FINANCIAL STATEMENTS

To the Trustees of the Ontario Public Service Employees Union Pension Plan Trust Fund, Administrator of the Ontario Public Service Employees Union Pension Plan

We have audited the accompanying financial statements of Ontario Public Service Employees Union Pension Plan, which comprise the statements of financial position as at December 31, 2015 and 2014 and the statements of changes in net assets available for benefits, changes in surplus 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 Ontario Public Service Employees Union Pension Plan as at December 31, 2015 and 2014 and the changes in its net assets available for benefits, changes in surplus 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

March 10, 2016

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, 2015. The purpose of this valuation is to determine the pension obligations of the Plan as at December 31, 2015, 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 $16,756 million in respect of service accrued to December 31, 2015.

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

- members' demographic data provided by OPTrust staff as at October 2, 2015 projected to December 31, 2015, using management's estimates of experience for the intervening period;
- the actuarial cost method prescribed by the *CPA Canada Handbook* Section 4600; and
- 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, 2014, 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,

- the membership data are sufficient and reliable for the purpose of the valuation;
- the assumptions adopted are appropriate for the purpose of the valuation;
- the methods employed in the valuation are appropriate for the purpose of the valuation; 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.

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

Towers Watson Canada Inc.

Ian Markham

IAN MARKHAM
Fellow,
Canadian Institute of Actuaries

Laura Newman.

LAURA NEWMAN
Fellow,
Canadian Institute of Actuaries

Toronto, Ontario
March 10, 2016

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 annual report. The financial statements have been prepared in accordance with Canadian accounting standards for pension plans and comply with the financial reporting requirements of the *Pension Benefits Act* of Ontario. The financial statements include amounts that must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout the annual report 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 Government and OPSEU, reviews the financial statements with management and the external auditors 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 auditors to review the scope of the audit, discuss auditor findings, and satisfy themselves that their responsibilities have been adequately discharged.

PricewaterhouseCoopers LLP, the Plan's external auditor, have 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 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 Chief Executive Officer

DOUG MICHAEL
Chief Financial Officer

March 10, 2016

Statement of Financial Position

As at December 31 ($ millions)	2015	2014
ASSETS		
Investments (Note 4)	**19,400**	17,699
Contributions receivable (Note 8)	**51**	52
Other assets	**5**	4
	19,456	17,755
LIABILITIES		
Accounts payable and accrued charges	**54**	78
Investment-related liabilities (Note 4)	**1,003**	196
	1,057	274
NET ASSETS AVAILABLE FOR BENEFITS	**18,399**	17,481
PENSION OBLIGATIONS (Note 6)	**16,756**	15,937
SURPLUS (Note 7)	**1,643**	1,544
PENSION OBLIGATIONS AND SURPLUS	**18,399**	17,481

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

Statement of Changes in Surplus

For the years ended December 31 ($ millions)	2015	2014
SURPLUS, BEGINNING OF YEAR	**1,544**	994
CHANGE IN SURPLUS		
Increase in net assets available for benefits	**918**	1,529
Increase in net pension obligations	**(819)**	(979)
NET INCREASE IN SURPLUS	**99**	550
SURPLUS, END OF YEAR	**1,643**	1,544

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 10, 2016 and were signed on its behalf by:

MICHAEL GRIMALDI
Chair

VICKI RINGELBERG
Vice-Chair

Statement of Changes in Net Assets Available for Benefits

For the years ended December 31 ($ millions)	2015	2014
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	**17,481**	15,952
Changes due to investment activities		
Investment income (Note 5)	**518**	517
Net gain on investments (Note 5)	**983**	1,474
Investment management and administrative expenses (Notes 5 and 10a)	**(190)**	(173)
	1,311	1,818
Changes due to pension activities		
Contributions (Note 8)	**522**	529
Benefits paid (Note 9)	**(897)**	(798)
Pension administrative expenses (Note 10b)	**(18)**	(20)
	(393)	(289)
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	**918**	1,529
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**18,399**	17,481

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

Statement of Changes in Pension Obligations

For the years ended December 31 ($ millions)	2015	2014
PENSION OBLIGATIONS, BEGINNING OF YEAR	**15,937**	14,958
INCREASE IN PENSION OBLIGATIONS		
Interest accrued on benefits	**958**	946
Benefits accrued	**438**	442
Assumption changes (Note 6)	**649**	441
	2,045	1,829
DECREASE IN PENSION OBLIGATIONS		
Benefits paid (Note 9)	**897**	798
Experience gains (Note 6)	**329**	52
	1,226	850
INCREASE IN NET PENSION OBLIGATIONS	**819**	979
PENSION OBLIGATIONS, END OF YEAR	**16,756**	15,937

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 Plan was established under the terms of the April 18, 1994 *Sponsorship Agreement* between the Province and OPSEU (the sponsors), which also provided for the establishment of the OPSEU Pension Plan Trust Fund (OPTrust or the Trust) to hold the net assets available for benefits of the Plan, and implemented by the *OPSEU Pension Act, 1994*.

The *Sponsorship Agreement* establishes the Province and OPSEU as joint sponsors of the Plan. The Trustees of the Plan are responsible for the administration and management of both the Plan and the Trust, as described in the October 25,1994 *Trust Agreement* between the sponsors, and the Trust. The Board of Trustees is composed of 10 persons, five appointed by each of the Province and OPSEU.

