



## AHEAD OF THE CURVE

Welcome to your *2013 Report to Members and Retired Members*. This concise report provides an update on the financial health of your Public Service Pension Plan (PSPP or the Plan). It also provides a quick summary of OPB's achievements for 2013 and looks at the various steps we're taking to protect the Plan for current and future members.



## Who we are

Ontario Pension Board (OPB) is the administrator of the PSPP – 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 \$21 billion in assets, 41,925 members, 35,707 retired members and 5,040 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.

### INSIDE THIS REPORT

- Message from the Chair of the Board
- Message from OPB's President & CEO
- Client service and financial highlights from 2013
- A one-page scorecard recapping our 2013 achievements
- An interview with Jill Pepall, OPB's Chief Investment Officer
- Information on our governance structure

For more information on our accomplishments and a detailed financial review, go to our website at [www.opb.ca](http://www.opb.ca) to view OPB's full Annual Report.

## CHAIR'S MESSAGE

### 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.

### 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 contributions to the Plan.

At OPB, we believe a well-designed, well-managed defined benefit (DB) pension plan is the ideal vehicle for delivering efficient, affordable and sustainable lifetime retirement income. It's an approach that has proven successful for our clients and stakeholders.

OPB has generated strong long-term average annual returns, despite economic and financial market challenges. As a result, we've been able to improve the funded status of the Plan and introduce service improvements – all while maintaining benefit levels and affordable contribution rates, and while keeping operating expenses in check.

We're keeping the Plan sustainable and affordable by working hard and staying ahead of the curve. For example, we're actively engaged in the discussion about adequate retirement income – not just for PSPP members, but for all Canadians. We're also publicly promoting the socio-economic value of DB plans and working closely with decision-makers to ensure they understand the many advantages of the DB model.

Our efforts are paying off. We've been able to shape attitudes – shifting the focus from replacing DB plans with less predictable pension arrangements, to making DB plans more sustainable. Our philosophy is simple: Canada needs to preserve the best of the DB model and find an affordable way to extend meaningful pension coverage to all Canadians.

#### LEADING THE WAY

In 2012, the Government of Ontario announced its interest in pooling the assets of broader public sector pension plans. The goal is to achieve cost efficiencies and enhance investment returns. OPB is part of a government-appointed working group formed to provide advice on how to proceed with consolidation.

At OPB, we believe that, implemented properly, consolidation is in the best interest of all our stakeholders. It would create a large investment pool – enabling us to retain world-class investment talent, access a broader range of investment opportunities,

and generate enhanced investment returns that support the long-term sustainability of the Plan. With that in mind, we're currently studying the feasibility of asset consolidation with other broader public sector plans.

With or without consolidation, OPB is solidly positioned for investment success. We're generating value-added returns thanks to our forward-thinking investment strategy, expanded in-house investment expertise, and new investment partnerships that provide increased access to alternative investments.

#### GROUNDING BY GOOD GOVERNANCE

We recognize that good governance is the foundation of a well-run pension plan and remain committed to governance best practices. This means balancing the needs and interests of our various stakeholders. It also means providing the Plan Sponsor with recommendations that reflect our commitment to Plan beneficiaries, the long-term sustainability of the Plan, and the government's need for cost constraint. This collaborative approach has, over the years, earned us a reputation as a trusted advisor and honest broker.

Looking forward, Plan sustainability will continue to be top of mind for OPB's Board and executive team. Ultimately, good stewardship is about foresight and making decisions that serve the best interests of Plan beneficiaries. I'd like to thank my fellow Board members, OPB's management team, and all the employees for their continued commitment to success in 2014.



