Strategy: Changing the Conversation

IT'S TIME TO CHANGE the conversation about how we measure success. Being adept at investing is important, but we are more than just investors. Delivering excellent service to plan members is vital, but we are more than just service providers. We are a pension management organization.

Our members rely on us for certainty, stability and sustainability and we meet those expectations by keeping the Plan fully funded. For a defined benefit pension plan, there can be no more important achievement.

OPTrust's philosophy of being member driven supports everything we do. Our members are the foundation of our strategies and the reason our mission is to pay pensions today and preserve pensions for tomorrow.

Pensions need to take a long-term view. Too often, however, the industry is focused on the short term and on short-term measures, like annual investment returns, to gauge success. Returns are important, but as pension plans our investment approach must be inextricably linked to the goal of keeping the Plan fully funded. We must balance the need to generate returns with the need to manage risk effectively. And when we look back over a single year or a decade, the true measure of whether we have delivered on our promise is the funded status of the Plan.

Designing solutions for today's challenges

Demographic maturity. Low interest rates. Volatile markets and the likelihood of low investment returns. The fundamental challenges the Plan faces are persistent and have affected our ability to bear risk. Operating in this environment and keeping the Plan fully funded requires new approaches and a willingness to innovate.

In 2015, we introduced our member-driven investing (MDI) strategy, which was designed to increase the likelihood of plan certainty for members by balancing the objectives of sustainability and stability. We began implementing that strategy in 2016.

ENABLERS OF MEMBER-DRIVEN INVESTING (MDI)

Risk-conscious culture: Taking risk is an inherent part of investing. Accepting some risk is also necessary to earn the returns required to meet our pension obligations. We work to ensure the Plan earns sufficient returns for the risks taken and we are purposeful and efficient in the way risk is allocated.

Focus on our people: Investing requires strong human capital and our people offer a distinct competitive advantage. Given the talent within our organization and our collective skill-set, we are well positioned to deliver value for our members.

Collaborative culture: A key enabler of success is our ability to work collaboratively. This leads to enhanced learning, improved flow of information and better overall decision-making. Ultimately, this supports the total fund approach required for our MDI strategy to be successful.

Relationship driven: While we have strong talent, we recognize building and fostering strong partnerships are a fundamental part of our investment approach.

Total fund portfolio construction: Portfolio construction is the primary tool we use to manage total fund risks. Our portfolio construction process is dynamic and carries unique characteristics that enhance our ability to manage the risks in our total fund.

PORTFOLIO CONSTRUCTION

The focus of traditional portfolio construction methodologies is to diversify through asset classes. At OPTrust, it is about risk factor diversification, including the risks embedded in our liabilities. We recognize that assets – such as stocks, bonds and real estate – are exposed to overlapping risk factors. For example, equities and real estate share equity risk, bonds and real estate share credit risk, and all three – plus our liabilities – share inflation and interest rate risk. By considering our investment choices and portfolio construction in terms of risk factors rather than asset classes, we are able to 'look through' the fund to see where our risks are concentrated. We are moving towards a risk factor portfolio construction framework that will allow for more efficient and purposeful allocation of risk to increase the likelihood of achieving plan certainty.

Our portfolio construction process is governed by two key philosophical pillars: harvest a diversified set of risk premia and dynamic risk management. We look to construct a diversified portfolio that provides balance and resilience under all economic situations. However, this diversification must be effective and suitable for the current, changing environment and as such, we have to be dynamic. We have the agility to adapt to change and respond to its impact on our total fund risk exposures.

RESPONSIBLE INVESTING

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

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

RESPONSIBLE INVESTING PROGRAM APPROACH

Governance

Active ownership

ESG integration

Stakeholder engagement

CLIMATE CHANGE

Climate change is one of the most significant challenges facing the world today and increasingly complex to navigate as a large, global investor. At its heart, climate change is an issue of sustainability for people, institutions and our planet.

OPTrust recognizes that bold steps will be required to help investors understand the risks that climate change presents. We worked to better understand the impacts of climate change to our investment portfolios and released a position paper and report detailing our findings. We will continue to work collaboratively to improve our understanding of these impacts and seek solutions as we head toward a carbon-neutral future.

Over the long run, we seek to achieve our MDI objectives through dynamic portfolio construction of our total fund portfolio in two broad segments:

1. **Illiquid strategies:** anchor our efforts to add attractive long-term returns at an appropriate level of risk to deliver value add.
2. **Liquid strategies:** enable us to react dynamically, complementing our illiquid assets, and serve as a vehicle that "completes" the overall risk profile of the total fund portfolio, known as the "completion portfolio".

In 2016, our ability to react dynamically was limited due to the use of external managers for full execution of our liquid strategies. With the Board-approved internalization initiative, we will bring the majority of our public assets and strategies in-house. This long-term project is being completed in a phased approach with a focus on risk mitigation and ensuring a strong governance and compliance framework. Once fully implemented, we will interface with the markets directly, providing us with greater insight into changing market conditions. As a result, this offers us greater agility and the opportunity to respond faster to market risks. In addition, internalization will facilitate more efficient allocation of scarce resources, such as risk, liquidity and capital, all of which help us achieve our MDI objectives. Under MDI, our public market investments will be the primary tool to manage the overall risks in the total fund.

Plan funding

Keeping the Plan fully funded over the long term begins with a thoughtful, prudent approach to plan funding.

