

Ontario Pension Board

2011 Annual Report

OPB

Your Pension. **Our Promise.**

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About OPB

Who we are

Ontario Pension Board ("OPB") is the administrator of the Public Service Pension Plan ("PSPP" or "the Plan") – a major defined benefit pension plan sponsored by the Government of Ontario. Our membership base is made up of certain employees of the provincial government and its agencies, boards and commissions.

With more than $17 billion in assets, 42,711 members, 35,361 retired members and 4,391 former members, the PSPP is one of Canada's largest pension plans. It is also one of the country's oldest pension plans, successfully delivering the pension promise since the early 1920s.

Who we serve

OPB serves:

- PSPP members, retired members and employers ("clients"); and
- other key stakeholders (the Plan Sponsor, bargaining agents and the citizens of Ontario).

About your Plan

The PSPP is a defined benefit pension plan that is designed to enhance the financial security of its members. Retired members receive a pension benefit based on a pre-set (defined) formula. That formula takes into account each member's earnings history and years of service with the Plan. To fund the pension promise, both members and employers make contributions to the Plan.

Our promise

- Protect the long-term vitality of the Plan.
- Invest the Plan's assets to maximize returns within acceptable risk parameters.
- Keep contribution levels reasonably stable and affordable.
- Deliver superior, cost-effective service to clients and stakeholders so that they can realize the full value from their participation in the Plan.

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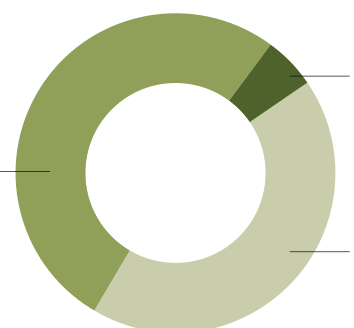
Client service highlights

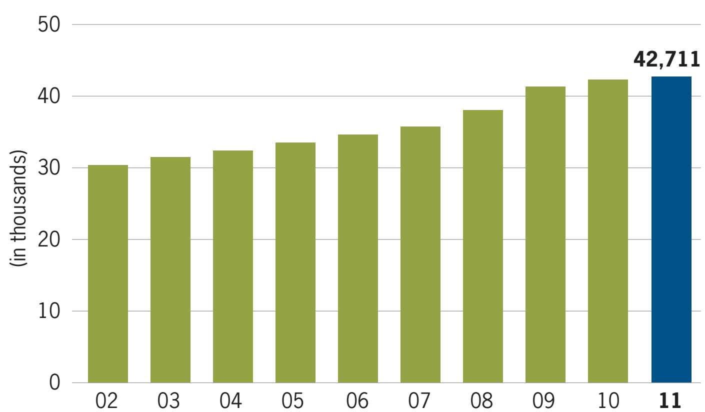
Throughout 2011, OPB pushed ahead with a range of business and service initiatives that support our continued emphasis on proactive services to members, operational efficiency and effectiveness, and fiscal responsibility. Highlights include:

- introducing a new "package" of online self-service tools, providing clients with access to personalized information online, 24/7,
- launching a sophisticated online retirement planning tool,
- developing the expertise needed to provide clients with greater support around retirement planning, and
- pilot testing a new knowledge management system that will streamline and expedite service.

Client profile



Growth in membership



Our efforts continue to produce positive results. Independent research ranks OPB second among its peers for client service. Even better, we've managed to achieve that recognition while holding the line on expenses and improving the tools and support we offer to Plan members.

At your e-service!

Have you registered yet for OPB's e-services? So far, more than 20% of members have signed up to take advantage of OPB's offering of e-services – including:

- an online retirement planning tool,
- getting a pension estimate,
- updating address information,
- changing beneficiary information,
- initiating the retirement process, and
- getting a quote for buying back past service.

Retired members also have access to a range of e-services.

If you are a member or retired member, you can access OPB's e-services (if you haven't already) at **www.opb.ca.** Simply go to the member or pensioner section, click on "e-services" and register.

Online service

17,578	pension estimates completed online
1,928	buyback cost estimates completed online
426	beneficiary designations updated online (introduced August 2011)
318	address changes completed online (introduced April 2011)

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Message from the Chair

OPB is a strong performing and highly cost efficient investment, pension and benefits delivery organization. During 2011, OPB progressed on many key objectives.

M. Vincenza Sera, Chair

Financially sound

At OPB, the financial stability of the PSPP is our top priority. This means generating the investment returns required to fund current benefit levels while maintaining stable and affordable contribution rates for both members and employers.

To support that objective, the Board approved a new strategic asset allocation ("SAA") in 2011. This new SAA gives our investment team the flexibility they need to deliver value-added returns. With the SAA in place, OPB is gradually and prudently increasing its investment exposure to private market investments such as real estate, infrastructure and private equity – a strategic move that will help us enhance returns, deliver a steady stream of cash flow, reduce volatility and provide an important hedge against inflation.

We firmly believe the new SAA will – within acceptable risk parameters – enable the PSPP to meet its long-term financial obligations to Plan beneficiaries. To realize the full potential of the new SAA, however, OPB must continue to broaden and deepen its investment expertise, enhance risk management processes, and upgrade systems for tracking and analyzing investment performance – all of which we are actively doing.

Cost efficient

OPB is, overall, one of the industry's lowest-cost pension administrators (per $ of assets under administration) – and an industry leader when it comes to providing members and retired members with online services and information.

On the pension administration side, our investment in technology has led to new efficiencies. These efficiencies, in turn, have enabled us to maintain our pension administration staff complement at pre-2008 levels while, at the same time, freeing up people and money to assist members and retired members with complex issues. Management's sharp focus on financial management has led to year-over-year declines in pension operation expenses since 2009.

Part of our ability to curb expenses can be attributed to the willingness of management to share the burden. With the exception of promotional increases, base compensation increases for senior executives have been limited. OPB's CEO has led by example – his total compensation has been frozen and in some years decreased since January 1, 2008. His base compensation continues to be frozen for 2012.

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Strong governance

Good governance forms the basis for sound decisions – and ultimately success. Over the years, OPB has created a solid governance framework. That framework is built on a foundation of carefully considered principles that establish clear mandates, allocate authority, and determine accountability for OPB's board, committees, and management. It's worth noting that Rita Burak, Ontario's Special Advisor on Agencies, identified OPB in her report as an example of an agency that has put in place "comprehensive" governance principles.

OPB's Statement of Governance Principles entrenches the protection and advancement of Plan beneficiaries' collective interests as the primary fiduciary duty of the Board and management. At OPB, we have a unique Board structure: although we are not a jointly sponsored plan, we do have member and employer representation at the Board table, ensuring that all beneficiaries' interests are heard and considered.

As part of our open-ended commitment to good governance, OPB periodically retains an independent third party to review its governance model. This assessment, which is entirely voluntary, is conducted as part of our commitment to continuous improvement. Our most recent assessment in 2011 concluded that OPB's strong governance culture sets a standard of board oversight that is pace setting for government agencies in Ontario.

While that independent assessment commended our position of strength, it also suggested some refinements to our governance framework going forward. Based on those suggestions, we took decisive action and centralized our governance and risk management operations into one department to further enhance our oversight capability. We also now review our corporate risks and risk mitigation strategies on a quarterly basis to ensure that risk management efforts reflect our changing business and economic environment. These new initiatives reinforce an existing system of checks and balances that ensures prudent decision-making at every step along the way – from a strategic planning process that integrates risk management to a comprehensive internal audit program that drills down to the details.

Taking action

Looking back, we can state with confidence that 2011 was a year of accomplishment. I would like to thank my fellow Board members for their careful and considered direction. Equally important, I would like to thank Mark Fuller and OPB employees for their dedication in turning that direction into tangible results. Because of their efforts, the PSPP remains strong and sustainable.

M. Vincenza Sera, Chair

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Message from the President & CEO

The PSPP is in a financially sound position. Our investment return for the year, at 0.43%, was below the 6.35% rate of return required to maintain a stable funding status. As a result, we expect the 2011 valuation (which will be completed mid-2012), will show that the Plan funding level is in the range of 90%, with all assets marked to market and using conservative valuation assumptions, relative to the norm in the industry. In dollar terms, the shortfall will be approximately $2 billion – which is roughly where the funded status of the Plan stood at the end of 2008.

Mark J. Fuller, President & CEO

We regard this funding level as manageable. We have a solid track record over the long term: OPB's average annual investment return since our inception in 1990 is 8.31%. This is among the top returns in the Canadian pension industry for that period. These investment returns, and indeed our entire pension administration mandate, have been – and continue to be – delivered at one of the lowest unit cost levels (per $ of assets under administration) among large public sector pension plan administrators. Expense levels are important because it is investment returns, net of expenses, that are the most significant component in funding pensions.

Looking at the bigger picture, the Plan has already addressed many of the problems that are plaguing public sector pension plans across North America:

- we've revamped our governance structure over the last several years. It is now highly regarded in the pension industry and in government;
- the effect of our in-depth and enhanced member service strategy is showing up in the third-party service quality surveys (as I discuss in greater detail later);
- the Plan's funding strategy is based on a 50/50 sharing of long-term costs between employers and employees;
- OPB has a long-standing practice of examining valuation assumptions annually and then making the adjustments necessary to bring them in line with actual experience. This mitigates the risk of major changes to assumptions that can result in unexpected shocks to the funding status of the Plan; and
- through periodic long-term funding studies and corresponding contribution adjustments, the Plan has adopted – as a principle – the sharing of long-term risks.

Investing for the long term

Though we are proud of our long-term investment performance and we are confident of our investment strategy going forward, our investment returns in 2011 were lower than we would have liked. We understand very well the sources that contributed to these investment results and I believe we should share that information with you.

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As happens in every investment portfolio from time to time, certain aspects of our asset allocation and broader investment strategy were not rewarded during the year. This contrasted with 2008 when our strategy and asset allocation insulated the Plan from the double-digit losses suffered by most investors.

For example, the Fund has 38.5% in fixed income assets. During 2011, we chose to keep our aggregate fixed income portfolio shorter in duration. This was a deliberate choice. Given the very low level of interest rates, the risk/return profile did not warrant raising the exposure to long-term bonds. As it turned out, long-term interest rates fell during the year, so long-term bonds significantly outperformed shorter-term ones. However, we believe that interest rates will rise, not fall, in the future so we will continue to hold this position.

Also, to date, OPB has invested in equities almost exclusively through the public markets, rather than through private markets such as private equity and infrastructure. Stock markets around the world suffered losses in 2011 and OPB's portfolio was affected accordingly. Private market assets, on the whole, performed better in 2011. Case in point, our private market investments *did* perform well in 2011, but our exposure was simply too small in comparison. OPB is in the process of building our investments in infrastructure and private equity to take advantage of the lower levels of volatility, as well as the strong long-term cash flow generation, of infrastructure investments.

Finally, a third factor in OPB's 2011 performance was our higher allocation to global and emerging markets in our public equities portfolio, which makes up 33% of this portfolio. In 2011, emerging market stocks suffered deeper losses than Canadian and U.S. equities. Over the long-term, however, we believe that emerging markets should provide a strong base for global growth going forward, so we will continue to invest in them.