**M. Vincenza Sera**  
Chair

# SCORECARD

## WHAT WE DID

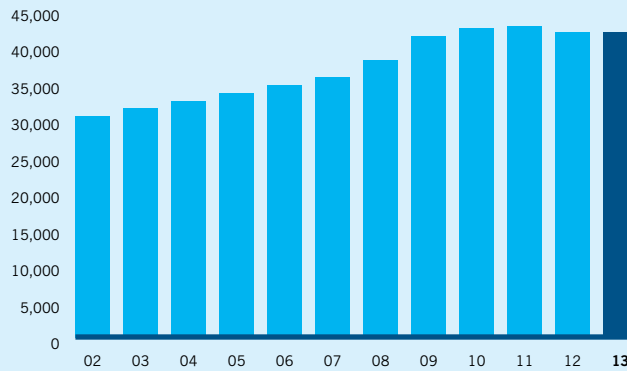
## WHY WE DID IT AND WHAT IT MEANS

FUNDING	
Adopted a formal funding policy for the PSPP	The funding policy will guide future decisions by OPB and the Plan Sponsor about how to keep the Plan sustainable. The policy is a key component of good governance.
Conducted a funding basis valuation	This valuation is used to ensure the Plan has enough assets to meet pension obligations. The valuation dated December 31, 2013, will be filed with the Financial Services Commission of Ontario (FSCO).
Adjusted the valuation assumption for life expectancy	The assumption used to value life expectancy was adjusted to reflect the fact that our members and retirees are living longer and collecting their pensions longer. The adjustment will help to ensure the projected cost of providing each dollar of pension reflects the additional cost related to longer life expectancy.
INVESTMENT	
Achieved an annual investment return of 12.5%	Strong returns contributed to a significant year-over-year improvement in the funded status of the Plan. As of December 31, 2013, the Plan was 96% funded.
Continued to implement 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 market investments, such as real estate and infrastructure.
Deployed our Tactical Asset Allocation (TAA) strategy	The TAA strategy enables us to quickly adjust the percentage of assets held in investment portfolios. This, in turn, allows us to take advantage of market opportunities and better manage investment risk.
Funded our mandate to purchase US\$150 million in China A-Shares	China A-Shares provide OPB with better exposure to China's domestic growth and complement our existing investments in emerging markets. OPB is one of just 11 pension plans globally with access to China A-Shares.
Successfully concluded a deal to buy Primaris Real Estate Investment Trust	The acquisition of Primaris Real Estate Investment Trust, as part of a consortium, our largest investment deal to date, further established OPB as a respected and desirable investment partner.
Issued our second bond offering in as many years	This highly successful offering supplied OPB with cost-effective access to capital that has provided low-cost financing for income-generating assets, such as real estate.
SERVICE EXCELLENCE	
Launched our new Client Care Centre	Launched in early 2013, the Client Care Centre gives clients on-the-spot answers to questions or redirects them to a trained specialist who can assist with the decision-making process.
Conducted 2,789 one-on-one meetings with clients	These meetings are structured to provide personalized support to clients when making decisions about their pension entitlement at critical points (e.g., pre-retirement planning; or buying back pension credit).
Continued to conduct group education sessions	Sessions are designed to help members understand the value of the PSPP, develop a general understanding of Plan provisions, and highlight when to contact OPB for support in making critical pension-related decisions.
ADVOCACY	
Publicly promoted the DB pension model	We took on the role of publicly promoting the value of the DB model to ensure that decision-makers and thought leaders understand its many advantages.
FINANCIAL MANAGEMENT	
Continued to make cost constraint a priority	We deferred some non-critical strategic initiatives, leveraged efficiencies gained through additional online services, automated internal processes, and negotiated more competitive contracts with service providers.
RISK MANAGEMENT	
Developed a new information management policy	The new policy combines information from various sources into one comprehensive document that conforms to leading practices. The new policy covers privacy, network security, cyber security, and records management.
Tested our disaster recovery/business continuity systems	The test confirmed that we have the resources needed to meet our service commitments to stakeholders in the event of a serious business interruption.
Conducted a fraud risk assessment	The assessment was conducted to identify any weaknesses in procedures and controls that could enable fraudulent activity. A preliminary report gave OPB a "clean bill of health".

## CLIENT SERVICE HIGHLIGHTS

Providing outstanding service is what we're about. We work to understand our clients' needs and provide them with the service they need, when they need it. In an era of cost constraint, that means delivering value-added services in a cost-effective way. In 2013, we continued to build on the efficiencies of our industry-leading e-services and provided clients with access to in-depth advisory services. This ongoing commitment to client care has established OPB as an international industry leader for service excellence.

NUMBER OF ACTIVE MEMBERS



## MESSAGE FROM THE PRESIDENT

The PSPP ended 2013 in a strong position, thanks to several key accomplishments. Our Investments team delivered returns of 12.5% – our second consecutive year of double-digit returns. These returns, combined with public sector salary restraint and low inflation, have led to a marked improvement in the Plan's funded position. The Plan is now 96% funded, up from 94% a year earlier.

### MANAGING FOR SUSTAINABILITY

Our primary objective continues to be the long-term sustainability of the Plan. This means ensuring the Plan continues to provide current and future members with a secure, adequate and affordable retirement income.

Over the years, we've done an excellent job of managing sustainability. But we can't take our eyes off the ball. We need to remain vigilant and strategic. With that in mind, here are some of the key things we're doing.