Our thinking on funding is rooted in the belief that sustainability matters. Members need to know they can count on their pension to be there when they retire. However, the need for sustainability before retirement also exists. We seek to enhance the likelihood that our members' contribution rates and benefit levels will not fluctuate significantly throughout their working lives.

In 2016, the Board approved an updated articulation of our funding policy which codified these ideals. The funding policy has three goals which we seek to balance: benefit security, contribution rate stability and intergenerational equity.

Of these goals, the security of accrued benefits is primary. As a Trust, it is essential we keep our promise to members that they will receive the benefit they paid for.

The pension promise is a long-term commitment that spans many decades. In keeping with that time horizon, short-term market events, whether positive or negative, should not motivate contribution rate changes. Instead, contribution rates should change when economic and/or demographic conditions change the expected cost of the benefit over the long term. We will work to deliver stability rather than volatility for our members.

Intergenerational equity does not mean that every generation of members will pay the same contributions for the same benefits as other generations of members. Economies, member demographics and behaviours change over time, as will our tolerance for risk. Instead, we seek to provide intergenerational equity through the continued sustainability of the Plan.

A focus on members

Rooted in our overarching philosophy of being member driven, our service delivery strategy uses a member-direct approach to deliver valued-added services to members. Under this member-direct model, we continue to tailor our service offerings to meet our members' needs and focus on offering them a variety of ways to communicate with us directly. While we know members are embracing web technology in ever increasing numbers, we also know they value the opportunity to speak

MEETING OUR FUNDING GOALS

OPTrust uses a series of tools to meet our funding objectives.

Margin of conservatism: To reduce the risk of funding shortfalls, we build a margin of conservatism into the investment return expectation to set the discount rate assumption used for funding purposes.

Actuarial assumptions: To calculate our long-term funding requirements, a set of key economic and demographic assumptions are used, including the Plan's discount rate, the rate of inflation, changes in active membership and retiree populations, members' salary rates and their expected retirement, termination and mortality rates.

Actuarial smoothing: This technique is used to recognize each year's investment gains or losses, relative to our discount rate, over a five-year period. Doing so reduces the short-term impact of volatile investment returns on the Plan's funded status and helps maintain relatively stable contribution rates.

personally with our staff. Pensions can be complex and there are times when members want to speak directly with an OPTrust representative, so telephone support remains a critical service channel for OPTrust.

Providing excellent member-valued services means being flexible and available when and where our members need us. Our extended telephone hours ensure critical phone support from a pension professional for members navigating life events, including retirement preparation, pension service buybacks, membership terminations or spousal relationship changes. At OPTrust, we understand these more complex questions require personalized service, and we are here to provide it, in the channel of our members' choice.

Central to the services we provide is our pension administration system. It must keep pace with both evolving technology and member expectations. A Board-approved multi-year project has been launched to retain the best of the existing system while creating new capabilities for the future. It will also be completed in phases, an approach that is prudent and fiscally responsible. This critical project will provide us with the capacity required to meet our members' current and future needs.

Looking forward

While the conversation has changed, the dialogue must continue. Delivering sustainability and stability for our members requires us to embrace change as an organization. This requires both innovation and resilience, as we need to face the future well prepared to adapt and thrive in any environment.

To that end, in 2017, we will develop a new, multi-year strategic plan, which will guide us as we continue to change the conversation in our industry, while remaining true to our core purpose: paying pensions today and preserving pensions for tomorrow.

A MULTI-CHANNEL APPROACH TO MEMBER SERVICE

Online communications: offers flexibility, convenience and education

Face-to-face interactions: offers one-on-one and group sessions that provide tailored pension information

Telephone support: links members directly with an OPTrust representative

Traditional paper-based communications: offers members support for those who do not have easy access to electronic tools or prefer print communications

Pension Funding

2016 funding valuation

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

The Plan's 2016 funding valuation showed it remained fully funded as of December 31, 2016. The funding valuation also confirmed deferred (or "smoothed") investment gains of $681 million, which will be recognized over the next four years and should further improve the Plan's funded status in years to come.

Consistent with our approach over the past few years, OPTrust's 2016 funding valuation strengthened the Plan's real discount rate to further improve its long-term sustainability. The Board of Trustees approved the following economic assumption:

- Reducing the Plan's real discount rate to 3.40%, net of inflation, down from 3.55% in 2015. This change reflects the expectation of lower long-term investment returns and reduces the risk of future losses due to investment returns falling short of the expected cost of members' and retirees' future pensions.

The net effect of the real discount rate change increased the total fund liabilities by $502 million to add additional margins for conservatism for the purpose of strengthening the Plan's long-term sustainability.

In 2017, OPTrust is expected to file the Plan's December 31, 2016 funding valuation with the regulator showing that it is fully funded.

Funding outlook

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

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

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

In 2016, some of these factors included:

- the increase in life expectancy, increasing retirement years and the Plan's long-term pension obligations
- the long-term decline in the ratio of OPTrust's active members to retirees, which reduces the Plan's ability to address funding shortfalls through increased contribution rates, if required
- the uneven economic recovery, which has sharply increased market volatility and investment risk over the past several years.

These risks are partly offset by recent developments, including:

- OPTrust's continued strengthening of the Plan's actuarial assumptions
- OPTrust's review of our investment philosophies to better match its assets with its liabilities as part of our member-driven investing strategy
- the Plan's deferred investment gains of $681 million at the end of 2016, which should strengthen its funded status over the next four years as these gains are recognized.

