Management's discussion & analysis

INTRODUCTION

The Government of Ontario created OPB in 1990 to manage the pension administration and investment management functions of the Plan. At that time, the Plan had a $2.5 billion deficit. Projections at the time predicted that the Plan would have a $3.5 billion deficit in 2014. OPB's performance has exceeded all expectations: the Public Service Pension Plan (PSPP) is now more than 98% funded (on a going-concern basis), benefit levels have been maintained and contribution rates remain stable and affordable; we've built a strong Investments team and a governance framework based on best practices. The PSPP demonstrates that a defined benefit plan can be both sustainable and affordable when managed properly.

OPB has had to navigate through financial market volatility, economic turbulence, shifting demographics, evolving government policies, cost constraints, and criticism of the defined benefit (DB) model. To overcome these challenges and succeed, we had to Think Forward.

Our Think Forward approach paid off in 2014. We generated a strong 8.4% investment return, improved the Plan's funded status, and moved forward with several key initiatives that will keep us adaptable to a changing environment and protect the long-term sustainability of the Plan. Specifically, we:

- completed a long-term funding study to determine whether the funds flowing into the Plan are sufficient to meet the pension promise over the long term;
- adjusted our Strategic Asset Allocation (SAA) to place greater emphasis on Private Markets investments (which provide a better match for our long-term cash-flow needs);
- refined our Tactical Asset Allocation (TAA) process, broadening and deepening the scope of strategy and asset classes;
- conducted an analysis of our hedging policy for foreign currency exposures and laid the groundwork to actively manage foreign currency;
- actively promoted the socio-economic value of the DB model and demonstrated – by way of example – that DB plans are sustainable when managed well;
- continued to work with the Government of Ontario and the Workplace Safety and Insurance Board to lay the groundwork for asset pooling – a move that will open the door to new investment opportunities and help generate incremental returns;
- launched our new Advisory Services program – a unique program that provides members and retirees with the financial analysis they need to make informed pension decisions at critical times;
- implemented and enhanced our information technology systems to help ensure our Investments team has the information they need to make informed investment decisions and can better manage investment risk;
- moved forward with initiatives to strengthen OPB's enterprise, operational and investment risk management; and
- managed expenses strategically and responsibly so that we continue to meet and, ideally, exceed government expectations for fiscal restraint.

This section of the report expands on these and other important initiatives from 2014.

FUNDING

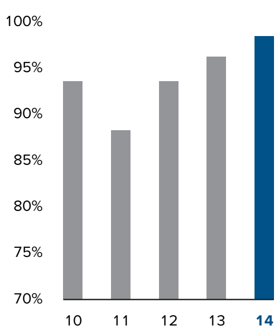
Solid investment returns had a positive impact on the funded position of the Plan in 2014. The Plan is more than 98% funded (on a going-concern basis) at year-end 2014 – up from 96% at year-end 2013.

In addition to favourable investment returns, our improved funded position can be attributed to lower-than-expected salary increases in the public sector and lower-than-expected inflation rates.

OPB continues to manage Plan sustainability with care and prudence. To this end, OPB completed both an experience study and a long-term funding study in 2014. The two studies are important tools for managing funding, as summarized below.

- *Experience study* – determines whether the assumptions used to value the Plan's liabilities are consistent with the Plan's actual experience. These studies are conducted every three to five years. The assumptions used to value the Plan (e.g., what the Plan's investment return will be, the age at which members will retire, and how long members will collect a pension) are adjusted as necessary to ensure we have an accurate picture of the Plan's liabilities – as they are today and as they are likely to evolve over time. In anticipation of longer life expectancies (as indicated by the Canadian Institute of Actuaries), we have built more caution into the Plan's mortality assumption in 2013. While this action strengthened our reserves, it added $1.1 billion to the Plan's liabilities. We also lowered our salary increase assumption to reflect lower salary increases in the public sector.
- *Long-term funding study* – determines whether the funds flowing into the Plan (i.e., contributions together with investment income) are sufficient to meet the pension promise in the years ahead. Based on the long-term funding study completed in 2014 and input from the experience study also completed in 2014, there is no immediate need to increase contribution rates. Long-term funding studies are typically completed every three to five years. However, we expect to conduct our next study in 2016 in conjunction with our next triennial funding valuation of the Plan. If adjustments to contribution rates are necessary at that time, OPB will make recommendations to the Plan Sponsor (the Government of Ontario), as we did in 2008.

Funded status



Funding

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Filed our 2013 funding basis valuation	A funding basis 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 are consistent 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 funds flowing into the Plan (i.e., contributions together with investment income) are sufficient to meet the pension promise over the long term. Based on the study's results, there is no need to increase contribution rates for this funding cycle.

MANAGING FUNDING

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

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

At OPB, we pride ourselves on paying close attention to the liability side of the pension equation. Our focus on liabilities, not just assets, has been a key factor in our ongoing success. Despite ongoing economic and financial market challenges, we've been able to progress along the path to full funding while keeping benefit levels and contribution rates relatively stable.

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

1. OPB and its stakeholders have, together, made informed and responsible decisions about Plan design.
2. OPB has done a good job of setting prudent and realistic demographic and economic assumptions, which are used to cost the Plan's pension obligations.

FINANCIAL POSITION

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

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

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

Financial position

VALUATION TYPE	PURPOSE AND DESCRIPTION
Funding basis valuation	Pension plans are legally required to file a funding valuation with FSCO at least once every three years. OPB filed its 2013 valuation. This valuation indicated that the Plan was 96% funded and had a shortfall of $804 million. That compares to 94% funded with a shortfall of $1.2 billion at December 31, 2010 (the previous valuation filed with pension regulators). Although not required by law to conduct a funding valuation again until December 31, 2016, OPB conducts interim valuations to ensure funding levels are tracking as expected. Based on our 2014 returns and interim data available as of December 31, 2014, the Plan is more than 98% funded. So the Plan's funding position remains strong and is continuing to improve.
Accounting basis valuation	For the purposes of the accounting basis valuation, the Plan's liabilities were calculated as of December 31, 2013, the date of the last funding valuation, and extrapolated to December 31, 2014. The extrapolated numbers are based on the assumption that the Plan's 2014 experience (for factors such as inflation, salary increases, retirement ages, and termination and mortality rates) match the Plan's actuarial assumptions. The extrapolation reflects indexing adjustments made to pensions as of January 1, 2014. For financial reporting purposes, we have calculated the Plan's 2014 year-end financial position by comparing the extrapolated liability with the actual market value of assets as of December 31, 2014. Based on the accounting basis valuation as of December 31, 2014, the Plan had a deficit of $332 million (see Note 7 "Deficit" on page 51), compared to $979 million at year-end 2013. This year-over-year improvement is attributable largely to the net impact of favourable investment returns.

DISCIPLINED AND ASTUTE INVESTING

Investment excellence continues to be a top priority for OPB. We have a strategic and comparatively conservative approach to investing that is shaped by two key objectives:

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

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

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

During 2014, our Investments team focused on four key areas:

1. adjusting our Strategic Asset Allocation (SAA) to place more emphasis on private markets;
2. building out our Tactical Asset Allocation (TAA) strategy;
3. enhancing our investment information technology systems; and
4. enhancing our investment risk management.

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

Strategic Asset Allocation (SAA)

OPB's SAA was adjusted in late 2011 to broaden OPB's Private Markets investment mandate and set new asset mix targets. The 2011 SAA, using a planned five-year phase-in period, was designed to help the Plan better meet long-term funding objectives and more effectively manage investment risk. Since this change, the SAA has led to greater portfolio diversification and reduced performance volatility.

OPB reviewed its SAA in 2014 as part of the triennial asset/liability study. The study looked at OPB's investment strategy and whether the Plan's assets "match" its liability profile. Based on the study's results, we revised our SAA asset mix targets. The revised targets call for a shift of assets from:

- public to private markets; and
- universe bonds to long bonds.

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 private equity investments are expected to enhance long-term returns. Long bonds provide a better match with the Plan's long-term cash-flow needs than shorter-duration universe bonds.

The new asset mix target for private markets assets will rise to 38% from 33%, while the benchmark for bonds will change from 18% universe bonds to 17% long bonds. The change in SAA will be phased in over five years, giving us time to source quality investment opportunities in a competitive and pricey market.

SAA asset mix targets

Asset Categories	Target SAA[1] 2014	Target SAA 2011
Cash and Equivalents	**3.0%**	2.0%
Universe Bonds	**0.0%**	18.0%
Long Bonds	**17.0%**	0.0%
Real Return Bonds	**5.0%**	5.0%
Canadian Equities	**7.5%**	10.0%
Foreign Developed Equities	**15.5%**	17.0%
Emerging Equities	**14.0%**	15.0%
Real Estate	**23.0%**	25.0%
Infrastructure	**10.0%**	5.0%
Private Equity	**5.0%**	3.0%
Total Investments	**100.0%**	100.0%

[1] The 2014 SAA targets are the ultimate targets and will be phased in over a five-year period.

During 2014, OPB continued to explore and invest in new global opportunities that offer value-added returns. While frontier markets offer the potential for higher long-term returns than emerging markets, we've concluded that emerging small cap markets remain the better option (for now) due to higher risk related to illiquidity associated with frontier markets.

As we move forward with our search for global opportunities, OPB will continue to do its due diligence and take measured, smart risks. We will consider what role an investment can play in our portfolio (from both a risk and return perspective) and whether it complements our existing holdings.

Tactical Asset Allocation (TAA)

OPB continued to move forward with its TAA strategy in 2014. TAA is used to enhance returns by taking advantage of perceived market anomalies at various points in the market cycle. It's also used to hedge our exposure to certain assets within our SAA, making it an efficient and effective tool for preserving capital in volatile markets.

In 2014, we added two additional members to our TAA team. We also continued to refine our TAA strategy and build out our TAA model suite. Our TAA team also completed an analysis of OPB's static 50% currency hedging policy. Based on that analysis, we adjusted our approach to pave the way for us to actively manage foreign currency for equities in developed countries – a move that we expect will generate value-added returns.

Investment information applications

To help drive and support investment activities, OPB has made a significant investment in information technology systems in recent years. This includes the addition or enhancement of three key systems that provide the ability to collect, store, filter, process, create, manage and distribute data. We use this data for:

- performance measurement;
- attribution, which identifies key drivers of investment performance;
- trade capture and portfolio management;
- tracking private markets deals;
- managing key documents; and
- supporting internal management of equities, fixed income, currency and derivatives.

