OPB
Your Pension. Our Promise.

Ontario Pension Board
2012 Annual Report

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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 approximately $19 billion in assets, 41,863 members, 35,616 retired members and 4,746 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 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 matching 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 of their participation in the Plan.

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Investment & funding highlights

The combination of a sound investment strategy and a high-performing investment team enabled OPB to generate strong returns and improve the funded status of the Plan. We also made significant headway in the implementation of our strategic asset allocation (SAA).

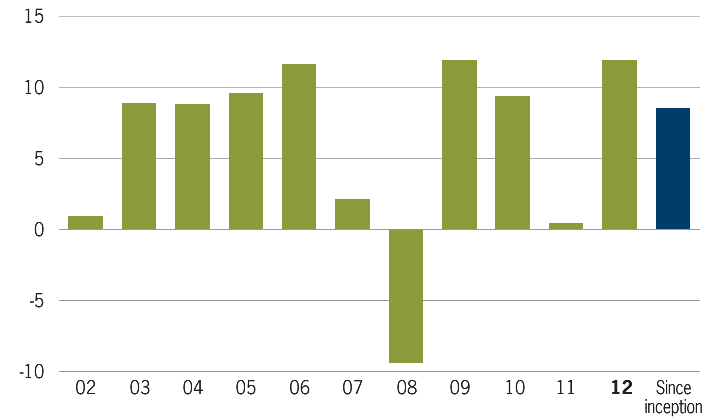
Among other achievements, we:

- issued our first bond offering;
- expanded our private market holdings;
- increased our allocation to specialty mandates; and
- moved forward with tactical asset allocation (TAA).

The Plan's year-over-year return as of December 31, 2012, is 11.9%. The Plan's long-term annual rate of return since inception now stands at 8.5%. A year-end going-concern funding valuation is expected to show that the Plan is just over 93% funded.

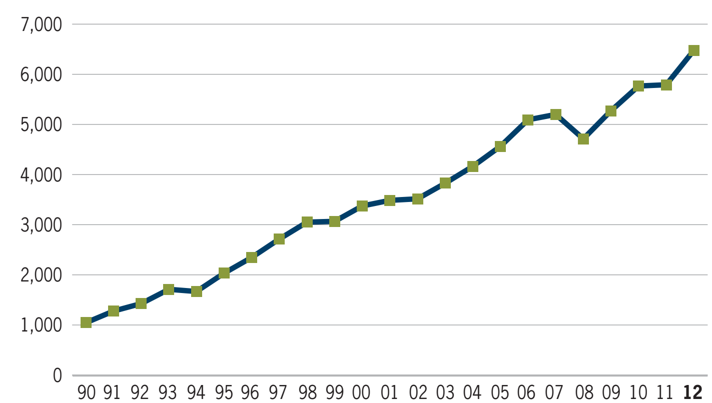
Total returns

% per annum



Growth of $1,000 since inception

$ in thousands



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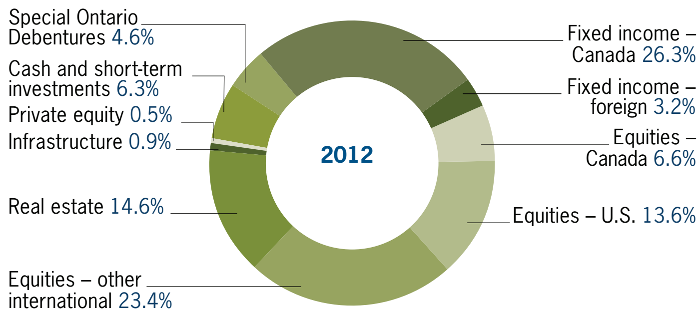
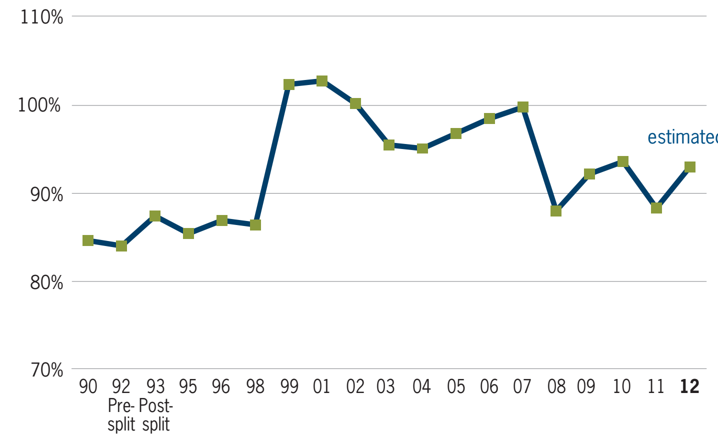
Asset mix

as at December 31, 2012

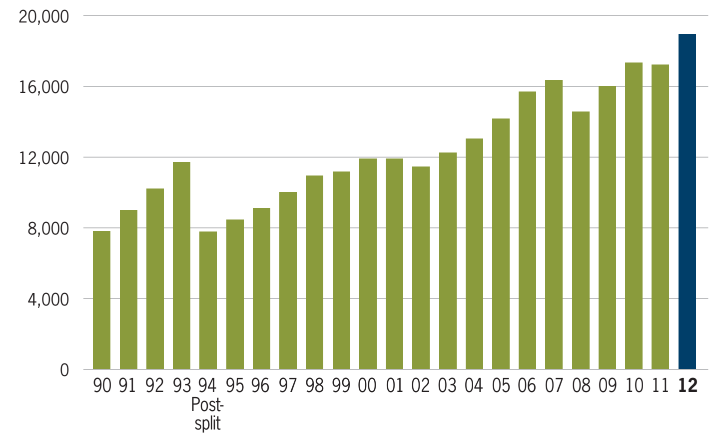


Funded status



Net assets

$ in millions



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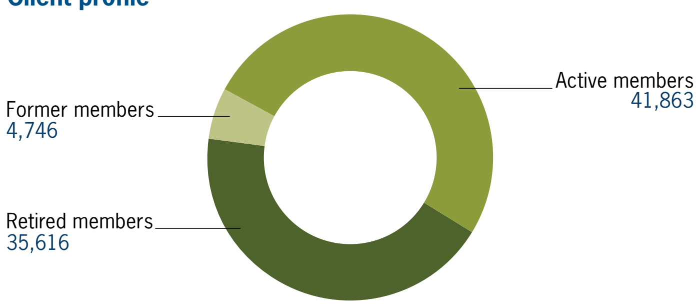
Client service highlights

At OPB, we are committed to providing our clients with outstanding service – a commitment that has earned us a reputation for service excellence. In 2012, a global leader in pension administration benchmarking ranked OPB third in the world among its peers for client service. We plan to build on this success.

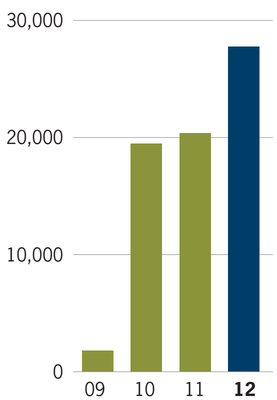
That is why, in 2012, we:

- put in place the infrastructure for a new "client care centre" to be launched in early 2013;
- increased awareness and usage of our industry-leading e-services; and
- continued to develop the internal service expertise needed to provide members with personalized decision-making support.

Client profile



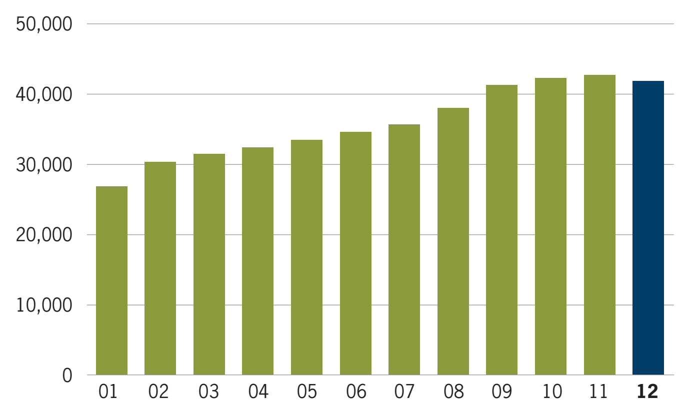
Website visits – E-services logins



Client interactions

	2012	2011
Applications for retirement online	**2,573**	N/A
Buyback cost estimates completed online	**2,210**	1,928
Beneficiary designations updated online	**1,693**	426
Address changes completed online	**610**	318
Presentations to members	**165**	165
Number of members using retirement planner	**8,502**	N/A

Number of active members



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Message from the Chair

2012 was an outstanding year for OPB. We generated strong investment returns, materially improved the funded status of the Plan, and were ranked third internationally for service excellence – while maintaining an all-in cost structure that is significantly below our peers.

M. Vincenza Sera, Chair

As part of our strategy to enhance long-term returns and manage investment risk, OPB has been transitioning to a new strategic asset allocation over the last few years and investing heavily in our investment team. During 2012, this strategy allowed us to successfully navigate ongoing market challenges, upgrade the quality of our real estate portfolio, complete our first direct investment in infrastructure, and continue to invest in private equity. Two particularly important achievements: OPB teamed up with a consortium in a takeover bid for Primaris REIT, which, when completed, will solidify our position as one of the premier owners of enclosed regional shopping centres across Canada, and we completed a highly successful bond offering which saw an independent bond rating agency rate our paper AAA.

During 2012, we also worked to protect the long-term interests of our stakeholders and Plan beneficiaries in the face of a shifting pension landscape. In the spring of 2012, the Government of Ontario announced its interest in pooling the assets of some public sector and broader public sector pension plans to achieve cost efficiencies and enhance investment returns. OPB believes, done properly, consolidation has the potential to generate enhanced investment returns for the PSPP. We are open to participating in consolidation so long as we are confident that it is achieved in a way that will benefit the financial status of the Plan and is in the best interests of Plan beneficiaries and stakeholders.

Service excellence

While preserving the long-term financial sustainability of the pension plan continues to be our primary focus, it is not our only priority. We are also committed to continuous service improvement. That's why, in 2012, we laid the groundwork for a new client care centre that will be launched in early 2013. A passion for service excellence has established OPB as an international leader. According to CEM Benchmarking Inc., a leading pension administration benchmarking firm, we now rank third in the world among pension plans they monitor in terms of administration service levels.

Managing risk

Over the years, OPB has adopted a disciplined approach to ensuring our risk management practices meet the needs of the risk profile of the organization. While our risk management initiatives are a point of strength, there is one risk that is of particular concern: there are significantly higher compensation levels at other public sector pension plans, as well as private sector wealth management firms. This makes it difficult to attract senior, high-quality investment professionals to OPB. It is essential that we continue to build our capacity to invest effectively,

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and that we are able to attract the best people to support that effort. This is in the best interests of all our stakeholders. We believe that compensation adjustments will be required in the future if we are to continue to attract and, importantly, retain qualified professionals and fulfill our fiduciary duty.

Governance excellence

Governance excellence also remained a priority. To ensure we continue to reflect industry best practices for leadership, OPB's Board of Directors adopted the use of individual director performance feedback surveys. These surveys serve as a proactive tool designed to raise the performance bar for individual directors.

In 2012, Board appointment terms for both Lisa Hillstrom and Lynn Clark came to an end. On behalf of the Board, I thank them for their many contributions and years of dedicated service. We are very pleased to welcome our newest member, Karl Walsh, who joined the Board this year. Karl is the Chief Administrative Officer for the Ontario Provincial Police Association, where he has held senior leadership positions since 2005. We believe Karl's expertise in pensions, stakeholder relations and public policy will greatly enhance our discussions around the boardroom table.

In light of our many achievements in 2012, I would like to thank my fellow Board members, OPB's management team, and all employees for their hard work and commitment to success.

M. Vincenza Sera, Chair

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Message from the President & CEO

Protecting the long-term sustainability of the Plan

Coming out of 2012, the financial status of the Plan is strong. While we will not know the precise funded status until we complete the annual valuation in mid-2013, we expect the going-concern funded ratio to be just over 93%, with all of our assets at market value.

Mark J. Fuller, President & CEO

Our excellent investment performance, at 11.9%, was the main, but not the only, driver of this improvement. Also contributing significantly were the compensation restraint measures of the Government, which resulted in salaries increasing at a rate lower than we assume in valuing the Plan's liabilities. Lower than assumed salary increases have a direct effect on the cost of providing benefits. From the beginning of 2010 through the end of 2012, salary restraint will have resulted in the Plan's pension liability being $300 million to $400 million lower than it otherwise would have been. In its 2012 budget, the Government of Ontario signaled that salary restraint will continue, to some degree, for some time.

The last five years have been very challenging for defined benefit pension plans. Sustainability and affordability have become watchwords of the moment for the industry. During 2012, we continued with our proactive program to protect the sustainability and affordability of the PSPP. We commenced a long-term funding study. This is a study conducted by OPB together with the Plan's external actuary. It tests the appropriateness of the assumptions we use to value the Plan (e.g., salary and mortality assumptions), the adequacy of the current contribution rates, and the affordability of the benefits. Since Plan demographics, as well as the economic environment that the Plan operates in, change over time, we conduct these studies every five years. The last study was completed in 2008 and resulted in OPB recommending to the Plan Sponsor (the Government of Ontario) an increase in member and matching employer contributions. The current study will be completed during 2013.

