2017 Management Discussion and Analysis

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This Management Discussion and Analysis is the responsibility of the management of OMERS Administration Corporation (OAC) and OMERS Sponsors Corporation (SC).

The SC provides strategic oversight and decision-making with regard to designing benefits, setting contribution levels, and determining the composition of the two OMERS Boards. OAC provides strategic and operational management in serving members and employers of the OMERS Pension Plans (the Plans), collecting contributions and paying pensions, and investing the Plans' funds.

The Management Discussion and Analysis contains Management's analysis of the Plans' financial condition, operational results, and the environment in which the Plans operate. The Board of Directors of OAC has reviewed and approved the contents of this Management Discussion and Analysis, as at February 22, 2018. SC management has reviewed and approved the "Primary Plan Funded Status" section of the Management Discussion and Analysis. This Management Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

In addition to historical information, this section contains forward-looking statements with regard to Management's strategy, objectives, outlook and expectations. Forward-looking statements made in this section represent Management's views at the date of this report, and management does not undertake to update or revise any forward-looking statements as a result of new information, future events or otherwise. Many factors affect the Plans' performance, such as changes in market conditions, interest rates, demographics and technological factors. Investment returns and values will fluctuate. Past performance is not a guide to or indicative of future results.

We use certain financial measures that are not based on Generally Accepted Accounting Principles (GAAP), including funding deficit, as key metrics in our financial reporting to enable our readers to better understand the performance of our business. Other non-GAAP financial measures that we use include performance returns by asset group. These non-GAAP financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies or pension plans. They should not be viewed as an alternative to measures of financial performance determined in accordance with GAAP. This report is not intended for U.S. persons. Interests in the Plans are not and will not be offered or sold in the U.S., or to or for the account of U.S. persons, as defined by U.S. securities laws.

Overview of OMERS Pension Plans

About OMERS

Established in 1962, OMERS provides defined pension plan benefits to local government employees, retirees and their survivors throughout Ontario. The OMERS Primary Pension Plan (the Primary Plan or the Plan) is a jointly sponsored, multi-employer pension plan with nearly 1,000 participating employers and almost half a million Primary Plan members in 2017. Employers range from large cities to local agencies. Primary Plan members include union and non-union municipal workers; the non-teaching staff of school boards; employees of transit systems and electrical utilities; police, firefighters and paramedics; and employees of children's aid societies.

The Primary Plan is funded by equal contributions from members and employers, and by the investment earnings of the Primary Plan's assets.

The Primary Plan is sponsored by OMERS Sponsors Corporation (SC) and administered by OMERS Administration Corporation (OAC). The SC and OAC each have their own mandates and Boards of Directors.

OMERS Sponsors Corporation

The SC is primarily responsible for plan design, including setting benefit levels and contribution rates, and determines the composition of the two OMERS Boards. The SC Board comprises 14 members, half of whom are appointed by employer groups, and half of whom are appointed by unions and associations of the Primary Plan.

OMERS Administration Corporation

OAC has three main responsibilities:

- investing the pension funds;
- administering the Plans and paying pension benefits to members; and
- preparing and approving the actuarial valuations.

To carry out these responsibilities, OAC is organized into four businesses, supported by a corporate office:

- Pension Services
- Capital Markets
- Private Markets
- Real Estate and Platform Investments

OAC is governed by a Board of Directors consisting of 14 members nominated by sponsor organizations and appointed by the SC Board, and an independent Chair, also appointed by the SC Board in a joint process with the OAC Board.

Pension Plans

The OMERS Pension Plans comprise the OMERS Primary Pension Plan, the Retirement Compensation Arrangement (RCA) for the OMERS Primary Pension Plan, and the Supplemental Pension Plan for Police, Firefighters and Paramedics.

OMERS Primary Pension Plan

There are two components to the OMERS Primary Pension Plan: defined benefits and Additional Voluntary Contributions (AVCs). The defined benefits paid under the Primary Plan, when combined with current Canada Pension Plan (CPP) benefits, are designed to approximate 2% of a member's average annual earnings for the highest-paid 60 consecutive months, multiplied by their years of credited service, to a maximum of 35 years.

The Primary Plan currently provides eligible members with:

- inflation protection;
- a bridge benefit, which ceases at age 65, when CPP benefits are expected to commence;
- early retirement options;
- disability protection in the event a contributing member becomes disabled and is unable to work;
- survivor benefits for a spouse and dependent children; and
- portability options on termination.

Benefits payable under the Primary Plan are limited by the maximum pension allowed under the *Income Tax Act* (ITA). The Primary Plan's financial statements are set out in the Notes to the Consolidated Financial Statements.

Retirement Compensation Arrangement for the OMERS Primary Pension Plan

The RCA provides pension benefits using the OMERS pension formula, which are above the maximum pension allowed under the ITA. The benefit is based on annual earnings capped at the lesser of 150% of the member's base annual current compensation, or seven times the year's maximum pensionable earnings.

Net assets of the RCA were $162 million at December 31, 2017, compared to $147 million at December 31, 2016.

The RCA is not subject to the minimum funding standards of the *Pension Benefits Act* (PBA), and is partially funded on a modified pay-as-you-go basis. The funding target is to help ensure that the existing RCA Fund, projected contributions, and investment earnings, are sufficient to pay for benefits and expenses for a period of 20 years following each valuation date.

OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics

The Supplemental Plan is a separately funded, stand-alone, multi-employer pension plan for members who are police, firefighters or paramedics. It provides supplemental pension benefits that top up those available under the Primary Plan. Participation in the Supplemental Plan is effective only upon an agreement between an employee group and its employer. As at December 31, 2017, no such agreement was in place. As a result, the Supplemental Plan currently has no members, assets or liabilities.

Primary Plan Funded Status

In 2017, the funded ratio increased to 94% from 93% in 2016. The funded ratio is a key indicator of the long-term financial health of the Plan. With $93.6 billion of pension obligations as at December 31, 2017, compared to $87.0 billion as at December 31, 2016, the Primary Plan ended 2017 with a funding deficit of $5.4 billion, compared to a deficit of $5.7 billion at the end of 2016. Net assets on a smoothed basis were $88.2 billion as at December 31, 2017, compared to $81.2 billion the previous year. There were no changes to contribution rates or benefits in 2017 and these will remain at current levels in 2018.

