



## 2014 REPORT TO MEMBERS AND RETIRED MEMBERS

We are pleased to provide your *Report to Members and Retired Members* for 2014. This concise report provides a quick update on the financial health of your Public Service Pension Plan (PSPP or the Plan), a summary of OPB's key successes for 2014, and a look at the various steps we're taking to protect the pension promise.

## WHO WE ARE

OPB is the administrator of the PSPP – 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.

The PSPP is one of Canada's largest pension plans, with 42,102 members, 35,855 retired members, 5,574 former members, and \$22 billion in assets. It is also one of the country's longest-standing pension plans, delivering the pension promise successfully since the early 1920s.

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For more information on our  
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full Annual Report at [www.opb.ca](http://www.opb.ca).

# THINK FORWARD >



## OUR PROMISE

- Protect the long-term sustainability 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.

## 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.

## CHAIR'S MESSAGE

In 2015, OPB will mark its 25th anniversary as administrator of the Public Service Pension Plan (PSPP). Over the past quarter century, we've taken a number of important and progressive steps to ensure the Plan's long-term success. Whether it's building a strong Investments team and strategy, providing members and retirees with world-class service, or creating a robust governance framework, we're committed to protecting the pension promise.

OPB was formed following the Government of Ontario's 1990 decision to outsource pension administration. At that time, a schedule was put in place to pay down the initial \$2.5 billion shortfall. According to that schedule, the shortfall was expected to be \$3.5 billion at the end of 2014; however, with a strong average annual compound rate of return of 8.6% since inception and prudent liability management, we are well ahead of schedule.

With investment returns of 8.4%, the Plan was more than 98% funded at the end of 2014, with a shortfall of only \$332 million. This was accomplished despite extremely challenging investment markets and changing demographic trends (such as life expectancy improvements). Most pension plans have experienced significant funding challenges over the past two decades. Thanks to a deliberate and strategic approach, we have been able to maintain benefit levels and keep contribution rates affordable for both members and employers. That remains a central goal.

### FOCUSED ON THE FUTURE

Pension plans like the PSPP operate over a long time horizon. So, the Plan's long-term sustainability remains our priority. We're proud of the Plan's healthy funded status. We are also pleased to report that – according to a long-term funding study we conducted in 2014 – no change to Plan contribution rates is needed at this time. We plan to conduct a follow-up study in conjunction with our next triennial valuation in 2016.

We also moved forward with discussions aimed at creating an investment management entity to invest the assets of both OPB and the Workplace Safety and Insurance Board. We believe that this will support the long-term sustainability of the Plan. Creating a larger pool of capital will give OPB better access to investments capable of generating higher returns at a lower cost.

On the client services front, we launched Advisory Services, a unique program that gives you direct access to advisors certified in retirement planning and financial planning. Supported by our suite of e-services, our Client Services Advisors can help you determine how your pension entitlements will fit within the context of your broader financial circumstances. To the best of our knowledge, OPB is the only defined benefit pension plan in Canada to offer its clients these services.

### MAKING GOOD GOVERNANCE BETTER

Risk management remains a key component of good governance, which is why OPB took important steps in 2014 to further strengthen our risk management practices. Specifically, we:

- updated our Enterprise Risk Management (ERM) policy to better integrate the management of strategic, operational and financial risks;
- created a separate Investment Risk & Compliance group, headed by an experienced investment risk executive; and
- drafted a series of "risk appetite statements" that specify acceptable levels of risk for specific business priorities.

We accomplished a great deal in 2014. For that, I'd like to thank OPB's dedicated employees, management team and my fellow Board members. Board members Urban Joseph and Tony Wohlfarth completed their terms in 2014. We thank them for their years of service, and wish them well. At the same time, I want to welcome Sean Hanley and Geri Markvoort to the Board. Both bring a wealth of knowledge and experience to their new positions, and I look forward to working with them.

The Plan's positive position is due, in large part, to rigorous due diligence, prudent decision making, careful management, and a commitment to continuous improvement. Those attributes, combined with a Think Forward approach and strong stewardship, will ensure the PSPP remains sustainable and affordable in the years to come.