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

a. Membership

The Plan's membership comprises members represented by OPSEU, certain designated 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 Lottery and Gaming Corporation
- Ontario Pension Board
- 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 Continuing 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% (2014 – 9.4%) of salary up to the Year's Maximum Pensionable Earnings (YMPE) under the CPP and 11% (2014 – 11%) of salary above the YMPE. Sponsors have agreed that the contribution rate, except in extenuating circumstances, will not exceed this level until at least December 31, 2017.

d. Purchase or Buy Back of Past Service

Eligible members of the Plan can purchase or "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 buyback types and for some, employers make a matching payment.

e. Pension Benefits

Members' benefits become immediately vested upon Plan enrollment. The Plan provides for the payment of a pension benefit equal to 2% of the average of the best five consecutive years of salary, for each year of pension service, up to age 65. When a member reaches age 65, his or her pension is reduced by an amount that roughly estimates the amount of CPP benefits earned during membership, as reflected by the lower contributions made for earnings up to the YMPE. The reduction at age 65 equals 0.655% multiplied by the lesser of the best five-year average annual salary or the final five-year average of the YMPE, multiplied by the member's years of pension service after 1965 (maximum of 35 years).

An unreduced pension is payable at age 65 (the Plan's normal retirement age), or before age 65, if the member's age and years of pension service total 90 (Factor 90), or when the member reaches age 60 and has 20 or more years of pension service. Reduced pensions are available to members who retire at or after age 55 and before age 65 who are not entitled to unreduced benefits. 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 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 current and deferred pensions. The inflation adjustment was 1.3% at January 1, 2016 (January 1, 2015 – 1.7%).

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 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 membership in the Plan, have the option of leaving their money in the Plan and receiving a pension at retirement. In addition, members who are moved to other employers in a divestment situation and are enrolled in a new pension plan may opt for a deferred pension. The value of deferred pensions increases annually by the annual inflation adjustment. As at January 1, 2014, changes to the *Pension Benefits Act* allow previously divested persons to transfer their deferred pensions to another pension plan, where a transfer agreement is in place.

j. Termination Payments

Subject to certain restrictions, a member who terminates Plan membership may be entitled to transfer the commuted value of his or her pension to a registered retirement savings plan (RRSP), or use these funds to purchase a life annuity. Excess contributions may also be transferred to an RRSP or paid directly to the former member, subject to withholding of income taxes and applicable limits under the *Income Tax Act.*

k. Transfers

In certain circumstances, a member who terminates employment 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. In addition, members who do not terminate employment but must move to the Public Service Pension Plan (administered by the Ontario Pension Board), due to a change in bargaining unit status, are subject to mandatory transfer arrangements.

2. Significant Accounting Policies

a. Basis of Presentation

These financial statements are prepared in accordance with *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 market investments, certain fund investments and the determination of the pension obligations.

c. Investments

Investments, investment receivables, investment payables and investment-related obligations 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

Cost plus accrued interest where it approximates fair value, 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

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 are 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 each of the funds' external administrators and are reviewed by management.

Real Estate

Fair value is determined using appropriate valuation techniques and management's and/or third party best estimates. Income producing properties are valued based on independent appraisals that are conducted at least once every three years. Where external appraisers are engaged to perform the valuation, management reviews the assumptions used by the appraisers.

Investments held through limited partnership or 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 Markets

Private markets include private equity and infrastructure investments that 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 such as futures. 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 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 extend duration.

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 diversification and for risk diversification.

Total return swaps

A total return swap is a contractual agreement between two parties to exchange cash flows based on changes in the value of the referenced asset. OPTrust uses total return swaps to gain exposure and benefit from referenced assets without having to own the assets.

Foreign exchange forwards

A foreign exchange 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 uses foreign exchange forward contracts to modify currency exposure for both hedging and active currency management.

Bond forwards

A bond forward is a contractual agreement to buy or sell bonds or a bond index at a specified price and date in the future. OPTrust utilizes bond forward contracts to gain exposure to bond markets.

Commodity futures

Commodity futures are standardized contracts to either buy or sell a commodity index at a specific price and date in the future. Futures are transacted between counterparties on regulated future exchanges and are subject to daily cash settlement of changes in fair value. OPTrust utilizes commodity futures to obtain commodities exposure.

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 gain additional 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. They may be acquired in standardized amounts on regulated exchanges or may be customized and acquired in the OTC market. OPTrust utilizes call options to manage interest rate and volatility exposures and uses put options to generate income in expected interest rate scenarios.

Swaptions

Swaptions are contractual agreements where the purchaser has the right, but not the obligation, to enter into or cancel a swap agreement at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right. OPTrust utilizes swaptions to manage exposures to market risks and to enhance returns.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements (repo agreements) are agreements where OPTrust sells securities and simultaneously agrees to buy them back at a specified price at a future date. 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 as cash margin 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 has the right by contract or custom to sell or re-pledge the collateral, OPTrust recognizes that asset in its investments and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, a disclosure of the collateral provided is made in the notes to the financial statements.

ii) Income recognition

Net investment income includes interest and dividends, income from real estate and private market investments, realized gains and losses on disposal of investments, and unrealized gains and losses resulting from changes in the fair value of investments, net of incentive fees. 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 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, issue or disposal of investment assets or liabilities, and are expensed as incurred.

iv) External management fees

External management fees for portfolio management are expensed and disclosed 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 current members' expected future contributions and margins of conservatism in the setting of economic assumptions.

e. Contributions Receivable

Contributions from members and employers that are due at year-end, including those relating to purchases of credit for prior employment or leave, and transfers into the Plan, are recorded 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. The Plan's sponsors have established rate stabilization funds as a reserve against future contribution increases. The rate stabilization reserves form part of the surplus/(deficit) and earn income at the funding valuation interest rate. Unallocated surplus/(deficit) is the remainder of surplus/(deficit) after considering the rate stabilization reserves.