In 2016, OPTrust's staff provided the Trustees and the Plan's sponsors with information and technical advice on these and other factors that might challenge the Plan's funding over the next several years. OPTrust's Board and staff will continue to work closely with the sponsors to address these challenges, propose solutions and support the long-term sustainability of the Plan.

FUNDING VALUATION ASSUMPTIONS

	2016 VALUATION	2015 VALUATION
Inflation rate	2.00%	2.00%
Investment return (real)	3.40%	3.55%
Investment return (nominal)	5.40%	5.55%
Salary increases 2016 (nominal)[1]	N/A	0.00%
Salary increases 2017 (nominal)[1]	1.40%	1.40%
Salary increases after 2017 (nominal)[1]	2.75%	2.75%

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

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

SENSITIVITY TO ACTUARIAL ASSUMPTION CHANGES

($ millions)

	+0.50%	-0.50%
Impact of change in inflation linked assumptions[1]	159	(164)
Impact of change in funding discount rate assumption[2]	1,592	(1,836)
Impact of change in assumed increase in pensionable earnings	(489)	432

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

2 Assumes all other assumptions remain unchanged.

FINANCIAL STATEMENT AND FUNDING VALUATIONS

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

Actuarial funding valuations

An actuarial funding valuation presents the Plan's financial information in accordance with the Board-approved funding policy and applicable regulatory constraints. It determines if the Plan's assets, together with expected investment income and current members' projected future contributions, are sufficient to fund the members' and retirees' promised benefits at retirement.

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

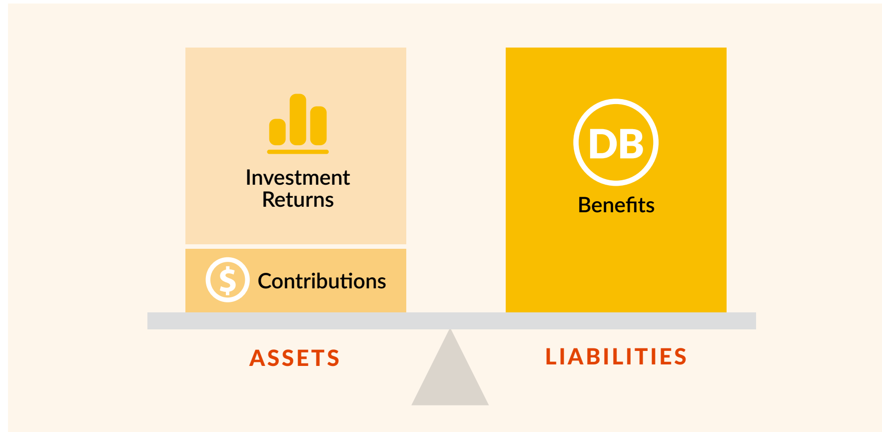
Ontario regulations require an actuarial funding valuation to be filed with provincial authorities at least once every three years. Please see note 6 to the financial statements on page 67 for further discussion.

Financial statement valuations

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

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

Investment Performance



Member-driven investing

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

We strive to keep the Plan in balance at all times to protect its funded status and improve plan certainty. There are three key components: **contributions** and **investment returns** on one side, and **benefits** on the other.

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

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

However, there are two primary challenges facing these objectives:

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

In this challenging investment environment, we are committed to protecting our funded status and avoiding undue risk. This is why we are continuing to execute on our member-driven investing (MDI) strategy.

Fully funded despite uncertain markets

We continued to focus on our most important metric of performance – our funded status. Despite the overall challenging market environment, we remained fully funded.

2016: A YEAR OF UNEXPECTED OUTCOMES

January

Significant sell offs in risky assets triggered initially by an unexpected acceleration in the depreciation of the Chinese yuan vs. the U.S. dollar. This was compounded by a sharp decline in oil prices.

March

Co-ordinated policy by central banks and a more dovish tone by the U.S. Federal Reserve on its projected path of further interest rate hikes helped ease investors' concerns over a slowdown in U.S. growth and fears of an impending recession.

May

Rebound in oil prices helped markets to recover early losses and the S&P500 climbed to new highs.

June

British public unexpectedly voted in a referendum to leave the European Union, which called into question the region's stability. This sparked another decline in risky assets and investors took refuge in safe-haven assets such as the U.S. dollar and long-term government bonds. However, the volatility was surprisingly short-lived and global markets rebounded once again, helped by signs of improving global economic growth.

November

Election of the 45th president of the United States surprised markets as many predicted a sell off in equities, but U.S. equity markets reacted positively. Expectations that the elected president's policies would be growth friendly pushed stocks, the U.S. dollar and bond yields higher.

One year into the implementation of our MDI strategy, we have made significant progress across several initiatives. In terms of diversification, we reduced our exposure to equity risk. Concurrently, we increased our exposure to absolute return strategies.

These decisions were undertaken to provide the total fund portfolio with a more balanced set of risk exposures, which are aligned with our MDI objectives. We restructured our fixed income portfolio to better match the interest rate sensitivities in our liabilities, while improving our overall liquidity position. We also rebalanced our currency exposure, considering other exposures in the total fund and ensuring a better overall risk-reward trade off. In addition, we continued to progress in our internalization initiative to bring the majority of public market assets and strategies in-house.

Looking forward: While markets reacted favourably to the U.S. election, we remain cautious due to continued uncertainty. Given we are late in the economic cycle, the potential for policy mistakes is high, while the geopolitical risk has also risen. Valuations remain stretched and debt levels remain elevated.