#### Investment excellence

We've built an outstanding team of investment professionals and have successfully added new asset classes. These two factors have led to stronger investment returns – a trend we expect will continue going forward.

#### Asset consolidation

We're part of a working group appointed by the Government of Ontario to explore the feasibility of centralizing investment management for

some of Ontario's broader public sector pension plans. The view is that a centralized manager, overseeing a very large pool of assets, will be better positioned to retain and attract a world-class investment team, build effective risk management systems, access a broader range of investment opportunities, and achieve new efficiencies – all of which should lead to enhanced investment returns, net of expenses. That said, OPB will not participate in any consolidation initiative that does not meet critical success factors we've identified to ensure that it serves the interests of PSPP stakeholders.

#### Long-term funding study

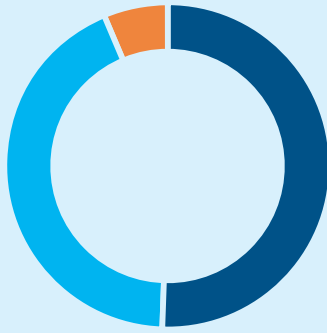
We launched a long-term funding study in 2013. OPB conducts a funding study every five years to ensure that contribution rates and expected investment returns are sufficient to meet the pension promise. As part of this study, we review demographic and economic trends that can affect the cost of pensions. We then reflect those

trends in our Plan valuation to determine what, if any, adjustments are needed. For example, following our 2008 study, we recommended (and the Plan Sponsor approved) a modest increase in contribution rates to cover higher pension costs related to longer life spans. While our current study shows that life spans continue to increase, we won't know until the study is completed in 2014 if Plan adjustments are necessary. If so, we will provide the Plan Sponsor with recommendations. It will be up to the Plan Sponsor to make the final decision about any changes to benefits or contribution rates. We will, of course, notify clients of any recommendations we make.

#### New funding policy

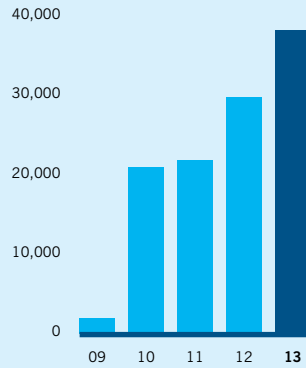
Working closely with the Ministry of Government Services, we have developed a new funding policy for the Plan. This policy, which was formally approved in early 2014, provides a roadmap for sustainability – and will guide future decisions about Plan

## CLIENT PROFILE



- 41,925 Members
- 35,707 Retired Members
- 5,040 Former Members

## WEBSITE VISITS – E-SERVICE LOGINS



## CLIENT INTERACTIONS

	2012	2013
Online retirement applications	128	148
Online requests for buyback quotes	2,210	3,238
Online changes to beneficiary information	1,693	2,051
Online changes to address information	610	881
Members using online retirement planning tool	8,934	10,522
Presentations to members	165	218

funding and design. Adoption of a funding policy is considered a key component of good governance.

### Advocacy and education

At OPB, we believe that the defined benefit pension model is the most efficient and effective way to provide all Canadians with an adequate retirement income. We've taken on a public advocacy role to share our views (links to speaking notes and articles are available on our website). Ultimately, our objective is a retirement system that enables *all* Canadians, in both the private and public sectors, to build an adequate retirement income. We believe that risk-shared defined benefit plans are the best way to achieve that outcome and, if properly structured, would be embraced by private sector employers.

### Cost-effective service

We are committed to providing value-added and cost-effective service. During 2013, we introduced a new service delivery model that enables us to handle daily transactions more efficiently while providing members with more complex advisory services designed to help them make informed decisions about their pension. Our ongoing commitment to continuous improvement has established

OPB as an international industry leader for service excellence. CEM Benchmarking Inc. – a leading pension administration benchmarking firm – has ranked OPB's service third in the world among peer plans for two years running.

We're proud of our track record. We've managed to preserve the pension promise and improve service – all while maintaining benefits and keeping contribution rates affordable. This is a testament to the team of people at OPB. I thank them all for their commitment and dedication.

