OPTrust

CONTINUING *the* CONVERSATION

2017 FUNDED STATUS REPORT

2017

In this report, we refer to the OPSEU Pension Plan Trust Fund as "OPTrust" or "the Trust" and the OPSEU Pension Plan as "the Plan".

With net assets of over $20 billion, OPTrust invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan with over 92,000 members and retirees.

CONTINUING THE CONVERSATION

OPTrust's mission is paying pensions today, preserving pensions for tomorrow. We keep our members' interests in mind, in everything we do.

Last year, OPTrust started a conversation about "the measure that matters." We renamed the Annual Report the *Funded Status Report* (FSR) because the measure that matters to a pension plan's members is its funded status — the benchmark that directly determines the Plan's ability to pay the expected benefits at the current cost. This year's FSR continues this conversation, keeping the focus on our fully funded status.

From left to right: **Jim Jurens, Diane Walker** and **Raymond Jalea** >

How many billions of people in the world do not have, what we have? What's becoming more obvious, is the importance of receiving a defined benefit pension plan — not only for current members, but for everyone else. My OPTrust pension gives me the financial security to travel and gain the benefits of retirement security.

Jim Jurens
OPTrust Retiree
Ministry of the Attorney General

At the end of each day, I can rest easy knowing I have a secure pension plan. My work in the public service is demanding. Knowing I have a pension is one less thing to worry about. While retirement is still a few years from now, I like knowing that I have that security when the time comes.

Diane Walker
OPTrust Member
Classified Correctional Officer, Toronto South Detention Centre
Ministry of Community Safety and Correctional Services

My work as a civil servant was important and my reputation as a diligent worker was a focus throughout my career. My wife and I saved to ensure our family were provided for, while also passing along the importance of public service to our children. My OPTrust pension is the security we need to continue to provide for our family and to enjoy the benefits of retirement years.

Raymond Jalea
OPTrust Retiree
Ministry of Community Safety and Correctional Services

CONTINUING *the* CONVERSATION

From left to right: **Raja Balaraman, Maria Clara Rendon** and **Paul Lishman** >

No two days are ever the same. It's important for me to actively seek issues before they arise. It's not about putting out fires, it's more about thinking one step ahead. I am proud of the work OPTrust does as an organization to support its members. I come to work each day knowing that we all do our part to contribute — that's what OPTrust's culture is all about.

Raja Balaraman
OPTrust Employee
Senior Technical Support Analyst, Infrastructure & Network Services

Our goal is to see responsible investing completely integrated in our investing practices, and fully aligned with the long-term interests of our members. The world is rapidly changing and the consideration of factors such as climate change, human and labour rights and resource scarcity is increasingly relevant for the sustainability of the financial markets.

Maria Clara Rendon
OPTrust Employee
Analyst, Responsible Investing

With the current challenging investment environment, we need to be in a position to optimize our public market exposures and the best way to do this is by bringing these management capabilities in-house. Internalizing our capital markets investment management allows us to be more capital- and risk-efficient, enhance our market intelligence, better seize market opportunities and dynamically manage risk.

Paul Lishman
OPTrust Employee
Managing Director, Capital Markets Group

2017 Highlights

Fully funded

defined benefit pension plan

Over

92,000

members and retirees

President and CEO received a **CORPaTH Crystal Globe** award, in acknowledgement of OPTrust's ongoing efforts to promote defined benefit pension plans globally

Received a **Member Services satisfaction** score of

9/10

A+

Received A+ for strategy and governance approach to **responsible investing** from the Principles for Responsible Investment (PRI) and scored above the median in a majority of categories

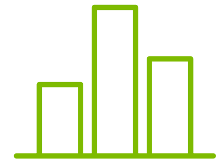
Increased our focus on understanding the **implications of climate change** for the Plan

FUNDING HIGHLIGHTS[1]

At December 31 ($ millions)

	2017 VALUATION	2016 VALUATION
Net assets available for benefits	$ 20,290	$ 19,045
Actuarial smoothing adjustment	(885)	(681)
Present value of future contributions	5,797	5,395
TOTAL ASSETS	25,202	23,759
Present value of future benefits	(24,718)	(23,332)
Provision for future expenses	(350)	(294)
TOTAL LIABILITIES	(25,068)	(23,626)
TOTAL SURPLUS	$ 134	$ 133

1 The differences between funding and financial statement valuations are described on page 24.



Over **$20** billion in net assets

9.5% net investment return

Contributed to a World Bank report and participated in a day-long session on retirement at the Brookings Institution to **continue our advocacy** as pension citizens

Went live with the internalization of our **Member-Driven Investing** strategy

Message from the Chair and Vice-Chair

2017 WAS ANOTHER SUCCESSFUL year for OPTrust. The Plan remains fully funded and its members continue to rate its services very highly. For a member-driven organization like OPTrust, there can be no higher accolade. The organization also completed the internalization of a large portion of its public markets assets as part of its ongoing implementation of its Member-Driven Investing strategy.

Although we are incredibly proud of the results OPTrust consistently produces, we recognize that challenges remain, from the continuing maturation of the Plan to rapid change in the world around us. We must not only pay pensions today, but preserve them for the future. To that end, in 2017, the Board oversaw and approved a new five-year strategic plan for the organization. This strategic plan sets a vision and roadmap that will help OPTrust continue to deliver long-term sustainability for its members with a focus on growth and innovation.

As we work to create a secure retirement for the Plan's members, we also have the opportunity to create better retirement outcomes for everyone. Good pensions are not a nice-to-have. They are essential for a thriving economy and society. And even as the defined benefit model remains the best way to provide secure, predictable income in retirement, many people aren't aware of its advantages.

To foster an ongoing conversation about workplace pensions, OPTrust launched its defined benefit advocacy program, People for Pensions, in 2017. The program has been a tremendous success, engaging the Plan's members in building greater awareness of the value of the defined benefit model. We were delighted to see the program recognized last year with a gold MarCom award. OPTrust's leadership was also recognized when President and CEO Hugh O'Reilly won a CORPaTH Crystal Globe award, in acknowledgement of OPTrust's ongoing efforts to promote defined benefit pension plans globally.

OPTrust will continue to take a leader-ship role in the pension industry, advancing new ideas on topics ranging from the implications of climate change for pension investing to the Canadian pension model, in service of a sustainable, secure future for everyone.

Board Changes

2017 saw the Board bid farewell to its longest serving Trustee, Tony Ross. Tony joined the Board in 2000 and during his time on the Board served as Chair, Vice-Chair and Chair of the Investment Committee. His contributions were instrumental in helping OPTrust become the sophisticated organization it is today and we gratefully acknowledge his service.

This year was also a time of renewal as two new Trustees joined the Board, appointed by the Government of Ontario. Sharon Pel joined the Board in February upon Tony Ross's retirement and Don Wilkinson joined the Board in July, following the departure of Trustee Alan Hibben. We extend a warm welcome to our newest Trustees.

Serving as a Trustee is a significant responsibility and an incredible privilege. In everything the Board does, ensuring the retirement security of our over 92,000 members is always top of mind. We see that same focus on our members and their futures in each person who works at OPTrust. Their dedication is the reason why OPTrust stands out as a plan that others look to for how to get pensions right.

As the organization continues to create long-term sustainability through its new strategic plan, we look forward to continuing the conversation about pensions with our members and our industry.

Vicki Ringelberg
Chair

Tim Hannah
Vice-Chair

Message from the President and CEO

IN 2016, WE STARTED a conversation with our industry, our sponsors and our members about what we thought mattered most as a pension plan. Our answer hasn't changed: the Plan's funded status. It is the foundation on which secure, sustainable retirement futures rest, and when gauging the success of a defined benefit pension plan, it is the measure that matters.

Maintaining a well-funded plan is central to how we operate, and we are proud to report that in 2017, the Plan continues to be fully funded. This is no small accomplishment in an environment where investment returns are increasingly difficult to achieve without taking excess risk. We also continue to deal with the effects of the ongoing maturation of the Plan.

As important as this conversation is, we also believe in backing up our words with action, and throughout the year undertook many activities to advance the ideas we put forward.

A Superior Member Experience

OPTrust exists to serve its members. In 2017, we were honoured to be ranked by CEM Benchmarking as one of the top-ten defined benefit pension plans globally for the quality of service we provide to our members. Even more important, our members continued to give us high marks for satisfaction with our service, rating their overall satisfaction with an average score of 9 out of 10.

We are particularly proud of our results this year as our Member Services team dealt with significant, high volume projects such as the optional enrolment for the post-retirement insured benefits upgrade packages. We also continued our ongoing work to upgrade our pension administration system.

In 2017, OPTrust made a strategic investment in James Evans and Associates (JEA), a leading pension administration services firm and one of our core service providers. This investment strengthens the existing relationship between OPTrust and JEA, and will create the opportunity to bring further innovation and leading-edge pension administration services to our members.

Enhancing our Investment Capabilities

Our Member-Driven Investing (MDI) strategy has a simple idea at its heart: the primary goal of a pension plan must be to maintain its funded status. Above all, members want pension certainty, stability and sustainability. Our job is to balance those goals by achieving sufficient investment returns to support plan sustainability without taking on excess risk that could undermine the stability of contribution and benefit levels. We view risk as a scarce resource that must be carefully allocated. The effectiveness of this approach continues to be validated as we have once again successfully maintained a fully funded plan for our members.

In 2017, we internalized a significant portion of our public markets assets and activities as part of our overall MDI strategy. Our new internal capabilities in these asset classes complement our long-standing internal capabilities and sophistication in private equity, infrastructure and real estate.

By the end of the year our new trading desk had completed over 2,850 trades. Internalization has enhanced our ability to dynamically manage risk in our portfolios.

Promoting New Ideas in our Industry

At OPTrust, acting in the best interests of our members and being good pension citizens are one and the same. One of the best ways to create long-term sustainability is to foster new thinking and industry dialogue that can strengthen all aspects of the defined benefit model. In 2017, we undertook innovative research on climate change in partnership with Mercer, and in so doing, furthered our industry's understanding of the need for investors to better measure, model and mitigate the risks that climate change presents.

We also continued our work to promote and defend defined benefit pensions globally, as we discussed retirement innovation with the Washington D.C.-based Brookings Institution and participated in a World Bank report on the Canadian pension model. Closer to home, we launched a new advocacy and education program, People for Pensions, which has engaged our members in an ongoing conversation about the advantages and importance of the defined benefit pension model.

Facing the Future with a New Strategic Plan

We are proud of the work we have done for more than 20 years on behalf of our members. However, we are not an organization that ever wants to rest on its laurels. Delivering on our mission for our members requires constant improvement and innovation, particularly with the increasing speed of change and disruption. The winning organizations of the future will be those that are flexible enough to adapt to change, and innovative enough to be changemakers.

With that in mind, we developed a new five-year strategic plan in 2017. Its primary aim is to foster growth and sustainability for the Plan and one of the most critical ways we will be able to achieve that goal is through increased innovation.

Hugh O'Reilly
President and CEO

Strategy: Continuing the Conversation

LAST YEAR, OPTRUST INITIATED a conversation about "the measure that matters." We changed the name of the Annual Report to the *Funded Status Report* (FSR) because the measure that matters to a pension plan's members is its funded status — the benchmark that directly determines the Plan's ability to pay the expected benefits at the current cost. This year's FSR continues this conversation, keeping the focus on our fully funded status.

During 2017, we set the stage for both sustaining the Plan and, in fact, growing the Plan. Defined benefit pension plans offer tremendous value as the best way to provide retirement income security. Still, there are a significant number of people who do not have a workplace pension plan or a defined benefit plan, a situation we are trying to address.

OPTrust is seeking growth in the membership of the Plan through mergers with other plans and by offering pension coverage to other workplaces. We are also taking steps to encourage plan membership to contract workers by launching a dedicated campaign to enroll them in the Plan.

Pension Citizens

Over recent years, we have become a more vocal advocate for the defined benefit model as an aspect of our efforts to ensure the long-term sustainability of the Plan. We promote awareness, working with our members, decision makers, the public and those who influence public opinion. We continue to work with a wide network of like-minded advocates. This is how we define our role as pension citizens.

OPTrust is involved in a wide variety of public policy issues, both domestically and abroad, that complement our advocacy. We start, and engage in, conversations about issues that matter in the pension world, to advance thinking about pension interests. Sharing experiences and lessons learned helps others recognize the strength of pensions and benefits members. We engage in public conversation on issues that affect us, either directly or indirectly, through white papers and participation in the public policy process. Successful advocacy prompts decision makers to find ways for more people to enjoy secure retirement income, thereby indirectly strengthening the Plan.

An Innovation Organization

We are facing the future with confidence and momentum. With a goal to become the best pension organization in the world, we are creating a stronger ability to innovate.

The pension industry has not historically been associated with high levels of innovation. Efforts often tend to focus just on investment activities, or the application of new technologies. Innovation truly occurs when it is embedded in systems and in practice.

When making investment decisions about established companies and assets, it is common to examine track records of products and finances to evaluate the merits of an investment. Yet, these are indicators of past success. An innovation mindset — particularly in the context of long-term investing for our plan's members — demands an evaluation of investing in future success and not the past. Successful, innovative investing requires an emphasis on assessing intangibles, such as relationships and skill sets possessed by the people who run different organizations, in addition to underlying traditional fundamentals.

Culture

In order to use innovation to become the best pension organization in the world, OPTrust will continue its cultural development. We will ensure diverse ideas and perspectives are heard and valued. We will emphasize the value of learning and develop, attract and retain a high performing workforce.

We will use data to analyze the potential capacity for employees and the work they are asked to deliver and how they balance regular operations with growth and innovation activities. This data will also help make sure we are making the best use of skills within the organization.

OPTrust Cares, our employee-led charitable giving program, continued into its second year in 2017. Staff chose several campaigns for causes that matter to them, making real differences in the community by making personal donations of both time and money to several charities and causes, including Movember, Mount Sinai Hospital and McMaster Children's Hospital, and the Multiple Sclerosis (MS) Walk.

Prudent Stewardship

OPTrust remains vigilant in its responsibility to members. Our strategy includes prudent stewardship of the assets with which we have been entrusted. Despite considerable volatility, financial markets have been performing relatively well with some consistency over recent years. It is impossible to predict how much longer this trend will continue, if it will continue, or when we will see another severe market and economic downturn. OPTrust took further measures in 2017 to address risk and to protect our fully funded position.

