

# OP*T*ions

## A focus on renewable energy investments

**O**PTrust's investment strategy is designed to generate the long-term investment returns needed to provide our members and retirees with a secure pension. As part of this strategy, we are building a portfolio of infrastructure investments, led by OPTrust Private Markets Group, an internal team of investment professionals with extensive international experience.

Infrastructure investments include regulated assets such as water, gas and electric utilities; transportation assets such as toll roads and airports; and assets whose returns are based on long-term supply contracts such as power-generating plants and renewable energy projects.

"Infrastructure investments play an important role within the OPTrust pension fund as they typically provide inflation protection and are long-term investments that match the obligations of the pension fund over a long horizon. By being an active partner in the ownership of these assets, we can structure our investment and the way the assets are managed to get better returns," says Kevin Warn-Schindel, Group Head and Managing Director, OPTrust Private Markets Group.

Globally, wind power is one of the fastest growing sources of energy. Increasingly, institutional investors like OPTrust invest in wind projects because this regulated industry provides stable, long-term returns.

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### SPECIAL SUPPLEMENT



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## Delivering the pension promise

**Ahead of the release of our 2010 annual report in June, we sat down with Maurice Gabay, OPTrust's new Chair of the Board of Trustees, to discuss the Plan's funding outlook and investment strategy.**

**Like many pension plans, OPTrust experienced significant losses in 2008 due to the economic crisis. How is the Plan managing the deficit?**

In 2009, OPTrust worked with the Plan's sponsors to implement a proactive funding strategy to manage the shortfall caused by our 2008 investment losses without reducing the value of members' pensions at retirement. This strategy included phasing in a 3% increase in members' and employers' contribution rates over three years, while using the Plan's rate stabilization funds to pay down the remaining \$606 million deficit over 15 years.

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By investing in renewable energy projects, OPTrust also contributes to, and benefits from, global efforts to reduce carbon emissions and other pollutants associated with many traditional sources of energy.

“Over the last five years, OPTrust Private Markets Group has boosted the portfolio with significant renewable energy investments. It’s a competitive space, so to find these opportunities we generally need to be in on the ground floor, working with partners to advance them from concept to reality. This is where we have excelled, and created unique value for OPTrust members,” adds Warn-Schindel.

OPTrust Private Markets Group investments in renewable energy sources include a range of innovative projects.

**Partnerships for Renewables**

In 2010, OPTrust invested in regulated wind energy projects in the United Kingdom by joining HSBC Environmental Infrastructure Fund and the UK government-backed Carbon Trust as a major investor in Partnerships for Renewables (PFR). OPTrust has committed approximately £20 million to gain a one-third stake in the UK-based company.

PFR’s strategy is innovative and based on developing, building and operating wind farms on public sector land; the

largest untapped source of land in the UK that is viable for the construction and operation of wind turbines. For the public service, PFR provides a way for public sector bodies to access the economic and environmental benefits associated with renewable energy and contribute towards the fight against climate change without diverting public sector resources away from frontline services.

**Firelight Infrastructure Partners**

In 2006, OPTrust Private Markets Group identified a compelling market opportunity to partner with smaller developers in Canada’s renewable energy market – leading to the creation of Firelight Infrastructure Partners (Firelight). Firelight is a joint venture between OPTrust and Dundee Real Estate Asset Management, and has over \$100 million invested in renewable energy projects across Canada and focuses primarily on wind, hydro-electric and solar power.

Investments made by Firelight are bringing clean power to local communities in Prince Edward Island, Nova Scotia and Ontario. For example, in 2009, Firelight invested in RMS Energy, a Nova Scotia-based, 51 megawatt wind project – enough to power 15,000 homes. The project provides a substantial contribution to the province’s clean energy strategy and the RMS site was the showcase backdrop for Premier Darrell Dexter’s

announcement of long-term targets for renewable energy in Nova Scotia.

In Ontario, Firelight invests in the identification, development, permitting and construction of small scale hydro electricity generating facilities in Northern Ontario – typically what are called “run of river” projects that do not require large dams and reservoirs, thereby minimizing the impact on the environment.

**Energy Infrastructure Alliance of America (EIAA)**

Often areas with good renewable energy resources are located in remote areas, away from large cities and other major energy users. OPTrust Private Markets Group identified the need for major investment in the North American transmission systems to allow renewable power developers to get the electricity they generate to market.

By working with other partners, OPTrust Private Markets Group formed EIAA, a first of its kind real estate investment trust that invests in electricity transmission and distribution systems and developments. EIAA is already developing electricity transmission systems in Texas in the Competitive Renewable Energy Zone that will help wind power developers build their projects and get their power to market. ○

**OPTrust’s private markets program was launched in 2005 to build diversified private equity and infrastructure portfolios that will each eventually account for 30% of the Plan’s assets in total.**

**The expected benefits of investing in private equity and infrastructure include:**

- improved diversification and lower volatility of plan returns, since private markets and public stocks and bonds do not necessarily move in the same direction at the same time
- more attractive risk-adjusted returns than public equities, due to the direct involvement of the Plan’s internal portfolio managers in structuring deals and in the ongoing management of the assets
- better matching with the Plan’s indexed pension liabilities due to the inflation protection of infrastructure investments, which results from the regulatory and contractual frameworks supporting these assets. ○

At the same time, we made a number of adjustments to the Plan's long-term investment strategy to reduce the Plan's overall investment risk while enhancing our ability to meet the Plan's target return over the long-term. With our strong investment performance in 2009 and the continued market recovery in 2010, OPTrust's funding strategy is on track to eliminate the deficit over the next several years.