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 Standard Issued but not Applied

On July 24, 2014 the International Accounting Standards Board 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 is currently assessing the impact of adopting IFRS 9 on future financial results.

3. Risk Management

a. 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, commodity risk and inflation risk), credit risk, as well as liquidity risk.

The management of these investment risks is addressed in OPTrust's policies. OPTrust's Liquidity Risk Management Committee monitors and manages liquidity needs.

OPTrust may implement strategies to mitigate investment risks under adverse market conditions.

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 commodity prices. 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 or 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 reducing 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 for investments by establishing a target asset mix that provides an appropriate mix between interest-sensitive investments and those subject to other risks. A portion of the interest-sensitive portfolio is actively managed, allowing managers to anticipate interest rate movements to mitigate or take advantage of interest rate changes. There are also certain private market and real estate investments which may have interest rate components making them subject to interest rate exposure.

Duration is a measure of the sensitivity of portfolios subject to interest rates to parallel shifts in the yield curve. The duration of the fixed income portfolio is 8.6 years as at December 31, 2015 (2014 – 6.8 years). A 1% increase/(decrease) in interest rates, with all other variables held constant, would result in an (decrease)/increase in the value of the fixed income portfolio of $406 million (2014 – $228 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. The Trust's policy is to economically hedge 50% of its reference portfolio currency exposure to investments in developed markets. In addition to the Trust's passive policy hedging program, certain active managers manage currency risks as part of their investment mandate.

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

As at December 31 ($ millions)	2015 Gross exposure	2015 Impact of derivatives[a]	2015 Net exposure	2014 Net exposure
Canadian Dollar	**7,880**	**6,204**	**14,084**	12,544
Investments subject to currency risk				
Developed markets				
United States Dollar	**5,977**	**(4,371)**	**1,606**	2,848
Euro	**1,224**	**(806)**	**418**	18
British Pound Sterling	**772**	**(576)**	**196**	222
Hong Kong Dollar	**405**	**(14)**	**391**	251
Japanese Yen	**368**	**(85)**	**283**	256
Europe – Other	**360**	**(52)**	**308**	233
Asia Pacific – Other	**349**	**(304)**	**45**	52
Emerging markets	**1,062**	**4**	**1,066**	1,079
	10,517	**(6,204)**	**4,313**	4,959
NET INVESTMENTS	**18,397**	**–**	**18,397**	17,503

a The impact of derivatives represents the foreign currency exposure hedged using forward currency contracts.

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 the net assets available for benefits as at December 31, 2015 (2014 – $185 million).

As at December 31 ($ millions)	2015 Change in Canadian Dollar	2015 Change in net assets available for benefits	2014 Change in Canadian Dollar	2014 Change in net assets available for benefits
United States Dollar	**+/- 5%**	**+/- 74**	+/- 5%	+/- 143
Euro	**+/- 5%**	**+/- 19**	+/- 5%	+/- 7
Hong Kong Dollar	**+/- 5%**	**+/- 19**	+/- 5%	+/- 12
Japanese Yen	**+/- 5%**	**+/- 13**	+/- 5%	+/- 12
Indian Rupee	**+/- 5%**	**+/- 11**	+/- 5%	+/- 11
TOTAL		**+/- 136**		+/- 185

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 or 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)		2015		2014
Equity market[a]	Market benchmark	Change in market benchmark[b]	Change in net assets available for benefits	Change in net assets available for benefits
Developed	MSCI World Index	+/- 10%	+/- 173	+/- 232
Private equity	MSCI World Index	+/- 10%	+/- 121	+/- 103
Canadian	S&P/TSX Composite Index	+/- 10%	+/- 103	+/- 139
Emerging	MSCI EMF Index	+/- 10%	+/- 50	+/- 84
TOTAL			+/- 447	+/- 558

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 benchmark is estimated using the most recent four years of market data. Currency exchange rates are not affected by the change in benchmark indices.

Commodity Price Risk

Commodity price risk is the risk that the fair value of investments will fluctuate due to changes in market prices of commodities. In 2015, OPTrust eliminated its direct exposure to commodities.

Inflation Risk

Inflation risk is the risk that fair value or 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 infrastructure and real estate investments where inflation inputs are used to determine the fair value of investments.

Value at Risk

OPTrust uses Value at Risk (VaR) methodology to monitor market risk in the overall fund. VaR is a statistical technique that is used to estimate the potential loss in a portfolio as a result of movements in market risk factors over a specified time period and for a specified confidence level. The VaR methodology uses at least 10 years of weekly returns to estimate VaR at the given confidence level scaled to a one-year holding period.

VaR is a valid measure under normal market conditions, and assumes that historic market data can be used to estimate future risk. If future market behaviour is significantly different from the past, or if severe market events occur, the actual losses could be materially different from the VaR estimates.

The table below highlights the loss, in normal markets, that could be expected in a year, based on the VaR methodology at the 95% confidence level.