These factors contributed to the relative weakness in the Plan's performance in 2011. But we continue to believe these will serve the Plan well in the long term.

Following a scheduled, regular review, we did make some modest changes to our asset allocation and investment strategy during 2011. The main changes involved increasing our allocation to infrastructure, real estate and private equity assets. Over the last few years, we have built an investment team capable of investing effectively in infrastructure and private equity, and we are now moving to build out those portfolios over the next few years.

Looking ahead, OPB is now well underway with the implemention of these changes. We believe they will position the PSPP well. We are confident that we will continue to generate the strong long-term investment returns needed to fund the pension promise, as demonstrated by our long-term investment performance since the Plan's inception in 1990. As I write this letter, early in 2012, our asset allocation and investment strategy are performing well.

Delivering better service, while reducing cost

Over the last several years, OPB has dramatically improved both the quality of our service to members and retired members and the efficiency of our operations, while reducing our pension administration costs. In 2011, we continued this progress, reducing these costs by a further 1.5%, all the while improving our service delivery.

During the year, we launched a number of exciting online services for members, including the ability to apply for an immediate pension, and an industry-leading retirement planning tool. OPB is now one of the leading pension plan administrators in Canada in providing online access to information and self-service capability for members.

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OPB participates in a pension administration benchmarking survey and, for the second year in a row, OPB placed second (out of the 10 large Canadian plan administrators in our peer group) in terms of service, with our service score rising from 81 to 82 out of 100. OPB provides more one-on-one counselling to its members than any other administrator in the benchmarking survey. To my knowledge, no other administrator in Canada provides the highly personalized guidance and advice to its members that OPB does. We do this because we believe, and our members confirm, that the advisory service we provide is critical to helping them make sound decisions about their pension options at key points in their lives.

Protecting the long-term vitality of the Plan

This is a period of challenge and change for public sector pensions, indeed for all financial retirement plans. Governments across Canada are focused on ensuring that public sector pension plans are affordable, sustainable, and have fair cost and risk sharing arrangements. Concerned about their fiscal situations, they are determined to manage the expense impact of public sector pensions on their budgets.

The Government of Ontario has approached this topic in a very constructive, fair manner. It has made clear that any benefit changes cannot, and will not, affect retired members or the pensions already earned by members. Any changes would affect only what is earned, going forward, by current and future public sector employees. It has also made clear its desire for the stakeholders in these plans to engage in a dialogue with them about plan design and funding, to ensure the future affordability and sustainability of the plans. For public sector plans with funding shortfalls, the government has given clear direction (and is supported by the findings of the *Commission on the Reform of Ontario's Public Services*, chaired by Don Drummond) that further contribution rate increases should not be the primary method used to address the shortfalls, and that benefit reductions must be a part of the solution.

OPB is committed to playing a constructive role in dialogue about the sustainability and affordability of the Public Service Pension Plan. We have that track record, and have a strong working relationship with the Plan Sponsor and bargaining agent stakeholders. In 2007, OPB proactively conducted a long-term funding study of the PSPP and recommended an increase in contribution rates, which was implemented in two phases in 2009 and 2010. Everyone at OPB is committed to helping to develop approaches that both respect the Government's concerns and preserve the retirement security that is delivered by the PSPP for today's and tomorrow's hardworking public servants of the Province of Ontario.

The commitment, dedication and ability of OPB's employees and our Board of Directors continued to be a great inspiration to me during 2011 and I thank them.

Mark J. Fuller, President & CEO

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Straight talk: Jill Pepall, Chief Investment Officer

2011 marked Jill Pepall's first full year as OPB's Chief Investment Officer ("CIO"). In her role as CIO, Jill – who has more than 20 years of investment industry experience – is responsible for overseeing the management of OPB's $17 billion pension fund. Given volatile financial markets and a fragile global economy, Jill's team navigated a challenging year, sticking to OPB's long-term strategy and focusing on capital preservation. In this interview, Jill talks about how OPB's investments fared in 2011 and how OPB is building on its investment strategy to protect and grow Plan assets going forward.

Jill Pepall, Chief Investment Officer

Overall, how would you sum up 2011?

We made a great deal of progress repositioning the Plan to succeed in the longer term, but that progress was not rewarded in the markets in 2011. Understandably, we were disappointed with the returns. However, we were able to preserve capital despite significant market volatility. And, as important, we moved forward with changes in investment strategies and asset mix that we believe will reduce investment risk, streamline costs, and enhance returns going forward.

What investment challenges did OPB face in 2011?

From OPB's perspective, there were four key challenges – persistent market volatility, the ongoing debt crises in Europe, slow economic growth among developed countries, and interest rates that have been at historic lows for several years.

Given these challenges, how did OPB's investment portfolio fare in 2011?

Our overall return for 2011 was 0.43%. We were able to preserve capital in difficult and volatile markets. Areas of strength in the portfolio were the private market investments: real estate, and private debt. Both provided solid cash flows and returns in excess of 15%. Aside from private market investments, our ability to grow the capital in 2011 was hampered by several factors:

- most importantly, the Fund had limited exposure to longer-term, low yielding bonds. These bonds performed strongly in 2011 as interest rates continued to decline. We believe that interest rates will rise in the future, so we made a deliberate choice to keep this portfolio shorter in duration,
- the Fund had limited exposure to gold within Canadian equities. Gold also performed well due to continued uncertainty in global economic growth and financial markets, and
- due to this continued uncertainty, global equities were the worst performing asset class in 2011, providing negative returns. Although 2011 was a difficult year, over the long term, public market equities have provided a positive rate of return and are a good hedge against inflation.

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Should members be concerned about the 2011 investment return?

Based on the structure of this Plan, we need to achieve an average long-term rate of return of 6.35% to maintain our going concern funded status. What matters is how we perform over the long term. In that regard, OPB continues to do well. While, in 2011, our returns fell short of this rate, in other years we've exceeded it. Our average rate of return since the Plan's inception is 8.31% – well above our long-term rate required to maintain the funded status of the Plan.

What steps did OPB take in 2011 to ensure it continues to meet the long-term return rate of 6.35%?

We took a number of very important steps. First, we introduced a new strategic asset allocation ("SAA"). The SAA, which will be implemented over the next few years, will enhance returns and will help us manage investment risk more effectively. We are also raising our exposure to private market investments by increasing real estate and expanding into infrastructure and private equity. Both real estate and infrastructure provide a steady stream of cash flow, and a hedge against inflation. We also began building the capability to support tactical asset allocation. This is an active investment strategy used to enhance returns and/or reduce risk by adjusting the asset mix of the Fund to take advantage of movements in the market. As part of this strategy, an asset overlay tool was established. This is a method of implementing asset mix changes in a timely and efficient manner through the use of derivatives.

What will OPB do going forward to navigate ongoing market challenges?

We'll be pushing ahead on several fronts. For starters, we will continue to deepen and broaden our team expertise in private investments – such as infrastructure and private equity – so that we can take advantage of opportunities as they arise. We will also be upgrading our performance management systems. This will allow us to better track and analyze investment performance so that we can make the best decisions based on timely information. We will also continue to enhance our risk management and compliance processes and systems. And, finally, we will be moving forward with initiatives around Responsible Investing.

Does OPB still view emerging markets as a solid investment?

Absolutely. While emerging markets did underperform developed markets in 2011, we believe this was due to general risk aversion at this point in time, not because of any underlying problems with emerging market economies. Concerns about developed markets prompted investors to reduce their overall portfolio risk, leading to a sell-off of emerging market securities. It is worth noting that the managers of our emerging markets portfolio did out-perform their competitors by a wide margin in 2011. And, the reality is that emerging market economies have higher rates of economic growth and stronger government and trade balance sheets than developed countries. Thus, emerging markets should provide a strong base for global growth in the years ahead. That is why, in 2011, we took advantage of lower stock prices to increase our holdings in emerging markets.

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What changes have you made to the real estate portfolio?

We have built an outstanding track record and team in real estate. We have a very high quality portfolio that we continued to upgrade in 2011. Our new SAA raises the target weight on real estate to 25% of the Fund (up from its weighting of 13% prior to the new SAA). At the same time, OPB has engaged other pension plans with well-established real estate investment teams as partners for co-investing opportunities in larger projects – leveraging each other's expertise and resources. As a result, our real estate team has been active, not only upgrading the existing portfolio but selectively evaluating and adding new properties.

What is OPB's policy on Responsible Investing?

Responsible Investment beliefs begin with the overriding objectives of the Plan: (1) to provide security for the promised benefits and invest within an acceptable level of risk; and (2) allow for stable and reasonable contribution rates. The purpose of incorporating a "Responsible Investing" approach within the Plan investment initiatives is driven by the underlying belief that by supporting environmental, social and governance ("ESG") disclosure initiatives (that improve corporate transparency and disclosure practices on ESG issues), and by taking that information into account in investment decisions, long-term investors, like OPB, are better able to evaluate the investment return-risk trade-offs and improve OPB's ability to meet the Plan's objectives.

Are OPB's investment expenses going up?

OPB's investment expenses did go up modestly in 2011. Each year, we participate in a survey of other large pension plans. This independent research confirms that our aggregate investment expenses are lower than most of our peers. In fact, OPB's overall expenses (including pension administration and investments) total 0.5% of assets under administration, which is at the low end compared to our peer plans – many of which are much larger plans than OPB. That's quite an accomplishment given that we have significantly expanded our investment mandate in recent years. At the end of 2011, we had 34 specialty mandates, compared to only eight broad-based mandates in 2006. Specialty mandates focus on a particular asset type, geographical area, industry sector, or other limited fields and tend to require a higher level of expertise. To ensure we have that expertise, we have made – and will continue to make – an investment in talent and technology. Finally, private market investments have higher costs associated with their implementation and management than public market investments. Thus, going forward, as we increase our private market investments, costs will go up but expected investment returns will go up even more. All these factors combined will result in higher investment expenses in 2012. That said, our expanded mandate is expected to generate value-added returns that more than offset any increase in costs.

What is your outlook for 2012?

In 2012, we expect financial markets to continue to be volatile, reflecting the uncertainty of economic growth in Europe and the U.S. With sub-par growth for most of the developed world, interest rates are expected to remain at relatively low levels until growth improves. Emerging markets are also being impacted by the uncertainties in the developed economies. However, these markets have the advantage of stronger balance sheets and higher economic growth. Our strategy in 2012 is to take advantage of market volatility and use tactical asset allocation to actively manage our risk/return profile. We will maintain our exposure to the faster growing emerging economies and will continue to increase our private market investments to enhance cash flow and reduce risk.

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Investment & funding highlights

Our continued focus on capital preservation in 2011 helped OPB navigate volatile financial markets and a fragile economy. At the same time, OPB continued to move forward with ongoing strategic initiatives aimed at further safeguarding Plan assets, reducing investment risk, and enhancing returns.

