
FACING THE FUTURE

2017 Responsible Investing Report

ABOUT OPTRUST

At OPTrust, our mission is to pay pensions today, preserve pensions for tomorrow. Each day we work to ensure our members receive the benefits they have earned, with our investment and service strategies designed to deliver on this goal.

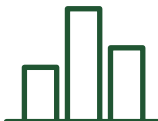
The Plan's funded status is our measure of success and ensures we are well positioned to meet our pension promise of providing certainty, sustainability and security in retirement.



Fully funded
defined benefit pension plan



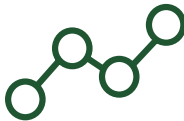
Over **92,000** members and retirees



Over **\$20** billion in net assets



275 employees in Toronto, London (U.K.) and Sydney (AUS)



9.5% net investment return

RESPONSIBLE INVESTING

As part of our responsible investing program, OPTrust integrates material environmental, social and governance (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 teams 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.

Our 2017 Responsible Investing Report provides an overview of our achievements during the year together with our long-term RI strategy.

2017 HIGHLIGHTS



Divested from publicly traded tobacco companies



Received A+ for strategy and governance approach to responsible investing from the Principles for Responsible Investing (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



Joined the Sustainable Stock Exchanges Initiative and the Workforce Disclosure Initiative



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



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



Released *Climate Change: Delivering on Disclosure* position paper advocating for standardized measures for disclosure and shortlisted for an innovation & industry leadership award

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

MESSAGE FROM THE CHAIR AND VICE-CHAIR



At the heart of OPTrust’s promise to members is pension certainty, sustainability and stability. Members need to know they can count on their pension to be there when they retire. With a long-term investment horizon, we cannot ignore environmental and social issues over the same timeframe.

Responsible investing is something the Board of Trustees takes very seriously and we recognize the important measures the organization has taken to integrate sound corporate governance, labour rights and environmental practices into its investment beliefs and strategy.

OPTrust has a long-established track record of identifying, monitoring and assessing ESG-related risks as part of its investment activities. This

approach reflects OPTrust’s fiduciary responsibility to the Plan’s members, which includes identifying and addressing all factors that could affect the Fund’s investment returns.

We are immensely proud of the impact and reputation OPTrust has achieved as a responsible investor in Canada and globally, and 2017 was no exception.

This report reflects the important work and relationships OPTrust continues to build as a leader in responsible investing from engaging with policy makers and regulators to promoting good governance practices and sustainable operational practices, to driving better disclosure on climate change.

OPTrust has taken a leadership position in the area of climate change and we look forward to sustaining the momentum.

Vicki Ringelberg
Chair

Tim Hannah
Vice-Chair

MESSAGE FROM THE PRESIDENT AND CEO



Our mission is simple: pay pensions today, preserve pensions for tomorrow. And yet the world we live and invest in is becoming increasingly complex.

We have witnessed the speed with which disruptive forces – artificial intelligence, climate change, political discourse - have transformed the global economy in unimagined ways. With every change comes the opportunity to take bold new steps in the way we think and invest the Plan's assets. There is never a wrong time to make the right decision and in 2017, we took action in measurable ways in two important areas: climate change and the exclusion of tobacco from our investments.

Climate change is one of the most complex issues we face, which is why we took innovative measures to better understand the risks and opportunities to our portfolios. In doing so, we made the decision to drive standardized measures for carbon disclosure in the investment industry by publicly endorsing the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

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.

To find solutions, we will continue to look for ways to advance the ability of all asset owners to understand the risks they face from climate change. As such, we are exploring further analysis and scenario testing on the fund, and broadening our discussions with investee companies to do the same.

We prefer to use engagement to promote better business practices in our investee companies. However, when it comes to tobacco products, there is no safe level of consumption – they cause only harm. With thoughtful consideration, we evaluated the impact engagement has on this industry and believe that in this case, engagement is futile. OPTrust therefore made the decision to divest from all public equity and fixed income investments that derive a majority of their revenue from the manufacturing of tobacco products.