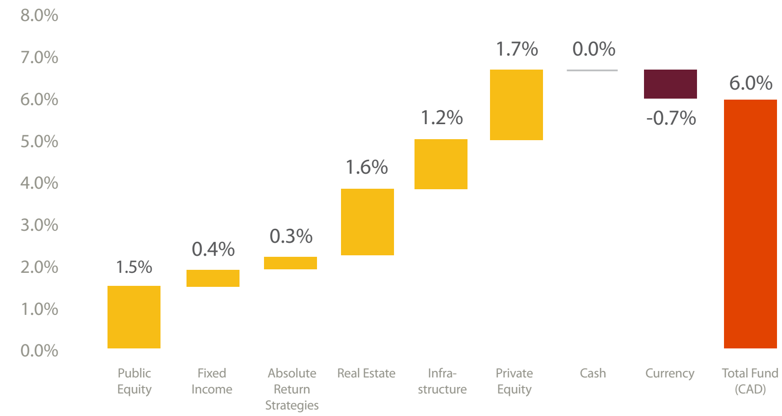
Our focus is on building a robust portfolio that is not overly reliant on equities as the generator of investment performance. We seek broad diversification that will allow us to harvest risk premia in different economic environments. Our goal is to increase pension certainty, not earn outsized returns by taking excessive risk.

PUBLIC EQUITY: Currently sourced through external managers, our public equity exposure is designed to generate returns, provide diversification and act as a potential source of liquidity, should it be required.

A rebound of cyclical sectors such as energy and materials helped lift public equities with our portfolio benefiting from an overweight to Canadian equities. Similarly, emerging market equities performed well through much of the year, largely in response to a more dovish U.S. Federal Reserve and more stimulative policies from China.

TOTAL FUND INVESTMENT PERFORMANCE

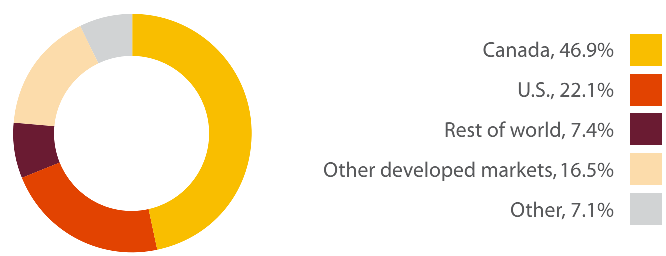
At December 31, 2016



	Public Equity	Fixed Income	Absolute Return Strategies	Real Estate	Infra-structure	Private Equity	Cash	Currency	Total Fund (CAD)
Local Return	9.9%	1.1%	1.1%	10.8%	11.1%	20.6%	0.7%	-0.7%	6.0%
Net Weight	18.2%	24.9%	15.4%	15.1%	10.8%	8.4%	7.2%		100%

TOTAL FUND DIVERSIFICATION BY GEOGRAPHY

At December 31, 2016



Following the U.S. election, positive sentiment around stronger U.S. growth boosted U.S. equities, strengthened the U.S. dollar and increased global bond yields.

Overall, the public equity portfolio generated a net return of 9.9% in 2016.

Looking forward: Our focus for public equities will expand beyond expected returns to include risk and liquidity efficiency. The public equities portfolio will continue to adjust to the needs of the total fund, considering diversification, risk factor sensitivities and our desire for uncorrelated value add. Over time, we anticipate expanding our source of public equity returns to include exchange-traded funds and derivative strategies.

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

The fixed income portfolio experienced a very volatile year. Consistent with our MDI objectives to protect the Plan from an overall deflationary environment and to better match the interest rate sensitivity of our liabilities, we modestly increased the duration of our fixed income portfolio in early 2016. Fixed income posted strong gains until late summer when signs of improving growth and a shift in sentiment towards risk-taking began to push yields higher.

Growth and inflation expectations further reset following the U.S. election, as the prospects of potential fiscal stimulus and tax cuts in the U.S. caused the markets to adjust. As a result, fixed income experienced a significant sell off late in the year, led by U.S. treasuries.

Overall, the fixed income portfolio generated a net return of 1.1% in 2016.

Looking forward: Fixed income will continue to play an important role within the total fund. We expect to increase exposure if yields reach more attractive levels in the future.

ABSOLUTE RETURN STRATEGIES: Absolute return strategies aim to produce a positive return across all market regimes, whether they are rising, flat or falling. These strategies are less constrained than those used by traditional managers who employ the “buy and hold” strategy. In general, hedge fund strategies fall within this category.

Our MDI strategy focuses on harvesting different types of risk premia in a diversified manner. Absolute return strategies help us in this regard.

Our absolute return strategies portfolio is still in its infancy. In 2016, we made approximately $2.4 billion in commitments to external managers that we believe have the potential to become strategic partners with OPTrust.

Overall, the absolute return strategies portfolio generated a net return of 1.1% in 2016.

Looking forward: In 2017, we will continue to reposition our total fund portfolio towards a more balanced set of risk factor exposures. Increased exposure to absolute return strategies will help during heightened market volatility and a challenging macroeconomic environment. We expect to grow this part of our portfolio over time.

REAL ESTATE: Real estate provides predictable income helping to fund the Plan’s pension obligations. It generates attractive risk-adjusted returns and helps lower funded status volatility. Real estate is also an important diversifier and a hedge against inflation over the long term.