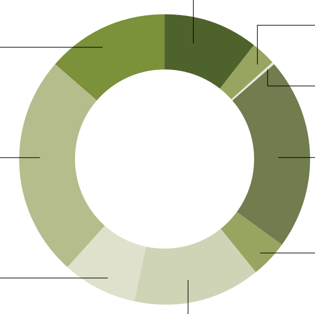
These strategic initiatives include, among other things:

- introducing a new strategic asset allocation,
- beginning to build the capability for tactical asset allocation,
- maintaining our focus on emerging markets,
- upgrading the quality of our real estate portfolio, and
- investing directly in private investments, including infrastructure.

The Plan's year-over-year return as of December 31, 2011, stood at 0.43%. A year-end funding basis valuation is expected to show the Plan is in the range of 90% funded. The Plan's long-term rate of return since inception now stands at 8.31%.

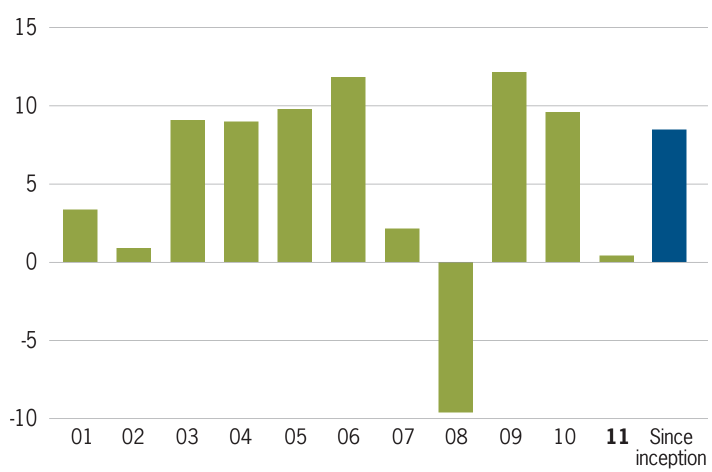
Asset mix

as at December 31, 2011



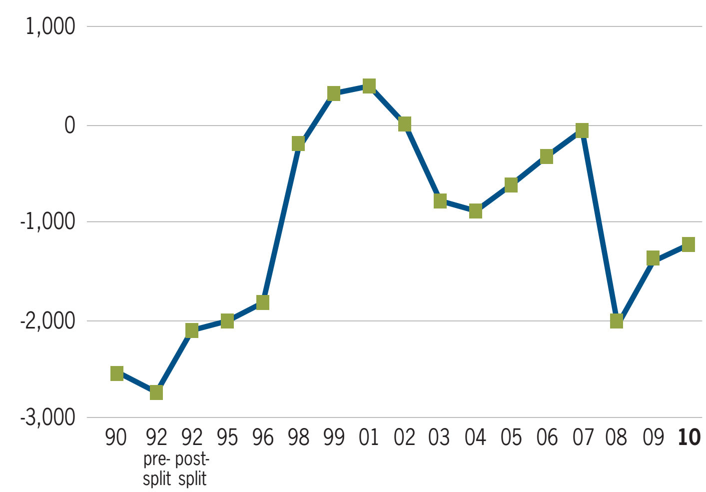
Total returns

% per annum



Funded status

$ in millions



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Building on success: Our scorecard for 2011

OPB is committed to continuous improvement. We constantly strive to enhance investment returns, service levels, operational effectiveness, business efficiency, and governance. It's a commitment we've made to the Plan Sponsor, our clients, and our stakeholders – and a commitment we take very seriously. The scorecard below provides a high-level summary of some of our many achievements in 2011.

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Investment initiatives	
Introduced a new strategic asset allocation	Strategic asset allocation ("SAA") will help OPB better manage risk and meet long-term funding objectives. The SAA, which will be implemented within the next five years, puts more emphasis on private investments, such as real estate, private equity and infrastructure.
Began direct investment in private equity	Investing in private equity will help to enhance returns in volatile markets. Infrastructure investments typically provide a stream of stable cash flow and a hedge against inflation.
Upgraded the quality of our real estate holdings and moved to an overweight position	The portfolio has been a significant source of strength for the Plan – delivering solid returns, reliable cash flow, and a hedge against inflation. We upgraded the quality of our holdings and moved to an overweight position to help us bolster returns going forward.
Began building the capability to support tactical asset allocation	Tactical asset allocation ("TAA") will enable us to quickly and efficiently adjust the percentage of assets held in various investment portfolios, allowing us to take advantage of short-term changes in the marketplace and to generate value-added returns.
Maintained our focus on emerging markets	Emerging market economies have a stronger "balance sheet" than developed countries. Based on that fact, we expect emerging markets to provide a strong base for global growth and to generate stronger investment returns.
Moved towards global standards for Responsible Investing	Investing in companies that provide full environmental, social and governance disclosure is not only ethically correct, but will make it easier for OPB to assess investment risk – leading to enhanced returns.

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WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Business and service initiatives	
Continued to make cost constraint a priority	OPB is committed to constraining costs. In 2011, aside from promotional increases, OPB maintained base compensation rates for senior executives at 2008 levels. We also deferred some non-critical strategic initiatives, adhered to effective procurement strategies, and leveraged efficiencies gained through online services and automated business processes (enabling us to hold our staff complement at 2008 levels).
Added a new "package" of online self-service tools	Transaction-based web e-services enable members to quickly and conveniently carry out key transactions, such as updating their address, changing their beneficiary designations, or initiating the retirement process. At the same time, e-services free up staff to assist clients with more complex issues.
Launched an online retirement planning tool	Planning for retirement is a vital, but complex task. The new online tool helps simplify the process. It gives members a convenient, user-friendly way to develop a comprehensive retirement plan that takes into account their public service pension, government benefits, and personal savings.
Pilot tested a new knowledge management system	Once fully implemented, the new knowledge management system will streamline and expedite service, enabling OPB staff to serve clients more effectively and efficiently.
Continued to develop internal service expertise	OPB is committed to providing clients with in-depth support. Developing internal service expertise allows us to better equip members to make informed decisions, to better support and train employers to carry out administrative responsibilities, and to enhance stakeholder understanding of the Plan and the factors affecting it.
Continued to take steps to protect the DB pension model	OPB is working to ensure the voices of defined benefit ("DB") pension plans and sole-sponsored pension plans are heard. At the same time, we are striving to shift the focus of discussions from "pension coverage" to "pension adequacy." To achieve these objectives, we continue to represent the DB pension model within the Association of Canadian Pension Management and at the Canadian Public Plan Administrator's Forum.
Made submissions to Ministry of Finance on Bills 236, 133 and 120	We want to ensure the interests of our members are considered as the Ontario government reviews existing pension legislation and brings forward pension reform.

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WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Governance initiatives	
Retained an independent third party to conduct a governance evaluation	The evaluation was commissioned to identify opportunities for raising the bar on governance best practices – reflecting OPB's commitment to continuous improvement. The evaluation confirmed that OPB has a strong governance framework and provided areas for possible improvement.
Consolidated the Plan's governance and risk management operations	Consolidating OPB's key governance components will enable us to provide improved oversight. The decision to consolidate governance and risk management operations into one department was made in direct response to a third-party evaluation of OPB's governance practices.

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Financial review

Plan performance

OPB has a strategic but comparatively conservative approach to investing. Our objective is to generate long-term incremental return growth by focusing on global investment opportunities that provide good cash flow and minimize unrewarded risk. To achieve this objective, we:

- emphasize capital preservation,
- focus on fundamental research investing, and
- seek to reduce absolute volatility.

The Plan faced four key investment challenges in 2011– persistent market volatility, the ongoing debt crises in Europe, slow economic growth among developed countries, and interest rates that declined during the year, and that have hovered at historic lows for several years. A focus on capital preservation helped limit the full impact of these factors. However, preservation efforts were hampered by a limited exposure to gold and long-term bonds, as well as a slight overweight position in public equities.

As a result, the Plan's overall return for 2011 was 0.43%, compared to 9.4% in 2010. The lower-than-expected return (and factoring in pension payments) contributed to a $106.0 million decline in the value of net assets available for benefits in 2011, compared to a $1.3 billion increase in 2010.

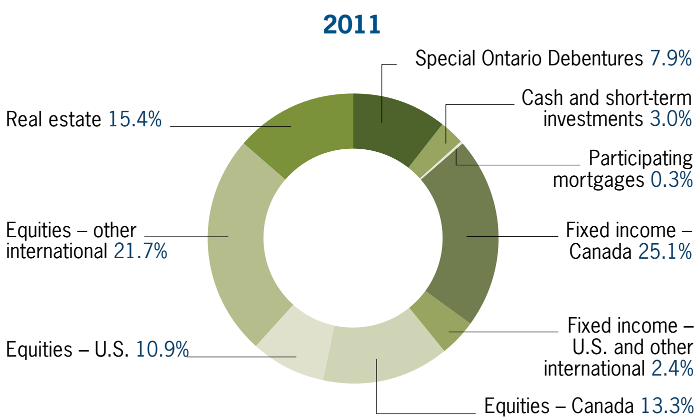
Plan asset mix

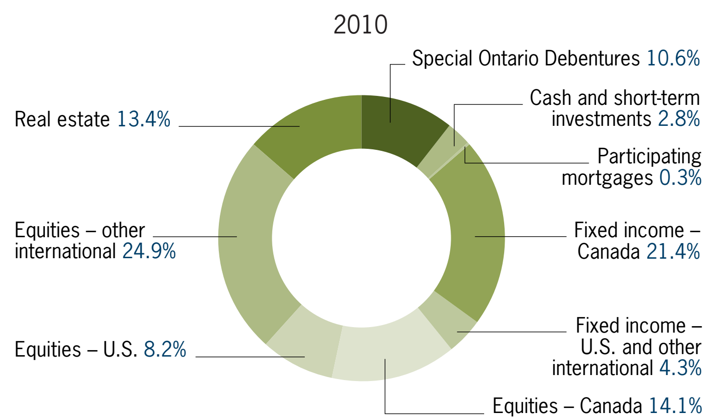
Currently, OPB's asset mix is made up of:

- interest-bearing investments (Special Debentures, cash and short-term investments, and fixed income investments),
- public equities, and
- private investments (real estate, infrastructure, and private debt).

OPB's Board of Directors approved a new strategic asset allocation ("SAA") in late 2011. The SAA sets new asset mix targets that reflect the Plan's cash flow and investment requirements (based on the results of a recent asset-liability study). The new SAA will, based on the availability of high-quality market opportunities, be fully implemented within five years.

Asset mix





Interest-bearing investments

Interest-bearing investments provide the Plan with a stable source of cash flow and help preserve capital in times of market volatility. As of December 31, 2011, interest-bearing investments accounted for 38.5% of the Plan's net assets and included:

- cash and short-term investments,
- non-marketable Province of Ontario Debentures ("Special Debentures"), and
- marketable and non-marketable fixed income products.

Cash and short-term investments – Cash and short-term holdings (including pending trades) at year-end 2011 stood at $511 million (3.0% of net investments), up from $414 million (2.4% of net investments) at year-end 2010. Going into 2011, OPB held a modest 0.8% overweight position in short-term cash, so that it could capitalize on market opportunities. At year-end, the portfolio was overweight by just 0.1%.