These infrastructure improvements ensure we have the information needed to make informed investment decisions and better manage investment risk. They also enhance our ability to transact and actively manage our asset mix.

Investment

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
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 better match the Plan's liability profile. Targets were adjusted to place more emphasis on Private Markets investments and long-term bonds.
Advanced our Tactical Asset Allocation (TAA) strategy	We refined our TAA process, broadening and deepening the scope of strategy and asset classes.
Completed analysis of currency hedging policy	OPB completed an analysis of its static currency hedging policy. Based on that analysis, we will be moving to active management of foreign currency in 2015 – a move expected to generate value-added returns.
Added approximately $1 billion in assets to our Private Markets portfolio	Real assets help insulate the Plan from public market 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 and is, as such, a good match for the Plan's pension liabilities.
Invested in two more Manhattan office towers	Real estate assets provide better cash-flow generation and more stable returns than equity market assets. These New York properties also helped broaden 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. Private equity is less liquid, but generally provides higher returns than public equity over the long term. As an investor with a long-term timeline, we can use time to our advantage to generate value-added returns.
Conducted a review of our fixed income strategy	The review was prompted by two factors: a maturing cycle for corporate bonds and the maturation of our last government-issued Special Debenture. Based on the review, we took a number of steps to refocus our Fixed Income portfolio.
Continued to invest in information technology (IT)	This investment is needed to ensure our IT systems keep pace with the increased complexity of OPB's investment mandate. New and enhanced systems provide OPB with access to accurate, timely and actionable information needed to make informed investment decisions and generate value-added returns.

ASSET MIX

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

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

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

Asset mix

As at December 31, 2014

INVESTMENT PERFORMANCE

Investment excellence continues to be a top priority for OPB. We achieved strong returns in 2014 for the third year running, despite the return of market volatility in the latter part of the year. Our overall return for 2014 was 8.4%. While this figure fell short of our portfolio benchmark (9.4%), it exceeded the Plan's discount rate by 2.4%.

On the positive side, an overweight position in public equities and strong results from our Infrastructure and Private Equity portfolios combined to bolster returns. On the other hand, while OPB's Fixed Income portfolio had strong absolute performance, the Plan's investments in short-term bonds underperformed relative to the benchmark, which is based on longer-term bonds. Also, the Plan has an internal investment policy of hedging a fixed portion of foreign currency exposures; as a result, our foreign asset returns did not get full benefit from the increase in the value of the foreign currencies (such as the U.S. dollar and G.B. pound).

As a pension plan, we need to maintain a long-term focus. After all, a young member earning a pension today could still be collecting that pension 50 or even 60 years from now. So, while annual returns are important, the true test for a pension plan is the long-term rate of return. Based on a rolling four-year average, our returns are ahead of the portfolio benchmark by 76 basis points. More importantly, the Plan's average annual rate of return since OPB's inception in 1990 is 8.6% – well ahead of the discount rate (the assumed interest rate used to calculate in today's dollars the value of the Plan's future liabilities).

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

Interest-bearing investments

Interest-bearing investments give the Plan a stable source of cash flow. They also help preserve capital in times of market volatility. As of December 31, 2014, interest-bearing investments accounted for 32.3% of the Plan's net assets and included:

- **Cash and short-term investments** – Cash and short-term holdings (including pending trades and currency forwards) at year-end 2014 stood at $861 million (3.9% of net investments), down from $1.7 billion (8.0% of net investments) at year-end 2013. A large portion of cash and short-term holdings is used to back the notional amount of derivative equity positions.
- **Marketable and non-marketable fixed income products** – The Plan's Canadian bond portfolio provided a solid return of 9.1% in 2014, ending the year valued at $5.5 billion. That compares to a 1.8% return in 2013 when the year-end value was $4.8 billion. The international Fixed Income portfolio returned 9.8% in 2014, compared with 7.6% in 2013. The year-end value of the portfolio was $778.7 million, up from $766.8 million a year earlier.

Heading into 2014, the Plan held $374.5 million in Special Debentures. These were the last of $6.94 billion in debentures issued to the Plan by the Government of Ontario as an initial funding mechanism when the PSPP was established as a separately funded plan in 1990. Over the years, these debentures provided an important source of cash flow. The last of the Special Debentures matured in September 2014.

Faced with the maturation of its remaining Special Debentures and a maturing cycle for corporate bonds, OPB conducted a review of its fixed income strategy in 2014. Based on that review, we:

- developed a plan for the eventual reduction of our exposure to corporate bonds;
- laid the groundwork for the geographic diversification of our corporate bond exposure, which currently is predominantly Canadian;
- began transitioning from universe to long bonds, which provide a better match for the Plan's long-term cash flow needs;
- explored how and when we might expand our credit mandate globally, especially to Europe; and
- researched the opportunities and risks associated with investing in Chinese renminbi bonds (bonds denominated in China's official currency).

While we've determined that now is not the time to expand our credit mandate globally, we've completed our research and will be ready to execute when the timing is right.

Investing in renminbi bonds would provide an opportunity to leverage our experience in the Chinese market. OPB has its China Qualified Foreign Institutional Investor (QFII) licence and has been granted a QFII quota of US$150 million to invest in China A-Shares (shares in mainland China-based companies that trade on Chinese stock exchanges).

Public Equities

OPB adjusted its Strategic Asset Allocation in 2014, placing less emphasis on Public Equities in favour of Private Markets. Our new asset mix target for Public Equities is now 37%, down from 42%. The shift of assets will be phased in over five years as appropriate private markets investments are made.

Research into investment opportunities in frontier markets – initiated in 2013 and continued in 2014 – concluded that emerging small cap markets continue to provide the best option, at least for now. This is due to risk and liquidity concerns associated with frontier markets.

Equity markets in Canada and the U.S. had a strong first half in 2014; however, a return to market volatility in the second half of the year undercut some of the gains made by Canadian markets. Emerging and European markets trailed North American markets, although emerging markets still performed reasonably well.

The Plan's U.S. equity portfolio reported its third consecutive year of double-digit returns – returning 23.7% for the year. That compares to 42.3% in 2013. The year-end market value of the portfolio was $2.7 billion, compared to $2.9 billion at year-end 2013 (all returns stated in Canadian dollar terms).

By comparison, the Plan's Canadian equity portfolio generated a return of 8.7% in 2014. That compares to 18.0% in 2013. At year-end 2014, the market value of the portfolio was $2.1 billion, up from $1.6 billion at year-end 2013.

The Plan's global equity portfolio returned 7.5% in 2014, compared to 14.8% in 2013. The market value of the portfolio as of December 31, 2014 was $5.7 billion, up from $5.3 billion at year-end 2013.

Private Markets investments

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 private equity investments are expected to enhance long-term returns. Our strategy for Private Markets is to acquire first-class real estate properties, core infrastructure assets and private equity assets through a combination of direct investment, fund investments and co-investments.

OPB added approximately $1 billion to its Private Markets portfolio in 2014. This significant increase reflects a change in the asset mix targets set by our SAA. The target for Private Markets assets was increased by five percentage points to 38%. This increase will be phased in over five years to give us time to source quality investment opportunities in a competitive and pricey market.

As of December 31, 2014, Private Markets investments accounted for 20.4% of OPB's net assets, up from 17.0% at year-end 2013. Overall, the Plan's Private Markets investments returned 6.3% in 2014, compared to 11.9% in 2013. The market value of these investments as of December 31, 2014 was $4.5 billion, up from $3.6 billion at year-end 2013.

Our Private Markets portfolio has a winning track record – posting positive returns from day one. The portfolio's success can be attributed to several factors:

- our disciplined approach to investing;
- our success in avoiding the J-curve effect (the historical tendency of certain assets to produce negative returns in their early years followed by stronger returns as the investment matures) by investing in existing Private Markets portfolios, including operating assets and secondary investments;
- strong relationships with partners who continue to provide us with access to top-quality investment opportunities; and
- our ability to negotiate the best possible investment management fees.

There is currently intense competition for good-quality private markets assets. To overcome this challenge, we are increasing our buying power and improving our access to prime investment opportunities by forging new partnerships with like-minded investors.

During 2014, OPB developed long-term sustainability plans for all of its Private Markets asset classes. As part of this process, we developed pacing models for each asset class. These models help us to: i) manage future liquidity needs and the diversification of investments across vintage years (the year in which an investor makes its first investment in a portfolio company or, for a fund investment, the year in which the fund makes its first of several investments); and ii) achieve our Strategic Asset Allocation (SAA) targets.

The following is a more detailed breakdown of Private Markets assets by asset class:

Real Estate – OPB's Real Estate portfolio is made up of:

- direct and indirect holdings in quality Canadian properties that carry little or no debt;
- direct and indirect holdings in international real estate; and
- a modest investment in participating mortgages.

Real Estate assets provide strong cash-flow generation, more stable returns than equity market assets, and (particularly in the case of retail centres) a hedge against inflation – which makes them a good match for the Plan's long-term pension liabilities. Our allocation for Real Estate as of December 31, 2014 stood at 16.5%. The portfolio had a year-end value of $3.4 billion, compared to $2.9 billion in 2013.

The portfolio's overall return for the year was 5.0%, compared to 12.9% in 2013. Since 1994, when OPB made its initial investment in real estate, the portfolio has generated an average annual return of 10.5%. The Real Estate portfolio return is measured net of privately issued bonds guaranteed by OPB of $750 million (par value) and any property-specific mortgages. The objectives of the Plan's financing strategy are: i) improving returns on OPB's rental property portfolio; ii) improving the funded status of the Plan over the longer term; and iii) creating a partial hedge against a decline in the market value of the Plan's rental properties arising from higher interest rates in the future.

During 2014, OPB invested in two more Manhattan office towers – one on Broadway and one on Fifth Avenue. OPB is now co-owner of seven office buildings in Manhattan. The latest properties, purchased in partnership with a New York-based developer, help broaden the geographic and sector diversity of our Real Estate portfolio.

The major portion of our Real Estate holdings consist of properties located in Canada – primarily in the retail sector. As of December 31, 2014, our Canadian holdings included more than 8.4 million square feet of retail space and 1.8 million square feet of office space. A full list of our Canadian real estate holdings can be found on page 58.

In addition to our investment in Manhattan office space, our international Real Estate holdings include interests in several properties under construction in London and Paris.

Private Debt/P3 (Public-Private Partnerships)[1] – Private Debt assets consist mostly of high-quality, investment-grade, income-bearing fixed income products of various maturities that are unavailable in the public market. These investments typically offer higher yields than public bonds and, with appropriate issuer collateral and financial covenants, can reduce investment risk.

