Ontario Pension Board
Business Plan
2015-2017

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OPB Overview

Ontario Pension Board (OPB) is the administrator of the Public Service Pension Plan (the PSPP or the Plan) and manages the investment of more than $22 billion of assets (the Fund) that fund the benefits under the PSPP. This Business Plan speaks to the three year period from January 1, 2015 to December 31, 2017; however, the primary focus is on 2015.

Mandate

OPB was created in 1990, by enactment of the *Public Service Pension Act*, to administer both the PSPP and the Fund. Subject to the provisions of the Plan, OPB may administer other pension plans or funds or insured benefits plans. Currently, OPB has established fee-for-service agreements to administer several other plans and, to date, all of these fee-for-service agreements are structured on a cost recovery basis, not as a profit-generating activity.

OPB is governed by its Board of Directors. The Chair of OPB's Board is accountable to the President of the Treasury Board for the performance of OPB in fulfilling its mandate.

OPB Mission and Vision: Advise & Protect

Our mission is to:

- deliver the pension promise;
- support the long-term sustainability of the Plan;
- invest the Plan's assets to maximize returns within acceptable risk parameters;
- keep contribution rates and benefits reasonably stable and affordable; and,
- deliver superior cost-effective service to all Plan stakeholders.

OPB has developed its "Advise & Protect" vision to fulfill its mandate and mission. The key components of the Advise & Protect vision are: (1) providing advisory services to stakeholders based on OPB's unique knowledge, perspective, and understanding of the Plan to ensure clients and stakeholders make informed decisions with respect to their pensions and the Plan as a whole, and (2) protecting the Plan to ensure it can meet the pension promise for today's and tomorrow's Plan members and retired members.

Strategic Direction

OPB has established the following three key strategic objectives to enable it to fulfill its mission and vision in the current environment:

- To be a trusted advisor to Plan stakeholders and a credible thought leader on public policy, to support sound decision-making that promotes the long term sustainability of the Plan and pension coverage and adequacy for all Canadians.
- To achieve excellence in the fully integrated management of all Plan funding variables

(investment returns, contribution levels, and benefit structure) so as to ensure (1) that accrued benefits are delivered as promised; (2) the long term affordability of the Plan; (3) the continuance in the Plan of a benefit package structured to build lifetime income adequacy for members; and (4) intergenerational equity.

- To administer the Plan and serve its stakeholders such that every stakeholder realizes, to the extent possible, full value from their participation in the Plan so that we earn their continued support for the Plan.

Operationally, our objectives are achieved by aligning all organizational, departmental and individual initiatives and goals to four Foundations (State of the Art Governance; Strategic and Responsible Financial Management; Better, Faster, Smarter Systems and Processes; and High Performing People) and four Strategies (Disciplined and Astute Investing; Unmatched Client Service Excellence; Outstanding Stakeholder Relations; and Educate and Advocate). A high level description of these Foundations and Strategies is provided in Appendix I: Strategies and Foundations.

Executive Summary

Environment

A summary of the key environmental factors facing OPB is provided in the Environmental Scan on page 15 of this document. One of the more important environmental factors includes an increasingly complex investment opportunity and risk set which we are addressing by enhancing our Investments area as noted later in this summary. Management is also closely monitoring the rising cyber security issues that threaten privacy incursions as well as the need to replace technology that is approaching end-of-life. In addition, there are pressures on OPB's expenses created by increased governance, risk management and compliance standards that require investments in people and technology. The changes taking place within the public service in Ontario and its agencies are increasing service demands for OPB. Examples of this include the modernization of Ontario Lottery and Gaming Corporation, other divestments within the public service and the broader public service, as well as changes to retiree insured benefits scheduled to take effect January 1, 2017. The service impacts will be felt beginning in 2015 as clients contact OPB about pension impacts, transfer requests, and for decision support. OPB is confident that its vision and strategies, as well as the initiatives outlined in this Business Plan, are appropriate for the PSPP as well as to support the Government in its efforts to improve the Province's finances, and to manage the impacts and seize the opportunities presented by the current environment.

Expense management

Alignment with the Government's Fiscal Objectives

As an agency of the Government of Ontario, management is very aware that OPB is operating in an environment of cost constraint and judiciously manages the Fund's expenses. OPB's expense ratio continues to be among the lowest in the industry. It is important to note that OPB's expenses are paid from the assets of the Plan rather than directly by the Government and, accordingly, none of OPB's expenses are paid from the Consolidated Revenue Fund or reported as part of Government expenses. OPB's expenses are transmitted to the Government only through changes in the funded status of the PSPP which result in changes to the Government's pension expense in accordance with the Public Sector Accounting Board standards. Accordingly, OPB contributes to constraining or reducing Government expenses by generating net investment returns that improve the overall funded ratio of the Plan. The Plan's funded ratio has improved over the last several years (confirmed by the latest triennial actuarial valuation dated December 31, 2013) resulting in a reduction of the Government's cash contributions to the Plan by approximately $14 million per year for the three years from 2014 to 2016. The more than $400 million improvement in the funded status of the PSPP during 2014 ($1.6 billion between the beginning of 2012 and the end of 2014) will result in further pension accounting expense savings for the Government as this improvement is recognized over the expected average remaining service life of members (approximately 11 years).

While OPB's total expense ratio (including all investment and pension administration expenses) has been stable at approximately 0.50% to 0.55% of average assets, expenses in absolute dollar terms have been rising. This is primarily a result of two factors. First, increased external investment fees are a natural result of growth in assets (this is actually a positive result as the appreciation in asset values improves the funded status of the Plan). During the six years to the end of 2014, the assets of the PSPP increased by over 50% from $14.6 billion to more than $22 billion (despite paying out an average of approximately $250 million more in pensions each year than it receives in contributions). OPB's internal investment operating expenses have increased as OPB has increased its internal asset management capabilities and shifted the PSPP's asset mix to a greater percentage in private market investments (such as infrastructure, private equity and real estate), in line with the new Strategic Asset Allocation ("SAA") requirements. Internal management of private market investments is more cost-efficient than external management (a recent article by Cost Effectiveness Management Inc. published in the Rotman Journal of Pension Management found that the incremental returns generated from private market investments was entirely lost to fees if the investments were managed externally through funds). OPB also believes we can generate better returns and manage risk more effectively through internal management, as evidenced by the strong investment returns over the last several years.

OPB respects the objective of the Government of Ontario to hold its expenses at 2014 levels or less. In preparing this Business Plan and Budget, we conducted a thorough review of all our expenditures with a view to holding them at 2014 levels, reducing them where possible. We also directed that new initiatives with increased associated expenses only be included in the Plan if they were deemed necessary. We defined as "necessary" those initiatives:

- expected to generate a return on investment that is greater than the incremental expense;
- required to comply with legislation or Government directives;
- required to align OPB's activities with current Government policies (e.g., procurement and records management);or,
- required to manage key risks (e.g., cyber-security threats or end-of-life IT systems).

