2011 REPORT TO MEMBERS AND RETIRED MEMBERS

Protecting the long-term vitality of the Plan

We are pleased to provide you with the *2011 Report to Members and Retired Members*. This document is your source for information about the Plan's performance for the year. For even more detail, please refer to the full *2011 Annual Report* available online at **www.opb.ca**. We always welcome your feedback – if after reading the report, you have questions or comments, please email us at **feedback@opb.ca.**

Here are some highlights from the report:

- At OPB, the financial stability of the PSPP is our top priority. This means generating the investment returns required to fund current benefit levels while maintaining stable and affordable contribution rates for both members and employers. **Read more about our investment strategy and governance structure in the Message from the Chair on page 3.**

- The PSPP is in a financially sound position. While our investment return for the year was 0.43%, we expect the 2011 valuation (which will be completed mid-2012) will show that the Plan funding level is in the range of 90%. We regard this funding level as manageable. We have a solid track record over the long term: OPB's average annual investment return since our inception in 1990 is 8.31%. This puts us amongst the top performers in the Canadian pension industry for that period. **OPB's President, Mark Fuller, provides context and insight about OPB's returns and funded status in the President's message on page 4.**

- In 2011, OPB introduced a new strategic asset allocation, upgraded its real estate portfolio, and introduced a Responsible Investing policy. **To learn more about OPB's investments and investment strategy, see Straight talk: Jill Pepall, CIO on page 7.**

- OPB is, overall, one of the industry's lowest-cost pension administrators (per $ of assets under administration) and an industry leader when it comes to providing members and retired members with online services and information. Over the last several years, OPB has dramatically improved both the quality of our service to members and retired members, and the efficiency of our operations, while reducing our pension administration costs. **To learn more about what OPB is doing to serve you better, read through Client service highlights on page 2.**

OPB
Your Pension. **Our Promise.**

Our promise to you

- Protect the long-term vitality of the Public Service Pension Plan.
- Invest the Plan's assets to maximize returns within acceptable risk parameters.
- Keep contribution levels reasonably stable and affordable.
- Deliver superior, cost-effective service so that you realize the full value of your participation in the Plan.

Who we are

Ontario Pension Board ("OPB") is the administrator of the Public Service Pension Plan ("PSPP" or "the Plan") – a major defined benefit pension plan sponsored by the Government of Ontario. Our membership base is made up of certain employees of the provincial government and its agencies, boards and commissions.

With more than $17 billion in assets, 42,711 members, 35,361 retired members and 4,391 former members, the PSPP is one of Canada's largest pension plans. It is also one of the country's oldest pension plans, successfully delivering the pension promise since the early 1920s.

Who we serve

OPB serves:

- PSPP members, retired members and employers ("clients"); and
- other key stakeholders (the Plan Sponsor, bargaining agents and the citizens of Ontario).

About your Plan

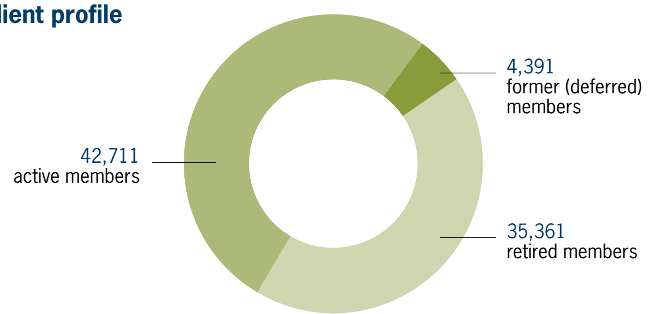
The PSPP is a defined benefit pension plan that is designed to enhance the financial security of its members. Retired members receive a pension benefit based on a pre-set (defined) formula. That formula takes into account each member's earnings history and years of service with the Plan. To fund the pension promise, both members and employers make contributions to the Plan.