The low interest rate environment continued to present challenges for Private Debt in 2014; however, a 2013 decision to focus on shorter-duration debt investments allowed us to take advantage of new opportunities offering higher returns.

Overall, the portfolio returned 6.5% in 2014 and had a year-end value of $421.3 million. That compares to a return of 2.3% and a year-end value of $438.7 million in 2013.

[1] Although the Private Debt/P3 (Public-Private Partnerships) portfolio falls within the Fixed Income allocation, investing in and managing Private Debt investments is the responsibility of the Private Markets Investments team.

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

In 2014, OPB made a significant investment in Anglian Water, one of the largest regulated water and sewerage treatment facilities in the U.K. This is a long-term investment and a solid addition to our Infrastructure portfolio. The facility generates good cash flow and, as such, is a good match for the Plan's pension liabilities.

We also took an ownership interest in six core infrastructure assets in the U.K., Germany and Spain. These investments encompass several industry sectors, including airports, rail (rolling stock), electricity transmission, water, and pipeline and storage networks for refined oil products.

Our Infrastructure portfolio returned 9.8% in 2014, compared to 12.0% in 2013. The portfolio had a year-end value of $754.6 million, compared to $527.1 million in 2013.

Private Equity – Private Equity consists of equity securities not publicly traded on a stock exchange. Private Equity tends to be illiquid and returns are generated principally from capital appreciation over the mid- to long term. Because of the added liquidity risk, returns for Private Equity are typically higher than expected from Public Equities. As an investor with a long-term timeline, we can use time to our advantage to generate higher returns.

OPB's first investment in Private Equity was made in early 2012. Because our initial focus was on more mature investments, we quickly achieved vintage year diversification. As a result, the portfolio began receiving distributions (in the form of income and capital gains) almost immediately.

Going into 2014, OPB's Private Equity commitment was limited to holdings in three private equity funds. Two additional funds were added during the year, including a Silicon Valley-based venture capital fund – our first venture capital investment. We also made direct investments in three private companies, including a provider of business information, a global manufacturer of packaging products, and a manufacturer/marketer of branded cosmetic and bath accessory products.

As of December 31, 2014, OPB had remaining unfunded commitments of $345 million to Private Equity, up from $145 million at December 31, 2013. The portfolio returned 25.4% in 2014, compared to 17.8% in 2013, and had a year-end value of $359.8 million (compared to $108.3 million in 2013).

INVESTMENT OUTLOOK

We expect challenging investment markets. Economic growth in the developed world is improving, but with the possible exception of the U.S. and the U.K., growth is expected to remain below long-term historical levels. China's economy, for example, could slow even further in 2015 after reporting its weakest growth in nearly a quarter of a century in 2014.

While we expect equity markets to gain ground in 2015, we do not expect advances to be as striking or as steady as in recent years. The return to market volatility we saw in the latter half of 2014 is expected to spill over into 2015. In addition, the steep decline in crude oil prices experienced since June 2014 will likely have an impact on both Canadian and global economic growth.

Other risk factors that could influence investment returns are:

- valuation concerns for risk assets, such as credit and equities;
- historically low interest rates;
- the low Canadian dollar; and
- continuing geopolitical uncertainty.

While these factors may pose investment challenges, they are also expected to create new investment opportunities. Going forward, OPB will continue to implement investment strategies that navigate market volatility, avoid unnecessary risk, and generate the incremental returns needed to protect the long-term sustainability of the Plan. In 2015, for example, we will:

- enhance and expand our in-house TAA capability;
- continue to evaluate and selectively in-source components of our Public Markets portfolio; and
- build out our front-, middle-, and back-office expertise and enhance our infrastructure (systems, tools, software) to support the Plan's increasingly sophisticated investment mandate.

RETURN ON INVESTMENTS AND BENCHMARKS

OPB has adopted a Statement of Investment Policies and Procedures (SIP&P) which defines:

- the Plan's investment objectives, guidelines and benchmarks;
- permitted categories for investments;
- asset mix targets; and
- rate of return expectations.

The SIP&P is reviewed annually and was last amended December 16, 2014.

The Plan's expected average rate of return, as set out in the SIP&P, is a minimum of 5.95% per year (3.85% net of inflation of 2.10%). This figure is equal to the Plan's discount rate (the assumed interest rate used to calculate in today's dollars the value of the Plan's future liabilities).

OPB's total annual rate of return is measured against a composite index, referred to as the Total Benchmark. The Total Benchmark takes the weighted average of the benchmark returns for each of the different investment categories, using the target allocations of the SIP&P to determine the weightings. The Plan's relative rate of return expectation for the year is set to equal or exceed the Total Benchmark (net of fees). The Plan's rate of investment return for 2014 was 8.4%; the Total Benchmark return for the year was 9.4%.

Annual rate of investment return

		Annual Rate of Investment Return (%)			
		Benchmark		Actual[1]	
Asset Categories	Benchmark	**2014**	2013	**2014**	2013
Cash and Equivalents	FTSE TMX 91 Day T-Bill	**0.9%**	1.0%	**3.1%**	1.4%
Fixed Income	FTSE TMX Bond Universe	**8.8%**	-1.2%	**9.6%**	1.8%
Real Return Bonds	FTSE TMX RRB	**13.2%**	-12.5%	**0.0%**	0.0%
Canadian Equities	S&P/TSX Composite Index	**10.6%**	13.0%	**8.7%**	18.0%
Foreign Developed Equities	MSCI World (C$)	**15.0%**	35.9%	**13.1%**	37.0%
Emerging Equities	MSCI Emerging Equity Index (C$)	**7.0%**	4.3%	**13.1%**	5.0%
Real Estate	Custom Real Estate Benchmark	**6.9%**	8.1%	**5.0%**	12.9%
Infrastructure	Custom Infrastructure Benchmark	**8.3%**	4.9%	**9.8%**	12.0%
Private Equity	Custom Private Equity Benchmark	**21.5%**	30.2%	**25.4%**	17.8%
Total Investments	Composite Index	**9.4%**	9.3%	**8.4%**	12.5%

[1] Actual returns shown are gross of fees, except for real estate, infrastructure and private equity returns which are shown net of fees.

RESPONSIBLE INVESTING (RI) BELIEFS

The overriding objectives of the Fund are two-fold: (1) to provide security for the promised benefits within an acceptable level of risk, and (2) to allow for stable and reasonable contribution rates. OPB's RI philosophy is driven by two key factors: (i) that the initiatives are in line with OPB's investment objectives; and (ii) that the initiatives are resource-efficient (in terms of both time and money). The combination of OPB's investment objectives and RI beliefs translates to the following RI approach:

i. supporting collaborative initiatives that aim to further corporate governance issues (e.g., improving corporate disclosures);

ii. adopting a pragmatic approach to integrating environmental, social and governance (ESG) considerations into the investment decision process led by both internal and external investment managers (both Public and Private Investments); and

iii. utilizing proxy voting as a tool to engage corporations to focus on ESG issues and advocate for transparency and disclosure standards.

SERVICE EXCELLENCE

Service excellence has long been a priority for OPB. In late 2014, OPB formally launched Advisory Services – a unique approach to pension client service aimed at providing members and retirees with value-added information. The new program is designed to help protect the interest of clients by giving them the financial analysis to support them in making informed pension decisions at critical times. The program stems from our belief that members (active and retired) need to understand how the decisions they make about their pension fit within their broader financial circumstances and retirement plans.

The transition to Advisory Services was a multi-year initiative that required:

- the introduction of a new service delivery model;
- retraining and redeployment of employees; and
- the development of supporting technology.

The organizational framework for Advisory Services was unveiled in 2013 with the launch of a new service delivery model that put in place the processes required to address more complex advisory issues and to handle daily transactions more efficiently.

A small but capable team of employees within the organization were trained in the new role of Client Services Advisor. These individuals were given the opportunity to expand their knowledge base to include retirement, tax and estate planning. The result: we now have four employees who are Registered Retirement Consultants® (RRCs). More are expected to obtain this designation in 2015. These Advisors are continuing their studies and by the end of 2016, we expect to have nine staff with the Certified Financial Planner® designation.

An existing suite of e-services was enhanced in 2014 to support the launch of our Advisory Services program. Enhancements included:

- expanded access to include a broader population of members;
- added a feature that enables members to book a one-on-one advisory session; and
- created a secure area for sharing personalized advisory information packages with members.

To the best of our knowledge, OPB is the only defined benefit pension plan in Canada to offer its clients full advisory services. That's a significant accomplishment – one that we are proud of. We are also developing a digital strategy that will help maximize efficiency and give clients more of the personalized information they need. The pace at which we're able to implement this new strategy will depend on the state of our technology infrastructure. OPB will be investing in technology over the next few years as we replace certain systems that are now end-of-life.

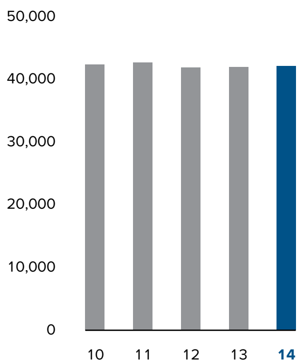
In the meantime, OPB continues to conduct one-on-one and group sessions with clients. During 2014, we conducted more than 2,350 member education sessions. Sessions are designed to help ensure members understand the value of the Plan and how it fits within their broader retirement plans.

Overall, OPB continues to score well for service excellence, according to CEM Benchmarking Inc. (a leading pension administration benchmarking firm). In 2012, OPB was ranked third in the world among pension plans that CEM monitors for administration service levels. While our scores dipped in 2013 – not unexpected for a plan undergoing significant organizational change – we fully expect our scores to return to, if not exceed, previous levels in the future.

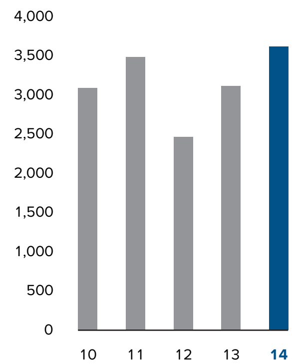
Service

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Carried out a targeted launch of OPB's new Advisory Services program	Advisory Services is a unique, cutting-edge program designed to protect the interests of members and retired members by giving them the financial analysis they need to fully 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.
Laid the groundwork for a new digital strategy	Once completed, the new strategy will identify the best way to use technology to maximize efficiency and to engage and serve clients and stakeholders going forward.
Continued to conduct one-on-one and group education sessions	Sessions ensure members have the information they need – when they need it – to make informed pension decisions.

