

Our 2020 Strategy: Driving Plan Sustainability

The 2020 Strategy reflects our vision to make OMERS a leading model for defined benefit pension plan sustainability.

Our Strategy is based on four pillars:

1. Protecting our funded status
2. Delivering 7-11% net average annual investment returns
3. Continuing to build quality relationships with members, employers, sponsors and other stakeholders
4. Evolving our capabilities and business model

The Strategy recognizes challenges facing OMERS in the coming years, including:

- a maturing Plan as the ratio of active members to retired members continues to decline with demographic shifts and the evolving nature of work. As the Plan matures, it becomes more vulnerable to stresses, as there are relatively fewer members to carry the cost of any impact
- a challenging investment environment globally as a result of slowing growth due to aging populations, rising debt levels and higher borrowing costs, and increasing protectionism
- an evolving pension landscape as retirement security remains a priority for governments. The Canada Pension Plan, for example, will be gradually enhanced beginning in 2019, which will add to member and employer contributions for retirement savings

With the 2020 Strategy, we aim to achieve three objectives:

- Achieve full funding and protect the Plan from market volatility, with stable and predictable contribution rates and benefit levels
- Earn a consistently high satisfaction rate – provide high-quality service to members, employers and stakeholders
- Manage costs effectively – both our Management Expense Ratio (MER) and our Cost Per Member (CPM)

In consideration of the challenges that the Plan faces, we regularly review the landscape and continue to assess the forces at play to make updates and adjustments where required. More information about our changing environment is found in the Looking Ahead section of this report.

We remain focused on delivering on our 2020 Strategy.



Protecting Our Funded Status

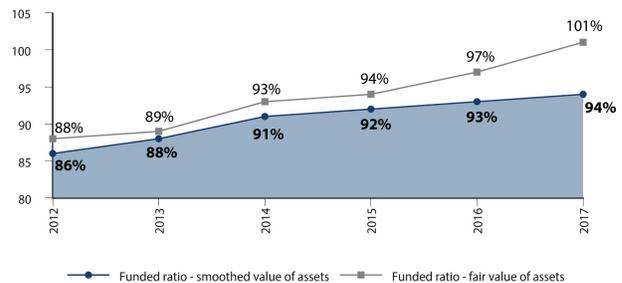
A strong funded status helps to ensure that we deliver on our pension promise for generations to come. In 2017, our funded ratio improved for the fifth consecutive year with unchanged contribution rates and benefits, and the funding discount rate was further reduced by 20 basis points.

In 2017, the funded ratio increased to 94%, up from 93% in 2016, marking the fifth year in a row of improvement. OMERS 2020 Strategy aims to return the Plan to full funding on a smoothed basis by 2025 and we remain on course.

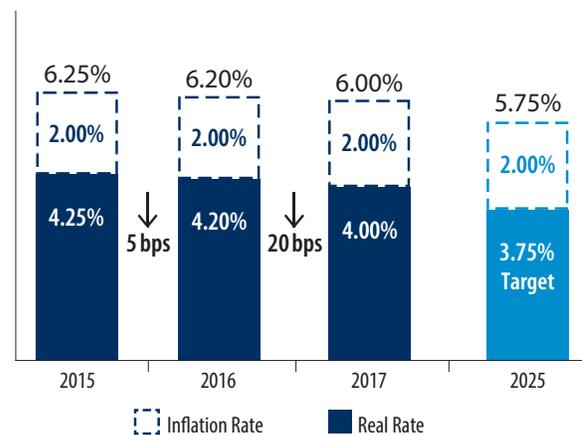
Contribution rates and benefits are of utmost importance. Contributions were unchanged in 2017, and they remain at current levels in 2018. The current average contribution rate paid by members is 10.7% and is matched equally by employers.

Our target is to reduce the real discount rate to 3.75%. The real discount rate is used to calculate the present value of future pension obligations. In 2017, OMERS reduced the real discount rate by 20 basis points to 4.00%. This step was taken to reduce the risk of future contribution rate increases and to provide greater stability for future benefit levels. OMERS reduces the real discount rate when there is positive Plan experience – when actual results are better than OMERS long-term actuarial assumptions.