Client service highlights

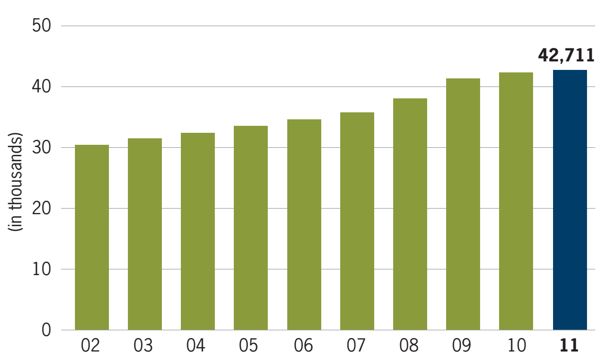
Throughout 2011, OPB pushed ahead with a range of business and service initiatives that support our continued emphasis on proactive services to members, operational efficiency and effectiveness, and fiscal responsibility. Highlights include:

- introducing a new "package" of online self-service tools, providing clients with access to personalized information online, 24/7,
- launching a sophisticated online retirement planning tool,
- developing the expertise needed to provide clients with greater support around retirement planning, and
- pilot testing a new knowledge management system that will streamline and expedite service.

Client profile



Growth in membership



Our efforts continue to produce positive results. Independent research ranks OPB second among its peers for client service. Even better, we've managed to achieve that recognition while holding the line on expenses and improving the tools and support we offer to Plan members.

At your e-service!

Have you registered yet for OPB's e-services? So far, more than 20% of members have signed up to take advantage of OPB's offering of e-services – including:

- an online retirement planning tool,
- getting a pension estimate,
- updating address information,
- changing beneficiary information,
- initiating the retirement process, and
- getting a quote for buying back past service.

Retired members also have access to a range of e-services.

If you are a member or retired member, you can access OPB's e-services (if you haven't already) at **www.opb.ca**. Simply go to the member or pensioner section, click on "e-services" and register.

Online service

17,578	pension estimates completed online
1,928	buyback cost estimates completed online
426	beneficiary designations updated online (introduced August 2011)
318	address changes completed online (introduced April 2011)

Message from the Chair

OPB is a strong performing and highly cost efficient investment, pension and benefits delivery organization. During 2011, OPB progressed on many key objectives.

M. Vincenza Sera, Chair

Financially sound

At OPB, the financial stability of the PSPP is our top priority. This means generating the investment returns required to fund current benefit levels while maintaining stable and affordable contribution rates for both members and employers.

To support that objective, the Board approved a new strategic asset allocation ("SAA") in 2011. This new SAA gives our investment team the flexibility they need to deliver value-added returns. With the SAA in place, OPB is gradually and prudently increasing its investment exposure to private market investments such as real estate, infrastructure and private equity – a strategic move that will help us enhance returns, deliver a steady stream of cash flow, reduce volatility and provide an important hedge against inflation.

We firmly believe the new SAA will – within acceptable risk parameters – enable the PSPP to meet its long-term financial obligations to Plan beneficiaries. To realize the full potential of the new SAA, however, OPB must continue to broaden and deepen its investment expertise, enhance risk management processes, and upgrade systems for tracking and analyzing investment performance – all of which we are actively doing.

Cost efficient

OPB is, overall, one of the industry's lowest-cost pension administrators (per $ of assets under administration) – and an industry leader when it comes to providing members and retired members with online services and information.

On the pension administration side, our investment in technology has led to new efficiencies. These efficiencies, in turn, have enabled us to maintain our pension administration staff complement at pre-2008 levels while, at the same time, freeing up people and money to assist members and retired members with complex issues. Management's sharp focus on financial management has led to year-over-year declines in pension operation expenses since 2009.

Part of our ability to curb expenses can be attributed to the willingness of management to share the burden. With the exception of promotional increases, base compensation increases for senior executives have been limited. OPB's CEO has led by example – his total compensation has been frozen and in some years decreased since January 1, 2008. His base compensation continues to be frozen for 2012.

Strong governance

Good governance forms the basis for sound decisions – and ultimately success. Over the years, OPB has created a solid governance framework. That framework is built on a foundation of carefully considered principles that establish clear mandates, allocate authority, and determine accountability for OPB's board, committees, and management. It's worth noting that Rita Burak, Ontario's Special Advisor on Agencies, identified OPB in her report as an example of an agency that has put in place "comprehensive" governance principles.