The funded ratio is the relationship of Plan assets to pension obligations on a going-concern basis. Plan assets are calculated by smoothing investment returns – above or below the Plan's discount rate – over a five-year period. By smoothing asset values, contribution rates can be set and benefits designed while taking a long-term view of investment performance. The deficit represents the difference between the pension obligations and the smoothed value of assets. At the end of 2017, unrecognized investment returns were $6.0 billion compared to $3.4 billion in 2016, which will be recognized over the next four years.

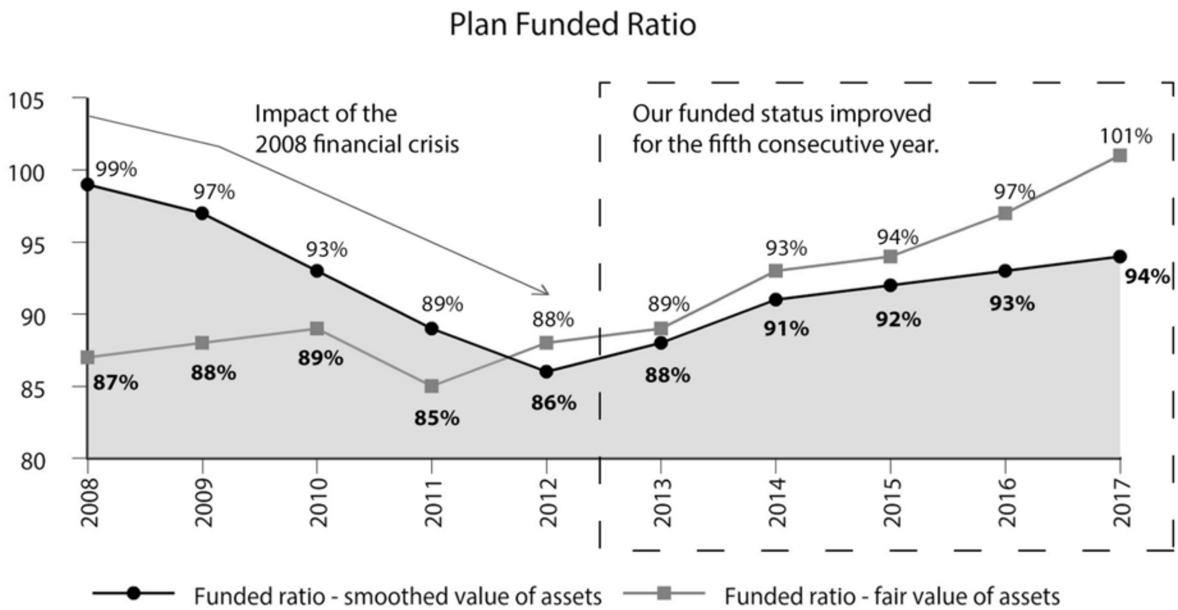
The improvement in funded status during 2017 was the net result of the following factors:

Funded Ratio %			**Deficit $ billions**
93%	**Beginning of year**	$	(5.7)
1	Contributions from members and employers to pay down the deficit		0.8
2	Recognized investment returns in excess of the discount rate		2.0
(3)	Reduction in the discount rate by 20 basis points		(2.7)
1	Primary Plan experience and other factors		0.6
n/a	Interest on deficit		(0.4)
94%	**End of year**	$	(5.4)

The main factors contributing to the improvement in the Plan's funded status are member and employer contributions, and investment returns. The Plan's net investment return was 11.5%, which exceeded both OMERS operating plan target of 7.3% and discount rate of 6.2%. As at December 31, 2017, OMERS reduced the discount rate from 6.2% to 6.0%.

The Plan's funded status, on a smoothed basis, has improved for the fifth year in a row, mainly due to contributions above the benefits accrued, along with positive investment returns in excess of the discount rate. OMERS goal is to return the Primary Plan to full funding while reducing the discount rate further over time. OMERS 2020 Strategy advances our funded status to achieve full funding by 2025 and we remain on course.

The following chart tracks the funded status of the Plan over the past 10 years.



Managing the Plan's Funded Status

Making good decisions to protect the Plan's funded status is critical to keeping the Plan healthy over the long term. Three levers are available to manage the Plan's funded status:

- contribution rates
- benefit design
- investment returns

Responsibility for implementing strategies to manage the three levers is shared between SC and OAC.

The SC sets contribution rates and benefit levels, taking into consideration the Plan's funded status (surplus, reserve or deficit). Decisions are guided by a clear framework – a Funding Management Strategy – that protects the Plan's funded status, and supports pension security and sustainability for current and future retirees.

OAC determines the actuarial assumptions and methods used to calculate pension obligations – including the Plan's discount rate, based on advice from an independent actuary – and sets minimum funding requirements in accordance with pension laws and regulations. OAC is also responsible for investments on behalf of the Plan.

Achieving OMERS target to be fully funded by 2025 is conditional upon actual investment returns and demographic experience.

OMERS is committed to taking a strategic and co-ordinated approach to using the three funding levers so that decisions are fair, balanced and supportive of long-term sustainability objectives. Contributions and benefits must be balanced to keep pensions secure and sustainable, while ensuring the Plan provides meaningful retirement benefits for its members. We continue to pursue investment returns that meet or exceed our long-term targets.

Funding Management Strategy

The Funding Management Strategy, which was adopted by the SC Board in 2014, includes three funding zones, and provides parameters for setting contribution rates and benefits within each zone. The Strategy strives to maintain a healthy balance between the Plan's assets and long-term pension obligations. It clearly sets out the conditions for when contributions and benefits will be adjusted to manage the Plan's long-term financial health.

As the funding status improves, and as the Plan moves from deficit to surplus management zones, the SC will take a conservative approach to reducing contribution rates and restoring benefits.