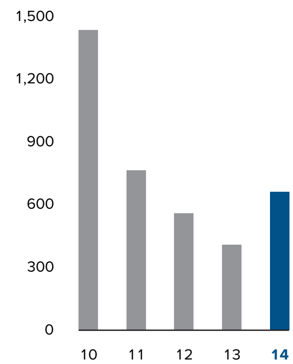
Number of active members



Enrolments



Buybacks completed



PROACTIVE ADVOCACY

At OPB, we believe that a well-designed, well-run DB plan is the best option for delivering efficient, affordable and sustainable retirement income. DB plans provide members with a secure retirement income. They also play an important role in stimulating our economy by:

- supplying retirees with disposable income that is pumped back into the economy; and
- providing an important source of investment capital.

This is why OPB continues to promote the socio-economic value of the DB model, with an eye to ensuring that policy-makers and thought leaders understand its many advantages. As part of that effort, we made a submission to the government supporting shared risk plans. It is our belief that shared risk plans, which retain the best features of the DB model and divide the risk of unfunded liabilities between members and plan sponsors, are a sustainable option that could be used to make meaningful pension coverage accessible to all Canadians.

We also continued to work with the Government of Ontario and the Workplace Safety and Insurance Board to lay the groundwork for asset pooling. In its 2012 Budget, the Government of Ontario announced its interest in pooling the assets of smaller public sector plans with the goal of generating economies of scale and improved investment performance.

There is a strong business case to be made for asset pooling. Creating a larger investment pool will bring together world-class investment talent and open the door to a broader range of investment opportunities. More specifically, we believe it will boost our annual returns by 25 basis points, generating an additional $2 billion in Plan revenue over the next 15 years.

Advocacy

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Continued to promote the DB pension model	We believe DB plans are the best option for providing retirement security and adequacy. With that in mind, we continued to publicly promote the value of the DB model – ensuring that decision-makers and thought leaders understand the model's many advantages.
Made a submission to government supporting shared risk plans	Shared risk plans, which retain the best features of the DB model and divide the risk of unfunded liabilities between members and plan sponsors, are a sustainable option that could be used to make meaningful pension coverage accessible to all Canadians.
Continued to lay the groundwork for asset pooling	Asset pooling will enable OPB to support world-class investment talent and open the door to broader investment opportunities – with the expected results of higher incremental investment returns that support the long-term sustainability of the Plan.

OUTSTANDING STAKEHOLDER RELATIONS

OPB has a "shared governance" model. Over the years, OPB has made it a point of pride to deliver balanced information that reflects our commitment to the Plan and the needs of stakeholders. It's an open, collaborative approach that has earned us the dual role of trusted advisor to the Plan Sponsor and honest broker for the bargaining agents that represent members.

To maintain and bolster stakeholder relations going forward, OPB moved ahead with several initiatives in 2014. For example, we:

- met with stakeholder groups to explain and discuss the funding policy for the PSPP that was approved by the Plan Sponsor in 2013;
- continued to work closely with the Government of Ontario to ensure politicians and senior civil servants fully understand evolving pension issues;
- held regular and ongoing discussions with bargaining agent groups – keeping them informed about the health of the Plan and emerging trends and issues;
- delivered 120 presentations to Plan members across Ontario, providing them with information about the value of their pension and counsel around key decision points;
- participated in the Government of Ontario Chief Administrative Officer forum; and
- presented at the Annual General Meetings (AGMs) of bargaining agents.

We are proud of the relationships we have built with stakeholders. We will continue to have ongoing, open dialogue with all Plan stakeholders to create strong, supportive relationships based on trust and integrity.

Stakeholder relations

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Continued to build a strong working relationship with the Plan Sponsor	The Plan Sponsor is responsible for major decisions governing the Plan. We believe a strong working relationship will earn us a place at the table during future discussions around Plan design and funding.
Met with stakeholder groups to share and discuss the Plan's funding policy	A funding policy was approved for the PSPP by the Plan Sponsor in 2013. The policy guides decisions around Plan valuation, funding and design. The adoption of a funding policy is considered an important element of good governance for DB pension plans.

STRATEGIC AND RESPONSIBLE FINANCIAL MANAGEMENT

Cost constraint continued to be a leading priority for OPB. We are mindful of the financial pressures facing the Government of Ontario and understand the need for fiscal responsibility and operational efficiency.

While OPB's operational expense ratio (investments and pension administration expenses) has been stable at approximately 0.50% to 0.53%, expenses in absolute dollar terms have been rising. This is primarily a result of two factors:

- increased external investment fees due to growth in the Plan's assets over the last six years (from $14.6 billion in 2008 to more than $22 billion in 2014). This is actually a positive result as the appreciation in asset values improves the funded status of the Plan; and
- increasing the internal asset management capabilities for private markets investments. Internal management of private markets investments is more cost-effective and we believe we can generate better returns and manage risk more effectively through internal management.

Financial management

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Continued to make cost constraint a priority	OPB is committed to curbing expenses, where possible. During 2014, we deferred some initiatives, delayed hiring for some positions, leveraged efficiencies gained through enhancements to online services, and continued to negotiate competitive contracts with service providers.

Costs

For accounting purposes, Plan costs are broken down into two key categories:

- **Investment management costs**, comprising:
  - **Investment fees** – This primarily includes fees paid to external fund managers, as well as transaction costs, and custodial fees associated with managing and investing the Plan's assets. These costs are deducted from total investment income; and
  - **Investment operating expenses** – These are the costs associated with the operation of the investment portfolio, including costs related to our in-house expertise, technology processes, and investment research.
- **Pension administration expenses** – These are the costs associated with operating and administering the pension plan, including costs related to providing client service, processing member transactions (retirements, terminations, etc.), and maintaining our pension administration system.

Investment management costs

To support our increasingly sophisticated investment program, we've had to invest in people, technology and processes. For example, in 2014 we:

- added talent to our Corporate Finance and Investment Finance teams to keep pace with complex, new mandates and the growing number of subsidiaries resulting from our increased investment in private assets;
- honed our performance measurement processes to provide our front-office Investments team with better performance attribution data;
- developed and implemented new processes that give our TAA team the ability to trade exchange-traded futures, bonds and equities, which reduces external fees and costs;
- improved our capacity to handle Private Markets assets by building up the in-house talent needed to support these activities; and
- hired a Vice-President, Investment Risk & Compliance, to enhance our investment risk management and compliance activities.

Even with a modest increase in costs, OPB's investment expense ratio remains low at approximately 0.43% in 2014 (or 43 cents per $100 of assets under management), compared to 0.38% in 2013 (or 38 cents per $100 of net assets under management). (The expense ratio compares the total of investment expenses – including operating expenses and investment fees – with net assets available for benefits at year-end.) The shift in the SAA to more Private Markets assets 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 expected from the shift in the SAA represent an additional 0.90% return on Plan assets per year, based on the results of the asset/liability studies prepared by our independent actuaries. This translates into an expected increase of over $200 million per annum over the long term, which more than offsets the increased costs.

OPB's strategy to maintain a low expense ratio is to pursue economies of scale. We have successfully simulated scale to date by partnering with larger institutional investors and other private sector investment partners. We will continue to pursue such opportunities in the future. We also continue to advocate for, and drive forward, the asset pooling initiative for the investment of public sector asset portfolios in Ontario. We believe asset pooling could lead to enhanced investment returns net of expenses, making it a potential contributor to the long-term affordability and sustainability of the Plan.

While we fully expect that the higher returns generated by our investment strategy will more than offset any increase in expenses, cost constraint continues to be a priority. To keep costs down in 2014, we:

- used asset overlays to help reduce trading costs;
- increased our focus on direct investing to help avoid costly investment management fees; and
- negotiated with public market investment managers to keep investment management fees below industry standards.

Pension administration expenses

Since 2008, OPB has substantially decreased its pension administration costs, despite increased service demands and considerable additional compliance requirements imposed on the Plan by legislation and through the Government of Ontario's corporate directives.

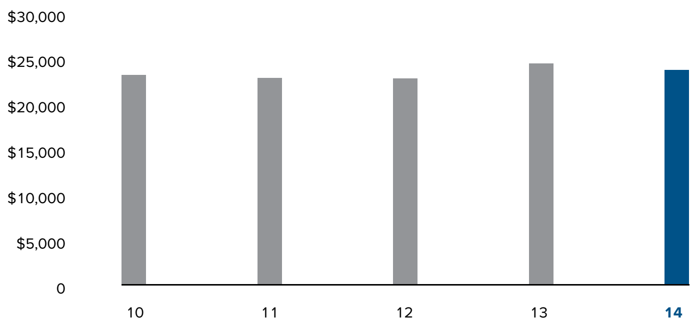
Expenses for 2014 totalled $23.64 million (or 11 cents per $100 of net assets), compared to $24.38 million in 2013 (or 12 cents per $100 of net assets).

To support cost constraint, we:

- kept executive salaries in check;
- delayed certain hirings;
- deferred some IT strategic initiatives; and
- negotiated competitive contracts with service providers.

Pension administration operating expenses

(in millions of dollars)



CONTRIBUTIONS

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

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

Ontario Provincial Police (OPP) Officers are required to contribute additional amounts to fund the 50/30 unreduced early retirement provision and the enhanced earnings component of the benefit formula (average annual earnings based on highest 36 consecutive months). The contribution rates for OPP Officers are 9.2% of salary up to the YMPE and 12.3% of salary above the YMPE. These higher contribution rates are matched by the employer. OPP Civilian employees also pay additional contributions to cover the enhanced earnings component of the benefit formula for them (average annual earnings based on highest 48 consecutive months). Their contribution rates are 6.775% of salary up to the YMPE and 9.875% above the YMPE.

During 2014, contributions for all OPB members and employers totalled $719 million, up marginally from $709 million in 2013. This modest increase is attributable to a slight increase in the number of members and ongoing salary restraint in the public sector.

PENSIONS PAID

Monthly pension payments for December 2014 totalled $83.2 million, up from $80.4 million in December 2013. Part of the increase is attributable to a 0.9% inflation protection adjustment (Escalation Factor) that was applied to pensions on January 1, 2014. The remainder is attributable to an increase in the average pension for new retired members.

EXECUTIVE COMPENSATION

OPB recognizes compensation as a key component in achieving its long-term strategies and organizational effectiveness. The compensation programs as they pertain to the senior executives are described in this section. OPB is an Ontario public sector agency, a distinction which is incorporated into its compensation philosophy. In addition, OPB is very aware that the Province is in an era of cost constraint. While OPB's executive compensation is benchmarked against Ontario's other public sector pension plan administrations, it does not exceed that of any of its peers.