OPTrust is also cost-conscious. When the costs of administering the Plan are reported in a manner consistent with its peers, OPTrust operates the Plan at a cost of 35 basis points, or 0.35 per cent (23 basis points for investment costs and 12 basis points for plan administration). This fiscal prudence extends to all operations including travel and administration.

The measure that matters to a pension plan's members is the funded status — the benchmark that directly determines the Plan's ability to pay the expected benefits at the current cost.

TCFD

CLIMATE CHANGE

Through 2017 we began to build an approach to better understand how a complex issue like climate change impacts the investments we make and the ability to deliver on our mandate.

We work with others across the investment chain to develop solutions. OPTrust supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the global standard to provide investors with the information required to assess the financial impact of climate change. As we endorse the TCFD, we are committed to reporting against the framework ourselves. As more companies disclose and as OPTrust further develops our climate change action plan, we will continue to enhance our disclosure in this report.

The TCFD framework recommends climate change-related disclosure around four thematic areas. This report marks our first response to the TCFD.

Governance

- OPTrust's Board has an oversight role of the Plan's Responsible Investing (RI) program. The Board approves two RI-related policies on an annual basis — the Statement of Responsible Investing Principles and the Proxy Voting Guidelines. The Investment Committee (IC) is responsible for monitoring the implementation of the RI program. The IC receives regular reporting by the Chief Investment Officer (CIO) and RI team on environmental, social and governance (ESG) activities, which includes current climate change-related activities.
- OPTrust's executive leadership has articulated an organization-wide view that climate change poses both risks and opportunities to the Plan. Climate change risks are considered by investment teams where the impacts are understood, with the acknowledgement that specific impacts remain unclear and difficult to quantify in financial terms. Climate-related responsibilities are part of the ESG oversight responsibilities of the RI Committee which is chaired by the CIO and includes representatives from across the organization.

Risk Management

- OPTrust's investment strategy is founded on strong risk management and a risk-conscious culture. Climate change has been identified as a risk we need to better manage, through the same lens used to evaluate other risks to the Plan.
- OPTrust's Board-approved Risk Appetite Statement (RAS) establishes an overarching set of principles that guide our approach to assessing, understanding and taking risk. The RAS was revised in 2017 to incorporate additional risk categories including political, geopolitical and social, all of which may be impacted by climate change through shifts in laws and regulations.
- At this time, there are limits on the availability of data and a lack of appropriate models to measure

climate change-related risks across a large, diversified portfolio and over suitable timeframes.

- OPTrust is developing our approach to assessing and managing climate change-related risks and ensuring opportunities are captured.

Strategy

- OPTrust recognizes the significant implications of climate change and understands that as an institutional, multi-generational investor, these impacts must be considered as part of our investment strategy.
- Responses to climate change are multi-faceted and include government policy, regulation, technological disruption and innovation. In the meantime, we must adapt to changes in the physical environment. These responses and impacts will be felt across the portfolio to varying degrees.
- We undertook innovative research on climate change in partnership with Mercer, and in so doing, furthered our industry's understanding of the need for investors to better measure, model and mitigate the risks that climate change presents. This study involved evaluating the resilience of OPTrust's total portfolio to four potential climate change scenarios, including a 2° scenario which is the goal of the Paris Climate Agreement.
- This project facilitated strategic conversations among our internal teams and drove further conviction as to the importance of developing processes to assess and manage climate risk and its related opportunities — a process that is now underway.
- Engagement is a cornerstone of our RI strategy. We have had an engagement focus on climate change for some time. This engagement includes advocacy, both directly and in collaboration with our peers, with companies, stock exchanges, governments and investment partners focused on enhancing governance and disclosure.
- OPTrust launched an incubation portfolio in 2017, a strategy with an initial focus on investments in emerging growth opportunities and agriculture. This strategy includes companies involved in the development of energy and resource efficiency technologies, building out OPTrust's approach to climate change opportunities, which already encompasses a long history of investing in renewables in private markets.
- In addition to considering climate change implications to our investment portfolio, we are extending our activities to our own operations. OPTrust implemented a program to offset the carbon dioxide (CO_2) emissions from air travel in 2017. The amount of carbon offset was equivalent to the carbon sequestered by approximately 95,000 trees grown in Ontario over the course of one year.
- Our Member Services Division is devising strategies to reduce OPTrust's carbon footprint and achieve offsets in pension administration.

Metrics and Targets

- As the materiality of climate change-related risks is still being assessed, specific metrics and targets have not been developed. OPTrust does report on climate change-related engagement activity within its annual RI Report.
- The assessment we are preparing to undertake in 2018 will support the determination of a baseline measure of OPTrust's portfolio exposure to the critical dimensions of climate change-related risk.

A MULTI-CHANNEL APPROACH TO MEMBER SERVICE

Online communications

Telephone support

Face-to-face interactions

Traditional paper-based communications

Focus on Members

Every interaction with members provides a vivid reminder of whom we serve and why we continue to make a difference in their financial well-being. Whether we're developing sophisticated investment strategies, championing climate change or helping members navigate what can be complex choices, we are fully member-driven. Services to our members are a journey of continuous improvement, refinement and growth.

As a pension plan administrator, we understand pensions but when it comes to defining and calibrating service satisfaction our members take the driver's seat. From retirees to active contributors, our members live in a highly digitized and fast-paced society where dozens of activities and events compete for their attention. We aim to add greater flexibility, choice and efficiency to the ways members interact with us. In 2017, we met in person with both retirees and active members to understand what we can do to improve their experiences with us.

In 2018, we will begin to change the way we communicate with members, both in format and frequency. We will seek out and create new opportunities to connect with active and retired members. We will aim to ensure new members have a deep understanding of how the Plan works and the value it provides. For longer-serving members, we will provide information that demonstrates the security of their retirement income.

Computer systems will also play a major role in delivering a superior member experience. We will continue to enhance our systems and the tools members use to interact with us — including mobile devices — gradually, to ease the transition.

Plan Funding

Sustainability
The Plan is fully funded and on solid footing. However, the Plan continues to face unprecedented challenges. Interest rates are at historic lows, markets have shown a tendency to become volatile quickly, even if they seemed relatively stable in the past, the Plan is becoming increasingly mature and reforms of social security pensions and the defined benefit funding regimes are underway. In these circumstances, the Plan's sustainability and growth continue to be primary objectives.

The key drivers that impact plan sustainability are:

- **Investment Environment** — The combination of low interest rates and the potential for high volatility presents a challenge as it becomes increasingly difficult to maintain the Plan in balance without changes to contribution rates or benefit levels.
- **Plan Maturity** — OPTrust is experiencing an ongoing decline in the active to inactive membership ratio which inhibits the Plan's ability to withstand risk and address potential funding shortfalls.
- **Discount Rate for Funding Valuation** — The low interest rate environment will continue to drive the discount rate assumption downward. The lower the discount rate the higher the pension obligations.
- **Longevity Risk** — It is expected that great advancements in medical research and technology along with improvements in public health education will continue to contribute to an increase in overall life expectancy, which in turn increases the Plan's pension obligations.

The development of the Member-Driven Investing (MDI) strategy was a deliberate response to the sustainability challenges that impact the Plan. MDI aligns the investment activities with members' interests — it seeks to keep the Plan in balance at all times to protect its funded status. MDI allows the Plan to take calculated risk to generate sufficient returns, but not excessive risk that would jeopardize the stability of contributions and benefits.

OPTrust continues to address the Plan sustainability issue with our discount rate strategy. The Board of Trustees has approved a funding corridor approach for setting the discount rate — decrease the discount rate when there is positive experience and consider increasing it during challenging times. This funding corridor reduces the likelihood of surpluses or deficits. Surpluses must be protected until there is a significant probability that they will not be temporary.

Funding Policy

Keeping the Plan fully funded over the long term begins with a thoughtful, prudent approach to plan funding. Sustainability matters. Members want to know they can count on their pension to be there when they retire. However, the need for sustainability before retirement also exists. We seek to enhance the likelihood that our members' contribution rates and benefit levels will not fluctuate significantly throughout their working lives.

Whether we're developing sophisticated investment strategies, championing climate change or helping members navigate what can be complex choices, we are fully member-driven.

Our funding policy has three goals which we seek to balance: benefit security, contribution rate stability and intergenerational equity. Of these goals, the security of accrued benefits is primary. It is essential we keep our commitment to members that they will receive the benefit for which they paid.

The pension commitment is long term, spanning many decades. In keeping with that time horizon, short-term market events, whether positive or negative, should not motivate contribution rate changes. Instead, contribution rates should change when economic and/or demographic conditions change the expected cost of the benefit over the long term.

Intergenerational equity means that every generation of members will pay a fair amount for the benefits they receive — not that every generation should pay the same contributions for the same benefits. Economies, member demographics and behaviours change over time, as well as our tolerance for risk. Instead, we seek to provide intergenerational equity through the continued sustainability of the Plan.

MEETING OUR FUNDING GOALS

OPTrust uses various methods and assumptions to meet funding objectives.

- **Margin of conservatism** — To reduce the risk of funding shortfalls, we build a margin of conservatism into the investment return expectation to set the discount rate assumption used for funding purposes.
- **Actuarial assumptions** — To calculate our long-term funding requirements, a set of key economic and demographic assumptions are used. These assumptions reflect OPTrust's best estimate of long-term expected experience, based on the advice of the Plan's actuary. The assumptions are reviewed annually and incorporate the results of regular experience studies.
- **Actuarial smoothing** — This technique is used to recognize each year's investment gains or losses, relative to our discount rate, over a five-year period. Doing so reduces the short-term impact of volatile investment returns on the Plan's funded status and helps maintain relatively stable contribution rates.

LOOKING FORWARD

OPTrust's mission is paying pensions today, preserving pensions for tomorrow. That means everything we do is performed with our members' interests in mind. As we move forward into 2018, we will be implementing our new five-year strategic plan. This plan was developed internally, with input from employees across the organization.

The strategic plan's primary pillar is sustainability and growth.

Supporting pillars are:

Influence

Innovation

Culture

Capacity

Pension Funding

2017 Funding Valuation

OPTrust engages independent actuaries to perform regular valuations of the Plan to ensure there are sufficient assets to meet the projected cost of members' and retirees' lifetime pensions. These valuations provide a snapshot of the Plan's financial position and ability to meet its pension obligations, while providing a review of gains and losses experienced since the last valuation.

The Plan's 2017 funding valuation showed it remained fully funded as of December 31, 2017. The funding valuation also confirmed deferred (or "smoothed") investment gains of $885 million, which will be recognized over the next four years and should further improve the Plan's funded status in years to come.

Consistent with our approach over the past few years, the Plan's real discount rate for the 2017 funding valuation was reduced to 3.30%, net of inflation, down from 3.40% in 2016 to further improve its long-term sustainability. This economic assumption change was approved by the Board of Trustees and better reflects the expectation of lower long-term investment returns and reduces the risk of future losses due to investment returns falling short of the expected cost of members' and retirees' future pensions. The effect of this change increased the total fund liabilities by $363 million, strengthening the Plan's long-term sustainability.

During 2017, an experience study was conducted to review the Plan's demographic assumptions. Based on the results of the study and expectations of future trends, several of the demographic assumptions have been updated including retirement and termination rates. The retirement rates have been updated to reflect the higher likelihood of a member retiring when they first qualify for an unreduced pension and to reflect the possibility of retirement after age 65.

Also during 2017, the assumption for future life expectancy of plan members and retirees was strengthened. In September 2017, the Canadian Institute of Actuaries (CIA) released a Mortality Improvement Report and a new mortality improvement scale, that reflects longer-life expectancies.

While we acknowledge that long-term mortality improvement rates are highly uncertain, the Board of Trustees adopted a conservative approach by accepting the new CIA mortality improvement scale, improving the Plan's sustainability.

The net effect of all the demographic assumption changes increased the total fund liabilities by $196 million.

In 2018, the Plan will file its December 31, 2017, funding valuation with the regulator showing that it is fully funded.

Funding Outlook

The Plan's continued fully funded status is the result of an ongoing strategy to improve its long-term sustainability and prudent decisions by its sponsors.

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

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

In 2017, some of these factors included:

- The increase in life expectancy, increasing retirement years and the value of the Plan's long-term pension obligations.
- The long-term decline in the ratio of OPTrust's active members to retirees, which reduces the Plan's ability to address funding shortfalls through increased contribution rates, if required.
- Low bond yields and investors' search for alternative sources for returns, which has sharply increased investment risk over the past several years.

These risks are partly offset by recent developments, including:

- OPTrust's continued prudent and rigorous setting of the Plan's actuarial assumptions.
- OPTrust's review of our investment philosophies to better match its assets with its liabilities as part of our Member-Driven Investing (MDI) strategy.
- The Plan's deferred investment gains of $885 million at the end of 2017, which should improve its funded status over the next four years as these gains are recognized.

FUNDING VALUATION ASSUMPTIONS

	2017 VALUATION	2016 VALUATION
Inflation rate	2.00%	2.00%
Investment return (real)	3.30%	3.40%
Investment return (nominal)	5.30%	5.40%
Salary increases 2017 (nominal)[1]	N/A	1.40%
Salary increases 2018 (nominal)[1]	1.50%	2.75%
Salary increases after 2018 (nominal)[1]	2.75%	2.75%

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

In 2017, OPTrust staff provided the Trustees and the Plan's sponsors with information and technical advice on these and other factors that might challenge the Plan's funding over the next several years. OPTrust's Board and staff will continue to work closely with the sponsors to address these challenges, propose solutions and support the long-term sustainability of the Plan.

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

SENSITIVITY TO ACTUARIAL ASSUMPTION CHANGES

($ millions)

	+0.50%	-0.50%
Impact of change in inflation linked assumptions[1]	174	(179)
Impact of change in funding discount rate assumption[2]	1,720	(1,991)
Impact of change in assumed increase in salaries	(535)	475

1 Assumes equivalent change in economic assumptions that are dependent on inflation.

2 Assumes all other assumptions remain unchanged.

FINANCIAL STATEMENT AND FUNDING VALUATIONS

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

Actuarial Funding Valuations

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

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

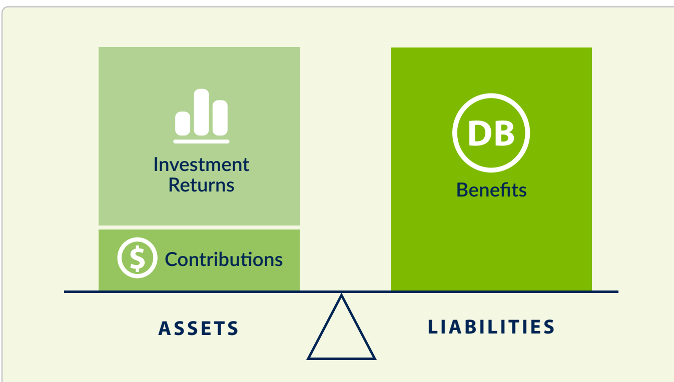
Ontario regulations require an actuarial funding valuation to be filed with provincial authorities at least once every three years. Please see note 6 to the financial statements on page 74 for further discussion.