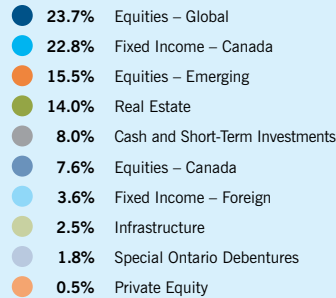
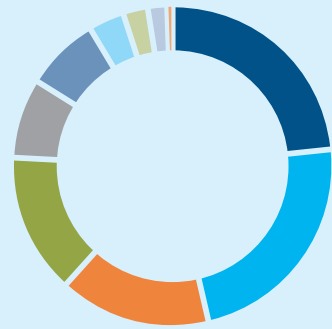
**Mark J. Fuller**  
President & CEO



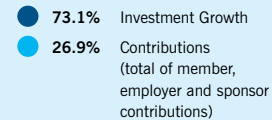
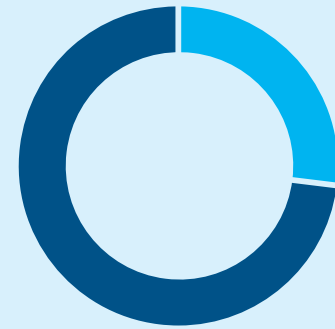
## INVESTMENT & FUNDING HIGHLIGHTS

Thanks to a sound investment strategy and our high-performing Investments team, OPB exceeded both its long-term annual investment return and its Strategic Asset Allocation benchmark in 2013. We finished the year with a return of 12.5% – our second consecutive year of double-digit returns. Our investment success in 2013 added approximately \$550 million in value-added returns versus the benchmark return, leading to a marked improvement in the funded position of the Plan. As of year-end, the Plan is 96% funded – up from 94% a year earlier.

ASSET MIX



PENSION FUNDING SOURCES SINCE 1995



## STRAIGHT TALK: JILL PEPALL, CIO

In just over three years, OPB's Investments team has accomplished a number of noteworthy achievements. In the following interview, Chief Investment Officer (CIO) Jill Pepall talks about those achievements and OPB's successful approach to investing.

(The following is an abridged version of the full interview that appears in the 2013 OPB Annual Report. To read the full interview, access the Annual Report in the "What's new" section of our website at [www.opb.ca](http://www.opb.ca).)

### **OPB generated an investment return of 12.5% in 2013. Did this return meet the Plan's objectives?**

Yes, it was a successful year. We need to achieve an average long-term rate of return of 5.95% to meet our future pension obligations. In 2013, our return exceeded that figure. It also exceeded OPB's Strategic Asset Allocation benchmark by 3.1 percentage points – generating approximately \$550 million in value-added returns and leading to a significant improvement in the funded status of the Plan. A number of factors contributed to this success, including our strategic asset mix, Tactical Asset Allocation strategy, strong returns from specialty and active investment mandates, and the performance of our private markets portfolio.

### **OPB revised its Strategic Asset Allocation (SAA) in late 2011. How is implementation going and what impact has it had on investment returns?**

SAA is used to ensure that our overall asset mix continues to reflect the Plan's long-term funding and cash flow needs. It's also the most important factor in determining total returns and investment risk related to portfolio diversification. The SAA called for an increased investment in private markets. Knowing it would take time to expand our private markets holdings, we allowed five years for implementation of the SAA. During 2013, we made good progress. The SAA is achieving its objectives – improving portfolio diversification, enhancing returns, and generating less volatility.

### **What is Tactical Asset Allocation (TAA) and how does it work?**

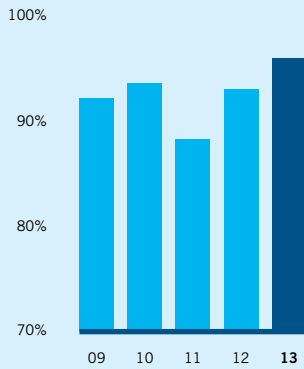
TAA is an asset mix strategy used to increase or decrease OPB's risk exposure at various points in the market cycle by taking advantage

of investment opportunities. The goal of TAA is to preserve capital in volatile markets and enhance risk-adjusted returns by taking smart investment risk in the shorter to medium term.

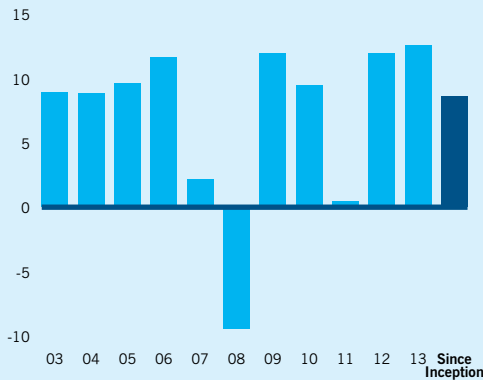
### **OPB's investment strategy is increasingly more complex. What steps is OPB taking to ensure its investment risk management keeps pace?**

Risk management is key to meeting our investment objectives. In addition to implementing TAA, we moved to a new investment risk management approach in 2013. This approach is supported by comprehensive risk analysis and reporting. Investment risk management and measurement will continue to be an area of focus going forward. In 2014, we will be looking to further develop and refine our risk management capability, and integrating it more tightly into our day-to-day investment processes.