	2015		2014	
As at December 31 ($ millions)	Potential loss	% Potential loss	Potential loss	% Potential loss
Net investments	(1,286)	-7.0%	(1,997)	-11.4%

In 2015, VaR decreased as a result of selling commodities and reducing exposure to public equities.

In addition to the management of absolute risk, the *Investment Risk Policy* sets guidelines for the management of active risk by imposing a limit on the amount of active risk that the overall total fund portfolio can deviate versus its benchmark. The limit is designed to permit flexibility in achieving value-added targets and also limit underperformance versus the benchmark. It is measured using a VaR methodology and calculated at the 95th percent confidence level.

ii) Credit risk

Credit risk is the risk of financial loss due to a counterparty, borrower, 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 limits on the Trust's exposure to single issuers and by credit rating. Issuer type 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.

The fair value of the investments exposed to credit risk, by credit rating, is as follows:

	2015						
As at December 31 ($ millions)	**Short-term investments**	**Government, corporate bonds and bank loans**	**Real return bonds**	**Swaps**	**Forwards**	**Options**	**Total**
AAA/R-1 High	**435**	**1,079**	**462**	**–**	**–**	**–**	**1,976**
AA/R-1 Mid	**405**	**343**	**–**	**53**	**13**	**–**	**814**
A/R-1 Low	**112**	**1,630**	**–**	**2**	**7**	**–**	**1,751**
BBB/R-2 Low or lower	**14**	**958**	**6**	**–**	**–**	**–**	**978**
TOTAL	**966**	**4,010**	**468**	**55**	**20**	**–**	**5,519**

	2014						
As at December 31 ($ millions)	Short-term investments	Government, corporate bonds and bank loans	Real return bonds	Swaps	Forwards	Options	Total
AAA/R-1 High	852	465	444	–	–	–	1,761
AA/R-1 Mid	828	651	–	62	11	–	1,552
A/R-1 Low	417	453	–	1	10	1	882
BBB/R-2 Low or lower	11	577	2	–	10	–	600
TOTAL	2,108	2,146	446	63	31	1	4,795

Credit risk for investments in derivatives 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 has exposure to derivatives as follows:

As at December 31 ($ millions)	2015			2014		
	Notional amount[a]	Fair value Assets	Fair value Liabilities	Notional amount[a]	Fair value Assets	Fair value Liabilities
Forwards						
Currency	**10,678**	**3**	**(326)**	20,800	19	(60)
Bond	**17**	**18**	**(2)**	10	13	(23)
Futures						
Equity	**1,436**	**–**	**–**	83	–	–
Bond	**822**	**–**	**–**	52	–	–
Commodity	**–**	**–**	**–**	851	–	–
Options						
Currency	**51**	**–**	**–**	20	1	–
Interest rate	**2**	**3**	**–**	15	6	–
Swaption	**–**	**–**	**–**	9	–	–
Swaps						
Interest rate	**979**	**12**	**(1)**	2,729	25	(3)
Total return	**108**	**42**	**–**	105	38	–
Credit default	**94**	**1**	**–**	1	–	–
Inflation	**12**	**–**	**–**	–	–	–
Currency	**–**	**–**	**–**	1	–	–
TOTAL DERIVATIVES	**14,199**	**79**	**(329)**	24,676	102	(86)

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.

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, 2015 and 2014. Similar arrangements include repo agreements, security lending agreements and any related rights to financial collateral.

2015

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)	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Financial collateral (held)/ pledged	Net amount
Financial assets						
Derivative instruments	94	(15)	79	–	(12)	67
Securities lending	1,045	–	1,045	–	(1,045)	–
TOTAL FINANCIAL ASSETS	1,139	(15)	1,124	–	(1,057)	67
Financial liabilities						
Derivative instruments	(344)	15	(329)	–	38	(291)
Repo agreements	(565)	–	(565)	–	565	–
TOTAL FINANCIAL LIABILITIES	(909)	15	(894)	–	603	(291)

2014

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)	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Financial collateral (held)/ pledged	Net amount
Financial assets						
Derivative instruments	157	(55)	102	–	(24)	78
Securities lending	1,560	–	1,560	–	(1,560)	–
TOTAL FINANCIAL ASSETS	1,717	(55)	1,662	–	(1,584)	78
Financial liabilities						
Derivative instruments	(141)	55	(86)	–	49	(37)
TOTAL FINANCIAL LIABILITIES	(141)	55	(86)	–	49	(37)

Collateral is collected from counterparties to manage credit risk from OTC derivatives in accordance with the Credit Support Annex (CSA), which forms part of the International Swaps and Derivative's 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 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, 2015, collateral of $12 million (2014 – $24 million) was held and $38 million (2014 – $49 million) was pledged by OPTrust.

iii) Liquidity risk

Liquidity risk is the risk that the Trust has insufficient cash flows to meet its pension obligations and other commitments and expenses as they become due. OPTrust has exposure to liquidity risk through its investment commitments which are required to be funded in future periods, as well as through holding investments including certain funds, private market and real estate investments, which by nature are less liquid than public market assets (see Note 11).

Cash inflows are derived from member and employer contributions, earned income, principal repayments on fixed income investments and the proceeds from sales of other investments. Excess cash flows, after meeting pension obligations and operating expenses, are reinvested. The Plan forecasts and manages cash flows to ensure it meets its obligations when due, without unintended early liquidation of assets.

In addition, 94% (2014 – 95%) of public market investments are marketable and can be liquidated relatively quickly, while investments in real estate, private equity, infrastructure and certain funds are typically less liquid.