OPB's Statement of Governance Principles entrenches the protection and advancement of Plan beneficiaries' collective interests as the primary fiduciary duty of the Board and management. At OPB, we have a unique Board structure: although we are not a jointly sponsored plan, we do have member and employer representation at the Board table, ensuring that all beneficiaries' interests are heard and considered.

As part of our open-ended commitment to good governance, OPB periodically retains an independent third party to review its governance model. This assessment, which is entirely voluntary, is conducted as part of our commitment to continuous improvement. Our most recent assessment in 2011 concluded that OPB's strong governance culture sets a standard of board oversight that is pace setting for government agencies in Ontario.

While that independent assessment commended our position of strength, it also suggested some refinements to our governance framework going forward. Based on those suggestions, we took decisive action and centralized our governance and risk management operations into one department to further enhance our oversight capability. We also now review our corporate risks and risk mitigation strategies on a quarterly basis to ensure that risk management efforts reflect our changing business and economic environment. These new initiatives reinforce an existing system of checks and balances that ensures prudent decision-making at every step along the way – from a strategic planning process that integrates risk management to a comprehensive internal audit program that drills down to the details.

Taking action

Looking back, we can state with confidence that 2011 was a year of accomplishment. I would like to thank my fellow Board members for their careful and considered direction. Equally important, I would like to thank Mark Fuller and OPB employees for their dedication in turning that direction into tangible results. Because of their efforts, the PSPP remains strong and sustainable.

M. Vincenza Sera, Chair

President's message

The PSPP is in a financially sound position. Our investment return for the year, at 0.43%, was below the 6.35% rate of return required to maintain a stable funding status.

Mark J. Fuller, President & CEO

As a result, we expect the 2011 valuation (which will be completed mid-2012), will show that the Plan funding level is in the range of 90%, with all assets marked to market and using conservative valuation assumptions, relative to the norm in the industry. In dollar terms, the shortfall will be approximately $2 billion – which is roughly where the funded status of the Plan stood at the end of 2008.

We regard this funding level as manageable. We have a solid track record over the long term: OPB's average annual investment return since our inception in 1990 is 8.31%. This is among the top returns in the Canadian pension industry for that period. These investment returns, and indeed our entire pension administration mandate, have been – and continue to be – delivered at one of the lowest unit cost levels (per $ of assets under administration) among large public sector pension plan administrators. Expense levels are important because it is investment returns, net of expenses, that are the most significant component in funding pensions.

Looking at the bigger picture, the Plan has already addressed many of the problems that are plaguing public sector pension plans across North America:

- we've revamped our governance structure over the last several years. It is now highly regarded in the pension industry and in government;
- the effect of our in-depth and enhanced member service strategy is showing up in the third-party service quality surveys (as I discuss in greater detail later);
- the Plan's funding strategy is based on a 50/50 sharing of long-term costs between employers and employees;
- OPB has a long-standing practice of examining valuation assumptions annually and then making the adjustments necessary to bring them in line with actual experience. This mitigates the risk of major changes to assumptions that can result in unexpected shocks to the funding status of the Plan; and
- through periodic long-term funding studies and corresponding contribution adjustments, the Plan has adopted – as a principle – the sharing of long-term risks.

Investing for the long term

Though we are proud of our long-term investment performance and we are confident of our investment strategy going forward, our investment returns in 2011 were lower than we would have liked. We understand very well the sources that contributed to these investment results and I believe we should share that information with you.

As happens in every investment portfolio from time to time, certain aspects of our asset allocation and broader investment strategy were not rewarded during the year. This contrasted with 2008 when our strategy and asset allocation insulated the Plan from the double-digit losses suffered by most investors.

For example, the Fund has 38.5% in fixed income assets. During 2011, we chose to keep our aggregate fixed income portfolio shorter in duration. This was a deliberate choice. Given the very low level of interest rates, the risk/return profile did not warrant raising the exposure to long-term bonds. As it turned out, long-term interest rates fell during the year, so long-term bonds significantly outperformed shorter-term ones. However, we believe that interest rates will rise, not fall, in the future so we will continue to hold this position.