In order to better reflect the current realities of the economy and the capital markets (particularly very low rates of interest and inflation), we have decided to change certain assumptions used in the valuation of the Plan. The assumed annual rate of investment return has been lowered from 6.35% to 5.95%. I assure you that the fact that we have lowered our investment return assumption to 5.95% does not mean that we are only aiming to generate that return. Indeed, our expectation is that our investment strategy will produce higher average annual returns over the long term. We also decreased our annual inflation assumption from 2.5% to 2.1% and, therefore, maintained our "real" (that is, after deducting inflation) assumption at 3.85%. The impact of these changes is reflected in the expected funding ratio figure referred to above.

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Over the last several years, OPB has adopted a new investment strategy and invested in building a high-quality investment team. We made further additions to the team during 2012. That this investment in talent has been successful and paid off is demonstrated not only by our investment return for the year, but also in a number of breakthrough achievements such as a successful inaugural bond issue, participation in the bid for Primaris Real Estate Investment Trust, our infrastructure investment in two gas-fired power plants in the United Kingdom and being awarded a licence to invest in China A-Shares. These were possible only as a result of the investment we have made in talent on our investment team.

Effective cost management

I firmly believe that efficiency is a critical feature to success in any retirement system. We have all heard the phrase "the magic of compound interest". We also need to have due regard to the "tyranny of compound expenses". Our expense ratio (our expenses per dollar of assets, determined in accordance with industry practices) of 0.495%, which includes investment and pension administration expenses, is one of the lowest expense ratios among major public sector pension plan administrators, even much larger ones that would be expected to have greater economies of scale. It compares to mutual fund expense ratios of between 2% and 3%, which include only investment management services. While investment expenses are rising, we expect that the higher expenses will be more than offset by higher rates of investment return.

Delivering excellent service

In 2012, we continued to improve our pension administration client service while slightly decreasing our pension administration expenses from 2011 levels. I am extremely proud of our global ranking in the CEM Benchmarking Inc. survey. We have dramatically improved our service response times and enhanced the quality of the service we provide. We now offer more personalized service around key pension decisions and extensive education to our Plan members, employers and bargaining agents about the Plan. I am even more proud that we have improved our ranking and service offerings over the last few years while decreasing our annual pension administration expenses by more than 15% since 2008. The Government of Ontario has set an objective of greater efficiency in the delivery of public services. OPB has delivered on that expectation. This is a credit to the fine team of people we have assembled here at OPB, who have delivered more with less. It also demonstrates a strong return on the investment in technology that we have made over the last several years.

As we enter 2013, the world economy and capital markets remain challenging and the environment for pension plans difficult. That said, I am confident that OPB is strongly positioned to continue to manage the sustainability of the Plan well, as we have over the last five years.

Mark J. Fuller, President & CEO

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Straight talk: Jill Pepall, Chief Investment Officer

Since stepping into the position of Chief Investment Officer (CIO) at OPB just over two years ago, Jill Pepall has overseen some significant changes to OPB's investment division, including the implementation of a new strategic asset allocation (SAA), the launch of a tactical asset allocation (TAA) strategy, the build-out of in-house investment expertise, and the bolstering of risk management systems and practices – all while managing the investment of the Plan's $19 billion fund. In this interview, Jill talks about the successes and challenges – and why the OPB of today is better prepared to meet the investment challenges of tomorrow.

Jill Pepall, Chief Investment Officer

Overall, how would you sum up 2012?

It was a successful year. We were able to generate strong, double-digit returns despite significant market volatility. We also moved forward with a number of important initiatives that will enable us to enhance returns, reduce unnecessary **investment risk**, and manage ongoing investment costs now and in the future.

With a return of 11.9%, OPB had a successful investment year in 2012. What were the key factors that contributed to this success?

There were a number of factors. For starters, in public markets, our managers in all the major asset classes outperformed their benchmarks. **Asset mix** was also a contributor. We held an overweight position in the strong U.S. equity market and an underweight position in the weaker Canadian equity and fixed income markets. We also had significant exposure to emerging markets, which performed well. An increased and successful focus on private markets – particularly real estate – also played an important role. In addition, our increased allocation to specialty mandates added to returns. For example, within fixed income, our specialty credit mandates significantly outperformed the rest of the fixed income asset class – which contributed to our 2012 investment performance.

What investment challenges did OPB face in 2012?

The Plan did face some challenges in 2012. In particular, market volatility continued to be a challenge, fuelled by the ongoing debt crisis in Europe and fiscal uncertainty in the U.S. At the same time, the outlook for global recovery was sensitive to China's efforts to stimulate its economy. In addition, interest rates continued to hover at historic lows, which resulted in continued upward pressure on pension liabilities and a challenging environment for finding yield across all asset classes.

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What steps did you take to move forward with the SAA approved by the Board in late 2011?

We actively searched for opportunities to increase our exposure to **alternative investments**. By year-end, we were tracking ahead of schedule in terms of reaching our target allocation for real estate, infrastructure and private equity. How quickly we build up the private markets portfolio will depend on the quality of investment opportunities available. Our priority is to identify good investments with strong return potential.

How has implementation of the new SAA affected resourcing and expenditures in the investments area?

The SAA has resulted in a much broader and more complex investment mandate. For example, it has led to allocations to two new asset classes: infrastructure and private equity. To support the increased exposure to private markets, we continue to build out our in-house investment expertise, and we have increased the sophistication of our back-end systems. Private market transactions can be more expensive to implement. At the same time, our holdings of assets for which investment fees are low – such as the Ontario **Special Debentures** – are shrinking. We have also increased our allocation to specialty mandates and the use of **derivative overlays**. Specialty mandates tend to cost more due to the specialized expertise required to manage them. And as we increase the use of derivatives to enhance efficiency, it is important to have systems that can accurately track positions and performance. Despite these changes, our investment expense ratio remains among the lowest of plans in our peer group.

How did emerging markets fare in 2012?

Emerging market equities performed well in 2012. Emerging market economies were stronger than developed economies. Our emerging market portfolio returned 18.9% in 2012. We adopted a higher-than-average exposure to **emerging markets** (about 15%) because we believe that developing nations – as their economies industrialize and domestic consumption increases – will drive global growth.

What strategies are in place to manage/mitigate ongoing market volatility?

We have a number of strategies and tools in place to navigate through this volatility. For example, we have increased our exposure to real estate and infrastructure, which typically generate a larger component of their return from relatively stable cash flows. We have also chosen to work with public market investment managers who place greater emphasis on capital preservation. In addition, we have increased our use of derivative overlays to create overweight or underweight positions that take advantage of short-term market movement. On the operations side, we are upgrading our data management, analytic and performance management systems to better track investments and help us identify and avoid unnecessary risk.

In the past, OPB has talked about increasing its exposure to private market investments. Was that accomplished in 2012?

Yes. OPB increased exposure to real estate and infrastructure and made its first private equity investments in 2012. We also participated in a bid for Primaris Real Estate Investment Trust.

Our real estate portfolio continued to be a source of strength for the Plan – delivering solid returns, reliable cash flow, and a hedge against inflation. In 2012, we concluded a three-year plan to upgrade or sell properties that no longer meet our requirements. Having established a strong core of Canadian properties, we are taking a more opportunistic focus globally with an emphasis on capital growth.

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OPB engaged in its first-ever bond issue in 2012. What does this mean for the investment portfolio?

The bond offering is significant for two reasons: it gives us an opportunity to enhance investment returns and it provides a hedge against future rises in interest rates. The bond offering provided OPB with access to low-cost financing. This money has been reinvested in high-quality real estate that generates a cash flow greater than the amount needed to cover the interest payments on the bonds. In short, it has enabled OPB to enhance returns in a cost-effective manner. Prior to the bond offering, the OPB bond issue received an AAA credit rating from Standard & Poor's. This is the highest rating that can be assigned to a bond issue by a credit rating agency. This rating and the fact that the offering was oversubscribed are clear endorsements of OPB and its management.

Interest rates are at historic lows. How does that affect the Plan and what can OPB do about it?

Low interest rates affect both the asset and liability sides of the pension funding equation. On the liability side, lower interest rates increase estimated pension liabilities. This is because interest rates are used to calculate the present value of future pensions; the lower the interest rate, the higher the present value. From an asset perspective, low interest rates mean lower returns from interest-bearing investments, such as bonds and mortgages. To mitigate the effects of low interest rates on our fixed income returns, we have decreased our exposure to fixed income assets and increased our exposure to higher-returning alternative investments, such as real estate and infrastructure. The OPB bond offering issued at historically low interest rates increases our real estate returns.

What are specialty mandates?

Specialty mandates are dedicated allocations to investment opportunities that arise from specific market changes. These specialty mandates are managed by investment managers with established research teams that focus on their specific segment of opportunities. These allocations are done on a tactical basis, within the context of a larger asset class. For example, allocating to a high-yield credit strategy within the fixed income asset class is a specialty mandate. Generally speaking, specialty mandates are a good way to add value through "smart risk". Other examples include a distressed credit mandate to supplement fixed income returns (that are constrained by low interest rates), investment in smaller companies within our developed and developing markets equity portfolios, a high-dividend yield mandate within our U.S. portfolio, and exposure to gold to hedge against a global economic downturn.

The last of the Special Debentures held by the Plan will mature in 2014. What does that mean for the Plan?

Special Debentures were issued to the Plan by the Government of Ontario as an initial funding mechanism back in 1990. Over the years, these Debentures have provided the Plan with a source of cash flow and solid returns and were a good match for the Plan liabilities. They have also helped us keep investment costs down because there are no investment fees attached. With the implementation of the new SAA, the maturing Debentures provide a good opportunity to reinvest the capital and cash flow into private market investments.

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It sounds like the Plan is taking on more risk with its investments. How does this match up with your emphasis on capital preservation?

Returns cannot be generated in a risk-vacuum. We aim to take on smart, rewarded investment risks, which are integral to achieving good long-term, risk-adjusted investment performance. Risk management is also key to the achievement of OPB's objective of capital preservation in down markets.

What is the investment outlook for 2013?

Economic growth in the developed world, although improving, is expected to remain sub-par. Governments are still focused on reducing high debt levels and maintaining a low interest rate environment to try and stimulate the economy. Emerging economies are expected to perform better as they are not burdened by the high debt levels of the developed world. Equity markets will remain volatile. On the one hand, they will benefit from improving economic growth and corporate earnings, but will also be subject to instability surrounding the European political situation, as well as U.S. fiscal issues. OPB is well positioned to manage through these uncertainties. And, more importantly, we have the strategies and expertise needed to generate value-added results in today's challenging investment climate.

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Management's discussion & analysis

Introduction

The combination of a solid investment strategy and a high-performing investment team enabled OPB to produce strong returns in 2012 – leading to a significant improvement in the Plan's funded position.

In this section, we'll report on:

- what's driving the funded status of the Plan, and how we are managing those factors;
- OPB's continued focus on Plan sustainability by managing both the asset and liability sides of the pension equation;
- our continued efforts to deliver excellent client service and outstanding stakeholder relations; and
- OPB's advocacy efforts to create a sustainable pension environment for the PSPP and defined benefit pensions in general.

Since 2008, OPB has successfully brought the PSPP through the most challenging environment for the economy and capital markets since the Great Depression. It has also navigated an increasingly challenging pension environment, overcoming continued market uncertainty, persistently low interest rates, changing demographics, and ongoing debate about the sustainability of the defined benefit pension model.

During 2008 and 2009, OPB's focus on **capital preservation** insulated the Plan from the worst of the downturn. It also enabled us to generate an average return of 0.7% – well above the industry norm for that two-year period. That return was an important achievement. That is because it is easier to grow money if you do not lose it. If an investment loses 33% of its value, which is approximately what the TSX Composite Index lost in 2008, the investor has to achieve a 50% return just to get back to their starting point.

In late 2011, OPB introduced a new strategic asset allocation (SAA). The SAA has expanded OPB's investment mandate to better reflect the Plan's investment needs and changing market realities. During 2012, we pushed forward with the implementation of the SAA. This required an expansion of our in-house skill base and systems in order to support a broader and more complex mandate. We also expanded our exposure to private markets and introduced a number of specialty mandates.

The success of the new SAA and the strength of our investment team were confirmed by our 2012 investment results. We finished the year with a strong 11.9% return. As a result, we estimate the Plan's funded position has improved to just over 93%, with assets marked to market.

Investment excellence remains a top priority for OPB. In 2013, we will continue to implement investment strategies that navigate market volatility, avoid unnecessary risk, and generate the incremental returns needed to protect the long-term vitality of the Plan.

At OPB, every action we take and decision we make revolves around protecting the long-term sustainability of the Plan. But incremental investment returns are only part of the solution. To meet the Plan's future pension obligations, we need to proactively manage both sides of the pension equation – the asset side, which is driven by investment returns, and the liability side, which is driven by Plan design and actuarial assumptions. It is no accident that the PSPP is in good shape. The liability side has been very well managed. The Plan Sponsor, OPB and the bargaining agent groups operate with the long-term sustainability of the Plan in mind. The Plan Sponsor, independently and in partnership with Plan bargaining agent groups and with input from OPB, has made prudent and realistic decisions about Plan design that have had a positive impact on the long-term financial health of the PSPP. During the 1990s and early 2000s, when other plans took extended and deep contribution holidays and made significant benefit improvements, that was not the case for the PSPP. And the Plan Sponsor, on advice from OPB, proactively increased contributions to the Plan in 2009 and 2010 to address the higher cost of providing a dollar of pension.