Financial Statement Valuations

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

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

Investment Strategy and Performance



Member-Driven Investing (MDI) Strategy

OPTrust's mission is paying pensions today, preserving pensions for tomorrow. We are a pension management organization. Our members depend on us to provide secure, predictable income in retirement. As such, how we think about investing and how we manage our plan align with our members' interests.

We strive to keep the Plan in balance at all times to protect pension certainty. Benefits are on one side, balanced by contributions and investment returns on the other.

To achieve our primary goal of pension certainty, we need to strike the appropriate balance between two objectives:

- **Sustainability** — Generating sufficient returns to keep the Plan fully funded.
- **Stability** — Keeping contributions and benefits as stable as possible over time.

However, there are two primary challenges facing these objectives:

- **Demographics** — Aging membership limits our ability to take on investment risk.
- **Low expected returns** — Low interest rates and high valuations make earning investment returns more challenging.

In this challenging investment environment, we are committed to protecting our funded status and avoiding undue risk. As such, we continue to execute on our Member-Driven Investing (MDI) strategy.

Implementation Progress and Key Accomplishments

Progress has been made to advance the MDI strategy. Our total fund portfolio now has a more balanced risk-factor exposure and is less reliant on equities as the key driver of returns. This is aligned with the first pillar of our MDI strategy to build a balanced portfolio that harvests a diversified set of risk premia providing resilience in different market environments.

FULLY FUNDED — 2017: RISKS BUILD BENEATH A CALM SURFACE

Synchronized pick up in real economic activity globally

Risky assets, such as equities, were broadly supported this year by a constructive growth backdrop, with all regions of the global economy participating in the cyclical upturn.

Central bank coordination

Central banks remain coordinated with respect to their policy stances. Despite a tightening bias in monetary policy, liquidity remains ample within the financial markets, helping to support asset valuations.

Low volatility and strong equity bull market

Equity markets have continued to move higher on the back of extremely low levels of volatility, driven in turn by economic optimism and stable financial conditions. Risky asset valuations are at or near cycle highs.

Geopolitical risks centred on vulnerable global trade architecture

Rising populism and brewing geo-political risks around the world are challenging a multi-decade consensus around globalization.

Two key milestones were achieved in 2017:

- MDI Internalization
- Operationalizing the Total Portfolio Overlay Committee (TPOC)

These are key enablers of the MDI strategy that focus on dynamic risk management. Internalizing a material portion of our public market assets moves us closer to the market and increases our agility in responding to changing market conditions. TPOC leverages the capabilities of our internal trading teams to manage the risks of the total fund portfolio on a dynamic basis and in a cost-effective way.

In addition, we continue to broaden and deepen our strategic relationships within our liquid strategies portfolio. We are realigning our external manager program by considering their value as a strategic partner and their ability to complement our internal capabilities.

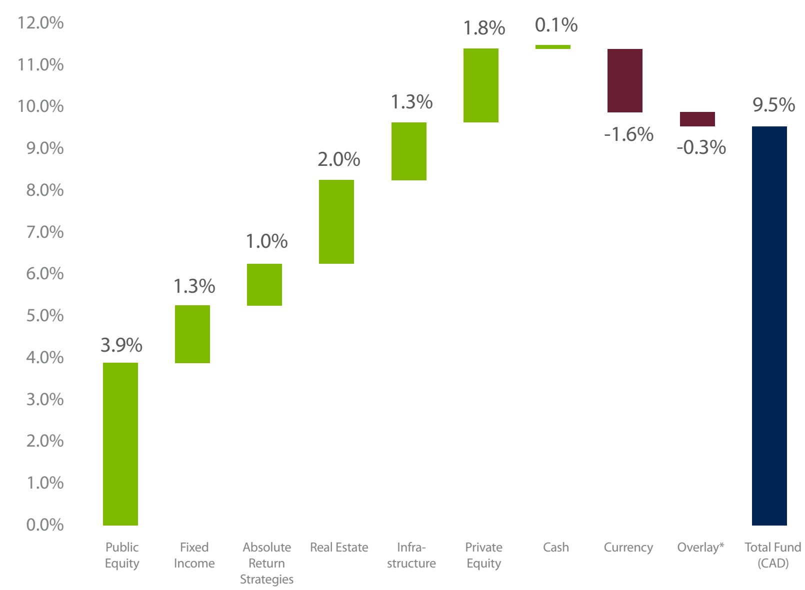
Within illiquid strategies, we continue to exercise discipline in capital deployment, looking for opportunities where there is less competition, scope for operational improvement and tailwinds for continued organic growth. Our pipelines are active as we engage with our strong network of partners and we look for opportunistic exits where valuations are attractive.

Looking Forward: Despite what seems to be unbridled optimism in equity markets in 2017, we remain cautious due to elevated valuations and less accommodative monetary policy. Equities, like all risky asset classes, are being supported by an abundance of liquidity and cyclical upturn in global growth. As we are late in the economic cycle, the tightening monetary policy environment raises the potential for policy error. We remain concerned that markets will have difficulty absorbing the next significant shock when it does arrive.

We continue to focus on building a resilient portfolio that harvests a diversified set of risk premia in different economic environments. Our goal is to increase pension certainty, not earn out-sized returns by taking excessive risk.

TOTAL FUND INVESTMENT PERFORMANCE

(Contribution-to-Total Return) At December 31, 2017



	Public Equity	Fixed Income	Absolute Return Strategies	Real Estate	Infra-structure	Private Equity	Cash	Currency	Overlay*	Total Fund (CAD)
Local Return	22.9%	4.6%	5.0%	14.7%	11.0%	21.6%	1.3%	-1.6%	-0.3%	9.5%
Net Weight	14.7%	31.1%	22.6%	13.9%	10.5%	9.4%	-2.2%			

*Includes risk management overlay strategies implemented through TPOC.

We strive to keep the Plan in balance at all times to protect pension certainty.

PUBLIC EQUITIES

Our public equity exposure is designed to generate returns, provide diversification and act as a potential source of liquidity. Public equity was the top performing asset class in 2017, benefiting from economic growth momentum and an abundance of liquidity. The current period of strength has shown impressive breadth with all regions of the global economy participating in the cyclical upturn. Emerging market equities performed particularly well in 2017.

Overall, the public equity portfolio generated a strong net return of 22.9% in 2017, primarily benefitting from an overweight to emerging market equities.

Looking Forward: We continue to look for ways to improve the risk profile and liquidity efficiency of our public equity portfolio. Our public equity exposure will adjust to the needs of the total fund to make it more aligned with our desire for improved diversification and uncorrelated value-add. We are working closely with a leading academic institution on this initiative. Over time, we anticipate generating our public equity returns through a variety of structures, including fund investments, exchange traded funds (ETFs) and derivatives.

FIXED INCOME

Our fixed income portfolio serves as the main source of liquidity and the primary liability-hedging asset. In addition, fixed income provides diversification benefits, especially in a deflationary environment.

Long-term interest rates in both Canada and the U.S. closed 2017 largely where they began early in the year. However, the yield curve flattened as the market began to price in the tightening monetary policy put in place by central banks. This caused the short-term yields to rise relative to long-term yields.

Our fixed income holdings generated a net return of 4.6% in 2017. The portfolio has a long duration to match our long-dated liabilities. The returns were largely generated from the coupons in an otherwise sideways environment for bond prices.

Looking Forward: Fixed income will continue to play an important role within the total fund. We would consider increasing exposure if yields reach more attractive levels in the future, as bonds are a unique asset class that allows us to mitigate funded status risk while also earning a risk premium.

ABSOLUTE RETURN STRATEGIES

Asset returns are composed of a risk-free rate and risk premia. Absolute return strategies allow us to access a wide variety of risk premia in a diversified manner, consistent with our goals of building a more resilient portfolio. In this way, they aim to produce consistent returns across market regimes, whether they are rising, flat or falling. These strategies are less constrained than those used by traditional managers who generally employ a "buy and hold" strategy. Because of these attractive features, we are looking to deploy additional capital to absolute return strategies going forward.

Our absolute return strategies portfolio is transitioning to better align with our

MDI objectives. In 2017, we funded key strategic partners, while consolidating the current portfolio of managers.

Overall, the absolute return strategies portfolio generated a net return of 5.0% in 2017. This is consistent with our expectations that these strategies should deliver equity-like returns over the long term but at a lower level of risk. We note that absolute return strategies are expected to be uncorrelated to the rest of our portfolio and generally underperform equities in a strong bull market. We expect their attributes will benefit the total fund portfolio over time, especially when volatility returns to the equity market.

Looking Forward: In 2018, we will continue to rebalance our total fund portfolio towards a more balanced set of risk-factor exposures. Increased exposure to absolute return strategies will help during heightened market volatility and a challenging macro-economic environment. We expect to grow this part of our portfolio over time both through external partners and internal capital markets programs.

REAL ESTATE

The real estate portfolio provides predictable income and generates attractive risk-adjusted returns, helping to fund the Plan's pension obligations and lowering funded status volatility. Real estate is also an important diversifier and a hedge against inflation over the long term.

A strengthening global economy, buoyant capital markets and the rising demand for real estate investments have led to elevated levels of transactions and continued high pricing for properties. Supporting these dynamics, supply and demand fundamentals are balanced in most markets and the premium for investing in real estate over government bonds remains attractive.

2017 was a year of active investment activity, with the Real Estate Group committing to six new investments totalling $308 million. All new investments were sourced through existing partners, reflecting our ability to access compelling investment opportunities through the strength and depth of OPTrust's network of trusted partner relationships. However, new commitments were more than fully offset by over $500 million of selective realizations in 2017. The real estate portfolio generated a net return of 14.7%.

Looking Forward: OPTrust will continue to seek investment opportunities that can improve the quality and functionality of our real estate portfolio and deliver stable and attractive returns. We will also look to increase the internally managed portion of the portfolio.

INFRASTRUCTURE

Infrastructure investments add diversification and act as a partial inflation hedge for the total fund. They also provide potential for long-term growth.

In an environment of low interest rates, readily available access to attractive debt financing and steadily rising institutional allocations to infrastructure, valuations for assets remain elevated. This environment created good selling opportunities in the portfolio. In 2017, we committed to three new investments totalling $285 million. The infrastructure portfolio generated a net return of 11.0% in 2017.

Looking Forward: We are well positioned to exploit a number of attractive, smaller scale opportunities within this market segment. Our infrastructure investment strategy continues to be predicated on us being a flexible and partnership-driven investor. We look for opportunities that require some degree of creativity in deal execution, as we have the ability to structure the transactions to provide both downside protection and upside potential.

PRIVATE EQUITY

Private equity is expected to generate higher returns than public equity over the long term while providing a smoother volatility profile. The overall private equity market remained competitive during 2017. While deal flow declined somewhat from previous highs, capital remains abundant and financing readily available. High valuations continue to present challenges in finding assets with attractive risk-adjusted returns, which highlights the importance of remaining disciplined in capital deployment.

In 2017, we committed to four new investments totalling $214 million and funded growth initiatives in four of our portfolio companies with follow-on investments. We also capitalized on the buoyant market conditions by selling minority ownership stakes in portfolio companies, but retained some exposure for further upside potential. Where appropriate, we also generated liquidity through dividends and other distributions via debt refinancing. The private equity portfolio generated a net return of 21.6% for the year.

Looking Forward: We will continue to observe the private equity market trends and seek investment opportunities that provide attractive risk-adjusted returns — segmented by strategy and capital structure (e.g. private debt, long-term equity opportunities, traditional growth capital and buyout strategies). We will continue to actively source transactions within our private equity portfolio with a bias toward more co-investments and direct investments.

CURRENCY

Fluctuations in exchange rates have the potential to significantly impact the volatility of a global investment portfolio. As such, our MDI strategy supports maintaining hedges on most of our foreign currency exposure. However, some foreign currency exposure, particularly in those currencies that tend to act as a safe haven in times of market stress, can act as a meaningful source of diversification.

In 2017, we saw a strong rally in the Canadian dollar relative to the U.S. dollar, due to a divergence in interest rate expectations between Canada and the U.S. Our unhedged currency exposure, which is mostly in U.S. dollars, resulted in a drag on performance of -1.6%. Foreign currency, by its nature, can be very volatile and we note that currency exposure added 3.8% to returns in 2015 and detracted 0.7% from returns in 2016.

Looking Forward: We will continue to dynamically manage our unhedged currency exposure, limiting the potential for foreign currency to negatively impact the Plan's funded status.

INCUBATION PORTFOLIO

We introduced an incubation portfolio in 2017 to house investment ideas and strategies that do not otherwise meet the definition of an existing asset class or portfolio. The primary objective is to generate attractive risk-adjusted returns, further diversify our sources of risk premia, identify areas where we might have an edge in terms of alpha generation and increase exposure to new ideas. We made our first forays in the portfolio into the venture capital, emerging growth and the insurance-linked securities space.

Looking Forward: Innovation is the central theme of our strategic plan. The incubation portfolio is one mechanism that allows us to test innovative strategies and ideas while also managing risk. We will continue to explore strategies that have the potential to improve our overall portfolio construction.

2017 Risk Mitigation Strategy

Our total fund portfolio contains exposures to certain strategies that can serve as a hedge in the event of a severe market decline. These strategies provide cost-effective insurance for the portfolio. Government bonds (particularly U.S. Treasuries) and U.S. dollars are good examples because they tend to serve as safe havens during times of crisis.

In the fall of 2017, the TPOC implemented a specific risk mitigation strategy to protect the total fund portfolio from a severe equity drawdown through the purchase of a put option. It was determined that the low cost of put options presented us with a good opportunity to reduce total fund risks for 2017. This strategy was implemented by our Capital Markets Group in a timely and cost-effective way.