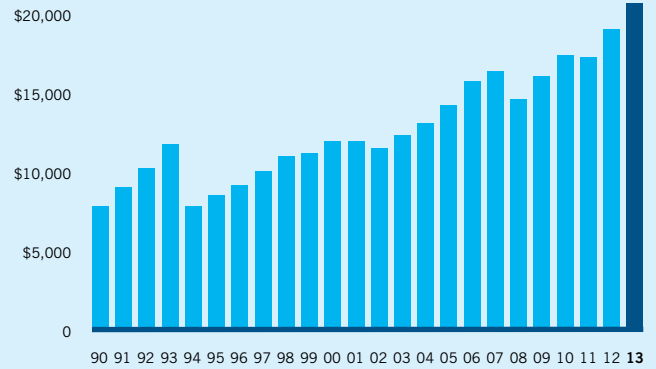
### FUNDED STATUS



### TOTAL RETURNS



### GROWTH OF NET ASSETS



#### **OPB has been increasing its investment in private markets. Why?**

Our SAA calls for an increased investment in private market assets – such as real estate, infrastructure and private equity. Real estate and infrastructure both help insulate the Plan from public market volatility because a larger proportion of their returns are in the form of stable cash flow. They also provide a hedge against inflation. Private equity offers the prospect of higher returns without the volatility of public equities. Because interest rates are starting to edge higher – lowering the returns we can expect from fixed income assets, such as bonds – we believe this is a good time to be re-directing money to private markets.

#### **OPB has a large and growing real estate portfolio. How did it perform in 2013?**

Our real estate portfolio continues to perform well, having achieved double-digit returns in each of the last four years. During 2013, we concluded several key acquisitions, upgraded the quality of the portfolio, and improved portfolio diversification. A key achievement in 2013 was our role in the purchase of Primaris Real Estate Investment Trust.

One of the largest real estate transactions in Canadian history, this deal gave us a 50 per cent ownership in 14 retail properties in five provinces – improving the portfolio's geographic diversity and solidifying our reputation as a respected institutional investor in the process.

#### **What is the investment outlook for 2014?**

Some of the issues and uncertainties that existed in 2013 – such as market volatility and lower-than-expected economic growth in the developed world – will extend into 2014. In addition, 2014 will likely bring some new issues, such as geopolitical uncertainty and valuation concerns for some assets. All these factors are expected to contribute to continued volatility in financial markets. While these factors will be challenging to manage, they are expected to provide investment opportunities.



# Directory of key personnel

## OFFICERS

**Mark J. Fuller**  
President & CEO

**Jill Pepall**  
Executive Vice-President & CIO

**Peter Shena**  
Senior Vice-President, Pensions  
and Stakeholder Relations

**Michel Paradis**  
(as of January 2014)  
Chief Financial Officer

**Valerie Adamo**  
(as of January 2014)  
Senior Vice-President,  
Technology

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

**Brian Whibbs**  
Managing Director, Real Estate

**Glenn Hubert**  
Managing Director, Private Debt

**Anne Catherall**  
Vice-President,  
Corporate Services

**Mila Babic**  
Vice-President, Client Services

**Kevin Clinton**  
Vice-President,  
Legal – Investments

**Sean Macaulay**  
Vice-President, Private Markets

**Tanya Lai**  
Vice-President, Public Markets

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## EFFECTIVE GOVERNANCE

The foundation for OPB's continued success remains a strong, effective governance structure that demands full accountability, effective decision-making, prudent investment management, fiscal responsibility, legal compliance, and smart risk-taking. In short, our governance model ensures that we protect and promote the best interests of the Plan and its beneficiaries – at all times.

Underpinning our governance framework is a series of governance documents that define our organizational structure, establish roles and responsibilities, assign 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

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

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

- the Plan's beneficiaries (i.e., active 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).

### ENTERPRISE RISK MANAGEMENT (ERM)

A key component of good governance is effective risk management. Our ERM program forms the foundation for risk management across our organization. Over the past two years, ERM has been successfully integrated into both our strategic planning process and our operations, enabling us to identify and manage risks related to the fulfillment of our mandate and vision.

The Board is committed to ensuring that OPB continues to meet industry best practices for governance and will make the improvements necessary to stay at the forefront.