In part, because of the contribution rate increase members have the security of a defined-benefit pension with inflation protection and they can be sure about the amounts they will receive in retirement.

### **OPTrust will release our full annual report in June. How does the Plan position itself to deliver the pension promise?**

Since member and employer contributions typically represent only about one-third of the cost of an average member's lifetime pension, the balance comes from investment returns on those contributions.

OPTrust's investment strategy is positioning the Plan for long-term growth while reducing the Fund's volatility over the long term. Since 2004, OPTrust has gradually implemented a strategy of holding a more diverse range of investments than public equities and fixed income asset classes. For example, our Private Markets Group has invested in several innovative renewable energy developments in Canada, the United States and the UK that provide stability and inflation protection for the Plan.

Overall, our strategic approach and strong performance are helping ensure that our 83,000 members and retirees can count on the security of their OPTrust pensions in their retirement years.

### **What is OPTrust's approach to responsible investing?**

As a major investor, OPTrust recognizes that environmental, social and governance (ESG) concerns have the potential to affect the Plan's investment performance. We work to ensure that sound ESG principles are fully integrated into our investment decision-making process as part of our investment activities.

Over the last year, our responsible investment program made two major developments.

First, OPTrust became a signatory to the United Nations Principles for Responsible Investment (PRI). The principles provide a framework and access to a global network of organizations we can share information with and work together on corporate governance and responsible investment issues.

OPTrust also joined the Carbon Disclosure Project (CDP), an international responsible investing initiative that conducts an annual survey of thousands of the world's largest companies regarding their greenhouse gas emissions and climate change strategies. By signing onto the CDP, we obtain exclusive access to CDP responses through a dedicated database and reports to assist us in evaluating investment risks and opportunities related to climate change.



**Maurice Gabay** was named Chair of the OPTrust Board of Trustees in November 2010, after serving as the Board's Vice-Chair since 2008. Gabay was appointed to the Board by OPSEU in February 2008 and served a previous term as a Trustee from 2005 to 2007. He is a senior member of OPSEU's staff, serving as the union's accountant.



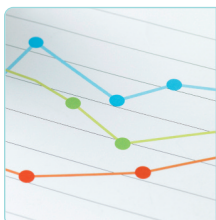
### **Patricia Li appointed to the Board of Trustees**

The Government of Ontario appointed Patricia Li to the OPTrust Board of Trustees in February 2011.

Li is the Assistant Deputy Minister, Direct Services Division at the Ministry of Health and Long-Term Care responsible for Land and Air Ambulance services, the Psychiatric Patient Advocacy Office, and individual eligibility programs including OHIP, assistive devices and home oxygen.

Prior to this role, Li was the Senior Vice-President, Corporate Services of eHealth Ontario as part of the interim senior team to lead the transition and restructuring of the agency in fall 2009. She has led business transformation initiatives with the Royal Botanical Gardens and ServiceOntario.

Li recently served as a director at the Ontario Pension Board, and is currently the commissioner of the board at the Niagara Parks Commission. She is a graduate of the Richard Ivey School of Business, University of Western Ontario, and holds Certified General Accountant and Institute-Certified Director (ICD.D) designations.



More information on OPTrust's financial and investment results and our work to provide you with a secure pension will be available in our 2010 annual report in June, and in the annual highlights report that will be included with the summer issue of your *OPTions* newsletter. ○

# OPTrust's active ownership program expands

**A**t OPTrust, we have always taken our investment ownership responsibilities seriously. We have actively voted our proxies for over a decade, striving to ensure that the companies we invest in practice good corporate governance and behave in a socially and environmentally responsible way.

After signing on to the UN Principles for Responsible Investment in May 2010, OPTrust expanded our active ownership program to include corporate engagement. Corporate engagement spans a continuum from exercising proxies, discussing environmental, social and governance (ESG) issues with investment managers, having dialogue with corporate management and boards (either through collaborative engagements or one-to-one dialogue) to sponsoring shareholder resolutions. OPTrust has decided to work in collaboration with other investors to dialogue with companies on issues of mutual concern.

In some cases, companies within OPTrust's Public Markets Portfolio may have exposure to ESG issues that carry with them potential financial, reputational or other risks. A corporate engagement strategy provides OPTrust staff

**“Our approach to enhancing OPTrust's active ownership program allows us to further manage any potential risks within our investment portfolios now and over the long-term,”** says Katharine Preston, OPTrust's Manager, Proxy Voting, and Environmental, Social and Governance.

one more mechanism to address this potential risk. Institutional investors have found that engagement has proven to be a more effective tool for bringing about change than divestment. Company management and directors tend to be more responsive to a shareowner engaging in dialogue and working with them to bring about a change.

Engagement activities often play out over several years. Through 2011 OPTrust will participate in collaborative engagements with like-minded institutional investors on issues at companies that may pose financial or reputational risk to the portfolio. We look forward to sharing these positive outcomes of these engagements as they unfold in coming years. ○

## OPTions

**OPTions** is a newsletter for members of the OPSEU Pension Trust. Its goal is to provide useful and timely information about the OPSEU Pension Plan.

If there is any conflict between statements in this newsletter and the legal documents of the OPSEU Pension Plan, the legal documents will prevail. Please direct any questions about your personal benefits under the Plan to OPTrust. You should contact OPTrust before making any pension-related decisions.

If you have any questions or comments, please contact us.

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