M. Vincenza Sera, Chair

# THE SCORECARD: HIGHLIGHTING OUR SUCCESSES FOR 2014

## WHAT WE DID

## WHY WE DID IT AND WHAT IT MEANS

FUNDING	
Filed our 2013 funding valuation	A funding valuation is used to ensure there are sufficient assets in the Plan to meet pension obligations. A valuation must be filed with the Financial Services Commission of Ontario (FSCO) at least once every three years.
Completed an experience study	An experience study determines whether the assumptions used to value the Plan's liabilities align with the Plan's actual experience. Based on the results, we built more caution into our mortality assumption and lowered our salary increase assumption.
Completed a long-term funding study	A long-term funding study determines whether the Plan's contributions and investment income are sufficient to meet the pension promise over the long term. The study showed there is no immediate need to increase contribution rates.
INVESTMENT	
Achieved an annual investment return of 8.4%	Once again, strong investment returns contributed to a significant year-over-year improvement in the funded status of the Plan. As of December 31, 2014, the Plan was more than 98% funded.
Adjusted our Strategic Asset Allocation (SAA)	The asset mix targets set by the SAA were adjusted to place more emphasis on Private Markets investments and long-term bonds.
Added approximately \$1 billion in assets to our Private Markets portfolio	Real assets help protect the Plan from volatility and enable us to generate a larger proportion of returns from cash flow while private equity enhances long-term returns.
Made a significant investment in one of the largest U.K. water and sewerage treatment facilities	This facility generates good ongoing cash flows over the long term, making it a solid match for the Plan's pension liabilities.
Invested in two more Manhattan office towers	Real estate assets generate better cash flow and more stable returns than stock market assets. These properties also helped improve the geographic and sector diversity of OPB's Real Estate portfolio.
Made our first direct investments in private equity	We invested directly in three private companies. These investments are less liquid, but generally offer higher returns than public equity over the long term.
Reviewed our fixed income strategy	Based on the review, we took a number of steps to refocus our Fixed Income portfolio.
SERVICE EXCELLENCE	
Launched our Advisory Services program	Advisory Services is designed to help members understand the impact of key decisions on their retirement income.
Enhanced our suite of e-services	The suite was enhanced to give more members the ability to book an advisory meeting online and to access their personalized advisory packages following a meeting with an advisor.
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.
ADVOCACY	
Continued to publicly promote the DB pension model	We continued to take a lead role in ensuring that decision-makers and thought leaders understand the DB model's many advantages.
FINANCIAL MANAGEMENT	
Continued to make cost constraint a priority	We deferred some initiatives, delayed hiring for some positions, leveraged efficiencies gained through online services, and continued to negotiate competitive contracts with service providers.
RISK MANAGEMENT	
Strengthened our Enterprise Risk Management (ERM) program	ERM forms the framework for risk management across the organization. In 2014, we hired a Director of ERM, drafted a new ERM policy, identified acceptable levels of risk for specific business priorities, and developed metrics to measure risk more objectively.
Created and filled the position of Chief Technology Officer	This new position will help to ensure that the critical role played by technology in all facets of our business is reflected in decisions made at the senior executive level.
Conducted our second cyber security assessment in as many years	The assessment confirmed our pension administration system could resist a full-on cyber attack. We are considering annual cyber security assessments.
Hired a Vice-President of Investment Risk & Compliance	With added resources, the Risk team implemented enhanced risk reporting procedures, introduced a new liquidity policy, and created risk analysis prototypes to better assess the risk associated with specific investments.

# MESSAGE FROM THE PRESIDENT

As I reflect on OPB's 25th year, I am proud of the organization's sound track record. Our approach has been careful and deliberate, and we've never lost sight of our fiduciary responsibility, the best interests of our clients and stakeholders, and protecting the long-term sustainability of the Plan.



OPB has earned an average annual compound rate of return of 8.6% since inception, while maintaining one of the lowest expense ratios in the industry. The Plan is now more than 98% funded, up from what was reported in our two previous valuations filed with the regulator (96% in 2013, and 94% in 2010). Robust investment returns over the past three years, combined with low inflation and salary restraint, have led to continued improvement in the Plan's funded position. And we're pleased to confirm that the long-term funding study we completed in 2014 suggests that no change is needed to current contribution rates.

There are, however, some challenges looming on the horizon. We expect continued market volatility. People are also living longer, which drives pension costs higher. In light of these and other factors, we will continue to focus on protecting the long-term sustainability and affordability of the Plan. We'll also conduct another long-term funding study in a couple of years to keep on top of changing trends.