Plan Funded Ratio



Funding Discount Rate



2018 Member Contribution Rates	Normal Retirement Age 65	Normal Retirement Age 60
On earnings up to \$55,900*	9.0%	9.2%
On earnings above \$55,900*	14.6%	15.8%

*The CPP earnings limit in 2018. There are no changes to contribution rates in 2018.



Delivering 7-11% Net Average Annual Investment Returns

Investment returns are important so that we can meet the long-term costs of providing pension benefits. In 2017, our net investment return exceeded our benchmark, with all major asset classes performing well.

In 2017, the Plan achieved a net investment return of 11.5%, exceeding our benchmark of 7.3% and our 2016 net investment return of 10.3%. We continued to execute on our investment strategy of building a diversified portfolio of high-quality investments, which has generated \$7.6 billion of investment income above our discount rate since we launched our 2020 Strategy.

All major asset classes performed well in 2017. OMERS performance was a result of a tactical allocation in favour of public equities which performed exceptionally well in 2017, and our strategic allocations toward credit, infrastructure, private equity and real estate, which have delivered strong multi-year returns.

Investment returns in recent years have enabled us to improve our financial position. Indicators suggest that we may see further economic growth in the

short term that will enable us to realize continued positive results.

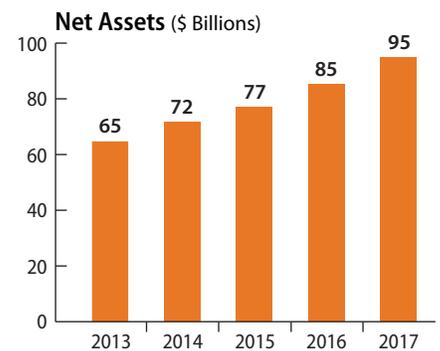
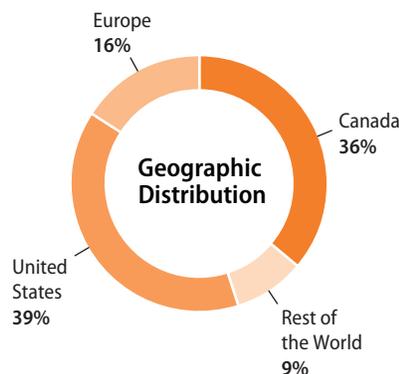
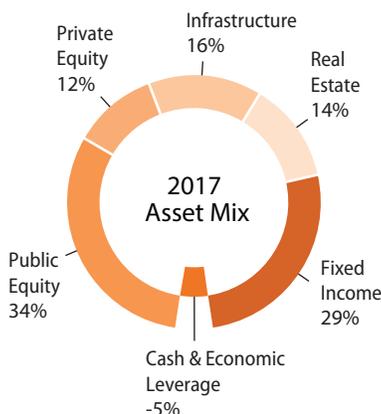
As stewards of the Plan, we take a long-term view and we are aware that there are headwinds on the horizon including the potential for slower global economic growth, that may temper investment returns in the future.

Net Return History

	1-year	3-year	5-year	10-year	20-year
Net Return	11.5%	9.5%	8.9%	5.9%	7.0%

Net Investment Return Summary

	2017	2016
Fixed Income	4.3%	6.5%
Public Equity	14.7%	7.1%
Private Equity	11.1%	12.3%
Infrastructure	12.3%	10.9%
Real Estate	11.4%	12.3%





Building Quality Relationships

Our relationships with members, employers, sponsors, unions and associations are important to us. We strive for strong member and employer satisfaction as we work to support an increasing number of our members transitioning into retirement.

Serving our members is an important focus for OMERS. We understand the value of a high service standard as our members make important decisions. Our member satisfaction measure reflects feedback on services received, whether working through a benefit application or speaking with an OMERS representative.