The Plan is currently in the Deficit Management zone. In the absence of any unforeseen events, OMERS funded status is targeted to reach 100% no later than December 31, 2025. The 2017 combined employer and member contribution rate of 21.3% exceeds the minimum contribution rates of 19.6% under the PBA. In the event the Plan should move further into deficit and the minimum contribution rates under the PBA exceed 21.3%, the Funding Management Strategy calls for such additional deficit to be funded by a combination of benefit reductions and contribution increases. Contribution rates are subject to an overall cap of 22.6%, after which any remaining deficit is to be funded through benefit reductions.

Once 100% funded status is achieved and the Plan enters the Reserve Management zone, the Funding Management Strategy calls for contribution rates to be reduced to normal cost, plus 2%, until the funded status reaches 105%, and then reduced further to normal cost, plus 1%, until the funded status reaches 110%. Normal cost is the present value of pension benefits accrued during the year. In other words, it is the contribution rate that pays for current service without the deficit payments. Benefit reductions, which occurred while in Deficit Management zone, are restored at the point when the Plan reaches 105% funded status. Restoration will be on a prospective basis, which means it will only impact benefits earned in the future – not those that have already accrued.

Above a funded status of 110%, the Plan enters the Surplus Management zone where the objective is to maintain the 110% funded status and further restore benefits. Contribution rates will be set so as to fund the normal cost of benefit accruals. Benefits will be restored retroactively, but only when doing so will not reduce the funded status to below 110%, and when it is considered prudent to do so. Additional contribution rate reductions and benefit enhancements also may occur, but only to the extent the funded status is not reduced to below 110%.

Plan Funding Risk

Plan funding risk is the potential that the SC will need to increase contributions or reduce benefits as a result of unfavourable investment performance, adverse Plan experience, or Plan maturity. Increasing Plan maturity through time means the Plan will have less capacity to bear Plan funding risk in the future, everything else being equal.

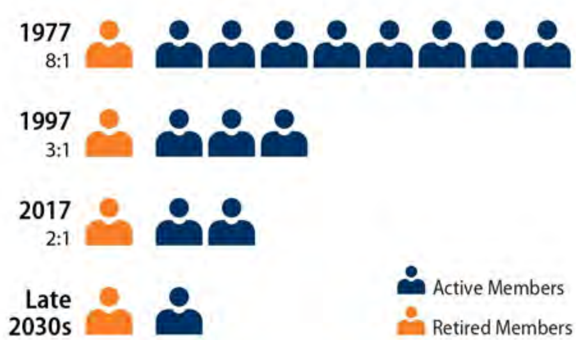
Unfavourable investment performance includes circumstances where Plan returns in the long term are lower than the Plan's discount rate, and where fluctuations in the Plan's short-term returns require changes to contributions/benefits. Many economic factors – including financial market volatility, persistently low interest rates, and a high level of competition for asset classes – present risks that impact the ability to generate returns that meet or exceed the Plan's discount rate. Accordingly, each year, OAC tests the reasonableness of the Plan's discount rate to ensure it contains sufficient margins to protect the Plan against adverse experience over the long term.

An important factor in setting the Plan's discount rate is our target asset mix, which is approved by the OAC Board and which reflects target allocations across a set of asset classes. OAC conducts periodic studies (the most recent being in 2016) to adjust the Plan's target asset mix to ensure investments are allocated in a way that optimizes the Plan's ability to return to full funding by 2025. The asset mix also helps our ability to pay pensions without having to sell assets, while minimizing the risk of unexpected Plan design changes.

The Plan has recently enjoyed several years of strong investment returns, fueled by an increase in global economic growth and the effects of low interest rates, which has generated intense competition for private investments. As the population in the world's major economies age, we anticipate that global growth will slow, and that future investment returns will be lower compared to the past 10 years.

Adverse Plan experience includes unexpected changes in life expectancy (such as increased longevity), salary increases, and retirement and termination trends. Continuing adverse Plan experience, leading to actuarial losses, requires a change to actuarial assumptions that negatively impact pension obligations and funding requirements. Life expectancy, in particular, has steadily increased over time. This means retirees collect pensions for longer periods, which increases the pension liabilities. We monitor our Plan experience against actuarial assumptions annually, and conduct a detailed Plan experience study at least once every five years.

Plan maturity is the phenomenon of a declining active membership relative to the retired member population, whether due to increasing longevity, a decline in new members, retirement patterns or other factors. Since all Plan funding risk is currently borne by active members and employers, this trend means the cost of funding Plan deficits is increasingly concentrated in a relatively smaller group. The ratio of active members to retired members is a common measure of Plan maturity. The Plan is maturing, as this ratio was just below 2:1 at the end of 2017, compared to slightly less than 3:1 in 1997. As the proportion of contributing members continues to decrease, annual contributions will become less than annual pension payments. We will rely upon investment income to make up the difference, leaving the Plan more vulnerable to economic downturns. We expect the Plan to continue to mature for the foreseeable future.



A recent *Membership Evolution Study* looking at workforce and employment trends suggests that our active membership may shrink over the next 25 years. Declining active membership intensifies the Plan maturity challenges described in this section.

Beginning in 2019, members and employers will be impacted by gradual enhancements to the Canada Pension Plan (CPP). These will include increasing the CPP income replacement rate from 25% to 33% of earnings, with consequently higher employer and employee contributions. The OMERS pension formula does not adjust for changes in CPP automatically. As a result, the combined pension benefit future retirees will receive from CPP and OMERS will increase in the long term. As more dollars are being directed to secure more retirement income outside of OMERS, this puts further pressure on OMERS contribution rates, decreasing the available dollars members and employers have to absorb future increases.

Discount rate

The discount rate is the interest rate used to calculate the present value of anticipated future benefit payments. This rate impacts the Plan's pension obligations and minimum contribution rates. The discount rate is comprised of two main components: 1) the real discount rate (before inflation), which reflects expectations of future real investment returns from the Plan; and 2) an assumption for future inflation.

The discount rate at December 31, 2017 is 6.0%, compared to a discount rate of 6.2% at December 31, 2016. This reflects a reduction in the real discount rate of 20 basis points from 4.2% to 4.0%. The assumption for future inflation remains unchanged at 2.0%.