Special Debentures – Special Debentures were issued to the Plan by the Province of Ontario as an initial funding mechanism when the PSPP was established as a separately funded plan in 1990. As of December 31, 2011, the Plan's Special Debentures were valued at $1.4 billion, compared to $1.8 billion at year-end 2010.

Over the years, debentures have provided the Plan with an important source of cash flow. In 2011, they generated cash flow of $510 million, compared to $498 million in 2010. The year-over-year decline in the portfolio's value reflects the fact that a portion of the portfolio matures each year. Proceeds from maturing debentures are reinvested in other assets. The Plan's remaining Special Debentures mature by the end of 2014.

Marketable and non-marketable fixed income – The Plan's Canadian fixed income portfolio returned 7.6% in 2011 and, at year-end, was valued at $4.3 billion. That compares to an 8.4% return and year-end value of $3.7 billion in 2010.

The international fixed income portfolio returned 7.2% in 2011, up from -2.6% in 2010. The year-end value of the portfolio was $412 million, compared to $747 million a year earlier. OPB sold its European bonds early in 2011 due to growing concern over the European debt crises. Money from the sale of these bonds was reallocated to Canadian bonds and international equity.

Public equities

Public equity markets were volatile in 2011. Markets headed higher during the early weeks of the year, before stumbling and beginning a volatile ride, spurred on by unrest in the Middle East, continued concern over European debt, slowing growth in China, a downgrading of U.S. debt, and the devastating earthquake and tsunami in Japan.

The Plan's Canadian equities portfolio generated a -9.1% return during 2011. That compares to 15.2%, in 2010. The market value of the portfolio at December 31, 2011, was $2.3 billion, compared to $2.4 billion a year earlier.

By comparison, the Plan's U.S. equity portfolio returned 3.6% for the year, compared to 9.8% in 2010 (all returns stated in Canadian dollars). The year-end market value of the portfolio stood at $1.9 billion, compared to $1.4 billion at year-end 2010.

For its part, the Plan's international equity portfolio returned -11.8% in 2011, compared to 7.9% in 2010. The market value of the portfolio as of December 31, 2011, was $3.7 billion, compared to $4.3 billion at year-end 2010. During 2011, OPB took advantage of lower stock prices to increase the Plan's long-term strategic allocation to emerging markets.

Private investments

As of December 31, 2011, private investments accounted for 17.2% of OPB's net assets and included:

- Real estate,
- Infrastructure, and
- Private debt.

Real estate – OPB's real estate portfolio is made up of direct holdings in quality Canadian properties that carry little or no debt, indirect holdings in international real estate, as well as a modest investment in participating mortgages. Ongoing objectives for the portfolio include:

- continued rental income growth,
- enhancing the credit quality of tenants, and
- capital preservation.

During 2011, the real estate portfolio continued to be a significant source of strength for the Plan, delivering solid returns. The portfolio's overall return for 2011 was 15.6%, compared to 14.7% in 2010. Since 1994, when OPB made its initial investment in real estate, the portfolio has generated an average annual return of 10.2%.

To help ensure the portfolio's continued strength, OPB took steps to upgrade the quality of its real estate holdings in 2011. Notable transactions included:

- the purchase of a partial interest in two Manhattan office buildings (the Starrett-Lehigh building and 1166 Avenue of the Americas);
- the construction of a new 10-storey LEED Certified office building adjacent to the Pickering Town Centre; and
- the sale of an aging industrial portfolio in Halifax.

As of December 31, 2011, the portfolio held more than 10 million square feet of retail, light industrial and office space in major centres across Canada. For a full list of properties owned by the Plan, see page 54.

Infrastructure – The infrastructure portfolio was launched in 2011. OPB is, over time, looking to invest in physical systems – such as toll roads, bridges, and pipelines – that provide:

- a steady stream of cash flow for the Plan,
- a hedge against inflation, and
- stable returns during periods of equity market volatility.

In 2011, OPB invested in a North American energy infrastructure fund that focuses on energy generation and mid-stream energy assets. This initial asset is expected to generate double-digit returns and to provide co-investment opportunities for OPB.

The market value of the infrastructure portfolio at year-end 2011 was $4.3 million.

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Private debt – Private debt assets consist of high-quality, investment-grade, income-bearing fixed income products of various maturities that are unavailable in the public markets. They typically offer higher yields than public bonds and, with appropriate issuer collateral and financial covenants, can reduce investment risk.

In 2011, OPB continued to invest in projects that provide a higher yield than publicly traded bonds. Two notable investments included:

- a term loan to finance a hydroelectric project in British Columbia, and
- a term loan to finance a 31.5 megawatt wind farm in Nova Scotia.

The portfolio's return for 2011 was 12.8%, compared to 16.2% in 2010. The year-end value of the portfolio – which was launched in 2010 – was $255 million, up from $176 million a year earlier.

Contributions

Contribution rates for the Public Service Pension Plan ("PSPP") are set out in the *Public Service Pension Act,* 1990 *("PSPAct").*

Members currently contribute 6.4% of their salary below the Year's Maximum Pensionable Earnings ("YMPE"), and 9.5% of their salary above the YMPE. Employers contribute a matching amount. Contributions for members receiving Long Term Income Protection benefits are paid by their employers.

Ontario Provincial Police ("OPP") Officers are required to contribute to the PSPP an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP Officers. In 2011, the contribution rates for OPP Officers (excluding Deputy Commissioners and the Commissioner) inclusive of the additional 2% of salary have increased to 9.2% of the salary on which contributions are made up to the YMPE, and to 12.3% of the salary above the YMPE.

During 2011, contributions totalled $715 million. That compares to $689 million in 2010. This increase is attributable to:

- increases in members' salaries, and
- an increase in the number of members, moderated by a reduction in the unfunded liability payment from the Plan Sponsor.

Pensions paid

Total monthly pension payments for December 2011 were $72.7 million, up from $70.8 million in December 2010. Much of the increase is attributable to a 1.4% inflation protection adjustment (Escalation Factor) that was applied to pensions on January 1, 2011. The remainder is attributable to an increase in the average pension for new retired members.

Expenses

Operating costs

Plan operating costs include:

- *Investment fees* – which encompass fund management, transaction and custodial fees and are deducted from total investment income, and
- *Operating expenses* – which reflect expenses incurred by OPB to operate and manage the Plan.

OPB's business plan continues to recognize the importance of fiscal responsibility and operational effectiveness and efficiency.

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In recent years, OPB has made a number of carefully considered investments aimed at generating higher investment returns (within appropriate risk parameters) and enhancing the service experience of our clients and stakeholders. Even with these investments – which have led to value-added investment returns, service improvements, and new efficiencies – OPB's operating expenses are among the lowest for plans in its peer group.

During 2011, the total cost of operating the Plan – including investment fees and operating expenses – was $90.3 million, or 52 cents for every $100 of assets. That compares to $84.4 million, or 49 cents per $100 of assets in 2010.

Investment management costs – Investment fees (as a percentage of assets invested) increased in 2011, reflecting an ongoing investment in the expertise, capacity, and technology required to implement a broader and more complex investment strategy (in 2011, the Plan had 34 specialty investment mandates, compared to eight broad-based investment mandates in 2006).

Fees for 2011 totalled $55.7 million, compared to $51.0 million in 2010. That works out to 32 cents per $100 in net assets in 2011, versus 29 cents per $100 in net assets in 2010.

While investment fees are expected to continue to edge higher going forward, we anticipate that the increase will be offset by higher long-term investment returns generated by our specialty mandates.

In 2011, OPB implemented two significant initiatives aimed at reducing investment costs. These included:

- the introduction of asset overlay, which reduces trading costs; and
- an increased focus on direct investing and co-investing, which reduces third-party investment management fees.

Operating expenses – Operating expenses related to pension administration costs decreased in 2011. Expenses totalled $22.8 million, down from $23.1 million in 2010. This continues the reduction achieved each year since 2008.

OPB's ability to keep operating expenses in check can be largely attributed to prudent management and ongoing cost constraint measures. For example, in 2011, we limited senior management compensation, deferred some non-critical strategic initiatives, adhered to effective procurement strategies, and leveraged efficiencies gained through automated business processes.

Going forward, OPB will continue to manage expenses responsibly, but will invest where appropriate to ensure clients and stakeholders receive optimum value.

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Financial position

OPB conducts two different valuations on a regular basis. The *funding basis valuation* is used to ensure that there are sufficient assets to meet the Plan's pension obligations. This is the funding valuation OPB used to determine contributions to the Plan and is the valuation that must be filed with regulatory authorities. The *accounting basis valuation* is used to report the financial position of the Plan for purposes of the financial statements. This valuation is prepared in accordance with the Canadian Institute of Chartered Accountants Handbook.

Both valuations provide a best-estimate of the Plan's accrued pension liabilities and both are performed by an independent actuary appointed by OPB's Board of Directors.

Funding basis valuation results

The funding valuation prepared as of December 31, 2010 was filed with the regulatory authorities (pension law requires that OPB file a Plan valuation at least once every three years). Based on that valuation, the Plan had a funding shortfall of $1.2 billion. We are not required to file again until 2014 (the valuation as at December 31, 2013). It is only when the valuation is filed with the regulator that the Plan Sponsor must provide a plan to address the shortfall.

The December 31, 2011 funding valuation report will not be completed until mid-2012. Given our 2011 investment returns, we expect the valuation to show the Plan is in the range of 90% funded.

It's important to remember that pension plans are designed to operate over an extended period of time and that, in the shorter term, fluctuations in funded status are to be expected. The goal is to ensure the Plan remains fully funded over the longer term.

Accounting basis valuation results

For purposes of the accounting basis valuation, the Plan's liabilities were calculated as of December 31, 2010, the date of the last completed funding valuation, and extrapolated to December 31, 2011. The extrapolated numbers are based on the assumption that the Plan's 2011 experience (for factors such as inflation, salary increases, retirement ages, and termination and mortality rates) matched its actuarial assumptions. The extrapolation reflects the actual indexing adjustments made to pensions as of January 1, 2011.

For the purposes of the financial statements, we have calculated the Plan's 2011 year-end financial position by comparing the extrapolated liability with the actual market value of assets as of December 31, 2011.

Based on the accounting basis valuation as of December 31, 2011, the Plan had a deficit of $2.3 billion (see "Note 8 Deficit" on page 42). At year-end 2010, the accounting basis valuation showed a deficit of $1.2 billion. The year-over-year change is largely attributable to the net effect of investment returns.