The remaining terms to contractual maturity or repricing dates, whichever dates are earlier, of interest bearing investments, including derivatives, mortgages and repo agreements are as follows:

	2015				
	Term to maturity				
As at December 31 ($ millions)	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Short-term investments	966	–	–	–	966
Bonds and bank loans					
Canadian government	–	550	279	322	1,151
Provincial government	–	195	455	888	1,538
Corporate	–	558	475	288	1,321
Real return	–	4	2	462	468
	966	1,307	1,211	1,960	5,444
Swaps	–	47	3	4	54
Mortgages related to real estate	(117)	(230)	(276)	(108)	(731)
Repo agreements	(565)	–	–	–	(565)
	(682)	(183)	(273)	(104)	(1,242)
TOTAL	284	1,124	938	1,856	4,202

	2014				
	Term to maturity				
As at December 31 ($ millions)	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total
Short-term investments	2,089	19	–	–	2,108
Bonds and bank loans					
Canadian government	–	205	197	115	517
Provincial government	–	55	250	399	704
Corporate	2	424	366	133	925
Real return	–	–	2	444	446
	2,091	703	815	1,091	4,700
Swaps	(85)	67	29	49	60
Mortgages related to real estate	(131)	(210)	(257)	(86)	(684)
	(216)	(143)	(228)	(37)	(624)
TOTAL	1,875	560	587	1,054	4,076

OPTrust maintains $130 million (2014 – $133 million) of unsecured credit facilities to meet potential liquidity requirements primarily for investment purposes. The interest charged on the drawn portion of the credit facility is 0.75% (2014 – 0.75%). As at December 31, 2015, the total amount drawn on the credit facilities in the form of letters of credit was $41 million (2014 – $40 million).

b. Securities Lending

The Trust participates in a securities lending agreement whereby it lends securities to approved borrowers. OPTrust secures its exposure through the receipt of security or cash collateral of at least 102% 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. Credit risk associated with the reinvestment of cash collateral is mitigated by the investment policies and practices agreed to with the lending agent, which emphasize preservation of capital.

As at December 31, 2015, the Trust's investments included loaned securities with a fair value of $1,045 million (2014 – $1,560 million). The fair value of collateral received in respect of these securities on loan was $1,106 million (2014 – $1,646 million), which includes cash collateral of $24 million (2014 – $26 million) and other securities of $1,082 million (2014 – $1,621 million).

c. Securities Collateral

The Trust pledges and receives securities collateral to/from counterparties for repo agreements. Since the Trust retains all the risks and rewards of ownership of the pledged securities, the Trust shall continue recognizing the securities.

As at December 31, 2015, collateral held for repo agreements was $4 million (2014 – nil) with an associated liability of $565 million (2014 – nil).

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.

	2015				
As at December 31 ($ millions)	Level 1	Level 2	Level 3	Fair value	Cost
Fixed income					
Cash	494	–	–	494	494
Short-term investments	–	966	–	966	964
Government and corporate bonds					
Canadian	–	3,474	–	3,474	3,459
Foreign	–	380	–	380	367
Real return bonds					
Canadian	–	462	–	462	327
Foreign	–	6	–	6	6
Bank loans	–	156	–	156	135
Pooled fixed income funds	7	89	–	96	81
	501	5,533	–	6,034	5,833
Public equity					
Canadian	1,271	–	–	1,271	1,049
Foreign	4,205	21	–	4,226	3,228
Pooled equity funds	48	64	39	151	125
	5,524	85	39	5,648	4,402
Hedge funds	–	–	712	712	564
Real estate	(4)	(731)	3,592	2,857	2,228
Private markets					
Private equity	16	–	1,675	1,691	1,215
Infrastructure	140	–	2,210	2,350	1,692
	156	–	3,885	4,041	2,907
Investment-related assets					
Accrued income	37	–	–	37	37
Due from brokers	7	27	–	34	34
Derivative instruments	–	37	–	37	21
	44	64	–	108	92
INVESTMENT ASSETS	6,221	4,951	8,228	19,400	16,026
Investment-related liabilities					
Due to brokers and other liabilities	(27)	(58)	–	(85)	(85)
Derivative instruments	–	(329)	–	(329)	–
Repo agreements	–	(565)	–	(565)	(565)
Obligation under securities lending agreements	(24)	–	–	(24)	(24)
	(51)	(952)	–	(1,003)	(674)
NET INVESTMENTS	6,170	3,999	8,228	18,397	15,352

As at December 31 ($ millions)	2014 Level 1	Level 2	Level 3	Fair value	Cost
Fixed income					
Cash	642	–	–	642	642
Short-term investments	8	2,100	–	2,108	2,102
Government and corporate bonds					
Canadian	–	1,760	–	1,760	1,714
Foreign	–	241	–	241	245
Real return bonds					
Canadian	–	444	–	444	311
Foreign	–	2	–	2	2
Bank loans	–	145	–	145	139
Pooled fixed income funds	6	105	–	111	102
	656	4,797	–	5,453	5,257
Public equity					
Canadian	1,859	3	–	1,862	1,484
Foreign	3,872	4	–	3,876	2,955
Pooled equity funds	20	34	35	89	74
	5,751	41	35	5,827	4,513
Hedge funds	–	–	532	532	492
Real estate	(2)	(684)	3,080	2,394	1,994
Private markets					
Private equity	2	–	1,282	1,284	1,071
Infrastructure	19	–	2,036	2,055	1,614
	21	–	3,318	3,339	2,685
Investment-related assets					
Accrued income	28	–	–	28	28
Due from brokers	18	44	–	62	62
Derivative instruments	–	64	–	64	–
	46	108	–	154	90
INVESTMENT ASSETS	6,472	4,262	6,965	17,699	15,031
Investment-related liabilities					
Due to brokers and other liabilities	(23)	(61)	–	(84)	(84)
Derivative instruments	–	(86)	–	(86)	(6)
Obligation under securities lending agreements	(7)	(19)	–	(26)	(26)
	(30)	(166)	–	(196)	(116)
NET INVESTMENTS	6,442	4,096	6,965	17,503	14,915