Alignment — description of total fund performance metrics

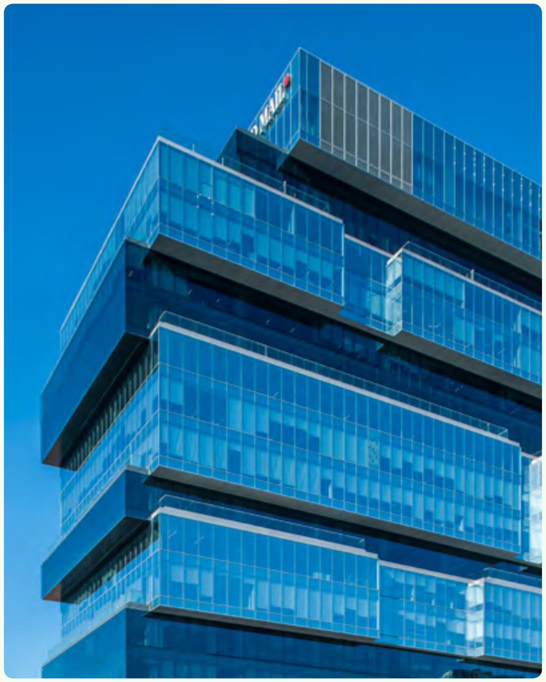
Our MDI strategy includes three performance metrics to measure our strategy and actions, all of which are aligned to the funded status of the Plan:

- Sustainability
- Risk efficiency
- Surplus preservation

Each of these metrics plays a complementary role, looking at a different dimension of the strategy while considering the investment horizon. Every action related to an investment is rigorously monitored and measured to ensure accountability to members.

351 KING STREET EAST

In September 2013, OPTrust acquired a 50% interest in an office development located at 351 King Street East, Toronto, in partnership with First Gulf Corporation. Construction of the Globe and Mail Centre, a state-of-the-art 17-storey, 537,000 square foot office building, was completed in May 2017. The office space is 100% leased to five tenants, including The Globe and Mail, Loyalty One and the Yellow Pages Group. Leases have also been executed for the majority of the ground floor retail space, offering amenities to the building and its tenants, as well as the local community. Consistent with OPTrust's objective of investing in modern, functional properties, and our responsible investing principles, the partners are pursuing a LEED (Leadership in Energy and Environmental Design) Gold certification for 351 King Street East. This modern office project, located in the east periphery of Toronto's downtown core, complements OPTrust's real estate portfolio and will provide stable and attractive returns.



RESPONSIBLE INVESTING PROGRAM APPROACH

RESPONSIBLE INVESTING

Our responsible investing program recognizes that environmental, social and governance (ESG) factors, one of which is climate change, can impact investment risk and return as well as our reputation. We have incorporated this recognition into OPTrust's investment beliefs, policies and strategy.

As part of our responsible investing program, OPTrust commits to the integration of material ESG factors into our investment decision-making processes and ownership practices. This approach reflects our fiduciary duty to the Plan's members and is aligned with the Principles for Responsible Investment (PRI), to which the Plan is a signatory. Our investment groups seek to identify, assess and manage ESG risks and opportunities in a manner that supports both our mission and mandate, and are held accountable for doing so.

RESPONSIBLE INVESTING ACTIVITIES IN 2017

Divested from publicly traded tobacco companies.

Received A+ for strategy and governance approach to responsible investing from the Principles for Responsible Investment (PRI).

Voted at 2,794 company meetings around the globe.

Engaged 576 companies on issues such as human and labour rights, climate change, access to medicine, waste reduction, and board effectiveness.

Released *Climate Change: Delivering on Disclosure* position paper advocating for standardized measures for disclosure.

Assessed our exposure to climate change risk and solutions across the fund.

Canadian Coalition for Good Governance

OPTrust President and CEO elected to the Board of Directors of the Canadian Coalition for Good Governance (CCGG) — a leader in advocating for best practices in corporate governance.

Joined the Sustainable Stock Exchanges Initiative and the Workforce Disclosure Initiative.

Furthered our commitment to increasing gender diversity in corporate boardrooms and executive teams at our investee companies as a member of the 30% Club Canada.

Serving Members

SERVICES WE PROVIDE

- In-person and telephone counselling
- Secure online transactions and secure messaging
- Webinars and group Pension Information Sessions
- Purchases of leaves and past service
- Transfers into and out of the Plan
- Termination of membership options and payments
- Spousal separation quotes and payments
- Pension payments
- Survivor benefit options and payments
- Statutory reporting

Exploration. Innovation. Change.

Our members and OPTrust are facing rapid change and our desire is to be the best in the world. We will do this through exploration, innovation and continuous improvement to keep pace with the changes facing our members. We are privileged to serve our members and want to find even better ways to make the journey to retirement and retirement itself worry-free. We aim to make every interaction with our members remarkable and in 2017 we made major inroads toward that end.

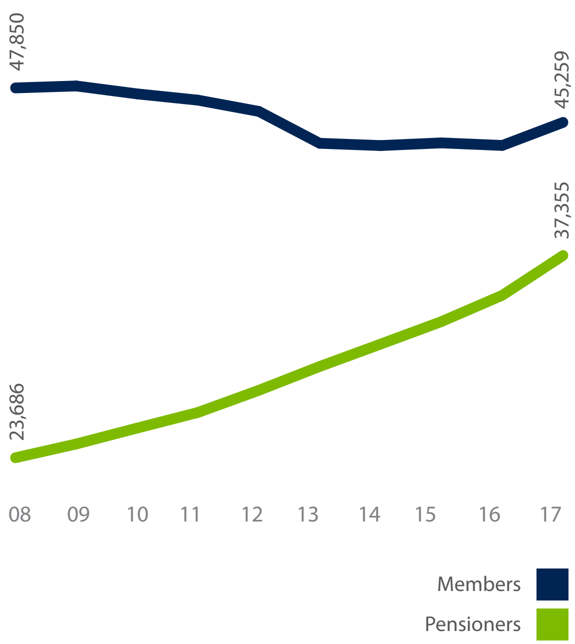
Through our very successful member-direct approach, we were ranked among the top-ten defined benefit pension plans globally, with a service score of 87 out of 100 from CEM Benchmarking Inc., an independent global benchmarking group. At the same time, our members gave us a solid 9 out of 10 as a measure of their satisfaction with the services we provide; rating us on knowledge, dependability, accuracy, courtesy and timeliness.

Delivering Remarkable Service

In 2017, we continued to improve on delivering *Annual Pension Statements* to members well ahead of the June 30th legislated deadline, adding more relevance to the information we provide. In addition, we delivered just under 37,000 newly legislated *Retired Member Statements* to retirees and had an opportunity to update spousal and beneficiary information for those retirees whose information had changed. For active members, we delivered on a wide range of services like pension information sessions, one-on-one counselling for members who visited our offices, webinars, telephone counselling on complex topics like withholding taxes, commuted values, actuarial buybacks and much more. In 2017, we handled higher-than-normal pension transaction volumes. In addition, changes to the government's post-retirement insured benefits created a large increase in call volumes.

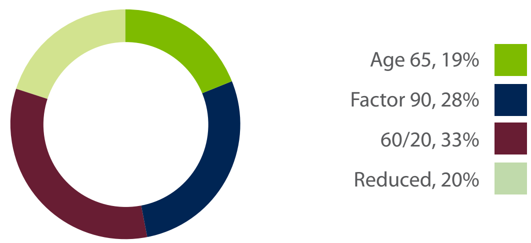
OPTRUST'S ACTIVE MEMBERS AND PENSIONERS

At December 31



In 2017, OPTrust's active membership increased by 1,684 to 45,259 at year-end, while the number of pensioners increased by 946 to 37,355 at year-end, net of deaths. Deferred members are accounted for separately.

2017 RETIREMENT SNAPSHOT



In 2017, 946 OPTrust members retired under one of the following options bringing the total number of pensioners to 37,355 by year-end:

Age 65: The normal retirement age under the Plan

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

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

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

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

CONNECTING WITH OUR EMPLOYERS

For any defined benefit pension plan, reliable service, earnings and contribution data are critical for ensuring entitlements, calculations and contribution funding are accurate. As such we partner with our participating employers to ensure our systems and processes are well aligned. In 2017, we met regularly with our employers, usually at their offices, in addition to hosting well-attended employer sessions and launching employer webinars. Data quality has never been higher and we expect continued improvements into 2018 as we continue to work closely with our employer partners.

2017 HIGHLIGHTS

Top 10
CEM global defined benefit service ranking

9/10
average member satisfaction score

Over $1B
total pension benefits paid

93%
satisfaction rate in information sessions

49
pension information sessions in different cities and towns

1,235
in-person counselling sessions

46,604
member requests received and processed

86%
of member requests processed within service standards

62,119
telephone counselling events

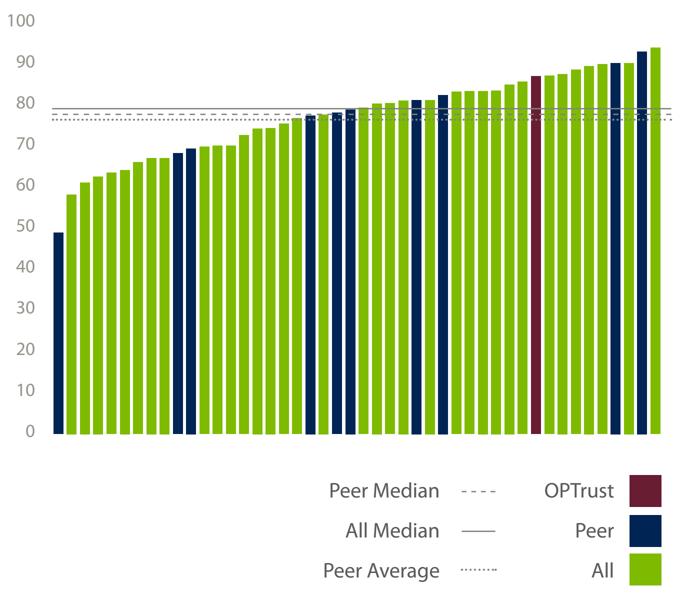
20 seconds
response time (calls handled)

54,535
online transactions

244,682
email notices (reporting and informational items)

55%
first-contact resolution

TOTAL SERVICE SCORE VS. EXTERNAL BENCHMARKS



OPTrust's total service score was 87 out of 100 in the most recent survey of leading defined benefit pension plans by CEM Benchmarking Inc. Our score exceeded both the median score for our peer group of 11 Canadian plans, and the average score of the 46 plans included in the survey.

SERVICE SCORES BY ACTIVITY

Activity	Weight	OPTrust	Peer Median
1. Member Transactions			
a. Pension payments	19.7%	**100**	100
b. Pension inceptions	7.4%	**98**	94
c. Refunds, withdrawals and transfers-out	1.3%	**60**	55
d. Purchases and transfers-in	3.1%	**62**	66
e. Disability	3.8%	**91**	95
2. Member Communication			
a. Call centre	21.2%	**85**	67
b. One-on-one counselling	7.4%	**97**	82
c. Presentations and group counselling	6.5%	**91**	88
d. Written pension estimates	4.7%	**75**	83
e. Mass communication			
• Website	11.3%	**71**	72
• News and targeted communication	2.8%	**82**	82
• Member statements	4.7%	**83**	77
3. Other			
Satisfaction surveying	5.0%	**73**	47
Disaster recovery	1.0%	**97**	100
Weighted Total Service Score	100.0%	**87**	78

Benchmarking Our Work

We benchmark our work against other defined benefit pension plans to better understand how our response times and overall services stack up against other organizations doing similar work. While plan administrators conduct business differently we have found many opportunities to share our approaches and learn from others, while collaborating to improve the retirement system across Canada and globally, for the benefit of members.

MEMBERSHIP STATISTICS

At December 31	**2017**	2016	2015	2014	2013
Active members	**45,259**	43,575	43,835	44,008	43,827
Average age	**44.9**	45.1	46.1	46.3	46.5
Average salary	**$ 63,887**	$ 62,121	$ 62,488	$ 62,417	$ 62,391
Number of new members enrolled	**5,210**	4,567	4,271	4,170	3,453
Number of members terminated or retiring	**3,526**	4,827	4,444	3,989	3,607
Former members with entitlements in the Plan*	**1,399**	1,500	1,237	1,735	1,471
Deferred pensioners**	**8,386**	8,058	8,198	8,524	8,744
Current pensioners	**37,355**	36,409	33,721	31,946	30,426
Average age	**70.9**	70.3	70.2	69.8	69.3
Average annual pension	**$ 21,426**	$ 21,321	$ 20,868	$ 20,519	$ 20,351
Total members and pensioners	**92,399**	89,542	86,991	86,213	84,468

* Former members with entitlements in the Plan includes members whose termination or divestment was unprocessed at year-end.

** Deferred pensioners include former members whose termination or divestment has been processed and who continue to have entitlements in the Plan.

Governance and Accountability

OPTRUST WAS ESTABLISHED in 1995 to give members a voice in key decisions affecting their pensions through a joint sponsorship model that recognizes the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario as equal sponsors of the Plan. The Plan is currently registered as a "jointly sponsored pension plan" under the *Pension Benefits Act* (Ontario) (PBA). The roles and responsibilities of the Plan's sponsors and its Board of Trustees are defined in the Plan's governing documents. These documents also provide the Board with the authority required to ensure OPTrust can deliver retirement security to its members, pensioners and their dependents.

Plan Sponsors

OPSEU and the Government of Ontario each appoint five Trustees to OPTrust's 10-member Board. The sponsors are responsible for plan design, including the benefits provided under the Plan and the contribution rates paid by members and their employers.

Board of Trustees

As the legal plan administrator, the Board has overall responsibility for the administration of the Plan and management and investment of the assets. In accordance with the Plan's governing documents, established trust principles, and the governance practices of jointly sponsored pension plans, the Board has delegated responsibility for managing the affairs of OPTrust to the President and CEO, subject to certain strategic and oversight matters for which the Board has retained responsibility.

The Board has established four standing committees: the Governance and Administration Committee, the Audit, Finance and Risk Committee, the Investment Committee, and the Human Resources and Compensation Committee. The standing committees operate under terms of reference, and report to the Board on matters which fall within their mandate. From time to time, the Board establishes ad hoc committees to work on special projects.

OPTrust was established in 1995 to give members a voice in key decisions affecting their pensions.

The Board retains its own advisors to assist with its oversight and monitoring responsibilities and is supported by the Office of the Corporate Secretary.

In 2017, the Board oversaw the strategic planning process which culminated with the adoption of a new five-year strategic plan in October. As well, the Board continued to closely monitor the progress of the two major strategic initiatives that had been approved in 2016: the phased update and optimization of the pension administration system and the internalization of a portion of OPTrust's public market assets as part of the Member-Driven Investing (MDI) strategy.