Also, OPB has made prudent and realistic decisions about the assumptions used to value the PSPP. Assumptions play a critical role. Plan liabilities are driven by an estimate of what future pensions will cost and this estimate is generated by the actuarial assumptions used to value the Plan (e.g., the assumed investment return of the pension plan, at what age we assume members will retire, and assumptions about how long we expect to pay the pension). If assumptions need to be materially changed, the result can be a significant and unexpected increase in the estimated liabilities and a corresponding deterioration in the funded status of the pension plan.

In addition, OPB has managed expenses strategically and responsibly. Over the past several years, we have deliberately and successfully trimmed our pension administration expenses – meeting or exceeding government expectations for fiscal restraint. And despite continuing to build our investment expertise and adding new back-office systems to support a broader investment mandate, our expense ratio remains one of the lowest among our peer group.

While the PSPP is not immune from economic, demographic and capital market realities, these prudent liability-side management actions have, collectively, enabled benefits in the PSPP to be maintained, while keeping contribution levels affordable.

Focus on funding

Improving the funded status of the Plan remains the primary objective for OPB. In 2012, we achieved that objective, boosting asset value by almost $2 billion and improving our going-concern funded position by about $1 billion.

During the year, we moved forward with initiatives aimed at improving the funded status of the Plan over the long term. For example, we continued to work with the Plan Sponsor, the Government of Ontario, to develop a new funding policy for the PSPP. Once finalized, this policy will provide important guidelines for making long-term decisions about contribution rates and benefits – ensuring the Plan has, over the long term, the funds it needs to meet future pension obligations.

In addition, OPB continued to advocate for solvency funding relief for the PSPP. Under the current rules in Ontario, jointly sponsored public sector pension plans are exempt from solvency funding requirements. The PSPP, however, is currently not covered by this exemption. While not a jointly sponsored plan, the PSPP does have 50/50 cost sharing in place for current service, and shared governance (through bargaining agent participation on our Board).

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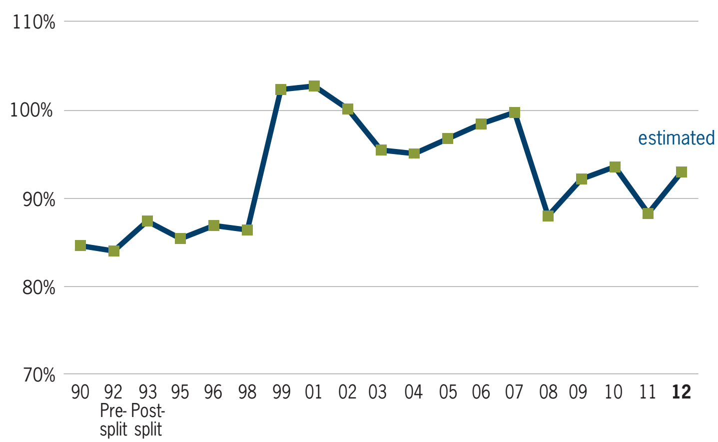
Funded status



FUNDING	
WHAT WE DID	**WHY WE DID IT AND WHAT IT MEANS**
Continued to work with the Plan Sponsor toward development of a formal Plan funding policy	Once completed, the funding policy (considered a key component of good governance) will establish guidelines that ensure the values of the Plan Sponsor and OPB are aligned when making long-term decisions about contribution rates and benefit levels. OPB will continue to work with the Plan Sponsor to complete and implement that new policy.
Continued to advocate for funding relief for the PSPP	If approved, solvency relief would put OPB on equal footing with jointly sponsored public sector pension plans in Ontario – allowing the Government of Ontario (the Plan Sponsor) to focus Plan funding on the basis of the going-concern valuation, which reflects the long-term nature of the PSPP.
Conducted a funding basis valuation	A funding basis valuation is used to ensure there are sufficient assets in the Plan to meet pension obligations. The results of this valuation resulted in the decision to lower the discount rate and inflation rate assumptions used to value the Plan.
Lowered the assumptions for the annual rate of investment return and annual rate of inflation	To reflect the current realities of the economy and capital markets – particularly very low interest rates and inflation – the assumed annual rate of investment return has been lowered from 6.35% to 5.95%, and the assumed annual rate of inflation has been lowered from 2.5% to 2.1%

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Financial position

OPB conducts two different valuations on a regular basis – a funding basis valuation and an accounting basis valuation.

- The funding basis valuation is used to ensure there are sufficient assets to meet the Plan's pension obligations. It is also used to determine contributions to the Plan.
- The accounting basis valuation is used to report the financial position of the Plan for the purposes of the financial statements. The 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 – A funding basis valuation must be filed with the Financial Services Commission of Ontario, the province's pension regulator, at least once every three years. The last valuation filed with the pension regulator – the December 31, 2010 valuation – indicated that the Plan was 94% funded and had a shortfall of $1.2 billion.

Even with weak general investment returns in 2011 (which led to a drop in the funded ratio in 2011, to just under 90%) and the adoption of more conservative funding assumptions, preliminary analysis points to a funded ratio of just over 93% as of December 31, 2012. The recovery in the Plan's funding position in 2012 is largely due to $2.0 billion in net investment income – well in excess of the return assumed in our valuations – as well as salary increases lower than assumed due to salary restraint in the public sector.

Based on the three-year filing requirement, the next valuation we file with the pension regulator must have a valuation date of December 31, 2013 or earlier. At the time of filing, the Plan Sponsor (the Government of Ontario) will be required to outline how it plans to handle any increase in the going-concern funding shortfall. Shortfalls can be addressed in a number of ways:

- contributions can be increased for members and participating employers;
- benefits can be reduced for active members on a go-forward basis;
- special payments can be made by the Plan Sponsor; or
- a combination of the above.

That said, the Government of Ontario has provided clear direction that further employer contribution rate increases should not be the primary method used to address increased shortfalls, and that benefit cuts should be considered as part of the solution. The government has also indicated that members must contribute at the same rate as employers for current service costs before an employer contribution increase will be considered. It's worth noting that the PSPP already has a 50/50 sharing of current service costs – with employers and members making matching contributions to the Plan.

Accounting basis valuation – For the purposes of the accounting basis valuation, the Plan's liabilities were calculated as of December 31, 2011, the date of the last funding valuation, and extrapolated to December 31, 2012. The extrapolated numbers are based on the assumption that the Plan's 2012 experience (for factors such as inflation, salary increases, retirement ages, and termination and mortality rates) match the Plan's actuarial assumptions. The extrapolation reflects that indexing adjustments were made to pensions as of January 1, 2012.

For the purposes of the financial statements, we have calculated the Plan's 2012 year-end financial position by comparing the extrapolated liability with the actual market value of assets as of December 31, 2012. Based on the accounting basis valuation as of December 31, 2012, the Plan had a deficit of $1.37 billion (see Note 7 "Deficit" on page 58, compared to $2.26 billion at year-end 2011. The year-over-year improvement is largely attributable to the net effect of favourable investment returns. Salary experience gains are not factored into this figure.

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Managing liabilities

The funded status of a pension plan is, in simple terms, determined by the "pension equation" – an equation that compares the value of pension assets on one side with the estimated cost of pension liabilities on the other. While funding shortfalls (and surpluses) are typically attributed to the impact of investment returns on the asset side of the equation, the liability side (the estimate of the cost of future pensions) is also important.

During the 1990s, investment returns exceeded expectations, leading plans to focus on asset growth and pay less attention to the liability side of the pension funding equation. At the same time, a number of factors, including declining interest rates and increasing life spans, began to have a dramatic impact on the cost of providing pensions. As a result, many plans had to re-estimate the cost of fulfilling the pension promise. The combined impact over the last 12 years of unanticipated increases in the estimated cost of pensions along with the volatile investment environment has been dramatic. Surpluses disappeared and shortfalls became widespread.

An area of excellence for OPB has been estimating the cost of pensions – as evidenced by the fact that, despite the most difficult capital markets and economic environment since the Great Depression, the Plan's going-concern funded status has remained relatively strong and the Plan has been able to maintain benefit levels while keeping contribution rates reasonable.

The success in managing liabilities can be attributed to two key factors. The Plan's stakeholders have, together, made informed and responsible decisions about Plan design. Second, OPB has done a good job of setting prudent and realistic demographic and economic assumptions used to price the Plan's liabilities. An example is the adjustment we have made to the nominal discount rate.

Using realistic demographic and economic assumptions, we continually re-estimate pension costs by modelling and planning for a wide variety of future scenarios. The goal is to avoid an unexpected and material increase in estimated Plan costs that could easily "swamp" gains from positive investment returns. To that end, OPB will be completing both a long-term funding study and an experience study in 2013. The long-term funding study, which is conducted every five years, is part of our proactive program to help us understand the Plan's financial obligations and to ensure the Plan remains sustainable. The last study was completed in 2008. The Plan Sponsor, on OPB's recommendation, phased in a modest contribution increase in 2009 and 2010 to address an increase in the cost of funding each dollar of pension earned (which was primarily due to increases in life spans and lower interest rates).

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Disciplined and astute investing

OPB has a strategic and comparatively conservative approach to investing that is shaped by three key objectives:

1. securing the benefits promised to members;
2. investing within acceptable risk parameters; and
3. maintaining relatively stable and reasonable contribution rates.

To achieve these objectives, we seek to generate long-term incremental return growth. We believe this growth can be achieved within acceptable risk parameters by:

- emphasizing capital preservation;
- sourcing global investment opportunities that provide good cash flow and minimize **unrewarded risk**;
- focusing on fundamental research investing; and
- striving to reduce absolute volatility.

In 2011, OPB conducted a comprehensive asset-liability study. The study led OPB's management and Board of Directors to approve a new strategic asset allocation (SAA). The SAA broadens OPB's investment mandate to help meet long-term funding objectives and better manage investment risk. The new SAA is being implemented over a five-year period based on the availability of high-quality market opportunities.

To support the broader and more complex mandate of the new SAA, we continued to build out our talent and technology in the investments area during 2012. This will ensure that the competency and capability of our investment team keeps pace with the complexity of the transactions we perform.

During 2012, we also achieved several important milestones in the implementation of the SAA. These included:

- Issuing our first bond offering – This highly successful offering has provided OPB with cost-effective access to capital that can be reinvested in income-generating assets to boost our overall returns and hedge against an interest rate increase.
- Expanding our private market holdings – Investing in private markets helps to enhance returns in volatile markets by providing a larger component of returns from cash flow. They also provide a hedge against inflation and dampen the volatility of investment returns.
- Increasing our number of specialty mandates – Specialty mandates provide a way to add value through "smart risk".
- Moving forward with tactical asset allocation (TAA) – OPB hired a senior investment professional to lead the development and implementation of our TAA strategy. This is an active investment strategy used to enhance returns and/or manage risk by adjusting the Plan's asset mix to take advantage of market movements.

All of these activities are part of our over-arching strategy to generate the incremental returns needed to contribute to the long-term sustainability of the Plan.

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INVESTMENT

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Achieved an investment return of 11.9%	Strong investment returns contributed to a significant year-over-year improvement in the funded status of the Plan. We expect the valuation as of December 31, 2012 to show the Plan was just over 93% funded.
Moved forward with the implementation of our new strategic asset allocation (SAA)	The new SAA, which is being implemented over a five-year period, will help OPB better manage risk and meet long-term funding objectives. It puts more emphasis on private investments, such as real estate and infrastructure.
Hired a senior Investment Manager to implement and lead our tactical asset allocation strategy	The TAA strategy 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 market and to generate value-added returns.
Increased our use of derivative overlays	The use of derivative overlays enables OPB to respond more quickly to changing market conditions and to reduce trading costs.
Maintained our focus on emerging markets	Emerging market economies have a stronger "balance sheet" and higher economic growth. As a result, we expect emerging markets to generate stronger investment returns.
Expanded our private market holdings	Investing in private markets helps to enhance returns in volatile markets by providing a larger component of their return from cash flow. They also provide a hedge against inflation. Investing directly in private market investments is more cost-effective than investing through managed funds.
Began investing in private equity and infrastructure	Private equity investments (such as private companies) and infrastructure (such as power plants) tend to be less susceptible to market volatility than public market assets (such as stocks).
Expanded and upgraded our real estate holdings	This 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 and the amount of our holdings to help bolster returns going forward.
Increased our number of specialty mandates	Specialty mandates provide a way to add value through "smart risk".

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Asset mix

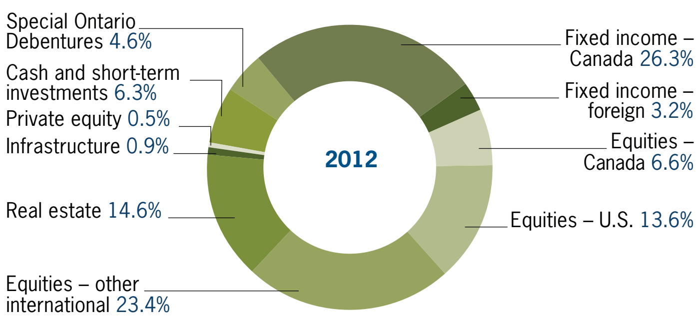
Asset mix is an important driver of investment performance. With that in mind, OPB's Board of Directors approved a new strategic asset allocation (SAA) late in 2011.

