# OMERS

2015 ANNUAL REPORT

We are OMERS, the Ontario Municipal Employees Retirement System. We are the defined benefit pension plan for approximately 461,000 active, deferred and retired employees from nearly 1,000 municipalities, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario.

The benefits and services we provide are funded by equal contributions from active members and their employers, and the investment earnings of our Fund. Our $77 billion of net assets are invested in a diversified global portfolio of public investments, private equity, infrastructure and real estate. We have OMERS employees in Toronto and other major cities across North America, the U.K., Europe and Australia.

We are governed by two corporations:

**OMERS Sponsors Corporation** designs benefits and sets contribution rates for the OMERS Pension Plans, and determines the composition of the two OMERS Boards.

**OMERS Administration Corporation** serves members and employers, collects contributions, pays pensions and invests the assets of the Plans.

We work together towards our vision to make OMERS a leading model for defined benefit pension plan sustainability.


Yasmine, *Member*

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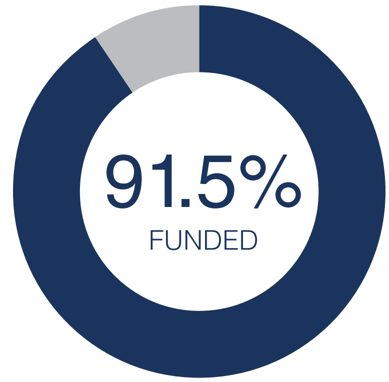
In this report, we refer to the OMERS Pension Plans as "the Plans" and the OMERS Primary Pension Plan as "the Primary Plan" or "the Plan."

# 2015 Financial Highlights




**6.7%**
Net Rate of Return

**$77** billion
in Net Assets

**$3.4** billion
in Benefit Payments

Credit rating of AAA from DBRS and AA+ from Standard & Poor's

## Realizing the Value of OMERS Defined Benefit Plan

An OMERS pension can be one of our members' most valuable assets. When they retire, we provide our members with regular pension payments that continue for the rest of their lives. The OMERS Primary Pension Plan (Plan) provides:

- a lifetime pension based on their earnings and years of service;
- early retirement options, including a bridge benefit paid until age 65;
- inflation protection; and
- disability and survivor benefits.

# 461,000 members

278,000 active
42,000 deferred
141,000 retired

Brian, *Member*

"Our Strategy is a roadmap for our future - it also serves as a scorecard for our team. We are using the objectives described in the Strategy to measure our progress on behalf of OMERS members."

**Michael Latimer**, President and CEO
OMERS Administration Corporation

“Our results show that we are on target to being fully funded by 2025. The Funding Management Strategy provides the tools we can use to address challenges and help us stay on track."

**Deb Preston**, Chief Executive Officer
OMERS Sponsors Corporation

"The OMERS 2020 Strategy approved in 2015 represents a milestone in OMERS governance.  It demonstrates the OMERS Boards’ commitment to working collaboratively to keep your pension secure and sustainable."

**Marianne Love**
**Brian O'Keefe** (to December 2015)
**Frank Ramagnano** (from January 2016)
Board Co-Chairs
OMERS Sponsors Corporation

"Underlying our Strategy is recognition that each and every day we are accountable to 461,000 Plan members."

**George Cooke**, Board Chair
OMERS Administration Corporation

# Year in Review

## 2015 was a positive year for the Plan. We continued to deliver on our mission of providing secure and sustainable defined benefit pensions to our members.

OMERS is facing a changing landscape. Financial markets are challenged by slower global growth, continued low interest rates and increased volatility. Demographic factors are also impacting the Plan with an aging workforce and a growing number of retirees in proportion to working members.

Against this backdrop, our funded status improved to 91.5% as a result of member and employer contributions and investment returns. While we missed our operating plan target of 7.8%, we exceeded our discount rate of 6.5%, and delivered a net investment return of 6.7% (after all expenses). The difference between the 6.5% discount rate and the 6.7% net investment return generated over $100 million in value in 2015.

We also ended the year with an asset mix close to our target. The benefits of diversification and investing in high-quality assets helped to offset a challenging environment in public markets.

We launched a new joint Strategy shared by OMERS Administration Corporation and OMERS Sponsors Corporation, which will guide us over the next five years.

We have a crucial role to play in the retirement security of our members and we are prepared and must address key trends in the long term. We remain committed to returning the Primary Plan to full funding by 2025 through a Funding Management Strategy developed to protect pension security and sustainability, and an investment approach designed to meet the Plan’s long-term needs.

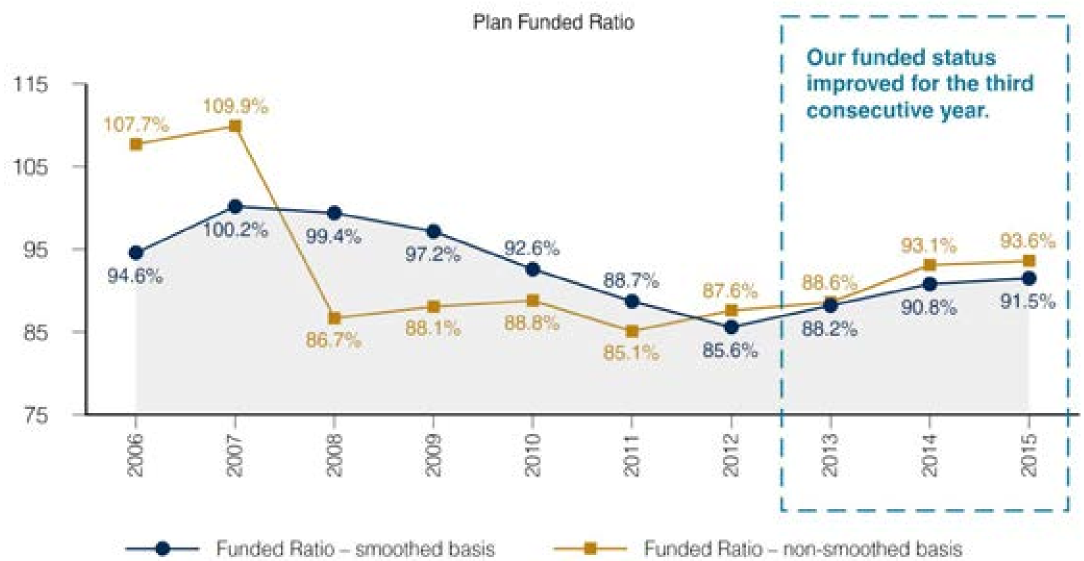
# Funded Status

In 2015, the funded ratio, a key indicator of the long-term financial health of the Plan, increased to 91.5%, up from 90.8% in 2014. The deficit of $7.1 billion was reduced by $0.1 billion and now stands at $7.0 billion. In addition, benefit design and contribution levels did not change.

The funded ratio is the relationship of Plan assets to pension obligations. Plan assets are calculated by smoothing investment returns 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.

Another view of the funded status of a pension plan is the ratio of the unsmoothed market value of plan assets to the value of pension obligations. This Market Value ratio informs the future direction of the funded ratio, especially after a major financial crisis.

The following chart shows the funded status of the Plan for the past 10 years. On an unsmoothed basis, the Plan's funded status fell significantly as a result of the financial crisis. The recent improvement to the Plan's funded status is attributed to changes we put in place in 2010 to our Plan design and contribution rates as well as positive investment returns.




In 2015, the improvement in the funded status was a result of the following factors:

| Funded Ratio % | | Deficit $ Billions |
|---|---|---|
| 90.8% | **Beginning of year** | $(7.1) |
| 1.1% | Contributions from members and employers to pay down the deficit | 1.0 |
| 0.3% | Recognized investment returns in excess of the discount rate | 0.2 |
| (0.4)% | Changes to actuarial assumptions and methods | (0.3) |
| (0.3)% | Primary Plan experience and other factors | (0.3) |
| n/a | Interest on deficit | (0.5) |
| 91.5% | **End of year** | $(7.0) |

Contributions are shared equally between members and employers. The current total blended contribution rate is 21.3% of members' contributory earnings. Approximately 25% of contributions are being used to pay down the deficit.

The value of pension obligations used to compute the funded ratio as of December 31, 2015 was calculated using a discount rate of 6.25%. This rate was 0.25% lower than the 6.5% discount rate used in the the calculation of pension obligations at the end of the year.

> Discount Rate – the interest rate used to compute the present value of anticipated future benefit payments.

The discount rate is comprised of two main elements: 1) the real discount rate (before inflation), which reflects expectations for future real investment returns from our Plan, and 2) an assumption for future inflation. Each year, we test the reasonableness of our discount rate to ensure it contains sufficient margins to protect the Plan against adverse experience over the long term.

As at December 31, 2015, we maintained our real discount rate at 4.25%, but lowered the assumed future inflation from 2.25% to 2.00% to reflect updated long-term expectations for this assumption.

Our funded status is highly sensitive to the real discount rate assumption that we use to compute the present value of our pension obligations and determine minimum contribution rates. A 10 basis point reduction in the real discount rate as at December 31, 2015, would have increased our pension obligations and the deficit by $1.3 billion, and reduced the funded status by 1.4%. The change in assumed future inflation has no significant impact on the pension obligation and funded status because member benefits are generally indexed to inflation.


> **Funding Risks**
>
> We carefully identify, assess, manage and monitor risks that could impact our business objectives, including demographic and economic factors. As a result, risk awareness and management are embedded in all of our strategies.
>
> Demographic factors include changes in life expectancy, retirement trends and future membership levels. We take into account the experience of the Plan in arriving at our demographic assumptions, reflecting input from detailed experience studies conducted at least every five years.
>
> Many economic factors – including volatility in financial markets, persistently low interest rates, and a high level of competition for alternative asset classes – present risks that impact the ability of our investment teams to generate investment returns that meet or exceed our discount rate.
>
> A significant factor in setting our discount rate is our strategic asset mix, which is determined by the Board and reflects target allocations across a set of asset classes. We conduct periodic studies to validate our asset mix to ensure that we are allocating investments in a way that optimizes the probability that future investment returns will meet or exceed the discount rate over the long term.

# Investments

## Results Overview

In 2015, we produced a net return of 6.7%, a gross return of 7.3%, and generated $4.8 billion in net investment income. In the face of low interest rates, poor returns in global public equity markets and a significant sell-off in commodities, these are positive results. Strong returns from private equity, infrastructure and real estate helped to offset challenges with public markets, demonstrating the importance of diversification and investing in high-quality assets.

The overall return on the year exceeded the 6.5% discount rate, which was used in 2015 to calculate the long-term cost of providing pension benefits. However, we did not meet the 7.8% net absolute return annual benchmark approved by OMERS Administration Corporation Board.

### Financial Markets in 2015

North American and international stock markets continued to be challenged in 2015. Fixed income returns were low and commodity prices declined. While we continued to take a prudent and disciplined approach to investing in public equities, the stock markets remained volatile. The table below highlights key indicators of the environment in which we were investing.

| | S&P TSX Composite (Canada) | S&P 500 Index (US) | MSCI World Equity Local | FTSE TMX Nominal Bond Index | US Treasury Bond Index (US) | WTI Crude Oil |
|---|---|---|---|---|---|---|
| Total return as at Dec. 31, 2015 | -8.3% | 1.4% | 2.6% | 3.5% | 0.9% | -30.5% |

**Investment Approach**

Our in-house teams originate, execute and directly manage most of the Plan's investments on behalf of our members. This allows us to co-ordinate opportunities across our investment platforms and manage investment costs. We use leverage prudently to enhance investment returns and expand diversification. Our scale and diversified asset classes makes us a desirable partner for other like-minded investors.

Diversification and the careful, disciplined selection of assets are hallmarks of our investment approach. We invest globally, with assets diversified by asset class, geography, economic sector and we also diversify across types of income streams in order to earn long-term returns. We also target high-quality investments, which are resilient in times of economic stress.

Public Investments

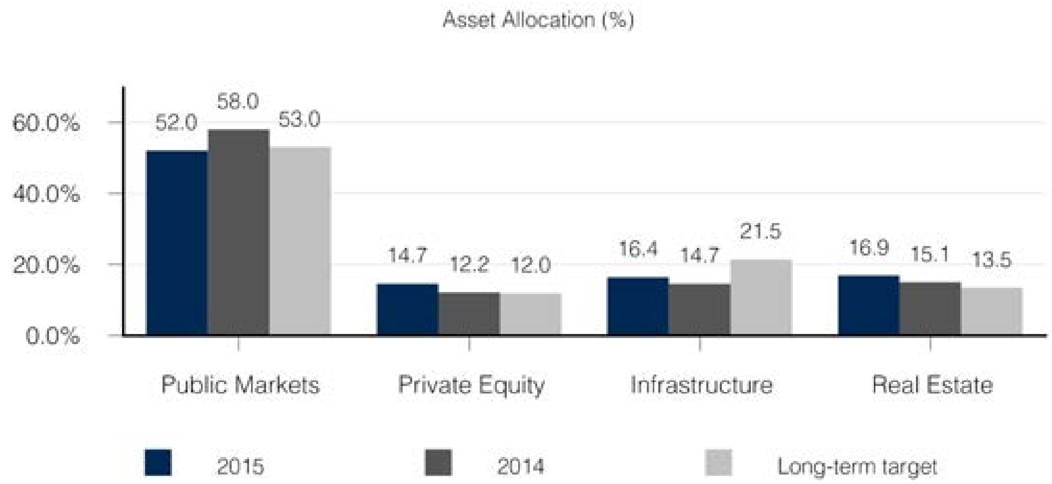
Our public investments include fixed income securities, public equity, and inflation-linked bonds that are generally traded in financial markets. These investments provide returns, liquidity and the flexibility to take long-term and short-term positions.

Private Investments

Our private investments include private equity, infrastructure and real estate, which are held for the longer term. These holdings, specifically in infrastructure and real estate, position us to generate strong returns and consistent cash flows with more stable valuations compared to most public investments.

### Asset Mix Approach

Our asset mix is based on the belief that over the long term, an allocation with exposure to private investments is well positioned to generate strong returns and consistent cash flow, with reduced risk to meet the Plan's funding requirements. We finished 2015 at 52% in public markets and 48% in private markets, which was close to our target mix. This compares to our asset mix of 58% to 42% in 2014.




### Asset Class Returns

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| For the years ended December 31 | **Net Investment Income $ (millions)** | **Net Rate of Return (%)** | **Benchmark (%)** | Net Investment Income $ (millions) | Net Rate of Return (%) | Benchmark (%) |
| **Public Investments** | **$295** | **0.7** | **7.1** | $3,949 | 11.0 | 6.9 |
| **Private Investments** | | | | | | |
| Private equity | **939** | **10.0** | **11.1** | 709 | 7.8 | 10.1 |
| Infrastructure | **2,040** | **17.3** | **9.4** | 1,147 | 10.6 | 8.9 |
| Real estate | **1,816** | **15.3** | **8.1** | 893 | 8.7 | 7.6 |
| **Total Private Investments** | **4,795** | **14.5** | **9.4** | 2,749 | 9.1 | 8.8 |
| **Total Primary Plan Fund** | **5,090** | **6.7** | **7.8** | 6,698 | 10.0 | 7.7 |
| **RCA Investment Fund** | **10** | **12.5** | **12.2** | 9 | 14.5 | 14.6 |

We measure our performance against an absolute return benchmark, which is an absolute return based on operating plans approved with due regard for risk before or at the beginning of each year by OMERS Administration Corporation Board. Our goal is to earn stable returns for OMERS that equal or exceed these benchmarks.

## Public Investments

In 2015, our public investments produced a net return of 0.7% or $295 million in investment income, against our benchmark of 7.1%. This compares to a return of 11.0% or $3,949 million in investment income in 2014. Inflation-linked bonds generated modest positive returns of $874 million, fixed income investments gained $463 million and public equities had $914 million in losses, which included $1.4 billion of losses from commodities. Our performance reflects current market conditions of slow growth, low interest rates, volatile markets for stocks and significant declines in commodity prices.

In the context of market conditions and expectations, we also evolved our public markets strategy and refined our portfolio holdings in 2015. We rebalanced our bond portfolio to reduce our interest rate exposure, expanded our investment program by increasing our corporate credit portfolio and increased our equity investments in well-known companies with strong balance sheets and good prospects for dividend and capital growth. We also created a relationship-investing program, which takes significant minority interests in partnership-driven investments where we can add value to generate outperformance. Current market conditions, where credit spreads have widened, and where capital from strong, long-term investors is in demand, have made it appropriate to deploy this strategy.

## Bruce Power

OMERS has invested billions in Ontario through a variety of assets, including a stake in Bruce Power, a significant partnership with the Province. The company has played a key role in supporting the phase-out of coal in Ontario with nuclear power that is reliable and carbon-free, producing approximately 30% of Ontario's electricity. Our investment in Bruce Power has been an important part of our portfolio, and it aligns with our strategy of seeking high-quality infrastructure assets that generate steady cash flow. In November 2015, Bruce Power and the Ontario government announced an agreement with the Independent Electricity System Operator, which will allow OMERS to invest in the major refurbishment of six reactor units over the next 20 years.

According to a joint impact analysis, the annual economic impact of operating the facility will result in 18,000 direct and indirect jobs, and $4 billion in annual economic benefit through the direct and indirect spending in operational equipment, supplies, materials and labour income in Ontario. Over the next 20 years, as Bruce Power refurbishes its fleet, an additional annual economic impact of over 5,000 direct and indirect jobs and $960 million to $1.2 billion in labour income will benefit Ontario.

## Private Investments

Our private investments generated a net return of 14.5% or $4,795 million in income, against our benchmark of 9.4%. This compares to a return of 9.1% or $2,749 million in investment income in 2014.

Our investments in private equity, infrastructure and real estate are expected to provide strong, consistent returns and cash flows for the investment program. In recent years, we have increased our private investment holdings toward our target of 47% of our Fund and successfully completed a number of domestic and international private transactions in 2015.

**Private equity:** Our 2015 net rate of return was 10%, compared to 7.8% in 2014 and our 2015 benchmark of 11.1%. This represents net investment income of $939 million for 2015, compared to $709 million in 2014. Strong gains from good operating performance across the portfolio, together with some strong exits, were held back by the negative impact on two portfolio companies by materially lower oil prices.

**Infrastructure:** Our net return was 17.3%, compared to 10.6% for 2014 and our 2015 benchmark of 9.4%. This represents net investment income of $2,040 million in 2015, compared to $1,147 million in 2014. The 2015 results reflected the very strong performance of our core North American portfolio as well as our European portfolio, which expanded from transactions in Sweden and Germany.

Real estate: We generated a net return of 15.3% on the portfolio, compared to a net return of 8.7% in 2014 and our benchmark of 8.1% in 2015. Net investment income was $1,816 million in 2015, compared to $893 million in 2014. While office space in Alberta experienced a decline in valuation, our real estate portfolio experienced strong performance supported by favourable realized and unrealized mark-to-market gains, attributable to both our active management and redevelopment activities and generally improving market conditions predominantly in the U.K., the U.S. as well as our Canadian-based hotel portfolio.

In 2015, we continued to diversify our holdings, always taking a long-term view, with careful asset allocation, prudent leverage and deliberate security selection.

## Return History

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

| For the period ending December 31, 2015 | 1 Year | 5 Year | 10 Year | 20 Year |
|---|---|---|---|---|
| Net Return | **6.7%** | **6.9%** | **6.1%** | **7.6%** |

# 2015 Notable Assets

**Hudson Yards**
Significant progress continues to be made at our New York Hudson Yards project with our partner, Related Companies. Hudson Yards is the largest private real estate development in the U.S.


**Tank & Rast**
We made our first infrastructure investment in Germany with an interest in Tank & Rast, the owner of highway services centres on the country's Autobahn network.

**Ellevio**
We acquired Ellevio, one of the two largest electricity distribution networks in Sweden, with the country's National Pension Fund System managers AP1, AP3 and Folksam.

**Yorkdale Shopping Centre**
We continued our program of value creation with significant renovations and expansions made to Toronto's iconic shopping centre, which will include over 400,000 square feet of new prime retail space by 2017.

**Boston Real Estate**
We expanded our presence in Boston through the acquisition of a managed interest in three additional downtown office towers, becoming the city's second-largest commercial office landlord.

**PariSquare**
We continued to further diversify our real estate portfolio with our acquisition of premier office space in central Paris, a key global business and cultural centre.

**Environmental Resource Management**
We acquired ERM, a market-leading environmental consultancy firm based in the U.K., with co-investment partner AIMCo. This investment is our sixth in the U.K., and brings our capital deployed in Europe to more than $2 billion.

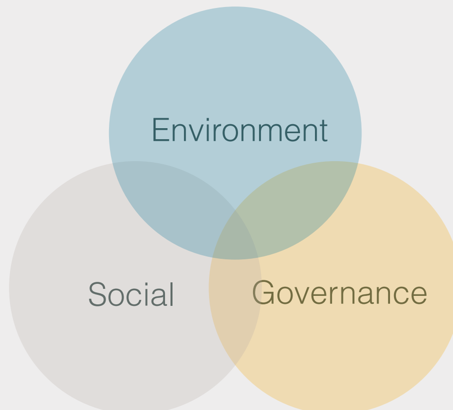
**Brit PLC**
We invested in Brit PLC, a U.K. insurance company, alongside Fairfax Financial as part of our relationship-investing program.

**Kenan Advantage**
We acquired Kenan, North America's largest provider of liquid bulk transportation services.

# Responsible Investing

OMERS approach to responsible investing supports our core mission to deliver secure and sustainable pensions to our members.

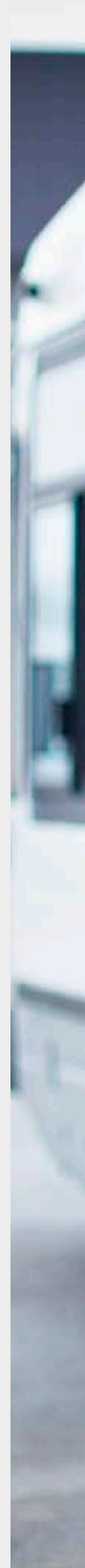
We believe that responsible corporate behaviour with respect to environmental, social, and governance (ESG) factors provides long-term value to our investments. We invest responsibly by incorporating ESG factors in our due diligence and investment decision process, and through engagement and collaboration with like-minded investors.




#1 in Global Real Estate Sustainability (GRESB) Survey

GRESB®
Green Star 2015

For the last 10 years, Oxford has integrated sustainability into our operations of our existing buildings and continues to introduce the latest green building materials and technologies into our new developments. We are pleased to have received the top spot in the benchmark GRESB survey, for the third year in a row, as the North American Regional Sector Leader in the Diversified-Office and Retail category.




Nikki, *Member*

Marsha, *Member*

# Serving our Active and Retired Members

In 2015, we continued to focus on building lasting relationships with our members – from the day they join the Plan to the day they retire, and beyond. We support our members – helping them to make informed decisions at key points in their careers, which can enhance their retirement security, and we continue that support throughout their retirement years.

Over the year, approximately 18,000 members joined the Plan. With 8,421 newly retired members, our pension payroll grew to $2.8 billion. Member satisfaction with service remained high this year at approximately 90%. However, when we surveyed members, they told us there is still room for improvement – by providing clearer information and having a stronger understanding of their needs. We are listening and are making changes to address what we have heard. For example, members have told us that they would prefer to receive their pension information electronically. We have taken steps so that we can move to more digital delivery of pension information in 2016.

## Active Members

New members have important decisions to make even though retirement may be far away. In 2015, we helped 1,734 members consolidate and simplify their pensions and provided 22,539 members with buy-back quotes – so they could assess how these options would increase their retirement income.

In 2015, the myOMERS Retirement Income Estimator produced over 100,000 OMERS pension estimates. Whether a member is a few or many years away from retirement, the myOMERS Retirement Income Estimator can help members see what their retirement income will be and whether they are on track to meet their retirement savings goals.

Mid-career members can also have big decisions to make. For example, if they start a job with another OMERS employer, they may be able to combine their entire pension record under a single membership and continue to build their OMERS pension.

Members who leave their OMERS employer before they are eligible to start their pension are faced with the decision of what to do with their OMERS pension. This year, we helped members preserve the long-term value of their pension – over 3,200 members kept their pension with OMERS and when they retire will receive a monthly pension income for life. By leaving their funds in the Plan, these members avoid taking on the responsibility for managing their investments and the risk that they may outlive their savings.

### Retired Members

We are focused on providing the resources to help our retired members prepare for and enjoy their retirement. In 2015, we held 50 information sessions for our retired members – to provide them with information about their pension. Through myOMERS, retired members can manage their pension online – for example, printing tax slips, and viewing and updating their information. Nearly 40,000 retired members are registered myOMERS users.

### Working with Employers

Employers play an important role in our pension plan. They enrol employees in OMERS and provide matching contributions for their employees. We have begun a major project to significantly upgrade our pension administration system and processes, so that we can more efficiently and effectively support employers, while also enhancing our service to members. We are committed to listening to employers, getting their input on developments and keeping them informed. In 2015, we held 382 information sessions, provided 82 webinars, and held a virtual employer administration conference to help employers get the information they need.

## Additional Voluntary Contributions (AVCs)

Additional Voluntary Contributions (AVCs) are a feature available to members who want to save even more for their retirement. In 2015, the number of members with an AVC account grew by 14%. These additional contributions are invested in the OMERS Fund through pre-authorized payments, employer payroll deduction (where available), or lump-sum transfers from other registered retirement vehicles.

Mark, *Member*

# Connecting with Members

We welcomed **18,000** new members

We managed close to **22,000** benefit claims, a **4.8%** increase over the previous year

We provided **125,000** retirement and termination estimates, representing a **5.6%** increase

We helped over **8,000** new retirees transition from making contributions to receiving pensions

We answered over **195,000** phone calls, covering a wide range of questions

We held over **1,300** information sessions for members and employers in communities across Ontario

We had approximately **953,000** visits to myOMERS.com


Jay, *Member*

# Strategic Plan: Roadmap for the Future

In 2015, OMERS Sponsors Corporation and the OMERS Administration Corporation worked together to develop one inclusive, five-year Strategy that sets out our roadmap to 2020 and reflects our vision to make OMERS a leading model for defined benefit pension plan sustainability.

The Strategy responds to the changes that we are seeing all around us and evolving long-term trends. These changes include the fact that, on average, our Plan members are getting older, which means we have a growing number of retired members compared to active, contributing members. We also have an uncertain investment climate, with low interest rates and low growth.

We are aware of the forces at play and are prepared to address them with a Strategy that anticipates and responds to these trends. With this Strategy, we aim to achieve three objectives:

- being fully funded by 2025 – and protecting the Plan from market volatility, within reason, with stable and predictable contribution rates and benefits levels;
- having a 90% satisfaction rate – by providing high-quality service to members, employers and stakeholders; and
- managing costs effectively – both our Management Expense Ratio (MER) and our Cost Per Member (CPM).

Our Strategy rests on four pillars, setting out how we will:

- Protect our funded status using a robust approach to funding management.
- Deliver 7-11% net annual average investment returns.
- Continue to build quality relationships with members, employers, stakeholders and governments.
- Evolve our capabilities and business model to deliver even better value for pension dollars.

# I. Protect our funded status using a robust approach to funding management

Our long-term goal is to return the Primary Plan to full funding with 100% of the assets required to cover accrued pension obligations. Our five-year Strategy advances our funded status to meet full funding by 2025, and today, we remain on course.

**Managing the Plan's Funded Status**

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

- contribution rates
- benefit design
- investment returns

Responsibility for implementing strategies to manage these three levers is shared between OMERS Sponsors Corporation and OMERS Administration Corporation.

OMERS Sponsors Corporation 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.

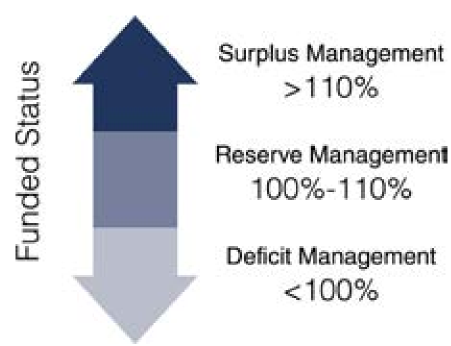
OMERS Administration Corporation determines the actuarial assumptions and methods used to calculate pension obligations - including the Plan's discount rate, based on advice from an independent actuary - and sets minimum funding requirements in accordance with pension laws and regulations. OMERS Administration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

To protect our funded status, we have a comprehensive Funding Management Strategy in place, as well as other tools to ensure the long-term sustainability of the Plan.

## Funding Management Strategy

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

As the funding level improves, and we move from Deficit into the Reserve and Surplus Management zones, we will build reserves by taking a conservative approach to reducing contributions and restoring benefits.



## Building Strategic Margins in Actuarial Assumptions

In support of our goal of being fully funded by 2025, we need future investment returns and demographic patterns to be consistent with our expectations. In other words, things need to go consistently right, or, at least, according to plan. Although demographic assumptions about members' life expectancy, wage growth and retirement patterns are important, the most critical actuarial assumption used to calculate pension obligations is the discount rate. In order to achieve our funding objectives, we need investment returns to meet or exceed the discount rate over the long term.

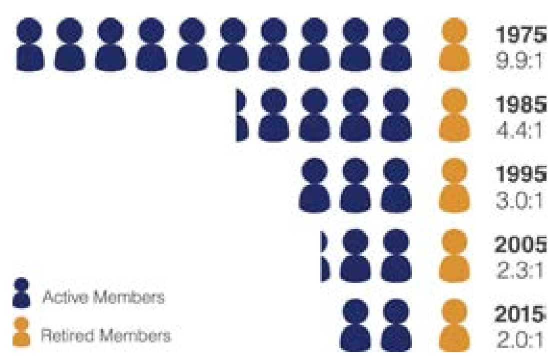
Our real discount rate has remained at its current level of 4.25% since 1999. We intend to build a layer of protection (or a strategic margin) into our real discount rate by reducing it by as much as 25 basis points between now and 2020. We will only make such discretionary decreases to our real discount rate when there is a positive Plan experience – when actual results are better than our long-term actuarial assumptions. We will also only make changes in a manner that does not increase contribution rates from current levels or delay the target date for the Plan to be fully funded by 2025.

When there is a positive Plan experience, we will assess the current position and we will consider the opportunity to apply 50% of the gains to accelerate our return to fully funded status, and 50% to offset the effects of a reduction in the real discount rate. In the event that the Plan were to experience a shock, such as a future financial crisis, we would expect to be able to release the strategic margins to increase the discount rate and stabilize the funded status of the Plan, benefits and contribution rates.

## Other Opportunities to Reduce Funding Risk

Over the coming years, we will be exploring other opportunities to reduce funding risk. These include exploring options to grow the membership base to include more part-time members and possible changes to share downside risks between active and future retired members.