92%

Member satisfaction

The most convenient and readily available access for members to obtain their pension information is through myOMERS, our member online portal. In 2017, more than 196,000 members (41%) were able to use myOMERS to update their profile information and access their annual statement online. The Retirement Income Estimator on myOMERS was used to produce more than 132,000 pension estimates to help members with their retirement planning.

10,200

New retirees

Retirement decisions can involve many questions and often require personalized support. OMERS provides a variety of communication vehicles and options for addressing member questions relating to their pension.

OMERS continues to encourage members to take advantage of the convenience of receiving important Plan updates and information through e-subscription. Not only is this efficient, electronic record-keeping for members, it is an environmentally friendly option that enables us to reduce our use of paper and saves the Plan money.

During 2017, the Additional Voluntary Contributions (AVC) program continued to grow steadily. The AVC program provides the opportunity for members to build their pension through additional contributions that earn the OMERS net rate of return. Participants are benefiting from OMERS returns at a low cost relative to other retail retirement savings options.

In June, five Plan changes were approved, including adjustments to the availability of commuted values and buy-backs, access to pensions by dual members, Plan membership for international workers, and technical amendments to the Additional Voluntary Contributions (AVC) Income Option. These changes are subtle, but important – balancing the needs of affected members with the needs of the whole Plan membership.

These changes include transition measures that will

\$30,300

Average annual OMERS pension for members who retired in 2017

202,000

Member phone calls handled by Client Services

450

Member information sessions held

39

Member webinars hosted



give affected members time to adjust. Further details are available at www.omers.com/2017planchanges.

Employers play an important role in the Plan, partnering with OMERS to administer pension benefits for members and matching members' contributions. We strive to keep employers informed on key strategic and administration matters.

During 2017, OMERS senior management met directly with more than 60 employers across the province. We discussed OMERS 2020 Strategy, funded status, investments, workforce trends,

85%

Employers were satisfied with the support they received from OMERS

Plan demographics and pension administration, and we asked for feedback on our progress. These meetings provide critical input toward our efforts of continuous improvement.

OMERS enhanced its service model and support for employers in a number of ways. We created a focused Employer Support Services team to assist with the most complex employer questions, and launched new e-learning and e-tutoring offerings.

We also continued to offer webinars and learning forums, which were well-attended with 2,800 participants.

As a number of Plan administrators are approaching retirement, OMERS is ready to support new Plan administrators get quickly up to speed on OMERS administration matters, using a number of tools and approaches to suit different needs.

During 2017, OMERS held meetings with sponsor organizations. We also had sessions with unions, associations and other groups of members. These meetings provide an opportunity to achieve a deeper understanding of important issues, to build stronger relationships, and to further partner in connecting with members.

Following OMERS SC announcement of a *Comprehensive Plan Review* being led by the SC, a Sponsors Forum was held in November to discuss more about the Plan. We are open to all views, concerns and ideas.

18,570

Members provided with buy-back options

18,500

Total number of members in AVC program

\$817 million

Total AVC member account balances

\$20 million

Converted to AVC income option



Evolving Our Capabilities and Business Model

In 2017, evolving our capabilities meant further developing OMERS culture by moving Toronto employees under one roof, expanding our Asia Pacific presence through a new office in Singapore, making advances with our new pension administration system, and developing our risk management capabilities.

In 2017, OMERS consolidated several Toronto locations into a single office for over 1,400 employees at 100 Adelaide St. W. This building, in which we own a 50% interest, was developed and is managed by Oxford, our real estate company. The move will generate related savings of over \$26 million over the next 15 years relative to renewing our previous office leases, and has provided for the consolidation of several duplicate functions and the streamlining of disparate systems and processes. Moreover, the move supports the continued development of one OMERS culture, which we believe is essential to our long-term success.