Also, to date, OPB has invested in equities almost exclusively through the public markets, rather than through private markets such as private equity and infrastructure. Stock markets around the world suffered losses in 2011 and OPB's portfolio was affected accordingly. Private market assets, on the whole, performed better in 2011. Case in point, our private market investments did perform well in 2011, but our exposure was simply too small in comparison. OPB is in the process of building our investments in infrastructure and private equity to take advantage of the lower levels of volatility, as well as the strong long-term cash flow generation, of infrastructure investments.

Finally, a third factor in OPB's 2011 performance was our higher allocation to global and emerging markets in our public equities portfolio, which makes up 33% of this portfolio. In 2011, emerging market stocks suffered deeper losses than Canadian and U.S. equities. Over the long-term, however, we believe that emerging markets should provide a strong base for global growth going forward, so we will continue to invest in them.

These factors contributed to the relative weakness in the Plan's performance in 2011. But we continue to believe these will serve the Plan well in the long term.

Following a scheduled, regular review, we did make some modest changes to our asset allocation and investment strategy during 2011. The main changes involved increasing our allocation to infrastructure, real estate and private equity assets. Over the last few years, we have built an investment team capable of investing effectively in infrastructure and private equity, and we are now moving to build out those portfolios over the next few years.

Looking ahead, OPB is now well underway with the implemention of these changes. We believe they will position the PSPP well. We are confident that we will continue to generate the strong long-term investment returns needed to fund the pension promise, as demonstrated by our long-term investment performance since the Plan's inception in 1990. As I write this letter, early in 2012, our asset allocation and investment strategy are performing well.

Delivering better service, while reducing cost

Over the last several years, OPB has dramatically improved both the quality of our service to members and retired members and the efficiency of our operations, while reducing our pension administration costs. In 2011, we continued this progress, reducing these costs by a further 1.5%, all the while improving our service delivery.

During the year, we launched a number of exciting online services for members, including the ability to apply for an immediate pension, and an industry-leading retirement planning tool. OPB is now one of the leading pension plan administrators in Canada in providing online access to information and self-service capability for members.

OPB participates in a pension administration benchmarking survey and, for the second year in a row, OPB placed second (out of the 10 large Canadian plan administrators in our peer group) in terms of service, with our service score rising from 81 to 82 out of 100. OPB provides more one-on-one counselling to its members than any other administrator in the benchmarking survey. To my knowledge, no other administrator in Canada provides the highly personalized guidance and advice to its members that OPB does. We do this because we believe, and our members confirm, that the advisory service we provide is critical to helping them make sound decisions about their pension options at key points in their lives.

The commitment, dedication and ability of OPB's employees and our Board of Directors continued to be a great inspiration to me during 2011 and I thank them.

Mark J. Fuller, President & CEO

Investment & funding highlights

Our continued focus on capital preservation in 2011 helped OPB navigate volatile financial markets and a fragile economy. At the same time, OPB continued to move forward with ongoing strategic initiatives aimed at further safeguarding Plan assets, reducing investment risk, and enhancing returns.

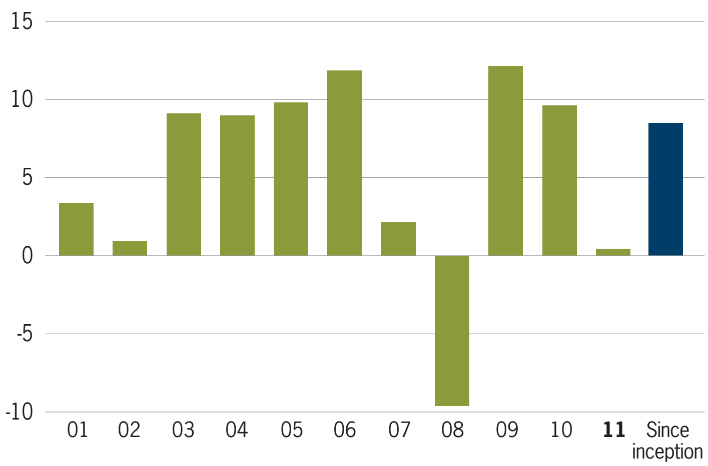
These strategic initiatives include, among other things:

- introducing a new strategic asset allocation,
- beginning to build the capability for tactical asset allocation,
- maintaining our focus on emerging markets,
- upgrading the quality of our real estate portfolio, and
- investing directly in private investments, including infrastructure.

