Your Pension. Our Promise.

AHEAD OF THE CURVE

2013 Annual Report

At OPB, we're always listening and always learning. We're also leading – when it comes to developing investment strategies, engaging stakeholders, and finding ways to secure the pension promise, OPB is ***Ahead of the Curve.***

SUSTAINABILITY

When thinking about their pensions, people have many questions about performance, sustainability, and even the viability of the defined benefit model.

STRATEGIC INVESTING

The best way to generate the returns needed to pay pensions: Use an active strategy. Take smart risks. Work with the best and don't get comfortable. Review, rethink, revise, and always keep your eye on the goal.

TRUSTED ADVISOR

Delivering a return on information. Connecting with members, retired members and employers. Building a service model that meets today's needs and is ready for tomorrow's challenges.

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About OPB

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 $21 billion in assets, 41,925 members, 35,707 retired members and 5,040 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 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.

OUR PROMISE

- Protect the long-term vitality of the 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 to clients and stakeholders so that they can realize the full value of their participation in the Plan.

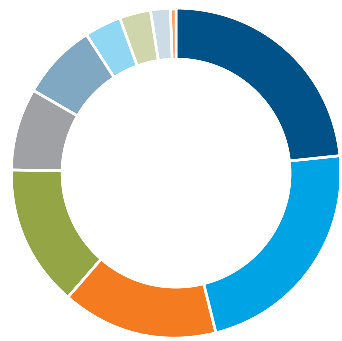
Investment & funding highlights

Thanks to a sound investment strategy led by our high-performing Investments team, in 2013, we were able to exceed both our long-term annual investment return and our Strategic Asset Allocation (SAA) benchmark. We ended the year with a return of 12.5% – the second consecutive year we've earned a double-digit return. Our investment success led to approximately $550 million in value-added return versus the benchmark return – and a marked improvement in the funded position of the Plan to 96% – up from 94% a year ago.

We made great progress on implementing key pieces of our investment strategy. In 2013, we:

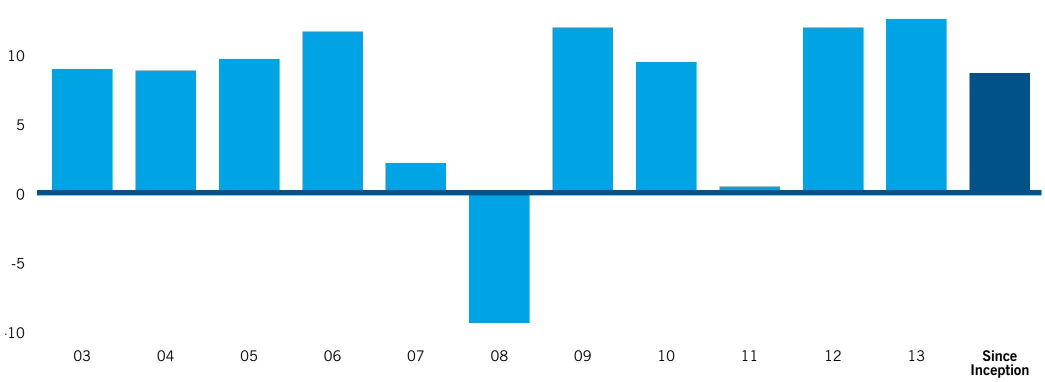
- continued implementing our SAA;
- established policies and procedures for our Tactical Asset Allocation (TAA) strategy and moved forward with implementation;
- issued a second successful bond offering in as many years;
- expanded our private market holdings – at home and abroad; and
- leveraged new investment information technology systems to ensure we have timely, accurate and actionable information needed to make prudent investment decisions.

ASSET MIX



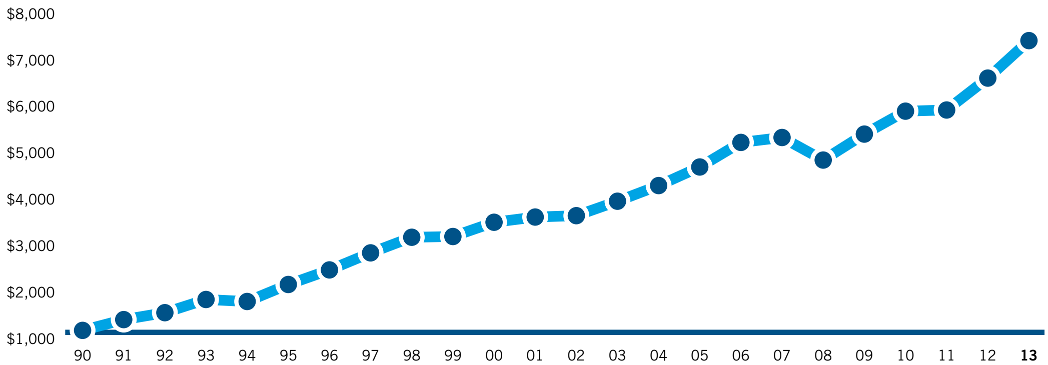
23.7%	Equities – Global
22.8%	Fixed Income – Canada
15.5%	Equities – Emerging
14.0%	Real Estate
8.0%	Cash and Short-Term Investments
7.6%	Equities – Canada
3.6%	Fixed Income – Foreign
2.5%	Infrastructure
1.8%	Special Ontario Debentures
0.5%	Private Equity

TOTAL RETURNS

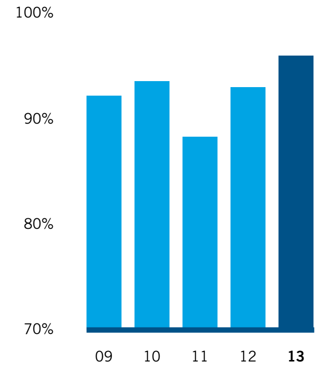


GROWTH OF PLAN ASSETS

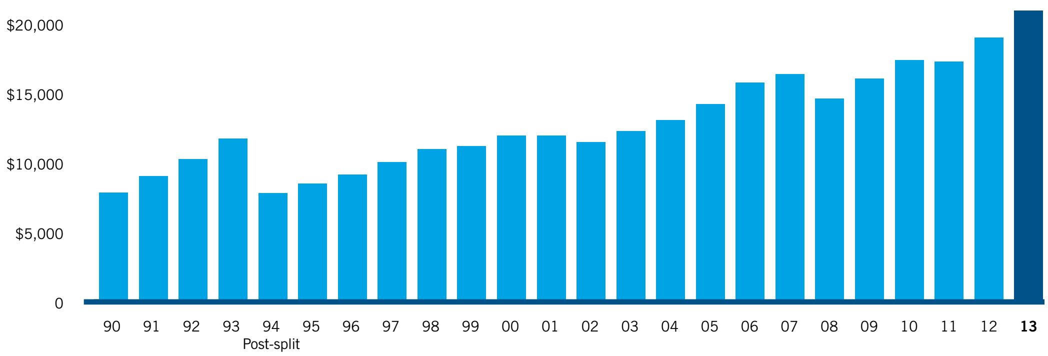
Growth of $1,000 since inception



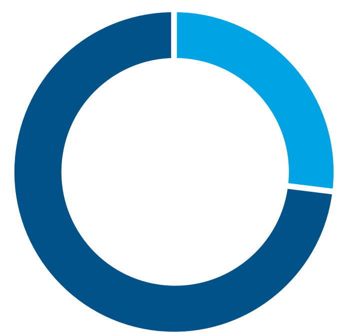
FUNDED STATUS



NET ASSETS



PENSION FUNDING SOURCES SINCE 1995



73.1% Investment Growth

26.9% Contributions (total of member, employer and sponsor contributions)

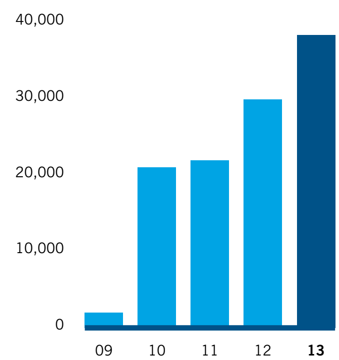
Client service highlights

At OPB, providing our clients with outstanding service is what we're about. Our mission is to understand their needs to ensure they get what they need, when they need it – whether it's setting up the pension they've earned or sitting down with them, one-on-one, to help them understand how their pension fits into their overall retirement picture. In an era of cost constraint, it means thinking outside the box to deliver value-added services in a cost-effective way. That's what we've been doing…and what we'll continue to do.

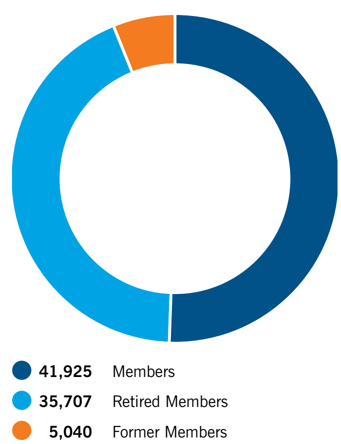
In 2013, we launched a new service delivery model, including a Client Care Centre that's improved efficiency, while providing members with access to convenient and in-depth advisory services. This innovative approach builds on existing efficiencies already achieved through our industry-leading e-services and further raises the standard for service excellence.

Our ongoing commitment to continuous improvement has established OPB as an international industry leader for service excellence. An independent benchmarking firm has ranked OPB's service third in the world among peer plans for service excellence, two years running.

E-SERVICE LOGINS



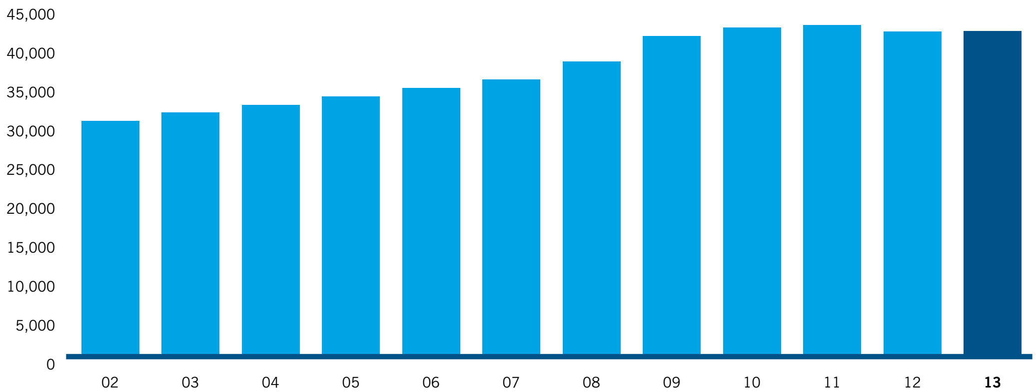
CLIENT PROFILE



CLIENT INTERACTIONS

	2012	2013
Online retirement applications	128	**148**
Online requests for buyback quotes	2,210	**3,238**
Online changes to beneficiary information	1,693	**2,051**
Online changes to address information	610	**881**
Members using online retirement planning tool	8,934	**10,522**
Presentations to members	165	**218**

NUMBER OF ACTIVE MEMBERS



Chair's message

At OPB, we believe well-designed, well-managed defined benefit (DB) pension plans are the ideal vehicle for delivering efficient, affordable and sustainable lifetime retirement income. It's an approach that has proven successful for the Plan.

OPB has – despite numerous economic challenges and volatile financial markets – managed to generate strong long-term average annual returns. As a result, we've been able to improve the funded status of the Plan and introduce key service improvements – all while maintaining benefit levels and affordable contribution rates. Also, the Plan continues to be managed in a cost-effective way – our total annual expenses (plan administration and investment expenses) per dollar of assets under management remain (at 50 basis points in 2013) on the low end of the major Ontario public sector plans, even though a number of those plans are larger and would be expected to have economies of scale advantages.

There is no denying that public sector pension plans are facing their share of challenges, including demographic shifts, economic turbulence, low interest rates, unfunded liabilities, and "pension envy". In the wake of these pressures, we've seen mounting criticism of public sector plans, both here and south of the border.

TAKING A BALANCED VIEW

We're working hard to stay ahead of the curve – and to help shape the future. We're also taking proactive steps to ensure the Plan remains sustainable and affordable. We've been speaking out, and joining the dialogue about adequate retirement income – not just for the members of our Plan, but for all Canadians.

For example, we're publicly promoting the socio-economic value of DB plans. We're also working with decision-makers to ensure they understand the advantages of the DB model and the complementary role it plays in Canada's retirement income system.

OPB's efforts are paying off. We've been able to successfully shape attitudes. Focus is now on how to make DB plans more sustainable.

Our philosophy is this: Canada needs to preserve the best of the DB model and find an affordable way to extend meaningful pension coverage to all Canadians. At the same time, we recognize that as DB plans evolve, they may need to incorporate some expanded form of risk-sharing if they are to remain sustainable. It's all about finding an appropriate balance and preserving what matters most – a predictable, secure and adequate retirement income.

LEADING THE WAY

In the spring of 2012, the Government of Ontario announced its interest in pooling the assets of public sector and broader public sector pension plans. The goal is to achieve cost efficiencies and enhance investment returns. In September 2013, the Ministry of Finance established a technical working group to provide advice on how to proceed with consolidation. OPB is part of that working group, which is expected to report back to the ministry in the spring of 2014.

There are a number of benefits to consolidation. For example, it would create a large investment pool enabling OPB to retain and attract world-class investment talent and open the door to a broader range of investment opportunities. The result would be higher incremental investment returns that support the long-term sustainability of the Plan. We believe that, implemented properly, consolidation is in the best interest of all our stakeholders. We're currently studying the feasibility of asset consolidation with other broader public sector plans. This initiative supports the government's consolidation efforts.

With or without consolidation, OPB is solidly positioned for continued success. Over the last three years, we've successfully implemented a forward-thinking investment strategy, built out our in-house investment expertise, partnered with large institutional investors to broaden our access to alternative investments, and demonstrated our ability to generate value-added returns. In short, we're already well positioned to generate the returns we need to fund the pension promise over the long term, regardless of whether consolidation occurs.

GROUNDED BY GOOD GOVERNANCE

At OPB, we recognize that good governance is the foundation of a well-run pension plan and we're committed to maintaining governance best practices.

Ours is a shared governance model, one that places particular emphasis on stakeholder engagement. We understand our stakeholders and we work to balance their needs and interests. To that end, we provide recommendations that reflect our commitment to the DB model, long-term sustainability, the interests of plan beneficiaries, and the government's need for cost constraint. This open and collaborative approach has, over the years, earned us a reputation as both a trusted advisor and an honest broker.

LOOKING AHEAD

As we look ahead, there is no question that plan sustainability will continue to be top of mind for OPB's Board and executive team. As we move forward, we'll continue to proactively monitor the PSPP through our long-term funding and asset-liability studies, and will provide the Plan Sponsor with design and funding options and recommendations that support the long-term sustainability of the Plan. We'll also continue to educate stakeholders and the public about the value of the DB model and advocate for retirement income adequacy for all Canadians.

Ultimately, good stewardship is about foresight and making decisions that serve the best interests of Plan beneficiaries. We're committed to doing just that. I'd like to thank my fellow Board members, OPB's management team, and all the employees for their continued commitment to success in 2014.

M. Vincenza Sera, Chair

President's message

The PSPP ended 2013 very well positioned. This was the result of a number of accomplishments over the year. Our Investments team delivered returns of 12.5% – the second consecutive year they've achieved a double-digit return. This investment performance, combined with low inflation and public sector salary restraint, led to a marked improvement in the funded position of the Plan. We are currently finalizing the 2013 funding valuation that will show the Plan is 96% funded, up from 94% funded at year end 2012.

MANAGING FOR SUSTAINABILITY

Our objective is – and always has been – the long-term sustainability of the Plan. That is, that the Plan continues to provide adequate retirement income for today's and tomorrow's public servants, at a cost that is affordable to members, the Plan Sponsor, and participating employers.

We've done a good job managing the sustainability and affordability of the Plan through challenging markets and a difficult pension environment. We're proud of our track record. It's important, though, that we not take our eyes off the ball. We need to be as vigilant going forward as we've been in the past. We have a multi-pronged strategy to accomplish this. Here are the key things we're doing to manage the sustainability and affordability of your Plan for the long term.

OUTSTANDING TEAM OF INVESTMENT PROFESSIONALS

On the asset side, we've built an outstanding team of investment professionals and have successfully added new asset classes, which have led to stronger investment returns. Whether through more opportunities to partner with other institutional investors, or possible asset consolidation, we expect continued and growing success from our investment strategy.