Compensation for the President & CEO is approved by the Board. Compensation for the executives reporting directly to the CEO is approved by the Human Resources Committee of the Board. Incentives are performance-based.

A long-term incentive plan (LTIP) was introduced for key investment personnel only, in 2014. The LTIP uses a mix of performance metrics that include total fund return against benchmark, client service and PSPP funded status and measures these over a four-year timeline. The use of these metrics supports the alignment of interests of senior investment staff with those of PSPP members. There is an upper limit of incentive payout, dependent upon position, ranging from 35% to 55% of base salary at the commencement of each performance period. A transitional provision in the LTIP places a ceiling on the amount that can be paid out in the first three years of the program. For 2014, this ceiling is set at 25% of the maximum otherwise payable, and increases 25% in each of the subsequent three years.

Compensation of the listed executives includes base salary, incentives, insured benefits and supplementary retirement benefits. Compensation totals, excluding retirement benefits, paid to the President & CEO, and the other executives reporting directly to the CEO, are shown below.

For the year ended December 31	Year	Base Salary[1]	Short-Term Incentive[2]	Long-Term Incentive[3]	Taxable Benefits & Allowances[4]	Total
Mark J. Fuller, President & CEO[5]	2014	$ 454,654	$ 181,486	$ n/a	$ 720	$ 636,860
	2013	409,394	181,043	n/a	621	591,058
Valerie Adamo, Chief Technology Officer[6]	2014	292,074	105,469	n/a	365	397,908
R. Paul Edmonds, Chief Legal &	2014	319,360	103,666	n/a	544	423,570
Governance Officer	2013	307,532	108,609	n/a	500	416,641
Michel Paradis, Chief Financial Officer[7]	2014	165,681	57,129	n/a	206	223,016
Jill Pepall, Executive Vice-President &	2014	464,635	185,625	61,875	726	712,861
Chief Investment Officer	2013	412,659	186,750	n/a	623	600,032
Peter Shena, Executive Vice-President &	2014	319,360	106,077	n/a	544	425,981
Chief Pension Officer	2013	307,532	110,970	n/a	500	419,002

1 Base salary is based upon amounts paid during the year. In 2014, there were 27 bi-weekly pays. In 2013, there were 26 bi-weekly pays.

2 Short-term incentive earned is paid in March of the following year.

3 LTIP payments, only applicable to the Chief Investment Officer on this list, are paid in March of the year following the completion of the measurement period. The figure shown is the amount vested and expected to be paid in the subsequent year.

4 Includes life insurance. There are no car allowances or other perquisites.

5 Mr. Fuller was appointed to President & CEO on January 1, 2009. Upon promotion to President & CEO, Mr. Fuller deferred the start date of a $50,000 promotional salary increase. After more than five years of deferral, this increase was implemented effective June 1, 2014. Other than that promotional increase, Mr. Fuller has not received any other compensation increase since January 1, 2008.

6 Ms. Adamo joined on January 13, 2014. Amounts shown reflect compensation from that date.

7 Mr. Paradis joined on July 1, 2014. Amounts shown reflect compensation from that date.

The above-noted individuals are entitled to pension benefits on their base salary from both the PSPP and the Public Service Supplementary Benefits Account (the PSSBA). Having the executives as members of the same pension plans as the clients that they serve builds strong alignment.

The listed executives participate in a Supplementary Executive Retirement Plan (SERP) that provides retirement benefits equal to 2% of the best five-year average annual award of short-term incentive plan (STIP) compensation for a year of service with OPB. There is no service accrued in the SERP for years other than during their employment time with OPB. The maximum inflation protection adjustment to the SERP benefit in any year is limited to 2.5%. All the other provisions of the SERP mirror the provisions of the PSPP. The SERP is an unregistered arrangement that is non-contributory and not funded.

In accordance with Ontario government directives, OPB executives do not receive any perquisites, such as automobile entitlements or allowances, club memberships, personal use equipment or personal services.

SOUND RISK MANAGEMENT

At OPB, we believe that sound risk management is a key component of good governance. As a defined benefit pension plan, the PSPP faces a wide range of risks, including operational risk, investment risk, funding risk and liquidity risk, to name a few. To manage that risk, OPB has implemented a comprehensive Enterprise Risk Management (ERM) program.

ERM provides an integrated approach to risk management. It prescribes a formal framework for identifying, reporting and monitoring any risk that could adversely affect the Plan. It also helps identify mitigation strategies. As part of our program, we have:

- strengthened our governance risk management and compliance to enhance oversight;
- made it our practice to review risk and risk mitigation strategies on a quarterly basis to ensure we have the people, policies and procedures needed to protect the Plan;

- integrated risk management into our strategic planning process;
- put in place a comprehensive internal audit system; and
- started reviewing valuation assumptions on an annual basis to ensure they continue to reflect Plan experience.

OPB took four key steps in 2014 to strengthen its ERM program. Specifically, we:

- hired a dedicated Director of Enterprise Risk Management (ERM) to bring more rigour to our risk management program. Creating a dedicated position will enable us to move ERM to the next level;
- drafted a new ERM policy. This new policy – which covers strategic, operational and financial risk – documents roles and responsibilities for risk management, as well as the interrelationships among responsible parties;
- drafted a series of “risk appetite statements”. These statements specify the acceptable level of risk for specific business priorities (such as investment risk and data security); and
- drafted metrics that allow individuals across the organization to measure risk more objectively using a standard scale.

OPERATIONAL RISK

Risk management is an ongoing process that requires commitment and vigilance. With that in mind, OPB moved forward with several initiatives in 2014 designed to reduce operational risk. These included:

- completing a long-term funding study to ensure that the contributions flowing into the Plan are sufficient to meet our future pension obligations. (The study determined that while the Plan may face pressures in the future, our current contribution levels are appropriate for now.);
- creating and filling the new position of Chief Technology Officer. Having this new position will help to ensure that the critical role technology plays in all facets of our business (security, administration, service, investment and risk management) is top-of-mind at the executive suite;
- conducting our second cyber security assessment in as many years to confirm that our pension administration system is prepared to resist a full-on cyber attack. Given the sensitive nature of the data we maintain and the increased sophistication of cyber attacks, OPB is considering annual assessments to ensure our preparedness level remains high;
- introducing a new data loss prevention (DLP) system that monitors email activity and exit points with the goal of preventing data leakage; and
- testing the resiliency of both our day-to-day and disaster recovery environments, while taking steps to ensure the two environments remain in sync.

INVESTMENT RISK

The scope and sophistication of OPB’s investment program have grown in recent years. The Plan has expanded from balanced mandates to specialty mandates, allocated funds to Private Markets, and shifted many investment decisions in-house. While these changes enable OPB to manage market and currency risk more effectively, they’ve also added a level of complexity that demands an increased focus on investment risk management, compliance and monitoring.

We have adopted a risk-managed approach to investing. We’ve integrated risk monitoring and management into our investment processes and day-to-day activities and we ensure our investment decisions are supported by comprehensive risk analysis. And we improve the return/risk relationship of our investment decisions by taking only those risks we believe will be rewarded.

In short, we have a rigorous and disciplined approach to investment risk management. As strong as that approach may be, we need to keep advancing it to keep pace with our evolving investment program. To better manage required risk and mitigate unrewarded risk, OPB pushed ahead with several initiatives in 2014. Specifically, we:

- hired a Vice-President of Investment Risk & Compliance. With the added resource, the Risk team quickly moved to implement enhanced risk reporting procedures, introduced a new liquidity policy, and created risk analysis prototypes to better assess the risk associated with specific investments;
- implemented a new performance-based long-term incentive plan (LTIP) for senior investment professionals. This new program, which is being phased in over four years, addresses risks related to the attraction and retention of key individuals on our Investments team by bringing compensation levels closer to market rates. While the LTIP won’t eliminate the identified risk, it does provide the tools to better manage that risk;

- continued to move forward with the implementation of our Tactical Asset Allocation (TAA) strategy. TAA is used to identify important inflection points in market cycles and then to quickly and efficiently tweak the Plan's risk profile by increasing or decreasing exposure to certain public market asset classes; and
- continued to retain external investment managers that have a focus on capital preservation and a track record of managing through volatile markets.

Risk management

WHAT WE DID	WHY WE DID IT AND WHAT IT MEANS
Strengthened our Enterprise Risk Management (ERM) program	ERM forms the framework for risk management across the organization. In 2014, we hired a dedicated 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.
Completed a long-term funding study	The study was conducted to ensure that the money flowing into the Plan (contributions and investment earnings) is sufficient to meet future pension obligations. The study determined that while the Plan may face pressures in the future, our current contribution levels are appropriate for now.
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 (security, administration, service, investment and risk management) is reflected in decisions made at the senior executive level.
Upgraded technology	Computer desktops were upgraded and network security was enhanced so that our employees can work more effectively – wherever their work takes them.
Conducted our second cyber security assessment in as many years	The assessment confirmed our pension administration system is armed to resist a full-on cyber attack. OPB is considering annual assessments to ensure our preparedness level remains high.
Introduced a new data loss prevention (DLP) system	The new DLP system monitors email activity and exit points with the goal of preventing data leakage.
Tested our disaster recovery environment	The test was conducted to assess the resiliency of both our day-to-day and disaster recovery environments and ensure the two environments are in sync.
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.
Implemented a new long-term incentive plan (LTIP) for senior investment professionals	This new performance-based program addresses a risk related to the attraction/retention of key investment professionals by bringing compensation levels closer to market rates.
Used our Tactical Asset Allocation (TAA) strategy to effectively deploy capital in a risk-controlled fashion	The TAA strategy enables us to effectively and efficiently adjust the percentage of assets held in various investment portfolios so that we can take advantage of market opportunities to generate value-added returns. It is also used to preserve and protect capital at major inflection points in the economic cycle.

Five-year review

(in millions of dollars)	2014	2013	2012	2011	2010
Opening net assets	**$ 20,915**	$ 18,991	$ 17,270	$ 17,376	$ 16,043
Investment income	**1,642**	2,244	1,964	19	1,439
Contributions	**719**	709	714	715	689
Transfers from other plans	**81**	91	104	132	142
	2,442	3,044	2,782	866	2,270
Pension payments	**989**	959	918	869	848
Terminations	**94**	121	105	68	56
Operating expenses	**43**	40	38	35	33
	1,126	1,120	1,061	972	937
Closing net assets	**22,231**	20,915	18,991	17,270	17,376

						Cumulative Since Inception
Annual rate of return	**8.4%**	12.5%	11.9%	0.4%	9.4%	8.6%

Actuaries' opinion to the directors of the Ontario Pension Board

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

- An actuarial valuation as at December 31, 2013 on a funding basis, as described in Note 6 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.
- An actuarial valuation as at December 31, 2014 for purposes of these financial statements, prepared in accordance with the Chartered Professional Accountants of Canada Handbook, Section 4600.