Ultimately, the Business Plan and Budget submitted by OPB Management and approved by its Board of Directors provides for an increase of 2.6% over 2014 actual expenses. The table below sets out OPB's key initiatives for 2015 that drive the year over year increase, the expected associated expenses and a brief description of the business case for the expense. We note in particular that:

- The increased investment-related expenses are expected to generate incremental investment returns that far exceed the budgeted expenses. While OPB's expenses are not paid from the Consolidated Revenue Fund, improvements in the funded status of the PSPP resulting from higher than expected investment returns do decrease the Government's pension expense on its financial statements; consequently, these increased investment expenses are fully aligned with the Government's objective of reducing its deficit.
- Although 2015 Pension expenses are budgeted to increase by 4.3%, actual 2014 Pension expenses finished the year 5.0% below budget and were actually lower than 2013 levels. Accordingly, the annual rate of increase over the period 2013-2015 is just 0.6%. Pension expenses remain well below 2008 levels when OPB began its expense restraint program.

The expenses set out in the following table account for $4.2 million of the total 2015 budgeted expenses. But for these items, the restraint exercised by OPB in other areas of its budget would have resulted in a year over year decrease in expenses.

Business Plan Initiative	Incremental Expense	Business Case
Investments: Shift management of foreign exchange from a fixed percentage to an active approach.	$1.7 million in 2015 resulting from increased management fees paid to external investment counsel.	Expected return on investment of approximately $50 million annually.
Investments: Transition to OPB's new SAA which provides for increased allocation to private market investments such as infrastructure, real estate, and private equity.	$1.0 million in 2015 resulting from hiring additional investment (and investment finance) professionals required to acquire, manage and oversee the investment portfolio.	Extensive modelling conducted by OPB's independent actuarial firm indicates an average annual incremental investment return from the new SAA of 0.90% per year. This implies an incremental average annual return of approximately $200 million based on OPB's 2014 assets.
Corporate: Unified Communications	$500,000	OPB needs to replace its end-of-life telephony system as the system will no longer be supported by the vendor.
Pensions: Employer E-Services Portal	$1,000,000	To provide a more secure online exchange portal for participating employers which exchange sensitive personal information with OPB. The Portal will also provide expense efficiencies for all employers, thereby assisting with the Government's expense restraint objective.

Status of the Public Service Pension Plan (PSPP)

The long term sustainability and affordability of the PSPP continues to be our top priority. The financial status of the Plan is strong. As at December 31, 2014, the Plan is over 98% funded, up from 96% at the end of 2013. OPB has eased the Government's pension expense for the Plan by earning strong investment returns over the past several years (8.4% in 2014; 12.5% in 2013; and 11.9% in 2012) which have improved the funded status during that period by $1.6 billion. The initiatives planned for the next several years are directed at continuing to build on this success and generating returns that consistently exceed the long-term rate of return assumed in the actuarial valuation.

OPB filed its December 31, 2013 valuation of the PSPP with the Financial Services Commission of Ontario during 2014, concluding that there was no regulatory requirement to increase member and employer contribution rates. The cash contributions needed to eliminate the deficit of the PSPP by the Plan Sponsor declined by approximately $28 million per year. This decrease offsets the increase to the Plan Sponsor's additional current service contributions of $14 million per year that is largely due to lower interest rates and the recognition that plan members are living longer. This results in a reduction in the Plan Sponsor's net payments to the PSPP of $14 million per year over the 2014–2016 timeframe.

We completed a long-term funding study during 2014. Such studies are generally performed every five years (last study was completed in 2008). These studies are used by OPB to make recommendations to the Plan Sponsor regarding any changes in contributions or adjustments to benefits that we believe are necessary to maintain a long-term 50/50 current service cost sharing between employers and employees and ensure the sustainability and affordability of the Plan.

Based on the results of the study, OPB is not recommending any changes to contribution rates at this time. However, the study identified a number of factors that could impact the cost of the benefits going forward, such as:

- continued salary restraint in the public service;
- future increases in lifespans beyond those built into current assumptions;
- the potential impact of changes in retiree insured benefits that could result in significant retirements of long-serving public servants in 2016; and
- the potential impact of the modernization of Ontario Lottery and Gaming Corporation.

Taken together, these factors may increase or decrease the cost of pension benefits.

Accordingly, OPB has determined that it should conduct another long-term funding study in association with the next triennial valuation as at December 31, 2016 (earlier than the normal five year interval). At that point, the likely overall impact of the factors noted above will be clearer.

Investment Strategy and Business Plan Initiatives for 2015-2017

In the Investments area, our key areas of focus for 2015 include implementing the new Strategic Asset Allocation (SAA); adding to our in-house asset management capabilities; and enhancing our investment risk management.

OPB completed an Asset/Liability Study during 2014 resulting in certain changes to the SAA which were recommended to and approved by the Board of Directors. The new SAA continues to target a shift of assets from public markets to private market assets. A 5-year transition plan to move the investment portfolio to the new SAA, with annual incremental targets during the transition period, was also approved by the Board. Management expects that the new allocation will generate incremental returns, with lower volatility than the current SAA.

Leveraging the in-house expertise proven by the success of our Tactical Asset Allocation (TAA) and private markets asset management, the Fund will continue to evaluate and selectively in-source components of the public market portfolio over the next several years. By implementing and supporting further internal asset management, we are better able to agilely respond to market movements and opportunities and generate incremental risk-adjusted returns on a cost-effective basis.

Given the ongoing uncertainty and volatility in financial markets, it is increasingly important to incorporate investment risk management and monitoring into the Plan's investment decision process. OPB is committed to an integrated process that allows management to understand the potential impact of investment decisions on risk relative to the Plan's liabilities and benchmarks. Objectives for 2015 include enabling risk analysis for prospective investment strategies and extending risk analysis to include private market investments.

Pension Administration Strategy and Business Plan Initiatives 2015-2017

In Pension Administration, our key areas of focus for 2015 include enhancing decision support services for clients; investing in technology to replace end-of-life telephony systems and support secure data exchange with participating employers; and, improving service level standards.

OPB is committed to continually improving the quality of our client service and continues to expand its advisory service offerings to clients. We have Certified Financial Planners on staff able to provide members with the objective, factual financial information and perspective they need to make informed decisions at critical points in the pension lifecycle. Without this support and objective perspective, members are at risk of making decisions that are detrimental to their pension entitlements as well as to their long-term financial plans. Decision support services are therefore an essential component to high quality client service. During 2014, we introduced advisory service offerings related to terminations and survivor pension options, and we will continue to invest in our decision support services over the next several years.

In 2015, OPB must strategically invest in information technology infrastructure that is critical to pension administration operations, such as replacing the "end-of-life" telephony system and creating an ePortal that supports secure data exchange with employers, and that meets new compliance and governance standards for IT applications to address ongoing cyber-security threats and protect the personal information of clients.

We will be modernizing our internally set service targets, many of which are currently out of step with client and stakeholder expectations and do not reflect improvements in business processes that have been implemented over the last 2 – 3 years. More detail is provided in the Pension Administration Key Areas of Focus for 2015-2017 section of this business plan.