ASSET CONSOLIDATION

We're currently part of an Asset Pooling Working Group established by the Ontario Minister of Finance. The Working Group has been charged with developing a proposal for, and a feasibility assessment of, centralizing the investment management of assets of Ontario broader public sector organizations. There are a number of potential benefits to this approach for managing Plan assets. A centralized manager, overseeing a very large pool of assets, could better attract and retain a world-class investment team, build better risk management systems, access a broader array of investment opportunities, and enhance efficiency. Our expectation is that all of this could lead to enhanced investment returns net of expenses. Even an increase in our average annual net investment return of one quarter of one per cent over a period of 15 years would add $700 million in assets to the Plan. That's a reasonable expectation from asset pooling and it's a potential contributor to the long-term affordability and sustainability of the Plan that, put simply, we can't ignore. That said, increased returns will only be generated if asset pooling is superbly implemented, and our support for participating would be conditional upon it meeting the critical success factors that we've identified.

LONG-TERM FUNDING STUDY

We conduct a long-term funding study every five years to monitor and evaluate the underlying assumptions we use to fund the Plan. As part of this work, we conduct a multi-year review of demographic and economic trends that can affect the cost of the benefits promised by the Plan. We build those trends into the valuation of the Plan and then determine what, if any, adjustments need to be made. An example of such a trend is the increase in life spans that we're experiencing. This is not a new trend. Twice in the last eight years, we made adjustments to reflect increasing life spans. Following our 2008 long-term funding review, we recommended, and the Plan Sponsor made, a modest increase in contribution rates to pay for the rising pension costs due to increasing life spans.

We're currently conducting our latest long-term funding study. This has confirmed a continuing trend of increasing life spans and, in our 2013 valuation, we have, for the third time, built in additional cost for that. At this point, we haven't determined whether adjustments to the Plan will be required, because the study has also revealed that below-expectation salary increases are, in the mid-term, largely offsetting the increased costs of longer life spans.

During 2014, we'll complete the review and make our recommendations, if any, to the Plan Sponsor. It's the Plan Sponsor, not OPB, that makes final decisions about the contribution rates and benefits in the Plan. We'll keep stakeholders informed of any recommendations we put forward should they be needed.

ADOPTION OF A FUNDING POLICY

Together with our colleagues at the Ministry of Government Services, with whom we maintain a very constructive working relationship, we developed a new funding policy for the Plan. The new Policy was formally approved by OPB's Board of Directors and the Plan Sponsor early in 2014. Based upon a set of principles, this Policy will guide decision making about Plan valuation, and funding and design. It includes such things as a surplus reserve policy designed to retain excess funds that are generated when investment markets are strong so that the Plan is cushioned against inevitable market downturns. The adoption of a funding policy is considered to be an important element of good governance for defined benefit pension plans. From OPB's perspective, it lays out a roadmap for sustainability.

ADVOCACY AND EDUCATION

OPB believes strongly that the defined benefit pension model is the most efficient way to build and deliver an adequate retirement income. We've taken on a public advocacy role to share our views. Ultimately, our objective is to advocate for a retirement system that enables all Canadians, in both the private and public sectors, to build an adequate retirement income. We believe that risk-shared defined benefit type plans are the best way to achieve that outcome and, if properly structured, would be embraced by private sector employers. During 2013, we conveyed these views through speaking engagements and published articles (links to these speaking notes and articles are available on our website).

Ontario public sector pension plans have been evolving toward greater risk-sharing and have shifted more of the cost of funding shortfalls to members. We believe that the PSPP already has a sound cost-sharing arrangement, with its 50/50 sharing of current service costs between the member and the employer.

STRATEGICALLY MANAGING COSTS

We continue to manage expenses strategically and responsibly, keeping our expense ratio among the lowest in the industry. We're committed to providing value-added service at a cost-effective price. During 2013, one of our biggest accomplishments was the implementation of our new service delivery model. This new model enables us to handle daily transactions more efficiently while, at the same time, enabling us to provide members with more complex advisory services – supporting them to make better, informed decisions about their pension.

Our ongoing commitment to continuous improvement has established OPB as an international industry leader for service excellence. CEM Benchmarking Inc. – a leading pension administration benchmarking firm – has ranked OPB's service third in the world among peer plans for two years running. This is a testament to the team of people we have at OPB, who dedicate their efforts to continuous improvement and providing excellent service to our clients and stakeholders.

We're proud of our track record – we've managed to preserve the pension promise and improve service – all while maintaining benefits, and keeping contribution rates affordable. We're totally committed to continuing this performance in 2014 and beyond. I would like to thank the Board of Directors and OPB employees for their commitment and dedication.

Mark J. Fuller, President & CEO

Straight Talk with CIO Jill Pepall

In just over three years, OPB has implemented a new Strategic Asset Allocation (SAA), launched a Tactical Asset Allocation (TAA) strategy, increased the Plan's exposure to Private Markets, continued to build a first-class in-house investment team, strengthened its risk management procedures, and introduced a new information technology system to provide more timely and actionable reporting, enhancing our ability to generate value-added returns. In the following interview, Chief Investment Officer (CIO) Jill Pepall talks about OPB's approach to investing and 2013 accomplishments.

OPB generated an investment return of 12.5% in 2013. Did this return meet the Plan's objectives?

Yes, it was a successful year. Over the long term, we need to achieve an average investment return of 5.95% in order to meet our long-term pension obligations. In 2013, our return exceeded 5.95%, improving the funded status of the Plan. It also exceeded our SAA benchmark by 3.1%, generating approximately $550 million in value-added returns.

What were the key factors that contributed to investment success in 2013?

The main contributing factors were the strategic asset mix, TAA strategy, strong returns from specialty and active investment mandates, and the performance of our Private Markets portfolio.

OPB revised its SAA in late 2011. How is implementation going and what impact has it had on investment returns?

SAA is the process we use to ensure that our overall asset mix continues to reflect the Plan's long-term funding and cash flow needs. The SAA is the most important factor in determining total returns and the risk related to portfolio diversification. Our SAA is focused on long-term growth and uses managed risk to generate incremental returns for the purpose of improving the funded status of the Plan. OPB revised its SAA in 2011 to increase the Plan's exposure to private investments by increasing our allocation to Real Estate and adding two new asset classes – Infrastructure and Private Equity. Knowing it would take time to build a sizeable Private Markets portfolio, we allowed five years for implementation and set asset mix targets for each year. We made good progress in 2013. The SAA is achieving its objectives – improving portfolio diversification, enhancing returns and generating less volatility. For example, a deliberate reallocation of assets from fixed income to Private Market investments reduced our exposure to a weak bond market in 2013.

What is TAA and how does it work?

TAA is an asset mix strategy that uses a fundamental and systematic approach to increasing or decreasing OPB's risk exposure at various points in market cycles to take advantage of investment opportunities. The goal of the TAA initiative is to preserve capital in volatile markets and enhance risk-adjusted returns by taking smart investment risk in the shorter to medium term. Up until 2012, OPB took modest tactical positions relative to the SAA; however, in late 2012, we hired a senior investment professional to lead our TAA strategy, and are now able to take more significant positions. Our focus in the first part of 2013 was to establish the policies and procedures needed to support this robust TAA program. With the groundwork in place, we implemented the TAA using an asset overlay (using derivative instruments to obtain or offset exposures beyond those provided by a portfolio's assets).

OPB's investment strategy is increasingly complex. What steps is OPB taking to ensure its investment risk management keeps pace?

Risk management is essential to meeting our investment objectives. In 2013, we migrated to a new investment risk management approach complemented by newly developed comprehensive risk analysis and reporting. Investment risk management and measurement will continue to be an area of focus in 2014 as we continue to further develop, refine and advance our risk management capability in order to generate better quality risk-adjusted returns for stakeholders. We'll also further integrate the monitoring and management of risk and compliance into our investment processes and day-to-day investment activities in order to manage required risk and mitigate unrewarded risk. OPB's deployment of TAA has been done so as to opportunistically seek enhanced risk-adjusted returns.

OPB has a large and growing Real Estate portfolio. How did it perform in 2013?

2013 was a successful year for OPB's Real Estate portfolio. We concluded several key acquisitions, continued to upgrade the quality of our portfolio, expanded our geographic ownership, disposed of some properties with low growth potential, and improved diversification. Early in 2013, we signed a deal – as part of a consortium – to acquire Primaris Real Estate Investment Trust. Through this real estate transaction, one of the largest in Canadian history, OPB acquired a 50% ownership in 14 retail properties across five provinces. This purchase not only added to the portfolio's geographic diversity, it further solidified OPB's reputation as a significant and respected institutional investor. Also during 2013, we teamed up with a trusted investment partner to buy interests in two prime office buildings in midtown Manhattan – adding to the portfolio's geographic and sector diversity. And, we completed a planned disposition of our Mississauga Industrial portfolio, which no longer provided a good fit with our evolving strategy.

OPB completed its second bond offering in 2013. How did it go?

It was a great success. We raised $250 million, which we used to finance three of the shopping centres acquired through our investment in Primaris Real Estate Investment Trust. The bond offering's 2.9% annual interest rate was the lowest coupon in Canadian history for a 10-year corporate bond – including those issued by other pension funds. The offering received an AAA rating from the Standard & Poor's (S&P) credit rating agency and was also 3.7 times oversubscribed. A total of 30 investors took part in the offering. Of those, 13 were buyers who didn't participate in our first bond offering – signaling a strong increase in investor interest and confidence in OPB.

OPB has been increasing its investment in Private Markets. Why?

Our SAA calls for an increased investment in Private Market assets, specifically Real Estate and Infrastructure. Both help insulate the Plan from public market volatility, because a larger proportion of their returns are in the form of stable cash flow – including rental income from Real Estate and revenue from Infrastructure. We also believe this is a good time to be shifting some of our fixed income exposure to private investments because interest rates are starting to edge higher – lowering our return expectations for fixed income assets. It's worth noting that our Real Estate portfolio continues to perform well and has achieved double-digit returns in each of the last four years. We've also been able to avoid the J-curve effect, which is the historical tendency of certain assets, such as Private Equity fund investments, to produce negative returns in their early years followed by stronger returns as the investment matures. In other words, we've been able to generate positive returns from our Infrastructure and Private Equity portfolios since day one by strategically investing in secondary funds and co-investing directly with partners.

Do you see this trend toward Private Markets continuing?

Yes, OPB's SAA provides for a further shift away from public to private investments. Infrastructure has been, and will continue to be, an important addition to OPB's real asset class. Infrastructure investments provide diversification and we like the inflation-linked characteristics of these assets. As for Private Equity, we like the prospect of higher returns without the volatility of public equities.

Is OPB diversifying its Private Markets investments internationally? If so, how?

Real Estate has been a pillar of OPB's investment strategy for almost 20 years. Although our focus has been on core retail properties in major cities across Canada, we've invested directly in New York City office buildings and indirectly in office properties in Paris and London. Being a participant in the takeover of Primaris Real Estate Investment Trust (REIT) added to our geographic diversification of retail assets across Canada. On the Infrastructure side, we've invested directly in Canada and the U.K. So far, our fund investments have focused mainly on infrastructure assets in North America and Europe. A similar pattern has emerged in our Private Equity portfolio. Overall, OPB has made direct or indirect private equity investments in 28 countries around the world. Although some of these investments are not large, they will contribute to our knowledge base as we move forward in alternatives investing.

OPB was early into emerging markets. Are emerging markets still a priority?

Currently, about 15% of our total assets are invested in emerging markets. That is a significant percentage. We continue to look for quality investment opportunities internationally, and emerging market exposure is a priority for OPB. In late 2012, OPB received a Qualified Foreign Institutional Investor (QFII) licence and the right to invest up to US$150 million in China A-Shares. This was a major achievement – one that complements our existing investments in emerging markets and provides us with exposure to Chinese domestic growth. In 2013, we selected a Chinese investment manager to manage our China A-Shares mandate and fully funded it. We also continued to research other new emerging markets around the world, including Africa and the Chinese Renminbi bond market.

OPB's investment costs have been going up. Why?

Investment costs have gone up because of our expanded and more diversified investment strategy. This was expected. Higher absolute costs are being driven by our growing asset base. Incremental costs are increasing due to several factors: increased exposure to higher-cost alternative investments, increased exposure to return-enhancing specialty mandates, the cost of in-house expertise to support our investment strategy, and the cost of acquiring market research and data in order to manage assets in-house. While investment costs have increased, there are two points worth noting. The first is that we expect higher costs to be more than offset by higher investment returns. The second is that research by CEM Benchmarking shows that we are managing our assets on a more cost-effective basis than our peer plans. We'll continue to monitor all costs closely to ensure they are necessary and appropriate.

What is the investment outlook for 2014?

Some of the issues and uncertainties that existed in 2013 will extend into 2014. For example, economic growth in the developed world, while improving, is expected to remain below historical levels. Also, Federal Reserve tapering, which is a reduction by the U.S. Federal Reserve in its purchasing of fixed income investments, could fuel market volatility. At the same time, the European economy is improving at a very modest rate and some emerging markets are vulnerable to the removal of liquidity from U.S. markets. In China, economic growth appears to have stabilized and the country's leadership has indicated a commitment to moving to a freer market economy. In addition, 2014 will likely bring some new issues. For example, risk assets that performed well in 2013, such as developed-market equities and credit, will likely face valuation concerns in 2014. Interest rates are expected to remain low in 2014, but trend higher over the long term. And finally, geopolitical risks in the Middle East, East Asia and elsewhere continue to add uncertainty to the markets. All these factors are expected to contribute to continued market volatility in financial markets. It'll be challenging to manage, but will also provide investment opportunities.

Management's discussion & analysis

Introduction

Within a challenging economic environment, volatile financial markets and an increasingly difficult pension environment, OPB continues to perform well.

Due to a combination of proactive management and smart investing, we're ahead of the curve. The result: we've been able to improve the funded status of the Public Service Pension Plan (PSPP or the Plan) and introduce key service improvements – enabling stable benefit levels and reasonable contribution rates.

2013 was another successful year for OPB. Returns were a strong 12.5%. We managed to exceed both our Strategic Asset Allocation (SAA) benchmark and our long-term annual investment return target – confirming the strength of our investment strategy and the competency of our Investments team. Equally important, we improved the financial status of the Plan – finishing the year 96% funded (up from 94% at year-end 2012).

Investment excellence is a top priority for OPB. Over the last few years, we have continued the implementation of the SAA strategy introduced in 2011, built out our investment expertise, and added a number of high-performing specialty mandates. But sustainability of the Plan does not hinge on investment results alone. The current pension landscape is characterized by shifting demographics, cost constraints, criticism of the defined benefit (DB) pension model, and evolving government policy. We continually monitor and proactively adapt as necessary, keeping the best interests of the Plan and its beneficiaries at the forefront.

To stay ahead of the curve and protect the pension promise, we need to be proactive. That's why, in 2013, we moved forward with several thought-leading initiatives. For example, we:

- Took a public stance and actively promoted the socio-economic value of the DB model and demonstrated that these plans can be sustainable when well managed.
- Explored the feasibility of consolidating assets with other broader public sector plans for investment purposes – a move that would open the door to new investment opportunities and help generate incremental returns.
- Introduced a new service delivery model that builds on the efficiencies already achieved through industry-leading e-services and provides members with valuable advisory services.
- Proactively managed the funding of the Plan by making prudent and realistic decisions about Plan design, contributions, and the assumptions used to value the PSPP.
- Continued to manage expenses strategically and responsibly so that we meet or exceed government expectations for fiscal restraint.

This section of the report expands on these and other initiatives from 2013.

The PSPP is not immune to the economic and environmental factors faced by pension plans today; however, by staying ahead of the curve, we're confident we can keep the Plan affordable and sustainable – and protect the pension promise.

Funding

Double-digit investment returns in 2012 and 2013, combined with low inflation and salary restraint, have led to a marked improvement in the funded status of the Plan.

The Plan is 96% funded (on a going-concern basis) at year-end 2013. That's up from 94% at year-end 2012 and puts the Plan on very strong financial footing going forward.

This marked improvement in our funding position can be attributed to value-added investment returns, lower-than-expected salary increases in the public sector, and lower-than-expected inflation rates. That said, some of our gains were offset by adjustments we made to strengthen our assumptions.

Over the last two years, OPB has taken steps to build in more caution around two key assumptions – investment returns and mortality. If we had not made these prudent adjustments to our assumptions, it is likely the Plan would have appeared, on paper, to be fully funded as of December 31, 2013; however, our assumptions would not have matched our actual experience. Plan assumptions are monitored on an ongoing basis and are adjusted as necessary to ensure we have an accurate picture of Plan liabilities, not just today, but as they are likely to evolve over time. This is how we have managed to maintain benefit levels and stable, affordable contribution rates.