The actuarial valuation of the PSPP as at December 31, 2013 on a funding basis was based on membership data provided by OPB as at November 30, 2013.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2013 on the basis of the accounting methodology required by the Chartered Professional Accountants of Canada Handbook, Section 4600, as disclosed in Note 6, and extrapolated the liabilities to December 31, 2014. The valuation as at December 31, 2014 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statement of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of November 30, 2013 are sufficient and reliable;
- The actuarial assumptions used are appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and
- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

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

AON HEWITT

Allan H. Shapira
Fellow of the Canadian Institute of Actuaries

Andrew Hamilton
Fellow of the Canadian Institute of Actuaries

March 2, 2015

Management's responsibility for financial reporting

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

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

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

Mark J. Fuller
President & CEO

Michel J. Paradis
Chief Financial Officer

March 2, 2015

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

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Pension Board as at December 31, 2014, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 2, 2015

OPB
Your Pension. Our Promise.

Statement of financial position

As at December 31 (in thousands of dollars)	2014	2013
Assets		
Investments (Note 4)	$ 22,253,391	$ 20,896,407
Investment-related receivables (Note 4)	65,977	74,447
Contributions receivable		
Members	17,985	26,354
Employers	26,668	37,637
Capital assets (Note 5)	2,331	2,510
Total assets	22,366,352	21,037,355
Liabilities		
Investment-related liabilities (Note 4)	99,991	85,596
Accounts payable and accrued charges	35,543	35,462
Contributions payable	–	1,240
Total liabilities	135,534	122,298
Net assets available for benefits	22,230,818	20,915,057
Pension obligations (Note 6)	22,562,386	21,894,206
Deficit (Note 7)	$ (331,568)	$ (979,149)

See accompanying notes

On behalf of the Board:

M. Vincenza Sera
Chair

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

Statement of changes in net assets available for benefits

For the year ended December 31 (in thousands of dollars)	2014	2013
Investment operations		
Net investment income (Note 8)	$ 1,641,904	$ 2,244,167
Operating expenses – investment operations (Note 10)	(19,604)	(15,675)
Net investment operations	1,622,300	2,228,492
Pension operations		
Contributions (Note 9)		
Members	310,338	298,928
Employers and sponsor	408,753	410,096
Transfer from other plans	81,382	90,748
Retirement pension payments	(989,261)	(958,750)
Termination and other benefits	(94,113)	(121,557)
Operating expenses – pension operations (Note 10)	(23,638)	(24,378)
Net pension operations	(306,539)	(304,913)
Net increase in net assets for the year	1,315,761	1,923,579
Net assets, at beginning of year	20,915,057	18,991,478
Net assets, at end of year	$ 22,230,818	$ 20,915,057

See accompanying notes

Your Pension. Our Promise.

Statement of changes in pension obligations

For the year ended December 31 (in thousands of dollars)	2014	2013
Pension obligations, at beginning of year	**$ 21,894,206**	$ 20,359,744
Increase in pension obligations		
Interest on pension obligations	**1,292,110**	1,199,486
Benefits accrued		
Service accrual	**614,031**	560,615
Transfer of service from other plans	**81,382**	90,748
Past service buybacks	**31,838**	28,313
Experience losses	**3,959**	–
Changes in actuarial assumptions (Note 6)	**–**	1,155,601
Total increase	**2,023,320**	3,034,763
Decrease in pension obligations		
Benefits paid	**1,083,374**	1,080,305
Experience gains	**–**	419,996
Changes in actuarial assumptions (Note 6)	**271,766**	–
Total decrease	**1,355,140**	1,500,301
Net increase in pension obligations	**668,180**	1,534,462
Pension obligations, at end of year	**$ 22,562,386**	$ 21,894,206

See accompanying notes

Notes to the financial statements

NOTE 1 *PUBLIC SERVICE PENSION ACT*

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

NOTE 2 DESCRIPTION OF PSPP

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

a) General

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

b) Contributions

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

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

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

c) Pensions

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member’s age and years of credit total 90 (“Factor 90”) or when the member reaches age 60 and has 20 or more years of credit. In 2009, the PSPP was amended to permit the Association of Management, Administrative and Professional Crown Employees of Ontario (“AMAPCEO”) members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program eligibility for AMAPCEO members was only applicable to those receiving layoff notices prior to April 1, 2014.

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

d) Death benefits

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

e) Disability pensions

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

f) Termination payments

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

g) Escalation of benefits

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

a) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates. The most significant estimates affecting the financial statements would relate to the determination of the pension obligations and the fair values of the Plan's Level 3 investments.

b) Investments

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

Fair value of financial instruments is determined as follows:

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

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

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

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

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

(vi) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals.

(vii) Private market and alternative investments, which include infrastructure, private equity, private debt and real estate funds, are valued using the most recently available financial information provided by the fund managers and adjusted for any transactions during the interim period up to the reporting date of these financial statements. For private debt instruments where this financial information is not readily available, the fair value of the private debt is determined by discounting future cash flows based on year-end market rates on comparable debt instruments.

(viii) Mortgages and other debt are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

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

c) Pension obligations

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

d) Contributions

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

e) Capital assets

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

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

f) Foreign currency translation

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

NOTE 4 INVESTMENTS

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

As at December 31 (in thousands of dollars)	2014	2013
Cash and short-term investments		
Canada	$ 744,777	$ 1,401,992
United States and other international	178,848	330,941
	923,625	1,732,933
Fixed income		
Special Province of Ontario Debentures	–	374,542
Bonds		
Canada	5,527,631	4,757,047
United States and other international	778,617	766,769
	6,306,248	5,898,358
Equities		
Canada	2,117,745	1,562,709
United States	2,703,210	2,904,230
Other international	5,662,549	5,235,442
	10,483,504	9,702,381
Real estate (Note 4(h))	3,366,011	2,871,335
Infrastructure	754,609	527,112
Private equity	359,765	108,272
Participating mortgages	59,629	56,016
Total investments	22,253,391	20,896,407
Investment-related receivables		
Pending trades	17,936	14,064
Derivatives receivable	48,041	60,383
	65,977	74,447
Investment-related liabilities		
Pending trades	29,278	13,467
Derivatives payable	70,713	72,129
	99,991	85,596
Net investments	$ 22,219,377	$ 20,885,258

a) Asset mix

	Asset Allocation %		
As at December 31, 2014	Total Plan	Target	SIP&P Range
Asset categories			
Cash and equivalents	3.9%	3.0%	
Fixed income	28.4%	31.0%	
Real return bonds	0.0%	0.0%	
Fixed income	32.3%		10%–45%
Canadian equities	9.6%	10.5%	
Foreign developed equities	23.7%	20.0%	
Emerging equities	14.0%	15.0%	
Private equity	1.6%	1.0%	
Equity	48.9%		15%–75%
Real estate	15.4%	16.5%	
Infrastructure	3.4%	3.0%	
Real assets	18.8%		20%–45%
Total investments	100.0%	100.0%	

The Plan has adopted a new five-year Strategic Asset Allocation ("SAA") that was approved on September 19, 2014, which is summarized in the most recent Statement of Investment Policies and Procedures ("SIP&P") approved on December 16, 2014. A transition plan to achieve the newly adopted SAA was also approved on September 19, 2014. The transition plan will be phased in over a five-year period and, during such period, the asset mix of the Plan's investments may not fall within the SIP&P ranges. However, the ultimate goal of the Plan is to achieve the specified SIP&P ranges of each asset category by the end of the phase-in period.

	Asset Allocation %		
As at December 31, 2013	Total Plan	Target	SIP&P Range
Asset categories			
Cash and equivalents	8.0%	2.0%	0%–10%
Fixed income	28.2%	31.0%	8%–40%
Real return bonds	0.0%	2.0%	0%–10%
Canadian equities	7.6%	10.5%	5%–15%
Foreign developed equities	23.7%	19.0%	8%–26%
Emerging equities	15.5%	15.0%	10%–20%
Private equity	0.5%	0.5%	0%–5%
Real estate	14.0%	18.0%	10%–30%
Infrastructure	2.5%	2.0%	0%–10%
Total investments	100.0%	100.0%	

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

b) Financial instruments risk

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

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

(i) Interest rate risk – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Plan's modified duration of 6.4 years at December 31, 2014 (2013 – 5.9 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $404 million (2013 – $325 million), with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed income maturities for further information.

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

As at December 31, 2014 (in thousands of dollars)	**Gross Exposure**	**Foreign Exchange Contracts Receivable**	**Foreign Exchange Contracts Payable**	**Net Exposure**
U.S. Dollar	**$ 4,881,526**	**$ 279,731**	**$ (3,179,966)**	**$ 1,981,291**
Hong Kong Dollar	**550,818**	**1,902**	**(579)**	**552,141**
Indian Rupee	**388,158**	**8,609**	**(4,113)**	**392,654**
South Korean Won	**288,546**	**540**	**–**	**289,086**
New Taiwan Dollar	**245,620**	**103**	**–**	**245,723**
Chinese Renminbi	**243,272**	**–**	**–**	**243,272**
Brazilian Real	**254,718**	**2,906**	**(15,770)**	**241,854**
Other	**2,783,144**	**194,162**	**(1,802,743)**	**1,174,563**
Total foreign	**9,635,802**	**487,953**	**(5,003,171)**	**5,120,584**
Canadian Dollar	**12,634,486**	**4,596,849**	**(132,542)**	**17,098,793**
	$22,270,288	**$ 5,084,802**	**$ (5,135,713)**	**$22,219,377**

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

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

	Change in Exchange Rates	Change in Net Assets Available for Benefits as of December 31, 2014 (in thousands of dollars)		Change in Net Assets Available for Benefits as of December 31, 2013 (in thousands of dollars)	
U.S. Dollar	+ / - 5%	+ / - $	**99,065**	+ / - $	111,582
Hong Kong Dollar	+ / - 5%	+ / -	**27,607**	+ / -	27,891
Indian Rupee	+ / - 5%	+ / -	**19,633**	+ / -	11,470
South Korean Won	+ / - 5%	+ / -	**14,454**	+ / -	16,972
New Taiwan Dollar	+ / - 5%	+ / -	**12,286**	+ / -	8,363
Chinese Renminbi	+ / - 5%	+ / -	**12,164**	+ / -	8,398
Brazilian Real	+ / - 5%	+ / -	**12,093**	+ / -	11,796
Other	+ / - 5%	+ / -	**58,728**	+ / -	65,526
Total	+ / - 5%	+ / - $	**256,030**	+ / - $	261,998