Corporate Strategy and Business Plan Initiatives 2015-2017

OPB is a significant financial institution and has fiduciary duties to more than 80,000 members and retired members; is accountable to the Government of Ontario as the Plan Sponsor; and has legal obligations to a number of regulatory bodies, such as the Financial Services Commission of Ontario and Canada Revenue Agency. It is also required to comply with many of the Government of Ontario corporate directives. As such, OPB is committed to the highest standards of business practice in matters of governance, risk management, compliance, business continuity and resilience, records management, and privacy. For several years, OPB has been strengthening its practices in each of these areas and has achieved a satisfactory level of maturity in almost all, which led to increased expenses for Compliance and Risk Management. For example, OPB Management elevated the role of Director, Enterprise Risk Management to a full-time position, and has added support for OPB's business continuity and disaster recovery programs.

For 2015-2017, we have identified several areas in need of strengthening. The special projects noted below, which are not optional, all result in increased operational costs:

- procurement process – need to automate to improve the efficiency and compliance with government policies on procurement activities;
- records management – major enhancement required for our records management process to comply with Provincial Directives;
- strengthen security & cyber security – investments required to keep pace with the expanding nature of threats in a modern technology-based world; and,
- Accessibility for Ontarians with Disabilities Act (AODA) – to ensure compliance with this Act, we need to invest to enhance client and employer access to OPB's services.

For 2015, we have budgeted approximately $200,000 to ensure effective oversight (license compliance and cost management) of the expanding number of IT contracts and services; and for continued investment in compliance and risk management to address the increasing complexity of OPB's investment and pension operations.

In addition, there are Government initiatives which we consider risks to OPB's budget. These include:

- Ontario Lottery and Gaming Corporation modernization – providing pension related advice, member education and decision-making support;
- insured benefits changes – implementing changes to insured benefits systems and related communication materials, as well as providing member education and decision-making support, all as a result of entitlement changes introduced by the Government; and,
- asset pooling – assessing and preparing for asset pooling requires legal and consulting costs which cannot be capitalized.

Budget and Projection 2015-2017

As explained in further detail in the Financial Budget and Staffing - 2015 section of this plan, OPB's total expenses budget for 2015 of $122.2 million compared to expenses of $119.1 million in 2014, representing a 2.6% increase (note that OPB was $1.1 million or 0.9% under budget for 2014). For the purposes of this Budget, we have assumed that public market assets and therefore public market investment management fees for 2015 relative to 2014 will not significantly increase. If public market assets actually appreciate significantly, investment management fees will be higher than the 2015 budget. In that case, although external investment management fees will be higher, the incremental return will far exceed those additional expenses. As noted earlier, OPB requires further investments in people, processes and technology to ensure that the Plan's assets continue to be managed to deliver superior risk-adjusted returns over the long term; that we continue to provide quality service to our clients and stakeholders; and that we implement immediately required improvements in our technology infrastructure to meet best practice governance standards with respect to cyber security and privacy concerns. These investments also ensure that the funded status of the Plan is maintained at strong levels with a view to limiting the Government's expenses related to the Plan, and to keeping contribution rates and benefits relatively stable over the long-term.

Expense Pressures in 2016-2017

As noted earlier, following seven years of expense reduction, the expense pressures in the pension administration side of the business are expected to increase due to the expected increase in the number of member transactions resulting from the changes taking place in Ontario's public service sector. Furthermore, restrained information technology investment over the past several years means that OPB's technology infrastructure and many core applications are currently at, or approaching end-of-life. Although we are planning to make some technology improvements in 2015, any major technology investments have been deferred until we can properly assess the challenges of legacy applications and develop a multi-year Technology strategy to address the issues. However, given the large influx of member transactions expected in 2016, we anticipate that in 2016 OPB will only be able to perform a high-level assessment of the required investments and related costs. Any associated increase in expenses is beyond the period covered by this Business Plan.

Expenses - Investments

OPB's investment expense ratio remains low at approximately 0.40% (or 40 cents per 100 dollars of assets under management). The shift toward more private market investments results in additional costs as these assets are more expensive to acquire and manage than public market equities and fixed income. However, the additional returns from these assets are expected to significantly exceed the additional expenses and generate positive incremental returns over the longer term. Accordingly, OPB needs to have a larger and more sophisticated Investment team in order to generate better risk-adjusted returns and incremental value for the Fund, the Sponsor and all of its members over the long-term. OPB's strategy to maintain a low expense ratio is to pursue economies of scale. We have successfully simulated scale by partnering with larger institutional investors and other private sector investment partners, which we will continue to do in the future.

A second key tactic in the pursuit of economies of scale is to continue to advocate for, and drive forward, the asset pooling initiative for the investment of public sector asset portfolios in Ontario. OPB has actively pursued the objective of creating a new investment management entity in partnership with the Government and Workplace Safety and Insurance Board (WSIB). This is in complete alignment with the Government's policy as originally outlined in the Morneau Report, as well as in its last three budgets and in the 2014 Fall Economic Statement. During 2015, OPB will continue its efforts to make asset pooling a reality. However, OPB has only budgeted a minimal amount (approximately $100k) to support this initiative in recognition of the Government's ongoing fiscal restraint.

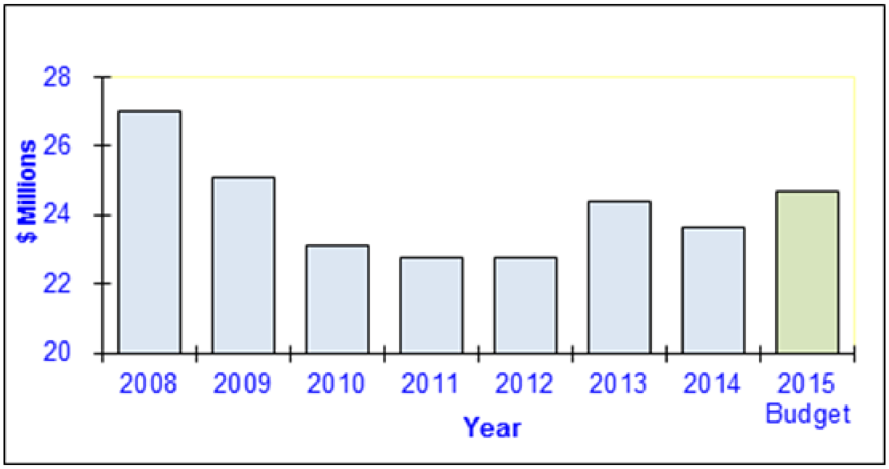
Operating expenses – Pension Administration

On the pension administration side, OPB's expense ratio, at just under 0.11% (or 11 cents per 100 dollars of assets under administration) is competitive with most of its peers. Our cost per member at $290 is higher than larger peers but very competitive with peers of our size in terms of membership.

Since 2008, OPB has substantially decreased the cost per member despite increased service demands and considerable additional compliance requirements imposed on the Fund by legislation and through the Government's corporate directives.

The following chart shows actual Pension Operating Expenses from 2008 to 2014, plus the budget for 2015.

Pension Operating Expenses – 2008 to 2015



Key Areas of Focus for 2015-2017

Investments

For the Investments area, the key areas of focus for 2015 are to optimize the implementation of our SAA; to continue to build on in-house expertise and management of assets; and to enhance our investment risk assessment and analysis and its contribution to the management of the assets.