Over time, the Plan is maturing and, in relative terms, the ratio of active to retired members is decreasing. Since all funding risks to the Plan are currently borne by active members and employers, this trend means that the cost of funding plan deficits is increasingly concentrated in a relatively smaller group.




We will explore potential changes to Plan design and to expand membership so that any potential future risks and benefits are shared as broadly as possible.

## Funding Commitment

We are 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 pension security and sustainability. We must balance contributions and benefits to keep pensions secure and sustainable. We must continue to seek investment returns that meet or exceed our long-term targets.

# II. Deliver 7-11% net annual average investment returns

Investment returns from the Plan's assets are a key component of funding our pension obligations. Our investment approach is designed to deliver returns over the long term to provide secure and sustainable pensions. Our objective is to balance our return streams from public market investments by developing new investment strategies focused on high-quality assets, and to continue to deploy new and recycled capital in private investments.

## Our Asset Mix

The cornerstone of our investment strategy is our approach to asset allocation across six strategic asset classes, being fixed income, inflation-linked bonds, public equities, private equity, infrastructure and real estate. Our asset allocation is based upon a Board-approved asset mix study with the following targets and ranges.

OMERS Administration Corporation Board of Directors has approved the following strategic asset mix allocations:

| Asset Class | Target | Min. | Max. |
|---|---|---|---|
| **Public** | **53%** | **41%** | **65%** |
| Public Equities | 35.8% | 15% | 50% |
| Fixed Income | 43.7% | 20% | 75% |
| Inflation-Linked Bonds | 15.9% | 5% | 25% |
| Cash & Economic Leverage | (42.4)% | | |
| **Private** | **47%** | **35%** | **59%** |
| Private Equity | 12% | 8% | 18% |
| Infrastructure | 21.5% | 13% | 26% |
| Real Estate | 13.5% | 10% | 18% |

Our cash and economic leverage includes actual cash and cash equivalent holdings netted against derivatives exposures.

Our next asset mix study will be completed in 2016.

## Public Investments

Our public investments consist of diversified exposures to equities, fixed income securities and inflation-linked bonds, which are mainly managed by our Capital Markets team. Public investments include publicly traded investments, which are quoted on a securities exchange, fixed income or assets that are routinely priced by reference to publicly traded securities. Recognizing public investments are subject to price volatility, the goal of our public investment programs is to deliver relatively steady income and/or capital growth. Our three investment programs include our: Global Diversified Program, Public Market Alternatives Program, and new Global Active Program.

### Global Diversified Program (formerly Beta)

Our Global Diversified Program is a passive, multi-asset strategy focused on achieving market returns over the long run. We previously referred to this program as "Beta." This globally diversified portfolio includes inflation-linked bonds and derivative positions in corporate credit and government bonds, equities and commodities through futures contracts. As further described in the Management Discussion and Analysis, we refined our program in a number of ways in 2015. This included rebalancing our bond portfolio to reduce interest rate exposure, and allocating assets based on forward-looking returns, rather than using a formulaic approach.

### Public Market Alternatives Program (formerly Alpha)

The Public Market Alternatives Program includes internally and externally managed funds, which seek to earn absolute returns irrespective of the direction of markets. This market-neutral portfolio includes long and short positions, as well as funded and unfunded strategies. In addition, the Public Market Alternatives Program aims to have a low correlation to the Global Diversified Program, as it is not tied to general market returns, which adds further diversification at the total portfolio level.

### Global Active Program (new)

In 2015, we expanded the long portfolios in our former Alpha Program and launched the new Global Active Program, which includes internally and externally actively managed equities, fixed income and credit portfolios. This program is part of our active strategy, which seeks to generate returns from active management, and includes the following portfolios:

- equity investments in well-known public companies with strong balance sheets and good prospects, which we believe will provide attractive long-term returns;
- opportunistic portfolios, which seek to generate high returns through relationship investing; and
- new portfolios for public and private credit investments, as a way to create new return streams and to further diversify our investments. We believe that, over time, the active management of corporate credit risk will allow us to add value above the returns available on government securities.

Our public investment strategies involve:

- prudent use of derivative leverage, targeted over the economic cycle at 1.7x capital, and subject to a Board-approved limit of 2.25x capital;
- the systematic selection of high-quality investments consistent with our assessment of current economic conditions; and
- diversification across different sub-asset groups, geographies and income streams in order to manage volatility within a Board-approved limit of 10%.

## Private Investments

Private investments include our holdings in private equity, infrastructure and real estate.

### Private Equity

In our core direct private equity program, we acquire significant majority ownership interests in private companies in North America, the U.K. and Europe, with the objective of generating strong returns.  We take a thoughtful approach to capital deployment and invest in companies with solid business fundamentals, strong management teams and opportunities to grow.

We also maintain a limited externally managed funds program to gain access to strategic geographies and sectors and an innovation-based program, which invests in startup high-potential, technology-based firms.

## Infrastructure

We seek to earn strong, stable cash flows through investments in large-scale infrastructure businesses in energy, social infrastructure and transportation - primarily in North America and Europe. These businesses include regulated services with long-term delivery contracts, which are generally protected with revenue, inflation and other support, such as guarantees that contribute reliable income over the long term. We recently began targeting infrastructure investments in Australia.

## Real Estate

We invest in high-quality, income-producing and development properties in Canada, the U.S. and Europe. Our diversified portfolio includes 59 million square feet of office, retail and industrial properties, as well as, multi-family and hotel properties, and development projects in a limited number of selected markets.

Our strategy focuses on core markets, which we define as major urban centres in Canada, the United States and Europe. In Canada, we focus on owning, managing and developing high-quality properties, while seeking new opportunities that will allow us to deliver consistent returns. Our U.S. strategy is to build a portfolio of properties and real estate-backed credit investments in primary U.S. markets, currently New York City, Boston and Washington, D.C. In Europe, we are continuing to build a portfolio of income-producing properties and development projects, with a focus on office and retail properties in London and Paris.

# III. Continue to build quality relationships with members, employers, stakeholders and governments

Serving the needs of our members, employers and stakeholders is an important part of our long-term strategy. Our members range in age from 17 to 110 years of age. Our relationships with members and their families can span more than a century. Members count on us for regular, reliable retirement income, easy-to-understand information, and help when making decisions that could impact their retirement. The approximately 1,000 employers who participate in OMERS are key partners - both in making contributions to the Plan and in providing information to their employees as members of the Plan. Building strong relationships with all stakeholders helps to ensure that the best interests of all Plan members are represented as Plan administration continues to evolve.

## Delivering High-quality Services to Members

We have a strong tradition of delivering high-quality service to members from the day they join the Plan. We are committed to always striving to make our services accessible, flexible and tailored to our members' needs.

The profile of our member base and their expectations are constantly changing. Over the past decade, for example, we have seen a significant increase in active members in the 45-60 age group who are seriously turning their minds to financial security in retirement. In response, we are looking to evolve and improve our services in ways that are relevant, helpful, and that provide good value to members.

A key goal of our strategy is to earn a 90% or higher average satisfaction rating. Over the next five years, we will strive to enhance the member experience and deliver even more value to our members, by changing how we engage with them – to help them better understand the Plan and their pension options. Members can expect changes in the following areas:

- evolving services that satisfy our members' changing needs;
- simplified interactions at key points, such as when members join the Plan, make pension decisions during their careers, and prepare to retire;
- more targeted and relevant communications for members at different stages in their lives;
- enhanced online tools and materials to provide relevant, up-to-date and easy-to-access pension information for members; and
- more ways to learn about the Plan and what it offers.

## Serving Employers and Stakeholders

We have simplified processes in recent years to make employers' jobs easier. As our processes change, we are committed to increasing our engagement with employers and keeping them informed.

In addition, we want to continue to build our relationships with employers and stakeholders, which include our unions and associations, through ongoing dialogue to ensure that employers and stakeholders have easier access to the right information and people, at the right time. To this end, we are creating more opportunities for dialogue and feedback to address common challenges and we plan to enhance our reporting to improve the transparency of our performance and activities, and to ensure we provide important and relevant information.

# IV. Evolve our capabilities and business model to deliver even better value for pension dollars

In support of our vision to be a leading model of defined benefit pension sustainability, we rely on the capabilities of our people, and the processes and systems that support them, as key drivers to our success. Our areas of focus will be to further develop our talent, streamline our processes and implement a next-generation technology solution for pension services – to improve the efficiency and effectiveness of our operations.

OMERS success – and by extension the success of the Plan – depends on having the right talent in place, now and in the future. Strengthening our leadership and creating future succession potential is a primary focus for all of us.

With strong support from our senior leaders, as part of our talent-management philosophy, we actively strive to grow talent internally by focusing on development, promoting from within and deploying talent across our enterprise to build capability and breadth. We are focused on a continual, robust internal process to deepen and enhance our assessment of potential leaders as well as creating comprehensive development plans to help employees at all levels reach their full potential. We are future-focused in our talent development, while ensuring we have diversity across all levels of our organization.

We are also advancing our technology. For over 15 years, OMERS has relied on its current computer system to serve and support over 461,000 members and approximately 1,000 employers. This system no longer meets our future needs for flexibility, scalability and sustainability in order to administer the Plan effectively. The new OMERS Administration System, designed with a balance of industry-leading practices and technical capability, will enable us to continue to evolve and introduce new functionality over the coming years, while mitigating operational risk. The system is a key contributor to OMERS strategic goal of providing secure pensions with high-quality, value-driven service for members and employers. We believe that this next generation of technology will bring us greater operational flexibility and enhance our services to Plan members and employers.

In addition to modernizing our platform, recognizing growth in the Plan and investing in new ways, a key area of focus will be to manage our costs going forward, which includes undertaking an effort to redesign our processes to create capacity for growth, improve the quality of our deliverables, and be more effective in serving our members. We are focused on ensuring that we provide good value for pension dollars and, by 2020, our objective is to have a Management Expense Ratio at or below 50 basis points, and a Cost Per Member at or below $185.

# Looking ahead

OMERS is entering a new phase - one where we are driving towards our vision to make OMERS a leading model for defined benefit pension plan sustainability. This will be a demanding journey, as we face changing Plan demographics, a potentially volatile and low-growth investment environment, and an evolving pension landscape.

We have developed a Strategy, backed by a committed team, that we expect will lead us to reach full Plan funding, deliver strong investment performance, enhance member services and strengthen relationships, and build leadership talent for the Plan.

Executing on this Strategy will require that we take decisive action and embrace change. To assess and manage our progress against our objectives, a dashboard has been established to track key metrics related to our strategy. Each of these metrics will be reported back annually to our members, employers and stakeholders.

While ambitious, we are committed and optimistic about achieving our objectives. We believe our Strategy will strongly position us to deliver secure and sustainable defined benefit pensions for our members, now and in the future.

# OMERS Management Team

## OMERS Administration Corporation – Senior Executive Team

**Blair Cowper-Smith**
Chief Corporate Affairs Officer

**Warren Bell**
Chief Operating Officer & Pension Services

**Patrick Crowley**
Chief Strategy Officer

**Michael Rolland**
Chief Investment Officer, Private Markets

**Michael Latimer**
President and Chief Executive Officer

**Rodney Hill**
Chief Risk Officer

## OMERS Administration Corporation – Senior Management

**Ana Caçoilo**
Senior Vice President, Pension Services

**Michelle Banik**
Senior Vice President, People and Culture

**Roberta Hague**
Senior Vice President, Communications and Public Affairs

**Michael Kelly**
Executive Vice President and General Counsel

**Jenny Tsouvalis**
Senior Vice President & Enterprise Head, Investment Reporting, Operations and Applications

**Satish Rai**
Chief Investment Officer,
Capital Markets

**Jonathan Simmons**
Chief Financial Officer

**Paulo Salomão**
Senior Vice President,
Strategy and
Market Intelligence

**Blake Hutcheson**
Chief Investment Officer,
Real Estate and
Platform Investments

## OMERS Sponsors Corporation

**Deb Preston**
Chief Executive Officer

**Chris Vanden Haak**
Director,
Pension Policy and
Communications

**Anne Soh**
Vice President,
Actuarial Services
and Plan Actuary

**Roger Favero**
Senior Vice President,
Information Technology

**Serena Lefort**
Executive Vice President,
Finance Operations and
Tax, Private Markets &
Head of Tax, OMERS

**Rheal Ranger**
Executive Vice President,
Corporate Finance

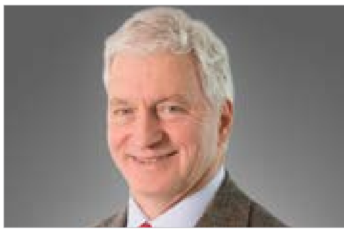
**Upton Jeans**
Senior Vice President,
Financial Services

**Reena Sagoo**
Executive Vice President
& Global Head of
Assurance and Advisory
Services

**Lloyd Komori**
Senior Vice President,
Risk Management

# OMERS Board Members

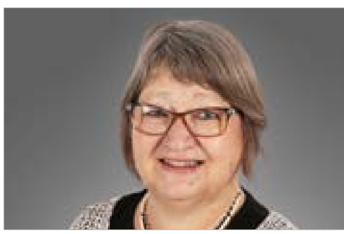
## OMERS Administration Corporation


George Cooke
Board Chair


Bill Aziz


Monty Baker


David M. Beatty


Darcie Beggs
(to March 2016)


William (Bill) Butt

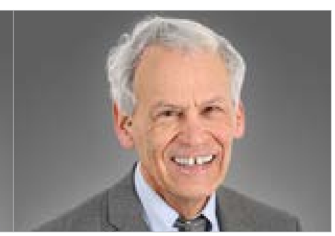

Michael Fenn


Laurie Hutchinson


Cliff Inskip

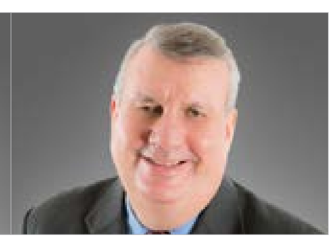

James Phillips


Penny Somerville
(from February 2015)


Eugene Swimmer

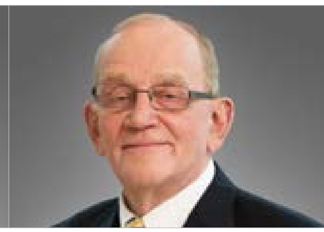

David Tsubouchi


Sheila Vandenberk


John Weatherup

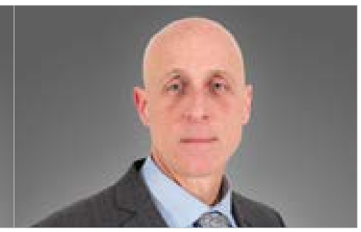
# OMERS Sponsors Corporation

Marianne Love
Board Co-Chair

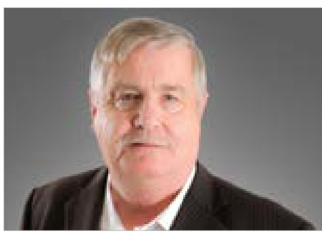


Brian O'Keefe
Board Co-Chair (to December 2015)

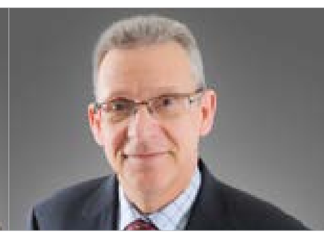
Frank Ramagnano
Board Co-Chair (from January 2016)



Dan Axford
(from October 2015)

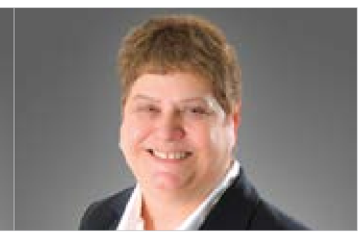


Paul Bailey

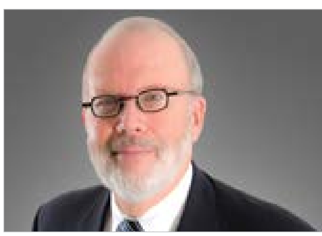


Frederick Biro

Barry Brown

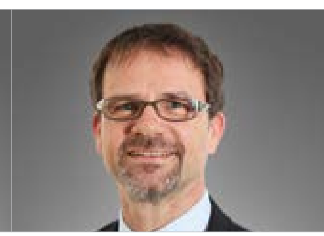


Diana Clarke



John Fleming
(to December 2015)

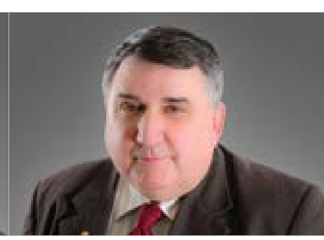
Charlie Macaluso



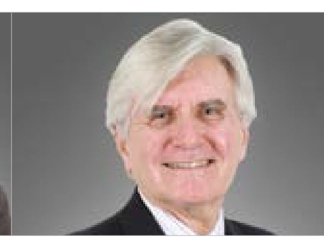
Tim Maguire

Mary McConville

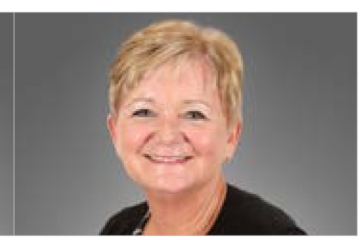
Wayne McNally



Bruce Miller
(to September 2015)



Joe Pennachetti
(from January 2016)



Sandra Sahli

# 2015 Management Discussion and Analysis

This Management Discussion and Analysis is the responsibility of the management of OMERS Administration Corporation (OAC) (Management) and contains Management's analysis of the Plans' financial condition, operational results, and the environment in which they operate, as of February 25, 2016. The Audit & Actuarial Committee and Board of Directors of OAC (the OAC Board or the Board) have reviewed and approved the contents of this Management Discussion and Analysis. This section should be read in conjunction with the Consolidated Financial Statements.

In addition to historical information, this section contains forward-looking statements with respect 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 OAC 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. These include changes in market conditions and interest rates, and other economic, political or financial developments. 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. In 2015, the presentation of performance was revised to report returns by asset group rather than on an organizational Investment Entity basis. Comparative figures have been restated. 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.

## Table of Contents

# Overview of OMERS Pension Plans

## About OMERS

Established in 1962, OMERS provides defined pension benefits to local government employees, retirees and beneficiaries throughout Ontario. The OMERS Primary Pension Plan "The Primary Plan" is a jointly sponsored, multi-employer pension plan with nearly 1,000 participating employers in 2015 and 2014, and approximately 461,000 Primary Plan members in 2015, compared to approximately 450,000 in 2014. Employers range from large cities to local agencies. Primary Plan members include union and non-union municipal workers; transit systems and electrical utilities; the non-teaching staff of school boards; police, firefighters and paramedics; and employees of children's aid societies.

The Primary Plan is funded by members and employers, and by the investment earnings of the Primary Plan's assets. Members and employers contribute equally to the Primary Plan, and share equally in funding gains or losses. With $81.9 billion of pension obligations, as at December 31, 2015, compared to $76.9 billion, as at December 31, 2014, the Primary Plan ended 2015 with a funding deficit of $7.0 billion, compared to a deficit of $7.1 billion at the end of 2014. Net assets on a smoothed basis was $74.9 billion, as at December 31, 2015, compared to $69.8 billion the previous year.

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. The SC Board comprises 14 members, half of whom are appointed by employer groups, and half of whom are appointed by Primary Plan member groups.

## OMERS Administration Corporation

We have 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, we are organized into four businesses, supported by a corporate function:

- Pension Services
- Capital Markets
- Private Markets
- Real Estate

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.

## 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 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 also provides eligible members with:

- inflation protection, in most circumstances, up to 6% per year (should inflation exceed 6%, the excess would be carried forward);
- 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; 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 for individuals with earnings exceeding the maximum pension allowed by the ITA. Net assets of the RCA were $135 million at December 31, 2015, compared to $119 million at December 31, 2014.

### 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, 2015, no such agreement was in place.

# Funded Status

The Year in Review section of this Annual Report, which discusses our funded position, represents an integral part of this Management Discussion and Analysis. Funding risk is discussed in the Risk Management section below.

# Enterprise-wide Strategy

In 2015, OMERS Sponsors Corporation and the OMERS Administration Corporation worked together to develop one inclusive, five-year Strategy that sets out our roadmap to 2020 and reflects our vision to be a leading model for defined benefit pension plan sustainability.

The Strategy responds to the changes that we are seeing all around us and evolving long-term trends. These changes include the fact that our Plan members are getting older, which means we have a growing number of retired members compared to active, contributing members. We also have an uncertain investment climate, with low interest rates and low growth.

We are aware of the forces at play and are prepared to address them with a Strategy that anticipates and responds to these trends. With this Strategy, we aim to achieve three objectives:

- advancing our funded status to being fully funded by 2025 – and protecting the Plan from market volatility, within reason, with stable and predictable contribution rates and benefits levels;
- having a 90% satisfaction rate – by providing high-quality service to members, employers and stakeholders; and
- Managing costs effectively – by keeping our Management Expense Ratio (MER) at or below 50 basis

points, and a Cost Per Member (CPM) at or below $185.

Our Strategy rests on four pillars, setting out how we will:

- Protect our funded status using a robust approach to funding management.
- Deliver 7-11% net annual average investment returns.
- Continue to build quality relationships with members, employers, stakeholders and governments.
- Evolve our capabilities and business model to deliver even better value for pension dollars.

The Strategic Plan section of this Annual Report, which discusses our Strategy, represents an integral part of this Management Discussion and Analysis.

# Risk Management

For OMERS, managing risk effectively is fundamental to achieving our objectives, and we believe it is underpinned by promoting a strong "tone from the top" and a robust risk culture based on transparency and accountability. At OMERS, we actively engage with key people across the enterprise to identify, assess and manage key risks and emerging issues that could impact the Plan's operations and investment activities. The primary accountability for managing risk rests with the leaders of each respective business unit or corporate function, and the risk management group provides objective and continuous analysis of specific activities and initiatives executed by those responsible for managing key risks to senior management and the Board on a regular basis.

During 2015, we undertook the following initiatives that strengthened our risk management capabilities:

- The OMERS Administration Corporation Board of Directors approved a mandate for the organization's risk management function, which increases the transparency and accountability of managing significant risks for all businesses and corporate functions.
- The re-alignment of responsibilities includes the creation of a new Chief Risk Officer (CRO) role, which will lead the monitoring and oversight functions of risk management, compliance and internal audit, in addition to providing strong executive sponsorship and alignment of resources to coordinate the control functions.
- A new position was created for a Senior Vice President, Risk Management, to lead the day-to-day risk management function.
- The senior risk leader in each business unit will report jointly to the new Senior Vice President, Risk Management, and to their respective businesses.
- A number of other initiatives have been undertaken to provide better insights into our investment activities.

These initiatives will strengthen the risk culture across the OMERS enterprise by enhancing how we respond to challenges and opportunities, and they are aimed at optimizing the consolidated risk-return profile of OMERS.

## Top Risks and Emerging Issues

A top risk is one that could have a material impact on the Plan's objectives in the short term. An emerging issue is a matter that, while not a top risk at this time, is identified, evaluated and monitored for its potential to become a top risk.

## Top Risks

Funding Risk: The most significant risk facing the Plan is funding risk - the possibility of having insufficient funds to meet the Plan's current or long-term needs. The Plan's funding level is impacted by demographic factors that affect how much pensions will cost in the future and by changing economic conditions that influence investment returns. In response to these factors, we have executed steps to improve the Plan's capacity to pay benefits by assessing its long-term liquidity profile, increasing the level of diversification within the public market investments, and continuing to focus on diversifying sources of investment returns among less volatile investments.

Systems Re-design: Over the next few years, OMERS will significantly upgrade its existing legacy pension administration and processing system, developed over 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 we have created a governance structure that includes members of the Board of Directors, executive management, and a thorough list of business and technology leaders and support personnel in order to provide an appropriate level of oversight.

Organizational Change: As the organization adapts to meet the recently approved “2020 Strategy,” effective management of the resultant organizational evolution will be critical to the success of the longer-term strategy. This is being managed through the active engagement of the Senior Executive Team, supported by a dedicated change management team.

## Emerging Issues

We are evaluating and monitoring a number of emerging risks, which include cyber security and the potential impact of CPP expansion on the Plan. Cyber security is a key priority for the organization, and steps have been taken to ensure our technology and business environment is effectively monitored. Information security breaches, including malware and other forms of cyber-attack, could occur and may result in inappropriate use or release of confidential personal, business and/or financial information. To mitigate this risk, we have security programs, mandatory security-awareness training and incident-management processes to monitor and manage occurrences.

## Governance

The Board of Directors has overall responsibility for overseeing risk management, and working through the Governance Committee ensures that the appropriate Board committees have a line of sight on the management of risks relating to their mandate (e.g., Investment Risk is monitored by the Investment Committee). The Board of Directors approves the Enterprise Risk Management Policy, a document that articulates how risk is identified, measured, managed, monitored and reported throughout the organization. On a quarterly and annual basis, reports are presented to the Board or its committees to assist with their oversight responsibilities.

Within Management, primary accountability for risk remains within the business or function responsible for making operational decisions relative to that risk. This accountability is achieved through a series of sub-delegations by the Board of Directors to our CEO, who further delegates responsibilities to the business leaders, subject to levels of authority. The CRO is responsible for implementing the Board-approved risk management mandate, including the development of associated policies and limits, and for providing independent enterprise-wide oversight of our business activities, using the matrix structure that underpins the risk and compliance functions. In addition, the executive responsible for internal audit activities (Assurance and Advisory Group), reports administratively to the CRO and functionally to the Audit and Actuarial Committee Chair, which maintains the independence of this function.

## Risk Categories

We use four major categories for risk: Strategic, Investment, Operational, Legal and Regulatory. A brief overview of each category, its major components, and how we manage the risks is provided below.

## Strategic Risk

Strategic Risks are those that will impact the Plan’s ability to meet its business objectives, the most significant of which is Funding Risk. Our approach and response to Funding and other Risks are described earlier and in the Notes to the Consolidated Financial Statements. Other activities undertaken to manage Strategic Risks include annual updates to the strategic planning process, which assesses the organization’s progress against business objectives, in addition to an asset mix study, which will be updated in 2016. Progress against business objectives is tracked on a scorecard and discussed with Management and the Board of Directors.

## Investment Risk

The key Investment Risk is that the Plan’s total portfolio will not meet the target long-term rate of return, as a result of volatile or unexpected market events or economic developments. To respond to this key risk, Management has implemented new risk-measurement approaches that provide insights into the relative level of individual investment risks, as well as a consolidated view of investment-related risk from the total Plan perspective. Insights provided by this enhanced risk-measurement capability will help identify opportunities to optimize OMERS total Plan returns through strategic asset-allocation decisions.

For more information on Investment Risk, see Note 3 to our 2015 Consolidated Financial Statements.

### Operational Risk

Operational Risk is the risk of loss arising either directly or indirectly from operational error due to failure in processes, systems, technology, actions of personnel, 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 that are used to support business decisions;
- privacy and information security - the risk of inappropriate access to, or misuse of, identifiable personal information or other business-sensitive information;
- business continuity - the risk of an unplanned business interruption negatively affecting operating activities; and
- third-party - the risk that vendors on which we rely to provide services may not meet our business requirements or be impacted by reputational issues.

The risk management function provides insight and oversight through its involvement in key internal projects, and through its monitoring of external trends and events. In addition, Management's performance, within approved operational policies, procedures and guidelines, is evaluated by the Assurance and Advisory and Compliance functions on a scheduled basis. We manage these risks through various means, including key policies such as: Code of Conduct; whistleblower lines; monitoring of policy compliance; oversight of human resource strategies and plans; security policies and testing of business-continuity readiness; involvement of risk management and other oversight functions in key projects; and annual attestation of key internal controls over financial reporting.

### Legal and Regulatory Risk

These risks arise from changes in, or non-compliance with, legal and/or regulatory requirements in Canada and other countries where we operate and invest. The OMERS legal group also actively engages in identifying new laws and regulations, which may affect the organization. We have introduced a "Regulatory Tracker" for this evaluation, which ultimately involves the business unit and Compliance team, to determine if any new policies and procedures need to be established. Ongoing monitoring of relevant laws and regulations is undertaken by the Compliance team and reported quarterly to the Audit and Actuarial Committee.

# Investment Results

In 2015, the Primary Plan had a return, net of expenses, of 6.7%, compared to a benchmark of 7.8% and our funding discount rate of 6.5%. Our private investments produced net returns of 14.5%, and public investments produced a net return of 0.7%. Strong returns from private equity, infrastructure and real estate helped to offset challenges with public markets, demonstrating the importance of diversified exposures and investing in high-quality assets.

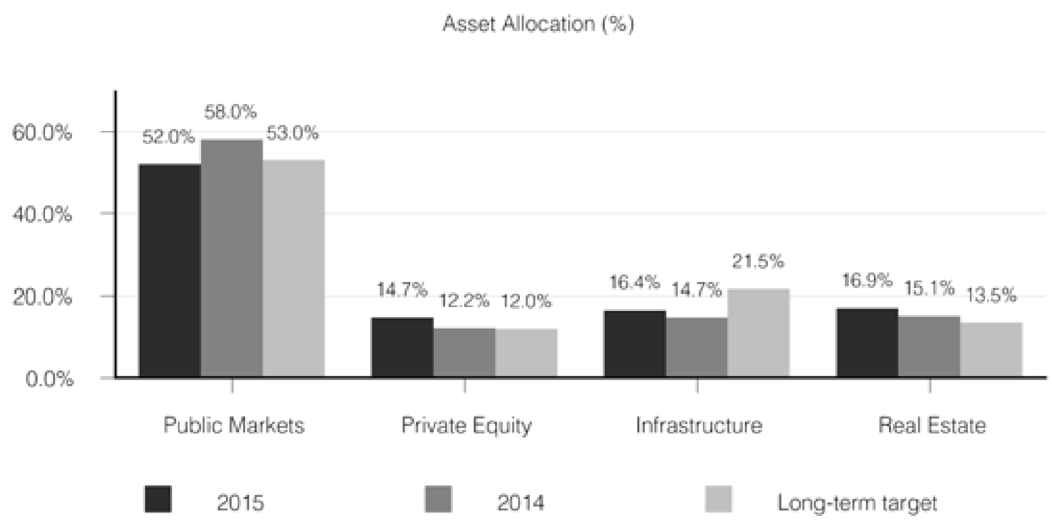
### Current Year Returns at a Glance

Investment returns for the Primary Plan and RCA for 2015 and 2014 were as follows:

| For the years ended December 31 | 2015 Net Investment Income $ (millions) | 2015 Net Rate of Return (%)[1] | 2015 Benchmark (%)[2] | 2014 Net Investment Income $ (millions) | 2014 Net Rate of Return (%) | 2014 Benchmark (%) |
|---|---|---|---|---|---|---|
| **Public Investments** | **$295** | **0.7** | **7.1** | $3,949 | 11.0 | 6.9 |
| **Private Investments** | | | | | | |
| Private equity | **939** | **10.0** | **11.1** | 709 | 7.8 | 10.1 |
| Infrastructure | **2,040** | **17.3** | **9.4** | 1,147 | 10.6 | 8.9 |
| Real estate | **1,816** | **15.3** | **8.1** | 893 | 8.7 | 7.6 |
| **Total Private Investments** | **4,795** | **14.5** | **9.4** | 2,749 | 9.1 | 8.8 |
| **Total Primary Plan Fund** | **5,090** | **6.7** | **7.8** | 6,698 | 10.0 | 7.7 |
| **RCA Investment Fund[3]** | **10** | **12.5** | **12.2** | 9 | 14.5 | 14.6 |

## Asset Allocation and Exposure

Mitigating risk and generating returns require Management to focus on diversifying investments by asset group, economic sector and geographic market. We have a Board-approved strategic asset mix designed to deliver returns over the long term in order to provide secure and sustainable pensions. We invest in public investments either through the purchase of the instruments directly or through the use of derivatives. Private investments include holdings in infrastructure, private equity and real estate, which are selected specifically for their ability to provide more predictable returns and cash flows. Our strategic asset mix is reflected in the chart below.