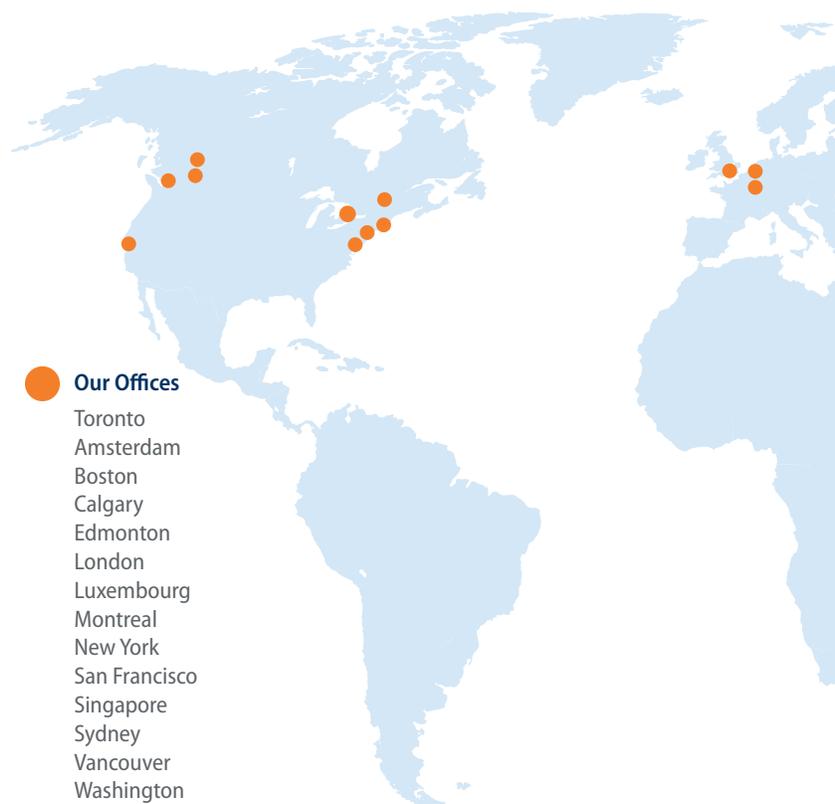
We remain attentive to our costs and are using our scale, technology and strong procurement practices to contain growth in expenses while responsibly investing in managing our risks and achieving our strategic objectives.

In 2017, OMERS announced the opening of a new investment office in Singapore to advance our deployment of capital into the higher-growth emerging Asian markets.

We also invested in our risk-management capabilities. We set out our desired amount of risk in pursuit of delivering secure and sustainable defined benefit pensions. As well, we worked to improve cybersecurity to protect our member, investment and real estate tenant data.

As the rate of member retirements increases, we are carefully adding resources to our Member Services team to keep up with demand while generating efficiencies in productivity through streamlined working practices.

OMERS Management Expense Ratios in 2017 and 2016 of 55 basis points and 61 basis points, respectively, include the impact of incentive compensation in





recognition of the very strong investment returns in both years. Over time, we aspire to drive our Management Expense Ratio toward 50 basis points. One of the ways we are seeking to do this is through earning fee income from the management of third-party capital in the assets that we own.

In 2017, we made significant progress in the development of OMERS new pension administration system, which will provide high-quality service to

members and employers in the future. System reliability and functionality are of utmost importance, and in-depth testing of the new platform will be the focus for 2018. With our attention to quality, we are spending the necessary time to ensure that we get the system development right.

As a result of our systems-renewal initiative, we expect that our Cost Per Member expense metric, which is currently below the average of our large Canadian public pension plan peers, will increase. Our Cost Per Member for 2017 was \$195, above our 2020 target of \$185. In 2018, we will be evaluating the costs and benefits of further systems development, which will establish new long-term Cost Per Member targets for the future.

To ensure that we have talented employees to advance OMERS into the future, we are building the capabilities of our people. We have expanded our leadership development programs globally to create new experiences that will build greater depth across the organization. We believe that being inclusive is an integral part of our talent agenda, as demonstrated by the work of OMERS Inclusion & Diversity Council and our Pride Employee Resource Group. We recognize the value of hiring, developing and advancing the best people who are committed to working together to deliver on the pension promise. Our differences generate better discussions and produce better outcomes.