Reducing the real discount rate by 20 basis points in 2017 increased the pension obligation and deficit by $2.7 billion and reduced the funded ratio by 3%. The 2018 normal cost of the Plan increased by 0.8% of contributory earnings to 17.4% of contributory earnings. If the 2017 Actuarial Valuation Report is filed with the Financial Services Commission of Ontario, the Minimum Contribution Rate required by law in 2019 will increase to 20.8%, which is less than the current blended contribution rate of 21.3%, indicating that no contribution rate increase would be required through to 2021.

As at December 31, 2017, the real discount rate of 4.0% is net of a strategic margin of 0.25%. Strategic margins are a lever within the discount rate which works to protect the funded status of the Primary Plan from volatility. In the event the Plan were to experience a shock, such as a future financial crisis, OMERS may release strategic margins to increase the discount rate and stabilize the funded status of the Plan, contribution rates and benefits.

In the coming years, we anticipate further reductions to our discount rate to protect against investment and liability risk, which will reduce funding risk over time and provide for stable contribution rates and benefits. OMERS objective is to reduce the Plan's real discount rate to 3.75%. As we reduce our real discount rate, the normal cost of the Plan will increase. Each five basis point reduction in the real discount rate, as at December 31, 2017, would increase the 2018 normal cost by 0.2%. At the end of 2017, we are on track to meet our long-term objectives.

Opportunities to Reduce Plan Funding Risk

A sustainable defined benefit pension plan will deliver an appropriate range of benefits within an acceptable range of costs, across generations and through both favourable and adverse circumstances. Plan design and the way that contributions and benefits are managed through time, are fundamental to ensuring the Plan remains sustainable.

In 2017, OMERS Sponsors Corporation launched a *Comprehensive Plan Review* to evaluate and explore opportunities to enhance plan sustainability and address funding risks. The review will model the Plan's long-term financial health, and explore benefit and contribution management approaches which manage risk. The objective is to keep benefits relevant, and costs affordable, for current and future generations of stakeholders.

Investment Results

Economic Environment

Global economic growth became increasingly synchronized in 2017, with activity picking up across advanced and developing economies. The global momentum was supported by increased investment spending, record-low unemployment, accommodative monetary policies and weak inflation. As a result, equity markets have performed well globally and, though interest rates have increased, they still remain low relative to historic levels. All of these factors led to an economic environment conducive for investing and drove increased competition for private assets.

Results

In 2017, the Primary Plan had a return, net of expenses, of 11.5%, compared to a benchmark of 7.3%. All major asset classes performed well in 2017 and outperformed against benchmarks. Public investments delivered net returns of 11.4% and Private Investments delivered net returns of 11.6%.

We measure our performance against an absolute return benchmark approved before or at the beginning of each year by the OAC Board. Our goal is to earn stable returns for OMERS that meet or exceed our benchmarks.

Current Year Returns at a Glance

Investment returns for the Primary Plan and RCA for 2017 and 2016 were as follows:

For the years ended December 31,	**2017**			2016 [1]		
	Net Investment Income $ millions	**Net Rate of Return %**	**Benchmark %**	Net Investment Income $ millions	Net Rate of Return %	Benchmark %
Public Investments						
Fixed Income						
Inflation-Linked Bonds	**$ 85**	**2.0 %**		$ 195	3.3 %	
Government Bonds	**44**	**0.2**		648	2.3	
Credit	**1,186**	**6.9**		702	9.0	
Public Equity	**3,937**	**14.7**		1,903	7.1	
Cash and short-term instruments	**249**	**n/a**		412	n/a	
Total Public Investments	**$ 5,501**	**11.4 %**	**6.1 %**	$ 3,860	9.4 %	6.4 %
Private Investments						
Private Equity	**1,195**	**11.1**	**9.3**	1,137	12.3	10.7
Infrastructure	**1,917**	**12.3**	**8.7**	1,591	10.9	9.8
Real Estate	**1,455**	**11.4**	**8.4**	1,560	12.3	8.2
Total Private Investments	**$ 4,567**	**11.6 %**	**8.7 %**	$ 4,288	11.8 %	9.7 %
Total Primary Plan Fund	**$ 10,068**	**11.5 %**	**7.3 %**	$ 8,148	10.3 %	7.9 %
RCA Investment Fund [2]	**$ 12**	**13.1 %**	**12.8 %**	$ 8	7.8 %	8.7 %

[1] Comparative figures have been presented on the same basis as 2017.

[2] Excludes the RCA refundable tax balances with the Canada Revenue Agency. Including the refundable tax, the balance net rate of return in 2017 is 7.4%, compared to 4.2% in 2016.

Asset Allocation and Exposure

OAC mitigates risk and targets strong, consistent returns by diversifying investments across asset type, economic sector and geographic market, and by purchasing high-quality assets. OAC has a Board-approved target asset mix for the Plan (updated in December 2016), designed to deliver returns over the long term to provide secure and sustainable pensions. Fixed Income investments include securities in inflation-linked bonds, government bonds and credit. Equity includes both public and private equities, either through the purchase of instruments directly, or through the use of derivatives. OAC also invests in Real Assets, which includes both infrastructure and real estate – selected specifically for their ability to provide more predictable returns and cash flows.

Asset Mix – Exposure

To arrive at the Plan's ultimate exposure by asset class, the asset mix includes derivatives exposure and other items, such as amounts payable under administered funds. Net investment asset exposure, based on the holdings as set out in the Consolidated Financial Statements and, after all allocations, is as set out in the table below. The inclusion of derivatives exposure is reflected in each asset class, with an offset to economic leverage. Economic leverage is the difference between the exposure to an asset class and the fair value of the derivative in the asset class. Net investment asset exposure at the end of 2017 was $96.4 billion ($86.4 billion, 2016) and includes administered funds of $1.4 billion ($1.2 billion, 2016) and non-investment related items of $(0.2) billion ($(0.2) billion, 2016).