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 OMERS Return Agreements. 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.

[1] We have shifted the presentation of investment results for private investments to an asset-class basis, being private equity, infrastructure and real estate. Previously, we presented our results on an investment entity (asset manager) basis: OMERS Private Equity, Borealis Infrastructure, Oxford Properties and OMERS Strategic Investments. Certain comparative figures have been restated to conform to the current year's presentation.

[2] 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 equal or exceed these benchmarks. Benchmarks are based on absolute return targets by asset class. The benchmark for the RCA Investment Fund is a weighted average blend of 5% FTSE TMX Canada 30-Day T-Bill + 23.75% S&P/TSX 60 Index + 23.75% MSCI EAFE Index + 47.50% MSCI USA All Cap Index.

[3] Excludes the RCA refundable tax balance with the Canada Revenue Agency. Including the refundable tax balance, the RCA net rate of return in 2015 was 6.9%, compared to 7.7% in 2014.

## Asset Mix – Exposure

| As at December 31 | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Assets | Investment Liabilities | **Net Investment Asset Exposure** | Asset Mix % | Investment Assets | Investment Liabilities | **Net Investment Asset Exposure** | Asset Mix % |
| **Public Investments** | | | | | | | | |
| Fixed income | 25,401 | | **25,401** | 32.5 | 4,243 | | **4,243** | 5.8 |
| Inflation-linked bonds | 6,400 | | **6,400** | 8.2 | 23,358 | | **23,358** | 32.0 |
| Public equity | 23,265 | | **23,265** | 29.8 | 19,110 | | **19,110** | 26.2 |
| Cash | 20,545 | | **20,545** | 26.3 | 13,889 | | **13,889** | 19.0 |
| Economic leverage | (35,021) | | **(35,021)** | (44.8) | (18,260) | | **(18,260)** | (25.0) |
| **Total Public Investments** | 40,590 | | **40,590** | 52.0 | 42,340 | | **42,340** | 58.0 |
| **Private Investments** | | | | | | | | |
| Private equity | 11,499 | | **11,499** | 14.7 | 8,909 | | **8,909** | 12.2 |
| Infrastructure | 15,085 | (2,231) | **12,854** | 16.4 | 13,514 | (2,785) | **10,729** | 14.7 |
| Real estate | 26,393 | (13,210) | **13,183** | 16.9 | 21,709 | (10,706) | **11,003** | 15.1 |
| **Total Private Investments** | 52,977 | (15,441) | **37,536** | 48.0 | 44,132 | (13,491) | **30,641** | 42.0 |
| **Total** | 93,567 | (15,441) | **78,126** | 100.0 | 86,472 | (13,491) | **72,981** | 100.0 |

During 2015, we made a significant shift in our asset mix, increasing our exposure to fixed income to $25.4 billion as at December 31, 2015 from $4.2 billion, as at December 31, 2014, to, and reduced our exposure to Inflation-linked bonds to $6.4 billion as at December 31, 2015 from $23.4 billion, as at December 31, 2014. We made this shift to reduce the sensitivity of our portfolio to interest rates and create better balance in the overall portfolio. The average duration of our fixed income and inflation-linked bonds and futures, as at December 31, 2015, was 8 years compared with 16 years, as at December 31, 2014.

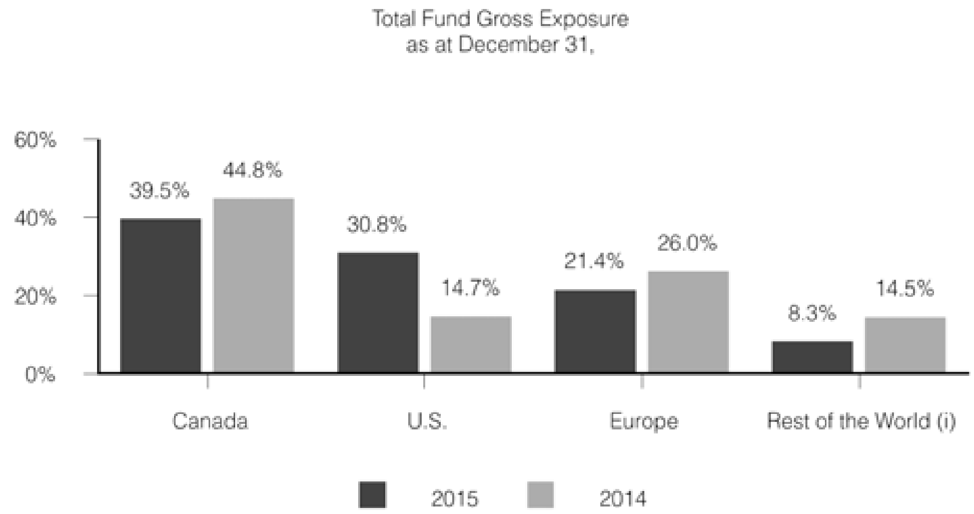
Our Fixed Income portfolio includes Credit Default Contracts and direct credit investments. We acquired an additional $10 billion of Credit Default Contracts to increase our exposure as we believe that corporate credit currently represents an attractive asset class.

In 2015 our net economic leverage (which we define as economic leverage net of cash) increased to $14.5 billion from $4.4 billion, as at December 31, 2014. The increase occurred primarily as we increased our exposures to public market assets by $8.1 billion. Our private assets increased by $2.1 billion from the prior year.

We continue to target our long-term strategic asset mix of having approximately 47% of our investments in private investments. Incremental deployment of capital and valuation gains resulted in an increase in our allocation to private investments to $37.5 billion from $30.6 billion, as at December 31, 2014.

## Country Exposure

The graph below represents total Fund gross 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 to global economies with different growth profiles.

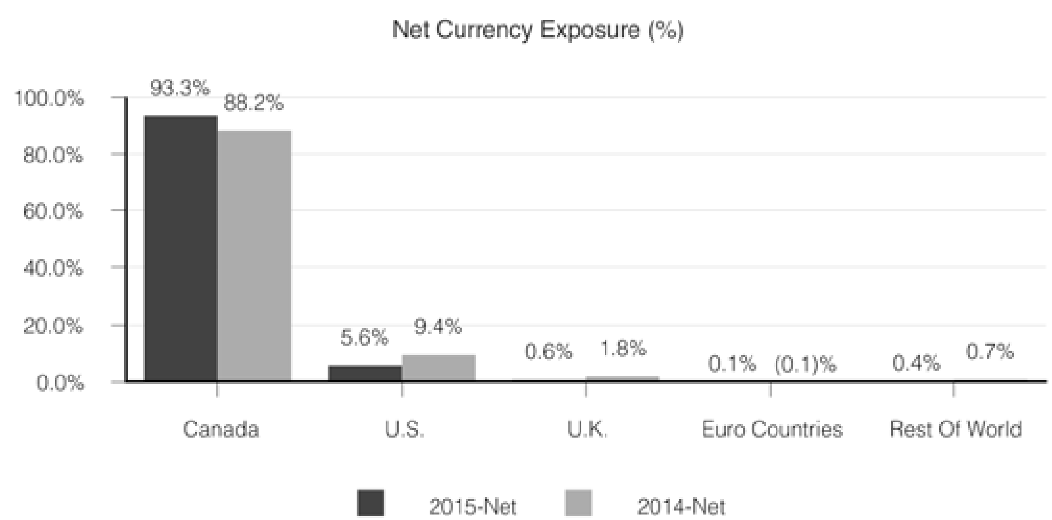



(i) Included in Rest of the World is commodity contracts. We do not consider commodity contract risk to be country-specific.

During 2015 we significantly increased our exposure to the U.S. economy. Proceeds from sales of international Inflation-linked bonds were redeployed in U.S. fixed income, real estate and private equity assets.

## Currency Exposure

The below graph represents total Fund currency exposure on a net of hedging basis. We have a currency management program that hedges our foreign investments back to Canadian dollars and we also take active positions. In 2015, our assets increased by $5.5 billion from changes in foreign exchange, offset by a cost of hedging of $4.3 billion. Net investment income for 2015 includes a total net foreign exchange gain of $1.2 billion.



## Investment Management and Pension Administration Expenses

Investment management expenses were at $351 million in 2015, compared to $384 million in 2014. Investment management expenses were lower in 2015 as 2014 included the costs of an organizational realignment. Investment management expenses for the year ended December 31, 2015 which include external manager performance and fund fees recorded in investment income – represent an investment management expense ratio of 57 basis points, compared to 65 basis points for 2014. The lower ratio is due to lower investment management costs and higher assets.

Pension administration expenses were $68 million for 2015, compared to $81 million for 2014. This represents a cost per member of $161 for 2015. Expenses in 2014 were higher than in 2015, due to costs related to an organizational realignment and higher incentive payments as a result of better investment performance. We expect that our pension administration expenses will increase in the future as a result of initiatives including the costs of building and implementing new pension administration systems in accordance with our 2020 Strategy.

# Public Investments

OMERS public investments generated a net performance return of 0.7%, or $295 million in investment income, compared to a net return of 11.0% in 2014, and our 2015 benchmark of 7.1%. Public investments were approximately $40,009 million, as at December 31, 2015 compared to $41,063 million, as at December 31, 2014.

### Investment Approach

Our overall investment approach is discussed in the Strategy section of this Annual Report.

Our approach to how we invest continuously evolves to reflect current market conditions. In 2015, we updated our public markets investment strategy to reflect current market conditions and to build on the changes we made in 2013 in our investment strategy. This includes the further diversification of risk. Our public market investment strategies are executed through three programs: our passively managed Global Diversified Program (which in previous Annual Reports we called Beta), our actively managed Public Market Alternatives Program (which includes some of the portfolio we formerly called Alpha), and a new, actively managed Global Active Program (which we seeded with some of the portfolios in our previous Alpha program).

### 2015 Performance

In 2015, our public investments generated modest, but positive returns, driven by investment income of $874 million from inflation-linked bonds and $463 million from fixed income investments. This compared to investment income of $2,952 million in 2014 from inflation-linked bonds and $792 million from fixed income investments. Bond gains in 2015 were offset by a loss from equities of $914 million, which included a loss of $1.4 billion from commodities.  Equities recorded a gain of $339 million in 2014 which included a loss of $700 million from commodities.

### Capital Allocation to Programs

Net investments in public investments decreased to $40,009 million at the end of 2015, from $41,063 million at the end of 2014. During the past year, we have adjusted to the changes in the market landscape, decreasing our holdings in inflation-linked bonds and focusing on increasing fixed income through nominal bond futures and credit investments. We continue to invest in commodities through futures contracts. The chart below illustrates our current and long-term allocation of capital between our public market investment programs. Over time, we expect to increase the sizes of both the Public Market Alternatives Program and the Global Active Program, drawing on capital in the Global Diversified Program and allocating it to those programs pursuant to our long-term allocation targets and as attractive investment opportunities emerge.

| Present | |
|---|---|
| Global Diversified | 66% |
| Public Market Alternatives | 6% |
| Global Active | 28% |

| Future | |
|---|---|
| Global Diversified | 30-50% |
| Public Market Alternatives | up to 20% |
| Global Active | 30-50% |

# Private Investments

## Infrastructure

### Investment Approach

Our overall investment approach is discussed in the Strategy section of this Annual Report. Individual investments generally require large upfront or near-term capital commitments, and are expected to contribute proportionally to matching or exceeding the present value of the Primary Plan's accrued pension obligations.

We actively manage investments through majority or significant-minority positions, seeking to ensure that each portfolio company has the right management team in place. We have strong relationships with a variety of partners, investing alongside pension, corporate and government institutions with aligned interests. We also work with strong operating partners, bringing our shared expertise to evaluating, managing and improving asset performance.

We take a patient and disciplined approach to investments, and are executing well on the prudent diversification of our portfolio by industry sector, geography, size and stage of development.

### 2015 Performance

Net return was 17.3%, compared to 10.6% for 2014 and our 2015 benchmark of 9.4%, representing net investment income of $2,040 million in 2015, compared to $1,147 million in 2014. Our portfolio generated a total cash yield of 12.1% in 2015, compared to 8.6% in 2014. The 2015 results reflected the strong performance of our core North American and European portfolios. The latter, in particular benefited also from the sale of a portion of our investment in the U.K.'s largest ports group, Associated British Ports (ABP). We were able to realize gains on our investment by selling a portion of our interest to a third party on the back of the sale of stakes in ABP by two of our co-investment partners. We continue to maintain a significant ownership stake in the business.

We saw strong performance from a number of our investments, including Bruce Power, Caruna, HS1 and Oncor, as well as the gain resulting from the transactions involving ABP's shares, which were offset by the performance of LifeLabs, which was impacted by a fee change announced by the Province of Ontario.

### Capital Allocation

Net investments in infrastructure increased to $14,855 million in 2015, up from $13,037 million in 2014. The increase in net assets was mainly attributable to the progress made on our capital-deployment strategy, as well as increases in the market value of existing assets within our portfolio. Specifically, during the year, we further diversified our portfolio in Europe. We made our first investments in Sweden and Germany through the acquisition of Ellevio, one of Sweden's largest electricity distribution networks, serving Stockholm, the country's capital and its largest city, and German motorway service area owner and concessionaire Tank & Rast. On January 11, 2016, we completed the acquisition of an interest in Compañía Logística de Hidrocarburos SA, the owner and operator of the leading Spanish integrated oil product transportation and storage network. We expect to complete the acquisition of our interest in Skyway Concession Company Holdings LLC, which holds a concession to operate the Chicago Skyway, in early 2016.

## Private Equity

### Investment Approach

Our overall investment approach is discussed in the Strategy section of this Annual Report. In our core direct private equity program, we acquire significant majority ownership interests in private companies in North America, the U.K. and Europe, with the objective of generating strong returns. We take a thoughtful approach to capital deployment and invest in companies with solid business fundamentals, strong management teams and opportunities to grow.

We also maintain a limited funds program to gain access to strategic geographies and sectors, an innovation-based program, which invests in startup high potential technology based firms as well as an energy platform.

### 2015 Performance

The 2015 net rate of return was 10%, compared to 7.8% in 2014 and our 2015 benchmark of 11.1%. This represents net investment income of $939 million for 2015, compared to $709 million in 2014. Strong gains were achieved from solid operating performance along with successful exits. Our performance was held back significantly by lower commodity prices directly effecting OMERS Energy which operates in the Alberta Oil and Gas sector. The downward valuation detracted from overall private equity returns by 3.5% ($229 million). Strong contributors to our results in North America were Caliber Collision Centers and Give and Go and in Europe being V-Group and VUE Cinemas.

### Capital Allocation

Net investments in private equity increased to $11,025 million at the end of 2015, from $8,664 million at the end of 2014. During the year, we made a number of notable transactions, including the USD$1.7 billion acquisition of Environmental Resources Management (ERM), a global environmental consultancy firm headquartered in the U.K. Our second significant investment in 2015 was the USD$1.9 billion acquisition of The Kenan Advantage Group, North America's largest provider of liquid bulk transportation services to the fuels, chemicals, liquid foods and merchant gas markets. Both companies are leaders in their respective markets.

We also successfully exited a number of investments. In 2015, we sold Canadian healthcare information technology firm Logibec, along with MMM Group, one of the largest building services firms in Canada. We also divested our remaining interest in Constellation Software, which has been in our portfolio since 1995, when it was a privately held entity.

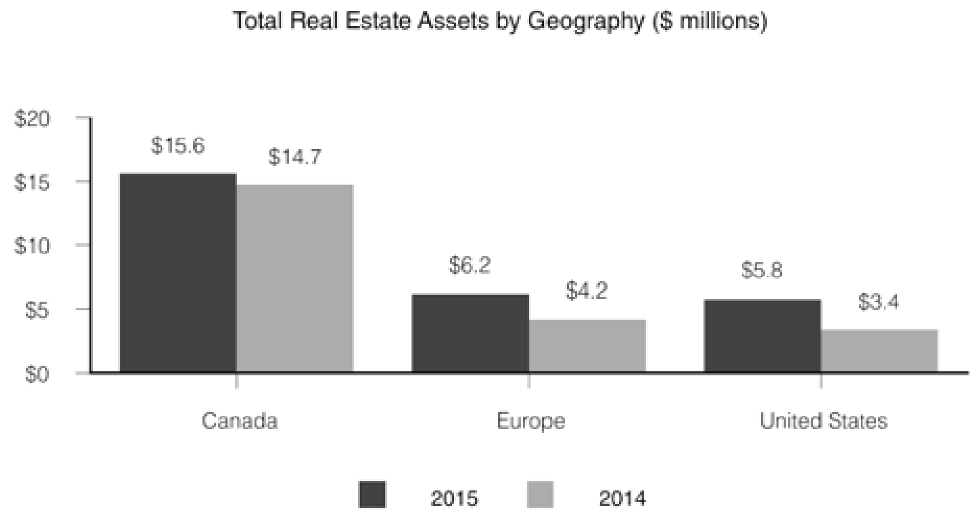
## Real Estate

### Investment Approach

Our overall investment approach is discussed in the Strategy section of this Annual Report. Our current real estate portfolio represents $13.7 billion of OMERS equity and we are targeting a portfolio of $20 billion by 2020. Our approach aims to deliver returns from core assets that provide predictable cash flows, facilitating the Primary Plan's ability to meet both current and future pension benefit obligations.

#### 2015 Performance

For the year ended December 31, 2015, we generated a net return of 15.3% on the portfolio, compared to a net return of 8.7% in 2014 and our benchmark of 8.1% in 2015. Net investment income was $1,816 million in 2015, compared to $893 million in 2014. The increase in net investment income is largely attributable to income from new acquisitions and favourable realized and unrealized mark-to-market gains on the real estate portfolio, attributable to both our active management and redevelopment activities and generally improving market conditions in London, the U.S., and in our Canadian-based hotel portfolio. Unfavorable market conditions in Alberta led to unrealized mark-to-market losses in 2015. Net investment income in 2014 was offset by an unrealized loss on the mark-to-market adjustment on our long-term debt.




During the year, we saw growth in our portfolio across Canada, the U.S. and Europe, in line with our strategy.

In Canada, we continued to recycle capital through selective dispositions and investing in our development programs. In 2015, we made progress in the development of 100 Adelaide Street West (Toronto), Eau Claire Tower (Calgary) and Oxford Airport Business Park (Calgary) and the redevelopment and expansion of several retail shopping centres, including Yorkdale, Square One, Scarborough Town Centre, and Hillcrest Mall. Taking advantage of opportunistic conditions, we exited certain investments, most notably 2 Bloor St. West in Toronto, and Tour KPMG and Promenades Cathedrale in Montreal, realizing strong investment gains. Despite softening fundamentals in certain markets, overall our Canadian portfolio performed well and continues to be positioned to deliver solid returns.

In the U.S., we delivered on our strategy to invest in office and high-street retail assets in New York, Washington, D.C. and Boston. Following our entry into Boston in 2014, we have expanded our managed office portfolio with the acquisitions of interests in three buildings, and have become the city's second-largest commercial office landlord. In New York, we increased our investment in Olympic Tower on Fifth Avenue, and we made significant progress on the Hudson Yards development project in Manhattan with our partner, Related Companies. In Washington, D.C., our 600 Massachusetts office building development is nearing substantial completion.

In Europe, our focus remained on acquiring high-quality office and retail properties in London and Paris. In central London, we acquired the Blue Fin office building, and an interest in a development property located near one of the London Crossrail expansion projects. In Paris, we acquired two office properties. In 2015, we also took advantage of strong investment pricing in London, selling a 50% interest in Watermark Place to a strategic partner and we recognized a significant appreciation in the value of our pre-eminent office development project, 122 Leadenhall Street. These investments exemplify our successful strategy of portfolio diversification through investment in the London market at a time of relative weakness.

### Capital Allocation

Net investments in real estate increased to $13,743 million as at December 31, 2015 from  $11,484 million as at December 31, 2014.  We manage approximately $40 billion of real estate investments representing an increase of $9 billion in assets under management over the year.

## Investments Outlook

Global economies are uncertain, with concerns about economic growth and inflation in developed countries. This, coupled with persistently low interest rates, poses a challenge for investing. We remain committed to broad diversification in this climate by investing in six asset classes: fixed income, inflation-linked bonds, public equity, private equity, infrastructure and real estate.

# Critical Accounting Policies

OAC's financial statements are prepared in accordance with the requirements of the Chartered Professional Accountants of Canada (CPA Canada) Handbook Section 4600 - Pension Plans (Section 4600). For accounting policies that do not relate to the Plans' investment portfolios or pension obligations, OAC complies on a consistent basis with the requirements of International Financial Reporting Standards. The recognition, measurement and disclosure contained in the 2015 year-end Consolidated Financial Statements are in compliance with the requirements of Section 4600 or the relevant International Financial Reporting Standards.

Consistent with Section 4600, investment assets are presented on a non-consolidated basis even when the investment is in an entity over which we have effective control. Operating earnings of such entities are recognized as interest is earned, dividends are declared, or as real estate rental revenue is earned periodically. OAC's total investment income includes valuation adjustments required to adjust the carrying of investments to their fair value.

Consistent with Section 4600 and International Financial Reporting Standards, certain of our accounting policies require subjective or complex judgments and estimates relating to matters that are inherently uncertain. The use of different judgments and estimates could result in materially different amounts being recorded under different conditions or by using different assumptions. As a result, actual results could materially differ from our estimates and assumptions applied in the Consolidated Financial Statements. Significant estimates included in the Consolidated Financial Statements relate to the valuation of investments and the valuation of our accrued pension obligation.

Our policy is to record all investments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The assessment of fair value involves considering many factors for each type of investment held by the Funds. Fair value is based on quoted market prices, where available, and excludes transaction costs, which are expensed as incurred. For private investments where quoted market prices are not available, fair value is generally based on internal or external valuations using generally accepted valuation methods. The fair value of a private investment acquired within the current fiscal year, a non-operating investment or an investment in a startup business may be supported by the acquisition valuation where this is considered the best estimate of fair value based upon events since acquisition. For private equity funds, the fair value is generally based on the valuation provided by the Fund's general partner, subject to information available to OAC's investment management. As a result, fair values for private investments are based on estimates, which are inherently uncertain. Our policy is to obtain independent support of valuations for significant private investments through review by accredited independent appraisers at least once every three years, or whenever the valuation changes by more than 15% from the prior year for private investments, and through annual audited financial statements for Fund investments.

Actuarial assumptions used in determining the accrued pension obligation are adopted by the OAC Board based on recommendations by the external actuary and Management reflecting best estimates of future economic factors such as the Plans' nominal rate of return and discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of Primary Plan and RCA members. This process is executed by our internal actuaries and the OAC Board's external actuary. The Primary Plan and the RCA's actual experience could differ from these estimates. Differences are recognized as experience gains or losses in future years.

A summary of our significant accounting policies is presented in the Notes to the Consolidated Financial Statements.

# Responsibilities of Management, Actuary and Independent Auditors

The consolidated financial statements of OAC have been prepared by OAC Management (Management) and approved by the Board of OAC (OAC Board). Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

Management maintains systems of internal controls and supporting procedures that are designed to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear division of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition, our Assurance and Advisory team reviews OAC's systems of internal controls to determine whether these controls are appropriate and operating effectively.

The OAC Board is responsible for approving the annual consolidated financial statements. The Audit & Actuarial Committee, which is comprised of directors who are not officers or employees of OAC, assists the OAC Board in executing this responsibility. The Audit & Actuarial Committee meets regularly with Management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit & Actuarial Committee reviews the annual consolidated financial statements and recommends them to the OAC Board for approval.

The external actuary is appointed by the OAC Board. It is the external actuary's responsibility to carry out annual valuations of the accrued pension obligations of the OMERS Pension Plans in accordance with accepted actuarial practice and to report thereon to the OAC Board. The Audit & Actuarial Committee assisted the OAC Board in executing this responsibility. The results of the external actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the external actuary values the benefits provided under the OMERS Pension Plans using appropriate assumptions about future economic conditions (such as inflation, salary increases and investment returns) and demographic factors (such as mortality, termination rates and retirement ages). These assumptions take into account the circumstances of OAC and its active, inactive and retired members.

The independent auditors are also appointed by the OAC Board. Their responsibility is to report to the OAC Board whether in their opinion the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of changes in net assets available for benefits and the statements of changes in pension obligations for the years ended December 31, 2015 and 2014 present fairly in all material respects the financial position, the changes in net assets available for benefits and changes in pension obligations in accordance with Canadian accounting standards for pension plans. The independent auditors have full and unrestricted access to Management and the Audit & Actuarial Committee to discuss any findings arising from their audit related to the integrity of financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The auditors' report outlines the scope of their examination and opinion.

Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by this Annual Report.

Based on my knowledge, the annual financial statements, together with the other financial information included in this Annual Report, fairly present in all material respects the financial position, changes in net assets available for benefits and changes in pension obligations of OAC as of the date and for the periods presented in this Annual Report.

**Michael Latimer**
President and Chief Executive Officer

**Jonathan Simmons**
Chief Financial Officer

Toronto, Ontario
February 25, 2016

# Actuarial Opinion

We conducted actuarial valuations as at December 31, 2015 of the OMERS Primary Pension Plan (Primary Plan) and the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (RCA) administered by OMERS Administration Corporation (OAC). The Primary Plan consists of a defined benefit component and an additional voluntary contribution (AVC) component. The purpose of the valuations is to fairly present the actuarial funded status of the Primary Plan and the RCA as at December 31, 2015, for inclusion in this Annual Report in accordance with Section 4600 of Part IV of the Chartered Professional Accountants of Canada Handbook.

The results of the actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of $82,369 million in respect of benefits accrued for service to December 31, 2015 (comprising $81,924 million with respect to the defined benefit component and $445 million with respect to the AVC component). The actuarial assets at that date were $75,392 million (comprising $74,947 million with respect to the defined benefit component and $445 million with respect to the AVC component), indicating a going concern actuarial deficit of $6,977 million. Ongoing adequacy of the Primary Plan's contribution rates will need to be monitored to ensure that future contributions, together with the Primary Plan assets and future investment earnings thereon, will be sufficient to provide for its future benefits.

The RCA provides for pension benefits in excess of the maximum pension benefits under the Primary Plan. The RCA is not fully pre-funded. The actuarial liability in respect of RCA benefits accrued for service to December 31, 2015 (determined using assumptions consistent with those used for the Primary Plan except that the discount rate is adjusted to approximate the effect of the 50 per cent refundable tax under the RCA), net of the RCA assets, was $544 million. Contributions, based on the top-tier Primary Plan contribution rates, are payable to the RCA on the excess of earnings over a defined earnings threshold. The funding of the RCA is managed on a modified pay-as-you go basis and monitored to ensure that the fund will have sufficient assets to provide for the projected benefit payments over the 20-year period following each valuation date.

The actuarial valuations of the Primary Plan and the RCA as at December 31, 2015 were conducted using the Projected Benefit Method Prorated on Services, and membership data as at December 1, 2015 and financial information as at December 31, 2015 supplied by the OAC. The December 1, 2015 membership data was adjusted, among other things, for the following:

- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2016,
- estimated credited service accruals in 2015, and
- estimated earnings for 2015.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the membership data are sufficient and reliable for the purpose of the valuations;
- the assumptions adopted were set with reference to the Primary Plan's and RCA's funding policies and with allowance for refundable taxes under the RCA, and are appropriate for the purpose of the valuations; and
- the methods employed in the valuations are appropriate for the purpose of the valuations.

The future experience of the Primary Plan and the RCA may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuations were prepared and our opinions are given in accordance with accepted actuarial practice in Canada.

Respectfully submitted

Towers Watson Canada Inc.

**Ian Markham**
Fellow, Canadian Institute of Actuaries

**Philip A. Morse**
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 25, 2016

# Independent Auditors' Report

## To the Board of OMERS Administration Corporation

We have audited the accompanying consolidated financial statements of OMERS Administration Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of changes in net assets available for benefits and changes in pension obligations for the years ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OMERS Administration Corporation and its subsidiaries as at December 31, 2015 and December 31, 2014 and the changes in net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario
February 25, 2016

# Consolidated Statement of Financial Position

| As at December 31, (in millions of Canadian dollars) | 2015 | 2014 |
|---|---|---|
| **Net Assets available for benefits** | | |
| Assets | | |
| Investments (note 3) | **$ 99,104** | $ 92,721 |
| Other investment assets | **557** | 425 |
| Derivatives and pending trades (note 3) | **505** | 592 |
| Contributions receivable | | |
| Employers | **158** | 147 |
| Members | **158** | 147 |
| Other assets | **169** | 112 |
| Total Assets | **100,651** | 94,144 |
| Liabilities | | |
| Investment liabilities (notes 3 and 4) | **19,058** | 18,858 |
| Amounts payable under contractual agreements (note 5) | **2,719** | 2,397 |
| Derivatives and pending trades (note 3) | **1,476** | 632 |
| Other liabilities | **153** | 161 |
| Total Liabilities | **23,406** | 22,048 |
| **Net Assets Available for Benefits** | **$ 77,245** | $ 72,096 |
| **Accrued pension obligation and deficit** | | |
| Primary Plan (note 6) | | |
| Defined benefit component | | |
| Accrued pension obligation | **$ 81,924** | $ 76,924 |
| Deficit | | |
| Funding deficit | **(6,977)** | (7,078) |
| Actuarial value adjustment to net assets available for benefits | **1,718** | 1,771 |
| | **(5,259)** | (5,307) |
| | **76,665** | 71,617 |
| Additional Voluntary Contributions component pension obligation | **445** | 360 |
| | **77,110** | 71,977 |
| Retirement Compensation Arrangement (note 7) | | |
| Accrued pension obligation | **679** | 619 |
| Deficit | **(544)** | (500) |
| | **135** | 119 |
| **Accrued Pension Obligation and Deficit** | **$ 77,245** | $ 72,096 |

The accompanying notes are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on February 25, 2016.