OPB completed its triennial Asset/Liability Study in 2014 and approved a new SAA policy mix which increased the target weight for Private Market investments: Real Estate, Infrastructure and Private Equity. The SAA sets targets and ranges for OPB's investment in various asset classes. The key elements of the new SAA compared to our allocation at year end 2014 are:

- Transition from universe bonds to long bonds to reduce the risk associated with an asset/liability mismatch. Long bonds are a better match for the long duration liabilities.
- Increase private market investments (real estate, private equity and infrastructure) and correspondingly reduce public market investments, to improve returns and reduce volatility.

There is a transition plan to move the investment portfolio to our new SAA, with annual incremental targets during the transition period. A primary initiative for the investment team during 2015 will be to meet the targets for the year. In order to support the shift to the approved SAA that recommends a greater proportion of private market investments in our asset mix, as well as further the internalization of certain public markets' investment activities, OPB must invest in people. The 2015 budget anticipates new hires for the Investments and Investment Finance Areas (front-, middle- and back-office[1]). Although this also increases expenses, the additional returns expected from the current SAA represent an additional 0.90% return on Plan assets per year. Based on the results of the Asset/Liability Study prepared with our independent actuaries, this translates into an expected increase in average annual returns of over $200 million over the long-term.

Some of the specific initiatives to support increasing our in-house investment capabilities include:

- enhancing and expanding our in-house Tactical Asset Allocation capability;
- continuing to evaluate and selectively in-source components of the public market portfolio;
- continuing to build on the expertise in the front -, middle-, and back - offices, including investments in technology infrastructure and risk management which are critical to a proper control environment and sound investment decision-making in an environment of increased

[1] The front office is responsible for the pure investment activities including portfolio management, trading, investment research, and investment due diligence. The middle office is responsible for the monitoring, oversight and administrative aspects of the front office investing activities. The back office is responsible for fund administration, transaction processing, reconciliation, and dealing with the custodian. The back and middle office comprise the Investment Finance Department at OPB. It is essential for the back and middle office to grow and strengthen as the front office does so that appropriate and prudent controls, compliance and investment risk management are maintained.

internal investment management; and,

- strengthening and enhancing performance and attribution reporting.

Another key initiative for 2015 is to shift the management of foreign exchange exposures arising from foreign developed equity holdings to an “active” strategy (as opposed to the current strategy whereby we hedge a fixed amount of 50%). Although this increases investment expenses paid to our external manager, the expected additional returns to be generated by this active strategy amount to approximately $50 million per annum. This is a conservative estimate of the expected return and is based on the historical realized returns of the external manager for this strategy.

An ongoing priority is to continue to develop and strengthen our investment risk management capability. The goal is to ultimately incorporate investment risk management and budgeting into the investment decision making process on a real-time basis. With the appointment of a dedicated VP Investment Risk and Compliance in 2014, the Fund significantly advanced its investment risk management capability. Key objectives for 2015 include developing in-house tools to monitor and manage risk for private markets as well as public market investments and to be able to assess and manage Surplus Risk[2] as part of the decision making process.

To manage the increased private market exposure, additional internal resources will be required. In 2015, the increased cost of $1.0 million in salary and benefits is more than offset by the $200 million of expected incremental returns. Over the next decade, which coincides with the actuary’s projection horizon, the Plan’s assets are expected to grow by an additional $3.5 billion on a compounded basis due to the expected increase in incremental returns. Similar to 2015, a relatively modest increase in resources will need to be added over the next decade to sustain the increased exposure to private markets and to generate the additional $3.5 billion in assets from the new SAA.

Pension Administration

As noted in the Executive Summary, the key areas of focus for 2015 include enhancing decision support services for members; improving service level standards; and upgrading some technology infrastructure.

In decision support services, we have 2 staff who are Certified Financial Planners and we are targeting to have an additional 7 of our current staff pursue the Certified Financial Planners program. We expect them to complete the program by the end of 2016 and will then assess further needs as this initiative progresses. Last year, we introduced enhanced advisory service offerings related to terminations and survivor pension options. This represents the initial implementation and first phase of advisory service offerings.

In 2015, we plan to improve our information and data exchange capabilities with Ontario Shared Services as well as all participating agencies, boards and commissions (the employers). As part of the

[2] Surplus risk refers to the volatility of the plan’s assets relative to its liabilities. It helps to identify a probable range of outcomes for the plan’s surplus or deficit.

initiative to enhance secure information exchange and enable more effective data transfer, we have initiated the Employer ePortal project which is expected to be completed and implemented by the end of 2015. This initiative will be fully compliant with the current best practices relating to cyber security and privacy of personal information. It will help the participating employers in the PSPP operate more efficiently which should result in savings for the Government.

Upgrading certain IT infrastructure and pension administration applications is critical to ongoing operations to ensure we are able to operate efficiently and in order to meet new compliance and governance standards for IT applications to address ongoing cyber-security threats and protect the personal information of clients. Initiatives for 2015 include: critical end-of-life replacement for the telephony systems; and assessing the pension administration systems and transaction flow process tools (including our database and calculator tools) to maximize processing efficiency. The 2015 budget includes $1.9 million for certain Pension Administration initiatives (refer to 2015 Initiativess listing on page 26) which is somewhat greater than the $1.2 million budgeted increase in Pension Administration operating expenses. This demonstrates our commitment to cost restraint as expense savings in other areas are partially funding the cost of these initiatives.

In addition to the required technology improvements noted above, we will also be improving existing service level standards. These are the internally set service targets, that in many cases, are out of step with current client and stakeholder expectations and do not reflect improvements in business processes that have been implemented over the last 2 – 3 years. During 2014, OPB developed improved service metrics and processes which, together with the new service delivery model, enabled us to raise our service level standards.

OPB plans to develop a digital strategy during 2015, with implementation to begin in 2016 and continue through 2017. This strategy will help us determine the best channel to communicate with clients and stakeholders, and the most effective way to deliver service offerings based on age groupings, career progression, and complexity of the service. As part of this work, OPB will be considering all available channels that clients and stakeholders use, or can use, to access OPB. We expect to have a new Technology Strategy completed by third quarter 2015 so we can make decisions that will feed into the pension administration transaction flow process optimization and we will provide an update as part of next year's 2016 – 2018 business plan.

We are focused on maintaining or decreasing the pension administration expense ratio through:

- offering an expanded suite of online services that will drive 50% to 60% of simple transactions to our web self-service channel;
- reengineering and further automating our business processes to drive efficiency; and,
- modernizing our service level standards to (1) improve productivity, and (2) improve data analysis to enable us to better identify opportunities for proactive advisory services and service improvements.

Risk

OPB continues to mature its enterprise risk program. Operational, strategic and financial risk all feed into the Enterprise Risk Management program, which creates a more powerful risk management process. Currently, there are several areas of focus for OPB management, as outlined elsewhere in this business plan. The various risks faced by OPB can be summarized under two broad categories:

(1) Investment: risk that OPB generates insufficient returns to meet Plan obligations over the long-term

<u>Mitigation:</u> Management mitigates this risk by ensuring that a formal review of the SAA is performed every 3 years to consider the Plan's asset mix relative to its pension obligations. As noted earlier, an Asset/Liability study was completed during 2014 which continues to target a shift of assets from public market to private market assets. Other actions taken or to be taken include:

- we have implemented a state-of-the-art investment performance and attribution application which allows management to measure performance daily. For 2015, we plan on enhancing the system to attribute performance to factors such as currency, sector and asset mix;
- develop a long-term sustainability framework to address the timing of new investments and roll-off of existing investments for each Private Market asset class;
- integrate Asset/Liability modelling to assist in managing total fund residual risk – i.e., the risk that the SAA does not provide the returns required to meet our liabilities, including actuarial investment experience gains/losses; and,
- continue to build in-house expertise and asset management capabilities.