## EXPENSE MANAGEMENT

Our cost-conscious approach and low expense ratio have earned OPB a reputation as a responsible and respected government agency. We will continue to keep a close eye on expenses, while making strategic investments in people, processes and technology.

As part of our cost-constraint measures, OPB has restrained spending on information technology (IT) infrastructure and core applications since 2008. As a result, some of our systems have been stretched to the maximum extent possible and are now nearing end-of-life. To continue operating efficiently, effectively and to enhance security, OPB needs to make a "generational" investment in IT over the coming years. In 2014, we added a Chief Technology Officer to the executive team to lead the development of a five-year IT strategy.

This plan will enable us to upgrade our technology systems at a cost-effective pace that matches OPB's critical business needs. For example, as we bring more investment management in-house, we need to add specialized technology that supports our Investments team and risk management efforts. Our IT also needs to meet your needs. We know our clients increasingly expect seamless online transactions and capabilities.

## MANAGING CHANGE

Over the last five years, OPB has gone through significant organizational change – driven largely by a service delivery model that raises the bar on pension client service experience. Through significant staff restructuring and retraining, our organization, leadership and people have shown great resiliency. We have continued to earn strong scores for service excellence from CEM Benchmarking Inc., a leading pension administration benchmarking firm. While our scores dipped in 2014 – which is not unusual for an organization undergoing transformational change – our Client Services team recovered well, and our service level is now better than ever.

## ASSET POOLING

We have continued to work with the Government of Ontario and the Workplace Safety and Insurance Board (WSIB) to lay the groundwork for the creation of a new investment entity to manage our respective assets. We believe asset pooling could boost OPB's annual returns by one quarter of one percent or more – which would generate an estimated \$2 billion in additional net investment income over the next 15 years.

OPB is well positioned to generate the returns needed to meet the pension promise, with or without asset pooling. We've built an outstanding Investments team, added a range of new asset classes and adjusted our asset allocation, while also earning a reputation as a respected investment partner.

## PREPARING FOR THE FUTURE

Over the past 25 years, we have successfully preserved the pension promise and elevated our service to world-class levels. And we have done this while maintaining benefit levels for our members and retirees, and keeping contribution rates reasonable and affordable.

I want to thank the Board, the leadership team and all employees for their dedication, commitment and hard work to get us where we are today. We will continue to Think Forward as we prepare for the next 25 years.

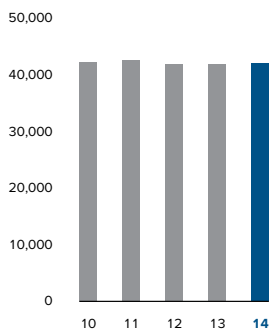
A handwritten signature in black ink, appearing to read 'Mark J. Fuller'. The signature is fluid and cursive, written over a white background.

Mark J. Fuller, President & CEO

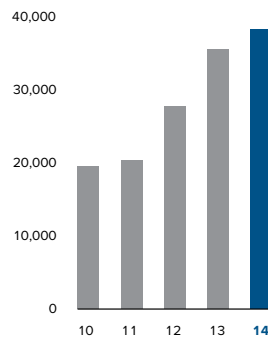
# CLIENT SERVICE HIGHLIGHTS

Outstanding client service goes to the very heart of what we do. In 2014, we took service delivery to the next level with the launch of Advisory Services. The program gives our clients personalized, one-on-one service at critical milestones (such as termination or retirement). Our team of Client Services Advisors are here to help you understand how the pension decisions you make will impact your personal financial picture in retirement.

## NUMBER OF ACTIVE MEMBERS



## E-SERVICE LOGINS



## CLIENT PROFILE



## CLIENT INTERACTIONS

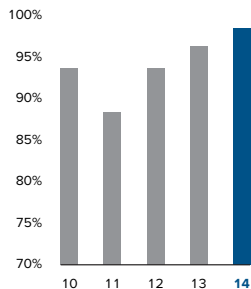
	2013	2014
Online retirement applications	148	130
Online requests for buyback quotes	3,238	3,074
Online changes to beneficiary information	2,051	2,113
Online changes to address information	881	943
Members using online retirement planning tool	10,522	10,777
Presentations to members	218	130

# INVESTMENT & FUNDING HIGHLIGHTS

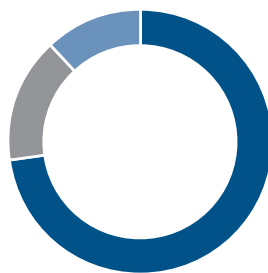
Our Investments team delivered strong returns of 8.4% in 2014, comfortably above the long-term rate of return of 5.95% required to meet our pension obligations. These positive results helped to push the Plan's funded position to more than 98% – up from 96% at year-end 2013.