Signed on behalf of the Board of OMERS Administration Corporation

George L Cooke

George Cooke,
OAC Board Chair

William Butt

William Butt,
Chair, Audit & Actuarial Committee

# Consolidated Statement of Changes in Net Assets Available for Benefits

| For the year ended December 31, (in millions of Canadian dollars) | 2015 | 2014 |
|---|---|---|
| **Changes Due to Investment Activities** | | |
| Net investment income (note 8) | **$ 4,784** | $ 6,476 |
| **Total Changes Due to Investment Activities** | **4,784** | 6,476 |
| **Changes Due to Pension Activities** | | |
| Total contributions received (note 10) | **3,880** | 3,686 |
| Total benefits paid (note 11) | **(3,447)** | (3,066) |
| Pension administrative expenses (note 12) | **(68)** | (81) |
| **Total Changes Due to Pension Activities** | **365** | 539 |
| **Total Increase** | **5,149** | 7,015 |
| Net assets available for benefits, beginning of year | **72,096** | 65,081 |
| **Net Assets Available for Benefits, End of Year** | **$ 77,245** | $ 72,096 |

The accompanying notes are an integral part of these consolidated financial statements.

# Statement of Changes in Pension Obligations

| For the year ended December 31, (in millions of Canadian dollars) | 2015 | 2014 |
|---|---|---|
| **OMERS Primary Pension Plan (note 6)** | | |
| **Defined Benefit Component** | | |
| Accrued pension obligation, beginning of year | **$ 76,924** | $ 73,004 |
| Interest accrued on benefits | **4,980** | 4,732 |
| Benefits accrued | **2,784** | 2,637 |
| Benefits paid | **(3,417)** | (3,044) |
| Experience (gains)/losses | **323** | (622) |
| Changes in actuarial assumptions and methods | **330** | 217 |
| **Accrued Pension Obligation, End of Year** | **81,924** | 76,924 |
| **Additional Voluntary Contributions Component** | | |
| Additional voluntary contributions obligation, beginning of year | **360** | 276 |
| Contributions | **74** | 64 |
| Withdrawals | **(15)** | (11) |
| Attributed net investment income | **26** | 31 |
| **Additional Voluntary Contributions Obligation, End of Year** | **445** | 360 |
| **Retirement Compensation Arrangement (note 7)** | | |
| Accrued pension obligation, beginning of year | **$ 619** | $ 614 |
| Interest accrued on benefits | **20** | 20 |
| Benefits accrued | **22** | 26 |
| Benefits paid | **(15)** | (11) |
| Experience (gains)/losses | **42** | 14 |
| Changes in actuarial assumptions and methods | **(9)** | (44) |
| **Accrued Pension Obligation, End of Year** | **$ 679** | $ 619 |

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

## NOTE 1

## Description of Plans Administered By OMERS Administration Corporation

OMERS Administration Corporation (OAC) is a corporation without share capital, continued under the Ontario Municipal Employees Retirement System Act, 2006 (OMERS Act). OAC is the administrator of the OMERS pension plans (OMERS Pension Plans) as defined in the OMERS Act and is trustee of the pension funds. The OMERS Pension Plans include the OMERS Primary Pension Plan (Primary Plan), the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (RCA) and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (Supplemental Plan). As trustee of the Primary Plan's fund, OAC holds legal title to the pension fund assets and the trust beneficiaries are primarily Primary Plan members. OAC is responsible for administering the OMERS Pension Plans and investing the funds of the Primary Plan, the RCA and the Supplemental Plan (collectively, Funds), in accordance, as applicable, with the Pension Benefits Act (Ontario) (PBA), the Income Tax Act (Canada) (ITA), and the OMERS Act. Under the OMERS Act, the OMERS Sponsors Corporation ( SC) is the sponsor of the OMERS Pension Plans.

The accrued pension obligations of any one of the OMERS Pension Plans cannot be funded by the assets of the other OMERS Pension Plans.

### OMERS Primary Pension Plan

The Primary Plan is a multi-employer, jointly sponsored pension plan, created in 1962 by an Act of the Ontario Legislature, whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Primary Plan is governed by the OMERS Act, the PBA, the ITA and other applicable legislation. The benefit provisions and other terms of the Primary Plan are set out in the Primary Plan text. The Primary Plan consists of both the defined benefit component and the Additional Voluntary Contribution (AVC) component.

The Primary Plan is registered with the Financial Services Commission of Ontario (FSCO) and the Canada Revenue Agency (CRA) under Registration #0345983.

Attributes of the defined benefit component of the Primary Plan include:

a) Funding –The defined benefit component of the Primary Plan is funded by equal contributions from participating employers and members, and by the investment earnings of the Primary Plan assets. OAC determines the regulatory minimum funding requirements in accordance with the ITA and PBA. The SC sets the actual contribution rates.

b) Pensions – The normal retirement age (NRA) is 65 years for all Primary Plan members, except police officers and firefighters, who generally have a normal retirement age of 60 years. The defined benefits paid under the Primary Plan, when combined with 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 his/her years of credited service to a maximum of 35 years.

c) Death Benefits – Death benefits are payable to a surviving spouse, eligible dependent children, designated beneficiary, or the member's estate upon the death of a member. Depending upon eligibility requirements, the benefits may be paid in the form of a survivor pension, lump sum payment or both.

d) Escalation of Pensions – Pensions are increased for inflation through an annual adjustment equal to 100 per cent of the increase in the average Consumer Price Index (CPI) over the prior year's average. This adjustment is subject to a limit of six per cent in any one year. If the increase in the average CPI exceeds the six per cent limit, the excess is carried forward to future years.

e) Disability Pensions – A disability pension is available at any age to an active member who becomes totally disabled as defined by the Primary Plan. The pension is calculated using a member’s years of credited service and the average annual earnings during the member's highest 60 consecutive months of earnings consistent with a normal retirement pension. Generally, disability pensions continue until normal retirement.

f) Income Taxes – The Primary Plan is a Registered Pension Plan as defined in the ITA and is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable.

The AVC component of the Primary Plan enables members to make additional voluntary contributions on which the member receives the net investment return of the Primary Plan. For the AVC component of the Primary Plan, the only liability of the Primary Plan is members' AVC contributions plus/minus the net investment rate of return of the defined benefit component of the Primary Plan.

### Retirement Compensation Arrangement for the OMERS Primary Pension Plan

The RCA is an arrangement that provides pension benefits for Primary Plan members with earnings exceeding the amount that generates the maximum pension allowed by the ITA with respect to service after 1991. It is a separate trust arrangement and is not governed by the PBA and is not a Registered Pension Plan under the ITA. The RCA is governed by the OMERS Act, the ITA and other applicable legislation and is funded by equal contributions from participating employers and members and by the investment earnings of the RCA fund. Current and future contributions are determined to ensure that the existing RCA fund and future investment earnings are expected to be sufficient to pay projected benefits over the 20-year period following each actuarial valuation date. The RCA net assets available for benefits are invested and accounted for separately from the Primary Plan and the Supplemental Plan, and the accrued pension obligation of the RCA is valued separately from the Primary Plan and Supplemental Plan accrued pension obligations. Expenses of the RCA are paid from the cash flows of the RCA Fund.

### OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics

The Supplemental Plan became effective on July 1, 2008, pursuant to the requirements of the OMERS Act. The benefit provisions and other terms of the Supplemental Plan are set out in the Supplemental Plan text. The Supplemental Plan is registered with FSCO and with CRA under Registration #1175892.

Until March 31, 2018, unless the Supplemental Plan has sufficient funds based on the portion of contributions allocated for administrative expenses, any administrative costs of the Supplemental Plan are funded through a startup grant from the Province of Ontario.

Participation in the Supplemental Plan is effective only upon agreement between employee groups and their employer. As at December 31, 2015 and December 31, 2014, no such agreement exists and hence the the Supplemental Plan had no assets and no members.

## NOTE 2

## Summary of Significant Accounting Policies

### Basis of Presentation

OAC follows the requirements of the Chartered Professional Accountants of Canada (CPA Canada) Handbook Section 4600 – Pension Plans, which is the basis for Canadian accounting standards for pension plans. The recognition and measurement of OAC assets and liabilities are consistent with the requirements of CPA Canada Handbook Section 4600. For accounting policies that do not relate to its investment portfolio or pension obligations, OAC follows the requirements of International Financial Reporting Standards (IFRS).

The financial statements also provide disclosures required by regulation 909 of the PBA.

These financial statements include the financial position, changes in net assets available for benefits and changes in pension obligations of OAC and the OMERS Pension Plans.

The presentation of investment assets and income has been revised from investment entity to asset group view. Accordingly, certain comparative figures have been restated to conform to the current year's presentation.

### Use of Estimates and Judgments

The preparation of consolidated financial statements requires OAC Management (Management) to make estimates, judgments and assumptions that affect the reported values of assets and liabilities, income and expenses, accrued pension obligations and related disclosures. Actual results could differ from these estimates. Areas of significant accounting estimates and judgments include the determination of fair value of financial instruments discussed in Note 3 – Investments, the determination of the accrued pension obligation discussed in Note 6 – OMERS Primary Pension Plan and Note 7 – Retirement Compensation Arrangement.

### Investments

The Funds' investments consist of the following major asset groups: public investments (which include fixed income, public equities and inflation-linked bonds) and private investments (which includes private equity, infrastructure and real estate investments).

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is best evidenced by a quoted closing market price in an active market, if one exists. The determination of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Detailed discussion on valuation methodology is presented in Note 3 - Investments.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since the original acquisition. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows recognized during the year and is reflected in Changes due to Investment Activities in the Consolidated Statement of Changes in Net Assets Available for Benefits.

### Net Investment Income/(Loss)

Investment income/(loss) includes accrued interest, dividends and real estate rental income. Gains and losses that have been realized on the disposal of investments and the unrealized appreciation/depreciation required to adjust investments to their fair value are added to investment income to arrive at Total Investment Income in Note 8 – Net Investment Income/(Loss).

Income is recognized as interest and real estate rental income is earned, as dividends or distributions are declared, as investments are disposed of and as investments are adjusted to their fair value.

### Transaction and Pursuit Costs

Transaction and pursuit costs which include broker commissions, legal and other professional fees incurred as a part of the due diligence of a potential or completed transaction are expensed to total investment income as incurred.

### External Manager Fees

Base external manager fees for portfolio management are included in investment management expenses as incurred. Performance fees, which are contractually due to external managers for superior investment returns, and fees for pooled funds, where OAC's investment return from the fund is net of fees, are expensed in investment income as incurred.

### Investment Liabilities

Investment liabilities include commercial paper, debentures, mortgages, and other debt obligations incurred to acquire an investment, primarily in the real estate and infrastructure asset classes. Investment liabilities also include the Plan's liability to return cash collateral received in securities lending transactions and derivative related liabilities as well as the amounts payable in respect of securities sold under agreements to repurchase ("Repo Agreements"). Investment liabilities are financial instruments and are stated at fair value. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature, for which cost plus accrued interest approximates fair value. The credit risk of OAC is also considered in estimating the fair value of investment liabilities.

Liabilities incurred in entities in which OAC has invested are netted as part of investment assets, even when the investment is in an entity over which OAC has effective control or can exercise significant influence.

### Derivatives and Pending Trades

Derivatives and pending trades includes unrealized gains and losses from derivative contracts and accrued receivables/ payables from pending trade transactions.

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature.

### Foreign Currency Translation

Certain investments are denominated in foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in Net Gain/(Loss) on Investment Assets, Liabilities, and Derivatives in Note 8 – Net Investment Income/(Loss). Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the rate at the settlement is also recognized in Net Gain/(Loss) on Investment Assets, Liabilities, and Derivatives in Note 8 – Net Investment Income/(Loss).

### Accrued Pension Obligation

The value of the accrued pension obligation of the Primary Plan's defined benefit component is based on the Projected Benefit Method Prorated on Services actuarial valuation prepared by an independent firm of actuaries. This accrued pension obligation is measured in accordance with accepted actuarial practice in Canada using actuarial assumptions and methods adopted by OAC for the purpose of establishing the long-term funding requirements of the Primary Plan. The actuarial valuation included in the consolidated financial statements is consistent with the valuation used for funding purposes.

The AVC pension obligation represents the Primary Plan's liability in respect of the AVC component of the Primary Plan and includes members' AVC contributions plus/minus the net investment rate of return of the defined benefit component of the Primary Plan.

The valuation methodology used in the estimation of the accrued pension obligation of the RCA is developed on a basis consistent with the accrued pension obligation of the Primary Plan's defined benefit component. The accrued pension obligation of the RCA and the AVC pension obligation are separate from the accrued pension obligation of the Primary Plan's defined benefit component.

### Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets for the Primary Plan is used in assessing the funding position of the Primary Plan, including the determination of minimum legally required contributions. The actuarial value adjustment to the fair value of net assets is the amount of net investment returns above or below the actuarial long-term rate of return assumption that are being smoothed and recognized over a five-year period. The fair value of net assets is adjusted by the actuarial value adjustment to arrive at the actuarial value of net assets.

### Surplus/Deficit

For financial statement reporting, the surplus/deficit of the Primary Plan is based on the difference between the fair value of the Primary Plan's net assets available for benefits and the Primary Plan's accrued pension obligation. For funding purposes, the Primary Plan's surplus/deficit is based on the difference between the Primary Plan's actuarial value of net assets and the Primary Plan's accrued pension obligation. For the RCA, the surplus/deficit for financial statement reporting purposes is based on the difference between the fair value of RCA net assets available for benefits and the RCA's accrued pension obligation.

### Contributions

Contributions from employers and members due to the OMERS Pension Plans as at the end of the year are recorded on an accrual basis. Service purchases that include, but are not limited to, leaves of absence, conversion of normal retirement age and transfers from other pension plans are recorded and service is credited when the purchase amount is received. Contributions for AVCs are recorded when the contribution is received.

### Benefits

Benefit payments to retired members are recorded as they are due, at the first day of each month. Commuted value payments and transfers to other pension plans are recorded in the period in which OAC is notified. Accrued benefits for active members are recorded as part of the accrued pension obligation.

### Administrative Expenses

Administrative expenses are incurred for direct pension administration, direct investment management and corporate services and are recorded on an accrual basis. Direct pension administration expenses represent expenses to provide direct services to OMERS Pension Plans members and employers. Direct investment management expenses represent expenses of managing OMERS Pension Plans investments. Corporate services expenses primarily include corporate information systems, accounting, legal and other governance expenses incurred to support either the pension administration or the investment management functions. These are allocated between pensions and investments based on an estimate of the use of resources.

### Future Changes in Accounting Policies

The relevant new guidance issued by the International Accounting Standards Board not yet adopted by OAC includes:

IFRS 15 Revenue from Contracts with Customers

The new standard replaces all existing IFRS revenue requirements. The mandatory effective date for the new standard is for years beginning on or after January 1, 2018. Management is assessing any potential impact on the OAC's investment income when adopting the new standard.

# NOTE 3

## A. Investments

### Investments by Fair Value and Cost

Total investments, before allocating the effect of derivative contracts, and investment related assets and liabilities are as follows:

| As at December 31, | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Fair Value** | **Cost** | Fair Value | Cost |
| **Public Investments** | | | | |
| **Fixed Income Investments** | | | | |
| Cash and short-term deposits (i) | **$ 20,695** | **$ 20,695** | $ 14,771 | $ 14,772 |
| Canadian nominal bonds and debentures | **474** | **475** | 351 | 350 |
| Non-Canadian nominal bonds and debentures | **2,014** | **1,910** | 264 | 263 |
| Mortgages and private debt | **2,327** | **2,229** | 625 | 619 |
| Derivatives - Futures and swaps | **(8)** | **—** | (1) | — |
| | **25,502** | **25,309** | 16,010 | 16,004 |
| **Inflation-linked Bonds** | **6,446** | **5,716** | 23,157 | 20,831 |
| **Public Equity** (ii) | | | | |
| Canadian public equities | **1,084** | **1,180** | 250 | 382 |
| Non-Canadian public equities | **10,684** | **9,021** | 8,049 | 7,493 |
| Derivatives - Futures and swaps | **(85)** | **—** | (166) | — |
| | **11,683** | **10,201** | 8,133 | 7,875 |
| **Total Public Investments** | **43,631** | **41,226** | 47,300 | 44,710 |
| **Private Investments** | | | | |
| **Private Equity** | | | | |
| Canadian private equities (iii) (iv) | **3,337** | **2,735** | 3,686 | 3,323 |
| Non-Canadian private equities | **8,145** | **6,069** | 5,081 | 4,276 |
| **Total Private Equity Investments** | **11,482** | **8,804** | 8,767 | 7,599 |
| **Infrastructure Investments** | **16,349** | **13,634** | 14,401 | 12,775 |
| **Real Estate Investments** | **27,642** | **23,359** | 22,253 | 19,022 |
| **Total Private Investments** | **55,473** | **45,797** | 45,421 | 39,396 |
| **Total Investments** | **99,104** | **87,023** | 92,721 | 84,106 |
| **Investment Related Assets** | | | | |
| Investment receivables | **382** | **789** | 236 | 648 |
| Deferred assets, prepaid and other | **175** | **47** | 189 | 76 |
| Derivatives and pending trades | **505** | **54** | 592 | 202 |
| | **1,062** | **890** | 1,017 | 926 |
| **Investment Related Liabilities** | | | | |
| Investment liabilities (note 4) | **(19,058)** | **(18,493)** | (18,858) | (18,394) |
| Derivatives and pending trades | **(1,476)** | **(24)** | (632) | (208) |
| | **(20,534)** | **(18,517)** | (19,490) | (18,602) |
| **Net Investment Assets** | **$ 79,632** | **$ 69,396** | $ 74,248 | $ 66,430 |

(i) Includes restricted cash of $148 (December 31, 2014 - $180)

(ii) Includes externally managed investments of $3,275 (December 31, 2014 - $3,313).

(iii) Includes resource properties with a total fair value of $525 (December 31, 2014 - $705).

(iv) Includes venture capital investments of $537 (December 31, 2014 - $390).

The Funds' net investment assets by asset group are as follows:

| As at December 31, | | | | | 2015 |
|---|---|---|---|---|---|
| | Public Investments | Infrastructure | Real Estate | Private Equity | Total |
| Investment assets | $ 43,631 | $ 16,349 | $ 27,642 | $ 11,482 | $ 99,104 |
| Allocation of cash and other | (351) | 43 | 281 | 27 | — |
| Investment related assets | 544 | 16 | 345 | 157 | 1,062 |
| Investment related liabilities | (3,815) | (1,553) | (14,525) | (641) | (20,534) |
| **Net Investment Assets** | $ 40,009 | $ 14,855 | $ 13,743 | $ 11,025 | $ 79,632 |

| As at December 31, | | | | | 2014 |
|---|---|---|---|---|---|
| | Public Investments | Infrastructure | Real Estate | Private Equity | Total |
| Investment assets | $ 47,300 | $ 14,401 | $ 22,253 | $ 8,767 | $ 92,721 |
| Allocation of cash and other | (421) | 122 | 282 | 17 | — |
| Investment related assets | 648 | 86 | 329 | (46) | 1,017 |
| Investment related liabilities | (6,464) | (1,572) | (11,380) | (74) | (19,490) |
| **Net Investment Assets** | $ 41,063 | $ 13,037 | $ 11,484 | $ 8,664 | $ 74,248 |

### Investment Valuation Practices

Fair values are based on quoted prices in an active market or where such pricing is not available, fair value is estimated using observable market inputs such as interest rates, quoted prices of comparable securities or unobservable inputs such as Management assumptions or contractual terms. Accredited independent external valuation experts are engaged to perform a review of Management's valuations to determine the reasonableness of the valuations for each significant private investment at least once every three years or in any year where the valuation changes by more than fifteen per cent from the prior year. Fair values are determined as follows:

(i) Short-term deposits are recorded at amortized cost, which together with accrued interest income approximates fair value.

(ii) Nominal bonds and debentures, inflation-linked bonds and public equities are valued at year-end quoted market prices, where available. For public equities the quoted market prices are based on exchange prices while fixed income and inflation-linked bonds are based on quotes from industry standard sources. For public investments, including mortgages and private debt, where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities, independent asset appraisals, and financial analysis. Externally managed hedge funds where details of individual securities are not maintained by the Funds are valued based on values provided by the fund manager.

(iii) Private investments include investments in private equity, infrastructure and real estate assets, held either directly or as a limited partner, which generally do not have a publicly available market price. For private investments, the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. While not exact, valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets.

The Funds' private investments are valued as follows:

- For investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values, the valuation is derived by:
  - discounting projected future cash flows of an investment using discount rates which reflect the risk inherent in the projected cash flows. Discount rates and projected cash flows are based on internal assumptions and external inputs; and
  - assessing the investment assets against the value of comparable publicly listed entities.

- For non-operating and/or start-up directly held private investments, the value may be held at cost where cost is considered the best estimate of fair value, until there is evidence to support a change in valuation.
- The fair value of a private fund investment where OAC's ability to access information on underlying individual fund investments is restricted, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's general partner unless there is a specific and objectively verifiable reason to vary from the value provided by the general partner.

(iv) Fair value of derivatives, including swaps, futures, options, credit default swaps and forward contracts, are determined using quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

## Investment Fair Value Hierarchy

Fair value measurements of investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy as follows:

### Level 1

Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level 1 primarily includes publicly listed equity investments.

### Level 2

Fair value is based on valuation methods that make use of inputs, other than quoted prices included within Level 1, that are observable by market participants either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models.  Level 2 primarily includes debt securities and derivative contracts not traded on a public exchange, public equities not traded in an active market, public fund investments and investment related liabilities including debt and securities sold under repurchase agreements.

### Level 3

Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation.  Level 3 primarily includes private market investments such as real estate, infrastructure, private equity, mortgages and private debt and investment related liabilities including debt valued based on discounted future cash flow models, comparable publicly listed entities, or sales of similar entities which reflect assumptions that a market participant would use when valuing such an asset or liability.

Net investment assets based on the valuation level within the fair value hierarchy are as follows:

| As at December 31, | | | | 2015 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed income investments | 825 | 22,368 | 2,309 | 25,502 |
| Inflation-linked bonds | — | 6,446 | — | 6,446 |
| Public equity | 7,884 | (6) | 12 | 7,890 |
| Public fund investments | — | 1,921 | 1,872 | 3,793 |
| Private Equity - direct investments | 105 | 2 | 9,590 | 9,697 |
| Private Equity - fund investments | — | — | 1,785 | 1,785 |
| Infrastructure Investments | — | — | 16,349 | 16,349 |
| Real Estate Investments | — | — | 27,642 | 27,642 |
| Investment Related Assets | 67 | 480 | 515 | 1,062 |
| Investment Related Liabilities | (1,318) | (9,316) | (9,900) | (20,534) |
| **Net Investment Assets** | $ 7,563 | $ 21,895 | $ 50,174 | $ 79,632 |

| As at December 31, | | | | 2014 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed income investments | 556 | 14,829 | 625 | 16,010 |
| Inflation linked bonds | | 23,157 | | 23,157 |
| Public equity | 5,230 | 9 | 85 | 5,324 |
| Public fund investments | — | 1,624 | 1,185 | 2,809 |
| Private Equity - direct investments | 120 | 100 | 6,650 | 6,870 |
| Private Equity - fund investments | — | — | 1,897 | 1,897 |
| Infrastructure Investments | — | — | 14,401 | 14,401 |
| Real Estate Investments | — | — | 22,253 | 22,253 |
| Investment Related Assets | 202 | 446 | 369 | 1,017 |
| Investment Related Liabilities | (3,936) | (8,436) | (7,118) | (19,490) |
| **Net Investment Assets** | $ 2,172 | $ 31,729 | $ 40,347 | $ 74,248 |

The Level 3 classification includes all assets and liabilities related to investments valued based on non-observable market data. Where the investment asset is hedged against foreign currency gains and losses, the impact of the hedging activity is included in the valuation.

The following table presents the changes in the fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2015:

| | Fair Value Dec 31, 2014 | **Total Gain (Loss) Included in Net Income** | **Transfers In (Out) (i)** | **Contributed Capital** | **Capital Returned (ii)** | **Fair Value Dec 31, 2015** | **Unrealized Gains (Losses) Attributable to Investments Held at Dec. 31,(iii)** |
|---|---|---|---|---|---|---|---|
| Fixed income investments | $ 625 | **$ 222** | **$ (18)** | **$ 1,541** | **$ (61)** | **$ 2,309** | **$ 100** |
| Public equity investments | 85 | **(5)** | **(67)** | **2** | **(3)** | **12** | **15** |
| Public fund investments | 1,185 | **268** | **—** | **655** | **(236)** | **1,872** | **277** |
| Private equity-direct investments | 6,582 | **886** | **(18)** | **2,014** | **(294)** | **9,170** | **674** |
| Private equity-fund investments | 1,870 | **139** | **14** | **39** | **(341)** | **1,721** | **(248)** |
| Infrastructure investments | 14,007 | **2,055** | **(197)** | **1,506** | **(1,654)** | **15,717** | **956** |
| Real estate investments | 21,010 | **2,427** | **231** | **4,130** | **(2,169)** | **25,629** | **893** |
| Real estate fund investments | 633 | **89** | **13** | **111** | **(69)** | **777** | **38** |
| Debt | (5,650) | **(900)** | **(98)** | **1,523** | **(1,908)** | **(7,033)** | **(532)** |
| **Total** | $ 40,347 | **$ 5,181** | **$ (140)** | **$ 11,521** | **$ (6,735)** | **$ 50,174** | **$ 2,173** |

The following table presents the changes in the fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2014:

| | Fair Value Dec 31, 2013 | Total Gain (Loss) Included in Net Income | Transfers In (Out) (i) | Contributed Capital | Capital Returned (ii) | Fair Value Dec 31, 2014 | Unrealized Gains (Losses) Attributable to Investments Held at Dec. 31, (iii) |
|---|---|---|---|---|---|---|---|
| Fixed income investments | $ 1,228 | $ 19 | $ — | $ 169 | $ (791) | $ 625 | $ 11 |
| Public equity investments | 97 | (30) | — | 131 | (113) | 85 | (37) |
| Public fund investments | 1,154 | 68 | — | 86 | (123) | 1,185 | 99 |
| Private equity-direct investments | 6,733 | 413 | (89) | 640 | (1,115) | 6,582 | 185 |
| Private equity-fund investments | 1,971 | 284 | — | 62 | (447) | 1,870 | 20 |
| Infrastructure investments | 12,846 | 1,192 | — | 1,139 | (1,170) | 14,007 | 207 |
| Real estate investments | 16,380 | 734 | — | 4,100 | (204) | 21,010 | 788 |
| Real estate fund investments | 573 | 76 | — | 112 | (128) | 633 | 39 |
| Debt | (3,761) | (328) | — | 323 | (1,884) | (5,650) | (154) |
| **Total** | $ 37,221 | $ 2,428 | $ (89) | $ 6,762 | $ (5,975) | $ 40,347 | $ 1,158 |

(i) Represents amounts transferred in(out) of Level 3, the net amount for the year ended December 31, 2015 was negative $140 (December 31, 2014- negative $89). This represents reclassification of debt and private investments that became publicly traded.

(ii) Includes return of realized hedging gains and losses. The unrealized hedging gains and losses are recorded as part of the valuation of such assets.

(iii) Amount represents unrealized market value adjustments recorded during the year which are included in the valuation of assets held at year end only.

### Fair Value Assumptions and Sensitivity

Level 3 financial instruments are valued using internal models and the resulting valuations are significantly affected by non-observable inputs, the most significant of which is the discount rate as the discount rate reflects both current interest rates as well as the uncertainty of future cash flows generated from the investment.

The discount rate is composed of two elements: a risk free rate, which is the return that would be expected from a secure, virtually risk-free investment, such as a high quality government bond; plus a risk premium. The risk premium is estimated from, where available, implied values of similar publicly traded entities or sales of similar entities (similar properties, in case of real estate investments). If such information is not available, risk premium is estimated at a level that compensates for the incremental amount of risk associated with a particular investment. The selected discount rates are chosen to be consistent with the risk inherent in the stream of cash flows to which they are applied.

The following analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible alternative discount rate assumptions for asset categories where such reasonably possible alternative assumptions would change the fair value significantly. The alternative discount rates below are based on the volatility of the respective asset classes. These sensitivities are hypothetical and should be used with caution. The impact to the valuation from such changes to the discount rate has been calculated independently of the impact of changes in other key variables. In actual experience, a change in the discount rate may be the result of changes in a number of underlying assumptions which could amplify or reduce the impact on the valuation.

| As at December 31, 2015 | **Increase/Decrease in Discount Rate (basis points)** | | **Decrease/Increase in Net Investment Assets** |
|---|---|---|---|
| Private equity - direct investments | **70** | **$** | **537** |
| Infrastructure investments | **20** | | **285** |
| Real estate investments | **25** | | **550** |
| **Total impact on Net Investment Assets** | | **$** | **1,372** |

| As at December 31, 2014 | Increase/Decrease in Discount Rate (basis points) | | Decrease/Increase in Net Investment Assets |
|---|---|---|---|
| Private equity - direct investments | 70 | $ | 436 |
| Infrastructure investments | 20 | | 220 |
| Real estate investments | 25 | | 420 |
| **Total impact on Net Investment Assets** | | $ | 1,076 |

The fair value of public market, private equity and real estate fund investments where OAC does not have access to the underlying investment information is based on the value provided by the general partner or other external manager and therefore, in the absence of specific information to support deviating from this value, no other reasonably possible alternative assumptions could be applied.

### Significant Investments

The Funds held investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets as follows:

| As at December 31, | | | 2015 | | | 2014 |
|---|---|---|---|---|---|---|
| | **Number of Investments** | **Fair Value** | **Cost** | Number of Investments | Fair Value | Cost |
| Public investments | **3** | **$ 2,887** | **$ 2,574** | 8 | $ 9,024 | $ 8,403 |
| Private investments | **14** | **17,273** | **12,778** | 12 | 16,199 | 13,782 |
| | **17** | **$ 20,160** | **$ 15,352** | 20 | $ 25,223 | $ 22,185 |

Public investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include investments in foreign and Canadian government interest bearing securities.

Private investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power; ownership interests in Teranet, Oncor, Associated British Ports, Scotia Gas Networks, LifeLabs, Ellevio, High Speed 1, OMERS Energy Inc., Caliber Collision Centres and Kenan Advantage Group; and real estate ownership interests in Yorkdale Shopping Centre, Square One Shopping Centre and the Richmond Adelaide Complex.

The effective date of the most recent valuation for the above listed investments was December 31, 2015.