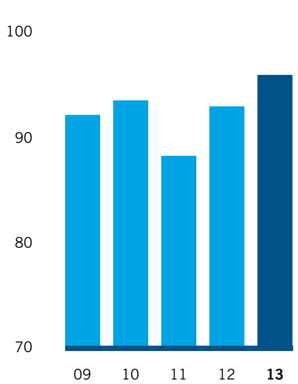
When it comes to managing funding, OPB has an excellent track record. Plan liabilities are driven by an estimate of what future pensions will cost. This estimate is based on the actuarial assumptions used to value the Plan (e.g., the assumed investment return of the pension plan, at what age we assume members will retire, and assumptions about how long we expect to pay the pension). Over the years, OPB has made prudent and realistic decisions about its assumptions.

Every five years, OPB conducts a long-term funding study, as well as an experience study. These two reports are important to the prudent management of Plan funding. They provide us with an opportunity to review whether the cost of providing a dollar of pension has increased, and to determine whether the assumptions we use to value the Plan's liabilities are consistent with the Plan's actual experience. For example, to manage the fact that our retired members are living longer, we have adjusted the mortality assumption twice in the last eight years, and again in 2013. The Canadian Institute of Actuaries has issued new guidance on the use of mortality assumptions that is likely to increase pension plan liabilities. We will be completing both an experience study and a long-term funding study in 2014. If, based on the results of these studies, we determine that adjustments to the assumptions are necessary, OPB will assess the options available and present recommendations to the Plan Sponsor (the Government of Ontario). It will be up to the Plan Sponsor to choose the preferred option(s).

During 2013, OPB continued to work with the Plan Sponsor and finalized a new funding policy for the PSPP. This policy provides important guidelines and criteria for making long-term decisions about contribution rates and benefits – ensuring the Plan has, over the long term, the funds it needs to meet future pension obligations.

In June of 2013, the Government of Ontario responded to our advocacy efforts by extending solvency funding relief to the PSPP. Solvency funding relief refers to temporary measures that relax the rules requiring pension plans to fund a solvency shortfall. This is the funding shortfall that would occur if a pension plan was suddenly forced to shut down and pay all the benefits owing to members at once (this is a highly unlikely event for the PSPP). The PSPP did not have solvency relief prior to June 2013, while jointly sponsored public sector pension plans are completely exempt from solvency funding requirements. By granting solvency relief to the PSPP, the Plan Sponsor can now focus on the Plan's going-concern valuation when determining funding needs. The going-concern valuation assumes the Plan will continue to operate indefinitely and is used to fund the benefits promised under the PSPP.

FUNDED STATUS
(%)



FUNDING

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Adopted a formal Plan funding policy to secure the long-term sustainability of the PSPP	The funding policy (considered a key component of good governance) sets out the basis on which future decisions can be made by OPB and the Plan Sponsor to ensure Plan sustainability. This new policy has been approved by OPB's Board of Directors and the Plan Sponsor.
Successfully advocated for funding relief	Solvency relief enables the Plan Sponsor to focus on the Plan's going-concern valuation when determining funding needs. The going-concern valuation assumes the Plan will operate indefinitely.
Conducted a funding basis valuation	A funding basis valuation is used to ensure there are sufficient assets in the Plan to meet pension obligations. The valuation dated December 31, 2013 will be filed with the Financial Services Commission of Ontario (FSCO). OPB is required to file a valuation with FSCO at least once every three years.
Adjusted the assumption for life expectancy	The assumption was adjusted to reflect the fact that members are living longer and collecting their pensions longer. The adjustment will help to ensure the projected cost of providing each dollar of pension reflects the additional cost related to longer life expectancy.

FINANCIAL POSITION

OPB conducts two different valuations on a regular basis – a funding basis valuation and an accounting basis valuation.

- The *funding basis valuation* is used to ensure there are sufficient assets to meet the Plan's pension obligations. It is also used to determine contributions to the Plan.
- The *accounting basis valuation* is used to determine the funded position of the Plan for the purpose of reporting that information in the financial statements. The valuation is prepared in accordance with the Chartered Professional Accountants of Canada Handbook.

Both valuations provide a best estimate of the Plan's accrued pension liabilities and both are performed by an independent actuary appointed by OPB's Board of Directors.

Funding basis valuation – A funding basis valuation must be filed with the Financial Services Commission of Ontario, the province's pension regulator, at least once every three years. The December 31, 2010 valuation – the last valuation filed with pension regulators – indicated that the Plan was 94% funded and had a shortfall of $1.2 billion.

OPB is currently finalizing the funding basis valuation as at December 31, 2013. The valuation will show that the Plan's funding position has improved from a shortfall of $1.3 billion at the end of 2012 to a shortfall of approximately $0.8 billion at the end of 2013. This is a remarkable accomplishment given the fact that we have: (a) added approximately $1.2 billion in liabilities to recognize that our members and retirees are living longer and we are therefore paying pensions longer, and (b) lowered our discount rate to better reflect the uncertain economic environment we are operating in, which also increases the present value of our liabilities.

On the other hand, the multi-year program of salary restraint instituted by the Government of Ontario for its employees has lowered Plan liabilities by approximately $0.75 billion. Taking all of these factors into account, the Plan is 96% funded.

Accounting basis valuation – For the purposes of the accounting basis valuation, the Plan's liabilities were calculated as of December 31, 2012, the date of the last funding valuation, and extrapolated to December 31, 2013. The extrapolated numbers are based on the assumption that the Plan's 2013 experience (for factors such as inflation, salary increases, retirement ages, and termination and mortality rates) match the Plan's actuarial assumptions. The extrapolation reflects indexing adjustments made to pensions as of January 1, 2013.

For financial reporting purposes, we have calculated the Plan's 2013 year-end financial position by comparing the extrapolated liability with the actual market value of assets as of December 31, 2013. Based on the accounting basis valuation as of December 31, 2013, the Plan had a deficit of $0.98 billion (see Note 7 "Deficit" on page 51), compared to $1.37 billion at year-end 2012. The year-over-year improvement is largely attributable to the net effect of favourable investment returns.

MANAGING FUNDING

The funded status of a pension plan is, in simple terms, determined by the "pension equation" – an equation that compares the value of pension assets on one side with the value of pension liabilities on the other. While funding shortfalls (and surpluses) are typically attributed to the impact of investment returns on the asset side of the equation, the impact of plan assumptions on the liability side is equally important.

During the 1990s, investment returns exceeded expectations, prompting many plans to focus more on assets than liabilities. At the same time, a number of factors, including declining interest rates and longer life expectancies, began to have a dramatic impact on the cost of providing pensions. The combined impact of higher pension costs, followed by the onset of market volatility, quickly eroded funding surpluses and left most plans facing funding shortfalls.

At OPB, we pride ourselves on paying close attention to the liability side of the pension equation. Our focus on liabilities, not just assets, has been a key factor in our ongoing success. Despite some of the most challenging economic and financial markets since the Great Depression, we have been able to progress along the path to full funding, all while enabling stable benefit levels and reasonable contribution rates.

Our success in managing liabilities can be attributed to two key factors:

1. OPB and its stakeholders have, together, made informed and responsible decisions about Plan design.
2. OPB has done a good job of setting prudent and realistic demographic and economic assumptions, which are used to cost the Plan. An example is our recent updating of the Plan's mortality assumption.

In a continuing effort to balance assets and liabilities over the long term, OPB embarked on both a long-term funding study and an experience study in 2013. The long-term funding study considers the Plan's long-term funding needs and the best way to meet those needs. The experience study assesses whether the Plan's actuarial assumptions reflect reality when it comes to variables such as interest rates, investment returns, and demographics. We expect both studies to be completed in 2014. Results of the studies will be shared with stakeholders, as will any recommendations stemming from the study results.

Our last funding study was completed in 2008. Based on the results of that study, the Plan Sponsor, on advice from OPB, proactively phased in a modest contribution increase in 2009 and 2010 to address the higher cost of providing a dollar of pension.

Disciplined and astute investing

OPB has a strategic and comparatively conservative approach to investing that is shaped by two key objectives:

1. securing the benefits promised to members, and
2. maintaining relatively stable and reasonable contribution rates.

To achieve these objectives, OPB has developed an investment approach that emphasizes capital preservation and seeks to generate stable, long-term investment returns within acceptable risk parameters by:

- minimizing unrewarded risk,
- reducing absolute volatility,
- focusing on fundamental research and analysis to make investment decisions, and
- sourcing global investment opportunities that provide predictable cash flow.

During 2013, our Investments team focused on three key areas:

1. continued implementation of our Strategic Asset Allocation (SAA),
2. development of the Tactical Asset Allocation (TAA) strategy, and
3. implementation of investment information technology systems.

These three areas of focus are discussed in more detail on the following pages.

Strategic Asset Allocation (SAA)

OPB continued to move forward with the five-year, phased-in implementation of its SAA, which began in late 2011. The SAA has broadened OPB's investment mandate and set asset mix targets to help meet long-term funding objectives and better manage investment risk.

OPB is tracking well against its strategic asset mix targets. As expected, the SAA is improving portfolio diversification, enhancing returns, and generating less volatile returns than a less diversified portfolio. During 2013, OPB achieved several important milestones in the implementation of the SAA:

- We continued to increase OPB's emphasis on Private Markets. Private Market investments help insulate the Plan from public market volatility. Real Estate and Infrastructure, in particular, enable us to generate a larger proportion of returns from annual cash flow. Given the potential for a secular increase in interest rates – and a corresponding decline in bond prices – 2013 was an opportune time to further shift OPB's exposure from fixed income assets to private market investments.
- OPB's Private Market investments posted positive returns in 2013, avoiding the J-curve (the historical tendency of certain investments to produce negative returns in their early years). This was achieved through a combination of direct investment, participating in fund co-investments, and investing in secondary funds (existing portfolios with the majority of capital already deployed).
- OPB continued to explore and invest in new global opportunities that offer value-added returns. In November 2012, OPB received a Qualified Foreign Institutional Investor (QFII) licence and the right to invest up to US$150 million in China A-Shares. In 2013, we fully funded that mandate and began purchasing our allotment of shares.
- We continued our research into new markets – exploring investment opportunities in frontier markets, specifically Africa. Although less developed than emerging markets, frontier markets, such as Africa, typically have lower market capitalization and liquidity than the more developed emerging markets, such as China. Demographic changes and urbanization within these countries may offer the potential for higher long-term returns to compensate for the incremental risks and volatility.

When it comes to investing in emerging and frontier markets, OPB is doing its homework and taking measured, smart risks – just as it does with all asset classes. We consider what role an investment will play in our portfolio (from both a risk and return perspective) and whether it complements our existing holdings.

Tactical Asset Allocation (TAA)

OPB moved forward with the implementation of its TAA initiative in 2013.

The TAA strategy is used to enhance returns by taking advantage of perceived market anomalies at various points in the market cycle. TAA is also expected to help as an efficient and effective tool to preserve capital in volatile markets by hedging exposures to certain assets within our SAA.

Prior to 2013, OPB made modest decisions around its asset mix based on the SAA; however, in late 2012 we hired a senior investment professional to lead and implement our TAA strategy. With the head of TAA in place, our immediate focus for 2013 was to establish policies, procedures and strategies. Once those were in place, we began implementing active TAA asset mix decisions. For example, as part of our TAA strategy in 2013, we successfully assumed overweight positions in developed equities and credit.

Prior to the adoption of our new TAA process, OPB carefully considered and reviewed its current investment risk management process. As a consequence, OPB migrated to a new risk management approach in 2013, which it adopted and implemented simultaneous to the rollout of the TAA initiative. The new process – which is complemented by comprehensive risk analysis and reporting – provides a better understanding of the Plan's investment risk so that we can make better investment decisions. Both our TAA and Investment Risk initiatives will continue to evolve to meet our changing needs, particularly as we migrate into new strategies and products.

In 2013, we used TAA primarily to enhance core asset allocation decisions in our Public Market portfolios through the use of asset overlay strategies. Plans are in place to expand our TAA initiative in 2014. Areas of development will include:

- deepening our model to include a greater selection of assets within the asset classes we currently manage with TAA (such as equities),
- broadening our model to include additional asset classes (such as currency), and
- deploying of TAA on Foreign Exchange (FX) implies OPB moves to an active FX approach versus its current passive FX approach. As such, OPB will carefully consider the incremental risk and return opportunity of active FX management.

Investment information applications

To ensure we have access to the accurate, timely and actionable information we need and tools to support sound investment decision making, OPB put a priority focus on information technology systems and applications in 2013. Specifically, we:

- Enhanced our Private Markets portfolio tracking and data management system to better track Private Market investments. This system allows us to manage relationships, track our deal pipeline, monitor investments, perform portfolio analysis, and store documentation related to investment deals.
- Completed the implementation of analytical software to increase our efficiency in managing OPB's public investment assets. OPB continues to explore other tools that can improve the team's effectiveness in managing public assets.
- Implemented a new data management system for all investment asset classes. This software will provide performance attribution data on a daily basis – enabling us to better monitor the markets and respond more quickly to changing market conditions.

INVESTMENT

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Achieved an annual investment return of 12.5%	Strong investment returns contributed to a significant year-over-year improvement in the funded status of the Plan. As of December 31, 2013, the Plan was 96% funded.
Continued to implement our new Strategic Asset Allocation (SAA)	The new SAA, which is being implemented over a five-year period, will help OPB better manage risk and meet long-term funding objectives. It puts more emphasis on private investments, such as real estate and infrastructure.
Deployed our Tactical Asset Allocation (TAA) strategy	The TAA strategy enables us to effectively and efficiently adjust the percentage of assets held in various investment portfolios. Our objective is to take advantage of perceived opportunities within the marketplace and to generate value-added returns. Additionally, we expect to use the strategy to help preserve and protect capital at major inflection points in the economic cycle.
Funded our mandate to purchase US$150 million in China A-Shares	OPB is one of just 11 pension plans out of 258 QFII licence holders globally with access to China A-Shares. China A-Shares provide OPB with better exposure to China's domestic growth and complement our existing investments in emerging markets.
Initiated research into frontier markets (such as Africa)	Although less developed than emerging markets, frontier markets offer the potential for higher long-term returns.
Invested in information technology	Advanced information technology systems provide OPB with access to accurate, timely and actionable information – so that we can continue to make informed investment decisions and generate value-added returns.
Increased our weight in all Private Market asset classes	Investing in real assets helps to enhance returns in volatile markets by providing a larger component of returns from stable cash flow. It also provides an important hedge against inflation.
Successfully concluded a deal to buy Primaris Real Estate Investment Trust	Our Real Estate portfolio continues to be a significant source of strength for the Plan, delivering solid returns. The acquisition of Primaris Real Estate Investment Trust, as part of a consortium, our largest investment deal to date, further establishes OPB as a respected and desirable investment partner.
Issued our second bond offering in as many years	This highly successful offering supplied OPB with cost-effective access to capital that has provided low-cost financing for income-generating assets.
Continued to strengthen our risk management	We laid the foundation for a surplus risk management tool that, once implemented, will allow us to integrate the Plan's funding status into asset mix decisions on a regular basis.

ASSET MIX

Asset mix is the single most important driver of investment performance. At OPB, asset mix is based on our SAA, with modest deviations based on our TAA strategy.

Based on the SAA, OPB's asset mix comprises:

- interest-bearing investments (Special Debentures, cash and short-term investments, and fixed income investments),
- Public Equities (stocks), and
- Private Market investments (Real Estate, Infrastructure and Private Equity).

ASSET MIX
(as at December 31)

Asset Class	**2013**	2012
Special Ontario Debentures	**1.8%**	4.6%
Cash and short-term investments	**8.0%**	6.3%
Fixed Income – Canada	**22.8%**	26.3%
Fixed Income – Foreign	**3.6%**	3.2%
Equities – Canada	**7.6%**	6.6%
Equities – Global	**23.7%**	21.6%
Equities – Emerging	**15.5%**	15.5%
Real Estate	**14.0%**	14.5%
Infrastructure	**2.5%**	0.9%
Private Equity	**0.5%**	0.5%

BOND OFFERING

OPB had its second successful bond issue in 2013 – raising $250 million for a 10-year term.

The bond offering was 3.7 times oversubscribed – confirming strong investor interest and confidence in OPB. Moreover, the bond's 2.9% annual interest rate was the lowest coupon ever for a Canadian corporate bond with a 10-year term (including those issued by other pension funds).

The proceeds were used to provide low-cost financing for three of the shopping centres OPB acquired as part of the Primaris Real Estate Investment Trust transaction.

INVESTMENT PERFORMANCE

Investment excellence continues to be a top priority for OPB. Despite a challenging and volatile investment environment, our overall annual return for 2013 was 12.5%, marking the second consecutive year of double-digit performance.