Supportive real estate fundamentals, continued low interest rates and a global surplus of capital led to persistently strong demand for commercial properties and elevated levels of investment transactions across most markets. While these market dynamics pushed income yields to historically low levels and correspondingly record high pricing for properties, the premium for investing in real estate over government bonds remains attractive.

In 2016, the Real Estate Group rebalanced the portfolio as the market cycle matured. We committed to 16 new investments in North America and Europe totalling $530 million. The real estate portfolio generated a net return of 10.8%.

Looking forward: OPTrust will focus on seeking property investments which offer the potential of income growth, as well as opportunities to improve the quality and functionality of our investments through participating in selective development strategies, primarily in North America. Over the long term, we will continue to increase the internally-managed portion of the portfolio.

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

In an environment of low interest rates, readily available access to attractive debt financing and steadily rising institutional allocations to infrastructure, it remained challenging to source and access attractively valued assets.

In 2016, we committed to two new investments in North America and Developed Asia totalling $194 million. The infrastructure portfolio generated a net return of 11.1% in 2016.

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

PRIVATE EQUITY: Private equity is expected to generate higher returns than public equity while providing a smoother volatility profile.

The overall private equity market environment remained competitive. Average fund sizes increased on the back of growing capital inflows into the asset class. This, in combination with strong credit markets, caused a continued upward trend in valuations, which approached historical highs.

This backdrop highlighted the importance of remaining disciplined in capital deployment. We remained cautious and disciplined when adding investments to the portfolio and focused on high-quality assets, where we believed there was considerable upside potential through value-creation initiatives and where our downside risk was well protected. We also opportunistically sold investments in the portfolio given the buoyant market conditions.

In 2016, we committed to 10 new investments (excluding follow-on investments) across North America, Europe and Developed Asia totalling $488 million. The private equity portfolio investment generated a net return of 20.6% for the year.

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

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

Over the course of 2016, we saw a modest rebound in the Canadian dollar, in response to higher oil prices. Our unhedged currency exposure, which is mostly in U.S. dollars, resulted in a drag on performance of -0.7%.

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

Ensuring alignment through total fund performance metrics

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

1. sustainability
2. risk efficiency
3. surplus preservation.

Each of these metrics plays a complementary role, looking at a different dimension of the strategy and also considers the investment horizon. All of our actions are rigorously monitored and measured to ensure we are accountable for our decisions.

RESPONSIBLE INVESTING ACTIVITIES IN 2016

Continued advocacy for global climate policy

A+

Received an A+ from the PRI on our overarching approach to responsible investing

351

Engaged 351 companies globally on key environmental, social and governance issues

Conducted portfolio climate risk assessment of the total fund

Voted at 2,340 company meetings worldwide

Participated in the consultation with the Task Force on Climate-related Financial Disclosures

PRI

CIO joined the PRI's Asset Owner Advisory Council

Serving Members

SERVICES WE PROVIDE

- new member enrolments
- leaves and past service
- transfers into and out of the Plan
- membership terminations
- spousal separation quotes
- pension estimates
- payment of monthly pensions
- address and beneficiary updates
- tax reporting

Dedication. Commitment. Service.

We serve almost 90,000 members as we pay pensions today and preserve pensions for tomorrow. We take pride in assisting them every step of the way as they move from enrolment to retirement.

In 2016, we sharpened our focus on our member-driven strategy to better connect with and respond to our members' needs. This approach positioned us to confidently pursue our goal of delivering a world-class pension experience to our members. From transactional services such as buybacks and transfers to providing information that enables members to make informed decisions regarding their pensions, we were here – on the phones, in person and at information sessions held at various locations across the province.

This year also saw a significant increase in retirement requests and other transactions associated with transitioning from active member status to retiree. We ended the year with an approximately 60% increase in new retirements over 2015.

Despite the increase in volumes, we continued to receive high service scores from members with an average satisfaction rating of 9.1 out of 10 and equally high marks industry wide.

Delivering exceptional service

In 2016, we continued to deliver pension information through a variety of channels including hosted sessions, webinars and one-on-one counselling held at our office and in locations across the province. OPTrust held 69 pension information sessions in 26 cities and towns across the province where almost 2,500 members attended. Our members appreciate the opportunity to ask questions and engage in discussions on complex topics when facing decisions about their future. We strive to deliver services with professionalism and understanding so that we can provide the required support.

Our commitment to service was clearly demonstrated in 2016, when two of our pension experts delivered a pension information session to a group of members in a tool shed, the first ever, near Six Mile Lake in the Port Severn area. While sessions typically

2016 HIGHLIGHTS

9.1/10
Resounding success dealing with increased retirement volumes yet achieving solid member satisfaction

60%
increase in retirement volumes over 2015

69
pension information sessions

26 cities and towns across the province

532
members received services by paying us a visit in person

55,880
member requests received and processed by staff

84%
of overall member requests were processed within service standards

9,010
notices to fixed-term employees informing of option to join the Plan

53,532
calls handled

18
second call response time

76,437
online transactions

172,734
email notices on a variety of reporting and informational items

63%
of first-contact resolution

84/100
CEM Benchmarking Inc. score, exceeding the peer group's median score of 79