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

Equities	Stock Market Benchmark	Change in Price Index	Change in Net Assets as of December 31, 2014 (in millions of dollars)		Change in Net Assets as of December 31, 2013 (in millions of dollars)	
Canadian	S&P/TSX Composite Index	+ / - 10%	+ / - $	**212.9**	+ / - $	158.6
Foreign	MSCI World (C$)	+ / - 10%	+ / -	**526.6**	+ / -	492.6
Emerging	MSCI Emerging Equity Index (C$)	+ / - 10%	+ / -	**311.7**	+ / -	323.7
			+ / - $	**1,051.2**	+ / - $	974.9

Credit risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2014, the Plan's greatest credit exposure in the form of interest-bearing securities is with the Province of Ontario for $740 million (2013 – $1.014 billion). The credit ratings of the Plan's fixed income and bond investments are as follows:

Credit Rating as of December 31, 2014 (in thousands of dollars)

AAA	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**Not Rated**	**Total**
$1,289,411	**$1,918,559**	**$1,004,203**	**$599,894**	**$536,336**	**$216,066**	**$15,693**	**$726,086**	**$6,306,248**

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

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

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The more typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives which all mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions as well as interest and principal payments from the Special Debentures, which provided $376 million (2013 – $505 million) to the Plan. The maturities of the Plan's fixed income and bond investments are as follows:

Fixed Income Maturities as of December 31, 2014 (in thousands of dollars)

< 1 year	≥ 1–5 years	≥ 5–10 years	≥ 10–20 years	≥ 20 years	Funds	Total
$497,490	**$1,675,177**	**$1,812,171**	**$986,996**	**$1,160,483**	**$173,931**	**$6,306,248**

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

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

c) Cash and short-term investments

As at December 31 (in thousands of dollars)	2014	2013
Canada		
Cash	**$ 75,655**	$ 44,698
Short-term notes and treasury funds	**652,960**	1,346,329
Term deposits	**15,500**	8,400
Accrued interest	**662**	2,565
	$ 744,777	$ 1,401,992
United States and other international		
Cash	**$ 133,994**	$ 125,708
Short-term notes and treasury funds	**44,844**	204,924
Accrued interest	**10**	309
	$ 178,848	$ 330,941

d) Fixed income and equity investments

During 2014, the last remaining Special Debenture with an estimated fair value of $375 million and yield of 11.19% as at December 31, 2013 matured, leaving the Special Debentures balance at $nil as at December 31, 2014 (2013 – $375 million).

Included in the other international equities totals are $362 million (2013 – $321 million) related to pooled funds.

e) Derivatives

As at December 31 (in thousands of dollars)	2014 Notional	2014 Fair Value	2013 Notional	2013 Fair Value
Equity derivatives				
Futures	**$ 793,468**	**$ 28,239**	$ 1,417,954	$ 47,168
Currency derivatives				
Forwards	**5,085,078**	**(50,911)**	5,826,385	(58,914)
Value of derivatives contracts	**$ 5,878,546**	**$ (22,672)**	$ 7,244,339	$ (11,746)

All derivative contracts have remaining maturities within one year as at December 31, 2014.

f) Securities lending

At year-end, $1.416 billion (2013 – $1.443 billion) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. At year-end, $1.496 billion (2013 – $1.533 billion) of securities were held as collateral, providing a 5.6% (2013 – 6.2%) cushion against market and credit risks.

g) Fair values

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

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

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

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

The following tables present the level within the fair value hierarchy for investments and derivatives, excluding pending trades.

As at December 31, 2014 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ 75,655	$ 669,122	$ –	$ 744,777
United States and other international	133,994	44,854	–	178,848
Fixed income				
Special Province of Ontario Debentures	–	–	–	–
Bonds				
Canada	–	5,115,812	411,819	5,527,631
United States and other international	144	753,478	24,995	778,617
Equities				
Canada	2,117,745	–	–	2,117,745
United States	2,703,210	–	–	2,703,210
Other international	5,300,580	361,969	–	5,662,549
Futures	28,239	–	–	28,239
Participating mortgages	–	–	59,629	59,629
Real estate	–	–	3,366,011	3,366,011
Private equity	–	–	359,765	359,765
Infrastructure	–	–	754,609	754,609
Forward exchange contracts	–	19,802	–	19,802
	$10,359,567	$ 6,965,037	$ 4,976,828	$ 22,301,432
Financial liabilities				
Forward exchange contracts	$ –	$ (70,713)	$ –	$ (70,713)

As at December 31, 2013 (in thousands of dollars)	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada	$ 44,698	$ 1,357,294	$ –	$ 1,401,992
United States and other international	125,709	205,232	–	330,941
Fixed income				
Special Province of Ontario Debentures	–	374,542	–	374,542
Bonds				
Canada	–	4,323,941	433,106	4,757,047
United States and other international	232	755,273	11,264	766,769
Equities				
Canada	1,562,709	–	–	1,562,709
United States	2,904,230	–	–	2,904,230
Other international	4,913,994	321,448	–	5,235,442
Futures	47,168	–	–	47,168
Participating mortgages	–	–	56,016	56,016
Real estate	–	–	2,871,335	2,871,335
Private equity	–	–	108,272	108,272
Infrastructure	–	–	527,112	527,112
Forward exchange contracts	–	13,215	–	13,215
	$ 9,598,740	$ 7,350,945	$ 4,007,105	$ 20,956,790
Financial liabilities				
Forward exchange contracts	$ –	$ (72,129)	$ –	$ (72,129)

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2014 and 2013.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2014 and 2013.

(in thousands of dollars)	Fair Value as at January 1, 2014	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2014
Financial assets							
Bonds							
Canada	$ 433,106	$ –	$ 32,234	$ (44,766)	$ –	$ (8,755)	$ 411,819
United States and other international	11,264	–	19,195	(6,059)	–	595	24,995
Participating mortgages	56,016	–	–	–	–	3,613	59,629
Real estate	2,871,335	–	553,229	(54,918)	–	(3,635)	3,366,011
Private equity	108,272	–	261,128	(16,886)	–	7,251	359,765
Infrastructure	527,112	–	205,124	(10,980)	–	33,353	754,609
	$4,007,105	$ –	$1,070,910	$ (133,609)	$ –	$ 32,422	$4,976,828

(in thousands of dollars)	Fair Value as at January 1, 2013	Transfers In/(Out)	Acquisitions	Dispositions	Issuance of Debt	Fair Value Changes	Fair Value as at December 31, 2013
Financial assets							
Bonds							
Canada	$ 368,520	$ –	$ 85,063	$ (5,102)	$ –	$ (15,375)	$ 433,106
United States and other international	–	–	10,892	–	–	372	11,264
Participating mortgages	50,875	–	–	–	–	5,141	56,016
Real estate	2,701,424	–	795,314	(478,954)	(250,000)	103,551	2,871,335
Private equity	103,370	–	10,637	(15,183)	–	9,448	108,272
Infrastructure	173,443	–	346,723	(27,585)	–	34,531	527,112
	$ 3,397,632	$ –	$ 1,248,629	$ (526,824)	$ (250,000)	$ 137,668	$ 4,007,105

h) Commitments and guarantees

As at December 31, 2014, OPB has provided funding commitments for certain investments in the amount of $1,671 million (2013 – $1,427 million) of which $772 million (2013 – $826 million) has been advanced to date.

OPB has provided a guarantee for the payment of principal and interest on $750 million in debentures which were issued in previous years by OPB Finance Trust, a trust established for the benefit of OPB and its related entities. Three series of debentures have been issued:

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

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

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

OPB's real estate investments are shown net of the OPB Finance Trust debentures and any other financings specifically assumed by these real estate entities.

In addition to the guarantee on the debentures, $35 million of letters of credit are guaranteed by OPB.

On February 24, 2015, OPB Finance Trust issued $250 million of Series D debentures. The debentures are due on February 24, 2022 with an interest rate of 1.88% per annum, calculated and payable semi-annually. The repayment of principal and interest for the Series D debentures is fully guaranteed by OPB.

NOTE 5 CAPITAL ASSETS

As at December 31 (in thousands of dollars)	Cost	Accumulated Depreciation	2014 Net Book Value
Computer equipment	$ 4,262	$ 3,613	$ 649
Furniture and fixtures	2,478	1,577	901
Leasehold improvements	1,607	826	781
Total capital assets	$ 8,347	$ 6,016	$ 2,331

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

NOTE 6 PENSION OBLIGATIONS

a) Accounting basis

The value of pension obligations of $22.6 billion (2013 – $21.9 billion) is an estimate of pension benefit obligations accrued to date for members and retired members. The accounting valuation is determined by applying best estimate assumptions and the projected benefit method (pro-rated on service), as required under Canadian accounting standards for pension plans. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2014 were computed by extrapolating data used for the December 31, 2013 funding valuation prepared by the independent actuary for management purposes.

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

	2014	2013
Investment return	5.95%	5.95%
Inflation	2.10%	2.10%
Real rate of return	3.85%	3.85%
Salary increases		
2014	0.5% + promotional scale 8.55% for OPP Officers	3.10% + promotional scale
2015	1.0% + promotional scale	3.10% + promotional scale
2016	1.5% + promotional scale	3.10% + promotional scale
2017	1.5% + promotional scale	3.10% + promotional scale
2018	2.0% + promotional scale	3.10% + promotional scale
2019	2.5% + promotional scale	3.10% + promotional scale
2020 and thereafter	3.1% + promotional scale	3.10% + promotional scale

The non-economic assumptions include mortality, withdrawal and retirement rates. During 2014, the changes in actuarial assumptions resulted in a decrease of $272 million (2013 – increase of $1,156 million) to the Plan's pension obligations. The short-term salary restraint assumption was the main contributor to the decrease. This was partially offset by updates to the mortality tables and short-term retirement and termination rates.

b) Funding basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act* (Ontario) ("*PBA*"). The *PBA* and the *Income Tax Act* (Canada) require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years. The most recent filing was a funding valuation as at December 31, 2013, prepared by Aon Hewitt, which disclosed a funding shortfall of $804 million on a going-concern basis. The effective date of the next funding valuation that is required to be filed will be as at December 31, 2016.