During 2013, we exceeded the 5.95% average annual investment return needed to fund the Plan over the long term. We also exceeded the Plan's portfolio benchmark return by 3.1%, adding approximately $550 million in value-added returns. This solid performance had a positive impact on the funded position of the Plan.

A number of factors contributed to OPB's strong returns in 2013. These included, among other things:

- our TAA strategy,
- strong results from specialty and active investment mandates, and
- the performance of Public Equities and Private Market investments.

Following is a more detailed look at our performance results by asset class.

INTEREST-BEARING INVESTMENTS

Interest-bearing investments provide the Plan with a stable source of cash flow. They also help preserve capital in times of market volatility. As of December 31, 2013, interest-bearing investments accounted for 36.2% of the Plan's net assets and included:

- cash and short-term investments,
- non-marketable Province of Ontario Debentures (Special Debentures), and
- marketable and non-marketable fixed income products.

Cash and short-term investments – Cash and short-term holdings (including pending trades) at year-end 2013 stood at $1.7 billion (8.2% of net investments), up from $1.2 billion (6.3% of net investments) at year-end 2012.

Special Debentures – Special Debentures were issued to the Plan by the Province of Ontario as an initial funding mechanism when the PSPP was established as a separately funded plan in 1990. As of December 31, 2013, the Plan's Special Debentures were valued at $374.5 million, compared to $869.9 million at year-end 2012.

Over the years, debentures have provided the Plan with an important source of cash flow. In 2013, they generated cash flow of $505 million. This is down from $508 million in 2012, reflecting the fact that a portion of the portfolio matures each year. Proceeds from maturing debentures are reinvested in other assets. The last debenture will mature in 2014 and we are developing a liquidity policy to manage the transition.

Marketable and non-marketable fixed income – The Plan's Canadian bond portfolio provided a modest return of 1.8% in 2013 and ended the year valued at $4.8 billion. That compares to a 5.1% return in 2012 and year-end value of $5.0 billion.

The international fixed income portfolio returned 7.6% in 2013, compared to 9.6% in 2012. The year-end value of the portfolio was $766.8 million, up from $597.5 million a year earlier.

PUBLIC EQUITIES

During 2013, OPB initiated a review of its Canadian equity asset class to re-evaluate the optimal allocation that allows the Plan to outperform the benchmark (S&P/TSX Composite), while taking on less risk than the benchmark.

Based on our review, the decision was made to eliminate the existing passive Canadian equity exposure (a transitional position held due to earlier manager terminations) and to redeploy the funds to active mandates that provide diversification from OPB's existing managers. We also evaluated smaller Canadian niche strategies we believe have the potential to increase outperformance with only a moderate increase in aggregate risk.

Within our Emerging Markets portfolio, we fully funded our China A-Shares mandate and began buying up shares in 2013. OPB had received a Qualified Foreign Institutional Investor (QFII) licence in November 2012, along with the right to invest up to US$150 million in China A-Shares. This is an accomplishment achieved by 11 pension plans globally. China A-Shares provide OPB with better exposure to China's domestic growth and complement our existing investments in emerging markets.

During 2013, we also initiated research into what we believe is the "next" emerging (frontier) market opportunity – Africa. African countries are starting to produce a wide range of products and services that are now being sold internationally, and they are in need of foreign capital and knowledge. Frontier markets typically have lower market capitalization and liquidity than the more developed emerging markets, such as China. Therefore, potential returns need to be higher to compensate for the incremental risks and volatility.

The Plan's Canadian equities portfolio generated an 18.0% return during 2013. That compares to 10.2% in 2012. The market value of the portfolio at December 31, 2013 was $1.6 billion, up from $1.3 billion a year earlier.

By comparison, the Plan's U.S. equity portfolio returned 42.3% for the year, compared to 15.0% in 2012. The year-end market value of the portfolio stood at $2.9 billion, compared to $2.6 billion at year-end 2012 (all returns stated in Canadian dollars).

The Plan's global equity portfolio returned 14.8% in 2013, compared to 18.4% in 2012. The market value of the portfolio as of December 31, 2013 was $5.2 billion, up from $4.4 billion at year-end 2012.

PRIVATE MARKET INVESTMENTS

As of December 31, 2013, Private Market investments accounted for 19.2% of OPB's net assets and included Real Estate, Infrastructure, Private Debt, and Private Equity. During the year, we increased our holdings in all four asset classes – moving us closer to the asset mix targets established by our SAA.

Exposure to private market investments helps insulate the Plan from public market volatility and enables us to generate a larger component of our overall return from cash flow. OPB's Private Market investment strategy focuses mainly on core assets for Real Estate and Infrastructure and buyouts for Private Equity and uses a combination of direct investing, investing in funds and co-investing.

Overall, the Plan's Private Market investments returned 11.9% in 2013, compared to 17.2% in 2012. The market value of these investments as of December 31, 2013 was $4.0 billion, up from $3.3 billion at year-end 2012. Following is a more detailed breakdown by asset class.

Real Estate – OPB's Real Estate portfolio is made up of direct and indirect holdings in quality Canadian properties that carry little or no debt, direct and indirect holdings in international real estate, and a modest investment in participating mortgages.

Real Estate assets provide strong cash-flow generation, less volatile returns than equity market assets, and (particularly in the case of retail centres) a hedge against inflation – making them a good match for the PSPP's long-term pension liabilities.

2013 was a successful year for OPB's Real Estate portfolio. Once again, the portfolio delivered strong returns and recorded a number of noteworthy accomplishments:

- The portfolio's overall return for 2013 was 12.9%, compared to 19.2% in 2012. Since 1994, when OPB made its initial investment in real estate, the portfolio has generated an average annual return of 10.8%. SAA allocation at year-end for the portfolio was 18%.
- OPB, as part of a consortium, completed the privatization of the Primaris Real Estate Investment Trust. This real estate deal was OPB's largest investment transaction to date and added 14 quality retail properties to our portfolio. The deal also further solidified OPB as a respected and desirable investment partner.
- The portfolio invested in two prime midtown Manhattan office buildings. The addition of these office buildings gives the portfolio – which has been weighted towards shopping centres – good asset class diversification. It also builds on the portfolio's growing international content, which already included – through various funds and co-investments – a minority interest in three New York City office buildings, as well as interests in several properties under construction in London and Paris.
- We continued to upgrade the quality of our Real Estate portfolio through the opportunistic sale of properties that no longer provide a good fit with our evolving strategy. Specifically, we completed a planned disposition of an industrial portfolio.

The major portion of OPB's Real Estate portfolio consists of properties located in Canada. As of December 31, 2013, the portfolio held more than 9.9 million square feet of retail and office space in Canada. A full list of Canadian real estate properties owned by the Plan is listed on page 59.

Private Debt/P3 (Public-Private Partnerships) – Private Debt assets consist mostly of high-quality, investment-grade, income-bearing fixed income products of various maturities that are unavailable in the public markets. These investments typically offer higher yields than public bonds and, with appropriate issuer collateral and financial covenants, can reduce investment risk.

A low interest rate environment in 2013 presented challenging market conditions for Private Debt, requiring a shift in strategy and an increasingly agile response to ongoing market conditions. To meet market challenges, we amended our policy to place more focus on shorter-duration, higher-yielding debt investments – a move we believe has positioned us well to take advantage of new market opportunities that will increase the returns of the Private Debt portfolio.

For example, OPB closed its first investment in a mezzanine debt fund in 2013. This fund is expected to provide annual returns in the range of 12% to 15%. In addition, construction was completed on our first Public-Private Partnership (P3) project, which we expect to generate annualized returns of approximately 11%.

Overall, the portfolio returned 2.3% in 2013 and had a year-end value of $438.7 million. That compares to a return of 11.3% and year-end value of $368.6 million in 2012.

Infrastructure – OPB's Infrastructure portfolio was launched in 2011. The portfolio focuses on core infrastructure investments that – like real estate – provide a steady stream of cash flow, stable returns during periods of equity market volatility, and a hedge against inflation.

The portfolio ended 2013 close to its SAA target weight of 2.0%. During the year, we:

- acquired interests in our second and third combined cycle gas turbine (CCGT) power plants in the United Kingdom, and
- closed an investment in a European mid-market infrastructure fund whose principals have significant knowledge of and access to the European market, a resource that OPB can leverage for future co-investment opportunities.

The Infrastructure portfolio returned 12.0% in 2013, compared to 10.8% in 2012. The portfolio had a year-end value of $527.1 million, compared to $173.4 million in 2012.

Private Equity – Private equity is an illiquid asset class and returns are generated principally from capital appreciation over the mid- to long-term hold. OPB, as an investor with a long-term view, expects to benefit from this liquidity risk premium with higher long-term returns than public equities. OPB's first investment in private equity (investments in equity securities that are not publicly traded on a stock exchange) was made in early 2012.

As of December 31, 2013, OPB had committed almost US$235 million to three private equity funds. Two of the funds are invested in 16 underlying portfolio companies while the third is a fund of funds invested in hundreds of portfolio companies on a secondary basis.

Total investments in Private Equity exceeded our 2013 SAA target weight of 0.5% – despite an increasingly competitive environment for private equity, and while maintaining disciplined adherence to strict underwriting criteria.

Returns for our Private Equity portfolio in 2013 came in ahead of expectation. We avoided the J-curve effect and so, instead of the negative returns typically associated with newer private equity strategies (due to the payment of investment fees on committed capital that is not yet invested), the portfolio generated a positive return of 17.8% (compared to 9.9% in 2012) and had a year-end value of $108.3 million (compared to $103.4 million in 2012).

By focusing on more mature investments, we have achieved good vintage year diversification in our Private Equity portfolio (covering investment periods from 2000 to 2013) and have already received distributions in the form of income and capital gains. (Vintage year refers to the year in which a new investment fund finalizes its investor commitments and, typically, makes its first investment.) Holding a range of investments made in different calendar years helps reduce the risk of market timing.

INVESTMENT OUTLOOK

Looking ahead, we expect many of the issues and uncertainties we encountered in 2013 to extend into 2014.

Economic growth in the developed world, although improving, is expected to remain below long-term historical levels. While the U.S. economy has exceeded growth expectations, growth in Europe is progressing at a much more modest pace. In addition, some emerging markets have shown to be particularly vulnerable to the removal of liquidity from the U.S. market.

Political gridlock in the U.S. is expected to be less of an issue in 2014 given the budget deal reached in late 2013. However, Federal Reserve tapering (a reduction by the U.S. Federal Reserve in its purchasing of fixed income investments) is still on the agenda and, if not properly managed, could lead to market volatility.

In China, economic growth appears to have stabilized and the leadership in that country has indicated a commitment to move toward a freer market economy.

Several other factors may emerge in 2014:

- Risk assets that performed well in 2013, such as credit and developed equities, will likely be subject to valuation concerns in 2014.
- Geopolitical risks – in the Middle East, East Asia or elsewhere – will continue to add to market uncertainty.
- Interest rates are expected to remain low in 2014; however, we believe they have begun a long-term upward trend.

While many of these factors will contribute to continued market volatility and pose investment challenges, they're also expected to provide new investment opportunities. Going forward, OPB will continue to implement investment strategies that navigate market volatility, avoid unnecessary risk, and generate the incremental returns needed to protect the long-term vitality of the Plan.

RETURN ON INVESTMENTS AND BENCHMARKS

OPB has adopted a Statement of Investment Policies and Procedures (the SIP&P), which states investment objectives, guidelines and benchmarks used in investing the capital of the Plan, permitted categories of investments, asset mix diversification, and rate of return expectations. The SIP&P was last amended on December 19, 2013.

The Plan's average rate of return expectation as set out in the SIP&P is equal to or greater than 5.95% per year (3.85% net of inflation of 2.10%), which is the discount rate used for the long-term funding of the Plan.

The total annual rate of return is measured against a composite index (Total Benchmark) made up of the weighted average of each category's benchmark return using the target allocation of the SIP&P to weight the various categories. The Plan's relative annual rate of investment return expectation is set to equal or exceed the composite index on a net of fees basis. The Plan's rate of investment return for 2013 was 12.5% and 11.9% for 2012, compared to the Total Benchmark returns of 9.3% for 2013 and 9.4% for 2012.

		Annual Rate of Investment Return (%)			
		Actual (Gross of Fees)		Total Benchmark	
Asset Category	Benchmark	**2013**	2012	**2013**	2012
Cash and Equivalents	DEX 91 Day T-Bill Index	**1.4%**	1.4%	**1.0%**	1.0%
Fixed Income	DEX Universe Bond Index	**1.8%**	5.0%	**-1.2%**	3.6%
Real Return Bonds	DEX RRB Index	**0.0%**	0.0%	**-12.5%**	2.9%
Canadian Equities	S&P/TSX Composite Index	**18.0%**	10.2%	**13.0%**	7.2%
Foreign Equities	MSCI World (C$)	**37.0%**	15.8%	**35.9%**	14.0%
Emerging Equities	MSCI Emerging Markets Index (C$)	**5.0%**	19.0%	**4.3%**	16.0%
Real Estate	Custom Real Estate Benchmark	**12.9%**	19.0%	**9.7%**	14.1%
Infrastructure	Custom Infrastructure Benchmark	**12.0%**	10.8%	**0.9%**	0.8%
Private Equity	Custom Private Equity Benchmark	**17.8%**	–	**30.2%**	16.6%
Total Investments	Composite Index	**12.5%**	11.9%	**9.3%**	9.4%

SERVICE EXCELLENCE

OPB has a long-standing commitment to service excellence – a commitment that has earned us recognition as an industry leader. For the second year in a row, CEM Benchmarking Inc., a leading pension administration benchmarking firm, has ranked OPB third in the world among the pension plans CEM monitors for administration service levels.

Despite ongoing cost constraint, OPB continues to move forward with a number of initiatives aimed at further improving the efficiency and effectiveness of our service.

During 2013, OPB implemented a new service delivery model (SDM). As part of this initiative, OPB launched its Client Care Centre, which provides clients with on-the-spot answers to questions, or redirects them to a trained specialist qualified to assist them in the decision-making process. We also introduced a new suite of services designed to improve efficiency and provide members with access to more complex advisory services.

Transition to the new SDM was a major achievement. To fully implement this SDM, OPB had to ensure it had the right people, with the right skills, in the right jobs. Without increasing the organization's overall headcount, we redeployed existing employees, providing them with access to cost-effective learning resources, and allowing them to grow into their new roles.

Employees rose to the challenge and clients responded positively, proving once again that OPB is resilient and able to manage change on a large scale.

The new SDM – and its focus on advisory services – is designed to protect the interests of members by giving them the information they need to make informed pension decisions at the time of key life events (such as termination, death or retirement). Our advisors are completing Certified Financial Planner (CFP) training, in order to provide members and retired members with the financial analysis they need to better understand how their pension plan fits into their overall financial picture. It is, we believe, very important for our members (active and retired) to have a clear understanding of the impact their PSPP decisions can have on their retirement plans.

The new SDM has also led to increased efficiencies. More than 90% of members calling into OPB are now connected to one of our associates within 30 seconds. That's up from 85% in 2012. In addition, our professional team of associates can assist members with a wider range of client inquiries, increasing the likelihood that members' information needs will be met.

The new SDM builds on OPB's existing suite of industry-leading e-services. These services allow members to access information or complete transactions online, such as:

- getting a personalized pension estimate,
- generating a buyback quote,
- updating address and/or beneficiary information,
- initiating the termination or retirement process,
- viewing T4As and Annual Pension Statements, and
- accessing a full-picture retirement planning tool.

The efficiencies gained through OPB's e-services enabled OPB to free up the staff resources needed to implement the new service delivery model.

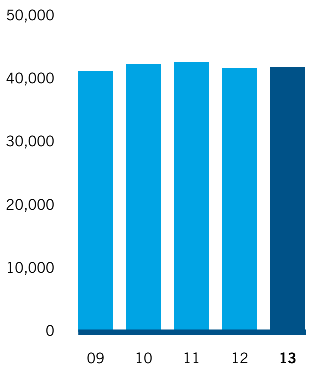
In addition to the above service improvements, OPB continues to conduct one-on-one and group sessions with clients. During 2013, we conducted more than 200 member education sessions. These sessions are designed to help ensure members understand the value of the pension plan and how it fits within their broader retirement plans.

While OPB continues to move forward with service objectives, we have scaled back the scope and pace of implementation for some initiatives due to ongoing cost constraints. That said, we will, over the next few years, be investing in technology with the goal of replacing certain systems that are end-of-life, upgrading other systems, and adding new technology needed to support our evolving business needs.