The Plan's year-over-year return as of December 31, 2011, stood at 0.43%. A year-end funding basis valuation is expected to show the Plan is in the range of 90% funded. The Plan's long-term rate of return since inception now stands at 8.31%.

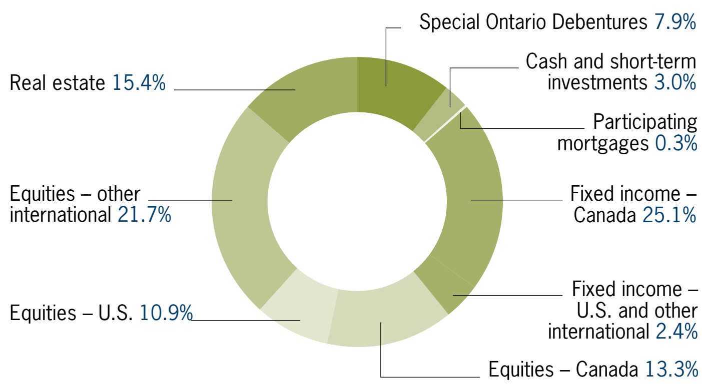
Total returns

(% per annum)



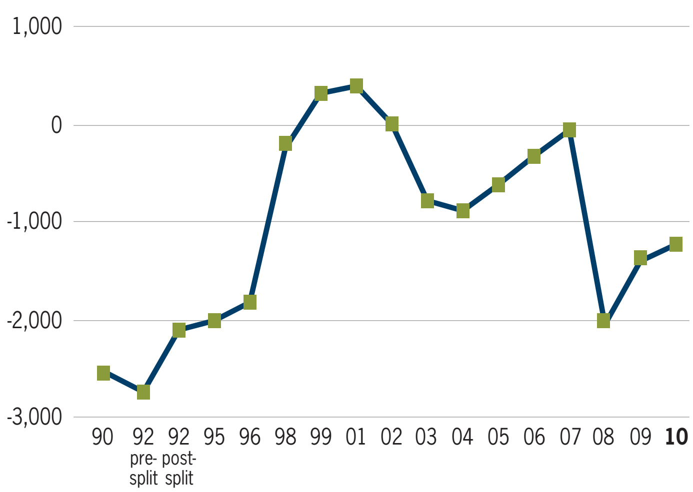
Asset mix

(as at December 31, 2011)



Funded status

($ in millions)



The years shown on this graph represent the years where a funding valuation was completed. Funding valuations are not necessarily completed every year.

Straight talk: Jill Pepall, CIO

This is a condensed version of the full interview that is provided in the *2011 Annual Report*. To read the full interview, please view our *2011 Annual Report* in the "What's new" section of our website at **www.opb.ca.**

Jill Pepall, Chief Investment Officer

2011 marked Jill Pepall's first full year as OPB's Chief Investment Officer ("CIO"). In her role as CIO, Jill – who has more than 20 years of investment industry experience – is responsible for overseeing the management of OPB's $17 billion pension fund. In this interview, Jill talks about how OPB's investments fared in 2011 and how OPB is building on its investment strategy to protect and grow Plan assets going forward.

What investment challenges did OPB face in 2011?

From OPB's perspective, there were four key challenges – persistent market volatility, the ongoing debt crises in Europe, slow economic growth among developed countries, and interest rates that have been at historic lows for several years.

Given these challenges, how did OPB's investment portfolio fare in 2011?

Our overall return for 2011 was 0.43%. We were able to preserve capital in difficult and volatile markets. Areas of strength in the portfolio were the private market investments: real estate, and private debt. Both provided solid cash flows and returns in excess of 15%. Aside from private market investments, our ability to grow the capital in 2011 was hampered by several factors:

- most importantly, the Fund had limited exposure to longer-term, low yielding bonds. These bonds performed strongly in 2011 as interest rates continued to decline. We believe that interest rates will rise in the future, so we made a deliberate choice to keep this portfolio shorter in duration,
- the Fund had limited exposure to gold within Canadian equities. Gold also performed well due to continued uncertainty in global economic growth and financial markets, and
- due to this continued uncertainty, global equities were the worst performing asset class in 2011, providing negative returns. Although 2011 was a difficult year, over the long term, public market equities have provided a positive rate of return and are a good hedge against inflation.