(2) Operational: risk that OPB does not invest sufficiently in People, Processes and Technology due to cost constraints

<u>Mitigation:</u> As noted in this plan, management continues to invest in various areas to ensure OPB maintains industry best practices in a cost effective and measured manner. Ongoing investment is needed to address: governance issues around internal controls, compliance with Government directives and regulations, cyber-security, IT business continuity plans, increasing service demands from members and retired members, the updates to systems and infrastructure required for efficient pension operations, and the people and technology required to properly implement the new Strategic Asset Allocation and shift more investment management activities in-house. Cost constraint impedes our ability to address these items. However, as noted in this plan, the modest cost increases planned for 2015 and going forward are intended to mitigate this risk.

Environmental Scan

The environment for administrators of large public sector defined benefit pension plans continues to be complex and challenging. Environmental factors present opportunities, risks and impacts for the Plan, and how OPB responds to these factors can significantly impact Plan stakeholders. Accordingly, properly identifying and assessing these factors is necessary to successfully fulfill our mission. There are many aspects of the current environment that are placing significant and unavoidable pressure on OPB's expenses and resources. Despite this, OPB remains committed to the Government's expectation of expense restraint and we believe that the budget provided for in this Business Plan is highly respectful of that expectation considering these unavoidable, external pressures. A summary of the top environmental factors is provided below:

Investment Environment: There was a return to market volatility in the second half of 2014 and it is expected that will continue into 2015. Geopolitical strife will contribute to market volatility as well. There are opportunities and risk in that volatility which OPB must manage successfully. Also, the sudden and sharp drop in the price of crude oil since June 2014 will be a factor impacting global growth in 2015 – oil importing countries such as Japan, China, and India will benefit but at the expense of oil exporters such as Russia and the Middle East.

Province of Ontario Fiscal Situation: Controlling human resource costs, including pension expense, in the public sector is seen as one of the key paths to fiscal health in Ontario. Measures taken or being considered by the Government of Ontario to address the Province's budget deficit and debt level could impact the Plan and OPB in various ways. Initiatives such as the Transitional Exit Incentive to decrease the size of the public service, and the modernization of Ontario Lottery and Gaming Corporation have the potential to create significant human resource demands on OPB. Asset pooling is another Government policy initiative that will increase the efficiency and effectiveness of the investment of public sector asset pools. To assist in making asset pooling a reality, OPB will likely incur expenses not currently budgeted. Finally, changes to retiree insured benefits which are being made to address the Province's deficit will create significant additional service demands as a significantly greater than normal number of public servants are expected to retire prior to the effective date of the changes.

Private Sector vs. Public Sector Pension Coverage: The already low and declining level of private sector pension coverage has led to attacks on public sector defined benefit pension plans because it has created an unfairness perception. It has led the Government of Ontario to advocate for building private sector pension coverage and adequacy through such measures as the expansion of the Canada Pension Plan and, failing that, through the establishment of an Ontario Retirement Pension Plan (ORPP). The ORPP concept also feeds into the importance of the asset pooling initiative, since the creation of an independent entity to manage an existing sizable asset pool could be a key enabler of the ORPP.

Demographics: There are several demographic pressures facing the Plan. The most important of these is lengthening life spans. This increases the costs of pensions and creates funding pressures. This has been largely, if not entirely, addressed by strengthening the mortality assumption used to fund the Plan. OPB must continue to monitor this trend (i.e., people living longer) to determine if plan design and other funding changes are required in response to this demographic trend. The aging of the Plan membership is also impacting OPB, as the number of members eligible to retire with an unreduced pension over the next five years is much higher than OPB has experienced in the past. This will create a significant spike in service demand that must be planned for and managed.

Rising mandatory governance, risk and compliance standards: The Office of the Superintendent of Financial Institutions (OSFI) has issued governance and cyber security guidelines for federally regulated financial institutions. OPB has self-assessed against these guidelines and found that we substantially meet the standards; however, there are areas where we must improve. Cyber security threats are constantly evolving and becoming more sophisticated which means that continuous vigilance is essential to effective risk mitigation. In addition, there is new anti-spam legislation and accessibility for persons with disabilities legislation with which we must comply. This creates resource and cost pressures and impedes our progress on strategic initiatives, as we must dedicate limited human and financial resources to these initiatives.

Rising service expectations: Our members, retired members, employers and other stakeholders expect ever faster, and ever more sophisticated, service. Our clients want more and more personalized decision-making support around key pension life cycle options, and there is increasing pressure for online exchange, online transactions, and e-communications. Our current IT infrastructure and systems are not capable of meeting these service demands and expectations.

Financial Budget and Staffing - 2015

(All numbers are expressed in thousands unless otherwise stated)

Executive Summary

Budget overview

As noted throughout this document, the Business Plan calls for continued investment in people, processes and technology in the Investments area and technology investments in the Pension Administration area. Senior Management supports the view that development must continue in order for OPB to maintain its strong investment results, thus improving the likelihood that the funded position of the Plan continues to improve, as well as ensuring that the needs of its members and strong governance practices are in place to ensure security and privacy of confidential information. The increased expense levels to move to the new Strategic Asset Allocation (SAA) are even more necessary in the current volatile market environment. In spite of the increased operating expense levels, OPB's investment expense ratio will continue to be at the lower end of the range relative to our benchmarks and peers. Tables and narratives within this document are used to explain material differences between the 2015 Budget and 2014 Actual expenses.

The 2015 Budget separately details the key operating expenses for the Plan's two main lines of business, Pension Administration and Investments, as well as on a consolidated basis.

Introduction

This section of OPB's Business Plan presents the Financial Budget and Staffing expenses for 2015. The Province of Ontario does not directly fund the investment and operating expenses of OPB. These costs are funded from the assets of the pension plan and accordingly are not a charge against the Consolidated Revenue Fund or recorded as part of the Province's operational expenses.

Consolidated Expenses	2015 Budget	2014 Actual	Increase/ Decrease	Change %
Investment Management Fees	74,837	75,242	(405)	(0.5%)
Operating Expenses	46,900	43,241	3,659	8.5%
Capital Expenditures	492	640	(148)	(23.1%)
Total	122,229	119,123	3,106	2.6%

The 2015 consolidated budget for Investment Management Fees, Operating Expenses and Capital Expenditures is $122.2 million, an increase of 2.6% over 2014**.** The Investment management fees are planned to decrease by $0.4 million primarily on the assumption there will be no increase in externally managed public market assets, while total Operating Expenses are planned to increase by $3.7 million. The continued shift of assets from publicly traded bonds and equities to private market investments (real estate, infrastructure and private equity) as OPB implements its new SAA is contributing to the expected decline in investment management fees. If publicly traded assets (which are, for the most part, externally managed) increase significantly in value, then investment management fees will be higher than projected.