Staying ahead of the curve and succeeding in a challenging investment climate requires a forward-thinking approach. With an eye on the future, we continue to shape, shift and strengthen our Investments program.

## FUNDED STATUS



## PENSION FUNDING SOURCES SINCE 1995 (post-split)



- 72.8% Investment Growth
- 15.3% Employer and Sponsor Funding
- 11.9% Member Contributions

## ASSET MIX

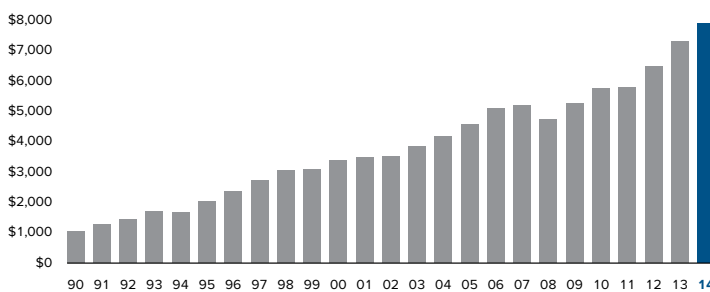
As at December 31, 2014



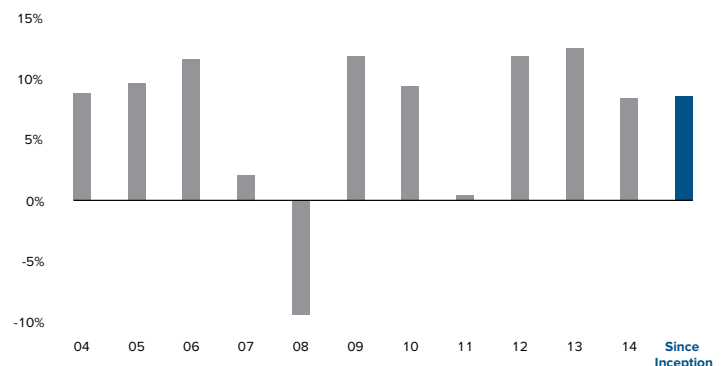
- 3.9% Cash and Short-Term Investments
- 24.9% Fixed Income - Canada
- 3.5% Fixed Income - Foreign
- 9.6% Equities - Canada
- 12.2% Equities - U.S.
- 25.5% Equities - Other International
- 15.4% Real Estate
- 3.4% Infrastructure
- 1.6% Private Equity

## GROWTH OF NET ASSETS

Growth of \$1,000 since inception



## TOTAL RETURNS





# STRAIGHT TALK: JILL PEPALL, CIO

2014 was another successful year for OPB's Investments team. In the following interview, Chief Investment Officer (CIO) Jill Pepall talks about the year's successes and challenges, as well as the outlook for 2015.



*(The following is an abridged version of the full interview that appears in the 2014 OPB Annual Report. To read the full interview, access the Annual Report in the "What's new" section of our website at [www.opb.ca](http://www.opb.ca).)*

## **The Plan generated an investment return of 8.4% in 2014. How satisfied are you with this result?**

Our primary objective is two-fold: protect the long-term sustainability of the Plan and keep benefit and contribution levels stable and affordable. We achieved a solid return in 2014, which was above the 5.95% long-term rate of return used to calculate actuarial liabilities. The result was a positive impact on the funded status of the Plan. We were overweight in equities and saw strong results from our Infrastructure and Private Equity portfolios, which bolstered our returns.

## **OPB adjusted its Strategic Asset Allocation (SAA) in 2014. What changed and why?**

We completed an asset/liability study during 2014, to determine if our assets are a good match for our liabilities. The results identified a need to adjust our SAA so that it places less emphasis on public equities and more emphasis on private markets, such as real estate, infrastructure and private equity. Real estate and infrastructure investments help insulate the Plan from public market volatility and enable us to generate a larger proportion of returns from cash flow while we expect private equity investments to enhance long-term returns. We'll shift an additional 5% of the Plan's assets from public markets to private markets over five years – giving us time to source quality investment opportunities. Ultimately, private markets will account for about 38% of the Plan's total assets.