Our actions today will drive the long-term sustainability of the Plan. We have made significant strides over the year in our approach to responsible investment but our work to drive appropriate disclosure and greater transparency in the investment landscape is not done. Looking ahead we will continue to collaborate with our partners across the globe to develop innovative solutions to the increasingly complex investment landscape.

A handwritten signature in black ink, appearing to read 'Hugh O'Reilly'. The signature is stylized and somewhat abstract, with a long, sweeping line extending from the end.

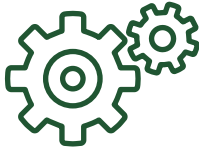
Hugh O'Reilly
President and CEO

RESPONSIBLE INVESTING APPROACH

OPTrust’s Responsible Investing (RI) program is embedded in our Member-Driven Investing (MDI) strategy. Our MDI investment beliefs, policies and strategies consider environmental, social and governance (ESG) factors. We recognize that ESG factors can impact investment risk and return as well as our reputation and is therefore critical to long-term plan sustainability. 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.



Governance



ESG Integration



Active Ownership



Stakeholder Engagement

Our Principles

- **Corporate Governance**
We support and encourage good corporate governance practices within the entities in which we invest. Companies that follow well-accepted principles of good governance tend to have better risk-adjusted returns and improved alignment between corporate, investor and broader stakeholder interests.
- **Environment**
We support and encourage measures to protect the environment by the entities in which we invest. OPTrust expects its investee companies to ensure compliance with environmental regulation, and in regions where regulations are absent or not enforced, that they strive for generally accepted best practices.
- **Human Rights**
We support and encourage participation by labour unions, employers, communities and other stakeholders in the development and management of the companies in which we invest.
- **Public Service**
We support and encourage fair wages, benefits and working conditions for workers employed by OPTrust assets in particular, the International Labour Organization's principles addressing the right to form and join trade unions and bargain collectively, and freedom for workers' representatives from discrimination and their right to access all workplaces necessary to enable them to carry out their representation functions.
- **Stakeholders**
We support and encourage the fundamental human rights enshrined in internationally-accepted norms and standards.
- **Labour Rights**
We recognize the important role and contribution of public employees and are sensitive to the stability of public services.
- **ESG Risks**
We recognize our duty to be aware of, and to understand, material ESG risks to the best of our capacity that may impact our ability to ensure sustainable pension security for our members.

GOVERNANCE

In investing the assets of the fund, OPTrust is guided by our investment beliefs. We believe good governance is good business and contributes to long-term value creation and have developed a governance framework to reflect our commitment to RI.



IN CONVERSATION: JAMES DAVIS, CHIEF INVESTMENT OFFICER



How do you think about responsible investing in this challenging environment?

Responsible investing is important to us no matter the investment environment we operate in. As long-term investors, we are very mindful of slow rising risks such as climate change that often get missed by short term investors.

Our focus on engagement is one of the ways we have a greater influence to mitigate ESG risks in a measurable way in the capital market value chain, including companies, securities exchanges, regulators and governments. For example, we have significant investments in private markets and our actions as responsible investors can have an greater impact.

OPTrust's Member-Driven Investing strategy continues to be implemented and involves the shift from active strategies to a broader market approach. What does this mean for RI?

We believe long-term, responsible investors should use their influence to engage companies on improving performance on key ESG issues. Regardless of our investment approach we will continue to work with our external engagement partner as a key lever to our influence in improving the sustainability of companies we invest in.

As broader market investors using customized indices, it's even more critical for OPTrust to use our influence to engage market participants for improved long-term performance and we are committed to doing so as our engagement report demonstrates (see p. 16).

In an era of technological disruption and innovation, how are you incorporating this into your investment portfolio?