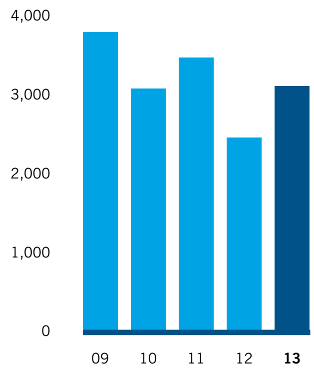
SERVICE EXCELLENCE

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Implemented a new service delivery model (SDM)	With its focus on advisory services, the new SDM protects the interests of members by providing them with the information they need to make informed pension decisions at the time of key life events. It has also led to increased service efficiencies.
Launched our new Client Care Centre	A Client Care Centre was launched in early 2013. The centre provides callers with on-the-spot answers to questions or redirects them to a trained specialist qualified to assist them in the decision-making process.
Continued to conduct one-on-one and group education sessions	Sessions ensure members have the information they need – when they need it – to make informed pension decisions.

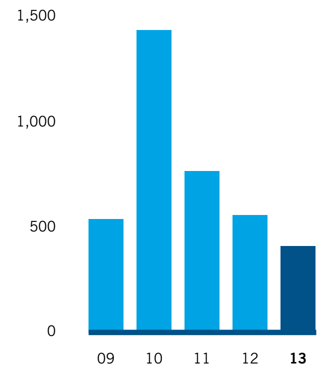
Number of active members



Enrolments[1]



Buyback completed[2]



1 The number of contributing members declined between 2009 and 2013. During this period, the Government of Ontario was hiring fewer new employees, and was divesting existing services and employees to the private sector and other levels of government.

2 The number of buyback quotes and purchases spiked in 2010 when legislative changes eliminated the two-year buyback window. This change allowed Plan members who had not purchased eligible past service within two years of joining the PSPP to purchase that service at actuarial cost. The spike reflects the influx of demand immediately following the legislative change.

PROACTIVE ADVOCACY

At OPB, we believe that, managed properly, defined benefit (DB) pension plans are the superior model for offering retirement security and adequacy. We also believe that retirement income discussions should focus on expanding, not contracting, “meaningful” pension coverage for Canadians.

With that in mind, OPB has taken on the role of publicly promoting the socio-economic value of DB plans. We are also working to ensure that decision-makers and thought leaders understand the advantages of the DB model.

That said, we take a balanced view. We recognize that there are challenges with the DB model. And we accept that the DB model may need to evolve and incorporate more risk-sharing if it is to remain sustainable for the long term. Incorporating risk-sharing relief valves into the DB model – so that plan sponsors and members share the risk of unfunded liabilities – would help protect the core benefits that matter most to members without shifting the *full* burden of risk to individual plan members.

Our balanced and public support for the DB model is gradually shifting attitudes. Thought leaders are no longer talking about converting DB plans to defined contribution (DC) plans. Instead, they are talking about how to make DB plans more sustainable.

In the spring of 2012, the Government of Ontario announced its interest in pooling the assets of smaller public sector plans with the goal of generating economies of scale and improved investment performance. At OPB, we believe there is a business case to be made for the consolidation of assets. Done properly, it has the potential to generate enhanced investment returns, which would ultimately benefit Plan members.

In 2013, we assessed the feasibility of consolidating our investment division with other broader public sector plans. There are a number of benefits to consolidation. It would create a larger investment pool, which would enable OPB to maintain world-class investment talent and open the door to a broader range of investment opportunities. The result would be higher incremental investment returns that support the long-term sustainability of the Plan.

If consolidation does not occur, OPB remains strongly positioned to generate the returns needed to fund the pension promise over the long term. We have successfully partnered with a number of other large institutional investors on Real Estate and Infrastructure investments, and will continue to seek out similar opportunities.

ADVOCACY

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Publicly promoted the DB pension model	We believe DB plans are the superior model for providing retirement security and adequacy. With that in mind, we took on the role of publicly promoting the value of the DB model so that decision-makers and thought leaders understand the model's many advantages.
Worked on a proposal to consolidate assets with other broader public sector plans	If approved by government, this initiative will enable OPB to support world-class investment talent and open the door to a broader range of investment opportunities. The result would be higher incremental investment returns that support the long-term sustainability of the Plan.

OUTSTANDING STAKEHOLDER RELATIONS

As the pension environment evolves, pension plans face increasingly difficult decisions about plan design and funding. Making the right decisions requires an effective governance model.

At OPB, we have a "shared governance" model that emphasizes stakeholder engagement. In short, it's a model based on trust, openness and collaboration. Open channels of communication are maintained, ensuring we understand the needs of our stakeholders.

We take pride in providing balanced recommendations that reflect our fiduciary duty, our commitment to the long-term sustainability of the Plan, and the needs of stakeholders. This principled position has earned us the role of trusted advisor with the Plan Sponsor, and the reputation of honest broker with bargaining agents that represent members of the Plan (directly and through their nominees on our Board).

In the meantime, we continue to grow our relationships with stakeholders. For example, in 2013, we:

- Continued to work closely with the government to ensure politicians and senior members of the civil service management group fully understand pension issues.
- Held regular and ongoing discussions with bargaining agent groups, keeping them informed about the health of the Plan and emerging trends and issues.
- Delivered more than 200 presentations to Plan members across Ontario, providing them with information about the value of their pension, plan provisions, and key decision points.
- Participated in the Government of Ontario Chief Administrative Officer forum.
- Attended bargaining agent Annual General Meetings (AGMs).

We are proud of the relationship we have built with stakeholders over the years. Going forward, we will continue to build on that relationship in our ongoing effort to protect the long-term sustainability of the Plan.

STAKEHOLDER RELATIONS

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Continued to build a strong working relationship with the Plan Sponsor	The Plan Sponsor is responsible for major decisions governing the Plan. We believe a strong working relationship will earn us a place at the table during future discussions around Plan design and funding, and ensure that the long-term interests of members are heard.

STRATEGIC AND RESPONSIBLE FINANCIAL MANAGEMENT

OPB is mindful of the financial pressures facing the Government of Ontario, and we recognize the importance of fiscal responsibility and operational efficiency. As a result, we watch and manage our expenses vigilantly.

Over the years, we have done a good job of managing our costs. We have automated or redeployed resources to create new efficiencies. And we've trimmed costs where we can. The result: we've been able to provide value-added service at a cost-effective price, and have successfully held our expense ratio at a level that is among the lowest in the industry.

That said, costs did go up in 2013 and are expected to go up again in 2014 as we invest, where appropriate, to ensure our systems infrastructure is secure and sound, and our clients and stakeholders receive optimum value.

FINANCIAL MANAGEMENT

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Continued to make cost constraint a priority	OPB is committed to constraining costs. During 2013, we deferred some non-critical strategic initiatives, leveraged efficiencies gained through additional online services, automated internal business and client service processes, and negotiated more competitive contracts with service providers.

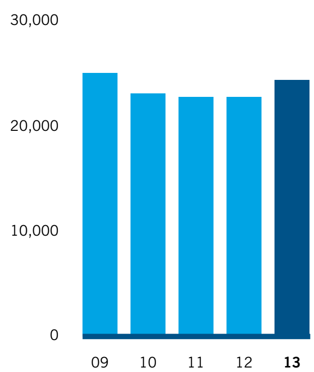
OPERATING COSTS

OPB acknowledges and fully supports the government's need for cost constraint. Accordingly, our business plan recognizes the importance of fiscal responsibility, operational effectiveness and overall efficiency.

Plan operating costs are broken down into key categories:

- **Investment management costs** – These costs, which are deducted from total investment income, include fund management fees, as well as transaction and custodial fees.
- **Operating expenses** – These costs reflect expenses incurred by OPB to operate and manage the Plan. These expenses are still below 2009 levels, as shown in the chart below.

Pension administration operating expenses
(in thousands of dollars)



Investment management costs

As expected, OPB's investment costs (as a percentage of assets invested) edged higher in 2013. Higher costs were due to several factors, including:

- our growing asset base,
- increased exposure to higher-cost alternative investments and specialty mandates,
- increased research to support investment decision making,
- an investment in information technology to support analysis, risk monitoring and risk management, and
- the continued build-out of our investment expertise.

Even with a modest increase in investment costs, and including Plan operating costs, our investment expense ratio is a respectable 0.50% – among the lowest for plans in our peer group. Our expense ratio represents the total of our operating expenses and investment fees, compared to our net assets available for benefits at year-end. Investment fees for 2013 totalled $64.5 million (or 31 cents per $100 in net assets), compared to $57.3 million in 2012 (or 30 cents per $100 in net assets).

Although we expect higher expenses will be more than offset by incremental investment returns, OPB remains committed to cost constraint. To help curtail expenses in 2013, we:

- used asset overlays to lower trading costs,
- hired in-house counsel to reduce legal costs, and
- negotiated with Public Market investment managers to keep investment management fees below industry averages.

Pension administration expenses

OPB was able to keep pension administration costs for 2013 below 2009 levels. Expenses for 2013 totalled $24.38 million (or 12 cents per $100 in net assets), compared to $22.75 million in 2012 (or 12 cents per $100 in net assets).

To achieve this result, we have continued to make cost constraint a priority. During 2013, we:

- limited CEO compensation (base salary and benefits) at 2008 levels,
- deferred some non-critical strategic initiatives,
- introduced a more efficient service delivery model that leverages our earlier investment in e-services and automated transactions, and
- negotiated more competitive contracts with service providers.

CONTRIBUTIONS

Contribution rates for the PSPP are set by the *Public Service Pension Act*, 1990.

Members currently contribute 6.4% of their salary below the Year's Maximum Pensionable Earnings (YMPE), and 9.5% of their salary above the YMPE. Employers contribute a matching amount. Contributions for members receiving Long Term Income Protection benefits are paid by their employers.

Ontario Provincial Police (OPP) officers are required to contribute additional amounts to fund the 50/30 unreduced early retirement provision and the earnings component of the benefit formula (average annual earnings based on highest 36 consecutive months). The contribution rates for OPP officers are 9.2% of salary up to the YMPE and 12.3% of salary above the YMPE. These higher contribution rates are matched by the employer.

During 2013, contributions for all OPB members and employers totalled $709 million, down marginally from $714 million in 2012. This modest decline is attributable to a slight decrease in the number of members and ongoing salary restraint in the public sector.

PENSIONS PAID

Monthly pension payments for December 2013 totalled $80.4 million, up from $77.2 million in December 2012. Part of the increase is attributable to a 1.9% inflation protection adjustment (Escalation Factor) that was applied to pensions on January 1, 2013. The remainder is attributable to an increase in the average pension for new retired members, and an increase in the number of retired members.

SOUND RISK MANAGEMENT

Risk management is a key component of good governance. That's true for any organization and particularly true for defined benefit (DB) pension plans. As a DB pension plan, the PSPP faces a wide range of risks, including operational risk, investment risk, funding risk and liquidity risk, to name just a few. To manage risk, OPB has adopted a disciplined approach to risk management.

For example, we have implemented an Enterprise Risk Management program that provides an integrated approach to risk management and identifies mitigation strategies for major risks that could adversely impact the Plan. As part of this program, we have:

- centralized our governance risk management and compliance operations in one department to enhance oversight,
- made it a practice to review our corporate risks and risk mitigation strategies on a quarterly basis to ensure we have the people, policies and procedures needed to deal with existing and emerging risks,
- integrated risk management into our strategic planning process,
- made a point of examining our valuation assumptions each year to ensure they continue to reflect Plan experience, and
- put in place a comprehensive internal audit system.

OPERATIONAL RISK

During 2013, we moved forward with a number of initiatives aimed at strengthening our internal control environment, particularly in the areas of privacy, information security, and financial processes and reporting. For example, we:

- Developed a new policy that covers every area of information management, including privacy, network security, cyber security, and records management. The new "Managing and protecting information resources" policy replaced several existing policies, drawing together relevant information into one convenient and comprehensive policy that conforms with leading practices. This new policy will help improve the quality of decisions around information use and information technology.
- Upgraded and successfully tested our disaster recovery and business continuity environment – confirming that we have the resources needed to meet service commitments to stakeholders in the event of a serious business interruption.
- Launched a business initiative to ensure our risk appetite (willingness to take on risk) and our risk culture (ability to manage risk) are in alignment – so that we don't take on more risk than we can realistically handle. Based on an initial report by an external assessment, the two are well aligned.
- Conducted a fraud risk assessment, a proactive measure aimed at testing the rigour of our procedures. OPB received a "clean bill of health", confirming that we have excellent ethical behaviour and sound controls.
- Hired in-house counsel to facilitate investment transactions and ensure transactions are executed in accordance with policy and leading practices.

INVESTMENT RISK

Effective risk management is essential to meeting our investment objectives. OPB takes a risk-managed approach to investing. We strive to improve the return/risk relationship with each investment decision we make and take only those risks we believe will be rewarded.

In recent years, OPB has retooled the Plan's investment portfolio. Specifically, we have moved from balanced mandates to specialty mandates, and we have added allocations to Private Markets. While these new mandates provide OPB with the means to manage market and currency risk more effectively, it also adds a level of complexity that requires an increased focus on investment risk management, compliance and monitoring.

To better manage required risk and mitigate unrewarded risk, OPB has, and will continue to:

- strengthen its measurement and evaluation of risk related to Public and Private Markets, and
- integrate the monitoring and management of risk into our investment processes and day-to-day investment activities.

During 2013, OPB migrated to a new risk management approach. OPB's newly adopted Investment Risk Management approach is complemented by comprehensive new risk analysis and reporting, which provide a better understanding of the Plan's investment risk, yielding knowledge to make better investment decisions.

OPB also moved forward with the implementation of its Tactical Asset Allocation (TAA) strategy in 2013. The TAA strategy is an important tool in identifying important inflection points in market cycles and as such is intended to help mitigate investment risk under such circumstances by hedging or reducing exposure to certain riskier assets in our Strategic Asset Allocation.

Looking forward, risk management and measurement will be a key focus in 2014. With the work completed in 2013, we now have the process in place to support the implementation of a surplus risk management tool. This new tool will allow us to integrate the Plan's funding status into asset mix decisions on a more regular basis. In addition, we will be looking to develop new risk and compliance policies.

RISK MANAGEMENT

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Developed a comprehensive information management policy	The new policy took information currently residing in several different policies and packaged them together into one comprehensive policy that conforms to leading practices. The new policy covers privacy, network security, cyber security, and records management.
Tested our disaster recovery and business continuity systems	We wanted to confirm that we have the resources needed to meet our service commitments to stakeholders in the event of a serious business interruption. The test was successful.
Hired in-house counsel	In-house counsel will help to ensure transactions are compliant and executed in accordance with policy and leading practices.
Checked the alignment of OPB's risk appetite and risk culture	We wanted to ensure that our attitudes toward risk and our ability to manage risk are aligned – so that the Plan is not exposed to more risk than we can realistically handle.
Conducted a fraud risk assessment	The assessment was conducted to identify any weaknesses in procedures and controls that could facilitate fraudulent activity. A preliminary report praised OPB for its strong risk control environment and identified a couple of areas for further improvement, which OPB will address.
Migrated to a new risk management process	The new approach provides a better understanding of the Plan's investment risk and will provide the knowledge we need to make better investment decisions.
Used our TAA strategy to effectively deploy capital in a risk controlled fashion	The TAA strategy enables us to effectively and efficiently adjust the percentage of assets held in various investment portfolios. Our objective is to take advantage of perceived opportunities within the marketplace and to generate value-added returns. Additionally, we expect to use the strategy to help preserve and protect capital at major inflection points in the economic cycle.

FIVE-YEAR REVIEW

(in millions of dollars)		2013		2012		2011		2010		2009
Opening net assets	**$**	**18,991**	$	17,270	$	17,376	$	16,043	$	14,607
Investment income (loss)		**2,244**		1,964		19		1,439		1,690
Contributions		**709**		714		715		689		528
Transfers from other plans		**91**		104		132		142		166
		3,044		2,782		866		2,270		2,384
Pension payments		**959**		918		869		848		837
Terminations		**121**		105		68		56		77
Operating expenses		**40**		38		35		33		34
		1,120		1,061		972		937		948
Closing net assets		**20,915**		18,991		17,270		17,376		16,043

						Cumulative Since Inception
Annual rate of return	**12.5%**	11.9%	0.4%	9.4%	11.9%	8.6%

Actuaries' opinion to the directors of the Ontario Pension Board

Aon Hewitt was retained by the Ontario Pension Board (OPB) to prepare the following actuarial valuations of the Public Service Pension Plan (PSPP):

- An actuarial valuation as at December 31, 2012 on a funding basis, as described in Note 6 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- An actuarial valuation as at December 31, 2013 for purposes of these financial statements, prepared in accordance with the Chartered Professional Accountants of Canada Handbook, Section 4600.