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Five-year review

(in millions of dollars)	**2011**	2010	2009	2008	2007
Opening net assets	**$ 17,376**	$ 16,043	$ 14,607	$ 16,379	$ 16,421
Investment income (loss)	**19**	1,439	1,690	(1,552)	307
Contributions	**715**	689	528	487	452
Transfers from other plans	**132**	142	166	207	82
	866	2,270	2,384	(858)	841
Pension payments	**869**	848	837	810	789
Terminations	**68**	56	77	71	67
Operating expenses	**35**	33	34	33	27
	972	937	948	914	883
Closing net assets	**$ 17,270**	$ 17,376	$ 16,043	$ 14,607	$ 16,379

	2011	2010	2009	2008	2007	Cumulative since inception
Annual rate of return	**0.4%**	9.4%	11.9%	(9.4)%	2.1%	8.3%

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Actuaries' opinion to the directors of the Ontario Pension Board

Aon Hewitt was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation as at December 31, 2010 on a funding basis, as described in Note 7 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- An actuarial valuation as at December 31, 2011 for purposes of these financial statements, prepared in accordance with the Canadian Institute of Chartered Accountants Handbook, Section 4600.

The actuarial valuation of the PSPP as at December 31, 2010 on a funding basis was based on membership data provided by OPB as at December 31, 2010.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2010 on the basis of the accounting methodology required by the Canadian Institute of Chartered Accountants Handbook, Section 4600, as disclosed in Note 7, and extrapolated the liabilities to December 31, 2011. The valuation as at December 31, 2011 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statements of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2010 are sufficient and reliable;
- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

AON HEWITT

Allan H. Shapira

Allan H. Shapira
Fellow, Canadian Institute of Actuaries

March 2, 2012

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Management's responsibility for financial reporting

The financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors ("Board") is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO

March 2, 2012

Duncan D. Webb, CA
Senior Vice-President, Finance

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Independent auditors' report to the directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and 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.

Auditors' 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 auditors' judgement, 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 auditors consider 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 the Ontario Pension Board as at December 31, 2011 and 2010, 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.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 2, 2012

Statements of financial position

As at December 31 *(in thousands of dollars)*	**2011**	2010
Assets		
Investments (Note 4)	**$ 17,226,895**	$ 17,246,792
Investment-related receivables (Note 4)	**40,345**	111,673
Contributions receivable (Note 5)		
Members	**25,006**	22,444
Employers and sponsor	**36,534**	154,348
Capital assets (Note 6)	**3,254**	3,505
Total assets	**17,332,034**	17,538,762
Liabilities		
Investment-related liabilities (Note 4)	**29,474**	135,456
Accounts payable and accrued charges	**31,319**	26,406
Contributions payable	**1,389**	1,050
Total liabilities	**62,182**	162,912
Net assets available for benefits	**17,269,852**	17,375,850
Pension obligations (Note 7)	**19,524,706**	18,612,515
Deficit (Note 8)	**$ (2,254,854)**	$ (1,236,665)

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

J. Urban Joseph
Vice-Chair

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Statements of changes in net assets available for benefits

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Investment operations		
Net investment income (Note 9)	**$ 18,704**	$ 1,438,965
Operating expenses – investment operations (Note 11)	**(11,805)**	(10,237)
Net investment operations	**6,899**	1,428,728
Pension operations		
Contributions (Note 10)		
Members	**306,742**	283,457
Employers and sponsor	**408,331**	405,354
Transfer from other plans	**132,106**	142,080
Retirement pension payments	**(869,320)**	(848,068)
Termination and other benefits	**(67,982)**	(55,801)
Operating expenses – pension operations (Note 11)	**(22,774)**	(23,110)
Net pension operations	**(112,897)**	(96,088)
Net increase (decrease) in net assets for the year	**(105,998)**	1,332,640
Net assets, at beginning of year	**17,375,850**	16,043,210
Net assets, at end of year	**$ 17,269,852**	$ 17,375,850

See accompanying notes

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Statements of changes in pension obligations

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Pension obligations, at beginning of year	**$ 18,612,515**	$ 17,374,215
Increase in pension obligations		
Interest on pension obligations	**1,174,993**	1,165,370
Benefits accrued		
Service accrual	**553,565**	513,801
Transfer of service from other plans	**132,106**	142,080
Past service buybacks	**34,239**	29,030
Changes in plan provisions (Note 7)	**—**	65,300
Changes in actuarial assumptions (Note 7)	**—**	333,253
Total increase	**1,894,903**	2,248,834
Decrease in pension obligations		
Benefits paid	**937,302**	903,869
Experience gains	**45,410**	106,665
Total decrease	**982,712**	1,010,534
Net increase in pension obligations	**912,191**	1,238,300
Pension obligations, at end of year	**$ 19,524,706**	$ 18,612,515

See accompanying notes

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Notes to the consolidated financial statements

Note 1 Public Service Pension Act

Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act*, 1990 ("*PSPAct*") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2 Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct*. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

b) Contributions

The PSPP is integrated with the Canada Pension Plan ("CPP"). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police ("OPP") Officers are required to contribute to the PSPP an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP Officers. Starting in 2011, the contribution rates for OPP Officers (excluding Deputy Commissioners and the Commissioner) inclusive of the additional 2% of salary were increased to 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. Also, starting in 2011, the contribution rates for OPP Civilians were increased to 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act (Canada)* limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. In 2009, the PSPP was amended to permit the Association of Management, Administrative and Professional Crown Employees of Ontario ("AMAPCEO") members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program for AMAPCEO was extended to March 31, 2012.

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Notes to the consolidated financial statements (continued)

OPP Officers below the rank of Deputy Commissioner and Commissioner are eligible for a pension payable based on the average salary during the best 36-month period (with a transition provision to gradually reduce the period from the 60-month period to 36-month period in 2011). Likewise, OPP Civilians are eligible for a pension payable based on the average salary during the best 48-month period (with a transition provision to gradually reduce the period from the 60-month period to a 48-month period in 2011). In addition, OPP Officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death benefits

Upon the death of the member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

e) Disability pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination payments

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3 Summary of significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

a) Adoption of Canadian accounting standards for pension plans

Effective January 1, 2011, the Plan adopted Section 4600, *Pension Plans*, of the Canadian Institute of Chartered Accountants' ("CICA") Handbook on a retrospective basis.

In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CICA Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600. The selection of Part II of the CICA Handbook had no effect on the accounting policies of the Plan.

As a result of the implementation of the new accounting standards, the "statements of net assets available for benefits" have been renamed the "statements of financial position."

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Notes to the consolidated financial statements (continued)

In satisfying the fair value measurement requirements for investment assets and investment liabilities in Section 4600, the Plan has chosen to early adopt IFRS 13, *Fair Value Measurement*, in Part I of the Handbook effective January 1, 2010. IFRS 13 has been adopted on a prospective basis as permitted under Section 4600. The early adoption of IFRS 13 had no effect on the accounting policies of the Plan.

In accordance with Section 4600, the Plan presents its investments in wholly owned subsidiaries in the same manner as its other investments and no longer consolidates these entities. As a result of this change in accounting, the following amounts have been restated for financial statement presentation purposes:

Real estate debt of the subsidiary companies is now included in the fair value of the investments in the subsidiaries, rather than separately disclosed. The impact is as follows:

As at December 31 *(in thousands of dollars)*	**2011**	2010
Net assets available for benefits, before accounting changes	**$ 17,269,852**	$ 17,375,850
Decrease in the fair value of investments in real estate	**(142,807)**	(76,141)
Decrease in investment-related liabilities, real estate debt	**142,807**	76,141
Net assets available for benefits, after accounting changes	**$ 17,269,852**	$ 17,375,850

Investment income now includes dividends declared by the subsidiaries, rather than net income of the subsidiaries. The resultant undistributed net income now forms part of the fair value changes included in OPB's income. Real estate investment fees of the subsidiary are no longer included with investment fees, which results in a similar adjustment to the fair value changes for investments in real estate.

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Net investment income, before accounting changes	**$ 18,704**	$ 1,438,965
Decrease in investment income, Canadian bonds	**(746)**	(5,915)
Increase in fair value changes, Canadian bonds	**746**	5,915
Increase (decrease) in investment income, real estate	**(592)**	308,713
Decrease in fair value changes, real estate	**(165)**	(311,205)
Decrease in investment fees, real estate	**757**	2,492
Net investment income, after accounting changes	**$ 18,704**	$ 1,438,965

These changes had no impact on the overall financial position, the overall net change in net assets available for benefits or the overall pension obligations of the Plan for 2011 or 2010.

Additional disclosures have also been provided in the notes to the financial statements in accordance with Section 4600.

b) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates.

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Notes to the consolidated financial statements (continued)

c) Investments

Investments are stated at fair value, including accrued income. For traded investments, fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of investments is determined as follows:

(i) Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Special Province of Ontario Debentures (the "Special Debentures"), bonds and real estate debt are valued at quoted market prices, where available. For those instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Equities are valued at quoted market prices at closing.

(iv) Pooled fund values are supplied by the fund administrators based upon fair value quotations.

(v) Derivative financial instruments consisting of foreign exchange forward and futures contracts are recorded at fair value using year-end market prices.

(vi) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals. For properties acquired and held for less than six months, the fair value of such properties usually approximates the purchase price.

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest and real estate income from operations are recognized on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Dividend income is recognized on the ex-dividend date. Revenue from real estate includes amounts earned from tenants related to lease agreements for its revenue-producing properties, including property tax and operating cost recoveries. Gains on the sale of properties are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the property, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and collection of any additional consideration is reasonably assured. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. Net investment income (loss) also includes changes in fair values, which represent realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal adjustments on real estate valuations and fair value adjustments on real estate debt. Transaction costs are expensed as incurred.

d) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries and accounted for under the immediate recognition approach. Under this approach, the pension obligations are based on an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

e) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

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Notes to the consolidated financial statements (continued)

f) Capital assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) 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 values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

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Notes to the consolidated financial statements (continued)

Note 4 Investments

Investments before allocating the effect of derivatives contracts

As at December 31 *(in thousands of dollars)*	**2011**	2010
Cash and short-term investments		
Canada	**$ 440,253**	$ 334,770
United States and other international	**79,405**	91,730
	519,658	426,500
Fixed income		
Special Province of Ontario Debentures	**1,364,507**	1,825,196
Bonds		
Canada	**4,324,877**	3,678,902
Other international	**412,150**	746,545
	6,101,534	6,250,643
Equities		
Canada	**2,288,547**	2,431,050
United States	**1,873,214**	1,407,845
Other international	**3,735,374**	4,281,643
	7,897,135	8,120,538
Real estate	**2,654,157**	2,399,879
Infrastructure	**4,256**	—
Participating mortgages	**50,155**	49,232
Total investments	**17,226,895**	17,246,792
Investment-related receivables		
Pending trades	**3,950**	4,347
Derivatives receivable	**36,395**	107,326
	40,345	111,673
Investment-related liabilities		
Real estate debt	**—**	87,553
Pending trades	**12,703**	16,777
Derivatives payable	**16,771**	31,126
	29,474	135,456
Net investments	**$ 17,237,766**	$ 17,223,009

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Notes to the consolidated financial statements (continued)

a) Asset mix

Investments are allocated to and maintained in major asset classes within acceptable ranges with target allocation as follows:

	2011 Target	2010 Target
Cash and short-term investments	**2%**	2%
Bonds	**38%**	38%
Total interest-bearing instruments	**40%**	40%
Equity		
Canadian	**11%**	11%
International	**36%**	36%
Total equity	**47%**	47%
Real assets	**13%**	13%
Total equity and real assets	**60%**	60%

Investments in certain other asset classes are allowable, subject to Board approval.

b) Financial instruments risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its Statement of Investment Policies and Procedures, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk is comprised of the following:

(i) Interest rate risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Fund's modified duration of 5.4 years at December 31, 2011 (2010 – 5.5 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $339.1 million (2010 – $318.5 million), with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed income maturities for further information.