As at December 31,	**2017**				2016			
	Investment Assets $ millions	**Investment Liabilities $ millions**	**Net Investment Asset Exposure $ millions**	**Asset Mix %**	Investment Assets $ millions	Investment Liabilities $ millions	Net Investment Asset Exposure $ millions	Asset Mix %
Fixed Income								
Inflation-Linked Bonds	**$ 3,855**		**$ 3,855**	**4.0 %**	$ 5,242		$ 5,242	6.1 %
Government Bonds	**6,754**		**6,754**	**7.0**	9,632		9,632	11.2
Credit	**17,653**		**17,653**	**18.3**	15,139		15,139	17.5
Equities								
Public Equity	**32,522**		**32,522**	**33.7**	24,038		24,038	27.8
Private Equity	**11,521**		**11,521**	**12.0**	11,730		11,730	13.6
Real Assets								
Infrastructure	**17,044**	**(1,365)**	**15,679**	**16.3**	16,462	(1,720)	14,742	17.0
Real Estate	**14,932**	**(1,172)**	**13,760**	**14.3**	14,107	(1,489)	12,618	14.6
Short Term Instruments								
Cash	**13,753**		**13,753**	**14.2**	15,919		15,919	18.4
Economic Leverage	**(19,099)**		**(19,099)**	**(19.8)**	(22,650)		(22,650)	(26.2)
Total	**$ 98,935**	**$ (2,537)**	**$ 96,398**	**100.0 %**	$ 89,619	$ (3,209)	$ 86,410	100.0 %

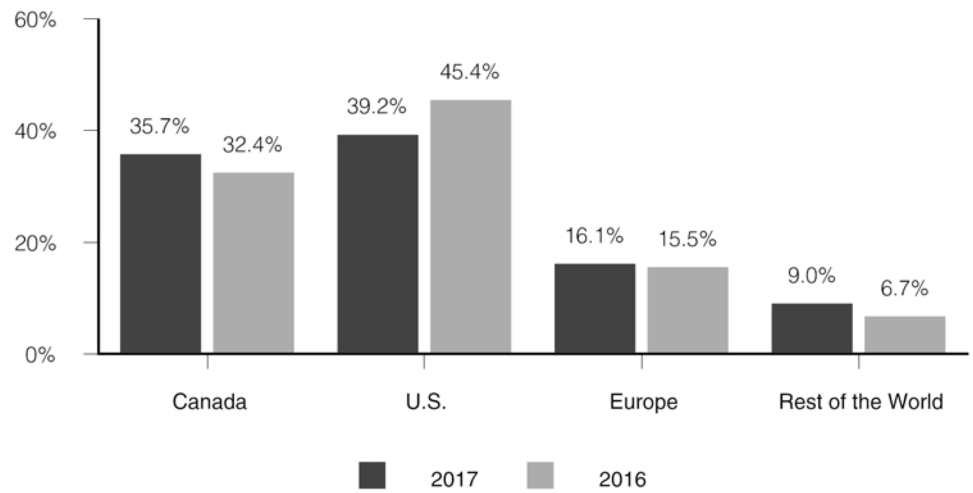
In 2017 we shifted the Plan's asset mix, reducing its exposure to inflation-linked bonds and government bonds. We also increased our exposures to public equities and credit, and proactively reduced economic leverage as asset prices increased.

Country Exposure

The chart below represents the total of the Plan's exposure by country. While Canada continues to offer strong, long-term investment opportunities, prudence and related risk management practices make it necessary to diversify investments across global markets with different growth profiles.

During 2017 we increased exposure to Canada and emerging markets, and reduced exposure to the U.S. economy.

Total Fund Exposure[1]
as at December 31,



[1] Exposures are presented net of financial leverage and before economic leverage.

Currency Exposure

As at December 31, 2017, 95% of currency exposure on our foreign investments was hedged to Canadian dollars. During 2017 foreign exchange losses of $2.1 billion were offset by hedging gains of $2.1 billion. This compared to foreign exchange losses of $3.1 billion, which were offset by hedging gains of $2.9 billion in 2016.

Industry Exposure

The OMERS portfolio remains highly diversified across industries. The table below shows OMERS investment exposure by industry, net of financial leverage and before deducting economic leverage.

As at December 31,	**2017**	2016
Financials	**16.9%**	14.5%
Real Estate	**13.3%**	12.2%
Cash and Cash Equivalents[1]	**11.8%**	12.8%
Industrials	**10.0%**	10.2%
Government	**9.2%**	13.1%
Utilities	**9.0%**	8.2%
Consumer Discretionary	**6.6%**	7.5%
Information Technology	**6.3%**	5.5%
Energy	**5.2%**	4.7%
Health Care	**4.8%**	3.9%
Consumer Staples	**3.0%**	3.3%
Materials	**2.4%**	2.9%
Telecommunication Services	**1.5%**	1.2%
Total	**100.0%**	100.0%

[1] Repurchase agreements are included in cash and cash equivalents. Comparatives have been presented on the same basis.

Investment Management and Pension Administration Expenses

Investment management expenses were $409 million in 2017, compared to $427 million in 2016. The impact of strong investment performance on pay-for-performance expenses were more than offset by the impact of compensation plan design, lower external manager fees due to reduced fund investments, and lower premise and equipment expenses.

The investment management expenses, which included external manager performance and fund fees recorded in investment income, represent an Investment Management Expense Ratio of 55 basis points, compared to 61 basis points for 2016. Over the long term, we are targeting our Management Expense Ratio to be lower than 50 basis points, subject to performance-related expenses. Our Management Expense Ratio will vary and depends on many factors, including actual performance results and asset mix.

Pension administration expenses were $85 million for 2017, compared to $80 million for 2016. This increase was due to the impact of strong results on pay-for-performance, and improvements in technology, including cybersecurity.

Pension administration expenses represent a Cost Per Member of $195 for 2017, compared to $189 for 2016. We expect that Cost Per Member will increase in the near term as we renew our pension administration system. In 2018, we will be evaluating the costs and benefits of further systems development which will establish new long term Cost Per Member targets above the current target of $185 set out in our 2020 Strategy. We remain focused on deliberate expense management and the value of every dollar in the Plan.