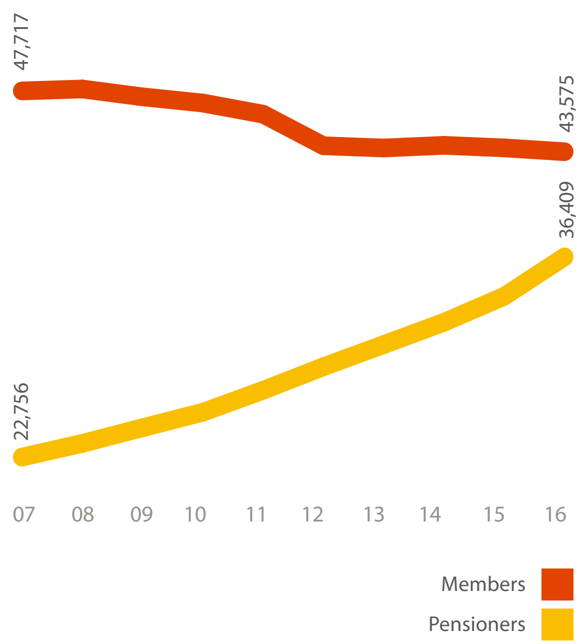
take place in hotel meeting rooms, at an employer site or at the OPTrust office, we travelled gravel roads, set up in a unique space and delivered an engaging, tailored presentation that helped a small group of our members learn more about their pension options. Questions were answered and members left feeling secure in the knowledge that their pension plan is here for them. We pride ourselves on being here to support our members throughout their careers and provide answers to their questions in the most accessible way.

CONNECTING WITH OUR EMPLOYERS

We work to establish stronger relationships with our participating employers and in 2016, we welcomed more than twenty employer representatives on-site for meetings to improve dialogue, solicit feedback on our performance and ultimately improve data quality.

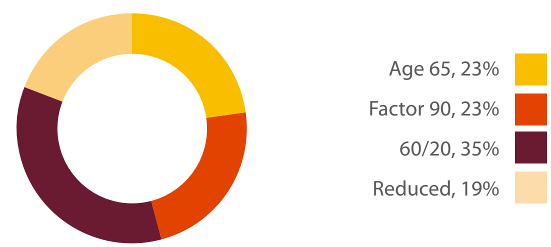
OPTRUST'S ACTIVE MEMBERS AND PENSIONERS

At December 31



In 2016, OPTrust's active membership decreased slightly by 260 to 43,575 at year-end, while the number of net pensioners increased by 2,688 to 36,409 at year-end.

2016 RETIREMENT SNAPSHOT



In 2016, 2,906 OPTrust members retired under one of the following options bringing the total number of pensioners to 36,409 by year-end:

Age 65: The normal retirement age under the Plan

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

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

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

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

Strong performance

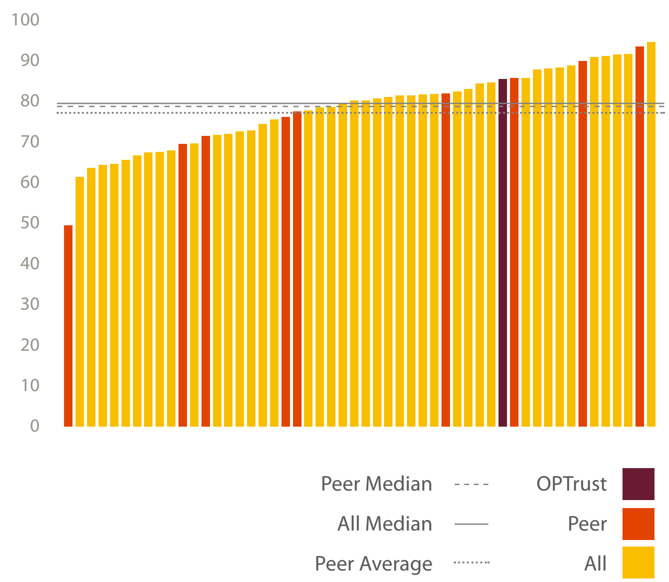
In addition to assisting almost 3,000 members as they retired in 2016, we also improved on service delivery. We delivered *Annual Pension Statements* and *Pension Information Change Statements* to members and retirees, respectively, up to three months earlier than usual. This improvement resulted in members receiving relevant information for tax and budget planning in a more timely manner.

In 2016, we served more members via webinars, benefiting those who live in remote areas and were unable to attend our pension information sessions. Members also used our instructional videos to help complete forms and navigate OPTrust information requirements.

Overall results

Our member-driven strategy guides all of our actions and drives us to provide a consistently high level of service. It provides us with a clear focus and ensures our members and their needs are at the core of everything we do.

TOTAL SERVICE SCORE VS. EXTERNAL BENCHMARKS



OPTrust's total service score was 84 out of 100 in the most recent survey of leading pension plans by CEM Benchmarking Inc. Our score exceeded both the median score of 79 for our peer group of nine Canadian plans, and the average score of 77 for all 52 plans included in the survey.