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

NOTE 7 DEFICIT

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2014 was $332 million (2013 – $979 million).

NOTE 8 NET INVESTMENT INCOME

For the year ended December 31 (in thousands of dollars)	Investment Income[1]	Fair Value Changes[2]	2014 Total	Investment Income[1]	Fair Value Changes[2]	2013 Total
Cash and short-term investments						
Canada	$ 13,603	$ 16,487	$ 30,090	$ 15,601	$ (2,666)	$ 12,935
United States and other international	1,735	(163,538)	(161,803)	1,830	(203,571)	(201,741)
	15,338	(147,051)	(131,713)	17,431	(206,237)	(188,806)
Fixed income						
Special Province of Ontario Debentures	14,208	(12,490)	1,718	61,655	(52,322)	9,333
Bonds						
Canada	235,655	257,127	492,782	209,894	(171,680)	38,214
United States and other international	53,187	14,378	67,565	46,371	(796)	45,575
	303,050	259,015	562,065	317,920	(224,798)	93,122
Equities						
Canada	52,105	93,010	145,115	38,621	336,841	375,462
United States	47,961	468,695	516,656	49,735	796,656	846,391
Other international	147,301	255,999	403,300	117,315	676,722	794,037
	247,367	817,704	1,065,071	205,671	1,810,219	2,015,890
Real estate	140,691	(3,635)	137,056	223,946	103,551	327,497
Infrastructure	18,215	33,353	51,568	3,637	34,531	38,168
Private equity	21,276	7,251	28,527	7,095	9,448	16,543
Participating mortgages	959	3,613	4,572	1,074	5,141	6,215
Total investment income	$ 746,896	$ 970,250	$ 1,717,146	$ 776,774	$ 1,531,855	$ 2,308,629
Investment management and custodial fees			(75,242)			(64,462)
Net investment income			$ 1,641,904			$ 2,244,167

[1] Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, real estate dividend income and distribution income from various pooled funds.

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

a) Interest income

For the year ended December 31 (in thousands of dollars)	2014	2013
Cash and short-term investments		
Canada		
Cash	$ 6,541	$ 2,486
Short-term notes and treasury funds	6,984	13,019
Term deposits	78	96
	$ 13,603	$ 15,601
United States and other international		
Cash	$ 499	$ 1,044
Short-term notes and treasury funds	1,236	786
	$ 1,735	$ 1,830

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

b) Dividend income

Dividend income includes $18.5 million (2013 – $8.2 million) from pooled equity funds.

c) Investment fees

For the year ended December 31 (in thousands of dollars)	2014	2013
Portfolio fund management	$ 58,239	$ 50,237
Transaction costs	10,641	9,347
Custodial	4,768	3,444
Private market	1,594	1,434
	$ 75,242	$ 64,462

Transaction costs include commissions and fees on trades.

NOTE 9 CONTRIBUTIONS

For the year ended December 31 (in thousands of dollars)	2014	2013
Members		
Current service required	$ 282,837	$ 274,734
Prior service	27,501	24,194
Total contributions from members	310,338	298,928
Employers		
Current service		
Regular contributions	283,063	274,588
PSSBA transfer	(10,253)	(13,363)
For members receiving Long Term Income Protection benefits	11,089	10,508
Prior service	4,337	4,120
	288,236	275,853
Sponsor payments		
Special payments	98,989	127,235
Additional current service	21,528	7,008
	120,517	134,243
Total contributions from employers and sponsor	408,753	410,096
Total contributions	$ 719,091	$ 709,024

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

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

The Province, as sponsor of the Plan, contributed $99 million (2013 – $127 million) in Special Payments in 2014 towards the funding shortfall identified in the filed funding valuation as at December 31, 2013. In 2014, the Province made $22 million (2013 – $7 million) in additional employer current service contributions.

For 2014 and 2013, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recently filed actuarial funding valuation.

There were no required contributions past due as at December 31, 2014 and 2013.

NOTE 10 OPERATING EXPENSES

Pension operations

For the year ended December 31 (in thousands of dollars)	2014	2013
Staffing costs	$ 13,097	$ 13,657
Staff development and support	193	281
Office premises and operations	3,120	3,274
Information technology and project management	5,174	5,216
Professional services	932	935
Communication	309	241
Depreciation	515	520
Board remuneration	68	92
Audit	230	162
	$ 23,638	$ 24,378

Investment operations

For the year ended December 31 (in thousands of dollars)	2014	2013
Staffing costs	$ 11,555	$ 9,133
Staff development and support	171	223
Office premises and operations	2,238	2,034
Information technology and project management	2,651	2,195
Professional services	2,222	1,484
Communication	133	103
Depreciation	302	249
Board remuneration	102	92
Audit	230	162
	$ 19,604	$ 15,675

Included in the above operating expenses are:

External audit services

For the year ended December 31 (in thousands of dollars)	2014	2013
External audit and related services provided to Ontario Pension Board	$ 253	$ 141
External audit and related services provided to and recorded by subsidiary operations	241	339
Total fees	$ 494	$ 480

Actuarial services

For the year ended December 31 (in thousands of dollars)	2014	2013
Actuarial services provided to Ontario Pension Board	$ 539	$ 404

NOTE 11 CAPITAL MANAGEMENT

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The last filed actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2013, which disclosed a funding shortfall of $804 million on a going-concern basis and a deficit of $871 million on a solvency basis. The effective date of the next required actuarial valuation for funding purposes is December 31, 2016.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's SIP&P also provides guidance with respect to the investment of the Plan's assets (see Note 4(a)) in order to assist with the management of any funding excesses or shortfalls. The SIP&P was last amended in December 2014, resulting in the asset mix targets as shown in Note 4(a). The Plan's rate of return expectation has been set in the SIP&P at a 3.85% real rate of return, net of fees.

NOTE 12 COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.

Supplementary information

Fixed income maturities

As at December 31 (in thousands of dollars)	2014 Fair Value	2014 Current Yield %	2013 Fair Value	2013 Current Yield %
Special Province of Ontario Debentures				
0–1 year	$ –		$ 374,542	11.19
Bonds				
Canadian:				
0–1 year	483,372	0.14–13.11	227,416	0.66–16.47
≥ 1–5 years	1,437,397	1.00–17.83	1,452,756	1.00–12.44
≥ 5–10 years	1,382,513	1.49–12.71	1,361,909	1.31–13.00
≥ 10 years	2,064,021	2.18–10.38	1,571,695	2.59–10.50
	5,367,303		4,613,776	
United States and other international:				
0–1 year	14,118	3.21–12.90	46,298	0.81–8.99
≥ 1–5 years	237,780	1.05–15.76	148,610	0.01–11.47
≥ 5–10 years	429,658	1.11–20.28	465,920	0.05–18.60
≥ 10 years	83,458	1.14–9.54	94,677	3.80–9.37
	765,014		755,505	
Fixed income funds	173,931		154,535	
Total fixed income	$ 6,306,248		$ 5,898,358	

Investments over $75 million

As at December 31, 2014 (in thousands of dollars)	Maturities	Coupon %	Fair Value[1]
Cash and short-term investments			
Canada:			
Government of Canada			$ 296,644
Fixed income			
OPB Investment Inc. (holding company, 100% owned)			$ 258,190
OPB Investment Ltd. (holding company, 100% owned)			148,085
Bonds			
Canada:			
Province of Ontario	2016–2062	0.00–9.50	$ 685,105
Canada Housing Trust No. 1	2016–2025	1.33–4.10	540,198
Government of Canada	2016–2064	1.00–10.50	434,091
Province of Quebec	2016–2055	0.00–9.63	304,206
Royal Bank of Canada	2016–2085	0.44–6.82	154,943
Bank of Nova Scotia	2015–2108	1.80–7.80	133,058
Royal Bank of Scotland	2022–2049	5.37–10.50	104,967
Canadian Imperial Bank of Commerce	2015–2108	1.75–10.25	96,916
Bank of Montreal	2015–2107	1.89–10.22	89,359
Loblaw Companies Ltd.	2019–2039	3.75–6.85	86,179
Real estate			
Investment in real estate holdings over $75 million, comprising OPB Realty Inc. (holding company, 100% owned), OPB (EMTC) Inc. (holding company, 100% owned), OPB (Southgate) Inc. (holding company, 100% owned), OPB (155 Wellington) Inc. (holding company, 100% owned), RXR Real Estate Funds and OPB Finance Trust (financing entity, 100% beneficial interest), OPB Real Estate Investments Inc. (holding company, 100% owned), OPB Real Estate Investments 2 Ltd. (holding company, 100% owned), OPB (Centre 10) Inc. (holding company, 100% owned).			$ 4,026,576

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

(in thousands of shares/dollars)	Shares/Units[2]		Fair Value[2]
Infrastructure			
OPB Infrastructure 2 Ltd. (holding company, 100% owned)		$	539,923
OPB Infrastructure 3 Ltd. (holding company, 100% owned)			143,151
Equities			
Canada:			
Toronto-Dominion Bank	2,928	$	162,541
Bank of Nova Scotia	1,773		117,539
Royal Bank of Canada	1,449		116,262
Canadian National Railway Co.	1,243		99,490
Canadian Imperial Bank of Commerce	760		75,924
United States:			
OPB Private Equity 5 Ltd. (holding company, 100% owned)			175,359
Johnson & Johnson	662		80,222
Other international:			
Leith Wheeler International Fund	21,000		361,969
Taiwan Semiconductor Manufacturing Co.	16,769		127,737
Samsung Electronics Co. Ltd.	132		111,143
Baidu Inc.	284		75,043

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

Real estate properties

As at December 31, 2014 (in thousands of square feet)	Location	Area
Retail		
Pen Centre	St. Catharines	1,040
Southgate Centre	Edmonton	942
St. Vital Centre	Winnipeg	928
Pickering Town Centre	Pickering	903
Erin Mills Town Centre	Mississauga	848
Woodgrove Centre	British Columbia	747
Midtown Plaza	Saskatchewan	731
Cornwall Centre	Saskatchewan	567
Halifax Shopping Centre	Halifax	532
Carlingwood Shopping Centre	Ottawa	529
Halifax Shopping Centre Annex	Halifax	420
West End Mall	Halifax	184
Erin Mills Town Plaza	Mississauga	59
		8,430
Office		
155 Wellington Street West	Toronto	1,211
Centre 10	Calgary	368
Pickering Office Tower/Durham College	Pickering	128
Halifax Office Complex	Halifax	114
		1,821
Residential		
Engelhart Apartments	Toronto	85
Total properties		**10,336**

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