### Investment Risk

OAC's primary long term risk is that the value of OAC's assets and its capacity to generate cash is insufficient to meet pension obligations. OAC's future obligation is used to establish the long term investment objectives combined with an assessment of associated risks.

The OAC Board of Directors, through its Investment Committee, determines the acceptable level of investment risk to be taken. The Board of Directors approves the Enterprise Risk Management policy, a document that articulates how risk is identified, measured, managed, monitored and reported throughout the organization. Within OAC Management, primary accountability for risk remains with the business or function responsible for making operational decisions relative to that risk. This accountability is achieved through a series of sub-delegations by the Board of Directors to the CEO, who further delegates responsibilities to the business leaders, subject to levels of authority. The Chief Risk Officer (CRO) is responsible for implementing the Board-approved risk management mandate, including the development of associated policies and limits, and providing independent enterprise-wide oversight of business activities using the matrix structure that underpins the risk and compliance functions.

OAC’s investments are diversified amongst major asset classes such as fixed income, public equity, private equity, infrastructure and real estate investments. Investment teams within OAC execute the specific strategies that are designed to achieve return objectives that reflect both the opportunity and the risk associated with those asset classes. The methods and factors used in the measurement or assessment of investment risk are reviewed on an ongoing basis. The businesses are responsible for measuring, assessing and evaluating their investment risk.

There are three major categories of investment risks that are managed by each business unit and at the OAC level. They are as follows: Market risk, Credit risk and Liquidity risk. A description of each investment risk category and how OAC manages the risk is provided below.

#### a) Market Risk

Market risk is the risk that the fair value of an investment is impacted by changes in market prices such as foreign exchange rates, interest rates, and equity and commodity prices. To address market risk, investment teams execute various tactical actions and strategies designed to measure, manage and monitor the risks being assumed and to ensure the risks taken are commensurate with their expected returns. An explanation of the nature of each of these sources of market risk appears below.

- Foreign Exchange Rates

OAC pays pensions in Canadian dollars and manages a highly diversified portfolio of long term investments, some of which are denominated in foreign currencies. Over time, the values of these investments expressed in Canadian dollars are impacted by changes in foreign exchange rates. These changes can be either positive or negative and over time can be significant given the volatility of foreign exchange rates. OAC manages the exposures associated with our foreign currency-denominated investments using various tools such as forward contracts. This approach reduces an investment's exposure to foreign exchange rate volatility over time. As illustrated in the table below, OAC employs forward contracts to hedge its exposure to foreign currency volatility for the majority of its non-Canadian dollar investments.

The Funds' net investment assets by currency before and after the impact of currency hedging and trading activities are as follows:

| As at December 31, | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair Value By Currency** | | | | Fair Value By Currency | | | |
| | **Net investment Assets before Hedging/ Trading Activities** | **Effect of Hedging/ Trading Activities** | **Net investment Assets after Hedging/ Trading Activities** | **% of Total** | Net investment Assets before Hedging/ Trading Activities | Effect of Hedging/ Trading Activities | Net investment Assets after Hedging/ Trading Activities | % of Total |
| Canada | **$ 41,816** | **$ 32,417** | **$ 74,233** | **93%** | $ 54,032 | $ 11,459 | $ 65,491 | 88% |
| United States | **24,348** | **(19,870)** | **4,478** | **6%** | 10,393 | (3,428) | 6,965 | 9% |
| United Kingdom | **9,675** | **(9,162)** | **513** | **1%** | 7,312 | (5,971) | 1,341 | 2% |
| Euro Countries | **2,014** | **(1,932)** | **82** | **—%** | 1,440 | (1,479) | (39) | —% |
| Japan | **(47)** | **(151)** | **(198)** | **—%** | (42) | (158) | (200) | —% |
| Other Pacific | **159** | **(260)** | **(101)** | **—%** | 377 | (192) | 185 | —% |
| Emerging Markets | **221** | **238** | **459** | **—%** | 700 | (119) | 581 | 1% |
| Other Europe | **1,446** | **(1,280)** | **166** | **—%** | 36 | (112) | (76) | —% |
| | **$ 79,632** | **$ —** | **$ 79,632** | **100%** | $ 74,248 | $ — | $ 74,248 | 100% |

Foreign Currency Sensitivity

After giving effect to the impact of hedging and trading activities and with all other variables and underlying values held constant, a five per cent increase/decrease in the value of the Canadian dollar against major foreign currencies would result in an approximate $270 (December 31, 2014 - $442) decrease/increase in OAC's net assets as shown below:

| As at December 31, | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| Currency | Change in value of Canadian Dollar | **Unrealized gain/loss** | | | Unrealized gain/loss | | |
| United States | +/- 5% | **-/+** | **$** | **224** | -/+ | $ | 348 |
| United Kingdom | +/- 5% | **-/+** | | **26** | -/+ | | 67 |
| Euro Countries | +/- 5% | **-/+** | | **4** | -/+ | | 2 |
| Other | +/- 5% | **-/+** | | **16** | -/+ | | 25 |
| | | **-/+** | **$** | **270** | -/+ | $ | 442 |

- Interest Rate Risk

From an investment perspective, primary exposure to interest rates is a function of the capital deployed in fixed income products and investments both in public and private market asset classes. Since the majority of these investments have fixed rates of interest, the exposure is to rising rates over time (i.e. rising interest rates decreases the market value of investments that have a fixed rate of interest). The most significant interest bearing investments that have a fixed rate of interest are the shorter-dated nominal bond futures and long-dated inflation linked bonds in the public investments portfolio. The exposure to nominal bonds is $20,290 (December 31, 2014 - $1,758) with net fair value of the derivative positions totaling $30 (December 31, 2014 - $29). In addition to these investments, OAC holds a variety of other interest bearing investments in private portfolios that also have an exposure to rising interest rates. Lastly, OAC also invests in short-term interest rate related securities primarily for the purpose of maintaining its ability to meet liquidity needs. The following tables illustrate how capital is allocated amongst the various types of interest bearing investments based upon the contractual maturity of the securities, are as follows:

| As at December 31, | | | | | **2015** |
|---|---|---|---|---|---|
| | **Term to Maturity** | | | | |
| | **Within 1 Year** | **1 to 5 Years** | **Over 5 Years** | **Total** | **Average Effective Yield (i)** |
| Cash and short-term deposits | **$ 20,695** | | | **$ 20,695** | **0.72%** |
| Nominal bonds and debentures | | **855** | **1,633** | **2,488** | **4.03%** |
| Inflation-linked bonds (ii) | **67** | **10** | **6,369** | **6,446** | **0.5%** |
| Mortgages and private debt | **320** | **1,703** | **304** | **2,327** | **7.92%** |
| | **$ 21,082** | **$ 2,568** | **$ 8,306** | **$ 31,956** | **1.18%** |

| As at December 31, | | | | | 2014 |
|---|---|---|---|---|---|
| | Term to Maturity | | | | |
| | Within 1 Year | 1 to 5 Years | Over 5 Years | Total | Average Effective Yield (i) |
| Cash and short-term deposits | $ 14,771 | | | $ 14,771 | 1.19% |
| Nominal bonds and debentures | 64 | 71 | 480 | 615 | 3.73% |
| Inflation-linked bonds (ii) | — | 95 | 23,062 | 23,157 | 0.14% |
| Mortgages and private debt | 2 | 443 | 180 | 625 | 3.37% |
| | $ 14,837 | $ 609 | $ 23,722 | $ 39,168 | 0.64% |

(i) Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.
(ii) Inflation-linked bond yields are based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

Sensitivity to changes in interest rates

OAC takes actions to reduce or mitigate its exposure to rising interest rates to address both the strategic and tactical objectives of the Funds. In 2015, OAC reallocated capital from the long-dated inflation linked bond position to a shorter-dated nominal bond position reducing exposure to rising interest rates in the public investments portfolio. OAC's sensitivity to changes in interest rates is significant in light of the allocation of capital to interest rate sensitive investments that are required to maintain OAC's liquidity and ability to make significant investments in large scale private assets with relatively short notice.

After giving effect to derivative contracts (note 3 B), debt liabilities, securities sold short and securities sold under repurchase agreements (note 4), a one per cent increase/decrease in nominal interest rates, with all other variables held constant, would result in an approximate decrease/increase in the value of net fixed income investments and an unrealized (loss)/gain of $687 (December 31, 2014 - $361). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of inflation linked bonds and an unrealized (loss)/gain of $654 (December 31, 2014 - $3,741).

- Equities

OAC makes investments in both public (i.e. publicly-traded) and private companies. Investments in publicly-traded equities are managed to achieve income through dividends or capital gains or both over time. Investments in publicly-traded equity securities represent 27% (December 31, 2014 - 17%) of the OMERS Capital Markets investments portfolio. These investments are exposed to volatility due to changes in market sentiment. The investments in publicly traded equities are actively managed with due regard for risk and return objectives.

In addition to the above, OAC also invests directly in the equity of private companies. These "private equity" investments generate capital gain opportunities that are realized after a particular investment is sold. One of the key risks relating to private equity investments is valuation. OAC employs a comprehensive process to estimate the value of these investments on a regular basis. It should be noted that the risks and the returns associated with private equity are generally higher than publicly traded equities.

- Commodities

OAC has invested in commodity futures as part of a globally diversified passive investment strategy pursued in the public investments portfolio. The exposure to commodity derivatives is $3,287 (December 31, 2014 - $5,775) with net fair value totaling negative negative 29 (December 31, 2014 - negative 178) is included in public equities.

- Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. OAC is subject to price risk through its public equity investments and in addition to geographic, industrial sector and entity specific analysis, uses strategies such as diversification and the use of derivative instruments to mitigate the overall impact of price risk. OAC's private investments are also subject to price risk as they are impacted by many general and specific market variables.

After giving effect to derivative contracts, a 10% increase/decrease in the value of all public equity and private investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss as noted below.

| As at December 31, | | | | **2015** | | | 2014 |
|---|---|---|---|---|---|---|---|
| | Change in market prices | **Unrealized gain/loss** | | | Unrealized gain/loss | | |
| **Canadian public equities** | **+/- 10%** | **+/-** | **$** | **167** | +/- | $ | 40 |
| **Non-Canadian public equities** | **+/- 10%** | **+/-** | | **2,167** | +/- | | 2,060 |
| **Private Investments** | **+/- 10%** | **+/-** | | **3,914** | +/- | | 3,178 |
| | | **+/-** | **$** | **6,248** | +/- | $ | 5,278 |

b) Credit Risk

Credit risk is defined as the financial loss that results from the failure of a counterparty to honour its contractual obligations to OAC. To manage this risk, OAC regularly performs financial analysis of counterparties and issuers it transacts with in addition to using external sources (e.g. credit rating agencies) to assess credit risk exposure. Where appropriate, OAC requires collateral from its counterparties to help offset the perceived risk of an investment transaction The majority of counterparty related credit risk assumed by OAC is with highly rated global financial institutions with which OAC executes bi-lateral transactions. Based on the financial analysis process referred to above, specific limits are put into place in order to limit how much exposure OAC has with any one counterparty and are also tiered according to the ratings issued by credit rating agencies. Credit risk associated with derivative financial instruments is discussed in note 3 B.

OAC's most significant credit risk exposure arises from its fixed income and inflation-linked bond investments. The Funds' fixed income and inflation-linked bond investments exposed to credit risk are as follows:

| As at December 31, | | | | | 2015 |
|---|---|---|---|---|---|
| **Credit Quality (i)** | **Sovereign Governments** | **Provincial Governments** | **Corporate** | **Total** | **% of Total** |
| **AAA** | 7,821 | | | $ 7,821 | 25% |
| **AA** | | 220 | 18,365 | 18,585 | 60% |
| **A** | | 343 | 336 | 679 | 2% |
| **A-** | | | 89 | 89 | —% |
| **BBB+** | | | 136 | 136 | 1% |
| **BBB** | | | 728 | 728 | 2% |
| **Below BBB** | | | 1,823 | 1,823 | 6% |
| **Unrated (ii)** | | | 1,303 | 1,303 | 4% |
| | $ 7,821 | $ 563 | $ 22,780 | $ 31,164 | 100% |

| As at December 31, | | | | | 2014 |
|---|---|---|---|---|---|
| Credit Quality (i) | Sovereign Governments | Provincial Governments | Corporate | Total | % of Total |
| AAA | 23,552 | | | $ 23,552 | 61% |
| AA | 60 | 330 | 13,086 | 13,476 | 35% |
| A | | 514 | 224 | 738 | 2% |
| A- | | | 18 | 18 | —% |
| BBB+ | | | | — | —% |
| BBB | | | 210 | 210 | 1% |
| Below BBB | | | | — | —% |
| Unrated (ii) | | | 640 | 640 | 1% |
| | $ 23,612 | $ 844 | $ 14,178 | $ 38,634 | 100% |

(i) Based on average rating of major credit rating agencies.

(ii) Unrated comprises securities that are either privately held, managed externally, or not rated by the rating agencies.

- Securities Lending

  OAC engages in securities lending of its own securities to third parties in order to facilitate collateral transformation and to support its securities borrowing activities. OAC lends securities to third parties and receives cash as collateral, which mitigates the credit risk. As at December 31, 2015 securities with an estimated fair value of $58 (December 31, 2014 - $201) were loaned out in exchange for collateral of $59 (December 31, 2014 - $207).

- Right of Netting, Offset and Margin

  During the normal course of business, OAC is a counterparty to financial instruments that are subject to netting, offset and margin arrangements. In the case of over-the-counter ("OTC") derivatives, with the majority of all counterparties collateral is collected from and pledged to counterparties according to the Credit Support Annex ("CSA") which forms part of International Swaps and Derivatives Association ("ISDA") master agreements. In the case of prime brokerage and other securities borrowing, collateral is provided to the full extent of the liability to the counterparty. In the case of repurchase transactions, under Global Master Repurchase Agreements ("GMRA"), OAC (where selling the security) receives margin in return for securities sold, with an obligation to buy-back equivalent securities in the future. Following an event of default, bankruptcy or other early termination event in respect of the counterparty, OAC is entitled to liquidate transactions under each of above arrangements, to net all transactions, to liquidate the assets held as margin (where held by OAC) and to offset against obligations to the same counterparty. OAC may not be permitted to net and set-off upon the default of a clearer in respect of exchange traded derivatives and cleared OTC derivatives.

OAC does not offset the financial instruments in its Consolidated Statement of Financial Position, as its rights of offset are conditional. The following table presents the effect of conditional netting and similar arrangements. Similar arrangements include GMRAs, security lending agreements and any related rights to financial collateral.

Information for OAC related to these arrangements as at December 31, 2015:

| As at December 31, | | | | | 2015 |
|---|---|---|---|---|---|
| | | **Related amounts not set off in the Consolidated Statement of Financial Position** | | | |
| | **Nettable amount of Financial Instruments** | **Financial Instruments** | **Financial collateral (received) pledged** | **Securities sold under agreement to repurchase** | **Net amount** |
| **Financial Assets** | | | | | |
| Derivative assets | **$ 458** | **$ (456)** | | | **$ 2** |
| Securities lending | | | | | **—** |
| **Total Financial Assets** | **$ 458** | **$ (456)** | **$ —** | | **$ 2** |
| **Financial Liabilities** | | | | | |
| Derivative liabilities | **$ (1,497)** | **$ 456** | **$ 824** | | **$ (217)** |
| Securities lending | **(1,463)** | | **1,463** | | **—** |
| Repurchase agreements | **(1,714)** | | | **1,714** | **—** |
| **Total Financial Liabilities** | **$ (4,674)** | **$ 456** | **$ 2,287** | **$ 1,714** | **$ (217)** |

| As at December 31, | | | | | 2014 |
|---|---|---|---|---|---|
| | Nettable amount of Financial Instruments | Related amounts not set off in the Consolidated Statement of Financial Position | | | |
| | | Financial Instruments | Financial collateral (received) pledged | Securities sold under agreement to | Net amount |
| **Financial Assets** | | | | | |
| Derivative assets | $ 434 | $ (342) | $ (19) | | $ 73 |
| Securities lending | — | | — | | — |
| **Total Financial Assets** | $ 434 | $ (342) | $ (19) | | $ 73 |
| **Financial Liabilities** | | | | | |
| Derivative liabilities | $ (433) | $ 342 | $ 18 | | $ (73) |
| Securities lending | (4,248) | | 4,248 | | — |
| Repurchase agreements | (2,218) | | | 2,218 | — |
| **Total Financial liabilities** | $ (6,899) | $ 342 | $ 4,266 | $ 2,218 | $ (73) |

### c) Liquidity Risk

Liquidity risk is the risk that OAC will be unable to meet its financial liabilities in a timely and cost-effective manner. OAC expects that pension contributions will meet or exceed benefits over the next three years and thereafter liquid requirements for pension payments will need to be funded by returns from the investment portfolio. OAC has developed forward looking liquidity risk and cashflow models which are used on a periodic basis to assess the impact of cash requirements and obligations on the Funds' liquidity. OAC maintains a portfolio of highly marketable assets that can be sold or funded on a secured basis as protection against any unforeseen cash flow needs such as to meet capital calls to fund investment commitments and ensuring that sufficient liquid assets are available to fund derivative margin calls in the event of future losses.

In the normal course of business, OAC incurs various financial obligations.  OAC's liabilities include the following:

- accrued pension obligation of the Primary Plan (note 6) and the RCA (note 7)
- investment liabilities including debt and securities sold short  (note 4).
- contracts that give rise to commitments for future payments  (note 15)

Another liquidity risk is the ability of OMERS Finance Trust ("OFT") to cover its commercial paper issuance.  OFT is authorised to issue a maximum of $3,100 in commercial paper of which $2,700 (December 31, 2014 - $2,377) was drawn as at December 31, 2015. The commercial paper is highly-rated and further supported by an undrawn $2,325 revolving credit facility with a syndicate of well capitalized banks to backstop the commercial paper program.

## B. Derivative Financial Instruments

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivative transactions are conducted in over-the-counter markets directly between two counterparties or on regulated exchange markets.

Derivative financial instruments are used, when appropriate, to manage the Funds' asset mix and to assist in managing the exposure to market risk, by increasing or decreasing foreign currency, interest rate and price risk, without directly purchasing or selling the underlying assets or currencies.

### Derivative Contracts

#### Swaps

Swaps are contractual agreements between counterparties to exchange a series of cash flows. The swap agreements entered into by OAC are as follows:

- Interest Rate Swaps – contractual agreements to exchange fixed and / or floating interest payments based on notional amounts.
- Equity Swaps – contractual agreements to exchange the return on an equity security or a group of equity securities for the return based on a fixed or floating interest rate or the return on another equity security or group of equity securities.
- Bond Swaps – contractual agreements to exchange the return on a bond or a bond index for the return based on a fixed or floating interest rate.
- Commodity Swaps – contractual agreements to exchange the return on a commodity index for the return based on a fixed or floating interest rate.
- Credit Default Swaps - contractual agreements that transfer the credit risk of an underlying financial instrument resulting from a specified credit event, such as default or bankruptcy.

#### Forwards and Futures

Forwards and futures are contractual agreements between counterparties to either buy or sell a specified amount of a currency, commodity or interest bearing financial instrument or index at a specific price and date in the future.

The forward contracts entered into by OAC are as follows:

- Bond Forward Contracts – contractual agreements to buy or sell bonds or a bond index at a specified price and date in the future.
- Foreign Exchange Forward Contracts – foreign exchange forward contracts are contractual agreements to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. The futures contracts that OAC enters into are as follows:

- Equity Index Futures Contracts – agreements to either buy or sell a specified equity index at a specified price and date in the future.
- Commodity Futures Contracts – agreements to either buy or sell a commodity index at a specified price and date in the future.
- Bond Futures Contracts - agreements to either buy or sell a specified bond or bond index at a specified price and date in the future.
- Currency Futures Contracts - agreements to exchange one currency for another at a specified price and date in the future.

### Options

Options are contractual agreements that convey to the purchaser the right but not the obligation to either buy or sell a specified amount of a currency, commodity, equity or interest bearing financial instrument or index at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right. Options may be transacted on a regulated exchange or in the over-the-counter market. Swaptions are contractual agreements that convey to the purchaser the right but not the obligation to enter into or cancel a swap agreement at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right.

### Market Risk

Derivative instruments are subject to market risk. Market risk arises from potential adverse changes in the value of derivative instruments as a result of changes in the underlying market variables. These underlying market variables may include the absolute and relative levels of interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities. Market risks, including derivative investments, are discussed in note 3A.

### Credit Risk

The Funds are exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. The credit risk associated with derivatives is normally a small amount relative to the notional amount of the derivative instrument. In order to mitigate this risk, OAC:

- deals only with highly rated counterparties, normally major financial institutions; and
- arranges credit risk mitigation in the form of periodic prepayments of the fair value of contracts.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the replacement cost receivable of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following summarizes the Funds' derivative portfolio and related credit exposure:

| As at December 31, | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | | Fair Value (ii) | | | Fair Value (ii) | |
| | **Notional Value (i)** | **Assets (iii)** | **Liabilities** | Notional Value (i) | Assets (iii) | Liabilities |
| **Interest Rate Contracts** | | | | | | |
| Interest rate swap contracts | **$ 1,679** | **$ 4** | **$ (3)** | $ 2,266 | $ 16 | $ (17) |
| Bond Index swap contracts | **986** | **1** | **(22)** | — | — | — |
| Swaption written | **1,570** | **—** | **—** | 4,530 | — | (14) |
| Swaption purchased | **1,528** | **1** | **—** | 3,314 | 9 | — |
| Bond futures - long positions | **17,942** | **34** | **—** | 9,510 | 7 | — |
| Bond futures - short positions | **765** | **—** | **(21)** | 7,631 | — | (8) |
| Bond options written | | | | 3,390 | — | (1) |
| Bond options purchased | | | | 1,690 | — | — |
| | | **40** | **(46)** | | 32 | (40) |
| **Equity Contracts** | | | | | | |
| Equity index futures contracts - long positions | **13,796** | **—** | **—** | 10,595 | 46 | (43) |
| Equity index futures contracts - short positions | **994** | **1** | **(50)** | 202 | — | — |
| Equity index swap contracts | **517** | **4** | **(12)** | 295 | 8 | — |
| Equity swap contracts | **114** | **2** | **(1)** | 25 | 1 | — |
| Equity options written | | | | | — | — |
| Equity options purchased | | | | | — | — |
| | | **7** | **(63)** | | 55 | (43) |
| **Commodity Contracts** | | | | | | |
| Commodity futures contracts - long positions | **3,111** | **5** | **—** | 5,642 | — | (178) |
| Commodity futures contracts - short positions | **176** | **—** | **(34)** | 133 | — | — |
| | | **5** | **(34)** | | — | (178) |
| **Credit Default Contracts** | | | | | | |
| Credit default swaps purchased | **3,426** | **75** | **—** | 4,116 | 5 | (48) |
| Credit default swaps written | **14,839** | **—** | **(39)** | 5,047 | 87 | (8) |
| Swaption written | **836** | | **(1)** | 512 | — | — |
| Swaption purchased | **887** | **1** | | 405 | 1 | — |
| | | **76** | **(40)** | | 93 | (56) |
| **Foreign Exchange Contracts** | | | | | | |
| Currency options written | **126** | **—** | **(1)** | 1,388 | — | (6) |
| Currency options purchased | **116** | **1** | **—** | 152 | 6 | — |
| Currency futures - long positions | **9** | **—** | **—** | 29 | — | — |
| Currency futures - short positions | **195** | **—** | **—** | 221 | 1 | — |
| Foreign exchange forward contracts | **47,204** | **370** | **(1,406)** | 36,783 | 282 | (340) |
| | | **371** | **(1,407)** | | 289 | (346) |
| **Total** | | **$ 499** | **$ (1,590)** | | $ 469 | $ (663) |

(i) Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows and is therefore not recorded in the consolidated financial statements. Notional amounts do not necessarily indicate the amounts of future cash flows or the current fair value of the derivative contracts and, therefore, do not necessarily indicate the Plan's exposure to credit or market risks.

(ii) Fair value represents unrealized gains or losses from derivative contracts which are recorded in the consolidated statement of financial position based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.

(iii) The fair value of derivative contracts recorded as an asset represents the credit risk replacement cost or the loss to which the Funds are exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts that permit offsetting of positions or any collateral which may be held.

The term to maturity based on notional value is as follows:

| As at December 31, | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Within 1 Year** | **1 to 5 Years** | **Over 5 Years** | **Total** | Within 1 Year | 1 to 5 Years | Over 5 Years | Total |
| Interest Rate Contracts | **$ 25,443** | **$ 577** | **$ 173** | **$ 26,193** | $ 30,055 | $ 1,753 | $ 523 | $ 32,331 |
| Equity Contracts | **15,307** | **114** | **—** | **15,421** | 11,114 | 3 | | 11,117 |
| Commodity Contracts | **3,287** | | **—** | **3,287** | 5,775 | | | 5,775 |
| Credit Default Contracts | **335** | **17,579** | **351** | **18,265** | 1,057 | 8,321 | 702 | 10,080 |
| Foreign Exchange Contracts | **47,650** | | **—** | **47,650** | 38,573 | | | 38,573 |
| | **$ 92,022** | **$ 18,270** | **$ 524** | **$ 110,816** | $ 86,574 | $ 10,077 | $ 1,225 | $ 97,876 |

The term to maturity based on the fair value is as follows:

| As at December 31, | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Under 1 Year** | **1 to 5 Years** | **Over 5 Years** | **Total** | Under 1 Year | 1 to 5 Years | Over 5 Years | Total |
| Interest Rate Contracts | **$ (6)** | **$ 1** | **$ (1)** | **$ (6)** | $ (9) | $ 2 | $ (1) | $ (8) |
| Equity Contracts | **(57)** | **1** | **—** | **(56)** | 12 | | | 12 |
| Commodity Contracts | **(29)** | | | **(29)** | (178) | | | (178) |
| Credit Default Contracts | **(1)** | **38** | **(1)** | **36** | (3) | 31 | 9 | 37 |
| Foreign Exchange Contracts | **(1,036)** | | | **(1,036)** | (57) | | | (57) |
| | **$ (1,129)** | **$ 40** | **$ (2)** | **$ (1,091)** | $ (235) | $ 33 | $ 8 | $ (194) |

# NOTE 4

## Investment Liabilities

The investment liabilities are as follows:

| As at December 31, | 2015 | 2014 |
|---|---|---|
| Debt (a) | **$ 14,361** | $ 11,903 |
| Securities sold short | **1,285** | 3,733 |
| Securities sold under repurchase agreements | **1,715** | 2,218 |
| Payables and other liabilities | **1,697** | 1,004 |
| **Total** | **$ 19,058** | $ 18,858 |

a) Debt is comprised of the following:

| As at December 31, | | | 2015 | | | 2014 |
|---|---|---|---|---|---|---|
| | Fair Value | Cost | Weighted Average Interest Rate | Fair Value | Cost | Weighted Average Interest Rate |
| **Real Estate** | | | | | | |
| Unsecured debt [(i)] | **$ 1,601** | **$ 1,597** | **1.45%** | $ 882 | $ 879 | 1.41% |
| Secured debt [(ii)] | **7,035** | **6,830** | **2.98%** | 5,650 | 5,466 | 2.87% |
| ORC Series 1 debentures [(iii)] | **614** | **594** | **1.54%** | 611 | 591 | 1.94% |
| ORC Series 2 debentures [(iv)] | **529** | **500** | **2.49%** | 520 | 500 | 2.84% |
| ORC Series 3 debentures [(v)] | **317** | **300** | **1.91%** | 313 | 300 | 2.34% |
| ORC Series 4 debentures [(vi)] | **313** | **300** | **2.09%** | 309 | 300 | 2.47% |
| ORC Series 5 debentures [(vii)] | **256** | **250** | **1.78%** | 253 | 250 | 2.25% |
| ORC Series 6 debentures [(viii)] | **330** | **315** | **2.70%** | 323 | 315 | 3.02% |
| Series D debentures [(ix)] | **216** | **200** | **1.32%** | 219 | 200 | 1.83% |
| ORCTT Series A debentures [(x)] | **172** | **170** | **1.06%** | 177 | 170 | 1.49% |
| | **11,383** | **11,056** | **2.51%** | 9,257 | 8,971 | 2.57% |
| **Infrastructure** | | | | | | |
| Secured debt [(xi)] | **278** | **216** | **1.87%** | 269 | 248 | 1.45% |
| **OMERS Finance Trust** | | | | | | |
| Commercial paper [(xii)] | **2,700** | **2,700** | **0.73%** | 2,377 | 2,377 | 1.18% |
| **Total** | **$ 14,361** | **$ 13,972** | **2.17%** | $ 11,903 | $ 11,596 | 2.27% |

(i) Includes operating lines, revolving and non-revolving facilities various maturities up to 2019 with interest rates ranging from 1.03% to 4.05%.
(ii) Includes mortgages and other secured debt with various terms to maturity up to 2033 with each debt instrument secured by a specific real estate asset.
(iii) OMERS Realty Corporation Series 1 2.498% Debentures issued June 5, 2013, maturing June 5, 2018.
(iv) OMERS Realty Corporation Series 2 3.358% Debentures issued June 5, 2013, maturing June 5, 2023.
(v) OMERS Realty Corporation Series 3 3.203% Debentures issued July 25, 2013, maturing July 24, 2020.
(vi) OMERS Realty Corporation Series 4 2.971% Debentures issued April 2, 2014, maturing April 5, 2021.
(vii) OMERS Realty Corporation Series 5 2.473% Debentures issued November 12, 2014, maturing November 12, 2019.
(viii) OMERS Realty Corporation Series 6 3.328% Debentures issued November 12, 2014, maturing November 12, 2024.
(ix) OMERS Realty Corporation Series D 4.74% Debentures issued May 8, 2008, maturing June 4, 2018.
(x) OMERS Realty CTT Holdings Inc. Series A 4.75% Debentures issued May 5, 2009, maturing May 5, 2016.
(xi) Includes secured debt with various terms to maturity up to 2018 with each debt secured by a specific infrastructure asset.
(xii) OFT Commercial Paper program is authorized up to $3,100. Commercial Paper outstanding has maturities from January 4, 2016 to March 22, 2016 with interest rates ranging from 0.13% to 1.21%. OFT has in place a $2,325 revolving credit facility with a syndicate of banks to backstop the commercial paper program.

b) Scheduled undiscounted principal and interest repayments for the five subsequent years and thereafter are as follows:

| As at December 31, | | **2015** |
|---|---|---|
| 2016 | **$** | **3,957** |
| 2017 | | **2,463** |
| 2018 | | **2,364** |
| 2019 | | **1,216** |
| 2020 | | **842** |
| Thereafter | | **4,609** |
| | **$** | **15,451** |

| As at December 31, | | 2014 |
|---|---|---|
| 2015 | $ | 4,292 |
| 2016 | | 1,262 |
| 2017 | | 1,442 |
| 2018 | | 1,571 |
| 2019 | | 859 |
| Thereafter | | 4,009 |
| | $ | 13,435 |

## NOTE 5

### Amounts Payable Under Contractual Agreements

Under contractual agreements, in 2015 OAC invested funds on behalf of The Board of Trustees of Ryerson University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund (collectively, the Administered Funds). OAC is authorized under the terms of the various agreements to recover expenses for administering such funds. During 2015, The Ontario Hydro Guarantee Fund was wound up and OAC maintains no further reporting obligations.