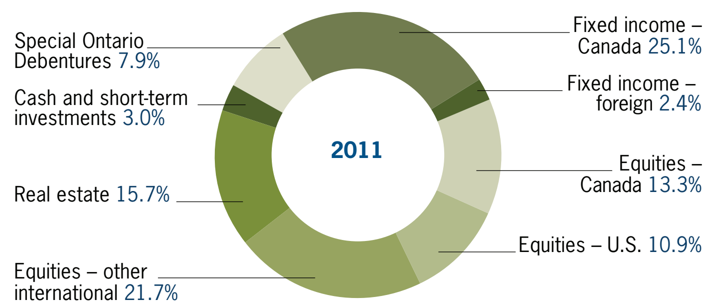
The SAA broadens OPB's investment mandate and sets new asset mix targets that better reflect the Plan's cash flow and investment requirements. It will be implemented gradually over several years based on the availability of quality assets. OPB has already begun to increase the Plan's exposure to private market investments – expanding its real estate portfolio and investing in infrastructure and private equity.

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 (stocks); and
- private market investments (real estate, infrastructure, private equity, and private debt).

Asset mix





Note: The real estate percentage shows a drop in 2012, as we are netting the proceeds of the bond financing to our real estate holdings. Also, the 2012 real estate figure does not include real estate transactions in progress as at December 31, 2012, specifically the Primaris transaction, valued at approximately $800 million.

Bond offering

In 2012, OPB successfully issued its first bond offering through its subsidiary companies. With interest rates at historic lows, the bond issue has provided OPB with access to low-cost financing for an extended period (30 to 50 years). This money has been reinvested in high-quality real estate that generates a cash flow greater than the amount needed to cover the interest charges on the bonds. In short, OPB has been able to enhance real estate returns using this borrowing strategy.

Prior to the offering, the OPB bond issue received an AAA credit rating from Standard & Poor's credit rating agency. This is the highest rating that can be assigned to a bond issue by a credit rating agency. The favourable credit rating and the overwhelming success of the bond offering, which was oversubscribed, are a clear endorsement of OPB and its management.

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Investment performance

OPB's overall return for 2012 was 11.9%, exceeding the long-term rate of return needed to fund the Plan. The average annual rate of return since the Plan's inception in 1990 has been 8.5%.

Successful implementation of our investment strategy allowed us to generate strong returns despite the challenges imposed by historically low interest rates and continued market volatility.

Key factors that contributed to our success were:

- the outperformance of our major public market asset classes versus their benchmarks;
- an overweight position in U.S. equities, combined with an underweight position in Canadian equities (U.S. markets outperformed Canadian markets during the year);
- a strong exposure to emerging markets, which performed well;
- an underweight position in fixed income, which turned out to be one of the lowest-performing asset classes of the year;
- the decision to upgrade and expand our real estate portfolio;
- an overweight position in corporate bonds at a time when **credit spreads** continued to narrow; and
- an increased and successful focus on private markets.

During 2012, OPB took a number of steps to address the issue of market volatility. Specifically, we:

- increased our exposure to private markets (such as real estate), which typically generate a larger component of their return from cash flow;
- increased our use of derivative overlays. Overlays are a cost-effective way to create overweight or underweight positions to take advantage of or address short-term market movement (rather than trading the underlying securities);
- continued to focus on public market investment managers who have capital preservation qualities embedded in their processes. Managers who include "worst-case-scenario" analysis within their investment process tend to invest in higher-quality companies that hold up better in down markets;
- created a high-dividend yield mandate within our U.S. investment portfolio. High-dividend yield stocks tend to be less volatile;
- upgraded our data management, analytics and performance attribution systems to better track investments;
- enhanced our investment risk management processes and systems to help avoid unnecessary risk.

Following is a more detailed look at our performance results by asset class.

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, 2012, interest-bearing investments accounted for 40.4% 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.

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Cash and short-term investments – Cash and short-term holdings (including pending trades) at year-end 2012 stood at $1.2 billion (6.3% of net investments), up from $530.5 million (3.0% of net investments) at year-end 2011.

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, 2012, the Plan's Special Debentures were valued at $869.9 million, compared to $1.4 billion at year-end 2011.

Over the years, Special Debentures have provided the Plan with a source of cash flow. In 2012, they generated cash flow of $508 million, down from $510 million in 2011. 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 last Debenture will mature by the end of 2014.

Marketable and non-marketable fixed income – After providing strong returns in 2011 and outperforming equities, the Canadian bond market provided more modest returns in 2012. The Plan's Canadian fixed income portfolio returned 5.1% in 2012 and at year-end was valued at $5.0 billion. That compares to a 7.6% return and year-end value of $4.3 billion in 2011.

The international fixed income portfolio returned 9.6% in 2012, compared to 7.2% in 2011. The year-end value of the portfolio was $597.5 million, up from $412.2 million a year earlier.

Public equities

An improvement in global liquidity led to a turnaround in equity markets by mid-2012. Both developed and emerging markets performed well.

During the year, OPB maintained its focus on emerging markets. In November, OPB received a Qualified Foreign Institutional Investor (QFII) license and the right to invest up to US$150 million in China A-Shares. This is a major achievement – one that gives OPB access to shares that are issued by companies from mainland China and traded on Chinese stock exchanges. Trading of China A-Shares is restricted to Chinese citizens and QFII holders. OPB is one of just nine Canadian organizations with access to China A-Shares. Access to China A-Shares provides OPB with better exposure to Chinese domestic growth and complements our existing investments in emerging markets.

Other public equity initiatives aimed at enhancing returns and preserving capital included establishing a small-cap mandate for our emerging markets portfolio, establishing a high-dividend yield mandate for our U.S. equity portfolio, and adding gold exposure. High-dividend yield stocks tend to be less volatile than other public equities, while gold provides a hedge against global economic disaster.

The Plan's Canadian equity portfolio generated a 10.2% return during 2012. That compares to -9.1% in 2011. The market value of the portfolio at December 31, 2012 was $1.3 billion, compared to $2.3 billion a year earlier.

By comparison, the Plan's U.S. equity portfolio returned 15.0% for the year, compared to 3.6% in 2011 (all returns stated in Canadian dollars). The year-end market value of the portfolio stood at $2.6 billion, up from $1.9 billion at year-end 2011.

The Plan's international equity portfolio returned 18.4% in 2012, compared to -11.8% in 2011. The market value of the portfolio as of December 31, 2012 was $4.4 billion, up from $3.7 billion at year-end 2011.

Private market investments

As of December 31, 2012, private market investments accounted for 17.7% of OPB's net assets and included real estate, infrastructure, private equity, and private debt. During the year, we increased our holdings in all four market classes – moving us closer to the asset mix targets established by our strategic asset allocation.

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Our exposure to private market investments helps to insulate the Plan from public market volatility and enables us to generate a larger component of our overall return from cash flow. OPB's approach to building exposure to private market investments is opportunistic and uses a combination of direct, co-investment and fund investing strategies

OPB has built a lean, but strong private market investments team. While some pension plans build a large in-house team, our approach is to stay small and nimble and, where appropriate, to partner with other pension plans and private sector experienced asset managers.

Overall, the Plan's private market investments returned 17.2% in 2012, compared to 15.3% in 2011. The market value of these investments as of December 31, 2012, was $3.3 billion, up from $2.9 billion at year-end 2011. The following is a more detailed breakdown by asset class.

Real estate – OPB's real estate portfolio is made up of direct holdings in quality Canadian properties, direct and indirect holdings in international real estate, and a modest investment in participating mortgages.

During 2012, the real estate portfolio continued to be a significant source of strength for the Plan, delivering solid returns. The portfolio's overall return for 2012 was 19.2%, compared to 15.6% in 2011. Since 1994, when OPB made its initial investment in real estate, the portfolio has generated an average annual return of 10.6%.

A three-year initiative to upgrade the quality of the real estate portfolio was completed in 2012. During the year, we sold off properties that no longer meet our requirements, invested in properties that better reflect our long-term investment strategy, and adopted a more global perspective. More specifically, we:

- acquired from the existing owner, Ontario Teachers' Pension Plan, a 50% ownership position in the RBC Centre, a LEED-certified office tower in downtown Toronto;
- acquired from the existing owner, Ivanhoe Cambridge, a 50% interest in Edmonton's Southgate Shopping Centre; and
- upgraded the quality of tenants in our shopping centre portfolio.

In the past, our real estate portfolio emphasized retail shopping space. An ownership position in the RBC Centre officer tower represents a major step toward diversification.

Our strong "core" of Canadian properties continues to deliver solid returns, generate reliable cash flow, and provide a hedge against inflation. These properties are an excellent match for the cash flow needs of the PSPP and are expected to grow in value over time.

We are currently seeking global investment properties that provide higher returns within acceptable risk parameters. While the focus for our Canadian properties will continue to be cash flow, the focus for our international properties will lean toward capital growth.

The major portion of OPB's real estate investments consist of directly owned rental properties located in Canada. As at December 31, 2012, the Canadian rental property portfolio encompassed more than 11 million square feet of retail, light industrial and office space. A full list of the Canadian rental properties owned by the Plan are listed on page 68.

The Plan also holds real estate investments outside Canada. For example, through fund and co-investments, at year-end, OPB owned minority interests in five New York City office buildings managed by RXR Realty. Interests in several properties under construction – one in London and the rest in Paris – are managed on behalf of the Plan and other fund investors by AXA Real Estate Investment Management.

During 2012, OPB participated in a consortium of investors that launched a $4.4 billion takeover of Primaris, Canada's leading enclosed shopping centre real estate investment trust.

Infrastructure – The infrastructure portfolio was launched in 2011. During 2012, we completed our first direct investment in infrastructure – a gas-fired power plant in the United Kingdom.

Over time, we are looking to expand our investment in physical systems – such as toll roads, bridges, and pipelines – that can provide a steady stream of cash flow, stable returns during periods of equity market volatility, and a hedge against inflation.

The infrastructure portfolio, which returned 10.8% in 2012, had a year-end value of $173.4 million.

Private equity – The private equity portfolio was established in late 2011 to invest in equity securities not publicly traded on a stock exchange. OPB initiated private equity exposure in 2012 with the purchase of three investments.

The private equity portfolio generated a return of 9.9% in 2012, and it had a year-end value of $103.4 million.

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. These investments typically offer higher yields than public bonds and, with appropriate issuer collateral and financial covenants, can reduce investment risk.

In 2012, OPB continued to invest in projects that provide a higher yield than publicly traded bonds.

The portfolio's return for 2012 was 11.3%, compared to 12.7% in 2011, and it had a year-end value of $368.6 million.

Investment outlook

Economic growth in the developed world, although improving, is expected to remain sub-par. Governments are still focused on reducing high debt levels and maintaining a low interest rate environment, intended to stimulate the economy. Emerging economies are expected to perform better as they are not burdened by the high debt levels of the developed world. Equity markets will remain volatile. While they will benefit from improving economic growth and corporate earnings, they will also be subject to instability surrounding the European political situation as well as U.S. fiscal issues.

OPB is well positioned to manage through these uncertainties. And, more importantly, we have the strategies and expertise needed to generate value-added results in today's challenging investment climate.

Unmatched service excellence

OPB is committed to providing its clients with outstanding service. In fact, our commitment to continuous improvement has established OPB as an international industry leader for service excellence.

CEM Benchmarking Inc., a global leader in pension administration benchmarking has ranked OPB third in the world among its peers for client service. We strive to maintain, and improve, this ranking. The information needs of our clients are evolving and we need to adapt our service model to meet those needs.

During 2012, we laid the groundwork for providing members with personalized, decision-making support driven by client needs. To that end, we set up a "client care centre" that will launch in early 2013. Clients calling the centre will have immediate access to a client service generalist. In many cases, the generalist will be able to handle the client's service request; if the inquiry requires more analysis or discussion, the client will be referred to one of OPB's advisors, who can help the client review their pension options and make informed decisions.

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During 2012, we continued to raise awareness of our industry-leading suite of online e-services. Almost 30% of our members are now registered for, and using, our online services, which include a number of web-based transactions: getting a personalized pension estimate, generating a buyback quote, updating address and/or beneficiary information, initiating the retirement process, viewing T4As and *Annual Pension Statements*, and accessing a full-picture retirement planner. The efficiencies gained through our suite of e-services have freed up OPB staff to assist clients with more complex pension decisions.

We believe proactive service is an essential component of excellent service. With that in mind, OPB conducts one-on-one and group sessions to educate clients and enhance their understanding of the Plan. During 2012, we conducted more than 165 member education sessions (reaching approximately 13% of Plan members), ensuring that members understand the value of their pension plan, and how it fits within their broader retirement plans, in order to make informed pension decisions. We also conduct quarterly client satisfaction surveys with clients who have had recent interaction with staff to get input directly from clients about the services, resources and support that OPB provides. OPB uses this feedback to make improvements to service delivery and communications.

SERVICE EXCELLENCE

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Continued to develop internal service expertise	Developing internal service expertise ensures OPB staff have the expertise required to help members review their pension options and make informed decisions.
Laid the groundwork for providing personalized decision-making support	A "client care centre" will be launched in early 2013. The centre will provide callers with "on-the-spot" answers to questions or redirect them to a trained specialist qualified to assist them in the decision-making process.
Raised awareness and usage of our "suite" of online services	E-services enable members to quickly and conveniently carry out key transactions, such as updating their address, changing their beneficiary, getting a pension estimate, and initiating the retirement process. Efficiencies gained OPB staff time to assist clients with more complex pension decisions.
Conducted one-on-one and group education sessions	Sessions ensure members understand the value of the Plan, to support their retirement planning.
Conducted quarterly client satisfaction surveys	The surveys give clients the opportunity to provide direct, candid feedback about their satisfaction with OPB. Clients consistently tell us that e-services and help with complex pension decisions are top of mind for them.