Also in 2017, as part of its ongoing commitment to improving OPTrust's governance system, the Board participated in a board effectiveness session led by U.K. governance expert Gordon L. Clark. Following the session, an ad hoc committee led by the Board Chair and Vice-Chair was struck to implement the Board's goal of enhancing the strategic governance model it had adopted in 2014. Under the revised system, the Board assumes primary responsibility for carriage of matters of strategic importance to OPTrust and delegates its oversight responsibilities to the standing committees. Board policies reflecting the revised approach were approved in October.

Management

The CEO is responsible for operationalizing the strategic direction approved by the Board and for managing day-to-day affairs at OPTrust. The CEO also ensures the Board has the information it requires to approve the matters which it has not delegated to management and to provide oversight on matters for which management is responsible.

The CEO carries out delegated functions through an executive team of subject-matter experts. Each member of the executive team is responsible for a particular portfolio (e.g., pension administration, investment, etc.) and is delegated the necessary authority to perform his or her responsibilities, including hiring staff. Members of the executive team participate in an Executive Committee which serves in an advisory capacity to the CEO.

Governance, Risk, and Compliance

In 2017, OPTrust established a new Governance, Risk and Compliance (GRC) department within Legal Services to enhance the maturity and oversight of risk management and compliance and create efficiencies between risk-related functions. This new department combines the existing Enterprise Risk Management and Compliance departments.

ENTERPRISE RISK MANAGEMENT (ERM)

With the Board's support, OPTrust undertook a comprehensive review of its ERM program in 2017 following a maturity assessment of the program conducted by the internal auditor in 2016. The review led to two significant developments.

- **Restatement of the Risk Appetite Statement.** A restated Risk Appetite Statement (RAS) was approved by the Board in October 2017. The RAS describes the risk governance framework, establishes OPTrust's risk philosophy, refreshes the key categories of risk and defines OPTrust's risk tolerance for each category.

- **Establishment of an Operational Risk Management Program.** The ERM program is being expanded to include a formal operational risk management (ORM) program. Initially the ORM program will be implemented in areas of highest risk from a regulatory perspective using established GRC software. An innovative feature of the new ORM program is a "business partner" approach based on the human resources business partner model.

COMPLIANCE

As a registered pension plan, OPTrust operates in a highly regulated environment and legal and regulatory risk continues to be a top risk for the organization. In 2018, changes to the PBA giving the regulator the power to impose administrative monetary penalties for regulatory breaches will come into effect. Also in 2018 the current pension regulator (the Financial Services Commission of Ontario) will be replaced by a new regulator which will have additional powers. These changes suggest that plans will be subject to increased regulatory scrutiny in the future.

In 2017, in accordance with Board policy, OPTrust implemented a centralized enterprise-wide compliance program. A comprehensive trading compliance framework was developed and implemented in association with the establishment of the new internal trading program. OPTrust also implemented an enterprise-wide attestation process to reinforce OPTrust's culture of compliance and operational excellence.

CRISIS MANAGEMENT

In 2015, OPTrust developed a comprehensive governance framework for crisis management, which includes the creation and updating of response and recovery plans for the organization's critical functions, arrangements for an alternate work location and organization-wide crisis management training. In 2017 the first phase of a recovery plan for the new trading floor was developed, implemented and tested.

STANDING COMMITTEES OF THE BOARD

The **Governance and Administration Committee** (GAC) monitors plan administration and major pension initiatives and oversees the preparation of actuarial valuations. The GAC also oversees various governance-related activities, monitors Trustee education and development, and oversees the preparation of the *Funded Status Report*.

The **Audit, Finance and Risk Committee** (AFRC) monitors expenditure management, financial reporting, tax compliance, audits, internal controls, corporate insurance, information technology, regulatory compliance and enterprise risk management.

The **Investment Committee** (IC) oversees the investment activities of OPTrust and monitors the progress of strategic investment initiatives. The IC also makes recommendations to the Board for changes to key investment policies.

The **Human Resources and Compensation Committee** (HRCC) monitors OPTrust's HR strategy and reviews and monitors management's compensation strategy, including incentive plans.

The Board has also established two committees which operate on an as-needed basis: the **Adjudication Panel**, which gives plan members and pensioners access to a review process in the event of certain types of disputes, and the **Concern Assessment Panel**, which provides a forum for addressing complaints under OPTrust's Whistle-Blowing Policy.

FINANCIAL
Ensuring the Plan's long-term fully funded status

PROCESS & RISK
Continuous improvement, risk management and cost efficiencies

STAKEHOLDER
Build and enhance relationships with key internal/external stakeholders

PEOPLE
Improving the company's ability to adapt, innovate and grow

Compensation Program

OPTrust's management's compensation framework aligns to our organizational strategy:

1. **Short-term incentive plan (annual incentive):** Drives towards creating a high-performance organization, allowing OPTrust to attract and retain high-quality employees. It is based on individual performance and assessed against the objectives in individual balanced scorecards, within four quadrants directly aligned to OPTrust's annual business plan.

2. **Long-term incentive plan (LTIP):** Aligns to the three key MDI metrics that measure:

a. Maintaining the fully funded status of the Plan
b. Managing risk in an efficient and effective manner
c. Preserving the surplus in the Plan.

These metrics measure performance over a three-to-five-year period that reflects the long-term perspective of the total fund portfolio. We are one of the first pension plans globally to align its LTIP directly to members' interests with a focus on preserving the funded status of the Plan.

COMPENSATION OVERSIGHT

The Board has oversight of the compensation program through its Human Resources and Compensation Committee and is responsible for approving OPTrust's management compensation structure and policies.

OPTrust's CEO has overall responsibility for establishing the compensation of other management personnel, including annual incentives and LTIP payments, following the compensation philosophy and principles approved by the Board.

The Board has direct responsibility for determining the annual incentive and LTIP awards for the CEO, approving the CEO's recommendation on aggregate annual incentives for the CEO's direct reports and all other management personnel, and reviewing and approving amendments to OPTrust's compensation structure and policies as required.

COMPENSATION PRINCIPLES

OPTrust's compensation philosophy and principles provide a framework for the design of our compensation programs to ensure that we properly incent the behaviours necessary to achieve our mission.

1. Align individual and team incentives with OPTrust's mission, values and investment strategy.
2. Explicitly reward performance that helps OPTrust achieve its mission and mandate.
3. Ensure we are able to attract and retain the highly skilled professionals required to deliver on our mandate.
4. Include an integrated design framework and performance management system.
5. Support and reinforce the prudent risk-taking culture that is necessary to achieve our mission and mandate.
6. Support a governance model that provides appropriate oversight and monitoring of the compensation strategy.

COMPENSATION DISCLOSURE

The Board is committed to transparency regarding the compensation program and details about the base salary and other compensation paid to the President and CEO, Chief Investment Officer and Chief Pension Officer/SVP, Human Resources are found on page 44.

Incentive payments: Payments under OPTrust's annual incentive and LTIP are reported for the year in which they are earned, but are paid in the subsequent calendar year.

Post-employment benefits: All OPTrust employees are eligible to contribute to the Plan which provides pension benefits based on their years of pension service and average salary up to the maximums allowed under the *Income Tax Act*. Employees whose salary exceeds this maximum contribute to a supplementary pension plan established by the Province of Ontario, which provides pension benefits based on the same formula as the Plan. The post-employment benefits disclosed reflect the value of the benefits earned for the year under both plans.

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

TRUSTEES EXPENSES

The Trustees of the Plan do not receive compensation from OPTrust. Reimbursement for Trustee-related incidental expenses and education received by Trustees totaled $85 thousand in 2017 (2016 – $58 thousand). The Trustees appointed by the Province of Ontario receive a per diem paid directly by the Province. Trustees appointed by OPSEU are compensated by the union for any loss of regular income as a result of time spent fulfilling their duties as a member of the Board.

2017 EXECUTIVE COMPENSATION

($ thousands)	Base earnings	Annual incentive	LTIP	Post-employment benefits	Other benefits	Total
Hugh O'Reilly President and CEO	423	804	1,002[1]	94	33	2,356
James Davis Chief Investment Officer	385	526	603[2]	78	31	1,622
Reg Swamy Chief Pension Officer & Senior Vice-President, Human Resources	280	266	243[1]	48	8	845

1 LTIP reflects payout based on full three-year active participation during the three-year LTIP series.
2 LTIP reflects pro-rated payout for time of active plan participation during the three-year LTIP series.

ADMINISTRATIVE EXPENSES

Prudent management of expenses is consistent with our mission. Administrative expenses are separated into investment and plan administration. Investment costs include in-house activities: investment research, portfolio construction, technology, control and reporting processes. Plan administration costs include providing member service, processing member transactions and upgrading the pension administration system.

The table shows the total administrative expenses. Overall as a percentage of assets, total administrative expenses were the same in 2017 as they were in 2016.

2017 TOTAL ADMINISTRATIVE EXPENSES

($ millions)

	$	%
Investment	44	0.23
Plan administration	23	0.12
Total	**67**	**0.35**

BOARD ADVISORS

Actuary
Willis Towers Watson

Investment Advisor
Templar Investments Ltd.

External Auditor
PricewaterhouseCoopers LLP

Internal Auditor
Ernst & Young LLP

Compensation Advisor
Hugessen Consulting Inc.

Information Technology/ Risk Advisor
Deloitte Canada

External Legal Advisor
Fasken Martineau DuMoulin LLP

MEMBERS OF THE BOARD OF TRUSTEES

At December 31, 2017

Vicki Ringelberg, Chair[2]

Chief Financial Officer & Chief Operating Officer (retired)

AIC Limited & Portland Investment Counsel

Appointed in 2011,
Chair since November 2016

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

Tim Hannah, Vice-Chair[1]

Senior Environmental Officer
Ministry of the Environment and Climate Change

Appointed in 2012,
Vice-Chair since November 2016

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

Michael Grimaldi[1]

Worker Advisor (retired)
Ministry of Labour

Appointed in 2012

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

Patricia Li[2]

Assistant Deputy Minister,
Direct Services Division
Ministry of Health and Long-Term Care

Appointed in 2011

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

Sharon Pel[2]

Consultant, Inglewood Advisory Services

Appointed February 15, 2017

Audit, Finance & Risk, Governance & Administration, Investment Committees

Randy Marie Sloat[1]

Customer Care Representative
Ministry of Government and Consumer Services

Appointed in 2012

Audit, Finance & Risk (Chair), Governance & Administration, Human Resources & Compensation Committees; Adjudication Panel (OPSEU Alternative)

Louise Tardif[2]

Vice-President (retired)
National Bank Financial

Appointed in 2014

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

Giulia Volpe[1]

Benefits Specialist
OPSEU

Appointed in 2016

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

Don Wilkinson[2]

Vice-Chair, Deloitte & Leader of National Asset Management Group (Retired)

Appointed June 22, 2017

Audit, Finance & Risk, Human Resources & Compensation Committees

1 Appointed by OPSEU
2 Appointed by the Government of Ontario

From left to right, back row:
Randy Marie Sloat
Tim Hannah
Patricia Li
Vicki Ringelberg
Sharon Pel

Front row:
Michael Grimaldi
Louise Tardif
Don Wilkinson
Giulia Volpe

MEMBERS OF THE EXECUTIVE COMMITTEE

At December 31, 2017

From left to right

Jeremiah Hudacin
Vice-President, Investment Risk

Doug Michael
Chief Financial Officer & Senior Vice-President, Administrative Services

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

Hugh O'Reilly
President and CEO

Karen Danylak
Vice-President, Corporate Affairs Corporate Secretary

John Walsh
Managing Director, General Counsel

James Davis
Chief Investment Officer

Tim Shortill
Senior Vice-President, Strategy, Communications and Public Affairs

CONTINUING *the* CONVERSATION

FINANCIAL STATEMENTS

2017

Management's Responsibility for Financial Reporting

Management of the OPSEU Pension Plan Trust Fund (OPTrust) is responsible for the integrity and fairness of the data presented in the financial statements and the financial information presented in the *Funded Status Report* (FSR). The financial statements have been prepared in accordance with the Canadian *Chartered Professional Accountants of Canada (CPA Canada) Handbook* section 4600 — Pension Plans and comply with the financial reporting requirements of the *Pension Benefits Act* (Ontario). The financial statements include amounts that must, as necessary, be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout the FSR is consistent with the financial statements.

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

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

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

Hugh O'Reilly
President and CEO

Doug Michael
Chief Financial Officer

March 8, 2018

Actuaries' Opinion

Towers Watson Canada Inc. (Willis Towers Watson) was retained by the Board of Trustees of the Ontario Public Service Employees' Union Pension Plan (the Plan) to perform an actuarial valuation of the Plan as at December 31, 2017. The purpose of this valuation is to determine the pension obligations of the Plan as at December 31, 2017, for inclusion in the Plan's financial statements in accordance with Section 4600 of the *Chartered Professional Accountants of Canada (CPA Canada) Handbook*.

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

The results of the valuation disclosed total going concern pension obligations of $18,265 million in respect of service accrued to December 31, 2017.

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

- members' demographic data provided by OPTrust management as at September 22, 2017 projected to December 31, 2017, using management's estimates of experience for the intervening period;
- the actuarial cost method prescribed by the *CPA Canada Handbook* Section 4600; and
- best-estimate assumptions about future events (for example, economic factors such as future rates of inflation and returns on the pension fund, as well as demographic factors) which were developed by OPTrust management in consultation with Willis Towers Watson and have been adopted by OPTrust management and approved by the Board.

Changes have been made to the actuarial assumptions affecting the pension obligations since the previous valuation for the purpose of the Plan's financial statements at December 31, 2016, as described in the notes to the financial statements.

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

In our opinion, for the purposes of the valuation,

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

Nonetheless, differences between future experience and the assumptions about such future events will result in gains or losses which will be revealed in future valuations, none of which have been anticipated at this time.

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

Towers Watson Canada Inc.