OAC, through its subsidiary OMERS Investment Management (OIM), establishes investment arrangements (OMERS Return Agreements) that provide eligible clients with access to the performance of all or parts of the annual investment return of the Primary Plan.

The amount due to Administered Funds is adjusted for income/(loss) based upon their proportionate share of the Plan's return. OMERS Return Agreements are adjusted for income/(loss) based upon a contractual agreement that provides a return on investment equal to all or part of the Primary Plan return.

Amounts payable under contractual agreements are comprised of the following:

| As at December 31, | | **2015** | | 2014 |
|---|---|---|---|---|
| Administered Funds | **$** | **1,117** | $ | 1,049 |
| OMERS Return Agreements | | **1,602** | | 1,348 |
| **Amounts payable under contractual agreements** | **$** | **2,719** | $ | 2,397 |

## NOTE 6

## OMERS Primary Pension Plan

A summary of the financial statements of the Primary Plan is as follows:

### Statement of Financial Position

| As at December 31, | 2015 | 2014 |
|---|---|---|
| **Net Assets Available for Benefits** | **$ 77,110** | $ 71,977 |
| **Accrued Pension Obligation and Deficit** | | |
| Defined benefit component | | |
| Accrued pension obligation | **$ 81,924** | $ 76,924 |
| Deficit | | |
| Funding deficit | **(6,977)** | (7,078) |
| Actuarial value adjustment of net assets | **1,718** | 1,771 |
| | **(5,259)** | (5,307) |
| Additional Voluntary Contributions component pension obligation | **445** | 360 |
| **Total Primary Plan Accrued Pension Obligation and Deficit** | **$ 77,110** | $ 71,977 |

### Statement of Changes in Net Assets Available for Benefits

| For the year ended December 31, | 2015 | 2014 |
|---|---|---|
| **Statement of Changes in Net Assets** | | |
| Net investment income | **$ 4,774** | $ 6,467 |
| Contributions | **3,858** | 3,665 |
| Benefits | **(3,432)** | (3,055) |
| Pension administrative expenses | **(67)** | (80) |
| **Total Increase** | **5,133** | 6,997 |
| Net assets available for benefits, beginning of year | **71,977** | 64,980 |
| **Net Assets available for benefits, end of year** | **$ 77,110** | $ 71,977 |

### Accrued Pension Obligation of the Defined Benefit Component

The accrued pension obligation is the actuarial present value of pension obligations of the Primary Plan in respect of benefits accrued to date for all active and inactive members. This obligation is measured using the same actuarial assumptions and methods adopted by OAC for determining the Primary Plan's minimum funding requirements as set out under the PBA. As the experience of the Primary Plan unfolds, and as underlying conditions change over time, the actual value of accrued benefits payable in the future could be materially different than the actuarial present value.

The Projected Benefit Method Prorated On Services is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement.

The following are the primary economic actuarial assumptions which have been used in the actuarial valuation of the Primary Plan as at December 31:

| Actuarial Assumptions | 2015 | 2014 |
|---|---|---|
| Assumed rate of inflation | **2.00%** | 2.25% |
| Real rate of return assumed on Primary Plan assets | **4.25%** | 4.25% |
| Discount rate (rate of inflation plus real rate of return) | **6.25%** | 6.50% |

In addition, demographic assumptions are used to estimate when future benefits are payable to members and beneficiaries, including assumptions about mortality rates, termination rates and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Primary Plan and on the expectations for future trends. The OAC external actuaries have provided their opinion that assumptions adopted are appropriate for valuing the Primary Plan's accrued pension obligation.

The retirement assumption continues to be an age-based scale and reflects a possibility of retirement after normal retirement age. The mortality assumption continues to be based on Primary Plan experience and includes a projection for mortality improvements in the future.

The assumed increases in the real rate of pensionable earnings (i.e., increase in excess of the assumed inflation rate) were last updated in 2014 to reflect recent experience of the Plan and current expectations for future years and are as follows:

| | **2015** | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **NRA60 (i)** | | **NRA65 (i)** | | NRA60 (i) | | NRA65 (i) | |
| | **Before 2019** | **After 2018** | **Before 2019** | **After 2018** | Before 2019 | After 2018 | Before 2019 | After 2018 |
| Assumed real rate of pensionable earnings increases (weighted average of a table of age-related increases) | **1.40%** | **1.80%** | **0.80%** | **1.20%** | 1.40% | 1.80% | 0.80% | 1.20% |
| Rate of pensionable earnings increases (assumed rate of inflation plus real rate of pensionable earnings increases) | **3.40%** | **3.80%** | **2.80%** | **3.20%** | 3.65% | 4.05% | 3.05% | 3.45% |

(i) Normal Retirement Age of 60 and 65 years of age respectively.

The accrued pension obligation as at December 31, 2015 takes account of known changes in the Primary Plan membership up to December 1, 2015, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2016, and estimated pensionable earnings and credited service accruals in 2015.

The deficit of the Primary Plan's actuarial value of net assets available for benefits over accrued pension obligation is as follows:

| As of December 31, | 2015 | 2014 |
|---|---|---|
| Primary Plan fair value of net assets available for benefits | **$ 77,110** | $ 71,977 |
| Less Additional Voluntary Contribution net assets | **445** | 360 |
| Defined benefit net assets available for benefits | **76,665** | 71,617 |
| Actuarial value adjustment | **(1,718)** | (1,771) |
| Actuarial value of net assets available for benefits | **74,947** | 69,846 |
| Less Defined Benefit accrued pension obligation | **81,924** | 76,924 |
| Funding deficit of actuarial value of net assets available for benefits over accrued pension obligation | **(6,977)** | (7,078) |
| Reversal of actuarial value adjustment | **1,718** | 1,771 |
| **Deficit of net assets available for benefits over accrued pension obligation** | **$ (5,259)** | $ (5,307) |

## Actuarial Value of Net Assets of the Defined Benefit Component

The actuarial valuation of the Primary Plan was performed by Towers Watson Canada Inc. Under the PBA, an actuarial valuation report prepared by an independent external actuarial firm must be filed with FSCO at least once every three years. The Primary Plan valuation report was last filed for the December 31, 2014 year-end and, if not filed earlier, must be filed for the December 31, 2017 year-end.

The change in the actuarial value adjustment is as follows:

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Expected interest on beginning actuarial value adjustment (i) | $ | **115** | $ | 22 |
| Current year returns in excess of/(below) the funding rate (i) | | **71** | | 1,773 |
| Prior years' returns above/(below) the funding rate recognized in the year | | **(239)** | | (365) |
| **Increase/(Decrease) in actuarial value adjustment** | | **(53)** | | 1,430 |
| Actuarial value adjustment, beginning of year | | **1,771** | | 341 |
| **Actuarial Value Adjustment, end of year** | $ | **1,718** | $ | 1,771 |

(i) Based on the funding rate in effect during the year, 2015 – 6.50% (2014 – 6.50%).

The present value of unrecognized net investment returns by initial year they were established and the amounts to be recognized from 2016 through 2019, after application of the long-term rate of return assumption, are as follows:

| Initial Year Earned | | Actuarial Value Adjustment as at Dec. 31, 2015(i) | Unrecognized Investment Returns to be Recognized in 2016 | | 2017 | | 2018 | | 2019 | | Actuarial Value Adjustment as at Dec. 31, 2014(i) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2011** | $ | **—** | | | | | | | | $ | (509) |
| **2012** | | **387** | 411 | | | | | | | | 726 |
| **2013** | | **(155)** | (82) | | (87) | | | | | | (219) |
| **2014** | | **1,415** | 502 | | 533 | | 566 | | | | 1,773 |
| **2015** | | **71** | 18 | | 19 | | 21 | | 22 | | |
| | $ | **1,718** | $ 849 | $ | 465 | $ | 587 | $ | 22 | $ | 1,771 |

(i) For each initial year, amounts in the actuarial value adjustment are escalated annually by the long-term return assumption. Amounts are recognized in actuarial assets based on the number of years remaining in the five-year smoothing period.

The following table provides the potential sensitivity of the accrued pension obligation to changes in the assumed real rate of pensionable earnings increases and the assumed real rate of return on Primary Plan assets. A 50 basis point change in the following assumptions (with no change in other assumptions) would have the following approximate effects on the accrued pension obligation:

| **50 Basis Point change** | Approximate Effect on Accrued Pension Obligation | | | |
|---|---|---|---|---|
| As at December 31, | | **2015** | | 2014 |
| Real rate of pensionable earnings increases | | | | |
| Decrease in assumption | $ | **(1,500)** | $ | (1,500) |
| Increase in assumption | | **1,600** | | 1,600 |
| Real return on Primary Plan assets and discount rate | | | | |
| Decrease in assumption | | **6,700** | | 6,300 |
| Increase in assumption | | **(5,900)** | | (5,600) |

## NOTE 7

### Retirement Compensation Arrangement

As the RCA is not a Registered Pension Plan, a 50 per cent refundable tax is levied by the CRA on all contributions made to the RCA as well as on net investment income received and net realized investment gains. The refundable tax is held by the CRA and earns no investment income for the RCA; it is refunded on the basis of one dollar for every two dollars of realized losses or benefits paid out.

The pension benefits provided by the RCA are not fully funded but are funded on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to all retirement compensation arrangements plans under the ITA. Contributions to the RCA are based on the top-tier Primary Plan contribution rates and are paid into the RCA on the excess of contributory earnings over a defined earnings threshold, which was $163,010 for 2015 (2014 – $157,625). The defined earnings threshold is actively managed and monitored in such a way that current and future contributions to the RCA, together with the existing RCA Fund and future investment earnings, are expected to be sufficient to provide for projected benefit payments over the 20-year period following each annual valuation date. Benefits in excess of the maximum amounts payable from the Plan as allowed by the ITA are paid from the RCA.

A summary of the financial statements for the RCA is as follows:

#### Statement of Financial Position

| As at December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| **Net Assets Available for Benefits** | **$** | **135** | $ | 119 |
| **Accrued Pension Obligation and Deficit** | | | | |
| Accrued pension obligation | **$** | **679** | $ | 619 |
| Deficit | | **(544)** | | (500) |
| **Accrued Pension Obligation and Deficit** | **$** | **135** | $ | 119 |

#### Statement of Changes in Net Assets Available for Benefits

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Net investment income/(loss) | **$** | **10** | $ | 9 |
| Contributions | | **22** | | 21 |
| Benefits | | **(15)** | | (11) |
| Administrative expenses | | **(1)** | | (1) |
| **Total Increase** | | **16** | | 18 |
| Net assets available for benefits, beginning of year | | **119** | | 101 |
| **Net Assets available for benefits, end of year** | **$** | **135** | $ | 119 |

The actuarial assumptions used for the RCA are consistent with those used for the Primary Plan except that the discount rate as at December 31, 2015 is 3.15% (2014 – 3.25%), which approximates the effect of the 50 per cent refundable tax. A 50 basis point change in the assumed rate (with no change in other assumptions) before reflecting the 50 per cent refundable tax would have the following approximate effect on the accrued pension obligation:

| **50 Basis Point change** | **Approximate Effect on Accrued Pension Obligation** | | | |
|---|---|---|---|---|
| As at December 31, | | **2015** | | 2014 |
| Assumed discount rate | | | | |
| Decrease in assumption | **$** | **31** | $ | 30 |
| Increase in assumption | | **(29)** | | (28) |

## NOTE 8

## Net Investment Income/(Loss)

The Funds' investment income/(loss) by asset classes is as follows:

| For the year ended December 31, | | | | | 2015 |
|---|---|---|---|---|---|
| | Investment Income (i) (ii) | Net Gain/ (Loss) on Investment Assets, Liabilities and Derivatives (iii) | Total Investment Income/ (Loss) | Investment Management Expenses (note 12) | Net Investment Income/ (Loss) |
| **Public Investments** | | | | | |
| **Fixed Income Investments** | | | | | |
| Short-term deposits | $ 150 | $ (78) | $ 72 | | |
| Nominal bonds and debentures | 43 | 147 | 190 | | |
| Mortgages and private debt | 103 | 98 | 201 | | |
| | 296 | 167 | 463 | | |
| **Inflation-linked bonds** | 202 | 672 | 874 | | |
| **Public Equity and commodities** | | | | | |
| Canadian public equities | 5 | 79 | 84 | | |
| Non-Canadian public equities | 134 | (1,132) | (998) | | |
| | 139 | (1,053) | (914) | | |
| **Total Public Investments** | 637 | (214) | 423 | (128) | 295 |
| **Private Investments** | | | | | |
| **Private Equity** | | | | | |
| Canadian private equities | 61 | (695) | (634) | | |
| Non-Canadian private equities | 70 | 1,644 | 1,714 | | |
| **Total Private Equity Investments** | 131 | 949 | 1,080 | (141) | 939 |
| **Infrastructure Investments** | 1,372 | 740 | 2,112 | (72) | 2,040 |
| **Real Estate Investments (iv)** | 690 | 1,136 | 1,826 | (10) | 1,816 |
| **Total Private Investments** | 2,193 | 2,825 | 5,018 | (223) | 4,795 |
| | $ 2,830 | $ 2,611 | $ 5,441 | $ (351) | 5,090 |
| Income credited under contractual agreements | | | | | (306) |
| **Net Investment Income** | | | | | $ 4,784 |

| For the year ended December 31, | | | | | 2014 |
|---|---|---|---|---|---|
| | Investment Income (i) (ii) | Net Gain/(Loss) on Investment Assets, Liabilities and Derivatives(iii) | Total Investment Income/ (Loss) | Investment Management Expenses (note 12) | Net Investment Income/(Loss) |
| Public Investments | | | | | |
| Fixed Income Investments | | | | | |
| Short-term deposits | $ 187 | $ 151 | $ 338 | | |
| Nominal bonds and debentures | 18 | 360 | 378 | | |
| Mortgages and private debt | 57 | 19 | 76 | | |
| | 262 | 530 | 792 | | |
| Inflation-linked bonds | 270 | 2,682 | 2,952 | | |
| Public Equity and commodities | | | | | |
| Canadian public equities | 2 | 299 | 301 | | |
| Non-Canadian public equities | 58 | (20) | 38 | | |
| | 60 | 279 | 339 | | |
| Total Public Investments | 592 | 3,491 | 4,083 | (134) | 3,949 |
| Private Investments | | | | | |
| Private Equity | | | | | |
| Canadian private equities | 52 | (36) | 16 | | |
| Non-Canadian private equities | 109 | 740 | 849 | | |
| Total Private Equity Investments | 161 | 704 | 865 | (156) | 709 |
| Infrastructure Investments | 1,313 | (82) | 1,231 | (84) | 1,147 |
| Real Estate Investments (iv) | 532 | 371 | 903 | (10) | 893 |
| Total Private Investments | 2,006 | 993 | 2,999 | (250) | 2,749 |
| | $ 2,598 | $ 4,484 | $ 7,082 | $ (384) | 6,698 |
| Income credited under contractual agreements | | | | | (222) |
| Net Investment Income | | | | | $ 6,476 |

(i) Investment income includes interest, dividends and real estate operating income accrued or received net of interest expense on liabilities incurred in investment related activities. Investment income is net of external manager performance and pooled fund fees of $81 (December 31, 2014 –$60).

(ii) Interest on investment related activities includes interest expense on real estate investment liabilities of $336 (December 31, 2014 – $272) and interest on infrastructure investment liabilities of $15 (December 31, 2014 – $24).

(iii) Includes net realized gain of $193 (December 31, 2014 – $1,420) and is net of transaction and pursuit costs of $118 (December 31, 2014 – $114).

(iv) Real estate investment income includes Oxford Properties Group's operating expenses (net of property management income) of $40 (December 31, 2014 – $37). The total audit costs are $2.9 (December 31, 2014 – $2.7).

The Funds' net real estate operating income is as follows:

| For the year ended December 31, | 2015 | 2014 |
|---|---|---|
| **Revenue** | **$ 2,284** | $ 1,895 |
| **Expenses** | | |
| Property operating | **$ (1,144)** | $ (988) |
| General and administrative | **(40)** | (37) |
| Interest expense and other | **(410)** | (338) |
| **Total expense** | **$ (1,594)** | $ (1,363) |
| **Real estate investment income** | **$ 690** | $ 532 |
| Net investment gain on investment assets, liabilities and derivatives | **1,224** | 443 |
| Transaction costs | **(88)** | (72) |
| Investment management expenses | **(10)** | (10) |
| **Net real estate investment income** | **$ 1,816** | $ 893 |

# NOTE 9

## Investment Returns

OAC investment returns are calculated using a time-weighted rate of return formula in accordance with the industry standard methods, based upon the following principles:

a. Returns are calculated as the percentage of business unit income to the weighted average fair value of the business unit net assets during the period.

b. Fair value is determined as described in notes 2 and 3.

c. Income is determined as described in notes 2 and 8.

d. The OMERS Primary Pension Plan return includes all business unit returns.

The percentage returns for the years ended December 31 are as follows:

| For the year ended December 31, | 2015 | 2014 |
|---|---|---|
| **OMERS Primary Pension Plan (i)** | | |
| Total Gross Return | **7.25%** | 10.70% |
| **Retirement Compensation Arrangement Gross Returns** | | |
| RCA Investment Fund (ii) | **12.86%** | 14.72% |
| **Gross Returns applicable to OMERS Return Agreements(i)** | | |
| Borealis Infrastructure | **17.88%** | 13.38% |
| Oxford Properties | **15.05%** | 8.73% |

The above gross returns are before the impact of base and performance fees paid to external fund managers and investment management expenses. The Primary Plan net return after all investment costs for the year ended December 31, 2015 was 6.68% (December 31, 2014 – 10.04%).

(i) Returns reflect the results of the Primary Plan's currency hedging related activities with external counterparties.

(ii) Excludes the RCA refundable tax balance with CRA. Including the refundable tax balance, the RCA December 31, 2015 rate of return was 7.12% (December 31, 2014 – 7.83%).

# NOTE 10

## Contributions

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Current year required contributions (i) | | | | |
| Employers | | **1,825** | | 1,757 |
| Members | | **1,825** | | 1,758 |
| Transfers from other pension plans | | **68** | | 31 |
| Past service contributions from members (ii) | | **76** | | 65 |
| Past service contributions from employers (ii) | | **12** | | 11 |
| AVC contributions | | **74** | | 64 |
| **Total Contributions Received** | **$** | **3,880** | $ | 3,686 |

(i) Current service contributions are funded equally by employers and members. For NRA 65 members, the 2015 contribution rate was 9.0% (2014 – 9.0%) of earnings up to $53,600 (2014 – $52,500) and 14.6% (2014 – 14.6%) of earnings above that level. For NRA 60 members, the 2015 contribution rate was 9.2% (2014 – 9.3%) of earnings up to $53,600 (2014 – $52,500) and 15.8% (2014 – 15.9%) of earnings above that level.

(ii) OMERS, with 978 employers, has an appropriate reconciliation process which reconciles contributions for each employer on a member by member basis. This detailed process ensures that contributions are consistent with member information supplied by the employers.

# NOTE 11

## Benefits

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Retirement benefits | **$** | **2,799** | $ | 2,589 |
| Disability benefits | | **27** | | 27 |
| Transfers to other registered plans | | **293** | | 231 |
| Death benefits | | **101** | | 78 |
| Commuted value payments and | | | | |
| members' contributions plus interest refunded | | **212** | | 130 |
| AVC benefits | | **15** | | 11 |
| **Total Benefits Paid** | **$** | **3,447** | $ | 3,066 |

# NOTE 12

## Pension Administrative and Investment Management Expenses

### (a) Pension administrative expenses (i)

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Salaries and benefits | **$** | **40** | $ | 51 |
| System development and other purchased services | | **11** | | 13 |
| Premises and equipment | | **4** | | 3 |
| Professional services (ii) | | **7** | | 9 |
| Travel and communication | | **6** | | 5 |
| **Total Pension Administrative Expenses** | **$** | **68** | $ | 81 |

### (b) Investment management expenses (i)

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Salaries and benefits (ii) | **$** | **228** | $ | 263 |
| System development and other purchased services | | **17** | | 19 |
| Premises and equipment | | **16** | | 17 |
| Professional services (iii) | | **37** | | 23 |
| Travel and communication | | **19** | | 19 |
| Investment management services | | **33** | | 40 |
| Other | | **1** | | 3 |
| **Total Investment Management Expenses** | **$** | **351** | $ | 384 |

(i) Includes allocation of corporate expenses.
(ii) Includes external management and custody fees and is net of private equity management fees earned from portfolio investments of $22 (December 31, 2014 – $14).
(iii) Total professional services expenses include independent actuarial costs of $0.7 (December 31, 2014 – $0.8) and external audit costs of $1.6 (December 31, 2014 – $1.2).

# NOTE 13

## Related Party Disclosures

OAC's related parties include 978 employers whose employees are members of the Primary Plan, the SC, key management personnel (defined below) and investments where OAC has a controlling interest. Transactions with related parties include the following:

- OAC through Oxford Properties Group paid property taxes to municipal employers of $152 (December 31, 2014 - $150) and utility payments to utility employers of $30 (December 31, 2014 - $28). The amounts of property taxes paid were based on normal levies by the individual municipal employers and were consistent with those that would be paid by a non-related party. The utility payments made to utility companies which are OAC employer entities were based on normal usage and rates that would be paid by a non-related party.
- OAC through Oxford Properties Group earned rental revenue from investee entities of $6 (December 31, 2014 - $6) and purchased services from investee entities of $8 (December 31, 2014 - $11). The amounts of rental revenue earned and services purchased were based on normal levies by the individual entities and were consistent with those that would be paid by a non-related party.

### Key Management Personnel Compensation

Key management personnel consist of members of the OAC's Board of Directors and those senior executives responsible for planning and directing the activities of the OAC.

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| Salaries, short-term employee benefits & termination benefits (i) | **$** | **11** | $ | 16 |
| Post-employment benefits | | **1** | | 1 |
| Other long-term benefits | | **6** | | 10 |
| | **$** | **18** | $ | 27 |

(i) Includes $1.8 of termination benefits for 2014.

Other than the above, OAC had no other transactions with key management personnel during the year.

# NOTE 14

## Capital

OAC defines its capital as the funded status (surplus/(deficit)) of each of the OMERS Pension Plans. The funded status of the OMERS Pension Plans is discussed in note 6 and note 7.

OAC's objective is to ensure that the Primary Plan's defined benefit component is fully funded over the long-term through the management of investments, contribution rates and benefits. Investments (note 3), the use of derivatives (note 3 B) and leverage (note 4) are based on asset mix and risk management policies and procedures that are designed to enable the Primary Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Primary Plan's Statement of Investment Policies and Procedures (SIP&P) as approved by the OAC Board. As the Primary Plan's administrator, OAC has adopted a SIP&P for the Primary Plan which sets investment objectives, guidelines and benchmarks used in investing the Primary Plan's assets, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was originally established in 1989 and is reviewed annually by the OAC Board. The SIP&P effective for the year ending December 31, 2015 was amended on December 12, 2014. The changes included in this amendment are not considered significant.

The SIP&P establishes strategic asset mix ranges and targets. The target strategic asset mix for 2015 is 53% for Public Investments and 47% for Private Investments. The actual asset mix at December 31, 2015 was 52% for Public Investments and 48% for Private Investments which fell within the asset mix ranges at year end.

The Primary Plan's annualized five-year average rate of investment return (net of investment management expenses) as of December 31, 2015 was 6.93% (December 31, 2014 – 7.85%).

The RCA investments are based on an asset mix and SIP&P separate from those of the Primary Plan. The RCA SIP&P was originally established in 2007 and is reviewed annually by the OAC Board. The SIP&P effective for the year ending December 31, 2015 was last amended on December12, 2014. The changes included in this amendment are not considered significant.

The Primary Plan's AVC component accrued pension obligation is based on AVC contributions net of withdrawals and administration fee plus net investment rate of return of the defined benefit component of the Primary Plan and as such does not have a surplus/(deficit) position. The Supplemental Plan has no members, net assets or accrued pension obligations. The Supplemental Plan SIP&P was last amended on December 12, 2014. The changes included in this amendment are not considered significant.

# NOTE 15

## Guarantees, Commitments and Contingencies

As part of normal business operations, OAC enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include, but may not be limited to, investments in infrastructure, real estate and private equity direct investments and limited partnership agreements. The future commitments are generally payable on demand based on the capital needs of the investment. As at December 31, 2015, these future commitments totalled $16.9 billion (December 31, 2014 – $2.2 billion). The increase is primarily due to the future commitment by OAC to refurbish a major infrastructure asset to extend its useful lifespan. The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was $765 as at December 31, 2015 (December 31, 2014 – $1,156). Guarantees and commitments are often provided as part of developing or holding an investment and as such often have no fixed expiration date.

OAC, in the normal course of business, indemnifies its directors, officers, employees, its business unit and certain others in connection with proceedings against them to the extent that these individuals are not covered under another arrangement. In addition, OAC may in certain circumstances in the course of investment activities agree to indemnify a counterparty. Under the terms of such arrangements, OAC may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations or legal claims. The contingent nature of the liabilities in such agreements and the range of indemnification prevent OAC from making a reasonable estimate of the maximum amount that would be required to pay such indemnifications.

As at December 31, 2015, OAC was involved in certain litigation and claims. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of Management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of OAC.

# Ten-Year Financial Review

| ($ Millions) | **2015** | 2014 | 2013 | 2012 | 2011 | 2010 (ii) | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Assets Available for Benefits** | | | | | | | | | | |
| as at December 31 | | | | | | | | | | |
| Public markets | **43,631** | 47,300 | 41,709 | 37,472 | 32,154 | 34,123 | 31,336 | 28,763 | 43,291 | 43,533 |
| Private equity | **11,482** | 8,767 | 9,208 | 7,465 | 7,753 | 6,633 | 5,048 | 4,162 | 3,608 | 2,951 |
| Infrastructure | **16,349** | 14,401 | 13,533 | 11,572 | 9,635 | 9,593 | 12,195 | 12,140 | 8,412 | 5,585 |
| Real estate | **27,642** | 22,253 | 17,603 | 15,846 | 14,516 | 12,599 | 11,975 | 12,037 | 10,904 | 8,541 |
| | **99,104** | 92,721 | 82,053 | 72,355 | 64,058 | 62,948 | 60,554 | 57,102 | 66,215 | 60,610 |
| Other investment assets | **1,062** | 1,017 | 744 | 853 | 707 | 645 | 1,173 | 1,366 | 1,001 | 699 |
| Investment liabilities | **(20,534)** | (19,490) | (16,463) | (11,741) | (9,063) | (9,628) | (13,338) | (14,474) | (15,029) | (13,088) |
| Net investment assets | **79,632** | 74,248 | 66,334 | 61,467 | 55,702 | 53,965 | 48,389 | 43,994 | 52,187 | 48,221 |
| Non investment assets/(liabilities) | | | | | | | | | | |
| Amounts payable under contractual agreements | **(2,719)** | (2,397) | (1,524) | (905) | (828) | (809) | (734) | (672) | (800) | (741) |
| Other assets | **332** | 245 | 271 | 205 | 209 | 193 | 177 | 155 | 129 | 125 |
| **Net assets available for benefits** | **77,245** | 72,096 | 65,081 | 60,767 | 55,083 | 53,349 | 47,832 | 43,477 | 51,516 | 47,605 |
| **Accrued Benefit Obligation and Surplus/(Deficit)** | | | | | | | | | | |
| as at December 31 | | | | | | | | | | |
| **OMERS Primary Pension Plan** | | | | | | | | | | |
| **Defined Benefit Component** | | | | | | | | | | |
| Accrued benefit obligation | **81,924** | 76,924 | 73,004 | 69,122 | 64,548 | 60,035 | 54,253 | 50,080 | 46,830 | 44,167 |
| Funding Surplus/(Deficit) | **(6,977)** | (7,078) | (8,641) | (9,924) | (7,290) | (4,467) | (1,519) | (279) | 82 | (2,382) |
| Actuarial value adjustment of net assets | **1,718** | 1,771 | 341 | 1,321 | (2,337) | (2,278) | (4,950) | (6,363) | 4,567 | 5,791 |
| | **(5,259)** | (5,307) | (8,300) | (8,603) | (9,627) | (6,745) | (6,469) | (6,642) | 4,649 | 3,409 |
| | **76,665** | 71,617 | 64,704 | 60,519 | 54,921 | 53,290 | 47,784 | 43,438 | 51,479 | 47,576 |
| **Additional Voluntary Contributions Component** | | | | | | | | | | |
| Pension obligation | **445** | 360 | 276 | 170 | | | | | | |
| Net assets available for benefits | **77,110** | 71,977 | 64,980 | 60,689 | 54,921 | 53,290 | 47,784 | 43,438 | 51,479 | 47,576 |
| **RCA** | | | | | | | | | | |
| Accrued pension obligation | **679** | 619 | 614 | 555 | 504 | 468 | 486 | 285 | 236 | 172 |
| (Deficit) | **(544)** | (500) | (513) | (477) | (436) | (409) | (438) | (246) | (199) | (143) |
| Net assets available for benefits | **135** | 119 | 101 | 78 | 68 | 59 | 48 | 39 | 37 | 29 |
| **Total Accrued Pension Obligation and Deficit** | **77,245** | 72,096 | 65,081 | 60,767 | 54,989 | 53,349 | 47,832 | 43,477 | 51,516 | 47,605 |

| ($ Millions) | **2015** | 2014 | 2013 | 2012 | 2011 | 2010 (ii) | 2009 | 2008 | 2007 | | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Changes in Net Assets Available for Benefits** | | | | | | | | | | | |
| for the year ended December 31 | | | | | | | | | | | |
| Net assets, beginning of the year | **72,096** | 65,081 | 60,767 | 55,083 | 53,349 | 47,832 | 43,477 | 51,516 | 47,568 | (iii) | 41,065 |
| **Changes due to Investment Activities** | | | | | | | | | | | |
| Total investment income (i) | **5,441** | 7,082 | 4,000 | 5,544 | 1,648 | 5,735 | 4,623 | (7,910) | 4,200 | | 6,803 |
| Investment management expenses (i) | **(351)** | (384) | (266) | (265) | (264) | (268) | (246) | (227) | (201) | | (169) |
| | **5,090** | 6,698 | 3,734 | 5,279 | 1,384 | 5,467 | 4,377 | (8,137) | 3,999 | | 6,634 |
| (Income)/Loss credited under contractual agreements | **(306)** | (222) | (97) | (79) | (21) | (83) | (67) | 124 | (61) | | (104) |
| Net investment income/(loss) | **4,784** | 6,476 | 3,637 | 5,200 | 1,363 | 5,384 | 4,310 | (8,013) | 3,938 | | 6,530 |
| **Changes due to Pension Activities** | | | | | | | | | | | |
| Contributions | | | | | | | | | | | |
| Current Service | **3,650** | 3,515 | 3,434 | 3,026 | 2,618 | 2,227 | 2,077 | 1,975 | 1,840 | | 1,739 |
| Other contributions | **230** | 171 | 210 | 184 | 195 | 86 | 66 | 73 | 46 | | 53 |
| | **3,880** | 3,686 | 3,644 | 3,210 | 2,813 | 2,313 | 2,143 | 2,048 | 1,886 | | 1,792 |
| Benefits | | | | | | | | | | | |
| Pensions paid | **(2,826)** | (2,616) | (2,437) | (2,256) | (2,047) | (1,890) | (1,781) | (1,656) | (1,554) | | (1,492) |
| Commuted value and other payments | **(621)** | (450) | (473) | (414) | (336) | (236) | (269) | (371) | (279) | | (252) |
| | **(3,447)** | (3,066) | (2,910) | (2,670) | (2,383) | (2,126) | (2,050) | (2,027) | (1,833) | | (1,744) |
| Pension administrative expenses | **(68)** | (81) | (57) | (56) | (59) | (54) | (48) | (47) | (43) | | (38) |
| Net assets available for benefits, end of year | **77,245** | 72,096 | 65,081 | 60,767 | 55,083 | 53,349 | 47,832 | 43,477 | 51,516 | | 47,605 |
| **Total Annual Rate of Return** | | | | | | | | | | | |
| for year ended December 31 | | | | | | | | | | | |
| **OMERS Primary Pension Plan** | | | | | | | | | | | |
| **Defined Benefit Component** | | | | | | | | | | | |
| Time weighted return on market value | **7.3%** | 10.7% | 6.5% | 10.0% | 3.2 % | 12.0% | 10.6% | (15.3)% | 8.7% | | 16.4% |
| Benchmark | **8.6%** | 8.1% | 10.2% | 9.8% | 2.5 % | 11.5% | 12.1% | (13.2)% | 5.6% | | 13.7% |
| **Additional Voluntary Contribution Component** | | | | | | | | | | | |
| Time weighted return on market value | **6.7%** | 10.0% | 6.0% | 9.5% | | | | | | | |
| **RCA Investment Fund (iv)** | | | | | | | | | | | |
| Time weighted return on market value | **12.9%** | 14.7% | 29.1% | 11.8% | (2.4)% | 8.0% | 11.3% | (26.1)% | 8.7% | | 16.4% |
| Benchmark | **12.2%** | 14.6% | 30.2% | 12.2% | (2.4)% | 10.1% | 16.6% | (27.3)% | 5.6% | | 13.7% |

(i) In preparing financial statements in 2012, OAC has reclassified pursuit costs from investment management expenses to total investment income. 2011 balances were adjusted to reflect this reclassification.
(ii) In preparing financial statements in accordance with CPA Canada Handbook Section 4600 - Pension Plans and IFRS starting in 2011, OAC has adjusted amounts for 2010 (were previously reported in accordance with CICA Handbook Section 4100) for comparative purposes.
(iii) 2007 beginning of the year net assets were decreased by $37 million to reflect a change in accounting policy for transaction costs.
(iv) Excludes the RCA refundable tax balance with the Canada Revenue Agency.