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

	2015			
For the year ended December 31 ($ millions)	Hedge and pooled funds	Real estate	Private markets	Total
Balance, beginning of year	**567**	**3,080**	**3,318**	**6,965**
Investment income	**–**	**90**	**150**	**240**
Realized gains	**14**	**97**	**196**	**307**
Unrealized gains/(losses)[a]	**114**	**175**	**446**	**735**
Purchases	**163**	**594**	**355**	**1,112**
Sales	**(107)**	**(444)**	**(449)**	**(1,000)**
Transfers into/(out of) Level 3[b]	**–**	**–**	**(131)**	**(131)**
BALANCE, END OF YEAR	**751**	**3,592**	**3,885**	**8,228**

	2014			
For the year ended December 31 ($ millions)	Hedge and pooled funds	Real estate	Private markets	Total
Balance, beginning of year	197	2,710	3,122	6,029
Investment income	–	80	167	247
Realized gains	1	85	1,013	1,099
Unrealized gains/(losses)[a]	43	103	(15)	131
Purchases	336	542	625	1,503
Sales	(10)	(440)	(1,594)	(2,044)
Transfers into/(out of) Level 3	–	–	–	–
BALANCE, END OF YEAR	567	3,080	3,318	6,965

a Unrealized gains/(losses) are attributable to investments held at December 31, 2015 and December 31, 2014.

b Transfers into/(out of) Level 3 are assumed to occur at the end of the year. The transfer out of Level 3 for the year ended December 31, 2015 is due to a reclassification of infrastructure and private equity investments that became publicly traded.

There were no settlements of Level 3 financial instruments for the years ended December 31, 2015 and 2014.

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 hedge and pooled funds 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, 2015 ($ millions)	Key factor	Fair value	+0.25%	-0.25%
Real estate	Capitalization rate[a]	**2,002**	**(72)**	**79**
Mortgages related to real estate	Interest rate	**731**	**(8)**	**8**
Infrastructure	Discount rate[b]	**706**	**(20)**	**21**
Private equity	Discount rate[b]	**115**	**(2)**	**2**

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

At December 31, the Trust held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of net investment assets.

	2015			2014		
As at December 31 ($ millions)	**Number of investments**	**Fair value**	**Cost**	Number of investments	Fair value	Cost
Fixed income	**2**	**443**	**307**	3	662	529
Private markets	**6**	**1,817**	**1,257**	5	1,421	1,203

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

Private markets:

Kemble Water Holdings Limited, Harvest Pipeline Company, Star Atlantic Waste Holdings, Firelight Infrastructure Partners L.P., Globalvia Infraestructuras, S.A. and Oceanex Inc.

5. Net Investment Income

For the years ended December 31 ($ millions)	2015 Investment income	2015 Net gain/(loss) on investments[a]	2015 Net investment income/(loss)	2014 Investment income	2014 Net gain/(loss) on investments[c]	2014 Net investment income/(loss)
Fixed income						
Cash and short-term investments	8	23	31	11	43	54
Government and corporate bonds						
Canadian	83	(4)	79	51	87	138
Foreign	19	19	38	12	–	12
Real return bonds						
Canadian	10	2	12	10	53	63
Foreign	–	–	–	–	–	–
Bank loans	8	22	30	5	6	11
Pooled fixed income funds	6	–	6	1	7	8
Government of Ontario debentures	–	–	–	17	(16)	1
	134	62	196	107	180	287
Public equity						
Canadian	40	(74)	(34)	51	141	192
Foreign	88	549	637	88	413	501
Pooled equity funds	1	12	13	–	6	6
	129	487	616	139	560	699
Hedge funds	–	133	133	–	44	44
Real estate	111	272	383	102	188	290
Private markets						
Private equity	15	382	397	20	127	147
Infrastructure	129	260	389	149	871	1,020
	144	642	786	169	998	1,167
Derivative instruments	–	(613)	(613)	–	(496)	(496)
	518	983	1,501	517	1,474	1,991
Investment management expenses[b]			(126)			(101)
NET INVESTMENT INCOME			1,375			1,890

a Includes realized gain of $623 million and unrealized gain of $360 million.
b Includes external management fees, transaction fees and other.
c Includes realized gain of $1,255 million and unrealized gain of $219 million.

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 assumptions used for the valuation are as follows:

As at December 31	2015	2014
Inflation rate	**2.00%**	2.00%
Discount rate (real)	**3.75%**	4.10%
Discount rate (nominal)	**5.75%**	6.10%
Salary increases (nominal)	**(0% for 2016, 1.4% for 2017 and 2.75% thereafter)**	2.75%

Experience gains of $329 million (2014 – $52 million) on the Plan's pension obligations are due to differences between actuarial experience and assumptions. The assumption change losses of $649 million (2014 – $441 million) on the Plan's pension obligations are due to the Actuary's recommended revision of economic assumptions.