Notes to the consolidated financial statements (continued)

(ii) Foreign currency risk – Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

As at December 31 *(in thousands of dollars)*				**2011**	2010
	Gross Exposure	**Foreign Exchange Contracts Receivable**	**Foreign Exchange Contracts Payable**	**Net Exposure**	Net Exposure
U.S. dollar	**$ 3,154,496**	**$ 1,104,771**	**$ (2,412,295)**	**$ 1,846,972**	$ 1,505,664
Hong Kong dollar	**374,575**	**13,633**	**(298)**	**387,910**	377,845
Brazil Real	**216,430**	**16,424**	**(109)**	**232,745**	227,228
South Korean won	**207,825**	**12,295**	**—**	**220,120**	211,044
Pound sterling	**423,717**	**13,199**	**(266,885)**	**170,031**	204,651
Other	**1,672,187**	**196,994**	**(707,365)**	**1,161,816**	1,283,454
Total foreign	**6,049,230**	**1,357,316**	**(3,386,952)**	**4,019,594**	3,809,886
Canadian dollar	**11,169,098**	**3,100,670**	**(1,051,596)**	**13,218,172**	13,413,123
	$ 17,218,328	**$ 4,457,986**	**$ (4,438,548)**	**$ 17,237,766**	$ 17,223,009

The impact of a 1% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 1% of the net exposure of the impacted currency, or $40.2 million (2010 – $38.1 million) in total for all foreign currencies, as at December 31, 2011.

(iii) Other price risk – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 1% absolute change in the price of an investment, holding all other variables constant, is 1% of the net exposure of the impacted investment, or $79.0 million (2010 – $81.2 million), as at December 31, 2011.

Credit risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2011, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $1.365 billion (2010 – $1.825 billion) and bonds and short-term investments valued at $435 million (2010 – $277 million). At December 31, 2011, 77% (2010 – 76%) of bonds held had at least an "A" rating.

Notes to the consolidated financial statements (continued)

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The more typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives which all mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions as well as interest and principal payments from the Special Debentures, which provided $510 million (2010 – $498 million) to the Plan.

c) Cash and short-term investments

As at December 31 *(in thousands of dollars)*	**2011**	2010
Canada		
Cash	**$ 31,708**	$ 29,975
Short-term notes and treasury funds	**404,362**	304,557
Term deposits	**3,400**	—
Accrued interest	**783**	238
	$ 440,253	$ 334,770
United States and other international		
Cash	**$ 56,959**	$ 35,263
Short-term notes and treasury funds	**18,876**	26,072
Term deposits	**3,569**	30,393
Accrued interest	**1**	2
	$ 79,405	$ 91,730

d) Fixed income and equity investments

The Special Debentures are recorded at an estimated market value of $1.365 billion (2010 – $1.825 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently three Special Debentures maturing over the next three years with a weighted average interest rate of 10.96% (2010 – 11.04%).

Included in the fixed income and equities totals are the following amounts related to pooled funds:

As at December 31 *(in thousands of dollars)*	**2011**	2010
Equities – Canada	**$ 36,119**	$ 45,840
Equities – Other international	**258,641**	296,741

See the schedules of Fixed income maturities and of Investments over $35 million for further information.

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Notes to the consolidated financial statements (continued)

e) Derivatives

As at December 31 *(in thousands of dollars)*	**2011 Notional**	**2011 Fair Value**	2010 Notional	2010 Fair Value
Equity derivatives				
Futures	**$ 158,177**	**$ 186**	$ —	$ —
Currency derivatives				
Forwards	**4,473,551**	**19,438**	4,081,936	76,200
Value of derivatives contracts	**$ 4,631,728**	**$ 19,624**	$ 4,081,936	$ 76,200

f) Securities lending

At year-end, $945 million (2010 – $863 million) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. At year-end, $1.005 billion (2010 – $906 million) of securities were held as collateral, providing a 6.3% (2010 – 5.1%) cushion against market and credit risks.

g) Fair values

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes investments with underlying real estate properties, private equity investments and securities that have liquidity restrictions.

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Notes to the consolidated financial statements (continued)

The following tables present the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value. The tables exclude accrued income, other assets, and other liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

As at December 31, 2011 *(in thousands of dollars)*	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ —	$ 407,762	$ —	$ 407,762
United States and other international	—	22,445	—	22,445
Fixed income				
Special Province of Ontario Debentures	—	1,297,855	—	1,297,855
Bonds				
Canada	—	4,027,209	262,170	4,289,379
United States and other international	—	404,176	—	404,176
Equities				
Canada	2,246,351	36,119	194	2,282,664
United States	1,870,534	—	—	1,870,534
Other international	3,469,504	258,641	—	3,728,145
Futures	186	—	—	186
Participating mortgages	—	—	50,155	50,155
Real estate	—	—	2,654,157	2,654,157
Infrastructure	—	—	4,256	4,256
Forward exchange contracts	—	36,209	—	36,209
	$ 7,586,575	$ 6,490,416	$ 2,970,932	$ 17,047,923
Financial liabilities				
Forward exchange contracts	$ —	$ (16,771)	$ —	$ (16,771)

Notes to the consolidated financial statements (continued)

As at December 31, 2010 *(in thousands of dollars)*	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ —	$ 304,557	$ —	$ 304,557
United States and other international	—	56,465	—	56,465
Fixed income				
Special Province of Ontario Debentures	—	1,738,977	—	1,738,977
Bonds				
Canada	—	3,468,221	189,102	3,657,323
United States and other international	—	735,035	—	735,035
Equities				
Canada	2,379,087	47,325	—	2,426,412
United States	1,395,397	—	—	1,395,397
Other international	3,984,544	296,741	—	4,281,285
Participating mortgages	—	—	49,232	49,232
Real estate	—	—	2,050,632	2,050,632
Forward exchange contracts	—	107,326	—	107,326
	$ 7,759,028	$ 6,754,647	$ 2,288,966	$ 16,802,641
Financial liabilities				
Real estate debt	$ —	$ (87,553)	$ —	$ (87,553)
Forward exchange contracts	—	(31,126)	—	(31,126)
	$ —	$ (118,679)	$ —	$ (118,679)

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2011 and 2010.

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Notes to the consolidated financial statements (continued)

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2011 and 2010.

(in thousands of dollars)	**Fair Value as at January 1, 2011**	**Transfers In/(Out)**	**Acquisitions**	**Dispositions**	**Fair Value Changes**	**Fair Value as at December 31, 2011**
Financial assets						
Bonds						
Canada	$ 189,102	$ (6,383)	$ 63,888	$ —	$ 15,563	$ 262,170
Equities						
Canada	—	194	—	—	—	194
Participating mortgages	49,232	—	2,888	—	(1,965)	50,155
Real estate	2,050,632	266,417	204,469	(74,340)	206,979	2,654,157
Infrastructure	—	—	4,252	—	4	4,256
	$ 2,288,966	$ 260,228	$ 275,497	$ (74,340)	$ 220,581	$ 2,970,932

(in thousands of dollars)	Fair Value as at January 1, 2010	Transfers In/(Out)	Acquisitions	Dispositions	Fair Value Changes	Fair Value as at December 31, 2010
Financial assets						
Bonds						
Canada	$ 27,581	$ —	$ 147,470	$ —	$ 14,051	$ 189,102
Equities						
Canada	550	—	—	(278)	(272)	—
United States	380	—	—	(380)	—	—
Participating mortgages	46,038	—	1,465	—	1,729	49,232
Real estate	2,139,808	—	68,021	(319,221)	162,024	2,050,632
	$ 2,214,357	$ —	$ 216,956	$ (319,879)	$ 177,532	$ 2,288,966

h) Commitments

As at December 31, 2011, OPB has provided funding commitments for certain investments in the amount of $432.8 million (of which $195.6 million has been advanced to date).

i) Subsequent events

As at March 1, 2012, OPB has acquired real estate investments in the amount of $564.5 million (of which $15.0 million had been advanced to December 31, 2011).

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Notes to the consolidated financial statements (continued)

Note 5 Contributions receivable

As at December 31 *(in thousands of dollars)*	2011	2010
Contributions receivable – Members	**$ 25,006**	$ 22,444
Employers	**36,534**	32,541
Sponsor – Special payments	**—**	143,217
Sponsor – Additional current service	**—**	(21,410)
Contributions receivable – Employers and Sponsor	**$ 36,534**	$ 154,348

Note 6 Capital assets

As at December 31 *(in thousands of dollars)* 2011	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	**$ 3,109**	**$ 2,465**	**$ 644**
Furniture and fixtures	**2,384**	**880**	**1,504**
Leasehold improvements	**1,502**	**396**	**1,106**
Total capital assets	**$ 6,995**	**$ 3,741**	**$ 3,254**

As at December 31 *(in thousands of dollars)* 2010	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 2,625	$ 2,071	$ 554
Furniture and fixtures	2,373	650	1,723
Leasehold improvements	1,489	261	1,228
Total capital assets	$ 6,487	$ 2,982	$ 3,505

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Notes to the consolidated financial statements (continued)

Note 7 Pension obligations

a) Accounting basis

The value of pension obligations of $19.525 billion (2010 – $18.613 billion) is an estimate of pension benefit obligations accrued to date for members and retired members accounted for under the immediate recognition approach. The accounting valuation is determined by applying best estimate assumptions and the projected benefit method (pro-rated on service), as required under Canadian accounting standards for pension plans. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2011 were computed by extrapolating data used for the December 31, 2010 funding valuation prepared by the independent actuary.

Actuarial assumptions – The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2011	2010
Investment return	**6.35%**	6.35%
Inflation	**2.50%**	2.50%
Real rate of return	**3.85%**	3.85%
Salary increases	**3.50% + promotional scale**	3.50% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates.

b) Funding basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) *("PBA")*. The *PBA* and the *Income Tax Act* (Canada) require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years. The most recent filing was a funding valuation as at December 31, 2010, prepared by Aon Hewitt, which disclosed a funding shortfall of $1.191 billion on a going concern basis. The next funding valuation that is required to be filed will be as at December 31, 2013.

The funding valuation is used as a basis for funding and Plan design decisions.

In 2010, an additional pension obligation of $65.3 million was accrued, resulting from the Plan changes coming into effect in 2011 for OPP Officers and Civilians. These pension changes are described in Note 2(c). Contribution increases from these member groups, described in Note 2(b), are sufficient to fund this additional cost.

Note 8 Deficit

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2011 was $2.255 billion (2010 – $1.236 billion).

Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

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Notes to the consolidated financial statements (continued)

Note 9 Net investment income

For the year ended December 31 *(in thousands of dollars)*			**2011**			2010
	Investment Income[1]	**Fair Value Changes[2]**	**Total**	Investment Income[1]	Fair Value Changes[2]	Total
Cash and short-term investments						
Canada	**$ 8,204**	**$ (1,203)**	**$ 7,001**	$ 9,076	$ (6,000)	$ 3,076
United States and other international	**179**	**(71,638)**	**(71,459)**	187	147,056	147,243
	8,383	**(72,841)**	**(64,458)**	9,263	141,056	150,319
Fixed income						
Special Province of Ontario Debentures	**144,501**	**(95,331)**	**49,170**	183,061	(125,114)	57,947
Bonds						
Canada	**181,032**	**189,428**	**370,460**	158,138	113,173	271,311
United States and other international	**36,466**	**(563)**	**35,903**	31,872	(61,054)	(29,182)
	361,999	**93,534**	**455,533**	373,071	(72,995)	300,076
Equities						
Canada	**58,540**	**(280,897)**	**(222,357)**	52,919	274,539	327,458
United States	**33,471**	**13,540**	**47,011**	25,965	102,284	128,249
Other international	**112,848**	**(610,103)**	**(497,255)**	91,009	212,507	303,516
	204,859	**(877,460)**	**(672,601)**	169,893	589,330	759,223
Real estate	**148,071**	**206,979**	**355,050**	427,721	(153,339)	274,382
Infrastructure	**—**	**4**	**4**	—	—	—
Participating mortgages	**2,888**	**(1,965)**	**923**	4,282	1,729	6,011
Total investment income (loss)	**$ 726,200**	**$ (651,749)**	**$ 74,451**	$ 984,230	$ 505,781	$ 1,490,011
Investment management and custodial fees			**(55,747)**			(51,046)
Net investment income			**$ 18,704**			$ 1,438,965

1 Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and real estate operating income.

2 Gains (losses) on cash and short-term investments include foreign exchange contracts.

Notes to the consolidated financial statements (continued)

a) Interest income

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Cash and short-term investments		
Canada		
Cash	**$ 2,930**	$ 2,051
Short-term notes and treasury funds	**5,209**	7,025
Term deposits	**65**	—
	$ 8,204	$ 9,076
United States and other international		
Cash	**$ 89**	$ 32
Short-term notes and treasury funds	**5**	9
Term deposits	**85**	146
	$ 179	$ 187

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Dividend income

Dividend income includes $6.69 million (2010 – $5.59 million) from pooled equity funds.

c) Investment fees

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Portfolio fund management	**$ 40,078**	$ 35,758
Transaction costs	**10,720**	11,148
Custodial	**3,734**	3,114
Real estate	**1,215**	1,026
	$ 55,747	$ 51,046

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $73 thousand (2010 – $691 thousand).

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Notes to the consolidated financial statements (continued)

Note 10 Contributions

For the year ended December 31 *(in thousands of dollars)*	2011	2010
Members		
Current service required	**$ 276,434**	$ 258,793
Prior service	**30,308**	24,664
Total contributions from members	**306,742**	283,457
Employers		
Current service		
Regular contributions	**276,536**	259,063
PSSBA transfer	**(14,039)**	(13,477)
For members receiving Long Term Income Protection benefits	**8,285**	7,602
Prior service	**3,932**	4,366
	274,714	257,554
Sponsor payments		
Special payments	**126,794**	146,660
Additional current service	**6,823**	1,140
	133,617	147,800
Total contributions from employers and sponsor	**408,331**	405,354
Total contributions	**$ 715,073**	$ 688,811

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $126.794 million (2010 – $146.660 million) in Special Payments in 2011 towards the funding shortfall identified in the filed funding valuation as at December 31, 2010. In 2011, the Province made $6.823 million (2010 – $1.140 million) in additional employer current service contributions.

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Notes to the consolidated financial statements (continued)

Note 11 Operating expenses

Pension operations

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Staffing costs	**$ 13,358**	$ 13,562
Staff development and support	**303**	428
Office premises and operations	**3,143**	3,077
Information technology and project management	**4,067**	4,049
Professional services	**810**	823
Communication	**294**	281
Depreciation	**532**	602
Board remuneration	**120**[1]	98
Audit	**147**	190
	$ 22,774	$ 23,110

Investment operations

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Staffing costs	**$ 6,403**	$ 5,657
Staff development and support	**220**	285
Office premises and operations	**1,914**	1,795
Information technology and project management	**1,160**	1,099
Professional services	**1,493**	869
Communication	**126**	120
Depreciation	**226**	224
Board remuneration	**120**[1]	98
Audit	**143**	90
	$ 11,805	$ 10,237

[1] During 2011, Board members were provided with retroactive pay totalling $56 thousand, which covered the period from July 1, 2007 to December 31, 2010. This pay represented the difference in remuneration rates paid by OPB and the rates previously approved by Provincial Order-in-Council and not communicated to OPB. No interest was applied to any retroactive payments.

Notes to the consolidated financial statements (continued)

Included in the operating expenses on page 46 are:

External audit services

For the year ended December 31 *(in thousands of dollars)*		**2011**		2010
External audit and related services provided to Ontario Pension Board	**$**	**104**	$	96
External audit and related services provided to and recorded by subsidiary operations		**204**		139
Total fees	**$**	**308**	$	235

Actuarial services

For the year ended December 31 *(in thousands of dollars)*		**2011**		2010
Actuarial services provided to Ontario Pension Board	**$**	**336**	$	326

Note 12 Capital management

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The latest actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2010, which disclosed a funding shortfall of $1.191 billion on a going concern basis and an excess of $784 million on a solvency basis. The date of the next required actuarial valuation for funding purposes is December 31, 2013.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's Statement of Investment Policies and Procedures also provides guidance with respect to the investment of the Plan's assets in order to assist with the management of any funding excesses or shortfalls. For 2011, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recent actuarial funding valuation.

Note 13 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.

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Notes to the consolidated financial statements (continued)

Note 14 Compensation

Compensation of the senior management team includes base salary, incentives, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the President & CEO, Chief Investment Officer, all Senior Vice-Presidents and directly reporting Vice-President:

For the year ended December 31	Year	Base Salary	Incentives[1]	Taxable Benefits and Allowances[2]	Total
Mark J. Fuller, President & CEO[3]	2011	$ 398,631	$ 141,300[4]	$ 11,321	$ 551,252
	2010	398,631	141,300[4]	11,376	551,307
	2009	398,631	87,170	11,381	497,182
	2008	398,321	121,300[5]	11,403	531,024
	2007	332,648	140,242	11,304	484,194
R. Paul Edmonds, Senior Vice-President, Corporate Affairs, and General Counsel[6]	2011	288,478	90,625	11,968	391,071
	2010	266,086	89,695	14,650	370,431
	2009	266,086	44,639	14,547	325,272
	2008	208,775	66,055	11,617	286,447
Jill Pepall, Chief Investment Officer[7]	2011	361,044	118,125	10,072	489,241
	2010	310,178	98,725	6,862	415,765
	2009	86,702	12,083	30	98,815
Peter Shena, Senior Vice-President, Pensions and Stakeholder Relations[8]	2011	288,487	95,156	11,968	395,611
	2010	266,477	89,827	14,650	370,954
	2009	266,477	44,855	14,547	325,879
	2008	258,995	75,098	13,513	347,606
	2007	201,257	55,548	5,175	261,980
Duncan Webb, Senior Vice-President, Finance[9]	2011	298,973	93,750	11,986	404,709
	2010	298,973	100,781	14,691	414,445
	2009	280,575	50,156	13,640	344,371
Anne Catherall, Vice-President, Corporate Services[10]	2011	189,151	52,330	283	241,764
	2010	176,972	46,615	296	223,883
	2009	156,892	21,226	261	178,379
	2008	147,343	32,861	262	180,466
	2007	130,116	30,530	235	160,881

1 Incentives earned in 2008 to 2011 are paid in March of the following year.

2 Includes life insurance, car allowance and parking. On June 1, 2011, the Management Board of Cabinet issued a Perquisites Directive mandating that all car allowances were to be discontinued throughout the Ontario ministries, classified agencies and other public entities as prescribed by the *Public Sector Expenses Review Act*. After obtaining approval to alter the employment contracts through the Human Resources Committee and the Board of Directors, and after giving appropriate notice to those executives affected, OPB was in compliance with this Directive as of January 1, 2012.

3 Mr. Fuller was appointed President on January 1, 2008. He was appointed to President & CEO on January 1, 2009. Upon promotion to President & CEO, Mr. Fuller deferred a $50,000 salary increase. This deferral has continued through to December 31, 2011.

4 For 2011, the Board of Directors approved an incentive of $150,000. Mr. Fuller voluntarily reduced his 2011 incentive to the 2010 level of $141,300. For 2010, the Board of Directors approved an incentive of $165,000. Mr. Fuller voluntarily reduced his 2010 incentive to the 2008 level of $141,300.

5 For 2008, the Board of Directors approved an incentive of $141,300 for Mr. Fuller. During 2009, Mr. Fuller, at his own initiative, reduced his 2008 incentive and repaid $20,000, leaving an incentive of $121,300.

6 Start date of March 17, 2008.

7 Start date of September 8, 2009. Appointed as Acting Senior Vice-President, Investments on May 4, 2010 and promoted to Chief Investment Officer on December 2, 2010.

8 Promoted to Senior Vice-President, Stakeholder Relations and Pension Policy on March 1, 2008 and Senior Vice-President, Pensions and Stakeholder Relations on December 1, 2009.

9 Start date of January 19, 2009.

10 Promoted to Acting Vice-President, People and Corporate Business Resources on February 2, 2009, and Vice-President, Corporate Services on January 1, 2010.

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Notes to the consolidated financial statements (continued)

Compensation for the President & CEO is approved by the Board. Compensation for the Senior Vice-Presidents and Chief Investment Officer is approved by the Human Resources Committee of the Board. Incentives are performance-based.

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

The President & CEO, CIO, and the Senior Vice-Presidents also participate in a Supplemental Executive Retirement Plan ("SERP") that provides additional retirement benefits equal to 1.5% of the best five-year average annual base salary for each year of service with the Ontario Pension Board. All the other provisions of the SERP mirror the provisions of the PSPP, including the exclusion of incentives from the pension entitlement calculation. The SERP is an unregistered arrangement that is non-contributory and not funded.