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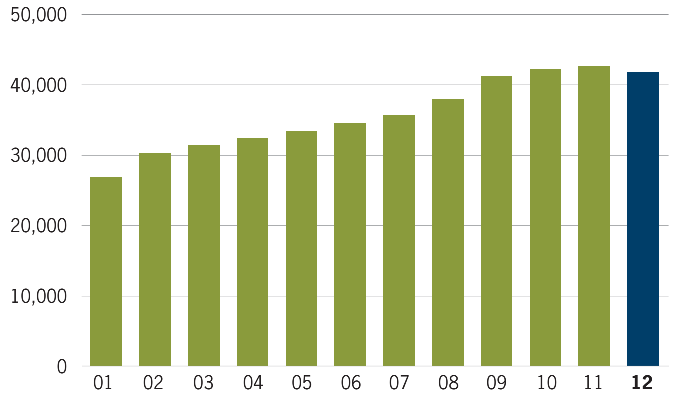
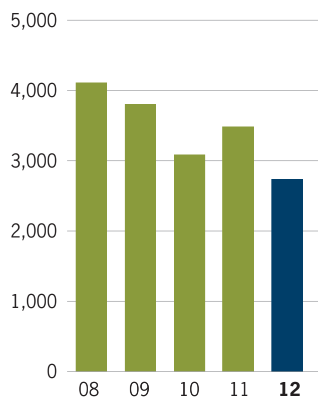
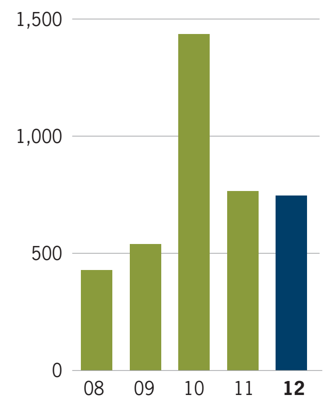
Growth in membership[1]
2001 to 2012



Enrolments[1]
2008 to 2012



Buybacks completed[2]
2008 to 2012



1 Contributing members have declined during the period 2009 to 2012 – during this period, the Government was not hiring new employees and was in the process of divesting existing services and employees to the private sector or other levels of government.

2 The number of buyback quotes and purchases spiked in 2010 when legislative changes eliminated the two-year buyback window. This change allowed Plan members who had not purchased eligible past service within two years after joining the PSPP to purchase this service at actuarial cost. The spike reflects the influx of demand immediately following the legislative change.

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Proactive advocacy

OPB continually works to ensure a healthy, sustainable pension environment for defined benefit pension (DB) plans in Canada.

Pension environment

The environment for public sector pension plans continues to grow more challenging. Misinformation about DB plans abounds. At the same time, some industry groups are pointing to public sector DB pension plans as a root cause of government deficits and are calling for their elimination.

At OPB, we believe that, managed properly, DB plans are the superior model for offering retirement security and adequacy. We also believe that retirement income discussions should focus on expanding, not contracting, "meaningful" pension coverage for Canadians. With that in mind, we continually promote the socio-economic value of DB plans to government and industry groups – ensuring that key decision-makers understand all the issues.

In its 2012 budget address, the Government of Ontario acknowledged that the DB pension model is the superior option, but noted there are challenges. At OPB, we take a balanced view. We fully recognize that there are challenges and that adjustments may be necessary to ensure DB plans remain sustainable. But we still believe DB plans offer distinct advantages and can be sustainable if they are properly structured, well-managed, and incorporate risk-sharing relief valves to address funding shortfalls.

Equally important, we "walk the talk". We do what we think a responsible DB plan administrator should do. We focus on both the asset and liability sides of the pension equation, aggressively pursue cost efficiencies, and strictly adhere to the tenets of good governance.

Asset pooling

In the spring of 2012, the Government of Ontario announced that it is considering pooling the assets of smaller public sector plans with the goal of generating economies of scale and improved investment performance. If implemented, consolidation could pool the assets of more than 50 public sector and broader public sector plans in Ontario.

At OPB, we believe there is a business case to be made for the consolidation of assets. Done properly, it has the potential to generate enhanced investment returns, which would ultimately benefit Plan members. And, given that OPB already has a sophisticated investment infrastructure in place, we believe OPB is uniquely positioned to assist the Government in achieving its objective.

In May 2012, the Government of Ontario appointed an advisor to review the idea of consolidation and make recommendations. OPB provided a submission outlining its minimum requirements for participation in consolidation. In short, OPB will participate only to the extent we are confident it will benefit the financial status of the Plan and will serve the best interests of our members, retired members and stakeholders.

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ADVOCACY	
WHAT WE DID	**WHY WE DID IT AND WHAT IT MEANS**
Continued to take steps to protect the DB pension model	OPB believes defined benefit (DB) plans are the superior model for offering retirement security and adequacy. With that in mind, we work to protect the Plan and the pension environment by ensuring the voice of DB pension plans is heard by key decision-makers.
Provided a submission on asset consolidation	In the wake of an announcement by the Government of Ontario that it is looking at pooling the assets of smaller public sector pension plans, OPB made a proactive submission acknowledging the merits of the idea and outlining OPB's minimum requirements for participation.

Outstanding stakeholder relations

OPB has a "shared governance" model that places particular emphasis on stakeholder engagement. Through our Board nominees and ongoing dialogue between management and stakeholders, we ensure that stakeholder input is obtained and considered with respect to all major initiatives and decisions.

OPB is proud of the strong and positive working relationship we have established with the Plan Sponsor (the Government of Ontario) and the bargaining agents that represent members of the Plan (directly and through their nominees on our Board). Over the years, we have provided balanced recommendations that reflect both OPB's commitment to the long-term sustainability of the Plan and the Government's need for cost constraint. This principled position has earned us the role of trusted advisor – a role we believe will earn us a place at the table during future discussions around Plan design and funding.

We have increased our presence with stakeholders and now routinely make presentations at bargaining agent Annual General Meetings (AGMs). This outreach initiative is designed to provide transparency, enhance understanding of the pension environment, and build and maintain strong working relationships.

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STAKEHOLDER RELATIONS	
WHAT WE DID	**WHY WE DID IT AND WHAT IT MEANS**
Continued to build a strong working relationship with the Plan Sponsor	The Plan Sponsor (the Government of Ontario) is responsible for making major decisions governing the Plan. We believe a strong working relationship will earn us a place at the table during future discussions around Plan design and funding, and ensure that the long-term interests of members are heard.
Meetings with Plan Sponsor and presentations at stakeholder AGMs	To engage in discussions about the long-term sustainability of the Plan, enhance understanding of the pension environment and its impact on the Plan, and build stronger working relationships.

Strategic and responsible financial management

Strategic and responsible financial management is a fundamental fiduciary responsibility.

OPB has been taking steps to manage expenses for several years. OPB's ability to keep operating expenses in check can be largely attributed to prudent management and ongoing cost constraint measures.

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

FINANCIAL MANAGEMENT	
WHAT WE DID	**WHY WE DID IT AND WHAT IT MEANS**
Continued to make cost constraint a priority	OPB is committed to constraining costs. During 2012, we limited CEO compensation, deferred some non-critical strategic initiatives, leveraged efficiencies gained through additional online services, automated internal business and client service processes, and negotiated more competitive contracts with service providers.

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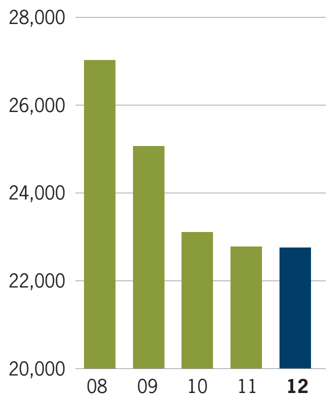
Operating costs

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

Plan operating costs include:

- Investment management costs – These costs, which are deducted from total investment income, include fund management, and transaction and custodial fees.
- Pension administration expenses – These costs reflect expenses incurred by OPB to operate and manage the Plan, and as shown in the chart below, these expenses have been declining year over year.

Pension administration operating expenses
$ in thousands



Investment management costs

As expected, OPB's investment costs edged higher in 2012. Higher costs were due to two key factors:

- An ongoing investment in the expertise, capacity and technology needed to carry out a broader and more complex investment strategy.
- Specialty mandates tend to cost more due to the specialized expertise required to manage them.

Even with a modest increase in investment costs, and including Plan operating costs, our expense ratio of 0.495% is among the lowest for plans in our peer group.

Fees for 2012 totalled $57.3 million, compared to $55.7 million in 2011. That works out to 30 cents per $100 in net assets in 2012, versus 32 cents per $100 in net assets in 2011.

We fully expect that, over time, the value-added returns generated will more than cover increased expenses. In the meantime, we continue to apply cost-control measures. For example, in 2012, we:

- increased the use of asset overlay to help reduce trading costs; and
- increased our focus on direct and co-investment – a step that allows us to avoid costly investment management fees and to minimize fees on funds committed, but not yet invested.

Pension administration expenses

During 2012, OPB managed to keep pension administration expenses slightly below 2011 levels. Expenses totalled $22.75 million in 2012, compared to $22.77 million in 2011. That works out to 12 cents per $100 in net assets in 2012, versus 13 cents per $100 in net assets in 2011.

To achieve this result, we have continued to make cost constraint a priority. During 2012, we:

- limited CEO compensation (base salary and benefits frozen for fifth straight year);
- deferred some non-critical strategic initiatives;
- leveraged efficiencies gained through additional online services;
- continued to automate internal business and client service processes, enabling us to redeploy resources to other strategic initiatives;
- implemented an effective and cost-effective training and development program; and
- negotiated more competitive contracts with service providers.

Contributions

Contribution rates for the PSPP are set by the *Public Service Pension Act*, 1990.

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 (disability) benefits are paid by their employers.

Ontario Provincial Police Officers are required to contribute additional amounts to fund the 50/30 unreduced early retirement provision and the earnings component of the benefit formula (average annual earnings based on highest 36 consecutive months). The contribution rates for OPP Officers are 9.2% of salary up to the YMPE and 12.3% of salary above the YMPE. These higher contribution rates are matched by the employer.

OPP Civilians are required to contribute additional amounts to fund the earnings component of the benefit formula (average annual earnings based on highest 48 consecutive months). The contribution rates for OPP Civilians are 6.775% of salary up to the YMPE and 9.875% above the YMPE. These higher contribution rates are matched by the employer.

During 2012, contributions to OPB from all members and employers totalled $714 million, almost the same as the $715 million in 2011. This is attributable to a balance of restrained salary increases for members and a small decrease in the number of members.

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Pensions paid

Total monthly pension payments for December 2012 amounted to $77.2 million, up from $72.7 million in December 2011. Part of the increase is attributable to a 2.8% inflation protection adjustment (Escalation Factor) that was applied to pensions on January 1, 2012. The remainder is attributable to an increase in the average pension for new pensioners.

Sound risk management

For pension plans, risk comes in all shapes and sizes: operational risk, investment risk, currency risk, funding risk, and liquidity risk, to name a few. At OPB, we take all of these risks seriously.

Over the years, we have developed a disciplined approach to ensuring our risk management practices meet the needs of the risk profile of the organization. For example, we have centralized our governance and risk management operations in one department to enhance oversight, and we have made risk management an integral part of our strategic planning process. We have also maintained a long-standing practice of examining our valuation assumptions annually to ensure they continue to reflect experience. And we have in place a comprehensive risk-based internal audit program.

We recognize, however, that our business and economic environments are constantly changing: old risks change and new risks emerge. As a result, we review our corporate risks and risk mitigation strategies on a quarterly basis and make certain we have the people, policies and procedures needed to manage risk effectively.

Operational risk

During 2012, we completed the implementation of our Enterprise Risk Management program. This program provides an integrated approach to risk management and identifies mitigation strategies for major risks that could adversely impact the Plan.

We also continued to enhance our internal control environment, particularly in the areas of privacy and information security.

While our risk management initiatives are a point of strength, there is one risk which is of particular concern. Significantly higher compensation levels at other public sector pension plans, as well as private sector wealth management firms, are making it increasingly difficult to attract and retain senior, high-quality executives and professionals. OPB is proud that we have been able to make up for our lack of competitiveness on the compensation side with our human resources strategy and our positive workplace culture; however, OPB will need to make compensation adjustments in the near future if we are to continue to attract and retain individuals with the skill and expertise needed to fulfill our fiduciary duty.

Investment risk

OPB takes a risk-managed approach to investing. We strive to improve the return/risk relationship with each investment decision we make and take only those risks we believe will be rewarded.

Over the past five years, OPB has "retooled" the Plan's investment portfolio, moving from balanced mandates to specialty mandates and, more recently, adding allocations to private markets (real estate, infrastructure, private equity and private debt). While this broader mandate provides OPB with the means to manage market and currency risk more effectively, it also adds a level of complexity that requires an increased focus on investment risk management, compliance and monitoring.

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To that end, we have taken a number of steps to ensure OPB continues to manage investment risk effectively. For example, during 2012, we strengthened the oversight of our private market investment activities to make sure our governance and risk management processes keep pace with the complexity of transactions being conducted. We also approved an External Manager Policy that provides guidance on the selection, monitoring and termination of external public market investment managers.