Should members be concerned about the 2011 investment return?

Based on the structure of this Plan, we need to achieve an average long-term rate of return of 6.35% to maintain our going concern funded status. What matters is how we perform over the long term. In that regard, OPB continues to do well. While, in 2011, our returns fell short of this rate, in other years we've exceeded it. Our average rate of return since the Plan's inception is 8.31% – well above our long-term rate required to maintain the funded status of the Plan.

Does OPB still view emerging markets as a solid investment?

Absolutely. While emerging markets did underperform developed markets in 2011, we believe this was due to general risk aversion at this point in time, not because of any underlying problems with emerging market economies. Concerns about developed markets prompted investors to reduce their overall portfolio risk, leading to a sell-off of emerging market securities. It is worth noting that the managers of our emerging markets portfolio did out-perform their competitors by a wide margin in 2011. And, the reality is that emerging market economies have higher rates of economic growth and a stronger government and trade balance sheets than developed countries. Thus, emerging markets should provide a strong base for global growth in the years ahead. That is why, in 2011, we took advantage of lower stock prices to increase our holdings in emerging markets.

(continued on page 8)

Straight talk: Jill Pepall, CIO (continued from page 7)

What changes have you made to the real estate portfolio?

We have built an outstanding track record and team in real estate. We have a very high quality portfolio that we continued to upgrade in 2011. Our new Strategic Asset Allocation ("SAA") raises the target weight on real estate to 25% of the Fund (up from its weighting of 13% prior to the new SAA). At the same time, OPB has engaged other pension plans with well-established real estate investment teams as partners for co-investing opportunities in larger projects – leveraging each other's expertise and resources. As a result, our real estate team has been active, not only upgrading the existing portfolio but selectively evaluating and adding new properties.

What is OPB's policy on Responsible Investing?

Responsible Investment beliefs begin with the overriding objectives of the Plan: (1) to provide security for the promised benefits and invest within an acceptable level of risk; and (2) allow for stable and reasonable contribution rates. The purpose of incorporating a "Responsible Investing" approach within the Plan investment initiatives is driven by the underlying belief that by supporting environmental, social and governance ("ESG") disclosure initiatives (that improve corporate transparency and disclosure practices on ESG issues), and by taking that information into account in investment decisions, long-term investors, like OPB, are better able to evaluate the investment return-risk trade-offs and improve OPB's ability to meet the Plan's objectives.

What is your outlook for 2012?

In 2012, we expect financial markets to continue to be volatile, reflecting the uncertainty of economic growth in Europe and the U.S. With sub-par growth for most of the developed world, interest rates are expected to remain at relatively low levels until growth improves. Emerging markets are also being impacted by the uncertainties in the developed economies. However, these markets have the advantage of stronger balance sheets and higher economic growth. Our strategy in 2012 is to take advantage of market volatility and use tactical asset allocation to actively manage our risk/return profile. We will maintain our exposure to the faster growing emerging economies and will continue to increase our private market investments to enhance cash flow and reduce risk.

Do you like this condensed version of the interview? Or would you rather have received the full version in this report? We'd like your feedback – email us at **feedback@opb.ca.**

Directory of key personnel

Officers

Mark J. Fuller
President & CEO

Jill Pepall
Chief Investment Officer

Peter Shena
Senior Vice-President, Pensions and Stakeholder Relations

Duncan D. Webb
Senior Vice-President, Finance

Paul Edmonds
Senior Vice-President, Corporate Affairs, and General Counsel

Glenn Hubert
Vice-President, Private Debt

Brian Whibbs
Vice-President, Real Estate

Sean Macaulay
Vice-President, Investments (External Managers)

Tanya Lai
Vice-President, Investments (Developing Markets & Investment Policy)

Anne Catherall
Vice-President, Corporate Services

Thomas Choi
Vice-President, IT Services and Enterprise Solutions

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