SERVICE SCORES BY ACTIVITY

Activity	Weight	OPTrust	Peer Median
1. Member Transactions			
a. Pension Payments	19.7%	**100**	100
b. Pension Inceptions	7.4%	**98**	93
c. Withdrawls and Transfers-out	1.3%	**69**	55
d. Purchases and Transfers-In	3.1%	**62**	63
e. Disability	3.8%	**91**	100
2. Member Communication			
a. Call Centre	21.2%	**85**	71
b. 1-on-1 Counseling	7.4%	**72**	70
c. Member Presentations	6.5%	**89**	89
d. Written Pension Estimates	4.7%	**75**	85
e. Mass Communication			
• Website	11.3%	**71**	72
• News and targeted communication	2.8%	**82**	83
• Member statements	4.7%	**81**	80
3. Other			
Satisfaction Surveying	5.0%	**68**	49
Disaster Recovery	1.0%	**97**	96
Weighted Total Service Score	100.0%	**84**	79

MEMBERSHIP STATISTICS

At December 31	**2016**	2015	2014	2013	2012
Active members	**43,575**	43,835	44,008	43,827	43,981
Average age	**45.1**	46.1	46.3	46.5	46.4
Average salary	**$ 62,121**	$ 62,488	$ 62,417	$ 62,391	$ 61,791
Number of new members enrolled	**4,567**	4,271	4,170	3,453	2,225
Number of members terminated or retiring	**4,827**	4,444	3,989	3,607	4,274
Former members with entitlements in the Plan*	**1,500**	1,237	1,735	1,471	1,882
Deferred pensioners**	**8,058**	8,198	8,524	8,744	8,966
Current pensioners	**36,409**	33,721	31,946	30,426	28,916
Average age	**70.3**	70.2	69.8	69.3	69.2
Average annual pension	**$ 21,321**	$ 20,868	$ 20,519	$ 20,351	$ 20,005
Total members and pensioners	**89,542**	86,991	86,213	84,468	83,745

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

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

Governance and Accountability

OPTRUST WAS ESTABLISHED in 1995 to give members a voice in key decisions affecting their pensions through a joint sponsorship model that recognizes the Ontario Public Service Employees Union (OPSEU) and the Government of Ontario as equal sponsors of the Plan and is registered under the *Pension Benefits Act* (Ontario) as a "jointly sponsored pension plan". The Plan's governing documents define the roles and responsibilities of the Plan's sponsors and its Board of Trustees. It also provides the Board with the authority required to ensure OPTrust can deliver retirement security to its almost 90,000 members, pensioners and their dependants.

Plan sponsors

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

Board of Trustees

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

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

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

In 2016, the Board considered and approved two major strategic projects for OPTrust based on comprehensive business cases from management: the phased update and optimization of OPTrust's pension administration system, and the internalization of the majority of the Plan's public market assets and strategies. These projects support the organization's long-term objectives and the effective delivery of service to the Plan's members.

The Board continues to monitor the progress of these projects at a strategic level with support and independent advice from its advisors on a regular basis.

The Board also undertook a significant governance project to review and modernize its policies. In completing this work, the Board's Policy Review Sub-Committee considered pension governance best practices, the oversight requirements of current organizational strategies and the ideals of jointly-sponsored trusteeship. All new and updated policies were approved by the Board in December. The Board continues to regularly consider opportunities to enhance and strengthen its governance practices.

Management

The CEO is responsible for operationalizing the strategic direction approved by the Board and for managing the day-to-day affairs of OPTrust. The CEO also ensures that the Board has the information it requires to approve the matters which it has not delegated and reports to the Board on the matters which have been delegated to the CEO. The CEO carries out his delegated functions through OPTrust employees.

The Board approves the structure of OPTrust's executive team and the CEO appoints its members. Each member of the executive team is responsible for a particular portfolio (e.g., pension administration, investments, etc.) and is delegated the necessary authority to perform his or her responsibilities, including hiring staff. The members of the executive team participate in an Executive Committee, which serves in an advisory capacity to the CEO.

STANDING COMMITTEES OF THE BOARD

The **Governance and Administration Committee** monitors and makes recommendations on board governance, administrative policies and the preparation of actuarial valuations. The committee also monitors the legislative and regulatory environment, regulatory compliance, considers recommendations for plan changes and monitors the Trust's advocacy program.

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

The **Investment Committee** monitors the investment performance of OPTrust and its investment professionals and external managers, and reviews their compliance with OPTrust's investment policies, and related legal and regulatory requirements. It also reviews changes to OPTrust's investment and investment risk policies.

The **Human Resources and Compensation Committee** monitors OPTrust's top-level organizational structure and any board-approved human resources or compensation policies. It reviews the CEO's performance and recommends to the Board the CEO's total compensation. The committee also monitors OPTrust's compensation principles and framework, aggregate annual compensation for the CEO's direct reports, annual total compensation for all other management and the succession planning for the CEO and the CEO's direct reports.

The Board has also established an **Adjudication Panel**, which gives plan members and pensioners access to a review process in the event of disputes concerning OPTrust's decisions on eligibility, benefit entitlements or other pension-related rights under the Plan.

Managing enterprise risk

OPTrust operates in an environment of growing complexity. The Enterprise Risk Management (ERM) department is tasked with creating a sustainable process to identify and manage risks across the organization so as to increase the success of achieving objectives and mitigate negative impacts to the Plan.

Led by the Managing Director, General Counsel, the ERM program is aligned to industry best practices and is integrated into our strategic and business decisions. Ongoing oversight is provided by the ERM Committee, which includes the organization's full executive team.

On a quarterly basis, the ERM Committee reports to the Board regarding the status of the organization's top risks, including related mitigating action plans. The day-to-day management of risk resides at the operational level within the organization.

ENHANCED ORGANIZATIONAL RESILIENCE

In mid-2015, the ERM program became responsible for the crisis management (CM) function at OPTrust and was tasked with designing and implementing a new CM program to achieve an enterprise-wide, strategic approach to managing crises. Since then, OPTrust developed a comprehensive governance framework for CM. The organization's critical functions were identified and the supporting response and recovery plans were created.