Salary increases reflect the agreement between the Government of Ontario and OPSEU for general wage increases going forward.

The annual valuation nominal discount rate decreased from 6.10% as at December 31, 2014 to 5.75% as at December 31, 2015 to reflect changes to market conditions 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 Government of Ontario. Gains are allocated at the discretion of the sponsors to fund benefit improvements, reduce contributions, reduce any existing funding deficiencies or are set aside in the form of rate stabilization reserves. Funding deficiencies resulting from losses are funded over a maximum of 15 years from either increased contributions or rate stabilization reserves. 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 estimate the Plan's gains or losses, and to determine the Plan's funding requirements. In 2016, OPTrust will file the Plan's December 31, 2015 funding valuation, as prepared by Towers Watson Canada Inc., with the regulator showing that it is fully funded, and the next funding valuation is not required to be filed until December 31, 2018.

In October 2012, the Government of Ontario reached a five-year agreement with three jointly sponsored pension plans, including the Plan. The sponsors have agreed that the contribution rate will not exceed current levels, except in extenuating circumstances, and any deficits, should they occur, will be dealt with by reducing future benefits, until at least December 31, 2017. Accrued benefits are protected under the *Pension Benefits Act* and cannot be reduced.

7. Capital

OPTrust defines capital as the funded position of the Plan, whether in surplus or deficit. Surplus is generated during periods of strong economic performance and drawn down during periods of poor economic performance in order to maintain the Trust's capacity to pay its pension obligations without unduly affecting contribution levels. As at December 31, 2015, the surplus was $1,643 million (2014 – $1,544 million), and includes $120 million (2014 – $114 million) of rate stabilization reserves.

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 2015 to reflect new regulatory requirements in Ontario which came into effect January 1, 2016 and to accommodate the new member-driven investing strategy.

While OPTrust is not under regulatory requirements as it relates to capital, the *Pension Benefits Act* requires that deficits be funded over a period not to exceed 15 years and that an actuarial valuation for funding purposes be filed periodically (refer to Note 6 for additional information).

For 2015, the total fund portfolio was managed within an active risk budget based on active VaR at 95% confidence relative to the benchmark. As at December 31, 2015, the portfolio was below the limit.

The Trust's investment positions are discussed in Note 4. The allocation of assets among the various asset categories is monitored on a daily basis. A comprehensive review is conducted quarterly by the Investment Committee which includes measurement of returns, comparison of returns to appropriate benchmarks and compliance with the risk budget.

8. Contributions

For the years ended December 31 ($ millions)	2015	2014
Members		
Current service[a]	**229**	232
Prior service	**15**	15
Long-term income protection[b]	**13**	14
	257	261
Employers		
Current service	**229**	232
Prior service	**7**	8
Long-term income protection	**13**	14
	249	254
Transfers from other plans	**16**	14
TOTAL CONTRIBUTIONS	**522**	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, 2015 employers' and members' contributions receivable were in the amount of $32 million (2014 – $32 million) and $19 million (2014 – $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)	2015	2014
Retirement pensions	**691**	646
Transfers to Public Service Pension Plan	**99**	69
Transfers to other plans	**35**	17
Refunds, commuted value transfers and deaths	**72**	66
TOTAL BENEFIT PAYMENTS	**897**	798

10. Administrative Expenses

(a) Investment administrative expenses[a]

For the years ended December 31 ($ millions)	2015	2014
Administration	**57**	66
Professional and consulting services	**5**	4
Custodial fees	**2**	2
TOTAL INVESTMENT ADMINISTRATIVE EXPENSES	**64**	72

(b) Pension administrative expenses[a]

For the years ended December 31 ($ millions)	2015	2014
Administration	**17**	18
Professional and consulting services	**1**	2
TOTAL PENSION ADMINISTRATIVE EXPENSES	**18**	20

Total professional and consulting services include external audit expense of $268 thousand in 2015 (2014 – $281 thousand) and actuarial expense of $440 thousand in 2015 (2014 – $352 thousand).
a Includes allocations of corporate expenses.

11. Guarantees, Commitments and Contingencies

In the normal course of business, OPTrust may, from time to time, provide guarantees to various counterparties and enter into commitments which may be considered material within the context of the Trust. The Trust has committed to fund certain investments over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2015, these commitments totalled $2,817 million (2014 – $2,581 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.

There are no guarantees that might be considered material and outstanding as at December 31, 2015, and December 31, 2014.

As at December 31, 2015, OPTrust was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims are often inherently difficult to predict. Any liability that may arise from these litigations have been recognized as appropriate or have 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, 2015, was $889 million (2014 – $484 million). Earned income recorded on the bonds amounted to $30 million for the year ended December 31, 2015 (2014 – $20 million).

Upon inception of the Plan in 1995, Government of Ontario non-marketable debentures were issued to the Trust to cover part of the Province's pension liability. These debentures matured in 2014. Earned income recorded on the debentures for the year ended December 31, 2014 totalled $17 million.