# Report of the OMERS Administration Corporation Board Human Resources Committee

| Members in 2015 | |
|---|---|
| Monty Baker (Chair) | Sheila Vandenberk |
| Bill Aziz | John Weatherup |
| David Beatty | George Cooke (ex officio) |
| David Tsubouchi | |

Our Human Resources Committee (HR Committee) assists the OAC Board in meeting its fiduciary oversight and related obligations by: (i) attracting, engaging, and retaining excellent leadership at the senior executive level who are committed to OAC Mission Statement, Core Values and Leadership Principles; (ii) overseeing a robust succession management process for the position of Chief Executive Officer (CEO) and the C-Suite executives; and (iii) overseeing CEO performance, compensation and compensation policies.

In the 2015 fiscal year, the HR Committee's work included:

- oversight of an annual performance assessment process for the CEO;
- making recommendations to the OAC Board on compensation for the CEO;
- reviewing the candidates for CEO and C-Suite executives succession as part of the succession management process, including discussion of development plans;
- successful advancement of the CEO succession plan;
- reviewing compensation awards for the C-Suite executives;
- approving a new compensation plan for all Capital Markets employees (effective January 1, 2016) and a new compensation plan for Private Markets employees (effective January 1, 2016);
- reviewing compensation and benefit plans to ensure appropriate strategic linkages and risk mitigation;
- approving compensation-related disclosure in public documents; and
- enhanced focus on HR governance matters including annual reviews of HR governance and risk reports, as well as additional compensation reporting.

## Independent Compensation Advisor

The HR Committee engages an independent compensation advisor, Global Governance Advisors, to provide advice and assistance in executing its responsibilities. Global Governance Advisors is directly retained and instructed by, and reports directly to, the HR Committee. All work is pre-approved by the Committee, and Global Governance Advisors did not provide any non-Board-approved services to the organization during 2015.

During 2015, Global Governance Advisors' scope of services included the following: (i) providing independent executive compensation advice pertaining to the CEO and C-Suite executives (i.e., compensation philosophy, performance management, comparator groups, competitive pay positioning and pay mix); (ii) ensuring the Committee understood and was comfortable with the current compensation program for the CEO and C-Suite executives; (iii) assisting and counselling the Committee on any recommendations made by Management; (iv) reviewing proposals for new compensation designs; and (v) assisting with any other items that the HR Committee requested.

The HR Committee has sole authority to approve the amount of the independent compensation advisor's fees. Executive compensation-related fees paid to our advisor in 2015 reflect additional meetings and services as described above. The following table outlines the fees paid for services provided in 2015 and 2014:

| Advisor | Executive Compensation - Related Fees | | All Other Fees | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Global Governance Advisors | **$185,673** | $342,701 | **Nil** | Nil |

## Committee Composition and Meetings

Members of the HR Committee are appointed by the OAC Board from among the Board's members, and are independent of management. As a cohesive unit, they have skills, knowledge and experience in investment management, pensions, economics and public policy, executive leadership and strategy, risk management, talent management, and executive compensation. The HR Committee had four regular meetings and one special meeting during 2015 to review key items according to its mandate and annual work plan. At the invitation of the Chair of the HR Committee, members of management, including the President and Chief Executive Officer and the Committee's independent advisor, Global Governance Advisors, attended the meetings. At the end of each meeting there was an in camera session without management present.

## 2015 Year in Review

Our five-year Strategy continues to place great emphasis on the quality of our people in ensuring the right teams are in place to deliver secure and sustainable defined benefit pensions to our members. Our total compensation philosophy and pay-for-performance culture, as well as our investment in leadership development, are important elements that ensure our ability to attract, engage, motivate and retain talent.

### Talent and Succession Management

The HR Committee is responsible for overseeing OMERS succession management and overall approach to leadership development. In 2015, OMERS continued to focus on the succession management process, identifying and developing leaders for key positions. This process identified and aligned resources to ensure the right talent is in place to lead strategic priorities across the enterprise, and created executive roles to support key initiatives moving forward.

The OAC Board has worked closely with management to develop a senior leadership pipeline designed to ensure OMERS is well-positioned with the right leadership talent for the future. In addition to providing an excellent view of the talent at OMERS, this process highlights key strengths and development areas that are necessary for our future growth.

Our OMERS People Plan articulates how we will carry out our talent agenda by focusing on the acquisition, engagement, development and deployment of people who are responsible for the execution of our Strategy. We strongly believe in acquiring top talent, while continuously investing in the development and promotion of our talent at all levels.

We continue to invest in leadership development programs to help leaders gain a greater understanding of OMERS business and growth strategy, as well as build and strengthen their leadership capability and capacity, while demonstrating OMERS Leadership Principles.

### Compensation Governance and Risk

The continued evolution of our compensation approach supports our talent strategy to attract, engage, reward, motivate and retain top talent. Our compensation plans are designed to align with business objectives, while ensuring we deliver market-competitive compensation that rewards for performance and differentiates across markets.

We keep compensation plan design simple, while ensuring the plans are reflective of leading governance principles. To reflect the importance of risk management in plan design, we ensure that the consideration of risk is incorporated throughout our compensation processes from design to determination of year-end pools and individual awards. The aim is to achieve a balance between risk and reward, so that employees are aligned with the long-term investment strategy of OMERS.

Since 2011, all compensation plan reviews include a comprehensive assessment of risk measures. As plans are redesigned, a risk adjustment is introduced where appropriate, allowing the HR Committee to appropriately consider risk when determining final awards. This process ensures an independent assessment of risks taken during the year against OMERS risk framework compared to the prior year, as well as the prospective direction of risk in future years.

Furthermore, to ensure compensation and risk outcomes are symmetrical, the Board has the discretion to withhold awards to reflect significant unexpected or unusual events. It also has the ability to claw back any variable compensation awarded in the event of a material misrepresentation of results in the prior three years. To align executive interests with those of Plan members and to motivate the creation of long-term value, a significant portion of total compensation is deferred and aligned with enterprise-wide performance measures over the deferral period.

### 2015 Performance and Compensation

When determining compensation for the senior executive team, the HR Committee considers a number of quantitative and qualitative factors to ensure pay is aligned to, and differentiated based on performance. In 2015, the Primary Plan had a return, net of expenses, of 6.7%, compared to our funding discount rate of 6.5%. Strong returns from private equity, infrastructure and real estate helped to offset challenges with public markets, demonstrating the importance of diversified exposures and investing in high-quality assets. We continued to achieve strong client services results by providing good value to members through the continued expansion of online services and made significant progress on the redevelopment of our pension services systems. In response to the changing economic landscape, we developed a new strategy that will set out to protect our funded status by using a robust approach to funding management, deliver 7-11% net average investment returns, build quality relationships with all stakeholders and evolve our business model and capabilities in order to deliver value for pension dollars. The HR Committee believes that the compensation awarded to the Named Executive Officers appropriately reflects overall performance during the year.

### Looking ahead to 2016 and beyond

As a Committee, we work to ensure our approach to compensation is aligned with the interests of our Plan members, has a strong governance framework, and reflects leading practices in the market. As we move into the next phase of our Strategic Plan and look toward the enterprise in the future, we require a compensation framework that will align the senior leaders on the enterprise mission to deliver on the pension promise by rewarding for growth brought through innovation, strategic investments, acquisitions and total Fund performance. Over the past few years we have been on a journey to review and redesign compensation plans with the objective of reducing the number of plans, simplifying plan design, harmonizing frameworks and enhancing the focus on governance and reporting. We will continue to review Total Rewards programs across the enterprise and harmonize where appropriate to support the movement of talent and to ensure alignment with our corporate priorities and with the interests of our Plan members.

Salary increases were not provided to employees in executive positions other than for promotion or changes in scope or responsibility. An enterprise-wide salary increase budget of 2.0% was approved for employees below the executive level.

### Conclusion

We will continue to dedicate a significant amount of time to talent management, and to ensuring that OMERS has the right leaders and the right people to produce results that deliver value to Plan members over the long term. We are confident that our approach to compensation attracts and retains talented leadership, and that it includes strong governance practices while achieving the appropriate balance of paying for performance and ensuring compensation programs do not incent excessive risk-taking. Our HR Committee remains committed to being a leader in compensation governance among pension funds, and will continue to provide clear and transparent disclosure to Plan members and stakeholders.

Monty Baker

Monty Baker
2015 Chair of the Human Resources Committee

# Compensation Discussion and Analysis

OMERS Administration Corporation is committed to maintaining transparency with our stakeholders on all facets of our executive compensation program. As part of this commitment, our goal is to provide information that is clear, relevant and appropriate. This Compensation Discussion and Analysis section highlights OMERS 2015 performance, reviews our executive compensation program in detail, and describes the compensation awards for the Named Executive Officers. The Named Executive Officers include the President and Chief Executive Officer, Chief Financial Officer (CFO) and the three highest paid members of the C-Suite Executives.

## Approach to Compensation

OMERS is committed to a pay-for-performance approach to compensation for all employees, including the senior leaders. This philosophy supports the execution of the five-year Enterprise-Wide Strategic Plan and the commitment to help ensure the sustainability of the Plan's funding by delivering realistic risk-adjusted returns over the long term.

As a result, the compensation programs are designed to attract, engage and retain high-performing people and help ensure they are motivated to pursue OMERS investment goal of earning sustainable returns that meet or exceed the Plan's long-term requirements. OMERS recognizes that this must be done with an acceptable level of risk, and the HR Committee is responsible for helping ensure that our compensation policies and practices do not encourage undue risk taking. As a result, OMERS has a clear set of incentives that are aligned with the long-term investment strategy and investment risk limits, measured against pre-established Board-approved benchmarks, and are communicated to and understood by Management and employees.

## Compensation Principles

The objective of the compensation strategy is to attract, engage and retain high-performing people to focus on the long-term viability of the OMERS Plan and the delivery of the pension promise. To achieve this objective, the executive compensation program is based on the following principles:

- Align with the interests of Plan members

Align employee and executive interests with the interests of the Plan members through effective compensation plan design.

- Align with OMERS strategy

Focus employee efforts on critical performance targets and reward for superior performance in achieving results in order to deliver on our commitment to meet the pension promise.

- Pay for performance

Promote a pay-for-performance culture where there are clear relationships between pay and performance, ensuring differentiated pay to reward and retain top talent.

- Effective risk management

Ensure compensation plan design does not incent excessive risk-taking and review plans regularly to ensure they are operating as intended.

- Pay competitively

Reward employees in a manner consistent with competitive market practice to improve the organization's ability to attract, engage and retain high-performing talent. For total compensation, target-level performance is benchmarked to the median in the marketplace and superior level performance is benchmarked to the 75$^{th}$ percentile in the marketplace.

- Good corporate governance

Strive to be a leader on governance and continually review and incorporate industry-leading compensation practices that align with our governance model.

## Elements of Executive Compensation

Executive compensation for 2015 consists of five main elements: base salary, annual cash compensation (STIP), long-term compensation (LTIP), benefits and retirement programs. These elements provide a total compensation package designed to attract highly qualified individuals, provide strong incentive to align efforts with OMERS objectives and motivate to deliver performance that creates sustainable results for our Plan members.

| **Compensation Element** | **Plan Description** |
|---|---|
| Fixed Compensation | |
| Base Salary | The compensation philosophy aims to pay competitive base salaries as defined by the comparator group. Salaries are reviewed annually at the beginning of each year and increases are generally granted when an executive assumes greater responsibilities, deepens knowledge and expertise, or when there is a significant change in the compensation levels of comparable roles in the comparator group. The HR Committee reviews base salaries of the Named Executive Officers, while the OAC Board approves the President and Chief Executive Officer's base salary based on the HR Committee's recommendation. |
| Benefits and Retirement Programs | Employees in Canada participate in benefits that include vacation, life and disability insurance, health and dental benefits, health spending account, our employee assistance program, and retirement plans. |
| Performance Based / At-Risk Compensation | |
| Variable Compensation (Short-Term Incentives and Long-Term Incentives) | The Executive Compensation Plan, effective January 1, 2014, was designed to attract, engage and retain high-performing senior executives by providing a competitive, performance-based compensation program. The plan rewards for the achievement of business and individual performance objectives in the short term by providing annual cash compensation and aligns with the long-term interests of our Plan members through the deferral of long-term compensation.<br><br>The plan focuses on total compensation, which includes base salary and variable compensation, comprised of annual cash compensation (STIP) and long-term compensation (LTIP). All variable compensation awarded (STIP + LTIP) is based on an annual balanced scorecard comprised of business and individual performance measures plus a risk adjustment. The total variable compensation target (STIP + LTIP) is multiplied by the balanced scorecard factor +/- risk adjustment. Variable compensation awards can range from zero to a maximum of 200% of target. Once risk-adjusted variable compensation awards are determined, 35% is paid in cash (STIP) and 65% is deferred (LTIP).<br><br><u>Long-Term Incentive Plan</u><br><br>The LTIP is designed to encourage and reward executives for the achievement of superior and sustained investment performance and align the interests of executives with those of Plan members. The LTIP rewards performance over multiple years to incent the achievement of consistent longer-term outcomes.<br><br>LTIP awards are granted effective January 1st of the award year, are adjusted based on annual performance at the end of year one, and vest on December 31st of the third year. The actual payment will depend on the OMERS total fund performance over the three-year performance period relative to a performance hurdle. |

## Design of the Executive Compensation Plan

The President and Chief Executive Officer, Chief Financial Officer (CFO) and other Named Executive Officers, participated in the Executive Compensation Plan. The plan has been designed to support OMERS 2020 Strategy, compensation principles and continued alignment with the interests of Plan members. There are four key steps in determining annual variable compensation awards under the Executive Compensation Plan:

| | |
|---|---|
| **Step 1** | Establish target total compensation |
| **Step 2** | Establish balanced scorecards |
| **Step 3** | Evaluate performance |
| **Step 4** | Determine compensation awards |

The first two steps take place at the beginning of the plan year and establish the foundation through setting target compensation and performance objectives.  Steps three and four occur at the end of the year when performance is measured against objectives and final awards are determined.

| | |
|---|---|
| **Step 1** | Establish target total compensation |

Target total compensation is determined at the beginning of the year or upon hire, or with changes in roles or responsibilities. An individual's target total compensation consists of base salary plus risk-adjusted variable compensation, which includes annual cash compensation (STIP) and long-term compensation (LTIP), and benefit and retirement programs.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Risk-adjusted Variable Compensation | | | | |
| Total Compensation | = | Base Salary | + | Annual Cash Compensation (STIP) | + | Long-Term Compensation (LTIP) | + | Benefit and Retirement Programs |

***Risk-adjusted variable compensation*** refers to the elements of total compensation that can change from year to year based on business and individual performance. A significant portion of each executive's total compensation is performance based and a substantial percentage is deferred in the form of long-term incentive awards to align compensation with the interests of our Plan members.

Target total compensation is established to be market competitive based on the compensation of comparable roles in our peer group. For all executives, target total compensation is reviewed annually, as well as at the time of any material change in roles. Our philosophy is to set target total compensation to reflect the median of the competitive market, on average. Targets for an individual executive may be positioned above or below the median to reflect experience, potential, performance, or other factors specific to the executive or role.

The Human Resources Committee, with the advice from its independent advisor, reviews target total compensation for C-Suite executives, while the OAC Board of Directors approves the President and Chief Executive Officer's total compensation, based on the HR Committee's recommendation.

| Step 2 | Establish balanced scorecards |
|---|---|

At the beginning of the year, a balanced scorecard is established for each participant, made up of his or her key objectives and is used to assess performance at the end of the year. The balanced scorecard includes performance against net absolute returns and other key priorities.

The table below outlines the rationale for the inclusion of each performance measure.

| | | 2015 Weighting | | |
|---|---|---|---|---|
| **Performance Measure** | **Rationale** | President and Chief Executive Officer | Chief Investment Officer | Corporate |
| Investment Returns | The use of net absolute returns measures the actual value added to the OMERS Plan and aligns executives with the interests of Plan members. | 50% | 60% | 40% |
| Key Strategy, Execution and Leadership Objectives | This component of the scorecard includes the following measures:<br>1. Strategic initiatives are based on enterprise and business priorities that will drive sustainable growth of the OMERS Plan so that we can achieve ongoing investment performance.<br>2. Leadership objectives are critical to our success; they focus on initiatives that will drive continued successful performance of the business and our people. | 50% | 40% | 60% |

The President and Chief Executive Officer establishes objectives for each member of the C-Suite to reflect his or her specific role and responsibilities, which are reviewed by the Human Resources Committee. The Human Resources Committee will recommend the annual balanced scorecard for the President and Chief Executive Officer to the OAC Board of Directors for approval.

To help ensure proper alignment with results, the net absolute returns measure for the President and Chief Executive Officer and corporate executives is based on enterprise-wide performance (total Fund). C-Suite members who lead a business unit (Chief Investment Officers) are assessed against the specific returns for their business unit. Beginning in 2016, the Chief Investment Officers will also be measured on total Fund performance in addition to business unit performance, which further aligns their interests with our Plan members.

| Step 3 | Evaluate performance |
|---|---|

Following the end of the year, financial performance is determined and performance against other key objectives is assessed for the President and Chief Executive Officer and each member of the C-Suite.  This combined performance will determine each individual's balanced scorecard factor within a range of 0% to 200%. The OAC Board of Directors evaluates the performance of the President and Chief Executive Officer relative to his objectives, and the President and Chief Executive Officer evaluates performance for members of the C-Suite. Commentary on 2015 performance for the President and Chief Executive Officer is discussed in the section Compensation of the President and Chief Executive Officer.

| Step 4 | Determine compensation awards |
|---|---|

At the end of the year, individual risk-adjusted variable compensation awards are determined as outlined below:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| RIsk-Adjusted Variable Compensation Award | = | Variable Compensation Target | x | [ | Balanced Scorecard Factor | +/- | Risk Adjustment | ] |
| | | STIP + LTIP | | | 0% - 200% | | +/- 15% | |

The ***risk adjustment*** is determined annually by the HR Committee and applied to each executive's balanced scorecard factor. The outcome is based on an enterprise risk assessment of how well risk was managed over the performance period and its impact on incenting risk-taking behaviour. The Committee will determine whether or not we operated within the risk framework of the organization, if any initiatives are expected to impact the risk profile in the future and if excessive risk was taken in producing results.

Final awards may range between 0% and 200% of target based on performance achieved. The HR Committee, with advice from its independent advisor, reviews all variable compensation awards for the C-Suite executives, while the OAC Board of Directors approves the President and Chief Executive Officer's annual awards based on the HR Committee's recommendation. Once a participant's variable compensation awards are determined, 35% is paid in cash (STIP) and 65% is deferred (LTIP) and vests on December 31st of the third year following the grant.

## Target Compensation Mix

Aligned with OMERS pay-for-performance approach, total compensation for all members of the C-Suite is composed primarily of variable compensation tied to investment and individual performance.

The following charts present the target compensation mix for the President and Chief Executive Officer and Named Executive Officer positions (CFO and three highest paid executives).

**President and Chief Executive Officer**


**Named Executive Officers (average)**

## Comparator Groups Used to Set Competitive Pay

OMERS has identified comparator groups for its various businesses in setting competitive compensation to closely reflect the marketplace. The comparator groups are reviewed on a regular basis by the HR Committee. Typical considerations include other organizations that compete for similar talent, industry-specific organizations, or organizations with similar objectives. Within these comparator groups, OMERS reviews compensation levels of comparable positions and assesses relative performance and size of the comparator groups. Annually, the compensation comparator groups are used to benchmark compensation for positions across the enterprise. The following chart captures the general parameters used to develop the annual comparator groups:

| | **Sample Organizations** |
|---|---|
| Corporate Functions | General industry organizations with revenues greater than $1 billion. |
| Pensions Services | Pension funds, consulting firms, general industry organizations with revenues greater than $1 billion. |
| Investment Teams | Investment management organizations, including pension funds, asset management firms, banking and insurance. Local organizations for locations outside of Canada. |
| Oxford Properties | Real Estate organizations and investment management organizations, including pension funds, asset management firms and banking. Local organizations for locations outside of Canada. |

## Compensation Governance

This section outlines key governance-related policies to help ensure that compensation aligns with the short- and long-term interests of our Plan members.

| **OMERS Policy** | **Description** |
|---|---|
| Risk Adjustment | The Executive Compensation Plan incorporates a risk adjustment that gives the Committee the ability to modify awards to reflect risk. The risk adjustment reflects how well risk was managed over the performance period and can impact all variable compensation awards within ±15% range. The adjustment is determined annually and approved by the HR Committee. |
| Board Discretion | The OAC Board may make the decision to withhold awards of any variable compensation including the short-term and long-term incentive payments to reflect significant unexpected or unusual events as defined by OMERS at its sole discretion. |
| Clawback | All variable compensation awards, whether paid or unpaid, are subject to a clawback in the event of a material misrepresentation or financial restatement of results, within a 36-month look-back period. In the event of a material misrepresentation or financial restatement, the HR Committee will determine the extent of the clawback (i.e., who, on an individual or plan basis, will be impacted and to what extent) based on the specific circumstances. |

## Alignment to Financial Stability Board Principles For Effective Governance of Compensation

The HR Committee has taken steps to further strengthen our approach to compensation, including incorporating the Financial Stability Board Principles for Sound Compensation Practices and the associated Implementation Standards. These principles and standards, established in 2009, are intended to ensure effective governance of compensation, alignment of compensation with prudent risk taking, effective supervisory oversight and stakeholder engagement in compensation. The following table highlights how OMERS approach to compensation is aligned with these principles and standards.

| Financial Stability Board Principles | Compensation Practices at OMERS |
|---|---|
| 1. Active oversight of the compensation design and operation | **ALIGNED**<br>The HR Committee of the OAC Board has oversight over the Executive Compensation Plan including the review and approval of material changes to the plan design, as well as an annual review of the total compensation to be awarded each year under the plan. |
| 2. Board of Directors monitors and reviews the compensation plan to ensure it operates as intended | **ALIGNED**<br>The HR Committee has a formal and comprehensive process for approving the design of compensation plans across the organization. On an annual basis, the HR Committee approves the performance measures, weightings and targets at the beginning of the year. The HR Committee receives forecasted performance and payments under the plans throughout the year, and a final review of payments at the end of the year. |
| 3. Finance, risk and other control function employees are compensated independent of the business | **PARTIALLY ALIGNED**<br>The compensation for executives in corporate control functions (risk, audit and compliance) is based exclusively on enterprise performance, and excludes specific business segment level metrics. Compensation for control functions in the business units is currently under review. |
| 4. Compensation is adjusted for all types of risk | **ALIGNED**<br>All compensation plans reviewed or designed after 2011 include a comprehensive review of risk measures. All new compensation plans have a discretionary element (risk adjustment) that allows the HR Committee to appropriately consider risk when determining final awards, based on an annual risk assessment. The assessment evaluates risks taken during the year against OMERS risk framework, as well as the prospective direction of risk in future years. |
| 5. Compensation and risk outcomes are symmetrical | **ALIGNED**<br>A significant portion of our executive compensation is variable and at risk. All variable compensation awards are dependent on the performance results based on pre-determined Board-approved measures and the level of risk taken in achieving results. In addition, the following mechanisms have been put in place to help ensure that compensation awarded under the plan is symmetric with risk outcomes:<br>• The Board, at its discretion, has the ability to withhold variable compensation awards to reflect significant unexpected or unusual events as defined by OMERS.<br>• In the event of a material misrepresentation of results in the prior 36 months (three years), the Board may require plan participants to return any variable compensation awarded. |
| 6. Compensation payouts are sensitive to time horizon of risks | **ALIGNED**<br>To align compensation with the risk-time horizon and motivate plan participants to create longer-term value, a significant portion of total compensation is deferred and aligned with OMERS total Fund return over the deferral period.<br>Deferred awards cliff vest at the end of three years, helping ensure sufficient time for the payment to incorporate the impact of risks taken. |
| 7. The mix of cash and deferred compensation is consistent with risk alignment | **ALIGNED**<br>A significant portion of pay at risk is deferred to align compensation with the risk-time horizon and to motivate plan participants to create longer-term value. |

## 2015 Performance and Compensation

Under Michael Latimer's leadership, OMERS continues to be a dynamic organization that thinks strategically and embraces innovation. OMERS has developed a Strategy that will serve as a five-year road map for how we will deliver on our mission of providing secure and sustainable defined benefit pensions to our members.

Our strategy sets out how we will protect our funded status by using a robust approach to funding management, deliver 7-11% net average investment returns, build quality relationships with all stakeholders and evolve our business model and capabilities in order to deliver value for pension dollars.

In 2015, Pension Services continued to achieve strong client services results by providing good value to members through the continued expansion of online services such as myOMERS, frequent webcasts, and face-to-face meetings to ensure that members have high-quality service that is accessible, flexible, and tailored to their needs. We also continue to make significant progress on the redevelopment of our pension services systems which will simplify processes and enhance reporting capabilities.

Long-term sustainable growth is critical to our mission of meeting the pension promise as OMERS must produce investment returns that exceed the actuarially assumed rate of return within an acceptable risk tolerance. For compensation purposes, our asset classes are measured against net absolute returns. At the beginning of the year, the OAC Board approved target returns for the asset classes in which OMERS invests. This year, the Primary Plan had a return, net of expenses, of 6.7%, compared to our funding discount rate of 6.5%. The benefits of our investment approach of diversification were evident in a year marked by weak global growth, persistently low interest rates and market volatility.

Ultimately, we have a responsibility to members to make the best possible use of every pension dollar they contribute. Creating value for pension dollars is about sustaining a culture of managing costs and making wise choices, so that we can focus on our main goal of providing secure and sustainable defined benefit pensions over the long term.

The strategic initiatives and results for each investment platform are further discussed in the Management Discussion and Analysis section of this Annual Report.

### Compensation of the President and Chief Executive Officer

This section examines the compensation provided in 2015 to the President and Chief Executive Officer.

**MICHAEL LATIMER**

**President and Chief Executive Officer**

Reporting to the Board of Directors of OMERS, the President and Chief Executive Officer is responsible for the overall strategic and operational leadership of the enterprise which includes responsibility for overall organizational effectiveness, developing and effectively implementing the Strategic Plan, overseeing interactions with external stakeholders and providing leadership to, and management of, employees ensuring the enterprise's ability to compete in a global economy to meet the pension promise.

### Performance in 2015

A balanced scorecard was established for Mr. Latimer based on performance achieved against total Fund net absolute return (50%) and key strategy, execution, and leadership objectives (50%). The OAC Board assessed Mr. Latimer's 2015 performance against his key individual objectives:

- Lead and engage with the OAC Board to define the enterprise's mission and vision and provide leadership in the development of OMERS strategy and plans that enable the enterprise to achieve its mission and vision;
- Develop an effective strategy and execute by incorporating broad OAC Board direction into the development of strategic plans and annual operating budgets for the enterprise;
- Provide thought leadership on the business and economic climate in which the enterprise and its stakeholders operated and direct the Senior Executive Team to meet opportunities and challenges presented by new trends and developments in the market; and

- Ensure the effective administration of the Plans, such as the payment of pensions, the provision of high-level of service to employers, active members and retired members and the maintenance of a cost-effective operation.

Mr. Latimer's 2015 awards are determined within the Executive Compensation Plan framework, based on 2015 performance. Mr. Latimer's 2015 payments are comprised of his 2015 salary, 2015 short-term incentive and the payment in respect of his 2013 long-term incentive award, which is based on investment return performance over the three-year performance period.