Ian Markham
Fellow, Canadian Institute of Actuaries

Laura Newman
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
March 8, 2018

Independent Auditor's Report

To the Board of Trustees of the OPSEU Pension Plan Trust Fund (OPTrust)

We have audited the accompanying financial statements of OPSEU Pension Plan Trust Fund (OPTrust), which comprise the statements of financial position as at December 31, 2017 and 2016 and the statement of changes in surplus, changes in net assets available for benefits and changes in pension obligations for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of OPSEU Pension Plan Trust Fund (OPTrust) as at December 31, 2017 and 2016 and the changes in surplus, changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 8, 2018

Statement of Financial Position

As at December 31 ($ millions)	2017	2016
ASSETS		
Investments (Note 4)	**23,586**	19,945
Contributions receivable (Note 8)	**48**	53
Other assets	**5**	4
	23,639	20,002
LIABILITIES		
Accounts payable and accrued charges	**44**	49
Investment-related liabilities (Note 4)	**3,305**	908
	3,349	957
NET ASSETS AVAILABLE FOR BENEFITS	**20,290**	19,045
PENSION OBLIGATIONS (Note 6)	**18,265**	17,316
SURPLUS (Note 7)	**2,025**	1,729
PENSION OBLIGATIONS AND SURPLUS	**20,290**	19,045

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

Statement of Changes in Surplus

For the years ended December 31 ($ millions)	2017	2016
SURPLUS, BEGINNING OF YEAR	**1,729**	1,643
CHANGE IN SURPLUS		
Increase in net assets available for benefits	**1,245**	646
Increase in net pension obligations	**(949)**	(560)
NET INCREASE IN SURPLUS	**296**	86
SURPLUS, END OF YEAR	**2,025**	1,729

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

The financial statements were authorized for issue by the Board of Trustees on March 8, 2018 and were signed on its behalf by:

Vicki Ringelberg
Chair

Tim Hannah
Vice-Chair

Statement of Changes in Net Assets Available for Benefits

For the years ended December 31 ($ millions)	2017	2016
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	**19,045**	18,399
Changes due to investment activities		
Investment income (Note 5)	**491**	541
Net gain on investments (Note 5)	**1,321**	584
Investment management and administrative expenses (Notes 5 and 10a)	**(70)**	(88)
	1,742	1,037
Changes due to pension activities		
Contributions (Note 8)	**529**	529
Benefits paid (Note 9)	**(1,003)**	(900)
Pension administrative expenses (Note 10b)	**(23)**	(20)
	(497)	(391)
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	**1,245**	646
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**20,290**	19,045

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

Statement of Changes in Pension Obligations

For the years ended December 31 ($ millions)	2017	2016
PENSION OBLIGATIONS, BEGINNING OF YEAR	**17,316**	16,756
INCREASE IN PENSION OBLIGATIONS		
Interest accrued on benefits	**981**	951
Benefits accrued	**471**	469
Assumption changes (Note 6)	**509**	—
	1,961	1,420
DECREASE IN PENSION OBLIGATIONS		
Benefits paid (Note 9)	**1,003**	900
Experience gains/(losses) (Note 6)	**9**	(40)
	1,012	860
INCREASE IN NET PENSION OBLIGATIONS	**949**	560
PENSION OBLIGATIONS, END OF YEAR	**18,265**	17,316

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

Notes to the Financial Statements

1. Description of the OPSEU Pension Plan

The OPSEU Pension Plan (the Plan) is a jointly sponsored pension plan that provides pension benefits for employees of the Province of Ontario (the Province or Government of Ontario) in bargaining units represented by the Ontario Public Service Employees Union (OPSEU) and certain other bargaining units and employers. The April 18, 1994 *Sponsorship Agreement* between the Province and OPSEU (the sponsors) documented the agreement between the Province and OPSEU to establish the Plan, with the Province and OPSEU as joint sponsors. The *Ontario Public Service Employees Union Pension Plan Act*, 1994 enacted in June 1994 facilitated certain aspects of the agreement.

The Plan and related trust fund (the Trust or OPTrust) were established pursuant to the October 25, 1994 *Agreement and Declaration of Trust* (the Trust Agreement). The Trust Agreement also established the Board of Trustees as the legal administrator of the Plan and Trust. The Board of Trustees is composed of 10 persons, five appointed by each of the Province and OPSEU. The legal name of the Board of Trustees is the OPSEU Pension Plan Trust Fund. The Board of Trustees and its employees operate under the name the Trust or OPTrust.

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

These financial statements reflect the aggregate financial position of the Trust, including the net assets available for benefits, pension obligations, and surplus.

A. MEMBERSHIP

The Plan's membership is comprised of mandatory permanent (full-time, part-time and seasonal) and optional fixed-term contract employees represented by OPSEU, certain permissible bargaining agents, and other designated employees, employed by the following organizations:

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

B. FUNDING

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

C. CONTRIBUTIONS

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

The contribution rate for both employers and employees was 9.4% (2016 – 9.4%) of salary up to the Year's Maximum Pensionable Earnings (YMPE) under the CPP and 11% (2016 – 11%) of salary above the YMPE. The sponsors have agreed that until at least December 31, 2017 and except in extenuating circumstances, the contribution rate will not exceed this level.

D. PURCHASE OR BUY BACK OF PAST SERVICE

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

E. PENSION BENEFITS

Pension benefits vest immediately upon enrolment in the Plan and include a lifetime pension and a CPP bridge benefit. The CPP bridge is designed to supplement the lifetime pension until age 65 when unreduced CPP benefits become payable. The CPP bridge expires at age 65, irrespective of when a member's CPP payments begin.

The pension amount is determined by a two-step formula. The first step determines the amount of pension payable before age 65 including the lifetime pension and the CPP bridge. This is calculated as 2% of the member's annual salary averaged over the best five consecutive years for each year of pension service earned by the member during his or her membership. The second step determines the CPP bridge and deducts this amount from the total to arrive at the age 65 lifetime pension. The CPP bridge is calculated as 0.655% of the member's average salary determined in the first step or the five year average of the YMPE under the CPP, whichever is lower, for each year of pension service up to a maximum of 35 years.

The Plan's normal retirement age is 65. A member can retire earlier than 65 with an unreduced pension if the member's age and years of pension service total at least 90 (Factor 90) or when the member reaches age 60 and has 20 or more years of pension service (60/20). A member may retire at any time after age 55, but if the member is not entitled to receive an unreduced pension under Factor 90 or 60/20, the member's early pension is reduced. The pension reduction is equal to 5% for each year that the member is under age 65 when he or she retires.

F. INFLATION PROTECTION

An adjustment to pension benefits to account for inflation is made annually based on changes to the Consumer Price Index to a maximum of 8% in any one year. Where the inflation adjustment exceeds 8% in any one year, the excess is carried forward to any subsequent year when the adjustment is less than 8%. The adjustment is made to both pensions in pay and deferred pensions. The inflation adjustment was 1.6% at January 1, 2018 (January 1, 2017 – 1.3%).

G. DEATH BENEFITS

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

Survivor pensions are also available to the member's or pensioner's children in certain circumstances.

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

H. DISABILITY PENSIONS

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

I. DEFERRED PENSIONS

Members who terminate employment before retirement have the right to leave their entitlement in the Plan and receive a pension when they retire. Their deferred pension is increased annually for inflation.

Members who are moved to other employers in a divestment situation and who are enrolled in a new registered pension plan are required by law to leave their pension entitlement in the Plan until they terminate employment with their new employer, unless an agreement is established to enable the divested members to transfer their pension entitlements from the original plan to the new plan.

J. TERMINATION PAYMENTS

Members who terminate membership in the Plan before they become eligible for early retirement are entitled to transfer the commuted value of their pension to alternative retirement arrangements, subject to maximum transfer limits under the *Income Tax Act*. If a member's commuted value exceeds the *Income Tax Act* maximum transfer limits, the excess is payable in cash less withholding tax.

In some cases, a member may also receive a refund of contributions. Depending on the *Income Tax Act* limits, the refund may be transferred to a registered retirement savings plan, otherwise it is paid directly to the member as a cash lump sum less withholding tax.

K. TRANSFERS

Members who are promoted to management or certain professional groups are subject to a mandatory transfer of benefits to the Public Service Pension Plan (administered by the Ontario Pension Board). In addition, a member who terminates employment before retirement may be entitled to transfer the value of his or her pension to another pension plan, if OPTrust has a reciprocal transfer agreement with that plan.

2. Significant Accounting Policies

A. BASIS OF PRESENTATION

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

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

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

B. USE OF ESTIMATES

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

C. INVESTMENTS

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

i) Valuation of investments

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

Fair values are determined as follows:

Short-term Investments

For short-term investments, fair value is determined using cost plus accrued interest or the average of market quotes of closing bid and ask prices. Short-term investments comprise direct investments and include reinvested cash collateral that is comprised of fixed rate instruments.

Bonds and Real Return Bonds

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

Pooled Funds

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

Bank Loan Notes

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

Public Equity

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

Hedge Funds

Hedge funds are recorded at fair value based on net asset values provided by external fund administrators and are reviewed by management.

Real Estate

Real estate investments directly held or held through limited partnerships are valued using appropriate valuation techniques and management's and/or third party best estimates. Investments are valued based on independent appraisals that are conducted at least once every three years. Where an investment is not independently valued, it is valued internally. Management reviews all assumptions used for the valuations.

Investments held through fund investments are valued using the values reported by the external fund managers and updated for any specific market and other investment factors known to OPTrust that could affect the fair value of the investment.

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

Private Equity and Infrastructure
Private equity and infrastructure investments are held directly or through ownership in limited partnership arrangements or via fund investments. Fair value is determined using appropriate valuation techniques and management's and/or third party best estimates. For investments held through limited partnerships or funds, fair value is generally determined by the external investment manager using accepted valuation methods and other relevant information, which is reviewed by management and updated for any specific market and other investment factors known to OPTrust that could affect the fair value of the investment.

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

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

Total return swaps
A total return swap is a contract between two parties to swap the total return of an asset or index, including its dividends, coupons and capital appreciation or depreciation, and return with a regular fixed or floating cash flow. OPTrust utilizes total return swaps to gain exposure to an asset, index or hedge specific assets in its portfolio.

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

Currency swaps
A currency swap is a contractual agreement between two parties to exchange cash flows based on changes in one currency versus another. OPTrust utilizes currency swaps to manage its interest rate and currency exposures for both hedging and active currency management.

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

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

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

Securities Sold Under Resell and Repurchase Agreements
Securities purchased under resell agreements (resell agreements) and securities sold under repurchase agreements (repo agreements) are agreements where OPTrust buys and sells securities and simultaneously agrees to sell and buy them back at a specified

price at a future date. Resell and repo agreements are carried at cost, which together with accrued interest approximates fair value due to their short-term nature.

Collateral

Cash collateral provided by OPTrust is included as a component of cash and short-term investments. For collateral other than cash, if the party to whom the collateral is provided does not have the right to sell or re-pledge, the asset remains as an investment in OPTrust's financial statements.

Cash collateral received by OPTrust from counterparties is recognized as a component of cash and a liability for the equivalent amount is recognized as an investment-related liability. For collateral other than cash, it is recognized in OPTrust's financial statements only if the risks and rewards of ownership are transferred to OPTrust.

ii) Income recognition

Net investment income includes interest and dividends, income from investments, realized gains and losses on disposal of investments, and unrealized gains and losses resulting from changes in the fair value of investments. Investment income is recognized on an accrual basis when earned.

Realized gains and losses arise from the sale of the investment and represent the difference between net proceeds on disposal and cost. Unrealized gains and losses represent the change in the difference between the estimated fair value and cost of the investment held.

iii) Transaction fees

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

iv) External management fees

External management fees for portfolio management are expensed and included in investment management expenses.

D. PENSION OBLIGATIONS

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

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

E. CONTRIBUTIONS

Contributions from members and employers that are due at year-end, including those relating to purchases of service for prior employment or leaves of absences, and transfers into the Plan, are recorded on accrual basis as a receivable. The carrying value of the receivable approximates fair value due to their short-term nature.

F. BENEFIT PAYMENTS

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

G. SURPLUS/DEFICIT

Surplus or deficit results from the excess or shortfall of the value of net assets available for benefits over the actuarial value of pension obligations.

H. FOREIGN CURRENCY TRANSLATION

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

I. FAIR VALUE DISCLOSURES

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

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

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

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

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

J. ACCOUNTING STANDARDS ISSUED BUT NOT APPLIED

On January 13, 2016 the International Accounting Standards Board (IASB) issued *IFRS 16 Leases* (IFRS 16) replacing *IAS 17 Leases*. IFRS 16 brings most leases on the Statement of Financial Position and eliminates the distinction between operating and finance leases. The new standard will come into effect for periods beginning on or after January 1, 2019 with early adoption permitted. OPTrust does not expect any material impact from adopting IFRS 16 on future financial results.

On July 24, 2014 the IASB issued *IFRS 9 Financial Instruments* (IFRS 9) replacing *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes new classification and measurement requirements for financial assets and liabilities. The new standard will come into effect for periods beginning on or after January 1, 2018 with early adoption permitted. OPTrust does not expect any impact from adopting IFRS 9 on future financial results.

3. Risk Management

INVESTMENT RISK

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

The management of these investment risks is addressed in OPTrust's *Risk Appetite Statement* and other management policies.

Investment risk includes the following types of risk:

i) Market risk

Market risk is the risk that the value of an investment will be adversely affected by changes in interest rates, foreign exchange rates, equity prices and/or inflation rates. OPTrust manages market risk through investment management practices designed to optimize the relationship between risk and return and the diversification of investments across a variety of asset classes. Risk mitigation strategies aimed at lowering the total fund's risk level are actively employed.

Interest Rate Risk

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

The Trust manages interest rate risk relative to its liabilities, investing so that there is an appropriate mix between interest-sensitive investments and those subject to other risks. There are also certain real estate, private equity and infrastructure investments which may have interest rate components making them subject to interest rate exposure.

A 1% increase/(decrease) in interest rates, with all other variables held constant, would result in a (decrease)/increase in the value of the fixed income portfolio of $944 million (2016 – $648 million).

Foreign Currency Risk

Foreign currency risk is the risk that the value of foreign investments will be affected by changes in foreign currency exchange rates for Canadian dollars. Currency risk is managed at the total Trust level by targeting currency exposures that help to diversify risk.

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

As at December 31 ($ millions)	2017 Gross exposure	2017 Impact of derivatives[a]	2017 Net exposure	2016 Net exposure
Canadian Dollar	12,981	4,572	17,553	14,031
Investments subject to currency risk				
Developed markets				
United States Dollar	3,877	(1,791)	2,086	3,681
South Korean Won	144	—	144	93
Indian Rupee	112	—	112	138
New Taiwan Dollar	104	—	104	131
British Pound Sterling	280	(232)	48	88
Europe — other	1,619	(1,661)	(42)	131
Asia Pacific — other	937	(888)	49	357
Emerging markets	227	—	227	387
	7,300	(4,572)	2,728	5,006
NET INVESTMENTS	20,281	—	20,281	19,037

a The impact of derivatives reflects the foreign currency exposure represented by the notional amount hedged using currency derivatives.