OPB's Investment Finance department, which provides middle/back-office support for OPB's investment services, is keeping pace with the changes. In 2012, the department bolstered its monitoring, reporting and analytic capabilities with new risk systems and hired several experienced professionals. Going forward, the department will continue to expand and enhance its data management, performance attribution and investment modelling functions.

RISK MANAGEMENT

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Completed the implementation of Enterprise Risk Management	Enterprise Risk Management provides an integrated approach to risk management and identifies strategies for identifying and mitigating major risks that could adversely impact the Plan.
Strengthened the oversight of private market investments	Oversight was strengthened to help ensure governance and risk management processes keep pace with the complexity of transactions being conducted.
Approved an External Manager Policy	The new policy will help reduce investment risk by providing guidance on the selection, monitoring and termination of external public market investment managers.
Enhanced our investment risk management systems	We have updated our risk monitoring, data management, performance attribution and investment modelling systems to ensure we have the middle/back-office tools needed to manage risk effectively.
Bolstered monitoring, reporting and analytic capabilities with new risk systems	To ensure we have the middle/back-office reporting and analytic capabilities, data management and performance attribution capabilities, and investment modelling functions required to support a broader and more complex investment mandate.

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State of the art governance

OPB has a robust governance framework based on industry best practices. That framework provides the parameters to ensure we:

- operate effectively and efficiently;
- prudently invest and manage the Plan's assets;
- protect and promote the best interests of Plan beneficiaries; and
- meet legislative requirements.

Underpinning our governance framework is a series of documents that define our organizational structure, responsibilities, and governance practices. Collectively referred to as the *Governance Documents*, these documents include a *Statement of Governance Principles; General By-law; Statements of Mandate and Authority*; and a *Code of Conduct*.

The *Governance Documents* clearly define roles and responsibilities, draw a clear link between responsibility and accountability, set expectations for ethical behaviour, and entrench conflict of interest guidelines. They also establish a well-defined system of checks and balances on all power and authority.

Role of the Board

OPB's Board of Directors holds the ultimate responsibility for stewardship of the Plan. That said, the Board has delegated responsibility for the day-to-day operations of the Plan – including administration and asset management – to OPB's management team. It has also chosen to delegate specific responsibilities to five committees of the Board: Governance & Conduct Committee, Investment Committee, Audit Committee, Pension Committee, and Human Resources Committee.

The Board retains overall responsibility for supervision of OPB's business affairs. For example, it:

- approves OPB's strategic plan;
- approves OPB's business plan and budget;
- ensures that management has identified and is managing risks;
- satisfies itself that management is maintaining a culture of integrity;
- conducts performance and compensation reviews for the President & CEO;
- supervises and approves all external and internal audit matters;
- conducts an annual review of OPB's *Statement of Investment Policies & Procedures*;
- manages succession planning for the President & CEO;
- approves any recommendations made to the Plan Sponsor regarding Plan amendments; and
- establishes and monitors compliance with OPB's *Governance Documents*.

In fulfilling their duties, members of the Board are directly accountable to:

- the Plan's beneficiaries (i.e., members and retired members);
- the Financial Services Commission of Ontario (the organization that oversees registered pension plans in Ontario); and
- the Government of Ontario (the Plan Sponsor).

Continuous improvement

OPB remains committed to governance best practices and continues to make improvements to stay at the forefront.

To enhance the Board's decision-making process and effectiveness, the Board recently adopted the use of Individual Director Performance Feedback Surveys. This proactive measure is designed to foster Board development and raise the performance bar for individual Board members relative to best practices. Survey results were communicated to Board members by the Chair.

In addition, OPB implemented a Governance Improvement Action Plan in 2012. This plan incorporated recommendations stemming from a third-party performance evaluation of the Board conducted in 2011.

Going forward, the Board will be working to ensure OPB continues to meet industry best practices for the privacy of member data and business information as we adapt to emerging technology.

Executive compensation

OPB's executive compensation practices must strike a careful balance. We operate a very complex financial business that, in the interests of the Plan and its stakeholders, must be high performing and results driven. Our success depends on attracting and retaining high-quality talent. OPB must compete for talent with other pension plans, as well as with the private sector financial services industry, and must be reasonably able to do so. Compensation levels among other mid-sized and large public sector pension plans and the private sector financial services industry are high. At the same time, OPB is an agency of the Government of Ontario and, as such, must have compensation practices that respect that it is a public sector organization. In 2009, OPB's Board adopted a Compensation Philosophy that specifically acknowledged the need to achieve this balance.

As it is currently structured, OPB's executive compensation program consists of three components:

1. base salary;
2. short-term incentive; and
3. pensions and benefits.

Base salary

Base salary is determined by the duties and responsibilities of a position and is assigned within a Board-approved pay band. Base salary for the CEO is subject to approval of the full Board. Base salary for executive vice-presidents, senior vice-presidents and managing directors is subject to approval of the Human Resources Committee. Operating within Board/Human Resource Committee policies and our pay structure, the CEO has the authority to set the base salary for vice-presidents and other management team members.

Short-term incentive

Our short-term incentive program, like many in the industry, is based on a combination of corporate performance and individual performance. Both components are measured against qualitative and quantitative objectives, and performance metrics. Incentive awards are made annually, determined after year-end, and paid in March. The corporate performance component is subject to the approval of the Board. Authority to approve the individual performance component follows the same process for approval as that of base salary. Incentive awards also take into account the improvement or deterioration of the funded status of the Plan during the year. This is unusual, but the Board and management feel it is necessary to align executives with the interests of the Plan's stakeholders. For the CEO and Chief Investment Officer, the maximum short-term incentive is 45% of base salary, which would be achieved only in years with exceptional individual and corporate performance.

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Pensions and benefits

Executives participate in the same insured benefits program as employees. They also participate in the PSPP as do all non-OPSEU employees of OPB. Incentive awards are excluded from the calculation of pensions. Executives at the senior vice-president level and above participate in a supplemental employee retirement plan, which provides additional pension accrual each year. The terms of this plan mirror those of the PSPP.

OPB has met the restraint expectations of the Government of Ontario. We have exercised various restraint measures since 2008. During this period, we managed to continue to attract and retain a talented team. However, the risk of adverse impact on the health of the Plan from the inability to attract and retain the talent we require, because of restraint, has become a serious concern for the Board. In 2010, the Board commissioned a market compensation study which indicated that, for key positions, compensation levels at other Ontario public sector pension plan administrators, as well as within the private sector financial services industry, are significantly higher than total compensation levels at OPB. Given the ongoing compensation restraints we face, we expect that the gap between compensation levels at OPB and that of other public sector pension plans and the private sector financial services industry has widened since the study – to the point that adjustment is necessary to restore the balance called for in the Compensation Philosophy.

At this time, OPB does not have a long-term incentive program (LTIP). Such a program is a standard feature of the compensation programs for executives at other public sector pension plan administrators and within the private sector financial services industry. OPB's Board has done considerable work to develop an LTIP; however, due to salary restraint, the Board has delayed its implementation. The Board intends to move forward with implementation in the near future.

Governance

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Adopted the use of Individual Performance Feedback Surveys	To foster Board development and raise the performance bar for individual Board members relative to governance best practices.
Implemented a Governance Improvement Action Plan	To strengthen OPB's governance structure by incorporating recommendations stemming from a third-party evaluation of Board performance conducted in 2011.

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Five-year review

(in millions of dollars)	**2012**	2011	2010	2009	2008
Opening net assets	**$ 17,270**	$ 17,376	$ 16,043	$ 14,607	$ 16,379
Investment income (loss)	**1,964**	19	1,439	1,690	(1,552)
Contributions	**714**	715	689	528	487
Transfers from other plans	**104**	132	142	166	207
	2,782	866	2,270	2,384	(858)
Pension payments	**918**	869	848	837	810
Terminations	**105**	68	56	77	71
Operating expenses	**38**	35	33	34	33
	1,061	972	937	948	914
Closing net assets	**$ 18,991**	$ 17,270	$ 17,376	$ 16,043	$ 14,607

						Cumulative since inception
Annual rate of return	**11.9%**	0.4%	9.4%	11.9%	(9.4)%	8.5%

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Financial statements

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, 2011 on a funding basis, as described in Note 6 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- An actuarial valuation as at December 31, 2012 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, 2011 on a funding basis was based on membership data provided by OPB as at December 31, 2011.

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, 2011 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, 2012. The valuation as at December 31, 2012 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 statement of changes in pension obligations.

We hereby certify that, in our opinion:

- the data provided to us by OPB as of December 31, 2011 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

February 28, 2013

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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

February 28, 2013

Duncan Webb, CA
Senior Vice-President, Finance & Technology

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 statement of financial position as at December 31, 2012, and the statements of changes in net assets available for benefits and changes in pension obligations for the year 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 audit. We conducted our audit 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' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 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, 2012, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 28, 2013

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Statement of financial position

As at December 31 (in thousands of dollars)	**2012**	2011
Assets		
Investments (Note 4)	**$ 19,008,875**	$ 17,226,895
Investment-related receivables (Note 4)	**31,554**	40,345
Contributions receivable		
Members	**25,328**	25,006
Employers	**36,696**	36,534
Capital assets (Note 5)	**3,164**	3,254
Total assets	**19,105,617**	17,332,034
Liabilities		
Investment-related liabilities (Note 4)	**83,893**	29,474
Accounts payable and accrued charges	**29,046**	31,319
Contributions payable	**1,200**	1,389
Total liabilities	**114,139**	62,182
Net assets available for benefits	**18,991,478**	17,269,852
Pension obligations (Note 6)	**20,359,744**	19,524,706
Deficit (Note 7)	**$ (1,368,266)**	$ (2,254,854)

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

J. Urban Joseph
Vice-Chair

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Statement of changes in net assets available for benefits

For the year ended December 31 (in thousands of dollars)	**2012**	2011
Investment operations		
Net investment income (Note 8)	**$ 1,964,316**	$ 18,704
Operating expenses – investment operations (Note 10)	**(14,041)**	(11,805)
Net investment operations	**1,950,275**	6,899
Pension operations		
Contributions (Note 9)		
Members	**303,622**	306,742
Employers and sponsor	**409,923**	408,331
Transfer from other plans	**103,669**	132,106
Retirement pension payments	**(917,776)**	(869,320)
Termination and other benefits	**(105,333)**	(67,982)
Operating expenses – pension operations (Note 10)	**(22,754)**	(22,774)
Net pension operations	**(228,649)**	(112,897)
Net increase (decrease) in net assets for the year	**1,721,626**	(105,998)
Net assets, at beginning of year	**17,269,852**	17,375,850
Net assets, at end of year	**$ 18,991,478**	$ 17,269,852

See accompanying notes

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Statement of changes in pension obligations

For the year ended December 31 (in thousands of dollars)	**2012**	2011
Pension obligations, at beginning of year	**$ 19,524,706**	$ 18,612,515
Increase in pension obligations		
Interest on pension obligations	**1,229,305**	1,174,993
Benefits accrued		
Service accrual	**556,310**	553,565
Transfer of service from other plans	**103,670**	132,106
Past service buybacks	**31,975**	34,239
Total increase	**1,921,260**	1,894,903
Decrease in pension obligations		
Benefits paid	**1,023,109**	937,302
Experience gains	**30,093**	45,410
Changes in actuarial assumptions (Note 6)	**33,020**	—
Total decrease	**1,086,222**	982,712
Net increase in pension obligations	**835,038**	912,191
Pension obligations, at end of year	**$ 20,359,744**	$ 19,524,706

See accompanying notes

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Notes to the 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 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, 2014.

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Notes to the financial statements (continued)

OPP Officers 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 retired member, 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.

In accordance with Section 4600, Pension Plans, of the Canadian Institute of Chartered Accountants' (CICA) Handbook, 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.

a) 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.

2012 ANNUAL REPORT

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Notes to the financial statements (continued)

b) 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 debt 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 for publicly traded securities 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.

(vii) Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds, are valued using the most recently available financial information provided by the fund administrator and adjusted for any capital transactions during the interim period up to the reporting date of these financial statements.

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.

c) 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.

Notes to the financial statements (continued)

d) 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.

e) 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

f) 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 financial statements (continued)

Note 4 Investments

Investments before allocating the effect of derivatives contracts

As at December 31 (in thousands of dollars)	2012	2011
Cash and short-term investments		
Canada	$ 1,136,668	$ 440,253
United States and other international	114,008	79,405
	1,250,676	519,658
Fixed income		
Special Province of Ontario Debentures	869,922	1,364,507
Bonds		
Canada	4,991,302	4,324,877
International	597,451	412,150
	6,458,675	6,101,534
Equities		
Canada	1,254,760	2,288,547
United States	2,687,175	1,873,214
Other international	4,431,847	3,735,374
	8,373,782	7,897,135
Real estate	2,701,424	2,654,157
Infrastructure	173,443	4,256
Participating mortgages	50,875	50,155
Total investments	19,008,875	17,226,895
Investment-related receivables		
Pending trades	9,752	3,950
Derivatives receivable	21,802	36,395
	31,554	40,345
Investment-related liabilities		
Pending trades	43,311	12,703
Derivatives payable	40,582	16,771
	83,893	29,474
Net investments	$ 18,956,536	$ 17,237,766

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Notes to the financial statements (continued)

a) Asset mix

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

	2012 Target	2011 Target
Cash and short-term investments	**2%**	2%
Bonds	**35%**	38%
Total interest-bearing instruments	**37%**	40%
Equity		
Canadian	**11%**	11%
International	**36%**	36%
Total equity	**47%**	47%
Real assets	**15%**	13%
Infrastructure	**1%**	0%
Total equity and real assets	**63%**	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 & 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 Plan's modified duration of 5.9 years at December 31, 2012 (2011– 5.4 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $386 million (2011– $339 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.