Delivering on our mission for our members requires constant improvement and innovation, particularly with the increasing speed of change and disruption. We are exploring new ways to create value for the Plan and our new incubation portfolio is one approach we've taken by investing in emerging growth companies and exploring agriculture. We are seeing opportunities that have a positive social and environmental impact as part of this exploration.

We have built strategic relationships with investment managers and other partners – and continue to leverage these relationships to pursue innovation. Our portfolio companies may be approaching challenges such as climate change risk in innovative ways - benefiting OPTrust too.

Why is it important to understand how a complex issue like climate change impacts investing?

Climate change is an issue of sustainability and we have long held the view that its effects can impact the long-term sustainability of the fund. OPTrust is well-equipped to make a difference and we are directing resources to better understand and seek greater climate disclosure. For example, our commitment to finding long-term solutions and strategic direction is outlined in our paper *Climate Change: Delivering on Disclosure*.

Similarly, we have endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and reported on our results in OPTrust's 2017 Funded Status Report, in addition to this report (see p. 14 -15). In 2018, we will launch our Climate Change Action Plan.

What is the central focus of OPTrust's Climate Change Action Plan?

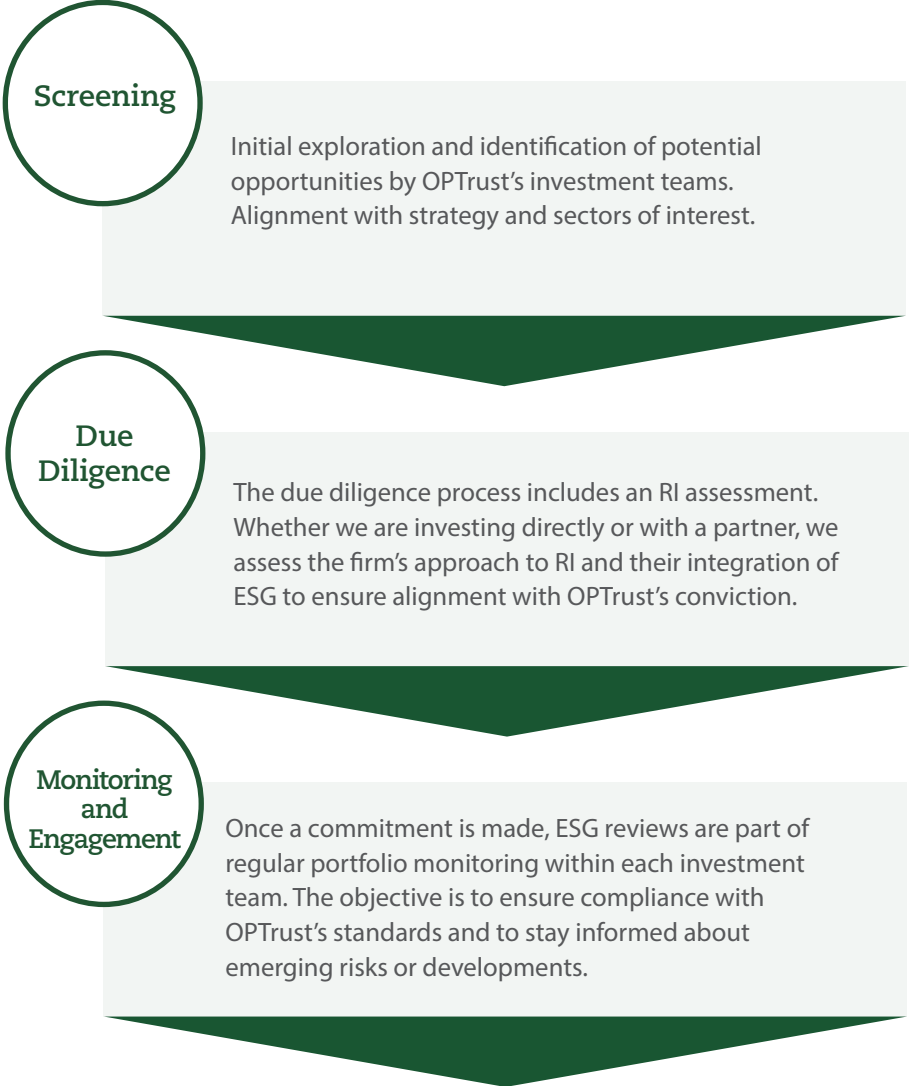
We will not wait for perfection, we are acting now. The Climate Change Action Plan will be aligned with the TCFD framework and we will focus our strategic activities on governance, risk management, strategy and metrics over the next five years. As data improves in quality, the approach to understanding and assessing the risks and opportunities climate change poses will evolve.