The impact of a 5% absolute change in the Canadian dollar against the top five currencies held at year-end, holding all other variables constant, would have resulted in a $136 million change in net assets available for benefits as at December 31, 2017 (2016 – $200 million).

As at December 31 ($ millions)	Change versus Canadian Dollar	2017 Change in net assets available for benefits	2016 Change in net assets available for benefits
United States Dollar	+/- 5%	+/- 117	+/- 177
South Korean Won	+/- 5%	+/- 7	+/- 4
Indian Rupee	+/- 5%	+/- 5	+/- 7
New Taiwan Dollar	+/- 5%	+/- 5	+/- 7
British Pound Sterling	+/- 5%	+/- 2	+/- 5
TOTAL		+/- 136	+/- 200

Equity Price Risk

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

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

As at December 31 ($ millions) Equity market[a]	Market index	Change in market index[b]	2017 Change in net assets available for benefits	2016 Change in net assets available for benefits
Active developed	**MSCI World Index**	+/- 10%	+/- 272	+/- 214
Private equity	**MSCI World Index**	+/- 10%	+/- 135	+/- 86
Active emerging	**MSCI EMF Index**	+/- 10%	+/- 74	+/- 61
Canadian[c]	**S&P/TSX Composite Index**	+/- 10%	+/- —	+/- 39
TOTAL			+/- 481	+/- 400

a Equity market is based on the portfolio mandates of the investment managers.
b For each equity category, the expected effect of a 10% change in the market index is estimated using the most recent four years of market data. Currency exchange rates are not affected by the change in market indices.
c No Canadian managers in 2017.

Inflation Risk

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

Stressed Funded Status

In addition to the management of absolute risk, OPTrust uses stress scenarios to monitor the market risks in the plan. The *Risk Appetite Statement* sets limits on how market risks can affect the funded status of the plan in two stress scenarios. These stress scenarios represent severe stagflation and deflation market conditions. In each scenario, the value of assets and liabilities are recalculated and the change in funded status is monitored. The drawdown in funded status for these two scenarios are monitored and used as a strategic risk limit.

The table below highlights the change in funded status in the two stress scenarios.

As at December 31	**2017** % **Potential reduction to funded status**	2016 % Potential reduction to funded status
Risk appetite statement scenario A[a]	**(9.7)%**	(6.0)%
Risk appetite statement scenario B[b]	**(10.1)%**	(7.8)%

a Under Scenario A, the assumption is that the MSCI World Index decreases by 30% while the 10 year government yield **increases** by 100 basis points.

b Under Scenario B, the assumption is that the MSCI World Index decreases by 30%, while the 10 year government yield **decreases** by 100 basis points.

ii) Credit risk

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

OPTrust mitigates credit risk on debt securities through adherence to approved policies and guidelines, which includes guidelines on the Trust's exposure to single issuers.

The credit risk exposure by credit rating, without taking account of any collateral held is as follows:

	2017				
As at December 31 ($ millions)	**Short-term investments**	**Bonds and bank loans**	**Resell agreements**	**Derivatives[a]**	**Total**
AAA/R-1 High	**2,418**	**2,285**	**—**	**—**	**4,703**
AA/R-1 Mid	**—**	**1,293**	**—**	**9**	**1,302**
A/R-1 Low	**548**	**2,425**	**372**	**33**	**3,378**
BBB/R-2 Low or lower	**—**	**—**	**—**	**—**	**—**
TOTAL	**2,966**	**6,003**	**372**	**42**	**9,383**

	2016				
As at December 31 ($ millions)	Short-term investments	Bonds and bank loans	Resell agreements	Derivatives[a]	Total
AAA/R-1 High	1,094	1,611	—	—	2,705
AA/R-1 Mid	1,020	542	—	56	1,618
A/R-1 Low	105	2,343	3	48	2,499
BBB/R-2 Low or lower	2	337	—	2	341
TOTAL	2,221	4,833	3	106	7,163

a Excludes exchange traded derivatives.

Credit risk from OTC derivatives is managed by only dealing with highly-rated counterparties and requiring certain counterparties to post collateral in order to back the fair value of these derivative contracts.

Credit risk for investments is measured by the positive fair value of the contractual obligations with the counterparties less any collateral or margin received as at the reporting date. The Trust also monitors how the positive fair value of OTC derivatives may change in the future. The Trust has exposure to derivatives as follows:

			2017			2016
As at December 31 ($ millions)	**Notional amount[a]**	**Fair value assets**	**Fair value liabilities**	Notional amount[a]	Fair value assets	Fair value liabilities
Interest rate contracts						
Bond futures	**4,416**	**—**	**—**	746	—	—
Interest rate swaps	**18**	**—**	**—**	120	1	(1)
Interest rate options	**10**	**5**	**—**	—	—	—
Equity contracts						
Equity futures	**992**	**—**	**—**	132	—	—
Equity options	**1,189**	**15**	**—**	2	—	(1)
Currency contracts						
Currency forwards	**6,127**	**42**	**(31)**	8,530	82	(52)
Currency swaps	**—**	**—**	**—**	34	—	—
Currency options	**—**	**—**	**—**	3	4	—
Other derivatives						
Total return swaps	**—**	**—**	**—**	55	23	—
Credit default swaps	**11**	**—**	**—**	29	—	—
TOTAL DERIVATIVES	**12,763**	**62**	**(31)**	9,651	110	(54)

a The notional amounts of derivative contracts represent the nominal or face amount that is used to calculate the cash payments made on that contract. The fair values of the derivative contracts included in the financial statements are determined by using the notional values and changes in the market rates or prices relative to the original terms of the contract. Note 4 includes the fair value of the derivative contracts with positive fair values recorded as investment assets and negative fair values as investment liabilities. The notional values do not necessarily reflect the future cash flows to be exchanged nor do they indicate the Plan's exposure to market or credit risk.

COLLATERAL

Collateral transactions support certain investment activities under terms and conditions that are common and customary to collateral arrangements.

Derivatives

Collateral is received from and pledged to counterparties to manage credit risk from OTC derivatives in accordance with the Credit Support Annex (CSA), which forms part of the International Swaps and Derivatives Association (ISDA) master agreements. It is common practice to execute a CSA in conjunction with an ISDA master agreement. Under the ISDA master agreement for OTC derivatives, OPTrust has a right to offset our credit risk against collateral received in the event of default, insolvency, bankruptcy or other early termination. In the case of exchange-traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision to offset against obligations to the same counterparty.

As at December 31, 2017, collateral of $12 million (2016 – $1 million) was received and $61 million (2016 – $5 million) was pledged by OPTrust.

Resell and Repo Agreements

The Trust pledges and receives collateral to/from counterparties for resell and repo agreements. As at December 31, 2017, collateral received for resell agreements was $375 million (2016 – $3 million) and collateral pledged for repo agreements was $3,192 million (2016 – $791 million), with an associated receivable of $372 million (2016 – $3 million) and a liability of $3,212 million (2016 – $793 million).

Securities Lending Program

The Trust also participates in a securities lending agreement whereby it lends securities to approved borrowers. OPTrust secures its exposure through the receipt of security collateral starting at 105% of the value of the securities lent. All securities lent are recallable on demand at the option of OPTrust. Credit risk associated with the borrower is mitigated by requiring the borrower to provide collateral with market values exceeding the market value of the loaned securities.

As at December 31, 2017, the Trust's investments included loaned securities with a fair value of $246 million (2016 – $407 million). The fair value of collateral received in respect of these securities on loan was $259 million (2016 – $432 million).

Offsetting Arrangements

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where OPTrust currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, OPTrust enters into various master netting agreements or other similar arrangements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set-off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting agreements as at December 31, 2017 and 2016. Similar arrangements include repo agreements, resell agreements, securities lending agreements and any related rights to financial collateral.

	2017					
				Related amounts not set off in the statement of financial position		
As at December 31 ($ millions)	Gross amounts of recognized financial instruments	Gross amounts of recognized financial instruments set-off	Net amounts of financial instruments presented (Note 4)	Financial instruments	Financial collateral (received)/ pledged	Net amount
Financial assets						
Derivative instruments	63	(1)	62	(5)	(57)	—
Resell agreements	372	—	372	—	(372)	—
Securities lending	246	—	246[a]	—	(246)	—
TOTAL FINANCIAL ASSETS	681	(1)	680	(5)	(675)	—
Financial liabilities						
Derivative instruments	(32)	1	(31)	5	12	(14)
Repo agreements	(3,212)	—	(3,212)	—	3,192	(20)
TOTAL FINANCIAL LIABILITIES	(3,244)	1	(3,243)	5	3,204	(34)

As at December 31 ($ millions)	2016					
Financial assets						
Derivative instruments	126	(16)	110	(9)	(1)	100
Resell agreements	3	—	3	—	(3)	—
Securities lending	407	—	407[a]	—	(407)	—
TOTAL FINANCIAL ASSETS	536	(16)	520	(9)	(411)	100
Financial liabilities						
Derivative instruments	(70)	16	(54)	9	5	(40)
Repo agreements	(793)	—	(793)	—	791	(2)
TOTAL FINANCIAL LIABILITIES	(863)	16	(847)	9	796	(42)

a These securities are included within fixed income and public equity investments in Note 4.

iii) Liquidity risk

Liquidity risk is the potential that OPTrust will not be able to meet payment obligations from pension payments, operating expenses or investment activities as they come due without the forced sale of assets. OPTrust has exposure to liquidity risk through its investment commitments which are required to be funded in future periods, as well as through holding certain investments including funds, private equity, infrastructure and real estate investments, which by nature are less liquid than public market assets (see Note 11). An additional source of liquidity risk exposure is OPTrust's use of derivatives with their potential margin calls which are impacted by daily market movements.

The Trust forecasts and manages cash flows centrally to ensure it meets its obligations when due, without unintended early liquidation of assets in all market conditions.

The Trust's cash and liquidity positions are monitored daily for compliance with guidelines and limits established in a liquidity framework. Both short term and longer term cash and liquidity requirements are assessed within this framework. In addition, OPTrust conducts stress tests to examine how they may impact liquidity.

Liquidity risk is managed by holding cash and cash equivalents, including receipt of investment income, liquid money market securities and unencumbered high quality liquid securities that can be sold under repo agreements to raise funds. A core liquidity reserve is maintained for deployment in the event of severe market disruption.

OPTrust's liabilities include accrued pension benefits, investment-related liabilities, accounts payable and accrued charges.

As at December 31, the remaining terms to contractual maturity of OPTrust's investment-related liabilities and real estate mortgages are as follows:

	2017			
As at December 31 ($ millions)	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Due to brokers and other liabilities	**(39)**	**(23)**	**—**	**(62)**
Derivatives instruments	**(31)**	**—**	**—**	**(31)**
Repo agreements	**(3,212)**	**—**	**—**	**(3,212)**
Mortgages related to real estate	**(28)**	**(106)**	**(265)**	**(399)**
TOTAL	**(3,310)**	**(129)**	**(265)**	**(3,704)**
	2016			
Due to brokers and other liabilities	(29)	(32)	—	(61)
Derivatives instruments	(53)	(1)	—	(54)
Repo agreements	(793)	—	—	(793)
Mortgages related to real estate	(22)	(124)	(312)	(458)
TOTAL	(897)	(157)	(312)	(1,366)

OPTrust maintains unsecured credit facilities to meet potential liquidity requirements primarily for investment purposes. As at December 31, 2017 and December 31, 2016, certain amounts were drawn on the credit facilities in the form of letters of credit.

4. Investments

The following schedule presents the fair value of the Trust's investments categorized within the fair value hierarchy as described in Note 2 and their cost before allocating the market exposure related to derivative financial instruments to the asset classes to which they relate.

	2017					2016				
As at December 31 ($ millions)	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Cost**	Level 1	Level 2	Level 3	Fair value	Cost
Fixed income										
Cash	**366**	**—**	**—**	**366**	**366**	196	—	—	196	196
Short-term investments	**—**	**2,966**	**—**	**2,966**	**2,961**	—	2,221	—	2,221	2,220
Government and corporate bonds										
Canadian	**—**	**4,878**	**—**	**4,878**	**4,840**	—	4,034	—	4,034	4,178
Foreign	**—**	**695**	**—**	**695**	**689**	—	193	—	193	195
Real return bonds	**—**	**430**	**—**	**430**	**302**	—	438	—	438	302
Bank loan notes	**—**	**—**	**—**	**—**	**—**	—	168	—	168	154
	366	**8,969**	**—**	**9,335**	**9,158**	196	7,054	—	7,250	7,245
Public equity										
Canadian	**48**	**—**	**—**	**48**	**42**	483	—	—	483	330
Foreign	**2,269**	**1**	**—**	**2,270**	**1,801**	2,928	11	—	2,939	2,403
	2,317	**1**	**—**	**2,318**	**1,843**	3,411	11	—	3,422	2,733
Pooled funds	**14**	**237**	**2,328**	**2,579**	**2,463**	81	314	549	944	889
Hedge funds	**—**	**—**	**1,994**	**1,994**	**1,839**	—	—	1,653	1,653	1,478
Real estate	**—**	**(403)**	**3,226**	**2,823**	**2,298**	—	(465)	3,349	2,884	2,310
Private equity	**—**	**—**	**1,920**	**1,920**	**1,346**	8	—	1,587	1,595	1,078
Infrastructure	**111**	**—**	**2,025**	**2,136**	**1,729**	115	—	1,950	2,065	1,711
Investment-related assets										
Accrued income	**37**	**—**	**—**	**37**	**37**	36	—	—	36	36
Due from brokers	**6**	**4**	**—**	**10**	**10**	3	3	—	6	6
Derivative instruments	**—**	**62**	**—**	**62**	**31**	—	87	—	87	6
Resell agreements	**—**	**372**	**—**	**372**	**382**	—	3	—	3	3
	43	**438**	**—**	**481**	**460**	39	93	—	132	51
INVESTMENT ASSETS	**2,851**	**9,242**	**11,493**	**23,586**	**21,136**	3,850	7,007	9,088	19,945	17,495
Investment-related liabilities										
Due to brokers and other liabilities	**(62)**	**—**	**—**	**(62)**	**(62)**	(48)	(13)	—	(61)	(61)
Derivative instruments	**—**	**(31)**	**—**	**(31)**	**—**	—	(54)	—	(54)	—
Repo agreements	**—**	**(3,212)**	**—**	**(3,212)**	**(3,240)**	—	(793)	—	(793)	(793)
	(62)	**(3,243)**	**—**	**(3,305)**	**(3,302)**	(48)	(860)	—	(908)	(854)
NET INVESTMENTS	**2,789**	**5,999**	**11,493**	**20,281**	**17,834**	3,802	6,147	9,088	19,037	16,641

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

For the years ended December 31 ($ millions)	2017 Hedge and pooled funds	2017 Real estate	2017 Private equity	2017 Infra-structure	2017 Total	2016 Hedge and pooled funds	2016 Real estate	2016 Private equity	2016 Infra-structure	2016 Total
Balance, beginning of year	2,202	3,349	1,587	1,950	9,088	751	3,592	1,675	2,210	8,228
Investment income	—	137	48	73	258	—	125	37	120	282
Realized gains/(losses)	53	252	116	134	555	12	127	150	248	537
Unrealized gains/(losses)[a]	39	(53)	124	52	162	38	(31)	36	(309)	(266)
Purchases	2,358	222	305	196	3,081	1,527	270	413	127	2,337
Sales	(330)	(681)	(260)	(380)	(1,651)	(126)	(734)	(724)	(446)	(2,030)
BALANCE, END OF YEAR[b]	4,322	3,226	1,920	2,025	11,493	2,202	3,349	1,587	1,950	9,088

a Unrealized gains/(losses) are attributable to investments held at December 31, 2017 and December 31, 2016.

b There were no transfers into and out of Level 3 and no settlements of Level 3 financial instruments for the years ended December 31, 2017 and 2016.