The actuarial valuation of the PSPP as at December 31, 2012 on a funding basis was based on membership data provided by OPB as at December 31, 2012.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2012 on the basis of the accounting methodology required by the Chartered Professional Accountants of Canada Handbook, Section 4600, as disclosed in Note 6, and extrapolated the liabilities to December 31, 2013. The valuation as at December 31, 2013 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statement of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2012 are sufficient and reliable;
- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for the purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

AON HEWITT

Allan H. Shapira

Allan H. Shapira
Fellow of the Canadian Institute of Actuaries

Andrew Hamilton

Andrew M. Hamilton
Fellow of the Canadian Institute of Actuaries

February 28, 2014

Management's responsibility for financial reporting

The financial statements of the Ontario Pension Board (OPB) have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgment of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors (the Board) is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President & CEO

February 28, 2014

Armand de Kemp, CPA, CA
Director, Finance

Independent auditors' report to the directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Pension Board as at December 31, 2013, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 28, 2014

Statement of financial position

As at December 31 (in thousands of dollars)	2013	2012
Assets		
Investments (Note 4)	$ 20,896,407	$ 19,008,875
Investment-related receivables (Note 4)	74,447	31,554
Contributions receivable		
Members	26,354	25,328
Employers	37,637	36,696
Capital assets (Note 5)	2,510	3,164
Total assets	21,037,355	19,105,617
Liabilities		
Investment-related liabilities (Note 4)	85,596	83,893
Accounts payable and accrued charges	35,462	29,046
Contributions payable	1,240	1,200
Total liabilities	122,298	114,139
Net assets available for benefits	20,915,057	18,991,478
Pension obligations (Note 6)	21,894,206	20,359,744
Deficit (Note 7)	$ (979,149)	$ (1,368,266)

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

M.E. (Peggy) Gilmour
Chair, Audit Committee

Statement of changes in net assets available for benefits

For the year ended December 31 (in thousands of dollars)	2013	2012
Investment operations		
Net investment income (Note 8)	$ 2,244,167	$ 1,964,316
Operating expenses – investment operations (Note 10)	(15,675)	(14,041)
Net investment operations	2,228,492	1,950,275
Pension operations		
Contributions (Note 9)		
Members	298,928	303,622
Employers and sponsor	410,096	409,923
Transfer from other plans	90,748	103,669
Retirement pension payments	(958,750)	(917,776)
Termination and other benefits	(121,557)	(105,333)
Operating expenses – pension operations (Note 10)	(24,378)	(22,754)
Net pension operations	(304,913)	(228,649)
Net increase in net assets for the year	1,923,579	1,721,626
Net assets, at beginning of year	18,991,478	17,269,852
Net assets, at end of year	$ 20,915,057	$ 18,991,478

See accompanying notes

Statement of changes in pension obligations

For the year ended December 31 (in thousands of dollars)	2013	2012
Pension obligations, at beginning of year	**$ 20,359,744**	$ 19,524,706
Increase in pension obligations		
Interest on pension obligations	**1,199,486**	1,229,305
Benefits accrued		
Service accrual	**560,615**	556,310
Transfer of service from other plans	**90,748**	103,670
Past service buybacks	**28,313**	31,975
Changes in actuarial assumptions (Note 6)	**1,155,601**	–
Total increase	**3,034,763**	1,921,260
Decrease in pension obligations		
Benefits paid	**1,080,305**	1,023,109
Experience gains	**419,996**	30,093
Changes in actuarial assumptions (Note 6)	**–**	33,020
Total decrease	**1,500,301**	1,086,222
Net increase in pension obligations	**1,534,462**	835,038
Pension obligations, at end of year	**$ 21,894,206**	$ 20,359,744

See accompanying notes

Notes to the financial statements

NOTE 1 *PUBLIC SERVICE PENSION ACT*

Effective January 1, 1990, the Province of Ontario (the Province) enacted the *Public Service Pension Act*, 1990 (*PSPAct*) to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan (PSPP or the Plan) are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board (OPB) is the administrator of the PSPP.

NOTE 2 DESCRIPTION OF PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

A) GENERAL

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct*. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

B) CONTRIBUTIONS

The PSPP is integrated with the Canada Pension Plan (CPP). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings (YMPE) and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police (OPP) Officers are required to contribute to the PSPP an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP Officers. The contribution rates for OPP Officers, inclusive of the additional 2% of salary, are 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. The contribution rates for OPP Civilians are 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act* (Canada) limits is transferred to the Province's Public Service Supplementary Benefits Account (PSSBA).

C) PENSIONS

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 (Factor 90) or when the member reaches age 60 and has 20 or more years of credit. In 2009, the PSPP was amended to permit the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO) members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program for AMAPCEO was extended to March 31, 2014.

OPP Officers are eligible for a pension payable based on the average salary during the best 36-month period. Likewise, OPP Civilians are eligible for a pension payable based on the average salary during the best 48-month period. In addition, OPP Officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

D) DEATH BENEFITS

Upon the death of the member or retired member, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

E) DISABILITY PENSIONS

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

F) TERMINATION PAYMENTS

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

G) ESCALATION OF BENEFITS

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

In accordance with Section 4600, Pension Plans, of the Chartered Professional Accountants of Canada (CPA Canada) (formerly, the Canadian Institute of Chartered Accountants) Handbook, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600.

A) USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates.

B) INVESTMENTS

Investments are stated at fair value, including accrued income. For traded investments, fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of investments is determined as follows:

(i) Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Special Province of Ontario Debentures (the Special Debentures), bonds and real estate debt are valued at quoted market prices, where available. For those debt instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Equities are valued at quoted market prices at closing.

(iv) Pooled fund values for publicly traded securities are supplied by the fund administrators based upon fair value quotations.

(v) Derivative financial instruments consisting of foreign exchange forward and futures contracts are recorded at fair value using year-end market prices.

(vi) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals. For properties acquired and held for less than six months, the fair value of such properties usually approximates the purchase price.

(vii) Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds, are valued using the most recently available financial information provided by the fund administrator and adjusted for any transactions during the interim period up to the reporting date of these financial statements.

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest is recognized on an accrual basis when earned. Dividend income is recognized on the ex-dividend date. Distributions from investments in pooled funds are recognized when declared by the fund administrator. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Gains or losses on the sale of investments are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the investment, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and collection of any additional consideration is reasonably assured. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. Net investment income (loss) also includes changes in fair values, which represent realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal and fair value adjustments on real estate, private market and alternative investments, and real estate debt. Transaction costs are expensed as incurred.

C) PENSION OBLIGATIONS

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries and accounted for under the immediate recognition approach. Under this approach, the pension obligations are based on an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

D) CONTRIBUTIONS

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

E) CAPITAL ASSETS

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

F) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

NOTE 4 INVESTMENTS

Investments before allocating the effect of derivatives contracts consist of the following:

As at December 31 (in thousands of dollars)	2013	2012
Cash and short-term investments		
Canada	$ 1,401,992	$ 1,136,668
United States and other international	330,941	114,008
	1,732,933	1,250,676
Fixed income		
Special Province of Ontario Debentures	374,542	869,922
Bonds		
Canada	4,757,047	4,991,302
United States and other international	766,769	597,451
	5,898,358	6,458,675
Equities		
Canada	1,562,709	1,254,760
United States	2,904,230	2,583,805
Other international	5,235,442	4,431,847
	9,702,381	8,270,412
Real estate	2,871,335	2,701,424
Infrastructure	527,112	173,443
Private equity	108,272	103,370
Participating mortgages	56,016	50,875
Total investments	20,896,407	19,008,875
Investment-related receivables		
Pending trades	14,064	9,752
Derivatives receivable	60,383	21,802
	74,447	31,554
Investment-related liabilities		
Pending trades	13,467	43,311
Derivatives payable	72,129	40,582
	85,596	83,893
Net investments	$ 20,885,258	$ 18,956,536

A) ASSET MIX

The Plan's Statement of Investment Policies and Procedures (SIP&P) provides guidelines as to the appropriate mix of investments. As at December 31, 2013 and 2012, the investments were allocated as follows in comparison to the asset mix ranges and targets as specified in the SIP&P:

Asset Allocation %

	Total Plan as at		SIP&P Target as at		SIP&P Range
Asset Categories	**Dec. 31, 2013**	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012	
Cash and equivalents	**8.0%**	6.3%	**2.0%**	2.0%	0%–10%
Fixed income	**28.2%**	34.1%	**31.0%**	34.5%	8%–40%
Real return bonds	**0.0%**	0.0%	**2.0%**	1.0%	0%–10%
Canadian equities	**7.6%**	6.6%	**10.5%**	11.0%	5%–15%
Foreign developed equities	**23.7%**	21.6%	**19.0%**	21.0%	8%–26%
Foreign developing equities	**15.5%**	15.5%	**15.0%**	15.0%	10%–20%
Real estate	**14.0%**	14.5%	**18.0%**	15.0%	10%–30%
Infrastructure	**2.5%**	0.9%	**2.0%**	0.5%	0%–10%
Private equity	**0.5%**	0.5%	**0.5%**	0.0%	0%–5%
Total investments	**100.0%**	100.0%	**100.0%**	100.0%	

As at December 31, 2013 and 2012, the asset mix of the Plan's investments was within the acceptable ranges as specified in the SIP&P.

B) FINANCIAL INSTRUMENTS RISK

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its SIP&P, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market risk – Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk comprises the following:

(i) **Interest rate risk** – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Plan's modified duration of 5.9 years at December 31, 2013 (2012 – 5.9 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $325 million (2012 – $386 million), with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed income maturities for further information.

(ii) **Foreign currency risk** – Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows on the next page.

As at December 31, 2013 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	**$ 4,993,124**	**$ 843,628**	**$ (3,605,114)**	**$ 2,231,638**
Hong Kong Dollar	**565,999**	**724**	**(8,895)**	**557,828**
South Korean Won	**339,560**	**5,802**	**(5,931)**	**339,431**
Brazilian Real	**227,400**	**8,810**	**(292)**	**235,918**
Indian Rupee	**229,405**	**–**	**–**	**229,405**
South African Rand	**178,060**	**505**	**(6,911)**	**171,654**
Chinese Renminbi	**167,958**	**–**	**–**	**167,958**
Other	**2,665,366**	**165,215**	**(1,524,444)**	**1,306,137**
Total foreign	**9,366,872**	**1,024,684**	**(5,151,587)**	**5,239,969**
Canadian dollar	**11,577,300**	**4,802,358**	**(734,369)**	**15,645,289**
	$20,944,172	**$ 5,827,042**	**$ (5,885,956)**	**$20,885,258**

As at December 31, 2012 (in thousands of dollars)	Gross Exposure	Foreign Exchange Contracts Receivable	Foreign Exchange Contracts Payable	Net Exposure
U.S. Dollar	$ 4,152,117	$ 1,246,774	$ (3,372,643)	$ 2,026,248
Hong Kong Dollar	513,577	4,938	(21,356)	497,159
South Korean Won	288,402	217	(241)	288,378
Brazilian Real	245,594	8,033	(107)	253,520
South African Rand	179,237	995	(6,632)	173,600
Indian Rupee	159,145	8,885	–	168,030
Taiwan Dollar	138,783	–	–	138,783
Turkish Lira	148,378	–	(10,912)	137,466
Other	1,890,712	137,913	(1,107,898)	920,727
Total foreign	7,715,945	1,407,755	(4,519,789)	4,603,911
Canadian dollar	11,265,362	4,245,318	(1,158,055)	14,352,625
	$18,981,307	$ 5,653,073	$ (5,677,844)	$18,956,536

The impact of a 5% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 5% of the net exposure of the impacted currency, as follows:

	Change in Exchange Rates	Change in Net Assets Available for Benefits as of December 31, 2013 (in thousands of dollars)	December 31, 2012 (in thousands of dollars)
U.S. Dollar	+ / - 5%	**+ / - $ 111,582**	+ / - $ 101,312
Hong Kong Dollar	+ / - 5%	**+ / - 27,891**	+ / - 24,858
South Korean Won	+ / - 5%	**+ / - 16,972**	+ / - 14,419
Brazilian Real	+ / - 5%	**+ / - 11,796**	+ / - 12,676
Indian Rupee	+ / - 5%	**+ / - 11,470**	+ / - 8,402
South African Rand	+ / - 5%	**+ / - 8,583**	+ / - 8,680
Chinese Renminbi	+ / - 5%	**+ / - 8,398**	+ / - 318
Other	+ / - 5%	**+ / - 65,307**	+ / - 59,531
Total	+ / - 5%	**+ / - 261,999**	+ / - 230,196

(iii) **Other price risk** – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 10% absolute change in the price of an investment, holding all other variables constant, is 10% of the net exposure of the impacted investment, as follows:

Equities	Stock Market Benchmark	Change in Price Index	Change in Net Assets (in millions of dollars) December 31, 2013			December 31, 2012		
Canadian	S&P/TSX Composite Index	+ / - 10%	+ / -	$	158.6	+ / -	$	125.5
Foreign	MSCI World (C$)	+ / - 10%	+ / -		492.6	+ / -		409.0
Emerging	MSCI Emerging Equity Index (C$)	+ / - 10%	+ / -		323.7	+ / -		293.1
			+ / -	$	974.9	+ / -	$	827.6

Credit risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2013, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $375 million (2012 – $870 million) and bonds and short-term investments valued at $639 million (2012 – $652 million). The credit ratings of the Plan's fixed income and bond investments are as follows:

Credit Rating as of December 31, 2013 (in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$1,118,823	$1,914,896	$1,001,240	$573,311	$403,397	$213,151	$14,538	$659,002	$5,898,358

Credit Rating as of December 31, 2012 (in thousands of dollars)

AAA	AA	A	BBB	BB	B	CCC	Not Rated	Total
$1,265,802	$2,503,365	$1,200,045	$621,306	$266,512	$166,366	$11,565	$423,714	$6,458,675

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The more typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives which all mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions as well as interest and principal payments from the Special Debentures, which provided $505 million (2012 – $508 million) to the Plan. The maturities of the Plan's fixed income and bond investments are as follows:

Fixed Income Maturities as of December 31, 2013 (in thousands of dollars)

< 1 year	1–5 years	5–10 years	10–20 years	> 20 years	Funds	Total
$648,256	$1,601,366	$1,827,829	$687,994	$978,378	$154,535	$5,898,358

Fixed Income Maturities as of December 31, 2012 (in thousands of dollars)

< 1 year	1–5 years	5–10 years	10–20 years	> 20 years	Funds	Total
$854,953	$2,135,880	$1,447,992	$738,484	$1,177,569	$103,797	$6,458,675

C) CASH AND SHORT-TERM INVESTMENTS

As at December 31 (in thousands of dollars)	2013	2012
Canada		
Cash	$ 44,698	$ 96,937
Short-term notes and treasury funds	1,346,329	1,029,646
Term deposits	8,400	8,800
Accrued interest	2,565	1,285
	$ 1,401,992	$ 1,136,668
United States and other international		
Cash	$ 125,708	$ 57,085
Short-term notes and treasury funds	204,924	56,916
Accrued interest	309	7
	$ 330,941	$ 114,008

D) FIXED INCOME AND EQUITY INVESTMENTS

The Special Debentures are recorded at an estimated fair value of $375 million (2012 – $870 million) by discounting cash flows based on year-end market yields of comparable bonds. As at December 31, 2013, the Special Debentures comprise one remaining debenture maturing in 2014 with a yield of 11.19%. During 2013, one of the other Special Debentures with an estimated fair value of $340 million and yield of 10.0% as at December 31, 2012 matured.

Included in the other international equities totals are $321 million (2012 – $253 million) related to pooled funds.

E) DERIVATIVES

As at December 31 (in thousands of dollars)	Notional	2013 Fair Value	Notional	2012 Fair Value
Equity derivatives				
Futures	$ 1,417,954	$ 47,168	$ 476,400	$ 5,991
Currency derivatives				
Forwards	5,826,385	(58,914)	5,641,127	(24,771)
Value of derivatives contracts	$ 7,244,339	$ (11,746)	$ 6,117,527	$ (18,780)

F) SECURITIES LENDING

At year-end, $1.443 billion (2012 – $1.332 billion) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. At year-end, $1.533 billion (2012 – $1.415 billion) of securities were held as collateral, providing a 6.2% (2012 – 6.3%) cushion against market and credit risks.

G) FAIR VALUES

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes investments with underlying real estate properties, private equity investments and securities that have liquidity restrictions.