STRATEGY

As ESG factors can affect investment risk, return and our reputation, understanding the significance of these factors is part of the investment process. 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.

Stages of ESG integration in the investment decision-making process.



TOBACCO DIVESTMENT

At OPTrust, we prefer to use corporate engagement to realize better business practices that will make the company sustainable for the long term. However, there is no such thing as a safe level of consumption of tobacco products and due to this reality, engagement is futile.

OPTrust therefore took the decision to divest from all public equity and fixed income investments that derive a majority of their revenue from the manufacturing of tobacco products.

The conversation around tobacco divestment has regained momentum recently due to the Tobacco Free Portfolios (TFP) initiative spearheaded by Dr. Bronwyn King, most recently discussed at the International Centre for Pension Management discussion forum in 2017. Through this initiative, almost 50% of Australian Superannuation funds are excluding tobacco stocks and an increasing number of investment managers have also made the commitment. The TFP initiative was used to guide our approach to implementing this exclusion.



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 CIO and Responsible Investing team on 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 (CO₂) emissions from business 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

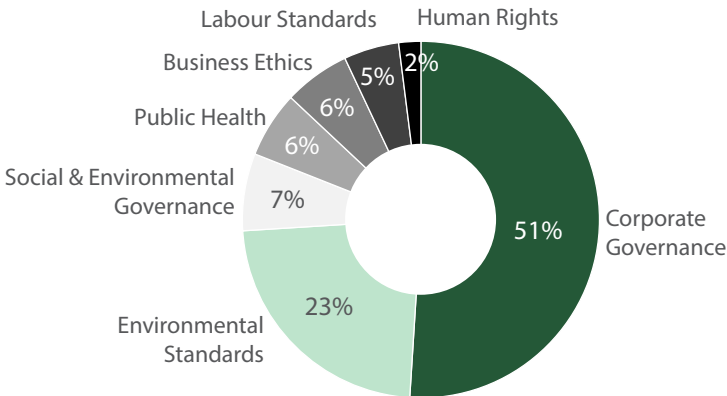
- As the materiality of climate change-related risks is still being assessed, specific metrics and targets have not been developed. OPTrust does report on climate change-related engagement activity within its annual RI Report
- The assessment we are preparing to undertake in 2018 will support the determination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

ACTIVE OWNERSHIP

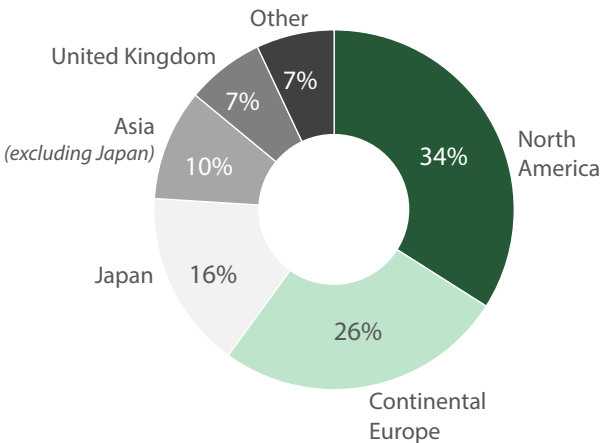
OPTrust’s RI strategy includes a commitment to active ownership by monitoring investment partners and the companies within our portfolios, actively voting at all company meetings and engaging with companies on key issues to improve long-term investment performance. We believe that engagement is a more effective approach than one of divestment in most cases. With a seat at the table we are better able to work with our investee companies and partners to bring about positive change.