The Trustees of the Plan do not receive compensation from OPTrust. Reimbursement for Trustee-related incidental expenses and education received by Trustees totalled $70 thousand in 2015 (2014 – $98 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)	2015	2014
Salaries and short-term employee benefits	2,198	3,127
Post-employment benefits	136	208
Other long-term benefits	393	917
Termination benefits	873	–
	3,600	4,252

Portfolio Mandate[a]

For the years ended December 31

		Asset allocation			Net annual rate of investment return			
					Benchmark[b]		Actual	
	Benchmark	Target[b]	2015	2014	2015	2014	2015	2014
Total equity								
Canadian equity	S&P/TSX Composite Index	8.0%	6.8%	10.4%	-8.3%	10.5%	-3.7%	10.0%
Developed equity	MSCI World Index	14.0%	16.5%	15.9%	18.8%	14.3%	20.2%	14.4%
Emerging equity	MSCI EMF Index	8.0%	7.6%	7.5%	1.9%	6.4%	6.3%	9.8%
Private equity	Custom Private Equity	10.0%	9.2%	7.3%	5.0%	12.8%	14.4%	11.3%
Real assets								
Real estate	Custom IPD Index	15.0%	15.5%	13.6%	5.6%	6.3%	7.3%	10.0%
Infrastructure	Consumer Price Index + 5.5%	15.0%	12.8%	11.7%	6.9%	7.4%	7.0%	48.0%
Energy commodities	S&P/GSCI Enhanced Energy Index	5.0%	0.0%	4.9%	n/a	-37.2%	n/a	-36.2%
Fixed income								
Cash	Cash Composite	2.5%	3.2%	7.7%	-0.4%	1.9%	0.9%	1.6%
Nominal bonds	Nominal Bond Composite	20.0%	26.0%	18.5%	3.5%	8.7%	3.4%	7.5%
Real return bonds	Real Return Bond Composite	2.5%	2.4%	2.5%	2.7%	13.2%	2.7%	13.2%
TOTAL		100.0%	100.0%	100.0%	5.4%	6.2%	8.0%	12.0%

a The portfolio mandates may not reconcile to accounting classifications.

b Reflects the version of the SIP&P prior to November 26, 2015. OPTrust has continued to comply with the updated version of the SIP&P and will disclose this table in 2016 based on the new allocations and benchmarks.

Ten-Year Financial Review

As at December 31 ($ millions)	2015	2014	2013	2012	2011	2010*	2009	2008	2007	2006
CHANGES IN NET ASSETS										
Changes due to investment activities	**1,311**	1,818	1,615	1,237	578	1,530	1,348	(2,435)	659	1,537
Changes due to pension activities	**(393)**	(289)	(368)	(235)	(192)	(202)	(346)	(179)	(197)	(213)
INCREASE/(DECREASE)										
IN NET ASSETS	**918**	1,529	1,247	1,002	386	1,328	1,002	(2,614)	462	1,324
NET ASSETS										
Investments										
Cash and short-term investments	**1,460**	2,750	2,275	2,251	2,296	1,395	2,149	3,251	3,165	3,419
Government and corporate bonds										
and debentures	**3,854**	2,001	1,629	1,887	2,201	2,282	2,242	2,405	2,782	2,967
Real return bonds	**468**	446	577	1,177	1,495	1,280	1,179	1,234	1,257	1,277
Bank loans	**156**	145	90	–	–	–	–	–	–	–
Pooled funds – fixed income and equity	**247**	200	291	126	–	170	156	60	79	399
Public equity – Canadian and foreign	**5,497**	5,738	5,749	4,664	4,213	5,731	5,051	3,976	7,038	6,827
Hedge funds	**712**	532	165	–	–	–	–	–	–	–
Real estate	**2,857**	2,394	2,167	2,148	1,802	1,419	1,582	1,521	1,201	777
Private markets	**4,041**	3,339	3,131	2,460	1,516	1,079	862	686	466	228
Investment-related assets	**108**	154	151	149	265	142	131	231	76	96
	19,400	17,699	16,225	14,862	13,788	13,498	13,352	13,364	16,064	15,990
Contributions receivable	**51**	52	58	56	50	44	39	39	40	34
Other assets	**5**	4	5	5	6	2	2	3	3	4
TOTAL ASSETS	**19,456**	17,755	16,288	14,923	13,844	13,544	13,393	13,406	16,107	16,028
Liabilities										
Accounts payable and accrued charges	**(54)**	(78)	(69)	(64)	(64)	(57)	(79)	(41)	(32)	(25)
Investment-related liabilities	**(1,003)**	(196)	(267)	(154)	(77)	(170)	(1,325)	(2,378)	(2,474)	(2,864)
TOTAL LIABILITIES	**(1,057)**	(274)	(336)	(218)	(141)	(227)	(1,404)	(2,419)	(2,506)	(2,889)
NET ASSETS AVAILABLE										
FOR BENEFITS	**18,399**	17,481	15,952	14,705	13,703	13,317	11,989	10,987	13,601	13,139
Pension obligations	**16,756**	15,937	14,958	14,189	13,499	12,923	12,313	11,631	11,114	10,460
Actuarial asset value adjustment	**–**	–	–	–	–	–	(1,523)	(2,428)	565	1,341
Rate stabilization reserves	**120**	114	520	852	830	820	811	938	408	427
Unallocated surplus/(deficit)	**1,523**	1,430	474	(336)	(626)	(426)	388	846	1,514	911
SURPLUS	**1,643**	1,544	994	516	204	394	1,199	1,784	1,922	1,338

* Starting with 2010, amounts are presented in accordance with *Chartered Professional Accountants (CPA) Canada Handbook* Section 4600-Pension Plans and IFRS.