Sensitivity to changes in assumptions

Sensitivity information is available for direct investments in real estate and certain private equity and infrastructure, and is presented in the table below. The fair value of certain fund investments where OPTrust does not have access to the underlying investment information is based on the value provided by the external manager, and therefore, no other reasonably possible alternative assumptions could be applied.

As at December 31 ($ millions)	Key factor	2017 Fair value	2017 +0.25%	2017 -0.25%	2016 Fair value	2016 +0.25%	2016 -0.25%
Real estate	Capitalization rate[a]	1,409	(58)	63	1,374	(53)	58
Mortgages related to real estate	Interest rate	403	(5)	5	465	(6)	6
Infrastructure	Discount rate[b]	529	(15)	14	696	(23)	24

A private equity investment was included in the 2016 sensitivity analysis (+/- $2 million) and was not included in the 2017 analysis, as the investment was valued in 2017 based on a recent transaction.

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

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

A. SIGNIFICANT INVESTMENTS

As at December 31, the Trust held certain investments having a fair value or cost exceeding 1% of the fair value or cost of net investment assets.

	2017			2016		
As at December 31 ($ millions)	**Number of investments**	**Fair value**	**Cost**	Number of investments	Fair value	Cost
Fixed income	**13**	**4,032**	**3,933**	9	1,950	1,854
Pooled fund	**2**	**2,234**	**2,141**	1	510	500
Hedge fund	**2**	**1,521**	**1,425**	2	869	831
Infrastructure	**3**	**1,332**	**1,053**	4	1,399	1,174

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

Fixed income

Government of Canada, Province of Ontario, Province of Quebec and United States Treasury Notes and Bonds.

Pooled fund

Aviva Investors Multi-Strategy Target Return Private Pooled and Schroders OPTrust Diversified Growth Fund.

Hedge fund

AQR Offshore Multi-Strategy Fund XVIII L.P. and Bridgewater Pure Alpha Major Markets, Ltd.

Infrastructure

GlobalVia Infraestructuras, S.A., Firelight Infrastructure Partners L.P. and Harvest Pipeline Company.

5. Net Investment Income

For the years ended December 31 ($ millions)	2017 Investment income	2017 Net gain/(loss) on investments[a]	2017 Net investment income/(loss)[b]	2016 Investment income	2016 Net gain/(loss) on investments[a]	2016 Net investment income/(loss)[b]
Fixed income						
Cash and short-term investments	18	5	23	9	(3)	6
Government and corporate bonds						
Canadian	114	119	233	110	(104)	6
Foreign	17	—	17	14	(6)	8
Real return bonds						
Canadian	9	(8)	1	10	1	11
Foreign	—	—	—	—	(1)	(1)
Bank loans notes	5	(10)	(5)	7	1	8
	163	106	269	150	(112)	38
Public equity						
Canadian	5	4	9	24	128	152
Foreign	52	558	610	79	75	154
	57	562	619	103	203	306
Pooled funds	—	83	83	—	21	21
Hedge funds	—	17	17	—	33	33
Real estate	137	198	335	125	96	221
Private equity	55	232	287	37	186	223
Infrastructure	79	182	261	126	(66)	60
Derivative instruments	—	(59)	(59)	—	223	223
	271	653	924	288	493	781
	491	1,321	1,812	541	584	1,125
Investment management expenses						
External manager fees			(20)			(34)
Transaction fees			(6)			(9)
			(26)			(43)
NET INVESTMENT INCOME			1,786			1,082

a Includes realized gain of $1,236 million and unrealized gain of $85 million in 2017 and realized gain of $1,233 million and unrealized loss $649 million in 2016.

b Certain investment-related disbursements of $57 million in 2017 (2016 – $48 million) have been netted against net investment income/(loss).

6. Pension Obligations

A. FINANCIAL STATEMENT VALUATION

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

As at December 31	**2017**	2016
Inflation rate	**2.00%**	2.00%
Discount rate (real)	**3.60%**	3.75%
Discount rate (nominal)	**5.60%**	5.75%
Salary increases (nominal)	**(1.5% for 2018 and 2.75% thereafter)**	(1.4% for 2017 and 2.75% thereafter)

Experience gains/(losses) of $9 million (2016 – $(40) million) on the Plan's pension obligations are due to differences between actuarial experience and assumptions. The assumption change losses of $509 million (2016 – nil) on the Plan's pension obligations are comprised of $395 million loss due to changes in the economic assumptions noted above and $114 million loss due to changes in the demographic assumptions, the majority of which are due to the adoption of the new Canadian Institute of Actuary's improvement scale that reflects an assumption of increased future longevity for OPTrust's members, as well as from other assumption changes due to an experience study conducted in 2017.

The financial statement nominal discount rate decreased from 5.75% as at December 31, 2016 to 5.60% as at December 31, 2017 to reflect market conditions changes and expected returns.

B. FUNDING VALUATION

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

In accordance with the *Pension Benefits Act* and the *Income Tax Act* and regulations, an actuarial valuation for funding purposes is required to be filed at least every three years to assess the financial position of the Plan, and to determine the Plan's funding requirements. In 2018, OPTrust is expected to file the Plan's December 31, 2017 funding valuation, as prepared by Willis Towers Watson, with the regulator showing that the Plan is fully funded, and the next funding valuation will not be required to be filed until December 31, 2020.

7. Capital

OPTrust is not under regulatory requirements as it relates to capital. OPTrust defines capital as the funded position of the Plan, whether in surplus or deficit. Surplus is generated during periods of favourable economic performance and drawn down during periods of unfavourable economic performance in order to maintain the Trust's capacity to pay its pension obligations without unduly affecting contribution levels. The surplus was $2,025 million as of December 31, 2017 (2016 – $1,729 million).

The objective of managing capital is to ensure the Plan is fully funded to pay the plan benefits over the long-term. A funding valuation is used to manage capital by identifying gains or losses as described in Note 6. OPTrust prudently manages its investments to satisfy its long-term funding requirement in accordance with its *Statement of Investment Policies and Procedures* (SIP&P) and other policies and guidelines. The SIP&P was established in 1995 and was last amended in 2017 to further enhance the disclosure requirements for the member-driven investing strategy.

8. Contributions

For the years ended December 31 ($ millions)	2017	2016
Members		
Current service[a]	**233**	229
Prior service	**17**	16
Long-term income protection[b]	**14**	14
	264	259
Employers[b]		
Current service	**233**	229
Prior service	**7**	7
Long-term income protection	**14**	14
	254	250
Transfers from other plans	**11**	20
TOTAL CONTRIBUTIONS	**529**	529

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

As at December 31, 2017 employers' and members' contributions receivable were in the amount of $27 million (2016 – $33 million) and $21 million (2016 – $20 million) respectively. OPTrust has a reconciliation process which reconciles contributions for each employer on a member-by-member basis. This detailed process ensures that contributions are consistent with member information supplied by the employers.

9. Benefit Payments

For the years ended December 31 ($ millions)	2017	2016
Retirement pensions	**799**	740
Transfers to Public Service Pension Plan	**123**	80
Transfers to other plans	**6**	8
Refunds, commuted value transfers and deaths	**75**	72
TOTAL BENEFIT PAYMENTS	**1,003**	900

10. Administrative Expenses

(a) Investment administrative expenses[a]

For the years ended December 31 ($ millions)	2017	2016
Administration	**38**	39
Professional services	**4**	4
Custodial fees	**2**	2
TOTAL INVESTMENT ADMINISTRATIVE EXPENSES	**44**	**45**

(b) Pension administrative expenses[a]

For the years ended December 31 ($ millions)	2017	2016
Administration	**21**	19
Professional services	**2**	1
TOTAL PENSION ADMINISTRATIVE EXPENSES	**23**	20

Total professional services include external audit expense of $405 thousand in 2017 (2016 – $268 thousand) and actuarial expense of $317 thousand in 2017 (2016 – $420 thousand).
a Includes allocations of corporate expenses.

11. Guarantees, Commitments and Contingencies

In the normal course of business, certain OPTrust subsidiaries may, from time to time, provide guarantees to various counterparties. As at December 31, 2017 these guarantees totalled $115 million (2016 – $170 million).

OPTrust has committed to fund certain investments over the next several years in accordance with the terms and conditions agreed to, which may be considered material within the context of the Trust. As at December 31, 2017 these commitments totalled $2,560 million (2016 – $2,287 million).

As at December 31, 2017 OPTrust's lease commitments for premises totalled $16 million (2016 – $16 million).

OPTrust indemnifies its Trustees and staff against certain claims that may be made against them to the extent that these individuals are not covered under other arrangements.

As at December 31, 2017, OPTrust was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims is often inherently difficult to predict. Any liability that may arise from these litigations has been recognized as appropriate or has been determined to have an immaterial impact on the financial statements.

12. Related Party Disclosures

OPTrust, in the normal course of business, purchased bonds at the prevailing market prices that were issued by the Province of Ontario, a joint sponsor of the Plan and whose employees are members of the Plan. The fair market value of the bonds as at December 31, 2017, was $2,136 million (2016 – $1,313 million). Earned income recorded on the bonds amounted to $47 million for the year-ended December 31, 2017 (2016 – $35 million).

The Trustees of the Plan do not receive compensation from OPTrust. Reimbursement for Trustee-related incidental expenses and education received by Trustees totalled $85 thousand in 2017 (2016 – $58 thousand). The Trustees appointed by the Province of Ontario receive $200 per meeting that they attend and are paid directly by the Province. Trustees appointed by OPSEU are compensated by the union for any loss of regular income as a result of time spent fulfilling their duties as a member of the Board.

13. Key Management Personnel Compensation

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

For the years ended December 31 ($ thousands)	**2017**	2016
Salaries and short-term employee benefits	**2,616**	3,497
Post-employment benefits	**220**	149
Other long-term benefits	**2,536**	799
	5,372	4,445

Ten-Year Financial Review

As at December 31 ($ millions)	**2017**	2016	2015	2014	2013	2012	2011	2010*	2009	2008
CHANGES IN NET ASSETS										
Changes due to investment activities	**1,742**	1,037	1,311	1,818	1,615	1,237	578	1,530	1,348	(2,435)
Changes due to pension activities	**(497)**	(391)	(393)	(289)	(368)	(235)	(192)	(202)	(346)	(179)
INCREASE/DECREASE IN NET ASSETS	**1,245**	646	918	1,529	1,247	1,002	386	1,328	1,002	(2,614)
NET ASSETS										
Investments										
Cash and short-term investments	**3,332**	2,417	1,460	2,750	2,275	2,251	2,296	1,395	2,149	3,251
Government and corporate bonds and debentures	**5,573**	4,227	3,854	2,001	1,629	1,887	2,201	2,282	2,242	2,405
Real return bonds	**430**	438	468	446	577	1,177	1,495	1,280	1,179	1,234
Bank loan notes	**—**	168	156	145	90	—	—	—	—	—
Pooled funds	**2,579**	944	247	200	291	126	—	170	156	60
Public equity — Canadian and foreign	**2,318**	3,422	5,497	5,738	5,749	4,664	4,213	5,731	5,051	3,976
Hedge funds	**1,994**	1,653	712	532	165	—	—	—	—	—
Real estate	**2,823**	2,884	2,857	2,394	2,167	2,148	1,802	1,419	1,582	1,521
Private equity and infrastructure	**4,056**	3,660	4,041	3,339	3,131	2,460	1,516	1,079	862	686
Investment-related assets	**481**	132	108	154	151	149	265	142	131	231
	23,586	19,945	19,400	17,699	16,225	14,862	13,788	13,498	13,352	13,364
Contributions receivable	**48**	53	51	52	58	56	50	44	39	39
Other assets	**5**	4	5	4	5	5	6	2	2	3
TOTAL ASSETS	**23,639**	20,002	19,456	17,755	16,288	14,923	13,844	13,544	13,393	13,406
Liabilities										
Accounts payable and accrued charges	**(44)**	(49)	(54)	(78)	(69)	(64)	(64)	(57)	(79)	(41)
Investment-related liabilities	**(3,305)**	(908)	(1,003)	(196)	(267)	(154)	(77)	(170)	(1,325)	(2,378)
TOTAL LIABILITIES	**(3,349)**	(957)	(1,057)	(274)	(336)	(218)	(141)	(227)	(1,404)	(2,419)
NET ASSETS AVAILABLE FOR BENEFITS	**20,290**	19,045	18,399	17,481	15,952	14,705	13,703	13,317	11,989	10,987
Pension obligations	**18,265**	17,316	16,756	15,937	14,958	14,189	13,499	12,923	12,313	11,631
Actuarial asset value adjustment	**—**	—	—	—	—	—	—	—	(1,523)	(2,428)
SURPLUS	**2,025**	1,729	1,643	1,544	994	516	204	394	1,199	1,784

* Starting in 2010, amounts are presented in accordance with s4600 and IFRS.

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This report summarizes certain provisions of the OPSEU Pension Plan. Please note that this report does not create any rights to benefits not provided for in the actual terms of the Plan. In the event of any conflict or omission, the legal requirements of the OPSEU Pension Plan will govern in all cases.

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