OPTrust’s corporate engagement strategy is executed both directly and with our external engagement partner. Results of these engagements are highlighted below.

Companies Engaged by Issue



Companies Engaged in 38 Countries



Engagements

Companies Engaged	576
Milestones Achieved	168

Collective worker rights in the supply chain



We know that collective worker rights act as a significant enabler for tackling many of the underlying labour standards issues, such as inadequate wages or safety standards. This drove an engagement that involved 51 companies in the food retailing, textiles, apparel and luxury goods sectors. These companies were engaged on improving practices that protect collective worker rights including their global policies and the challenges they face when implementing those policies in their supply chains.

Three main areas in which companies can influence the implementation of worker rights in the supply chain were identified:

1. Actively support collective bargaining
2. Employ local teams in high-risk sourcing markets
3. Collaborate with other stakeholders

This project also revealed that although companies may be aware of the importance of collective bargaining rights in the supply chain, additional efforts are necessary to ensure implementation. Considering the variety of regulations and maturity existing in supply markets, the role of international brands and retailers is instrumental to support education and capacity building on the concept of trade unions.

Climate change in the oil and gas industry



Company: Royal Dutch Shell PLC

Shareholders have pushed oil and gas companies to provide additional information on their long-term business plans for the transition to a low carbon economy through the filing of shareholder resolutions. In the last few years, the support for these proposals has been increasing, not only from investors but from companies' Boards. This is the case of Shell when in 2015, their Board supported a shareholder proposal demanding better disclosure about Shell's resilience to low carbon energy trends.

In 2017, Shell announced a comprehensive set of long-term emission targets for operational emissions (Scope 1+2) as well as life-cycle emissions associated with oil and gas products (scope 3). This announcement represents a significant step-change in industry disclosure on climate change as it covers scope 3 emissions and includes a commitment to align these with long-term political ambitions to limit climate change to below 2° C. It comes after many years of intensive engagement with the company to expand targets to include life-cycle emissions. There are a number of open questions we have started to address with Shell, primarily around the extent to which its net carbon footprint methodology can be used to test alignment with a 2° energy trajectory.

However, despite these outstanding issues, we recognize Shell's announcement as a crucial step that will help accelerate dialogue with companies across sectors around the possibilities of setting realistic and ambitious business targets in relation to climate change.

Regular meetings were had with Shell executives to reinforce the expectations about Shell's leadership in the area.

As a result, late in 2017, Shell announced its ambition to reduce the net carbon footprint of its energy products by around half by 2050, with an interim goal of achieving a 20% reduction in 2035, aligned with the commitments of the Paris Climate Agreement. Shell also confirmed that the emissions targets are linked to the remuneration scorecard and their leading role in developing long-term scenario planning recommended by the TCFD.

This announcement sets a precedent for the industry and puts Shell on the leading edge of climate-related reporting.

Labour standards in the supply chain

Company: McDonald's Corporation



Labour practices are a risk for companies with agricultural supply chains. An adequate management of these issues mitigates potential risks, contributes to a company's competitive advantage and strengthens its long-term financial stability.

Due to its extensive global footprint, McDonald's has significant exposure to these risks. The company is aware of the importance of having a strong supply chain in future business success and in 2017 it maintained conversations with investors aimed at encouraging enhanced operational practices including sourcing traceability and enhanced supplier relationships to improve labour practices in global food and beverage supply chains.

Key outcomes of these discussions are expected to include the identification and assessment of existing corporate practices, enhanced communication and reporting and ultimately improved performance and impact by target companies.

Aligning remuneration with company performance

Company: Citigroup



Following the global financial crisis, executive pay at financial institutions has been under the spotlight to ensure bank executives are not rewarded for failure; Citigroup is one example of a bank that has received criticism due to the misalignment of CEO compensation and performance.

