2001.

HUGH GRANT MACKENZIE

Member of Pension Policy
 and Special Committees
 Currently principal in an economic consulting business – Hugh Mackenzie and Associates. Worked for over 30 years in a variety of capacities in the private sector, public policy development, and at all three levels of government.

Appointed to the Board
 on December 4, 2002.

DEBBIE L. MCKENNA

Chair, Pension Policy Committee
 and member of Human Resources,
 Investment and Special Committees
 Serves as an executive officer of Member Benefits and Services for the Ontario Provincial Police Association, where she has been employed for more than 23 years as an expert in pension policy and financial management.

Appointed to the Board
 on December 17, 1997.

JOHN E. RICHARDSON

Chair, Audit Committee
 and Chair, Special Committee
 Formerly deputy chairman of London Insurance Group Inc., and chairman, president and CEO of Wellington Insurance Company. Prior to that, was president of Great Lakes Power, and a partner with Ernst & Young LLP.

Appointed to the Board
 on February 6, 2002.

MARY TATE

Member of Pension Policy
 and Special Committees
 Currently, Assistant Deputy Minister of the Integrated Service Delivery Division with the Ministry of Consumer and Business Services since February 2003. Overall, she has more than 20 years' experience in the Ontario Public Service.

Appointed to the Board
 on November 20, 2002.

G. PATRICK H. VERNON

Chair, Human Resources Committee
 and member of Special Committee
 Currently associate counsel with McCarthy Tétrault LLP, and previously served on the board of directors of Mizuho Bank Canada, the wholly-owned subsidiary of a major Japanese bank, and of the Munich Reinsurance Company of Canada.

Appointed to the Board
 on October 1, 2001.

Corporate Directory

OFFICERS

DONALD D. WEISS

Chairman & CEO

LEONARD LU

President

MARK J. FULLER

Executive Vice-President

ROBERT F. KAY

*Senior Vice-President,
 Investments*

LINDA J. BOWDEN

*Vice-President,
 Corporate Services*

ANTONIA EVAGELOU

*Vice-President,
 Plan Administration*

PETER SHENA

*Vice-President,
 Pension Policy & Research*

DARLA S. SYCAMORE

*Treasurer & Director,
 Finance*

SENIOR MANAGEMENT

JOSEPH A.P. FARRUGIA

*Director, Planning &
 Information Technology*

PETER M.T. JOHNSON

*Director, Member &
 Pensioner Services*

MARK A. HENRY

*Director,
 Operational Policy*

ARMAND DE KEMP

Controller

KAREN KOJIMA

*Manager, Treasury
 & Investment Accounting*