Public Investments

Investment Approach

Our approach to investing in public markets is focused on high-quality investments that can generate sustainable income and growth, which results in more consistent returns and low volatility. We seek investments in companies with strong balance sheets and resilient business models. We partner with leading businesses, operators and best-in-class investors to access investment opportunities on a global basis. Our objective is to construct a well-diversified portfolio across geographies, sectors, strategies and income streams that will deliver long-term, consistent, absolute returns to meet the pension liabilities.

2017 Performance

Public investments generated a net return of 11.4%, compared to 9.4% for 2016 and our 2017 benchmark of 6.1%. This represents net investment income of $5.5 billion in 2017, compared to $3.9 billion in 2016.

The strong performance above benchmark in 2017 was a result of a tactical asset allocation to public equities, which returned 14.7% and reduced exposure to lower return inflation-linked bonds and government bonds, which returned 2.0% and 0.2%, respectively, as well as a strategic allocation to credit which returned 6.9%.

Capital Allocation

Public investments were $56.9 billion as at December 31, 2017, compared to $49.6 billion as at December 31, 2016. The increase in capital was primarily attributable to strong public equity performance and strategic allocation towards public equity and credit. The amount of capital available for Public investments increased by $3.1 billion from sales in other asset classes, and $1.6 billion realized gains from the settlement of foreign currency hedges.

Sustainable Investing in Public Investments

Sustainable investing in public investments focuses on integrating material environmental, social and governance (ESG) factors into our rigorous due diligence process of potential investments. Once an investment is made, we actively engage with our investee companies as a shareholder through our voice with management and exercising our votes.

ESG Assessments

We incorporate ESG considerations into our investment analysis and decision-making processes for all of our key investments, whether we are investing in equity or debt securities, and focus on those ESG factors that are most relevant and material to the investment under consideration.

Our objective is to gauge the likelihood and degree to which ESG-related issues could affect our investments, either through a direct impact to the intrinsic value of the business, or through reputational risk. When we make an investment, we continuously monitor ESG factors, alongside other factors, as part of our active asset management.

Proxy Voting

As owners of companies, OMERS has important rights and responsibilities, including the right to vote our shares at company meetings. We exercise our ownership rights through the proxy process by voting our shares, whether with respect to governance matters, corporate transactions and in connection with other matters being presented to shareholders.

Our voting decisions are based on OMERS proxy voting guidelines, which promote good corporate governance and which hold boards accountable for their decisions. These guidelines are regularly reviewed and updated to reflect evolving developments, and are publicly accessible on our website. We retain the flexibility to consider circumstances and determine how to vote in the best interest of OMERS.

Our proxy voting decisions are made internally by OMERS professionals for all of our North American securities and our largest holdings. Although we consider research and recommendations from third-party proxy advisors, such decisions are based on our own opinion as to what is best for OMERS. We do not always agree with the recommendations of proxy advisors or management of companies.

Shareholder Engagement

In addition to diligently voting our shares, we encourage responsible corporate behaviour by speaking directly to investee companies. As a large and influential shareholder, OMERS often has the opportunity to meet with management teams and boards of directors, and to directly engage them in open and constructive dialogue. By sharing our views on a one-to-one basis with representatives of the companies in which we invest, we can encourage responsible corporate behaviour and accountability.

Private Investments

Infrastructure

Investment Approach

Our approach is to seek strong, stable cash flows through investments in large-scale infrastructure businesses in energy, social infrastructure and transportation – primarily in North America, Europe and Australia. In 2017 we made our first direct investment in South America as part of our growing interest in emerging markets. The infrastructure businesses we invest in include contracted and regulated services supported by long-term arrangements that provide an effective way to manage risk, which contributes to reliable income over the long term.

We take a patient and disciplined approach to infrastructure investing and we execute on the prudent diversification of our portfolio. We actively manage the absolute and relative exposures to a number of factors, such as industrial sector, technology, demographics and currency through dynamic asset and portfolio management.

2017 Performance

The infrastructure net return was 12.3%, compared to 10.9% for 2016 and our 2017 benchmark of 8.7%. This represents net investment income of $1.9 billion in 2017, compared to $1.6 billion in 2016 and an operating cash yield of 8.3% in 2017, compared to 7.9% in 2016.

The Infrastructure performance in 2017 was attributable, in part, to our capital rotation program with the sale of HS1 (our high speed rail investment in the U.K.), along with our active asset management focus which led to operational outperformance across a number of our core assets.

Capital Allocation

Investments in infrastructure increased to $18.1 billion in 2017, up from $17.4 billion in 2016. This increase was attributable to the progress made with our capital deployment strategy, along with increases in the market value of existing assets within our portfolio, net of the HS1 disposition.

During 2017, we invested in Thames Water (a water utility in the U.K.) and we entered the South American market with our investment in GNL Quintero (a liquid natural gas regasification business in Chile).

Private Equity

Investment Approach

Our core private equity approach is to acquire significant direct ownership interests in private companies (usually majority), primarily headquartered in North America and Europe, often with a global reach and with the objective of generating strong capital returns, while appropriately managing risk. We take a thoughtful approach to capital deployment and invest in companies with solid business fundamentals, strong management teams, and opportunities to grow both organically and through acquisitions.

In addition, the private equity asset class includes an increasingly small and focused externally managed funds program to gain access to strategic geographies and sectors; and an innovation-based program, including investments in high potential start-up technology-based firms.

2017 Performance

The private equity asset class net return was 11.1%, compared to 12.3% in 2016 and our 2017 benchmark of 9.3%. This represents net investment income of $1.2 billion for 2017, compared to $1.1 billion in 2016. The asset class return was largely driven by a very strong net return of 18.2% by the core private equity platform, underpinned by the growth in the underlying earnings of portfolio companies, and gains from successful exits. These include Civica (a leading provider of business critical software and digital solutions in the U.K.) and Husky IMS International (a global supplier of injection molding equipment based in Canada), where a definitive sale agreement has been signed. Certain non-core legacy assets, which are no longer on strategy, and fund investments which we expect to exit in the near future, reduced the asset class return.