The following tables present the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value. The tables exclude accrued income, other assets, and other liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

As at December 31, 2013 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ –	$ 1,354,729	$ –	$ 1,354,729
United States and other international	–	204,923	–	204,923
Fixed income				
Special Province of Ontario Debentures	–	350,694	–	350,694
Bonds				
Canada	–	4,292,164	430,553	4,722,717
United States and other international	–	742,099	11,264	753,363
Equities				
Canada	1,559,019	–	–	1,559,019
United States	2,900,429	–	–	2,900,429
Other international	4,905,366	321,448	–	5,226,814
Futures	47,168	–	–	47,168
Participating mortgages	–	–	56,016	56,016
Real estate	–	–	2,871,335	2,871,335
Private equity	–	–	108,272	108,272
Infrastructure	–	–	527,112	527,112
Forward exchange contracts	–	13,215	–	13,215
	$ 9,411,982	$ 7,279,272	$ 4,004,552	$ 20,695,806
Financial liabilities				
Forward exchange contracts	$ –	$ (72,129)	$ –	$ (72,129)

As at December 31, 2012 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ –	$ 1,038,446	$ –	$ 1,038,446
United States and other international	–	56,915	–	56,915
Fixed income				
Special Province of Ontario Debentures	–	823,008	–	823,008
Bonds				
Canada	–	4,586,641	366,896	4,953,537
United States and other international	–	586,434	–	586,434
Equities				
Canada	1,251,101	–	–	1,251,101
United States	2,581,093	–	–	2,581,093
Other international	4,173,980	252,515	–	4,426,495
Futures	5,991	–	–	5,991
Participating mortgages	–	–	50,875	50,875
Real estate	–	–	2,701,424	2,701,424
Private equity	–	–	103,370	103,370
Infrastructure	–	–	173,443	173,443
Forward exchange contracts	–	15,811	–	15,811
	$ 8,012,165	$ 7,359,770	$ 3,396,008	$ 18,767,943
Financial liabilities				
Forward exchange contracts	$ –	$ (40,582)	$ –	$ (40,582)

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2013 and 2012.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2013 and 2012.

(in thousands of dollars)	Fair Value as at January 1, 2013	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2013
Financial assets							
Bonds							
Canada	$ 366,896	$ –	$ 85,063	$ (5,102)	$ –	$ (16,304)	$ 430,553
Other international	–	–	10,892	–	–	372	11,264
Participating mortgages	50,875	–	–	–	–	5,141	56,016
Real estate	2,701,424	–	795,314	(478,954)	(250,000)	103,551	2,871,335
Private equity	103,370	–	10,637	(15,183)	–	9,448	108,272
Infrastructure	173,443	–	346,723	(27,585)	–	34,531	527,112
	$ 3,396,008	$ –	$1,248,629	$ (526,824)	$ (250,000)	$ 136,739	$4,004,552

(in thousands of dollars)	Fair Value as at January 1, 2012	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2012
Financial assets							
Bonds							
Canada	$ 260,661	$ (5,085)	$ 101,869	$ (3,583)	$ –	$ 13,034	$ 366,896
Equities							
Canada	194	–	–	–	–	(194)	–
Participating mortgages	50,155	–	–	–	–	720	50,875
Real estate	2,654,157	–	527,533	(200,402)	(500,000)	220,136	2,701,424
Private equity	–	–	105,354	(4,119)	–	2,135	103,370
Infrastructure	4,256	–	165,372	(996)	–	4,811	173,443
	$ 2,969,423	$ (5,085)	$ 900,128	$ (209,100)	$ (500,000)	$ 240,642	$3,396,008

H) COMMITMENTS AND GUARANTEES

As at December 31, 2013, OPB has provided funding commitments for certain investments in the amount of $1,427 million (2012 – $966 million) of which $826 million (2012 – $500 million) has been advanced to date.

OPB has provided a guarantee for the payment of principal and interest on $750 million in debentures, of which $250 million and $500 million were issued in 2013 and 2012, respectively, by OPB Finance Trust, a trust established for the benefit of OPB and its subsidiaries. Three series of debentures were issued:

1. $350 million, Series A, 30-year debentures due 2042, with interest payable semi-annually at 3.89%.
2. $150 million, Series B, 50-year debentures due 2062, with interest payable semi-annually at 3.87%.
3. $250 million, Series C, 10-year debentures due 2023, with interest payable semi-annually at 2.90%.

The proceeds from the issuance of the 30-year and 50-year debentures were loaned to two OPB real estate subsidiaries. In turn, these real estate companies repaid amounts owed to OPB.

The proceeds from the issuance of the 10-year debentures were loaned to a real estate trust established for the benefit of OPB.

NOTE 5 CAPITAL ASSETS

As at December 31 (in thousands of dollars)		Cost		Accumulated Depreciation		2013 Net Book Value
Computer equipment	$	**3,712**	$	**3,175**	$	**537**
Furniture and fixtures		**2,460**		**1,345**		**1,115**
Leasehold improvements		**1,535**		**677**		**858**
Total capital assets	$	**7,707**	$	**5,197**	$	**2,510**

As at December 31 (in thousands of dollars)		Cost		Accumulated Depreciation		2012 Net Book Value
Computer equipment	$	3,606	$	2,783	$	823
Furniture and fixtures		2,457		1,110		1,347
Leasehold improvements		1,529		535		994
Total capital assets	$	7,592	$	4,428	$	3,164

NOTE 6 PENSION OBLIGATIONS

A) ACCOUNTING BASIS

The value of pension obligations of $21.894 billion (2012 – $20.360 billion) is an estimate of pension benefit obligations accrued to date for members and retired members accounted for under the immediate recognition approach. The accounting valuation is determined by applying best estimate assumptions and the projected benefit method (pro-rated on service), as required under Canadian accounting standards for pension plans. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2013 were computed by extrapolating data used for the December 31, 2012 funding valuation prepared by the independent actuary for management purposes.

Actuarial assumptions – The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2013	2012
Investment return	**5.95%**	5.95%
Inflation	**2.10%**	2.10%
Real rate of return	**3.85%**	3.85%
Salary increases	**3.10% + promotional scale**	3.10% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. During 2013, the changes in actuarial assumptions resulted in an increase of $1.156 billion (2012 – $33 million decrease) to the Plan's pension obligations. The use of updated mortality tables accounted for most of the 2013 increase.

B) FUNDING BASIS

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) (*PBA*). The *PBA* and the *Income Tax Act* (Canada) require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years. The most recent filing was a funding valuation as at December 31, 2010, prepared by Aon Hewitt, which disclosed a funding shortfall of $1.191 billion on a going-concern basis. The next funding valuation that is required to be filed will be as at December 31, 2013. A funding valuation was prepared for management purposes as at December 31, 2012 by Aon Hewitt, which disclosed a funding shortfall of $1.300 billion on a going-concern basis.

The funding valuation is used as a basis for funding and Plan design decisions. Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

NOTE 7 DEFICIT

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2013 was $979 million (2012 – $1.368 billion).

NOTE 8 NET INVESTMENT INCOME

For the year ended December 31 (in thousands of dollars)	Investment Income[1]	Fair Value Changes[2]	2013 Total	Investment Income[1]	Fair Value Changes[2]	2012 Total
Cash and short-term investments						
Canada	$ 15,601	$ (2,666)	$ 12,935	$ 10,478	$ (1,201)	$ 9,277
United States and other international	1,830	(203,571)	(201,741)	2	34,326	34,328
	17,431	(206,237)	(188,806)	10,480	33,125	43,605
Fixed income						
Special Province of Ontario Debentures	61,655	(52,322)	9,333	105,395	(91,567)	13,828
Bonds						
Canada	209,894	(171,680)	38,214	196,268	85,768	282,036
United States and other international	46,371	(796)	45,575	37,984	11,056	49,040
	317,920	(224,798)	93,122	339,647	5,257	344,904
Equities						
Canada	38,621	336,841	375,462	48,086	124,276	172,362
United States	49,735	796,656	846,391	51,710	250,959	302,669
Other international	117,315	676,722	794,037	109,266	587,262	696,528
	205,671	1,810,219	2,015,890	209,062	962,497	1,171,559
Real estate	223,946	103,551	327,497	231,773	220,136	451,909
Infrastructure	3,637	34,531	38,168	(338)	4,811	4,473
Private equity	7,095	9,448	16,543	(5,491)	8,547	3,056
Participating mortgages	1,074	5,141	6,215	1,345	720	2,065
Total investment income	$ 776,774	$ 1,531,855	$ 2,308,629	$ 786,478	$ 1,235,093	$ 2,021,571
Investment management and custodial fees			(64,462)			(57,255)
Net investment income			$ 2,244,167			$ 1,964,316

1 Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and real estate operating income.

2 Gains (losses) on cash and short-term investments include foreign exchange contracts.

A) INTEREST INCOME

For the year ended December 31 (in thousands of dollars)		2013		2012
Cash and short-term investments				
Canada				
Cash	$	2,486	$	2,452
Short-term notes and treasury funds		13,019		7,973
Term deposits		96		53
	$	15,601	$	10,478
United States and other international				
Cash	$	1,044	$	(22)
Short-term notes and treasury funds		786		23
Term deposits		–		1
	$	1,830	$	2

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

B) DIVIDEND INCOME

Dividend income includes $8.19 million (2012 – $7.02 million) from pooled equity funds.

C) INVESTMENT FEES

For the year ended December 31 (in thousands of dollars)		2013		2012
Portfolio fund management	$	50,237	$	42,602
Transaction costs		9,347		9,554
Custodial		3,444		3,654
Real estate		1,434		1,445
	$	64,462	$	57,255

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $0.141 million (2012 – $1.279 thousand).

NOTE 9 CONTRIBUTIONS

For the year ended December 31 (in thousands of dollars)	2013	2012
Members		
Current service required	$ 274,734	$ 276,227
Prior service	24,194	27,395
Total contributions from members	298,928	303,622
Employers		
Current service		
Regular contributions	274,588	276,383
PSSBA transfer	(13,363)	(14,930)
For members receiving Long Term Income Protection benefits	10,508	9,948
Prior service	4,120	4,580
	275,853	275,981
Sponsor payments		
Special payments	127,235	127,235
Additional current service	7,008	6,707
	134,243	133,942
Total contributions from employers and sponsor	410,096	409,923
Total contributions	$ 709,024	$ 713,545

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $127.235 million (2012 – $127.235 million) in Special Payments in 2013 towards the funding shortfall identified in the filed funding valuation as at December 31, 2010. In 2013, the Province made $7.008 million (2012 – $6.707 million) in additional employer current service contributions.

For 2013 and 2012, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

There were no required contributions past due as at December 31, 2013 and 2012.

NOTE 10 OPERATING EXPENSES

PENSION OPERATIONS

For the year ended December 31 (in thousands of dollars)	2013	2012
Staffing costs	$ 13,657	$ 12,949
Staff development and support	281	277
Office premises and operations	3,274	3,157
Information technology and project management	5,216	4,475
Professional services	935	969
Communication	241	194
Depreciation	520	465
Board remuneration	92	99
Audit	162	169
	$ 24,378	$ 22,754

INVESTMENT OPERATIONS

For the year ended December 31 (in thousands of dollars)		2013		2012
Staffing costs	$	9,133	$	7,507
Staff development and support		223		200
Office premises and operations		2,034		1,925
Information technology and project management		2,195		2,171
Professional services		1,484		1,665
Communication		103		83
Depreciation		249		222
Board remuneration		92		99
Audit		162		169
	$	15,675	$	14,041

Included in the above operating expenses are:

EXTERNAL AUDIT SERVICES

For the year ended December 31 (in thousands of dollars)		2013		2012
External audit and related services provided to Ontario Pension Board	$	114	$	104
External audit and related services provided to and recorded by subsidiary operations		319		286
Total fees	$	433	$	390

ACTUARIAL SERVICES

For the year ended December 31 (in thousands of dollars)		2013		2012
Actuarial services provided to Ontario Pension Board	$	404	$	391

NOTE 11 CAPITAL MANAGEMENT

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The last filed actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2010, which disclosed a funding shortfall of $1.191 billion on a going-concern basis and an excess of $784 million on a solvency basis. The date of the next required actuarial valuation for funding purposes is December 31, 2013. The latest actuarial valuation report prepared for management purposes as at December 31, 2012 disclosed a funding shortfall of $1.300 billion on a going-concern basis.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's SIP&P also provides guidance with respect to the investment of the Plan's assets (see Note 4(a)) in order to assist with the management of any funding excesses or shortfalls. The SIP&P was last amended in December 2011, resulting in the asset mix targets as shown in Note 4(a). The Plan's rate of return expectation has been set in the SIP&P at a 3.85% real rate of return, net of fees.

NOTE 12 COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 financial statements.

NOTE 13 COMPENSATION

Compensation of the senior management team includes base salary, incentives, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the President & CEO, Chief Investment Officer and all Senior Vice-Presidents are shown below. These comprise the top five compensated individuals of OPB.

For the year ended December 31	Year	Base Salary	Incentives[1]	Taxable Benefits and Allowances[2]	Total
Mark J. Fuller, President & CEO[3]	2013	$ 409,394	$ 181,043	$ 621	$ 591,058
	2012	409,146	183,500	512	593,158
R. Paul Edmonds, Senior Vice-President, Corporate Affairs, & General Counsel	2013	307,532	108,609	500	416,641
	2012	305,279	108,000	401	413,680
Jill Pepall, Executive Vice-President & Chief Investment Officer[4]	2013	412,659	186,750	623	600,032
	2012	376,657	142,758	478	519,893
Peter Shena, Senior Vice-President, Pensions & Stakeholder Relations	2013	307,532	110,970	500	419,002
	2012	305,279	112,000	401	417,680
Duncan Webb, Senior Vice-President, Finance[5]	2013	317,797	89,844	512	408,153
	2012	315,475	75,000	412	390,887

1 Incentives earned are paid in March of the following year.

2 Includes life insurance.

3 Mr. Fuller was appointed to President & CEO on January 1, 2009. Upon promotion to President & CEO, Mr. Fuller deferred a $50,000 salary increase. This deferral has continued through to December 31, 2013.

4 Ms. Pepall was promoted to Executive Vice-President & Chief Investment Officer on January 1, 2013.

5 Mr. Webb departed OPB as of January 9, 2014.

Compensation for the President & CEO is approved by the Board. Compensation for the Senior Vice-Presidents and Chief Investment Officer is approved by the Human Resources Committee of the Board. Incentives are performance-based.

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

The President & CEO, Chief Investment Officer, and the Senior Vice-Presidents also participate in a Supplemental Executive Retirement Plan (SERP) that provides additional retirement benefits equal to 1.5% of the best five-year average annual base salary for each year of service with the Ontario Pension Board. All the other provisions of the SERP mirror the provisions of the PSPP, including the exclusion of incentives from the pension entitlement calculation. The SERP is an unregistered arrangement that is non-contributory and not funded.