## **You continue to advance your in-house Tactical Asset Allocation (TAA) capability. How did that go in 2014?**

We made significant advances in this area. TAA is a strategy used to quickly and efficiently adjust the Plan's risk exposure by increasing or decreasing exposure to certain public market asset classes. This flexibility enables us to take advantage of short-term changes in the market. The strategy preserves capital by reducing our risk exposure during volatile periods, and then quickly increasing risk again when the time is right – generating value-added returns. During 2014, our TAA team also completed an analysis of OPB's currency hedging policy. Based on that analysis, we changed the approach we take to managing foreign currency – a move we expect to generate value-added returns.

## **OPB has enjoyed success with its Private Equity and Infrastructure portfolios right from the get-go, which is very unusual. To what do you attribute that success?**

Many investors who enter into private equity and infrastructure markets experience negative returns during their initial years. We've avoided that. Our success can be attributed to three key factors: strict due diligence to ensure we buy only those investments that offer good value for the price and that are likely to provide steady cash flow or capital appreciation; negotiating the best possible investment fees; and strategically investing alongside knowledgeable partners in secondary (already-established) funds and in fund co-investments that provide visibility to the underlying assets.

## **OPB is actively working to increase its holdings in private markets. What's your strategy for 2015?**

The private market environment is competitive and pricey. We will continue to focus on high-grade assets that we can acquire through direct acquisitions and co-investments. Our primary real estate focus will continue to be on direct investment in prime Canadian properties and value creation from existing rental properties. In infrastructure, we'll focus on core assets (those that provide ongoing cash yield), mainly through direct acquisitions and co-investments. On the private equity side, we'll continue to concentrate on finding private companies that offer consistent revenue and earnings growth, like-minded investment partners, and first-rate fund managers.

## **OPB has made a significant investment in technology for the Investments area. Why?**

Over the past few years our investment strategy has evolved and become much more sophisticated. We've had to update our information systems to ensure we have the information needed to make informed investment decisions and manage investment risk. These systems provide the ability to collect, store, filter, process, create, manage and distribute data. We use this data for a number of important investment management activities.

## **What is the investment outlook for 2015?**

There is no doubt that we're in for another challenging year. The global economy appears to be continuing on a slow growth path. With geopolitical uncertainty running high, we expect market volatility to continue into 2015. The steep decline in crude oil prices will also likely impact both Canadian and global growth. There is, however, some room for optimism. Economic growth in the U.S. is expected to remain solid, while Europe could see gradual improvement.

# DIRECTORY OF KEY PERSONNEL

## OFFICERS:

**Mark J. Fuller**  
President & CEO

**Jill Pepall**  
Executive Vice-President & CIO

**Peter Shena**  
Executive Vice-President  
& Chief Pension Officer

**Michel Paradis**  
Chief Financial Officer

**Valerie Adamo**  
Chief Technology Officer

**Paul Edmonds**  
Chief Legal &  
Governance Officer

**Gayle Fisher**  
(as of January 2015)  
Chief Administrative Officer

**Brian Whibbs**  
Managing Director, Real Estate

**Glenn Hubert**  
Managing Director, Private Debt

**Anne Catherall**  
(retired December 2014)  
Vice-President,  
Corporate Services

**Mila Babic**  
Vice-President, Client Services

**John McNair**  
Vice-President, Investment  
Risk & Compliance

**Kevin Clinton**  
Vice-President,  
Legal – Investments

**Sean Macaulay**  
Vice-President, Private Markets

**Tanya Lai**  
Vice-President, Public Markets

## GOOD GOVERNANCE

The foundation for OPB's continued success remains a strong, effective governance structure that demands full accountability, effective decision making, prudent investment management, fiscal responsibility, legal compliance, and smart risk-taking. In short, our governance model ensures that we protect and promote the best interests of the Plan and its beneficiaries – at all times.

Underpinning our governance framework is a series of governance documents that define our organizational structure, establish roles and responsibilities, assign 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

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

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 risk management. Our ERM program forms the foundation for risk management across our organization. Over the past two years, ERM has been successfully integrated into both our strategic planning process and our operations, enabling us to identify and manage risks related to the fulfillment of our mandate and vision.

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



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