On the Operating Expense side, OPB has two lines of business: investment management and pension administration, with projected expenses of $22.2 million and $24.7 million, respectively. The budgeted increase of $3.7 million in consolidated operating expenses represents a $2.6 million increase for investment expenses, while pension administration expenses are planned to increase by $1.0 million after finishing $1.2 million under budget for 2014. Accordingly, the 2015 budget for pension administration operating expenses is essentially flat as against the 2014 budget.

The reason for the larger increase in the investments area is primarily due to the planned expansion of OPB's in-house investment capabilities. Leveraging on previous success, OPB plans to build its internal asset management capabilities in order to continue generating the additional risk-adjusted returns required to improve the Plan's funded status and thereby reduce the Government's pension expense. Total investment expenses (including both investment operating expenses and investment management fees) are budgeted to be $97.1 million versus $94.8 million in 2014, representing an increase of 2.3%. The increase of $2.6 million in internal investment operating expenses represents an increase of 13.4% over the 2014 actual expense of $19.6 million. As the SAA requires the Plan's asset mix to shift more assets into private market investments, we must invest in our internal capabilities (people, processes and technology). Accordingly, the operating cost increases are driven mainly by the hiring of investment personnel (front-, middle- and back-office resources), including the grow-in of previously hired resources during 2014 (i.e. the costs for a full year versus a partial year for those hires that started in 2014). Investments in technology to provide improved trade capture capability, enhanced risk monitoring and performance reporting are essential in order to ensure investment decisions are appropriately captured and recorded and the results of the activities are accurately reported within a cost-effective control framework.

The Pension Administration operating expenses are expected to increase by $1.0 million over the 2014 operating expenses of $23.6 million. Actual 2014 expenses were 5.0% lower than budgeted and the table below demonstrates that they were 3.0% lower than the actual operating expenses reported for 2013 as certain planned initiatives for 2014 were either delayed or recast into projects addressing critical upgrades required for the Plan's evolving needs. This also contributed indirectly to delaying some planned hires in 2014 resulting in an increase of staff grow-in for 2015. Accordingly, the average annual increase between 2013 and the 2015 budget year is planned to be 0.6% which is well below the inflation rate for the period.

Operating Expenses – Pensions 2 Year Experience - 2013 to 2015	2015 Budget	2014 Actual	2013 Actual	Average % change 2013-15
Staffing costs	13,503	13,290	13,938	(1.6%)
Office Premises & Operations	3,381	3,121	3,274	1.6%
IT & Project Management	6,138	5,174	5,216	8.8%
Professional Services	518	932	935	(22.3%)
Depreciation	573	515	520	5.1%
Communication, Board Remuneration & Audit	553	607	495	5.9%
Total Operating Expense	24,666	23,638	24,378	0.6%

As certain key technology applications in the Pension Administration area approach end-of-life, investment is required to replace or upgrade technology and a large part of the increase in 2015 reflects planned initiatives to ensure the Plan can continue to maintain its service delivery to members and retirees in accordance with increasingly high governance standards dealing with cyber-security and privacy of information.

Contingencies and Risk

Management has identified the following factors that may impact the costs as set out in the 2015 Budget:

1. Increased asset management fees resulting from greater assets under management due to positive investment returns will drive an increase in expenditures.
2. Costs related to implementing any new legislation, or for government workforce changes. Specifically, we have only included a small amount of costs (approximately $100k) in 2015 to address further technology changes required for the pension administration system to deal with the expected increase in volume of member transactions (starting in 2016) resulting from the modernization of Ontario Lottery and Gaming Corporation, other divestments, or the changes to retiree insured benefits.
3. Changes to the structure or mandate of OPB. Only a minimal amount of additional costs ($100k) have been included relating to the asset pooling initiative currently underway by the Province regarding the broader public sector pension plans or their funds.
4. Costs associated with unexpected events.

To mitigate the above-noted risks, senior management regularly meets to consider the impact of unplanned events on planned projects and the budget. Where possible, priorities are adjusted to ensure that the overall budget impact is managed.

Investment Management Fees Projections [3]

Investment Management fees projections	2015 Budget	2014 Actual	Increase/ Decrease	Change %
Investment Management fees - Public	58,751	58,239	512	0.9%
Custodial Fees	5,000	4,768	232	4.9%
Transaction Costs	10,286	10,641	(355)	(3.3%)
Private Market Costs	800	1,594	(794)	(49.8%)
Total Investment Fees	74,837	75,242	(405)	(0.5%)

Public investment management fees are projected to increase by $0.5 million. The additional fees to support the active management of foreign exchange exposures of $1.7 million are offset by decreases associated with a further shift in the Plan's asset mix towards private market investments and the assumption of only nominal or no growth in the public markets portfolio. Custodial fees are forecast to increase with the shift to more private markets accounts maintained by the Custodian. Transaction costs (i.e., equity commissions) are budgeted to be lower due to the continued shift of public market assets to private market investments. The private market costs represent costs for due diligence on deals that do not close (i.e., where management ultimately decides not to invest). These are budgeted below 2014 levels on the assumption that there will be fewer such events in 2015. As is customary (i.e., industry practice) for private market investments, fees paid on private market funds (limited partnerships) are generally deducted directly from the distributions or proceeds of any sales and are netted against the fund returns.

Operating Expenses

The tables below present the Consolidated view of the 2015 Budget and 2014 Actual operating expenses for OPB, followed by the breakdown between the Pension Administration ("Pensions") and Investments businesses.

[3] Given that Investment Fees are driven by the underlying appreciation/depreciation of the assets based on market movements which cannot be budgeted, we have indicated that the fees are "Projections" rather than a "Budget".

Consolidated view of Operating Expenses	2015 Budget	2014 Actual	Increase	Change %
Staffing costs	27,615	25,014	2,601	10.4%
Office Operations	5,855	5,359	496	9.3%
Technology	8,962	7,825	1,137	14.5%
Professional Services	2,599	3,155	(556)	(17.6%)
Depreciation	878	817	61	7.5%
Communication, Board Remuneration & Audit.	991	1,071	(80)	(7.5%)
Total operating expenses	46,900	43,241	3,659	8.5%

Operating Expenses Pensions/Investments	2015 Budget			2014 Actual			Change %	
	Pension	Invest.	Total	Pension	Invest.	Total	Pensions	Invest.
Staffing Costs	13,503	14,112	27,615	13,289	11,725	25,014	1.6%	20.4%
Office Operations	3,381	2,474	5,855	3,121	2,238	5,359	8.3%	10.5%
Technology	6,138	2,824	8,962	5,174	2,651	7,825	18.6%	6.5%
Professional Services	518	2,081	2,599	932	2,222	3,155	(44.4%)	(6.4%)
Depreciation	573	305	878	515	302	817	11.2%	1.0%
Communication, Board Remuneration & Audit	553	438	991	607	464	1071	(8.9%)	(5.6%)
Total	24,666	22,234	46,900	23,638	19,603	43,241	4.3%	13.4%

Overall operating expenses are expected to increase by 8.5% over the 2014 expenses. The Pensions area is expected to increase by 4.3% in 2015 primarily due to higher Technology costs, whereas the Investments area operating expenditures are expected to grow by 13.4% over the 2014 expenses, mainly due to increasing staff complement. The increased complement is required in Investments to continue to develop our internal asset management capabilities. Also having an impact on the increase in expenses is the grow-in of staff hired in 2014 to support the shift in investment assets from publicly traded securities to private market investments, as well as further investments in technology which are planned to support internally managing a larger portion of the Plan's assets.