Supplementary information

FIXED INCOME MATURITIES

As at December 31 (in thousands of dollars)	2013 Fair Value	2013 Current Yield %	2012 Fair Value	2012 Current Yield %
Special Province of Ontario Debentures				
0–1 year	$ 350,694	11.19	$ 318,288	11.10
1–5 years	–		504,720	10.00
Accrued interest	23,848		46,914	
	374,542		869,922	
Bonds				
Canadian:				
0–1 year	226,488	0.66–16.47	475,876	0.96–7.80
1–5 years	1,442,540	1.00–12.44	1,397,441	0.75–14.50
5–10 years	1,351,848	1.31–13.00	1,163,670	1.26–12.50
> 10 years	1,558,570	2.59–10.50	1,813,043	1.33–7.52
Accrued interest	34,330		37,475	
	4,613,776		4,887,505	
United States and other international				
0–1 year	45,807	0.81–8.99	36,897	6.22–15.04
1–5 years	145,831	0.01–11.47	194,155	0.31–13.69
5–10 years	457,466	0.05–18.60	268,646	2.26–13.63
> 10 years	92,995	3.80–9.37	86,736	3.73–8.27
Accrued interest	13,406		11,017	
	755,505		597,451	
Fixed income funds	154,535		103,797	
Total fixed income	$ 5,898,358		$ 6,458,675	

INVESTMENTS OVER $50 MILLION

As at December 31, 2013
(in thousands of dollars)

	Maturities	Coupon %	Fair Value[1]
Cash and short-term investments			
Canada:			
Government of Canada			$ 404,209
Province of Ontario			165,287
CIBC			119,681
Royal Bank of Canada			81,264
TD Bank			95,568
Bank of Nova Scotia			92,429
Province of British Columbia			62,898
Province of Alberta			60,351
Province of New Brunswick			55,370
Province of Quebec			53,146
Fixed income			
Special Province of Ontario Debentures	2014	11.19	$ 350,694
OPB Investments Inc. (holding company, 100% owned)			305,574
OPB Investments Limited (holding company, 100% owned)			121,855
Bonds			
Canada:			
Government of Canada	2014–2045	0.75–10.50	$ 531,754
Province of Ontario	2014–2045	1.90–9.50	468,609
Canada Housing Trust No. 1	2014–2023	1.33–4.10	321,396
Province of Quebec	2015–2045	0.00–9.38	166,909
Royal Bank of Canada	2014–2085	0.44–6.82	176,191
Bank of Nova Scotia	2015–2108	1.80–7.80	138,865
Bank of Montreal	2014–2025	1.89–6.17	101,390
CIBC	2015–2108	1.75–10.25	101,292
SLM Corporation	2017–2033	4.63–7.25	75,678
GE Capital Canada Funding Co.	2015–2037	1.63–5.73	75,588
Shaw Communications Inc.	2016–2039	5.50–6.75	69,828
Maple Leaf Sports & Entertainment Ltd.	2023	4.94	68,223
Province of British Columbia	2017–2044	2.70–9.95	63,501
Loblaw Companies Ltd.	2019–2039	3.75–6.85	73,020
Royal Bank of Scotland	2015–2049	2.00–10.50	70,655
Enbridge Inc.	2016–2050	3.19–7.20	59,000
Toronto-Dominion Bank	2016–2108	2.17–10.00	54,719
Real estate			
Investment in real estate holdings over $50 million, comprising OPB Realty Inc. (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), RXR Real Estate Funds and OPB Finance Trust (financing entity, 100% beneficial interest), OPB Real Estate Investments Limited (holding company, 100% owned), and OPB Real Estate Investments 2 Limited (holding company, 100% owned)			$ 3,467,810

[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

(in thousands of dollars)	Shares/Units[2]		Fair Value[2]
Infrastructure			
OPB Infrastructure 2 Limited (holding company, 100% owned)			437,183
OPB Infrastructure 3 Limited (holding company, 100% owned)			45,628
Equities			
Canada:			
Toronto-Dominion Bank	1,260	$	126,104
Bank of Nova Scotia	1,680		111,599
Royal Bank of Canada	1,462		104,375
Canadian National Railway Co.	1,315		79,610
Canadian Natural Resources Ltd.	1,903		68,391
Manulife Financial Corp.	3,251		68,143
Canadian Imperial Bank of Commerce	608		55,190
Rogers Communications Inc.	1,101		52,943
United States:			
Apple Inc.	103		61,636
OPB Private Equity Limited (holding company, 100% owned)			64,011
Amazon.com Inc.	173		73,212
Johnson & Johnson	515		50,082
Google Inc.	62		73,548
Other international:			
Leith Wheeler International Fund	18,599		321,448
Samsung Electronics Co Ltd.	160		140,976
Taiwan Semiconductor Manufacturing Co.	19,121		105,875
Vale SA	4,525		70,246
Tencent Holdings Limited	979		66,321
AIA Group Ltd.	11,870		63,271
Baidu Inc.	329		62,164

[2] Includes all share classes and American Depository Receipts.

REAL ESTATE PROPERTIES

As at December 31, 2013
(in thousands of square feet)

	Location	Area
Retail		
Pen Centre	St. Catharines	1,040
Southgate Centre	Edmonton	942
St. Vital Centre	Winnipeg	928
Pickering Town Centre	Pickering	903
Erin Mills Town Centre	Mississauga	848
Woodgrove Centre	British Columbia	747
Midtown Plaza	Saskatchewan	731
Cornwall Centre	Saskatchewan	567
Halifax Shopping Centre	Halifax	532
Carlingwood Shopping Centre	Ottawa	529
Halifax Shopping Centre Annex	Halifax	420
West End Mall	Halifax	184
Erin Mills Town Plaza	Mississauga	59
		8,430
Office		
155 Wellington Street West	Toronto	1,211
Pickering Office Tower/Durham College	Pickering	128
Halifax Office Complex	Halifax	114
		1,453
Total properties		**9,883**

* Southgate Centre and 155 Wellington Street West are 50% owned by Ontario Pension Board through its subsidiaries OPB (Southgate) Inc. and OPB (155 Wellington) Inc. Woodgrove Centre, Midtown Plaza and Cornwall Centre are 50% owned by Ontario Pension Board through its subsidiary OPB Real Estate Investments 2 Limited.

Governance

HOW OPB IS RUN

A strong, effective governance structure remains the foundation for OPB's continued success. It ensures full accountability, effective decision-making, prudent investment management, fiscal responsibility, legal compliance, and smart risk-taking. In short, it ensures we protect and promote the best interests of the Plan and its beneficiaries.

Underpinning our governance framework is a series of documents that define our organizational structure, responsibilities, and governance practices. Collectively referred to as the *Governance Documents*, these documents include a *Statement of Governance Principles*, *General By-law*; *Statements of Mandate and Authority*, and a *Code of Conduct*.

Our *Governance Documents* clearly define roles and responsibilities, draw a clear link between responsibility and accountability, set expectations for ethical behaviour, and entrench conflict of interest guidelines. They also establish a well-defined system of checks and balances on all power and authority.

ROLE OF THE BOARD

OPB's Board of Directors holds the ultimate responsibility for stewardship of the Plan. That said, the Board has delegated responsibility for the day-to-day operations of the Plan – including administration and asset management – to OPB's management team. It's also chosen to delegate specific responsibilities to five committees of the Board, including a Governance & Conduct Committee, Investment Committee, Audit Committee, Pension Committee, and Human Resources Committee.

The Board retains overall responsibility for supervision of OPB's business affairs. For example, it:

- approves OPB's strategic plan, business plan and budget;
- ensures that management has identified and is managing risks;
- conducts performance and compensation reviews for the President & CEO;
- approves the investment asset mix;
- supervises and approves of all audit matters;
- ensures that management is maintaining a culture of integrity;
- conducts an annual review of OPB's *Statement of Investment Policies & Procedures*;
- approves any recommendations made to the Plan Sponsor regarding Plan amendments; and
- monitors compliance with OPB's governance documents.

In fulfilling their duties, members of the Board are directly accountable to:

- the Plan's beneficiaries (i.e., active and retired members);
- the Financial Services Commission of Ontario (the organization that oversees registered pension plans in Ontario); and
- the Government of Ontario (the Plan Sponsor).

ENTERPRISE RISK MANAGEMENT (ERM)

A key component of good governance is effective ERM. Our ERM program plays an integral role in our strategy-setting process and forms the foundation for risk management across the organization.

OPB's ERM program is based on a formal management and reporting framework, including quarterly interviews with business unit leaders for the purpose of reviewing existing risks and the progress of mitigation activities and to identify emerging risks. Risk information gathered from the interview process is reported to the Board regularly throughout the year.

Over the past two years, ERM has been successfully integrated into both our strategic planning process and operations – allowing us to identify and manage risks related to the successful completion of our business plan and the fulfilment of our mandate and vision.

During 2013, we launched a series of new initiatives to propel our ERM program to the next level. Of note:

- We began the process of formalizing our ERM policy to reflect strengthened business practices. One output of this work was the development of an information and IT security classification policy.
- We began the process of establishing OPB's risk appetite. Risk appetite is the level of risk that an organization is prepared to accept before taking action to reduce it. The risk appetite facilitates informed decision making around innovation, taking into consideration both the benefits of innovation and the impact on the organization.

Going forward, we will continue to build on our ERM program and strengthen our commitment to risk management. Specifically, we will:

- Create OPB's Risk Appetite Statements,
- enhance our established Enterprise Project Portfolio Risk Management Process, and
- implement a formal Operational Risk Management Reporting Framework.

The Board is committed to ensuring that OPB continues to meet industry best practices for governance and will continue to make improvements to stay at the forefront.

Board of Directors

Members of OPB's Board of Directors are appointed based on their expertise, commitment, integrity and vision. Working together, they ensure the Plan's governance structure and practices reflect the highest standards.

M. Vincenza Sera, ICD.D (Chair)

A former investment banker with 25 years of expertise in capital markets, corporate finance, investment management, and corporate governance. She has held senior positions with major Canadian firms, including National Bank Financial, Gordon Capital, and CIBC. Vincenza is a member of the Institute of Corporate Directors.

Appointed to the Board on September 17, 2004.
Appointed as Chair on July 1, 2007.
Current appointment ends June 30, 2016.

J. Urban Joseph, O.C. (Vice-Chair)

Vice Chairman of Toronto-Dominion Bank from 1992 to 1996. During his career with the bank, which began in 1952, he held a number of positions, including Executive Vice President of the Human Resources Division.

Appointed to the Board on July 1, 2004.
Appointed as Vice-Chair on July 1, 2007.
Re-assigned to another government agency on January 20, 2014.

M. David R. Brown

A former managing principal at Eckler Ltd., a leading Canadian actuarial consulting firm. During a career spanning more than 40 years, David has consulted to pension clients in both the private and public sectors, served on the Pension Commission of Ontario, and held numerous positions with professional organizations.

Appointed to the Board on October 25, 2006.
Current appointment ends October 24, 2015.

Patricia Croft

Patricia is the founder of Croft Consulting. Prior to establishing her own firm, she held a number of high-profile positions, including Vice-President and Chief Economist for Phillips, Hager & North Investment Management, Chief Economist for RBC Global Asset Management, and Vice-President and Chief Economist for Sceptre Investment Counsel. Her expertise on the Canadian economy and financial markets has made her a much sought-after industry speaker and media source.

Appointed to the Board on May 1, 2013.
Current appointment ends April 30, 2016.

M.E. (Peggy) Gilmour ICD.D

Peggy is a Chartered Accountant and senior finance executive with extensive experience in the financial services sector. Peggy has held executive roles in finance, risk management and operations in both the banking and insurance industries. She is a member of the Institute of Corporate Directors.

Appointed to the Board on August 12, 2009.
Current appointment ends August 14, 2015.

Hugh G. Mackenzie ICD.D

Principal in his own economic consulting business and a Research Associate of the Canadian Centre for Policy Alternatives. He has worked for over 30 years in the trade union and non-profit sectors, as well as in all three levels of government. He is past chair of the Atkinson Charitable Foundation and is a member of the Ontario Teachers' Pension Plan Board. Hugh is a member of the Institute of Corporate Directors.

Appointed to the Board on December 4, 2002.
Current appointment ends September 30, 2014.

Shamira Madhany

Shamira Madhany is an Assistant Deputy Minister in the Ontario Public Service. She is responsible for overseeing the development and implementation of government and departmental policies under the health, education, social and children's portfolios at Cabinet Office. Shamira has worked for over 27 years in the Ontario Public Service in progressively more responsible positions ranging from delivering services directly to clients, to senior executive positions where she has led complex transformational initiatives. This has been complemented by her volunteer work as directors on broader public sector and not-for-profit boards. Prior to her appointment to OPB, she served on the Board of the Markham Stouffville Hospital, where she held the position of Vice-Chair of the Hospital's Performance Committee.

Appointed to the Board on December 8, 2010.
Current appointment ends December 7, 2016.

Karl Walsh

Karl Walsh joined the Ontario Provincial Police (OPP) in 1995 as a Law Enforcement Officer, was President/CEO of the OPP Association from 2005 to 2011, and is currently Chief Administrative Officer of the Association. Prior to joining the OPP, Karl was a member of the Canadian Armed Forces. He is currently a member and past Director of the Canadian Police Association and the Police Association of Ontario. Karl completed the Harvard Trade Union Program (HTUP) and the Powerful Negotiator workshop at the University of Windsor.

Appointed to the Board on August 15, 2012.
Current appointment ends August 14, 2015.

Anthony Wohlfarth

Anthony (Tony) Wohlfarth is an Ottawa-based pension consultant with Nelligan O'Brien Payne, LLP, and a member of the firm's union consulting team. He has a diverse background, with 25+ years of experience advising unions and professional associations on pensions and employee benefit issues. As a Worker Commissioner with Human Resources & Skills Development Canada, Tony played a leadership role in enhancing EI services for clients. Prior to becoming Commissioner, he held numerous positions with the Canadian Auto Workers (CAW-Canada). In 2012, Tony completed the Audit Committee Certification (ACC) designation from the Directors College of Canada and received a Certificate in Adjudication for Administrative Agencies, Boards & Tribunals from Osgoode Hall Law School, York University.

Appointed to the Board on September 1, 2005.
Current appointment ends August 31, 2014.

Directory of key personnel

OFFICERS

Mark J. Fuller
President & CEO

Jill Pepall
Executive Vice-President & CIO

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Chief Financial Officer

Valerie Adamo (as of January 2014)
Senior Vice-President, Technology

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

Brian Whibbs
Managing Director, Real Estate

Glenn Hubert
Managing Director, Private Debt

Anne Catherall
Vice-President, Corporate Services

Mila Babic
Vice-President, Client Services

Kevin Clinton
Vice-President, Legal – Investments

Sean Macaulay
Vice-President, Private Markets

Tanya Lai
Vice-President, Public Markets

Glossary

Absolute volatility – the amount of risk or uncertainty in the size of changes in an investment's value. Generally, the higher the volatility, the higher the risk as the price of a security can change more dramatically in either direction. Volatility is usually measured by the standard deviation of asset price movements.

Alternative investments – represented by investments in private equity, infrastructure and hedge funds; while traditional investments often comprise publicly traded equities, fixed income securities, cash, and real estate.

Asset mix – the categorization of assets within the pension plan portfolio (e.g., cash, Canadian equities, real estate, etc.). Each category is measured as a percentage of the total pension plan portfolio's fair value.

Assumptions – estimates of what certain variables – such as interest rates, investment returns, and mortality rates – will be in the future. Assumptions are used to estimate the future cost of pensions and the future value of pension assets.

Capital preservation – prevents capital losses during down market conditions. A capital preservation investment approach generally implies a lower-level risk profile for the investment portfolio; this may result in relative underperformance during periods of rising markets.

Credit spreads – the difference in yield between a high-quality bond (e.g., Government of Canada bond) and a riskier bond (e.g., corporate bond) that have the same payment date. Typically, an issuer of bonds with greater credit spreads implies a higher probability of potential default on debt repayment, and investors have to earn a higher yield to protect against the risk exposure.

Derivative overlays – derivative securities (e.g., equity futures) used to cost-effectively modify the overall total Plan economic exposures without disrupting the underlying direct investing activities of investment managers.

Emerging markets – countries (such as Brazil, China and India) experiencing higher economic and industrialized growth than developed countries (such as the U.S., Canada, and the U.K.). Emerging markets often present higher investment risks due to geopolitical instabilities, currency fluctuations, and financial regulations still in infancy; on the other hand, emerging markets offer investors expected higher returns because of greater growth prospects.

Fundamental research investing – fundamental research allows for business valuations that are based on qualitative and quantitative assessments of such things as debt levels, stability of growth of free cash flows, quality of management, and relative industry and economic analysis. Fundamental research does not look at trading patterns or investor behaviour to analyze investment opportunities.

Funded status – a measure of the amount of assets the pension plan currently holds to pay out its future pension benefits (present value of projected future pension benefits). The funded status is regarded as the "health check" of a pension plan, and is determined by undertaking a funding valuation of the pension plan.

Investment risk – the uncertainty of asset returns associated with investing activities (i.e., asset returns are lower than what is expected).

J-curve – the historical tendency of certain investments to produce negative returns in their early years).

Mezzanine debt – a claim on a company's assets, which is senior only to that of common shares. It is usually not secured by assets, but rather leant based on a company's ability to repay the debt from free cash flow.

Private equity – equity capital of non-public companies. Private equity is less liquid and is considered more of a long-term investment.

Private markets – the market for assets that are not sold or listed on a public exchange, such as a stock exchange. Assets bought and sold in the private market include things like real estate, private equity, infrastructure, and mortgages.

Public equity – an ownership interest in a company that sells shares on a public stock exchange.

Public markets – the market for assets that are bought and sold on public exchanges, such as stock exchanges.

Special Debentures – fixed income securities (i.e., bonds) that were issued to the Plan by the Province of Ontario as an initial funding mechanism when the PSPP was established as a separately funded plan in 1990.

Specialty mandates – created when a portion of the money in a particular asset class is invested in a specific segment of the market. Examples of mandates created by OPB include: a small cap Canadian equity mandate, a high-yield U.S. equity mandate, a gold mandate, and a distressed debt mandate.

Strategic Asset Allocation (SAA) – a long-term discipline of asset mix with the purpose of achieving highest returns on investment to meet current and projected future pension benefits given the Plan's risk tolerance and investment horizon.

Tactical Asset Allocation (TAA) – an asset mix strategy that uses a fundamental and systematic approach to increasing or decreasing OPB's risk exposure at various points in market cycles to take advantage of investment opportunities.

Unrewarded risk – an investment risk that is not associated with any benefit for the party accepting the risk. It does not generate sufficient returns to make it a rational risk for investors to take.

OPB

Your Pension. **Our Promise.**