Capital Allocation

Total investments in private equity remained relatively consistent with the prior year at $10.8 billion, compared to $11.0 billion, as at December 31, 2016. In 2017, OMERS closed the purchase of Inmar (a supply chain support services company in North America based in the U.S.), and acquired an interest in National Veterinary Associates, Inc. (an independent operator of veterinary hospitals based in the U.S.).

Sustainable Investing in Infrastructure and Private Equity

The approach taken with infrastructure and private equity investments is to incorporate sustainability in our investment decisions, consistent with our commitment to our members, and with OMERS stated approach to sustainable investing and corporate responsibility. Specifically, we gauge the likelihood and degree to which ESG-related issues could affect our investments, either through a direct impact to the intrinsic value of the business, or through reputational risk.

We also consider opportunities to enhance ESG practices through the active role we take in the management practices of our portfolio companies. Generally, we have influence over governance through holding seat(s) on the Board, active involvement in strategy setting, and through direct contact with management teams.

We consider sustainable investing and corporate responsibility factors in all stages of the investment cycle.

Origination

When considering a potential investment, we review relevant ESG factors that could influence our investment return. While we do not exclude industries from our review process based on ESG factors, we tailor the depth of assessment required for potential investments, as required, to ensure consistency with OMERS sustainability beliefs. Some ESG factors that are considered include:

- environmental risk;
- health and safety;
- compliance with regulation; and
- governance over anti-bribery and anti-fraud practices.

Asset Management

As an asset owner, we take an active governance role in influencing the way our portfolio companies approach ESG. In almost all circumstances, we hold an equity position (minority or majority) with appropriate governance rights, including negative control rights, as applicable, and participation on boards and related committees. We will appoint independent directors to bring in specialized skills and varied experiences, where necessary.

Monitoring

Our investment monitoring and valuation process includes identification of and reporting on key investment risks, including relevant ESG risks. In our oversight of the companies in which we invest, we require that they be transparent in reporting on sustainable investing.

In 2018, our objective will be to ensure that every private investment in which we have a board seat has a robust discussion about sustainable investing.

Real Estate

Investment Approach

Our strategy is centered on building a world-class global real estate development, investment and management platform that delivers stable income and capital returns through all cycles. Oxford Properties Group executes and manages this strategy and is comprised of a diversified portfolio that includes over 60 million square feet of office, retail and industrial properties, along with significant multi-family and hotel properties, and a development pipeline of projects globally.

Our approach is to invest and develop in select major global urban centres in Canada, the U.S., Europe and Asia where we believe in market fundamentals and the prospect of delivering superior long-term returns. The platform is well-diversified across regions, property types and industry sectors, and we use our competitive advantage in management, leasing, information technology, development and investment to compete successfully against the best real estate investors and operating companies globally.

2017 Performance

The real estate net return in 2017 was 11.4%, compared to 12.3% in 2016, and our 2017 benchmark of 8.4%. This represents net investment income of $1.5 billion in 2017, compared to $1.6 billion in 2016. The performance above benchmark was attributable to strong operating performance and realized and unrealized gains.

Capital Allocation

Total investment in real estate as at December 31, 2017 was $15.5 billion, relatively consistent with $15.1 billion, as at December 31, 2016. During the year, Oxford made 13 acquisitions, committed to nine new developments, and completed four sales transactions, all consistent with our strategy.

Successfully completed sales transactions in 2017 include our 50% interest in the Leadenhall Building (London, U.K.) and our remaining 50% interest in Constitution Square (Ottawa, Canada). Oxford's new investments included a 95% interest in the Sony Center (Berlin, Germany), and a 51% share in 900 16th Street NW and 1101 New York Avenue NW (Washington, U.S.). We also committed to purchasing a 100% interest in Window, an office tower in La Défense (Paris, France), and a 52.5% interest in the development of St. John's Terminal (New York, U.S.). In line with OMERS strategy to diversify our portfolio by allocating capital to Asia, subsequent to year end, we also closed our first investment in that region by participating in the privatization of Global Logistic Properties (a global warehouse operator and real estate fund manager based in Singapore).

In 2017, Oxford continued to make significant progress on over 24 active development projects.

Sustainable Investing in Real Estate

Oxford Properties aspires to develop the best properties in every market in which we choose to invest and to be a leading global development team. Pursuing the highest sustainable design standards is an important part of supporting that strategy, and we strive to be recognized by our customers, employees, shareholders, co-owners and the market-at-large, as an industry leader in sustainable investing. We believe that our decision to invest in and develop premium, green assets has a positive impact on the surrounding ecosystem, and increases the long-term value and financial performance of our assets.

As a landlord, we aspire to provide exceptional customer service, operate buildings as efficiently as possible, and conserve natural resources, and support and engage with our communities and protect our license to operate. To that end, we operate our buildings in a manner consistent with best-in-class standardsacross our different asset classes and markets. These standards include LEED (Canada/U.S. office), BOMA BEST (Canada retail/industrial) and BREEAM (U.K. office) - all standards that focus on enhancing the sustainability performance of buildings. In 2017 two of our properties received best-in-class LEED Platinum recognition: 111 Richmond St. (Toronto, Canada) and the Eau Claire Tower (Calgary, Canada).

"Sustainable Intelligence" is Oxford's program to manage and communicate on its sustainable investing performance. As part of this program, we undertake numerous activities related to sustainable investing, including:

- Energy Management: We implement best practices around energy management, set energy management targets, and monitor performance against these targets to drive cost savings and enhance asset competitiveness. Since 2010, there has been a 26% improvement in the energy efficiency of our managed portfolio on a per square foot basis.
- Waste Management: We set waste management targets and monitor performance against these targets. Customers are provided with reference materials to enhance waste diversion from landfill and reduce costs. We strive to maintain a minimum national diversion rate of 65% in our office properties and 60% in retail.
- Green Building Certification Support: We have achieved 85% LEED-certified office space which is recognition valued by our customers and which helps enhance the sustainable investing performance of our buildings.
- Customer Engagement: We have joint landlord-tenant green teams across all our managed office and retail properties. We also support sustainable investing lobby events which helps differentiate our business and enhance customer attraction and retention.