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Supplementary information

Fixed income maturities

As at December 31
(in thousands of dollars)

	2011		2010	
	Fair Value	**Current Yield %**	Fair Value	Current Yield %
Special Province of Ontario Debentures				
0–1 year	**$ 290,205**	**10.05**	$ 261,415	11.26
1–5 years	**1,007,650**	**9.19–11.10**	1,477,562	8.80–9.41
Accrued interest	**66,653**		86,219	
	1,364,508		1,825,196	
Bonds				
Canadian:				
0–1 year	**512,075**	**1.11–6.49**	157,507	1.25–10.14
1–5 years	**1,055,322**	**1.00–13.46**	1,127,132	1.01–12.15
5–10 years	**1,184,512**	**1.49–19.68**	1,140,463	0.94–12.72
> 10 years	**1,535,961**	**2.58–10.22**	1,224,232	3.24–8.89
Accrued interest	**37,006**		29,568	
	4,324,876		3,678,902	
United States and other international				
0–1 year	**37,640**	**3.15–13.29**	9,032	6.02–7.57
1–5 years	**133,857**	**2.93–14.88**	220,386	2.25–14.51
5–10 years	**176,255**	**2.87–10.73**	411,505	3.33–11.76
> 10 years	**56,424**	**4.04–9.90**	90,253	3.98–11.35
Accrued interest	**7,974**		15,370	
	412,150		746,546	
Total fixed income	**$ 6,101,534**		$ 6,250,644	

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Supplementary information (continued)

Investments over $35 million

As at December 31, 2011 *(in thousands of dollars)*	Maturities	Coupon %		Fair Value[1]
Cash and short-term investments				
Canada:				
Government of Canada			$	92,277
Province of Ontario				49,179
Fixed income				
Special Province of Ontario Debentures	2012–2014	10.38–11.19	$	1,297,855
Bonds				
Canada:				
Government of Canada	2012–2045	1.00–10.50	$	978,047
Province of Ontario	2013–2041	3.15–8.50		382,543
Province of Quebec	2013–2043	3.50–9.38		130,832
Royal Bank of Canada	2012–2053	2.68–5.81		120,455
Canadian Imperial Bank of Commerce	2012–2108	2.65–10.25		110,542
Bank of Nova Scotia	2013–2108	2.74–7.80		106,001
GE Capital Canada	2012–2037	2.10–5.73		91,530
Bank of Montreal	2012–2025	2.96–6.17		81,403
Rogers Communications Inc.	2016–2041	4.70–6.68		76,955
Toronto Dominion Bank	2013–2108	2.95–7.24		75,581
Bell Canada	2014–2037	3.60–7.85		73,242
Province of British Columbia	2013–2042	3.25–9.95		64,456
Sun Life Financial Inc.	2019–2108	4.57–7.90		57,237
Shaw Communications Inc.	2014–2039	5.50–6.75		52,967
Great-West Life Co.	2018–2068	4.65–7.13		48,745
Wells Fargo Financial Canada Corp.	2012–2016	3.70–6.05		44,939
Hydro One Inc.	2013–2046	2.95–7.35		43,510
Loblaw Companies Ltd.	2013–2036	4.85–6.85		42,553
Ford Credit Canada Ltd.	2013–2015	4.20–7.50		42,526
Manulife Financial Corp.	2014–2108	4.08–7.77		41,218
Enbridge Inc.	2016–2050	4.04–5.75		37,511
407 International Inc.	2015–2041	3.87–7.13		36,258
Morgan Stanley	2012–2017	4.50–4.90		35,009

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

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Supplementary information (continued)

Investments over $35 million (continued)

As at December 31, 2011

(in thousands of dollars)	Maturities	Coupon %	Fair Value[1]
Private debt			
OPB Investment Inc. (holding company, 100% owned)			$ 253,574
Real estate			
Investment in real estate holdings over $35 million, comprising of OPB Realty Inc. (holding company, 100% owned), OPB EMTC Inc. (holding company, 100% owned), and RXR Real Estate Fund.			$ 2,552,420
Participating mortgages	2019	5.00	$ 37,360

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

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Supplementary information (continued)

Investments over $35 million (continued)

As at December 31, 2011

(in thousands)	Shares/Units[2]	Fair Value[2]
Equities		
Canada:		
Toronto-Dominion Bank	2,101	$ 160,249
Bank of Nova Scotia	2,157	109,657
Royal Bank of Canada	2,017	104,820
Canadian National Railway Co.	1,249	100,070
Canadian Natural Resources Ltd.	2,281	87,002
Rogers Communications Inc.	1,451	56,955
TransCanada Corp.	1,257	55,995
Manulife Financial Corp.	4,749	51,532
Potash Corp. of Saskatchewan	1,210	50,967
Canadian Imperial Bank of Commerce	691	50,956
Suncor Energy Inc.	1,664	48,877
Cenovus Energy Inc.	1,322	44,716
Telus Corp.	760	43,215
Talisman Energy Inc.	3,221	41,806
Canadian Tire Corp Ltd.	629	41,459
Encana Corporation	1,941	36,661
Jarislowsky Fraser Equity Fund	1,975	36,119
United States:		
SPDR Gold Shares	635	98,337
Apple Inc.	121	49,861
Johnson & Johnson	634	42,316
Exxon Mobil Corp.	482	41,569
Amazon.com Inc.	223	39,320
Other international:		
Leith Wheeler Intl Fund	17,341	218,634
Samsung	371	127,835
Taiwan Semiconductor Manufacturing Co.	17,990	74,986
Vale SA	3,484	73,587
Petroleo Brasileiro SA	4,189	70,877
China Mobile Ltd.	4,443	44,212
GE Asset MGMT Trust China A Shares	4,986	40,008
Baidu Inc. China	334	39,665
Gazprom OAO	3,518	38,187
Lukoil OAO	688	37,152

[2] Includes all share classes and American Depository Receipts.

Supplementary information (continued)

Real estate properties

As at December 31, 2011 *(in thousands of square feet)*	Location	Area
Retail		
Lougheed Lands	Burnaby	56
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	543
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	928
Pen Centre	St. Catharines	1,038
Pickering Town Centre	Pickering	896
Carlingwood Shopping Centre	Ottawa	526
Halifax Shopping Centre	Halifax	528
Halifax Shopping Centre Annex	Halifax	420
2003 Gottingen Street	Halifax	26
West End Mall	Halifax	185
Erin Mills Town Centre	Mississauga	845
Erin Mills Town Plaza	Mississauga	59
		6,591
Office		
Marlborough Professional Bldg.	Calgary	51
One Queen Street East/20 Richmond Street East	Toronto	503
Halifax Office Complex	Halifax	114
Pickering Office Tower	Pickering	117
		785
Industrial		
Mississauga Industrial	Mississauga	2,904
Total properties		**10,280**

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Board of Directors

OPB is committed to good governance – starting from the top down. Each member of our Board has been hand-picked based on their expertise, commitment, integrity and vision. Working together, they ensure the Plan's governance structure and practices reflect the highest standards. For more information on the governance of OPB, please visit the Governance section of our website.

M. Vincenza Sera ICD.D (Chair)

A former investment banker with 25 years of expertise in capital markets, corporate finance and corporate governance. She has held senior positions with major Canadian firms, including National Bank Financial, Gordon Capital, and CIBC. Vincenza is a member of Ontario Financing Authority Board, as well as a member of the Institute of Corporate Directors.

Appointed to the Board on September 17, 2004.

Appointed as Chair on July 1, 2007.

Current appointment ends June 30, 2013.

M. David R. Brown

A former managing principal at Eckler Ltd., a leading Canadian actuarial consulting firm. During a career spanning more than 40 years, David has consulted to pension clients in both the private and public sectors, served on the Pension Commission of Ontario, and held numerous positions with professional organizations.

Appointed to the Board on October 25, 2006.

Current appointment ends October 24, 2012.

J. Urban Joseph, O.C. (Vice-Chair)

Vice-Chairman of Toronto-Dominion Bank from 1992 to 1996. During his career with the bank, which began in 1952, he held a number of positions, including Executive Vice-President of the Human Resources Division.

Appointed to the Board on July 1, 2004.

Appointed as Vice-Chair on July 1, 2007.

Current appointment ends June 30, 2013.

Lynn A. Clark

Founding principal of L.A. Clark Consulting, an independent consulting and research organization that focuses on pension and investment issues. Lynn has more than 20 years of experience in the investment banking and pension arena and is a former member of the Industry Task Force on Pension Governance.

Appointed to the Board on October 5, 2006.

Current appointment ends October 12, 2012.

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M.E. (Peggy) Gilmour ICD.D

Managing Director, Global Reconciliations Shared Services for RBC Capital Markets. Peggy is a Chartered Accountant and senior finance executive with extensive experience in the financial services sector. Peggy has held executive roles in finance and risk management in both the banking and insurance industries. She is a member of the Institute of Corporate Directors.

Appointed to the Board on August 12, 2009.

Current appointment ends August 11, 2012.

Shamira Madhany

Shamira was appointed Chief Officer for Diversity and Accessibility in the OPS in August 2011. As the lead executive at the OPS Diversity Office, Shamira is responsible for guiding the OPS towards its key goals of embedding and sustaining diversity and accessibility. Shamira is well known for her strong partnerships with stakeholders and her demonstrated leadership, passion and commitment towards making the OPS an accessible, inclusive and equitable employer. She served on the Board of the Markham Stouffville Hospital, where she held the position of Vice-Chair of the Hospital's Performance Committee.

Appointed to the Board on December 8, 2010.

Current appointment ends December 7, 2013.

Lisa Hillstrom

Executive Officer, Pension and Benefits, Ontario Provincial Police Association from April 2006 to present. As Executive Officer for the OPP Association, Lisa provides bereavement counselling, retirement counselling, and assistance to members with insured benefit appeals, LTIP, WSIB and return-to-work issues. During her career, she has held several positions in the pension and benefits field with the Ontario Public Service. Immediately prior to joining the OPP Association, she held the position of Benefit Advisor, Ontario Shared Services.

Appointed to the Board on February 13, 2008.

Current appointment ends August 12, 2012.

Anthony Wohlfarth

Pension Consultant with Nelligan, O'Brien, Payne, LLP in Ottawa. Previously held executive positions with Carleton University Academic Staff Association ("CUASA"), the Canadian Employment Insurance Commission, and the CAW-Canada. In 2012, Tony completed the Audit Committee Program (ACC designation) with Director's College of Canada, a joint initiative of the Conference Board of Canada and DeGroote School of Business at McMaster University. He has also completed the Certificate in Adjudication for Administrative Agencies, Boards and Tribunals from York University.

Appointed to the Board on September 1, 2005.

Current appointment ends August 31, 2014.

Hugh G. Mackenzie

Principal in his own economic consulting business and a Research Associate of the Canadian Centre for Policy Alternatives. He has worked for over 30 years in the trade union and non-profit sectors, as well as in all three levels of government. He is chair of the Atkinson Charitable Foundation and is a member of the Ontario Teachers' Pension Plan Board.

Appointed to the Board on December 4, 2002.

Current appointment ends September 30, 2014.

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Directory of key personnel

Officers

Mark J. Fuller
President & CEO

Jill Pepall
Chief Investment Officer

Peter Shena
Senior Vice-President, Pensions and Stakeholder Relations

Duncan D. Webb
Senior Vice-President, Finance

Paul Edmonds
Senior Vice-President, Corporate Affairs, and General Counsel

Glenn Hubert
Vice-President, Private Debt

Brian Whibbs
Vice-President, Real Estate

Sean Macaulay
Vice-President, Investments (External Managers)

Tanya Lai
Vice-President, Investments (Developing Markets & Investment Policy)

Anne Catherall
Vice-President, Corporate Services

Thomas Choi
Vice-President, IT Services and Enterprise Solutions