Budget Highlights

The larger contributors to budgeted expenses are analyzed below. Each section also details the impact of these costs on the Pensions and Investments business areas.

1. Staffing Costs

Description	2015 Budget			2014 Actual			Change %	
	Pension	Invest.	Total	Pension	Invest.	Total	Pensions	Invest.
Salaries	11,332	11,778	23,110	10,682	9,579	20,261	6.1%	23.0%
Benefits	2,010	1,842	3,852	1,786	1,353	3,139	12.6%	36.1%
Other	161	493	654	821	793	1,615	(80.4%)	(37.8%)
Total	13,503	14,112	27,615	13,289	11,725	25,015	1.6%	20.4%

Staffing costs represents 59% of total operating costs. The salaries budget includes both salaried and temporary staff, as well as accruals for incentives, severance, vacation pay and pensions.

The budget reflects a 2.5% salary increase for OPB's OPSEU represented employees in accordance with the collective agreement reached in 2014 (which provided for salary adjustments of 2.0%, 2.5%, 0%, 0% respectively for each of the years from 2014 through 2017 and which, with other changes, resulted in no net new costs to OPB). In addition, we have provided for stepped merit increases available for bargaining unit employees upon reaching certain milestone anniversary dates. Salary increases are also budgeted for Investment staff. Non-unionized and non-investment employees are planned for an average 2.0% salary increase. A more detailed explanation of the salaries variance of $2,849 is provided in Table 1.1. A breakdown of the 2015 planned staff complement is given in Table 1.2.

There is no substantial change in benefit rates anticipated for 2015. The growth in benefits is due to the increase in the salaries budget.

Staffing costs for the Investments area are expected to increase by 23% primarily due to new hires in the front-, middle- and back-office functions to support the planned growth of more internally managed assets during the course of 2015, as noted earlier. Staffing costs for the Pensions area are expected to increase by 6% primarily due to the grow-in of 2014 hires to replace complement that was displaced as part of our Service Delivery Model implementation. Incentives and benefit costs will increase in proportion to the increase in complement as well as salary levels.

Table 1.1: Salaries variance

Description	Amount
Grow-in of positions hired in 2014	1,275
New positions in Investments, Investment Finance, IT & Administration	1,544
Salary adjustments and incentives	605
Decrease in 2014 accrued salary costs due to change in eligibility criteria for severance	(525)
Other	(50)
Total Variance Explained	2,849

Table 1.2: 2015 Complement changes

Description	Pensions	Invest.	Total
Existing Positions	142.4	30.0	172.4
Previously approved, filled in 2014	5.0	3.0	8.0
Vacant Positions (to remain vacant)	8.6	0.0	8.6
New Complement, to be filled in 2015	0.0	9.0	9.0
Total Year-end Complement	156.0	42.0	198.0

The increase in Investment's complement represents staff for the front-, middle-, and back-office teams**.**

2. Office Operations

Description	2015 Budget			2014 Actual			Change %	
	Pension	Invest.	Total	Pension	Invest.	Total	Pensions	Invest.
Office Rental	2,242	1,559	3,801	2,087	1,559	3,646	7.4%	0%
Office Operations	1,139	915	2,054	1,034	679	1,713	10.2%	34.8%
Total	3,381	2,474	5,855	3,121	2,238	5,359	8.3%	10.5%

The office operations budget includes the cost of OPB's premises and general business support costs. Rent and related charges such as realty taxes and operating utilities represent a significant portion of the budget. Although total budgeted office operations costs represent a 9.3% increase over 2014, this is primarily due to a one-time decrease in the 2014 rental costs related to a property tax refund and increased market research data needs required to support our internal investment activities. The key variances are detailed in Table 2.1 below.

The cost of travel, accommodation, meals, etc., related to attending conferences, participating in registered seminars, and presenting to stakeholders throughout the province is also included in office operations. Prior to incurring such expenses, management has processes in place to ensure the planned expenses comply with the Government's Travel, Meal and Hospitality Expenses Directive.

Table 2.1 Office Operations Variance

Description	Amount
One-time realty taxes refund received in 2014 from previous landlord	148
Increased cost of equipment maintenance and communications	145
Increase in Investments market data services	119
Other	84
Total Variance Explained	496

3. Technology

Description	2015 Budget			2014 Actual			Change %	
	Pension	Invest.	Total	Pension	Invest.	Total	Pensions	Invest.
Base IT Operations	3,663	1,013	4,676	3,114	837	3,950	17.6%	21.0%
IT Projects	1,373	467	1,840	1,418	864	2,281	(3.2%)	(45.9%)
Investment Data & Applications	--	1,028	1,028	--	756	756	--	36.0%
Software	1,103	316	1,419	642	194	837	71.8%	62.9%
Total	6,139	2,824	8,963	5,174	2,651	7,825	18.6%	6.5%

The Technology budget consists of both oversight and maintenance of the current IT systems, investment data and application systems and project costs to implement our Advise & Protect vision.

OPB operates a technology framework, which is maintained through an outsourcing contract. The base contract has increased by 18.4% to accommodate services formerly billed as additional fees, but that are now considered part of base operations. Software and maintenance costs have increased to support the full year costs for certain licenses purchased last year. Based upon an analysis of previous spending for ongoing service requests and maintenance, $1.1 million is now included under base IT operations instead of as part of the IT Projects budget.

Investments operations now have a fully operational application to provide daily performance reporting at the individual security level. The application went live in the middle of 2014 and the 2015 budget reflects the increase to account for a full year of operating expenses related to this application.

IT projects include technological initiatives required to upgrade or build new applications to improve the productivity and efficiency of pension and investments operations. The key investments required include replacing the "end-of-life" telephony system ("Unified Communications"); modernizing the pension administration system ("Employer eServices Portal"), as well as some early-stage planning to assess whether future upgrades will be required for critical pension applications ("Pension System and Process Modernization"); enhancing the Performance & Attribution application for new business requirements; and supporting the increased internalization of investment management. The list of initiatives and related costs is provided 2015 Initiatives Budget on page 27.

4. Professional Services

Description	2015 Budget			2014 Actual			Change %	
	Pension	Invest.	Total	Pension	Invest.	Total	Pensions	Invest.
Actuarial	172	31	203	364	176	539	(52.7%)	(82.4%)
Consulting & Other Services	150	1,793	1,943	327	977	1,305	(54.1%)	83.5%
Legal & Other	196	257	453	241	1,069	1,311	(18.7%)	(76.0%)
Total	518	2,081	2,599	932	2,222	3,155	(44.4%)	(6.4%)

Actuarial costs are expected to decrease in 2015 primarily due to: i) the Asset/Liability Study undertaken in 2014 is not required in 2015; ii) the Long-Term Funding Study completed in 2014 is not required in 2015; and iii) a reduced-scope valuation is all that is expected to be required in 2015, as opposed to the full actuarial study undertaken in 2014.

