

Glossary

A/L study: An asset/liability (A/L) study is conducted to determine if our assets will be able to cover our pension liabilities based on up-to-date actuarial and market data and is used to establish a Strategic Asset Allocation (SAA) for the Plan.

Asset class: A group of securities that exhibit similar characteristics.

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

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

Benchmark: A point of reference that is used to compare portfolio performance and risk. The S&P/TSX Composite Index and the FTSE/TMX Universe Bond Index are two benchmarks commonly used to compare Canadian equity portfolio and fixed income portfolio performance and risk. OPB's Strategic Asset Allocation (SAA) is a benchmark against which the overall Plan is assessed from a risk and return perspective.

CEM Benchmarking Inc.: An international pension administration benchmarking company.

Counterparty risk: The risk of a counterparty not fulfilling their contractual financial obligations.

Debenture: A long-term security normally yielding a fixed rate of interest, not secured against assets.

Discount rate: The expected rate of future investment return used to calculate the present value of pensions.

Diversification benefit: The degree of Total Risk reduction resulting from a combination of asset classes behaving differently to each other.

FTSE TMX Universe Bond Index: The FTSE/TMX Universe Bond Index and the S&P/TSX Composite Index are two benchmarks commonly used to compare Canadian equity portfolio and fixed income portfolio performance and risk, respectively. OPB's Strategic Asset Allocation (SAA) is a benchmark against which the overall Plan is assessed from a risk and return perspective.

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

IMCO: Investment Management Corporation of Ontario.

Implementation and Support Agreement

(ISA): The ISA deals with operating and governance matters such as employee transition, shared services, IMCO governance policies, and cost allocation and cost containment principles.

Internalization Program: OPB initiative to selectively bring the management of some public markets assets in-house from external managers.

Investment Management Agreement (IMA):

The IMA governs the investment management relationship between IMCO and OPB, and focuses largely on investment-related matters.

IRR: Internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. IRR calculations rely on the same formula as NPV does. The term internal refers to the fact that its calculation does not incorporate environmental factors (e.g., the interest rate or inflation).

LEED: Leadership in Energy and Environmental Design (LEED) is a program that sets standards used internationally for the design, construction and maintenance of environmentally sustainable buildings and infrastructure.

Passive fixed income: Passive investing is an investment strategy that aims to mimic the returns of a specific index. This type of strategy is generally low cost.

Pension modernization: A program we are initiating to re-engineer our business processes and review and upgrade our pension administration system to allow us to meet the evolving needs of our clients and stakeholders, and ensure our technology remains current and secure.

PSPP: The Public Service Pension Plan.

Put options: A derivatives option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security (the security on which the derivative derives its value) at a specified price within a specified time.

Renminbi: General term for the currency of the People’s Republic of China (PRC). The renminbi (or yuan) is made up of 10 jiao and 100 fen and is often either abbreviated as RMB or presented with the symbol ¥. Renminbi is issued by the People’s Bank of China, which is controlled by the PRC.

Responsible Investing (RI): The integration of environmental, social and governance (ESG) factors into the investment decision-making process, which supports long-term investment performance.

Reward to Risk ratio: A measure of risk-adjusted performance used to compare the expected returns of an investment to the amount of risk undertaken to capture these returns.

Risk-adjusted return: A measurement used to analyze an investment's return based on how much risk is involved in producing that return. Risk-adjusted returns can be used to compare the return of a portfolio against a benchmark with a known return and risk profile.

Strategic Asset Allocation (SAA): A long-term strategy that involves setting target allocations of asset mix with the purpose of achieving highest returns on investment to meet current and projected future pension benefits given the Plan's risk tolerance and investment horizon.

Total Risk: The volatility or fluctuations of portfolio returns over a defined period of time.

WELL certification: WELL Building Standard™ (WELL) is a performance-based system for measuring, certifying and monitoring features of buildings that impact the health and well-being of the people who live, work and learn in them.

WSIB: Workplace Safety and Insurance Board, a crown agency of the Government of Ontario.

Yield to maturity (YTM): Total return anticipated on a bond if the bond is held until the end of its lifetime. Yield to maturity is considered a long-term bond yield, but is expressed as an annual rate.