The Plan's Investment Return History

While we measure our investment performance annually, OAC emphasizes long-term performance, as pensions are paid over decades. Consistent long-term performance is important. The table below sets out the Plan's historical returns over a one, three, five, 10 and 20-year period. The 10-year and 20-year returns were adversely impacted by the financial crisis of 2008.

Net return for the period ending December 31, 2017	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**20 Year**
	11.5%	9.5%	8.9%	5.9%	7.0%

Investments Outlook

Global economic expansion is expected to continue into 2018, driven by increased capital spending and robust household consumption. Recent tax cuts in the U.S. should incentivize further private investment which, combined with rising commodity prices, will bolster the Canadian growth outlook.

Inflation is expected to rise across advanced economies due to tight labour markets, diminishing economic slack, and rising commodity prices. Consequently, central banks are expected to continue cautiously tightening monetary policy. In setting the path of interest rates, central banks will be closely monitoring key risks, including the emergence of protectionist trends in major economies. In the face of these observations, we continue to be thoughtful, disciplined and innovative in our management approach to provide the returns needed for our members.

Risk Management

2017 was a year of significant progress in building out the organization's risk management framework and capabilities. A key milestone was the development of a *Risk Appetite Statement*, which was approved by the OAC Board of Directors in 2017. This Statement will inform our long-term strategy and help guide overall decision-making. It complements existing policies such as Statement of Investment Beliefs, Statement of Investment Authorities, and Statement of Investment Policies and Procedures.

At OMERS, the Risk Management Group and Senior Executive Team create a robust, risk-aware culture and control environment, supported by the Board of Directors. The Chief Risk Officer (CRO) is responsible for the Risk Management Group, which provides independent and objective analysis, and reports to both the Senior Executive Team and the Board of Directors.

Day-to-day accountability for managing risks and ongoing execution remains with the business units and functions responsible for making operational decisions. To assist in the management and communication of risk, four broad categories have been defined: Investment risk, Pension risk, Operational risk, and Emerging risks. We consider funding risk, which is the risk that contribution rates may increase or benefits be cut, to be the result of interaction between these risk categories. These categories are described in more detail below.

Top Risks and Emerging Risks

Top Risks

A top risk is one that could have a material impact on the Plans' objectives in the short term, and some of the risks are explained below.

Plan Funding Risk

The most significant risk facing the Plans is plan funding risk - the potential that the SC will need to increase contributions or reduce benefits as a result of unfavourable investment performance, adverse Plan experience, or Plan maturity. The Plans' funding levels are impacted by how much and by how long pensions will be payable in the future, and by changing economic conditions that influence investment returns. In addressing these factors, the current and prior year positive returns have permitted OAC to build strategic margins into its discount rate at a rate faster than anticipated. Despite this positive outcome, the Plan is still heavily reliant on investment returns to achieve our long- term success and, as such, investment or liability shocks still pose a threat to long- term Plan sustainability.

Pension Administration

We are in the process of significantly upgrading our existing legacy pension administration and processing system, which was developed more than 15 years ago. Modernizing the system is critical to continuing to provide efficient, high-quality services to members and employers. This project is complex and so, to provide an appropriate level of oversight, our governance structure includes members of the OAC Board of Directors, executive management, business and technology leaders, and support personnel.

Emerging Risks

An emerging risk is a matter that, while not currently a top risk, is identified, evaluated and monitored for its potential to become a top risk.

On an ongoing basis, OMERS evaluates and monitors a number of emerging risks in an effort to understand their potential impact on our organization. These risks currently include workforce trends, CPP expansion and Plan maturity.

Risk Categories

OMERS primary objective is to ensure the sustainability of the Plan to pay pensions to all members into the future. The ultimate expression of our key organizational risk is ensuring sufficient capital exists to meet our pension obligations.

OAC believes that, by managing the components of risk in the following risk categories - Investment, Operational, Pension and Emerging - in an integrated, transparent and systematic manner, the organization will be successful in achieving our objectives. A brief overview of each category, its major components, and how we manage the risks, is provided below.

Investment Risk

The value of the Plans' assets is affected by a number of expected and unexpected economic, political and social events that jointly impact the outlook for the major asset classes, as well as the individual assets in which OAC invests. OMERS measures the impact of these changes using quantitative methodologies to provide insights into absolute and relative levels of market risk associated with our investments. This analysis also provides a systematic articulation of the amount of market risk at the total portfolio level. These results provide support for senior management in making strategic investment decisions. These decisions ultimately address the Plans' capability to sustain its long-term obligations to pay pensions. Our investment risks are described in the Notes to the Consolidated Financial Statements and should be read in conjunction with this section.

Operational Risk

Operational Risk is the risk of loss arising either directly or indirectly from operational error due to failure in systems, processes, technology, actions of people, or unforeseen or unexpected external events. Examples of Operational Risk include:

- information technology - the risk that systems infrastructure may not appropriately support business activities;
- people - the risk that we may not have the appropriate talent in place to manage and support business activities;
- model - erroneous or inappropriate use of various models used to support business decisions;
- legal - regulatory - the risk that we are not compliant with laws and regulations; and
- privacy and information security - the risk of inappropriate access to, or misuse of, identifiable personal information, or other business-sensitive information.

The operational risk management program has a range of tools and processes which guide how OAC identifies, evaluates and tracks mitigation activities on an ongoing basis.

Pension Risk

For risk management purposes, Pension Risk consists of potential changes to the pension liability due to Plan experience, Plan assumptions or Plan design. A discussion about the factors contributing to, and the steps taken to manage Pension Risk (and other components of plan funding risks) may be found in the Primary Plan Funded Status section of this Management Discussion and Analysis. To address this risk, we continuously enhance tools, practices and resources to deliver insights and analysis which help inform strategic decisions made by senior management and the OAC Board.

Emerging Risks

This category captures those disparate risks that may not specifically or readily fall within the three categories noted above, and yet may have significant impact on OMERS achieving its strategic objectives. Emerging risks are defined as those risks which are recognizable and which may, at any time, accelerate or impact investment activities, or the operations of the enterprise, or potentially impact the Plan. We actively monitor and manage these risks.