Consulting & Other Services are budgeted to increase in 2015 primarily due to a full year of costs in 2015 related to the enhanced performance measurement services and new investment data stewarding services provided by our custodian and their related affiliates, versus only a partial year in 2014.

Legal & Other costs are planned to decrease in 2015 as executive search costs incurred in 2014 to hire two new senior executives and to consult on the new long-term incentive plan for investment personnel are not required for 2015. In addition, legal charges are lower as no costs are budgeted for the Government-sponsored asset pooling initiative.

2015 Initiatives

Expenses for initiatives are generally one-time or project-based costs that support a specific objective, or an initiative that is identified as furthering the progress towards fulfilling the Advise & Protect vision, or, to enhance our in-house investment management capabilities. The costs of these initiatives, which may include costs from multiple expense categories, are listed below. The details related to the approved 2015 initiatives have been described throughout this Business Plan. The expenses are the incremental external costs of the initiatives. The internal costs (such as salaries and related benefits of internal staff), while considered in the planning and execution of the projects, are not included as part of the initiatives budget shown below.

2015 Initiatives Budget

(in $thousands)	Operating Expenses
Unmatched Client Service Excellence	
• Unified Communications	500
• Employer E-Services Portal	1,000
• Records Management	150
• Purchasing System	90
Disciplined and Astute Investing	
• Increased Internalization of Investment Management	150
• Enhanced Performance & Attribution Analytics	200
• Assessment of Private Market investment management processes and application	150
Better, Faster, Smarter Business Systems and Processes	
• Pension System and Process Modernization	100
Total Initiatives for 2015	2,340

Appendix I: Strategies and Foundations

To implement OPB's strategic vision, all organizational, departmental and individual objectives align with one or more of the following Strategies and Foundations.

State of the Art Governance – our approach to governance is to ensure that structures and processes are in place to provide appropriate oversight with respect to the strategy of the organization and management of its key risks.

High Performing People – we believe strong leaders facilitate a culture of high performing teams, and that each individual employee contributes to the organization's success. We view programs and initiatives aimed at developing and retaining our internal talent as a crucial investment.

Strategic and Responsible Financial *Management* – this is a fundamental fiduciary responsibility, and essential for maintaining the trust of our stakeholders. We must demonstrate value for money as we invest in programs that improve service to clients and stakeholders, build out support for investment activity, meet legislative requirements, and improve the efficiency, reliability and security of our networks.

Better, Faster, Smarter – OPB looks to automate, and streamline, routine pension administration transactions and certain investment related activities in order to ensure efficiency and to enable the delivery of advisory services at reasonable cost.

Unmatched Client Service Excellence – OPB is committed to providing outstanding service to our clients. This means delivering the pension promise with proactive, knowledgeable, timely and accurate service and support.

Disciplined and Astute Investing – to achieve Plan objectives, OPB has developed a strategic approach with an emphasis on capital preservation. We seek to generate strong, stable, long-term investment returns within acceptable risk parameters.

Outstanding Stakeholder Relations – we believe our role is one of a trusted advisor. This means providing stakeholders with balanced recommendations that reflect our fiduciary duty, our commitment to the long-term sustainability of the Plan, and the Government of Ontario's need for cost constraint.

Educate and Advocate – OPB has a significant role to play in contributing to public discourse, and policy making, on the topic of pension coverage and retirement income adequacy, not just for the benefit of members of the PSPP, but for the benefit of all Canadians.

Appendix II: Key Goals / Objectives for 2015

Description of Key Goals / Objectives	Metric / Measurement
Optimize the implementation of the new Strategic Asset Allocation	Meet interim SAA benchmark targets
Continue to build in-house expertise and asset management capabilities	Evaluate 1-2 public asset classes/mandates and selectively insource if appropriate
Enhance investment risk and analysis function to support ongoing asset management decisions	Integration of new investment risk tools into the investment decision process – specifically, Active Risk and Surplus Risk prototypes developed and implemented
Enhance the performance and attribution function to provide better information on source of performance relative to benchmarks	Implementation of benchmark changes and capability to attribute performance to the following factors: i) currency; ii) manager; iii) sector; and iv) asset mix decisions
Continue to enhance internal control structure to accommodate new asset management activities	No "major" audit issues arising from any internal audits All moderate (and lower level) audit issues are addressed within stated timelines
Upgrade technology – new unified communication infrastructure; adequate business continuity facilities in place; and records management	Prepare a new IT Strategy for 3-5 years Deliver implementation of solutions per agreed project charters
Implement Employer e-Portal	Implementation within budget and timelines
Meet or exceed core Application & Infrastructure service levels while improving IT compliance and productivity	Meet standards set in Service Level Agreements
Manage cyber-security threats	Review OPB's risk appetite and cyber strategy Implement new network architecture Train employees on cyber threats Ongoing assessment of risk via ERM process
Attraction and retention of staff, especially those	Voluntary turnover < 10% for full year

Description of Key Goals / Objectives	Metric / Measurement
positions defined as critical to the organisation	Vacancy rate < 5%, measured quarterly
Continue to manage internal operating expenses[4] judiciously	Budget variance for year within + / - 5%
Continue to maintain strong service delivery standards for clients	Client satisfaction rating of 8.0 or better
Develop business cases for and deliver (if appropriate) IT enabled solutions for: • Procurement process; • Electronic delivery of Board and Committee meeting materials	Completed business cases and IT / process solutions to address the identified opportunities
Develop a multi-year pension administration strategy and associated information technology plan/strategy.	Strategies/Plans presented to, and approved by, OPB Board of Directors.

[4] Operating expenses exclude investment management fees.

Appendix III: 3 Year Projected Expenditures 2015 – 2017

000s	2015	2016	2017
Investment Fees Investment management fees - Public	58,751	58,750	58,750
Custodial fees	5,000	5,000	5,000
Transaction costs	10,286	10,290	10,290
Private Market Costs	800	820	840
Total Investment Fees (A)	74,837	74,860	74,880
Operating Expense Staffing costs	27,615	30,295	31,531
Office Operations	5,855	5,970	6,090
Technology	8,962	9,140	9,320
Professional Services	2,599	2,650	2,700
Depreciation	878	900	920
Communication, Board Remuneration and Audit	991	1,010	1,030
Total Operating Expense (B)	46,900	49,965	51,591
Total Capital Expenditure (C)	492	350	360
GRAND TOTAL (A + B + C)	122,229	125,175	126,831
Projected annual increase percentage		2.4%	1.3%
Planned staff complement	198	203	207

Notes and Assumptions:

1. The 2015 Projection is the 2015 Budget.
2. For 2016 and 2017, an overall 2% increase is assumed for each category, except as noted below.

3. Investment expenses are projected to remain flat in 2016-17.
4. Private market costs (consulting and broken deals) are projected to grow by 2%.
5. Staffing costs – 2% salary increase is provided for in each of 2016 and 2017, additional costs for new complement hires and grow-in of positions for Investments business
6. Investment complement is projected to increase by 9 FTE for the years 2016-17.
   No complement growth in the Pensions area.

Appendix IV: Organizational Chart – Management Level