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Notes to the 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)				2012
	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. dollar	$ 4,152,117	$ 1,246,774	$ (3,372,643)	$ 2,026,248
Hong Kong dollar	513,577	4,938	(21,356)	497,159
South Korean won	288,402	217	(241)	288,378
Brazil real	245,594	8,033	(107)	253,520
South African rand	179,237	995	(6,632)	173,600
Indian rupee	159,145	8,885	—	168,030
New Taiwan dollar	138,783	—	—	138,783
New Turkish lira	148,378	—	(10,912)	137,466
Other	1,890,712	137,913	(1,107,898)	920,727
Total foreign	7,715,945	1,407,755	(4,519,789)	4,603,911
Canadian dollar	11,265,362	4,245,318	(1,158,055)	14,352,625
	$ 18,981,307	$ 5,653,073	$ (5,677,844)	$ 18,956,536

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Notes to the financial statements (continued)

As at December 31
(in thousands of dollars)

2011	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. dollar	$ 3,154,496	$ 1,104,771	$ (2,412,295)	$ 1,846,972
Hong Kong dollar	374,575	13,633	(298)	387,910
Brazil real	216,430	16,424	(109)	232,745
South Korean won	207,825	12,295	—	220,120
Pound sterling	423,717	13,199	(266,885)	170,031
South African rand	136,574	5,056	(2,538)	139,092
Euro	389,719	72,154	(347,309)	114,564
New Taiwan dollar	97,553	7,671	(1,437)	103,787
Other	1,048,342	112,113	(356,081)	804,374
Total foreign	6,049,231	1,357,316	(3,386,952)	4,019,595
Canadian dollar	11,169,097	3,100,670	(1,051,596)	13,218,171
	$ 17,218,328	$ 4,457,986	$ (4,438,548)	$ 17,237,766

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 $46 million (2011 – $40 million) in total for all foreign currencies, as at December 31, 2012.

(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 that 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 $84 million (2011 – $79 million), as at December 31, 2012.

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, 2012, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $870 million (2011 – $1.365 billion) and bonds and short-term investments valued at $652 million (2011 – $435 million). At December 31, 2012, 70% (2011 – 77%) of bonds held had at least an "A" rating.

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Notes to the 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 $508 million (2011 – $510 million) to the Plan.

c) Cash and short-term investments

As at December 31 (in thousands of dollars)	2012	2011
Canada		
Cash	$ 96,937	$ 31,708
Short-term notes and treasury funds	1,029,646	404,362
Term deposits	8,800	3,400
Accrued interest	1,285	783
	$ 1,136,668	$ 440,253
United States and other international		
Cash	$ 57,085	$ 56,959
Short-term notes and treasury funds	56,916	18,876
Term deposits	—	3,569
Accrued interest	7	1
	$ 114,008	$ 79,405

d) Fixed income and equity investments

The Special Debentures are recorded at an estimated market value of $870 million (2011 – $1.365 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently two Special Debentures maturing over the next two years with a weighted average interest rate of 11.15% (2011 – 10.96%).

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

As at December 31 (in thousands of dollars)	2012	2011
Equities – Canada	$ —	$ 36,119
Equities – Other international	252,515	258,641

See the schedules of Fixed income maturities and of Investments over $50 million for further information.

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Notes to the financial statements (continued)

e) Derivatives

As at December 31 (in thousands of dollars)	2012 Notional	2012 Fair Value	2011 Notional	2011 Fair Value
Equity derivatives				
Futures	**$ 476,400**	**$ 5,991**	$ 158,177	$ 186
Currency derivatives				
Forwards	**5,641,127**	**(24,771)**	4,473,551	19,438
Value of derivatives contracts	**$ 6,117,527**	**$ (18,780)**	$ 4,631,728	$ 19,624

f) Securities lending

At year-end, $1.332 billion (2011 – $945 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, $1.415 billion (2011 – $1.005 billion) in securities were held as collateral, providing a 6.3% (2011 – 6.3%) 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 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, 2012 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ —	$ 1,038,446	$ —	$ 1,038,446
United States and other international	—	56,915	—	56,915
Fixed income				
Special Province of Ontario Debentures	—	823,008	—	823,008
Bonds				
Canada	—	4,586,641	366,896	4,953,537
United States and other international	—	586,434	—	586,434
Equities				
Canada	1,251,101	—	—	1,251,101
United States	2,581,093	—	103,370	2,684,463
Other international	4,173,980	252,515	—	4,426,495
Futures	5,991	—	—	5,991
Participating mortgages	—	—	50,875	50,875
Real estate	—	—	2,701,424	2,701,424
Infrastructure	—	—	173,443	173,443
Forward exchange contracts	—	15,811	—	15,811
	$ 8,012,165	$ 7,359,770	$ 3,396,008	$ 18,767,943
Financial liabilities				
Forward exchange contracts	$ —	$ (40,582)	$ —	$ (40,582)

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Notes to the financial statements (continued)

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	260,661	4,287,870
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	$ 2,969,423	$ 17,046,414
Financial liabilities				
Forward exchange contracts	$ —	$ (16,771)	$ —	$ (16,771)

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2012 and 2011.

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Notes to the 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, 2012 and 2011.

(in thousands of dollars)	**Fair Value as at January 1, 2012**	**Transfers In (Out)**	**Acquisitions**	**Dispositions**	**Issuance of Debt**	**Fair Value Changes**	**Fair Value as at December 31, 2012**
Financial assets							
Bonds							
Canada	**$ 260,661**	**$ (5,085)**	**$ 101,869**	**$ (3,583)**	**$ —**	**$ 13,034**	**$ 366,896**
Equities							
Canada	**194**	**—**	**—**	**—**	**—**	**(194)**	**—**
United States	**—**	**—**	**105,354**	**(4,119)**	**—**	**2,135**	**103,370**
Participating mortgages	**50,155**	**—**	**—**	**—**	**—**	**720**	**50,875**
Real estate	**2,654,157**	**—**	**527,533**	**(200,402)**	**(500,000)**	**220,136**	**2,701,424**
Infrastructure	**4,256**	**—**	**165,372**	**(996)**	**—**	**4,811**	**173,443**
	$ 2,969,423	**$ (5,085)**	**$ 900,128**	**$ (209,100)**	**$ (500,000)**	**$ 240,642**	**$ 3,396,008**

(in thousands of dollars)	Fair Value as at January 1, 2011	Transfers In (Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2011
Financial assets							
Bonds							
Canada	$ 189,102	$ (6,383)	$ 63,888	$ —	$ —	$ 14,054	$ 260,661
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)	$ —	$ 219,072	$ 2,969,423

h) Commitments and guarantees

As at December 31, 2012, OPB had provided funding commitments for certain investments in the amount of $966 million (of which $500 million has been advanced to date).

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Notes to the financial statements (continued)

OPB has provided a guarantee for the payment of principal and interest on $500 million in debentures issued in 2012 by OPB Finance Trust, a trust established for the benefit of OPB and its subsidiaries. Two series of debentures were issued:

1. $350 million, Series A, 30-year debentures due 2042, with interest payable semi-annually at 3.89%.
2. $150 million, Series B, 50-year debentures due 2062, with interest payable semi-annually at 3.87%.

The proceeds from the issuance of the debentures were loaned to two OPB real estate subsidiaries. In turn, these real estate companies repaid amounts owed to OPB.

OPB, as part of a consortium with KingSett Capital (KingSett), has reached an agreement to purchase the assets of Primaris Real Estate Investment Trust (Primaris), subject to receiving the required stakeholder approvals. Under the agreement, OPB will purchase a 50% interest in three regional shopping centres located in Saskatchewan and British Columbia. In addition, through a 50/50 joint venture with KingSett, OPB will acquire twelve properties located across Canada. The total asset value for the OPB portion of the Primaris transaction is approximately $800 million.

Note 5 Capital assets

As at December 31
(in thousands of dollars)

2012	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	**$ 3,606**	**$ 2,783**	**$ 823**
Furniture and fixtures	**2,457**	**1,110**	**1,347**
Leasehold improvements	**1,529**	**535**	**994**
Total capital assets	**$ 7,592**	**$ 4,428**	**$ 3,164**

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

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Notes to the financial statements (continued)

Note 6 Pension obligations

a) Accounting basis

The value of pension obligations of $20.360 billion (2011 – $19.525 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, 2012 were computed by extrapolating data used for the December 31, 2011 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:

	2012	2011
Investment return	**5.95%**	6.35%
Inflation	**2.10%**	2.50%
Real rate of return	**3.85%**	3.85%
Salary increases	**3.10% + 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. A funding valuation was prepared for management purposes as at December 31, 2011, prepared by Aon Hewitt, which disclosed a funding shortfall of $2.279 billion on a going concern basis.

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

Note 7 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, 2012 was $1.368 billion (2011 – $2.255 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 financial statements (continued)

Note 8 Net investment income

For the year ended December 31 (in thousands of dollars)	2012 Investment Income[1]	2012 Fair Value Changes[2]	2012 Total	2011 Investment Income[1]	2011 Fair Value Changes[2]	2011 Total
Cash and short-term investments						
Canada	$ 10,478	$ (1,201)	$ 9,277	$ 8,204	$ (1,203)	$ 7,001
United States and other international	2	34,326	34,328	179	(71,638)	(71,459)
	10,480	33,125	43,605	8,383	(72,841)	(64,458)
Fixed income						
Special Province of Ontario Debentures	105,395	(91,567)	13,828	144,501	(95,331)	49,170
Bonds						
Canada	196,268	85,768	282,036	181,032	189,428	370,460
United States and other international	37,984	11,056	49,040	36,466	(563)	35,903
	339,647	5,257	344,904	361,999	93,534	455,533
Equities						
Canada	48,086	124,276	172,362	58,540	(280,897)	(222,357)
United States	46,219	259,506	305,725	33,471	13,540	47,011
Other international	109,266	587,262	696,528	112,848	(610,103)	(497,255)
	203,571	971,044	1,174,615	204,859	(877,460)	(672,601)
Real estate	231,773	220,136	451,909	148,071	206,979	355,050
Infrastructure	(338)	4,811	4,473	—	4	4
Participating mortgages	1,345	720	2,065	2,888	(1,965)	923
Total investment income (loss)	$ 786,478	$ 1,235,093	$ 2,021,571	$ 726,200	$ (651,749)	$ 74,451
Investment management and custodial fees			(57,255)			(55,747)
Net investment income			$ 1,964,316			$ 18,704

[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.

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Notes to the financial statements (continued)

a) Interest income

For the year ended December 31 (in thousands of dollars)		**2012**		2011
Cash and short-term investments				
Canada				
Cash	**$**	**2,452**	$	2,930
Short-term notes and treasury funds		**7,973**		5,209
Term deposits		**53**		65
	$	**10,478**	$	8,204
United States and other international				
Cash	**$**	**(22)**	$	89
Short-term notes and treasury funds		**23**		5
Term deposits		**1**		85
	$	**2**	$	179

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

b) Dividend income

Dividend income includes $7.02 million (2011 – $6.69 million) from pooled equity funds.

c) Investment fees

For the year ended December 31 (in thousands of dollars)		**2012**		2011
Portfolio fund management	**$**	**42,602**	$	40,078
Transaction costs		**9,554**		10,720
Custodial		**3,654**		3,734
Real estate		**1,445**		1,215
	$	**57,255**	$	55,747

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $1.297 million (2011 – $730 thousand).

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Notes to the financial statements (continued)

Note 9 Contributions

For the year ended December 31 (in thousands of dollars)		2012		2011
Members				
Current service required	**$**	**276,227**	$	276,434
Prior service		**27,395**		30,308
Total contributions from members		**303,622**		306,742
Employers				
Current service				
Regular contributions		**276,383**		276,536
PSSBA transfer		**(14,930)**		(14,039)
For members receiving Long Term Income Protection benefits		**9,948**		8,285
Prior service		**4,580**		3,932
		275,981		274,714
Sponsor payments				
Special payments		**127,235**		126,794
Additional current service		**6,707**		6,823
		133,942		133,617
Total contributions from employers and sponsor		**409,923**		408,331
Total contributions	**$**	**713,545**	$	715,073

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 $127.235 million (2011 – $126.794 million) in Special Payments in 2012 towards the funding shortfall identified in the filed funding valuation as at December 31, 2010. In 2012, the Province made $6.707 million (2011 – $6.823 million) in additional employer current service contributions.