Since 2007, investors have engaged Citigroup board of directors on establishing better compensation practices. In 2017 Citigroup conducted an extensive stakeholder engagement program.

These dialogues have catalyzed the implementation of relevant initiatives that include better disclosure on the discretion applied in setting pay and the details of performance targets, as well as the addition of Return on Tangible Common Equity and Cumulative Earnings Per Share targets, both of which are considered more aligned to the bank's business plan.

The performance metrics and targets are aligned with corporate strategy and with the interests of long-term shareholders. As such, we are optimistic that, 10 years after the global financial crisis began – there is a structure in place at a major Wall Street institution which would not reward poor performance.

In addition to advocating for change with our investee companies, we leverage engagement opportunities and build relationships with like-minded partners. In 2017, we joined the following initiatives:

Climate Action 100 +

- Joined the five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. To date, 225 investors with more than \$26.3 trillion (USD) in assets under management have signed on to the initiative.



Sustainable Stock Exchanges (SSE) Initiative

- Joined the SSE initiative, a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators and companies, can enhance corporate transparency – and ultimately performance – on ESG issues and encourage sustainable investment.



Workforce Disclosure Initiative

- Became a founding member together with a coalition of 79 global institutional investors – with nearly \$8 trillion in assets under management – to encourage companies to provide comparable data on the workforces in their operations and supply chain annually.
- In this pilot year, almost all companies engaged provided positive feedback on the initiative and the importance of disclosure on workforce issues required to make informed judgements about how a company is managing its workforce.



PROXY VOTING

As a long-term investor, OPTrust believes that good corporate governance practices support stronger long-term performance and enhance shareholder value. We take the right to vote proxies on behalf of our beneficiaries very seriously and actively exercise our voting rights for public securities held within our portfolios according to OPTrust's *Proxy Voting Guidelines*. The Guidelines include our expectations for:

- Board of Directors composition
- Executive compensation
- Shareholder rights
- The disclosure of environmental and social information.

In addition, our Statement on Proxy Access outlines our position on the importance of shareholder engagement on all governance issues including the director nomination process.

2,794 Total meetings voted
11.5% Votes against management

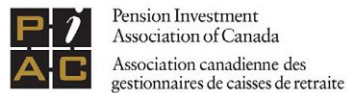
Top Countries	
Canada	102
USA	562
Rest of the World	2,130



STAKEHOLDER ENGAGEMENT

In the spirit of partnership, we believe strongly that collaboration with regulators, policymakers, strategic partners and global peers provides greater insight and a stronger voice on matters of responsible investment. We have established strategic relationships with like-minded and trusted partners across the globe through the following organizations:

- OPTrust President and CEO Hugh O'Reilly was elected to the Board of Directors of the Canadian Coalition for Good Governance in 2017
- Katharine Preston, Director, Responsible Investing was appointed to the Pension Investment Association of Canada's Board of Directors and serves as Chair of its Investor Stewardship Committee
- OPTrust CIO James Davis serves on PRI's Asset Owner Advisory Committee
- In 2017, OPTrust joined the Asia Investor Group on Climate Change (AIGCC) and the Ceres Investor Network on Climate Risk and Sustainability



TRANSPARENCY

Transparency is important to OPTrust. We communicate regularly and publicly on our RI activities, and how we continue to practice RI in alignment with our Member Driven Investing (MDI) strategy in our Funded Status Reports, Responsible Investing Reports, and communications to members and other stakeholders. We disclose our proxy voting record on a quarterly basis.

More information about our RI approach and MDI strategy together with our policies is available online at optrust.com > Investments.

As a signatory to the PRI, we complete an annual assessment and reporting exercise. A large part of this submission forms a public report outlining details on how OPTrust implements our RI program. It also provides transparency to our members and assesses our activities against those of our fellow signatories, highlighting areas of strength and any potential areas for improvement.

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