Organization-wide training was provided for all staff and a formal CM orientation program for new employees was developed. Arrangements were also put in place for an alternative work location that could be used in the event that one of our work centers becomes unavailable.

Collectively these achievements have worked to further bolster OPTrust's resilience and crisis preparedness.

COMPLIANCE PROGRAM

As a registered pension plan, OPTrust operates in a highly regulated environment. Legal and regulatory risk has been identified as a top risk for the organization. In 2016, as part of its commitment to continuous improvement, the Board of Trustees approved the replacement of the current decentralized approach to regulatory compliance with a centralized program established within Legal Services. The centralized program will be implemented in 2017.

Compensation program

OPTrust's management's compensation framework supports our mission of paying pensions today and preserving pensions for tomorrow, and was redesigned in 2016 to better align to our organizational strategy:

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

2. **Long-term incentive plan (LTIP)**: Redesigned to align to the three key MDI metrics that measure:
   a. Maintaining the fully funded status of the Plan
   b. Managing risk in an efficient and effective manner
   c. Preserving the surplus in the Plan

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

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

PROCESS & RISK
Continuous improvement, risk management and cost efficiencies

STAKEHOLDER
Build and enhance relationships with key internal/external stakeholders

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

COMPENSATION PRINCIPLES

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

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

COMPENSATION OVERSIGHT

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

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

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

COMPENSATION DISCLOSURE

The Board is committed to transparency regarding the compensation program and details about the base salary and other compensation paid to the President and CEO, Chief Investment Officer and Chief Pension Officer/SVP, Human Resources are found on page 40.

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

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

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

TRUSTEE EXPENSES

The Trustees of the Plan do not receive compensation from OPTrust. Reimbursement for Trustee-related incidental expenses and education received by Trustees totalled $58 thousand in 2016 (2015 – $70 thousand). The Trustees appointed by the Government of Ontario receive a per diem paid directly by the Province. Trustees appointed by OPSEU are compensated by the union for any loss of regular income as a result of time spent fulfilling their duties as a member of the Board.

EXECUTIVE COMPENSATION

($ thousands)	Year	Base earnings	Annual incentive	LTIP[1]	Post-employment benefits	Other benefits	Total
Hugh O'Reilly President and CEO	2016	423	796	614	63	36	1,932
James Davis Chief Investment Officer	2016	385	537	252	55	30	1,259
Reg Swamy Chief Pension Officer/SVP, Human Resources	2016	280	280	122	31	11	724

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

ADMINISTRATIVE EXPENSES

Managing expenses is an important component of our mission of paying pensions today and preserving pensions for tomorrow. We ensure our spending is prudent and provides value for money to our members and pensioners while at the same time allowing us to execute on our strategic and operating priorities.

The table shows our total administrative expenses in absolute amounts and as a percentage of net assets split between our two lines of business: investment and plan administration.

2016 TOTAL ADMINISTRATIVE EXPENSES

($ millions)

	$	%
Investment	45	0.24
Plan administration	20	0.11
Total	**65**	**0.35**

BOARD ADVISORS

Actuary
Willis Towers Watson

External Auditor
PricewaterhouseCoopers LLP

Compensation Advisor
Meridian Compensation Partners

Investment Advisor
Templar Investments Ltd.

Internal Auditor
Ernst & Young LLP

Information Technology/Risk Advisor
Deloitte Canada

Members of the Board of Trustees

At December 31, 2016

Vicki Ringelberg, Chair[2]

Finance Consultant

Appointed in 2011,
Chair since November 2016

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

Tim Hannah, Vice-Chair[1]

Senior Environmental Officer
Ministry of the Environment and Climate Change

Appointed in 2012,
Vice-Chair since November 2016

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

Michael Grimaldi[1]

Worker Advisor (retired)
Ministry of Labour

Appointed in 2012

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

Alan Hibben[2]

Principal
Shakerhill Partners Ltd.

Appointed in 2016

Audit, Finance & Risk, Investment Committees

Patricia Li[2]

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

Appointed in 2011

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

Tony Ross[2]

Vice-Chair (retired)
Merrill Lynch Canada

Appointed in 2000

Governance & Administration, Investment Committees

Randy Marie Sloat[1]

Customer Care Representative
Ministry of Government and Consumer Services

Appointed in 2012

Audit, Finance & Risk (Chair), Governance & Administration, Human Resources & Compensation Committees

Louise Tardif[2]

Vice-President (retired)
National Bank Financial

Appointed in 2014

Audit, Finance & Risk, Governance & Administration, Human Resources & Compensation Committees (Chair)

Giulia Volpe[1]

Pension Analyst
Ontario Pension Board

Appointed in 2016

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

1 Appointed by OPSEU
2 Appointed by the Government of Ontario

From left to right, back row:

Alan Hibben

Giulia Volpe

Patricia Li

Louise Tardif

Michael Grimaldi

Front row:

Vicki Ringelberg

Tim Hannah

Randy Marie Sloat

Not pictured:

Tony Ross

Members of the Executive Committee

At December 31, 2016

From left to right:

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

John Walsh
Managing Director, General Counsel

Karen Danylak
Assistant Vice-President, Corporate Affairs
Corporate Secretary

James Davis
Chief Investment Officer

Hugh O'Reilly
President and CEO

Doug Michael
Chief Financial Officer

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