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Notes to the financial statements (continued)

Note 10 Operating expenses

Pension operations

For the year ended December 31 (in thousands of dollars)	2012	2011
Staffing costs	$ 12,949	$ 13,358
Staff development and support	277	303
Office premises and operations	3,157	3,143
Information technology and project management	4,475	4,067
Professional services	969	810
Communication	194	294
Depreciation	465	532
Board remuneration	99	120
Audit	169	147
	$ 22,754	$ 22,774

Investment operations

For the year ended December 31 (in thousands of dollars)	2012	2011
Staffing costs	$ 7,507	$ 6,403
Staff development and support	200	220
Office premises and operations	1,925	1,914
Information technology and project management	2,171	1,160
Professional services	1,665	1,493
Communication	83	126
Depreciation	222	226
Board remuneration	99	120
Audit	169	143
	$ 14,041	$ 11,805

Notes to the financial statements (continued)

Included in the operating expenses on page 62 are:

External audit services

For the year ended December 31 (in thousands of dollars)		**2012**		2011
External audit and related services provided to Ontario Pension Board	**$**	**104**	$	104
External audit and related services provided to and recorded by subsidiary operations		**286**		204
Total fees	**$**	**390**	$	308

Actuarial services

For the year ended December 31 (in thousands of dollars)		**2012**		2011
Actuarial services provided to Ontario Pension Board	**$**	**391**	$	336

Note 11 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 last filed 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 latest actuarial valuation report prepared for management purposes as at December 31, 2011 disclosed a funding shortfall of $2.279 billion on a going concern basis.

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 2012 and 2011, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

Note 12 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 financial statements.

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Notes to the financial statements (continued)

Note 13 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 and all Senior Vice-Presidents are shown below. These comprise the top five compensated individuals of the organization.

For the year ended December 31	Year	Base Salary	Incentives[1]	Taxable Benefits and Allowances[2]	Total
Mark J. Fuller, President & CEO[3]	2012	$ 409,146	$ 183,500	$ 512	$ 593,158
	2011	398,631	141,300[4]	11,321	551,252
	2010	398,631	141,300[4]	11,376	551,307
R. Paul Edmonds, Senior Vice-President, Corporate Affairs & General Counsel	2012	305,279	108,000	401	413,680
	2011	288,478	90,625	11,968	391,071
	2010	266,086	89,695	14,650	370,431
Jill Pepall, Chief Investment Officer[5]	2012	376,657	142,758	478	519,893
	2011	361,044	118,125	10,072	489,241
	2010	310,178	98,725	6,862	415,765
Peter Shena, Senior Vice-President, Pensions & Stakeholder Relations	2012	305,279	112,000	401	417,680
	2011	288,487	95,156	11,968	395,611
	2010	266,477	89,827	14,650	370,954
Duncan Webb, Senior Vice-President, Finance & Technology	2012	315,475	75,000	412	390,887
	2011	298,973	93,750	11,986	404,709
	2010	298,973	100,781	14,691	414,445

1 Incentives earned 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. Base salaries had been adjusted to match the discontinuance of the car allowances.

3 Mr. Fuller 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, 2012.

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 Ms. Pepall was appointed as Acting Senior Vice-President, Investments, on May 4, 2010 and promoted to Chief Investment Officer on December 2, 2010.

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)	2012		2011	
	Fair Value	**Current Yield %**	Fair Value	Current Yield %
Special Province of Ontario Debentures				
0–1 year	**$ 318,288**	**11.10**	$ 290,205	10.05
1–5 years	**504,720**	**10.00**	1,007,650	9.19–11.10
Accrued interest	**46,914**		66,652	
	869,922		1,364,507	
Bonds				
Canadian:				
0–1 year	**475,876**	**0.96–7.80**	512,075	1.11–6.49
1–5 years	**1,397,441**	**0.75–14.50**	1,055,322	1.00–13.46
5–10 years	**1,163,670**	**1.26–12.50**	1,184,512	1.49–19.68
> 10 years	**1,813,043**	**1.33–7.52**	1,535,961	2.58–10.22
Accrued interest	**37,475**		37,007	
	4,887,505		4,324,877	
United States and other international:				
0–1 year	**36,897**	**6.22–15.04**	37,640	3.15–13.29
1–5 years	**194,155**	**0.31–13.69**	133,857	2.93–14.88
5–10 years	**268,646**	**2.26–13.63**	176,255	2.87–10.73
> 10 years	**86,736**	**3.73–8.27**	56,424	4.04–9.90
Accrued interest	**11,017**		7,974	
	597,451		412,150	
Canadian fixed income funds	**103,797**			
Total fixed income	**$ 6,458,675**		$ 6,101,534	

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Supplementary information (continued)

Investments over $50 million

As at December 31, 2012 (in thousands of dollars)	Maturities	Coupon %		Fair Value[1]
Cash and short-term investments				
Canada:				
Government of Canada			$	292,066
Province of Ontario				231,802
CIBC				110,240
Royal Bank of Canada				93,761
Province of Quebec				66,678
TD Bank				64,500
Bank of Nova Scotia				57,774
Fixed income				
Special Province of Ontario Debentures	2013–2014	11.10–11.19	$	823,008
OPB Investments Inc. (holding company, 100% owned)				295,108
OPB Investments Limited (holding company, 100% owned)				71,862
Bonds				
Canada:				
Government of Canada	2013–2045	0.75–10.50	$	540,314
Province of Ontario	2014–2043	1.90–9.50		415,859
Canada Housing Trust No.1	2013–2022	1.35–4.10		395,525
Province of Quebec	2013–2043	3.50–9.38		179,702
Royal Bank of Canada	2014–2085	0.56–5.81		141,140
Bank of Nova Scotia	2013–2108	1.42–7.80		120,902
Bank of Montreal	2014–2025	1.89–6.02		113,637
CIBC	2013–2108	1.42–10.25		101,299
GE Capital Canada Funding Co.	2014–2037	1.65–5.73		95,472
Bell Canada	2014–2035	3.35–9.70		79,324
Shaw Communications Inc.	2014–2039	5.50–6.75		73,884
Rogers Communications Inc.	2016–2041	3.00–6.68		72,396
Province of British Columbia	2014–2044	2.70–9.95		72,080
Manulife Financial Corp.	2014–2108	4.08–7.77		71,040
407 International Inc.	2015–2042	3.87–7.13		63,168
Sun Life Financial Inc.	2021–2108	4.57–5.86		62,168
Loblaw Companies Ltd.	2014–2039	4.85–6.85		55,638
Enbridge Inc.	2016–2050	3.19–7.20		52,068
Great–West Life Co.	2018–2067	4.65–6.67		50,540
Real estate				
Investment in real estate holdings over $50 million, comprising OPB Realty Inc. (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), RXR Real Estate Funds and OPB Finance Trust (financing entity, 100% beneficial interest).			$	2,587,526

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

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Supplementary information (continued)

Investments over $50 million (continued)

As at December 31, 2012 (in thousands)	Shares/Units[2]	Fair Value[2]
Equities		
Canada:		
Toronto-Dominion Bank	1,150	$ 96,326
Bank of Nova Scotia	1,486	85,360
Royal Bank of Canada	1,253	75,025
Canadian National Railway Co.	669	60,438
Canadian Natural Resources Ltd.	1,898	54,348
United States:		
Apple Inc.	129	68,281
OPB Private Equity Limited (holding company, 100% owned)		59,549
Amazon.com Inc.	206	51,521
Johnson & Johnson	730	50,957
Other international:		
Leith Wheeler International Fund	17,838	252,039
Samsung Electronics Co Ltd.	184	143,469
OPB Infrastructure 2 Limited (holding company, 100% owned)		141,742
Taiwan Semiconductor Manufacturing Co.	19,282	100,062
Vale SA	4,286	87,141
China Mobile Ltd.	4,427	56,905

2 Includes all share classes and American Depository Receipts.

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Supplementary information (continued)

Real estate properties

As at December 31, 2012 (in thousands of square feet)	Location	Area
Retail		
Pen Centre	St. Catharines	1,036
Southgate Centre[1]	Edmonton	942
St. Vital Centre	Winnipeg	928
Pickering Town Centre	Pickering	895
Erin Mills Town Centre	Mississauga	847
Halifax Shopping Centre	Halifax	535
Carlingwood Shopping Centre	Ottawa	527
Halifax Shopping Centre Annex	Halifax	420
West End Mall	Halifax	184
Erin Mills Town Plaza	Mississauga	59
		6,373
Office		
155 Wellington Street West[1]	Toronto	1,211
One Queen Street East/20 Richmond Street East	Toronto	504
Pickering Office Tower/Durham College	Pickering	128
Halifax Office Complex	Halifax	114
		1,957
Industrial		
Mississauga Industrial	Mississauga	2,908
Total properties		**11,238**

[1] Southgate Centre and 155 Wellington Street West are 50% owned by Ontario Pension Board through its subsidiaries OPB (Southgate) Inc. and OPB (155 Wellington) Inc.

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Annual Report Glossary

Asset mix

Asset mix is the categorization of assets within the pension plan portfolio (e.g., cash, Canadian equities, real estate, etc.). Each category is measured as a percentage of the total pension plan portfolio's fair value.

Investment risk

Investment risk is the uncertainty of asset returns associated with investing activities (i.e., asset returns are lower than what is expected).

Emerging markets

Emerging markets represent countries (such as Brazil, China and India) experiencing higher economic and industrialized growth than developed countries (such as U.S., Canada and U.K.). Emerging markets often present higher investment risks due to geopolitical instabilities, currency fluctuations, and financial regulation still in infancy; on the other hand, emerging markets offer investors expected higher returns because of greater growth prospects.

Alternative investments

Alternative investments tend to be represented by investments in private equity, infrastructure and hedge funds; while traditional investments are often comprised of publicly traded equities, fixed income securities, cash, and real estate.

Special Debentures

Special Debentures are fixed income securities (i.e., bonds) that 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.

Derivative overlays

Derivative securities (e.g., equity futures) are used to cost-effectively modify the overall total Plan economic exposures without disrupting the underlying direct investing activities of investment managers.

Capital preservation

Capital preservation prevents capital losses during down market conditions. A capital preservation investment approach generally implies a lower risk profile for the investment portfolio; this may result in relative underperformance during periods of rising markets.

Unrewarded risk

Unrewarded risk is an accepted investment risk that does not generate sufficient returns for investors.

Fundamental research investing

Fundamental research allows for business valuations that are based on qualitative and quantitative assessments of such things as debt levels, stability of growth of free cash flows, quality of management, and relative industry and economic analysis. Fundamental research does not look at trading patterns or investor behavior to analyze investment opportunities.

Credit spreads

Credit spreads refer to the difference in yield between a risky bond (e.g., corporate bond) and a high quality bond (e.g., Government of Canada bond) that have the same payment date. Typically, an issuer of bonds with greater credit spreads implies a higher probability of potential default on debt repayment, and investors have to earn a higher yield to protect against the risk exposure.

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Board of Directors

Each member of our Board has been chosen based on their expertise, commitment, integrity and vision. Working together, they ensure the Plan's governance structure and practices reflect the highest standards.

M. Vincenza Sera, ICD.D (Chair)

A former investment banker with 25 years of expertise in capital markets, corporate finance, investment management, 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 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, 2015.

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.

Appointment ended October 21, 2012.

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M.E. (Peggy) Gilmour, ICD.D

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 14, 2015.

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.

Appointment ended August 12, 2012.

Hugh G. Mackenzie, ICD.D

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.

Shamira Madhany

Shamira is the Chief Officer, Diversity and Accessibility for the Ontario Public Service (OPS). In this role she is responsible for guiding the OPS to become a world-class inclusive organization delivering responsive policies, programs and services. Shamira has worked for over 27 years in the Ontario Public Service in progressively more responsible positions ranging from delivering services directly to clients to senior executive positions where she has led complex transformational initiatives. This has been complemented by her volunteer work as a director on broader public sector and not-for-profit boards. Prior to her appointment to OPB, she served on the Board of Markham Stouffville Hospital, where she held the position of Vice Chair of the Performance Committee.

Appointed to the Board on December 8, 2010.

Current appointment ends December 7, 2013.

Karl Walsh

Karl Walsh joined the OPP in 1995 as a Law Enforcement Officer, was President/CEO of the OPP Association from 2005 to 2011 and is currently Chief Administrative Officer of the Association. Prior to joining the OPP, Karl was a member of the Canadian Armed Forces. He is currently a member and past Director of the Canadian Police Association and the Police Association of Ontario. Karl completed the Harvard Trade Union Program (HTUP) and the Powerful Negotiator workshop at the University of Windsor.

Appointed to the Board on August 15, 2012.

Current appointment ends August 14, 2015.

Anthony Wohlfarth

Anthony (Tony) Wohlfarth is a pension consultant at Nelligan O'Brien Payne LLP, and a member of the firm's Union Consulting team. He has a diverse background, with over 20 years of experience advising unions in both the public and private sectors on pensions and employee benefit issues. As a Worker Commissioner with Human Resources & Skills Development Canada (HRSDC), Tony played a leadership role in enhancing EI services for clients. Prior to becoming Commissioner, he held numerous positions with the Canadian Auto Workers (CAW-Canada). In 2012, Tony completed the Audit Committee Certification (ACC) designation with the Directors College of Canada and received a Certificate in Adjudication for Administrative Agencies, Boards & Tribunals from Osgoode Hall, York University.

Appointed to the Board on September 1, 2005.

Current appointment ends August 31, 2014.

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Directory of key personnel

Officers

Mark J. Fuller
President & CEO

Jill Pepall
Executive Vice-President & CIO

Peter Shena
Senior Vice-President, Pensions & Stakeholder Relations

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

Duncan D. Webb
Senior Vice-President, Finance & Technology

Anne Catherall
Vice-President, People & Corporate Services

Thomas Choi
Vice-President, IT Services & Enterprise Solutions

Glenn Hubert
Vice-President, Private Debt

Tanya Lai
Vice-President, Public Markets

Sean Macaulay
Vice-President, Private Markets

Brian Whibbs
Managing Director, Real Estate