### Total Compensation Payments

When determining compensation awards, the HR committee aims to ensure there is a strong link between compensation and performance achieved. In determining Mr. Latimer's annual variable compensation awards for 2015, the OAC Board assessed his performance against specific objectives that were agreed upon by the OAC Board at the beginning of the year. Given the 2015 performance results, the OAC Board approved the variable compensation performance factor of 122%, which resulted in an actual STIP award of $1,044,750. For the 2013 LTIP award that matured on December 31, 2015, the three-year investment returns resulted in a performance factor of 106%.

| Compensation Element | Target | Performance Factor (i) | Payment |
|---|---|---|---|
| 2015 Salary | $565,000 | n/a | $565,000 |
| 2015 Short-Term Incentive | $856,187 | 122% | $1,044,750 |
| 2013 Long-Term Incentive | $1,350,000 | 106% | $1,433,700 |
| **Total Compensation** | | | **$3,043,450** |

(i) Performance factors have been rounded to the nearest whole number.

## Summary Compensation Table

The table below represents disclosure of salary, short-term incentives, long-term incentives, employer portion of pension contributions and other compensation paid to or earned by each Named Executive Officer during the three most recently completed financial years.

| | | | Non-Equity Incentive Compensation ($) | | | | |
|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary ($) | Short-Term Incentive Plan | Long-Term Incentive Plan (i) | Pension Value ($) (ii) | All Other Compensation ($) | Total Compensation ($) |
| Michael Latimer<br>President and Chief Executive Officer | **2015** | **$ 565,000** | **$ 1,044,750** | **$ 1,590,063** | **$ 134,848** | **$ 58,863** | **$ 3,393,524** |
| | 2014 | $ 558,825 | $ 1,534,003 | $ 1,590,063 | $ 128,381 | $ 40,816 | $ 3,852,088 |
| | 2013 | $ 500,000 | $ 900,000 | $ 1,350,000 | $ 127,021 | $ 101,072 | $ 2,978,093 |
| Jonathan Simmons (iii)<br>Chief Financial Officer | **2015** | **$ 450,000** | **$ 402,500** | **$ 552,500** | **$ 98,529** | **$ 2,970** | **$ 1,506,499** |
| | 2014 | $ 450,000 | $ 750,000 | $ 300,000 | $ 96,096 | $ 2,217 | $ 1,598,313 |
| | 2013 | $ — | $ — | $ 450,000 | $ — | $ — | $ 450,000 |
| Blake Hutcheson<br>Chief Investment Officer, Real Estate & Strategic Investments | **2015** | **$ 500,000** | **$ 1,025,500** | **$ 1,121,250** | **$ 51,776** | **$ 53,937** | **$ 2,752,463** |
| | 2014 | $ 515,000 | $ 939,750 | $ 1,021,313 | $ 45,750 | $ 54,575 | $ 2,576,388 |
| | 2013 | $ 475,000 | $ 950,000 | $ 1,096,250 | $ 42,750 | $ 97,948 | $ 2,661,948 |
| Michael Rolland<br>Chief Investment Officer, Private Markets | **2015** | **$ 500,000** | **$ 1,001,000** | **$ 1,121,250** | **$ 51,776** | **$ 19,194** | **$ 2,693,220** |
| | 2014 | $ 470,500 | $ 1,025,325 | $ 1,039,155 | n/a | $ 40,501 | $ 2,575,481 |
| | 2013 | $ 438,000 | $ 875,000 | $ 1,160,700 | n/a | $ 72,225 | $ 2,545,925 |
| Satish Rai (iv)<br>Chief Investment Officer, Public Markets | **2015** | **$ 500,000** | **$ 681,878** | **$ 1,266,344** | **$ 49,860** | **$ 1,485** | **$ 2,499,567** |
| | 2014 | $ — | $ — | $ — | $ — | $ — | $ — |
| | 2013 | $ — | $ — | $ — | $ — | $ — | $ — |

Notes

(i) Amounts shown represent the value of awards as of the grant date in each calendar year. Long-term Incentives are granted at target on January 1st of each year.

(ii) Amounts shown represent the employer contributions in the Plan. See Defined Benefit Pension Plan section for more information on pension benefits for the Named Executive Officers.

(iii) Mr. Simmons was awarded a 2013 Long-Term Incentive award as part of his employment terms. In addition, Mr. Simmons had a different compensation mix in 2014, reflecting a larger portion in STIP and less in LTIP.

(iv) Mr. Rai was appointed Chief Investment Officer, Public Markets effective January 2015. Mr. Rai had a minimum total compensation guarantee as part of his employment terms.

## Incentive Plan Awards

Long-term incentive awards are granted at the start of the fiscal year and paid out at the end of the vesting period. The following table presents the outstanding long-term incentive awards and most recent payments for each Named Executive Officer.

| Name | Year | Type of Award | Award Target Value ($) | Award Maximum ($) | Actual Value Payout ($) |
|---|---|---|---|---|---|
| Michael Latimer<br>President and Chief Executive Officer | **2015** | **LTIP** | **$ 1,590,063** | **$ 3,180,126** | |
| | 2014 | LTIP | $ 1,590,063 | $ 3,180,126 | |
| | 2013 | LTIP | $ 1,350,000 | $ 2,700,000 | $ 1,433,700 |
| Jonathan Simmons (i)<br>Chief Financial Officer | **2015** | **LTIP** | **$ 552,500** | **$ 1,105,000** | |
| | 2014 | LTIP | $ 300,000 | $ 600,000 | |
| | 2013 | LTIP | $ 450,000 | $ 900,000 | $ 477,900 |
| Blake Hutcheson<br>Chief Investment Officer, Real Estate & Strategic Investments | **2015** | **LTIP** | **$ 1,121,250** | **$ 2,242,500** | |
| | 2014 | LTIP | $ 1,021,313 | $ 2,042,625 | |
| | 2013 | LTIP | $ 1,096,250 | $ 1,808,813 | $ 1,564,349 |
| Michael Rolland<br>Chief Investment Officer, Private Markets | **2015** | **LTIP** | **$ 1,121,250** | **$ 2,242,500** | |
| | 2014 | LTIP | $ 1,039,155 | $ 2,078,310 | |
| | 2013 | LTIP | $ 1,160,700 | $ 2,321,400 | $ 2,153,099 |
| Satish Rai (ii)<br>Chief Investment Officer, Public Markets | **2015** | **LTIP** | **$ 1,266,344** | **$ 1,950,000** | |

(i) Mr. Simmons' 2014 LTIP reflects a different compensation mix per his employment terms. His 2015 targets reflect a higher proportion in LTIP.
(ii) Mr. Rai's 2015 LTIP reflects the minimum total compensation guarantee per his employment terms.

The 2013 long-term incentive awards matured at the end of 2015 and were paid out, leaving the 2014 and 2015 long-term incentive awards outstanding. All long-term incentive (LTIP) awards vest and mature on December 31 of the third year of the plan.

## Pension Plan Benefits

The following section describes the OMERS Plan in which the Named Executive Officers participate.

| | |
|---|---|
| Pension Formula | 2% of "best five" earnings multiplied by years of service from the date of hire (maximum of 35 years) after integration with Canada Pension Plan. |
| "Best five" Earnings | The average of five consecutive years of pensionable earnings during which earnings were the highest. Pensionable earnings are capped, as follows:<br>• Cap on incentive pay: Post-2010 earnings are capped at 150% of contributory earnings calculated before incentive pay.<br>• 7X YMPE Cap: Total contributory earnings are limited to seven times the CPP earnings limit (applies to all earnings for members enrolled on/after January 1, 2014 and only to post-2015 earnings for members enrolled before January 1, 2014). |
| Normal Retirement Age | 65 |
| Early Retirement | Plan members are eligible to retire early when they reach the age of 55. Each member's unreduced date is the earliest of the date the member attains his or her 90 Factor (age and service), attains 30 years of service or turns age 65. There is a 5% reduction factor per year short of their unreduced date. |
| Form of Pension | The pension is paid for the life of the Plan member with 66 2/3% of the pension amount continuing to the surviving spouse after the member's death. |

## Defined Benefit Pension Plan

The table below represents disclosure of estimated pension information for the Named Executive Officers as at December 31, 2015.

| | | Annual Benefits Payable ($) | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Number of Years of Client Service (#) | At Year End | At Age 65 | Opening Present Value of Defined Benefit Obligation ($) | Compensatory Change ($) | Non-Compensatory Change ($) | Closing Present Value of Defined Benefit Obligation ($) |
| Michael Latimer<br>President and Chief Executive Officer | 10.8 | $ 272,812 | $ 293,569 | $ 2,956,146 | $ 121,665 | $ 359,450 | $ 3,437,261 |
| Jonathan Simmons [(i)]<br>Chief Financial Officer | 4.5 | $ 33,998 | $ 280,304 | $ 115,672 | $ (45,010) | $ 112,236 | $ 182,898 |
| Michael Rolland<br>Chief Investment Officer, Private Markets | 1.0 | $ 7,156 | $ 54,505 | $0 | $ 25,112 | $ 52,711 | $ 77,823 |
| Blake Hutcheson<br>Chief Investment Officer, Real Estate & Strategic Investments | 1.0 | $ 7,159 | $ 80,746 | $0 | $ 16,986 | $ 52,683 | $ 69,669 |
| Satish Rai<br>Chief Investment Officer, Public Markets | 1.0 | $ 7,073 | $ 95,006 | $0 | $ 14,013 | $ 50,991 | $ 65,004 |

(i) Mr. Simmons purchased additional years of credited service of 2.5 years in 2014.

## Termination Benefits

The treatment under each of the termination scenarios is governed by the terms of the 2015 Executive Compensation Plan, which are summarized in the following table.

| | **Short-Term Incentive Plan** | **Long-Term Incentive Plan** |
|---|---|---|
| Resignation | Forfeited | Forfeited |
| Retirement<br>*(as defined by the compensation plan)* | Entitled to a partial award, pro-rated to reflect the period of active employment | Outstanding awards will continue to mature in normal course |
| Termination without Cause | Entitled to a partial award, pro-rated to reflect the period of active employment | Entitled to a partial award, pro-rated to reflect the period of active employment |
| Termination with Cause | Forfeited | Forfeited |

## Conclusion

All OMERS employees are committed to delivering appropriate risk-adjusted returns over the long term to meet the pension promise to Plan members. The approach to executive compensation motivates executives to achieve OMERS strategic objectives prudently by encouraging an appropriate balance between risk and reward. OMERS remains committed to ensuring our compensation policies and programs support our talent management strategy to continue to attract, engage and retain high-performing people who will produce the results that deliver value to our Plan members.

# Governance: OMERS Administration Corporation

## Under the Ontario Municipal Employees Retirement System Act, 2006, OMERS Administration Corporation is responsible for pension administration, valuation of the accrued pension obligation and investment of the pension funds.

Effective and transparent pension plan governance is the foundation that allows OMERS to fulfill our pension promise to our members. Throughout our more than 50-year history, OMERS has continuously sought to achieve high standards in governance.

### Board Governance at OMERS Administration Corporation

Many policies and practices are in place to support OMERS Administration Corporation's commitment to leading governance practices and Board performance, including:

- a Governance Manual;
- a statement of governance, mission and guiding principles;
- a comprehensive Board development program that includes director certification, education and orientation in Board operations and governance;
- an external auditor independence policy;
- a detailed Code of Conduct and Ethics covering areas such as conflict of interest, fiduciary duties, and privacy and confidentiality;
- a personal trading policy, which requires OMERS Administration Corporation Board members, senior management and applicable employees to pre-clear their personal trading;
- a requirement that members of the Audit & Actuarial Committee meet the standard of financial literacy; and
- transparency and accountability processes – including regular meetings with members of the Plans and other stakeholders, as well as timely and accurate print and electronic communication of developments. Summaries of OMERS Administration Corporation Board and committee decisions are published on the OMERS website. OMERS Administration Corporation Board, working with OMERS Sponsors Corporation, was focused on supporting efforts to improve communications with Plan members, employers and other stakeholders in 2015, and through its Board Chair, visited many stakeholder groups throughout the year.

Further details on OMERS Administration Corporation's governance practices can be found in the Governance Manual, which is available on the OMERS website.

## OMERS Administration Corporation Board Responsibilities

OMERS Administration Corporation Board has many important responsibilities, which are outlined in the Board of Directors Mandate on our website. The key responsibility of OMERS Administration Corporation Board is to set the overall strategic course of OMERS Administration Corporation, including its investment direction and objectives, and to ensure that the pension services for which it is responsible are executed effectively and efficiently.

OMERS Administration Corporation Board also actively oversees financial reporting and actuarial matters, such as the annual valuation of the liabilities of the Plans. OMERS Administration Corporation Board approves the strategic planning process followed to develop the Strategic Plan. In 2015, OMERS Sponsors Corporation and OMERS Administration Corporation worked together to develop one inclusive Strategic Plan for OMERS. Each Board approved those aspects of the Strategic Plan related to their respective roles and responsibilities, and endorsed the overall strategy. Similarly, the Boards are responsible for monitoring the implementation and effectiveness of the Strategic Plan. OMERS Administration Corporation Board delegates to Management responsibility for day-to-day business activities, including a number of other important functions such as compliance, internal controls and talent management. With respect to these delegations, the role of the Board is to monitor Management and to work toward ensuring that its activities remain consistent with the longer-term vision, objectives and directional framework set by the Board.

Other key specific responsibilities of OMERS Administration Corporation Board include identifying and appointing the Chief Executive Officer (CEO) of OMERS Administration Corporation, as well as assessing the performance of the CEO. Compensation of the CEO is also set by the Board.

## OMERS Administration Corporation Board Membership and Selection Process

The process for selecting Board members for OMERS Administration Corporation is established by OMERS Sponsors Corporation in its By-law No. 13, which names specific sponsor organizations that have the right to nominate individuals to be considered by OMERS Sponsors Corporation for appointment to OMERS Administration Corporation Board.

The person proposed as the independent Board Chair is appointed by the OMERS Sponsors Corporation to OMERS Administration Corporation Board and confirmed by OMERS Administration Corporation Board in accordance with the collaborative process established in the Sponsors Corporation By-law No.13. George Cooke has served in that role since October 2013.

## OMERS Administration Corporation Board Appointments

OMERS Administration Corporation Board appoints the CEO, who is not a member of OMERS Administration Corporation Board, as well as OMERS Administration Corporation's independent auditor and external actuary responsible for pension plan valuation and related matters. OMERS Administration Corporation Board has its own independent external counsel to provide legal advice to the Board when conflict matters arise.

## OMERS Administration Corporation Board Practice

OMERS Administration Corporation Board has regular *in camera* meetings without Management present. The Board also conducts regular evaluations of its performance at the end of meetings, as well as annually. It regularly reviews the critical competencies it needs to oversee the affairs of OMERS Administration Corporation and serve the interests of Plan members. Working with OMERS Sponsors Corporation, these competencies have been added as important enhancements to OMERS Sponsors Corporation By-law No.13. In 2015, OMERS Administration Corporation Board conducted a comprehensive assessment of its overall performance, as well as of the Board Chair specifically. Those reviews identified a number of areas where its efficiency could be enhanced, and those recommendations are being implemented.

## Composition, Mandates and Activities of OMERS Administration Corporation Board Committees

In 2015, OMERS Administration Corporation Board had four standing committees that assisted the Board in discharging its responsibilities. The Board also uses specialized committees from time to time to deal with special situations.

The **Audit & Actuarial Committee** assists OMERS Administration Corporation Board in fulfilling its oversight responsibilities for the:

- integrity of the financial reporting process and financial statements;
- system of internal controls and the review of the disclosure of financial information;
- annual valuation, including assumptions and methods;
- system of risk management and fraud risk management;
- internal audit process;
- external audit of the financial statements;
- overseeing the work of the external actuary;
- organizational processes for monitoring compliance with laws and regulations and the Code of Conduct and Ethics; and
- Ethics Hotline (whistleblower process) and special investigations.

The **Governance Committee** annually reviews the mandates of OMERS Administration Corporation Board and its committees, and assists the Board by:

- overseeing OMERS Administration Corporation Board orientation and Director development programs, and being responsible for implementing periodic internal assessments of OMERS Administration Corporation Board's performance;
- recommending changes to OMERS Administration Corporation governance where required to address effectiveness issues;
- assessing the competency requirements of OMERS Administration Corporation Board and recommending the skills and experience needed for the Board; and
- reviewing relevant policies relating to governance, including an OMERS Administration Corporation external communications policy.

The **Human Resources Committee** assists OMERS Administration Corporation Board in meeting its fiduciary oversight and related obligations by:

- attracting, engaging and retaining excellent leaders at the senior executive level who are committed to the OMERS Administration Corporation Mission Statement, Core Values and Leadership Principles;
- overseeing a robust succession management process for the position of CEO; and
- overseeing senior executive performance, executive compensation and overall compensation policies.

The **Investment Committee** assists OMERS Administration Corporation Board by:

- approving transactions that exceed thresholds delegated to Management;
- reviewing and recommending to OMERS Administration Corporation Board key investment policies such as the Statement of Investment Beliefs, the Statements of Investment Policies and Procedures, and the Statement of Investment Authorities;
- reviewing overall asset mix, investment strategies and programs; and
- monitoring and reviewing investment performance.

OMERS Administration Corporation Board has several specialized committees that assist the Board in specific matters:

The **Appeals Committee** assists OMERS Administration Corporation Board by:

- serving as an appeals tribunal for Plan members who are appealing decisions of the President and CEO (or his delegates) regarding their pension benefit entitlements; and
- hearing evidence and rendering decisions in these appeals, and retaining independent external counsel to assist in its deliberations.

The **OMERS Administration Corporation Joint Council Subcommittee**, comprising two members of OMERS Administration Corporation Board, has been mandated by OMERS Administration Corporation Board to participate as its representation on OMERS Administration Corporation/OMERS Sponsors Corporation Joint Council. The Joint Council is comprised of an equal number of directors from OMERS Sponsors Corporation and OMERS Administration Corporation Boards, and is intended to discuss and address matters of importance to both Boards with respect to the oversight and governance of the OMERS Pension Plans. The Joint Council meets on an as-needed basis.

The **LEAP Program Committee** is a special ad hoc committee of OMERS Administration Corporation Board established to provide dedicated oversight of a new information technology platform for pension administration, named LEAP (Leading the Evolution for the Administration of Pensions) program. The success of the program is critical to providing OMERS with a modern, scalable and robust pension management system.

## OMERS Administration Corporation Board Remuneration

| **2015** | | **Annual Retainer** |
|---|---|---|
| Chair | $ | 150,000 |
| Committee Chair | $ | 67,500 |
| All Other Directors | $ | 60,000 |

Effective January 1, 2014, new compensation rates came into effect for OMERS Administration Corporation Board members. Under the OMERS Act, OMERS Sponsors Corporation has the legislative authority to determine OMERS Administration Corporation Board remuneration. To implement recommendations of the Dean Report relative to improving skills and collective capacity of OMERS Administration Corporation Board, OMERS Sponsors Corporation engaged an independent consultant to determine peer practices on Board remuneration. As a result of this extensive research, the OMERS Sponsors Corporation reviewed its bylaw and changed compensation rates for OMERS Administration Corporation Board members. The changes reflect OMERS Sponsors Corporation's assessment of a competitive compensation arrangement, while recognizing the public interest component of service on OMERS Administration Corporation Board.

Board members who serve as members of the Appeals Committee are also entitled to receive the applicable annual retainer payment plus an additional meeting fee of $750.00 for each day of attendance at a hearing, provided they are present for the full hearing while in session – regardless of the duration of the hearing on any given day.

The table on page 114 includes remuneration paid to OMERS Administration Corporation Board members as well as other eligible expenses in 2015, with comparable numbers for 2014. The table on page 115 sets out Board and committee meeting attendance in 2015.

**Board Membership Update**

**Michael Fenn** and **David Beatty** have been reappointed to OMERS Administration Corporation Board by OMERS Sponsors Corporation for their second three-year terms, at the request of their sponsoring organizations. There were no other changes to the composition of OMERS Administration Corporation Board since the last Annual Report.

## OAC Board Remuneration and Expenses

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Remuneration** | **Expenses (i)** | Remuneration | Expenses (i) |
| Cooke, George | **$ 152,000** | **$ 5,972** | $ 150,000 | $ 9,685 |
| Aziz, Bill | **69,500** | **222** | 67,500 | 609 |
| Baker, Monty | **69,500** | **2,847** | 67,500 | 4,768 |
| Beatty, David | **62,000** | **2,507** | 60,000 | 1,501 |
| Beggs, Darcie | **62,750** | **11,609** | 60,000 | 23,489 |
| Butt, Bill | **69,500** | **1,664** | 60,000 | 780 |
| Fenn, Michael | **69,500** | **6,444** | 60,000 | 6,842 |
| Hutchinson, Laurie | **60,000** | **9,195** | 60,000 | 10,021 |
| Inskip, Cliff (ii) | **62,000** | **11,262** | — | — |
| Phillips, James | **69,500** | **18,272** | 67,500 | 15,972 |
| Somerville, Penny (iii) | **54,939** | **868** | — | — |
| Swimmer, Eugene | **63,500** | **21,231** | 67,500 | 14,389 |
| Tsubouchi, David (ii) | **63,500** | **20,382** | — | — |
| Vandenberk, Sheila | **62,750** | **4,827** | 67,500 | 7,920 |
| Weatherup, John | **62,000** | **2,471** | 60,000 | 7,593 |
| Former Board Members (iv) | **—** | **423** | 187,500 | 41,247 |
| Other Expenses (v) | **—** | **75,367** | — | 80,256 |
| Total | **$ 1,052,939** | **$ 195,565** | $ 1,035,000 | $ 225,072 |

(i) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred on behalf of OAC. These Board expenses by Directors are reported to the Audit & Actuarial Committee annually.
(ii) OAC Board member effective January 1, 2015.
(iii) OAC Board member effective February 11, 2015.
(iv) R. Faber, L. Komori and J. Sabo resigned from the Board on December 31, 2014.
(v) Other expenses include Board group meeting expenses not allocated by individual.

# 2015 Board/Committee Meetings

| Director (i) | Board | | Audit & Actuarial Committee | Governance Committee | Human Resources Committee | Investment Committee | Appeals Committee | LEAP Program Committee | Committees (Total) | | Overall Attendance: All Meetings | | Overall Attendance: Scheduled Meetings* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attended | % | Attended | Attended | Attended | Attended | Attended | Attended | Attended | % | Attended | % | Attended | % |
| Aziz, Bill | 7/11 | 64 | | | 3/5 | 20/21 (Chair) | | | 23/26 | 88 | 30/37 | 81 | 11/14 | 79 |
| Baker, Monty | 11/11 | 100 | 6/6 | | 5/5 (Chair) | | | 6/6 | 17/17 | 100 | 28/28 | 100 | 22/22 | 100 |
| Beatty, David | 9/11 | 82 | | | 5/5 | 18/21 | | | 23/26 | 88 | 32/37 | 86 | 11/14 | 79 |
| Beggs, Darcie (iii) | 10/11 | 91 | | 4/4 | | | 2/2 | 4/4 | 10/10 | 100 | 20/21 | 95 | 16/16 | 100 |
| Butt, Bill | 10/11 | 91 | 6/6 (Chair) | | | 21/21 | | | 27/27 | 100 | 37/38 | 97 | 16/16 | 100 |
| Cooke, George (ii) | 11/11 (Chair) | 100 | 5/6 | 4/4 | 5/5 | 21/21 | | | 35/36 | 97 | 46/47 | 98 | 23/24 | 96 |
| Fenn, Michael | 11/11 | 100 | | 4/4 | | | | 6/6 (Chair) | 10/10 | 100 | 21/21 | 100 | 16/16 | 100 |
| Hutchinson, Laurie | 11/11 | 100 | 6/6 | | | | | 6/6 | 12/12 | 100 | 23/23 | 100 | 18/18 | 100 |
| Inskip, Cliff | 10/11 | 91 | 6/6 | | | 20/21 | | | 26/27 | 96 | 36/38 | 95 | 16/16 | 100 |
| Phillips, James (iv) | 10/11 | 91 | 4/5 | 4/4 (Chair) | | | | | 8/9 | 89 | 18/20 | 90 | 14/15 | 93 |
| Somerville, Penny (v) | 9/11 | 82 | | 4/4 | | 19/20 | | | 23/24 | 96 | 32/35 | 91 | 12/14 | 86 |
| Swimmer, Eugene | 11/11 | 100 | 6/6 | | | 20/21 | 2/2 (Chair) | | 28/29 | 97 | 39/40 | 98 | 18/18 | 100 |
| Tsubouchi, David | 9/11 | 82 | | 4/4 | 5/5 | | 2/2 | | 11/11 | 100 | 20/22 | 91 | 15/16 | 94 |
| Vandenberk, Sheila (iv) | 10/11 | 91 | 5/5 | | 5/5 | | 2/2 | | 12/12 | 100 | 22/23 | 96 | 17/17 | 100 |
| Weatherup, John | 10/11 | 91 | | | 5/5 | 14/21 | | | 19/26 | 73 | 29/37 | 78 | 13/14 | 93 |
| **Overall Attendance** | | **90%** | **96%** | **100%** | **94%** | **92%** | **100%** | **100%** | | **94%** | | **93%** | | **95%** |

(i) OAC Directors also attended other discretionary meetings such as the Spring and Fall Information Meetings, Joint Education Sessions with the SC, New Board and Committee Member Orientation Sessions and in-house education sessions.

(ii) Ex officio member of the Audit & Actuarial, Governance, Human Resources and Investment Committees.

(iii) Appointed to LEAP Program Committee in February 2015.

(iv) Appointed to Audit & Actuarial Committee in February 2015.

(v) Appointed to Investment Committee in February 2015.

*Scheduled meetings are regularly scheduled Board and Committee meetings and exclude special meetings and meetings called on short notice.

# Governance: OMERS Sponsors Corporation

OMERS Sponsors Corporation and its Board provide for strategic oversight and decision-making by sponsors on major policy directions including benefits and contribution rates. The OMERS Act, 2006 created OMERS Sponsors Corporation to fulfill the role of plan sponsor, giving members and employers more direct control over the OMERS Pension Plans.

The governance and decision-making practices of OMERS Sponsors Corporation support the health and long-term viability of the jointly sponsored Plans and give due consideration to the interests of stakeholders and relevant circumstances.

## OMERS Sponsors Corporation Board Responsibilities

Directors owe a fiduciary duty to, and are required to act honestly and in good faith in the best interests of, OMERS Sponsors Corporation and to exercise the care, diligence and skill that a reasonably prudent person would apply in similar situations. This duty applies to carrying out the OMERS Sponsors Corporation Board responsibilities, including:

- making decisions about the design of the OMERS Pension Plans, including benefits to be provided and contributions to be made;
- deciding whether to establish a reserve to stabilize contribution rates;
- setting the composition of the two OMERS Boards, including the nomination and appointment processes for Directors;
- establishing the remuneration and expense reimbursement policies for the Boards of OMERS Sponsors Corporation and OMERS Administration Corporation;
- deciding whether to file a valuation more frequently than is required under the Pension Benefits Act (Ontario);
- appointing the OMERS Sponsors Corporation auditor, and legal and actuarial advisors;
- approving OMERS Sponsors Corporation's budget and audited financial statements; and
- the stewardship of OMERS Sponsors Corporation, including oversight of its management.

The OMERS Sponsors Corporation Board approves the strategic planning process followed to develop the Strategy. In 2015, OMERS Sponsors Corporation and OMERS Administration Corporation worked together to develop one inclusive Strategy for OMERS. Each Board approved those aspects of the Strategy related to their respective roles and responsibilities and endorsed the overall strategy. Similarly, the Boards are responsible for monitoring the implementation and effectiveness of the Strategy.

The OMERS Sponsors Corporation Board also appoints the OMERS Sponsors Corporation Chief Executive Officer and reviews his or her performance, sets OMERS Sponsors Corporation compensation policy and approves OMERS Sponsors Corporation management compensation.

## Commitment to Good Governance

OMERS Sponsors Corporation has committed itself to upholding OMERS long history of exemplary Plan governance by maintaining high standards of integrity, education, transparency and communication in carrying out its responsibilities. OMERS Sponsors Corporation strives to follow best-practice standards in corporate governance. To achieve this goal, the OMERS Sponsors Corporation Board has developed policies and practices with input and advice from third-party advisors who are experts in the field. The OMERS Sponsors Corporation governance structure includes:

- corporate by-laws and policies that support the commitment to a best-practice standard;
- an education program for OMERS Sponsors Corporation Board Directors, which includes learning opportunities in the areas of governance, pension administration, benefits strategies and pension plan trustee development, as well as mandatory orientation to the Plans;
- a process for reviewing its governance policies and processes to help ensure ongoing efficiency and the effectiveness of its practices; and
- transparency and accountability to participants of the Plans – through regular meetings with members, employers and organizations representing them and other stakeholders; together with timely print and electronic communications carried out in co-operation with OMERS Administration Corporation; as well as regular website updates and posting of bylaws, bylaw amendments and information for submitting proposals for Plan design changes.

The document titled OMERS Sponsors Corporation Governance Manual consolidates and articulates the OMERS Sponsors Corporation governance structure, as well as the mandates and responsibilities of the OMERS Sponsors Corporation Board, its standing committees, individual OMERS Sponsors Corporation Board Directors, the Co-Chairs, committee Chairs and the Chief Executive Officer. The document can be found on the OMERS Sponsors Corporation website.

## OMERS Sponsors Corporation Board Membership and Appointment Process

The basic composition of the OMERS Sponsors Corporation Board is established under the OMERS Act, 2006, with further composition and appointment details laid out in OMERS Sponsors Corporation By-law No. 4. OMERS Sponsors Corporation Board composition is based on several principles reflecting Plan membership, which is reviewed periodically - most recently in 2013.

OMERS Sponsors Corporation has a representative Board with seven Plan member representatives and seven employer representatives. Directors are appointed by their sponsoring organizations for a three-year term with the potential to be reappointed, without limitation. Terms are staggered to help ensure the ongoing continuity and effectiveness of the OMERS Sponsors Corporation Board.

### Employer Representatives

- Association of Municipalities of Ontario – two Directors
- City of Toronto - one Director
- School Boards, rotating between Public and Catholic Boards – one Director
- Ontario Association of Police Services Boards – one Director
- Ontario Association of Children's Aid Societies – one Director
- Electricity Distributors Association (Ontario) – one Director

### Plan Member Representatives

- Canadian Union of Public Employees (CUPE Ontario) - one Director
- Canadian Union of Public Employees rotating between Locals 79 and 416 - one Director
- Police Association of Ontario - one Director
- Ontario Professional Fire Fighters Association - one Director
- Ontario Secondary School Teachers' Federation - one Director
- Ontario Public Service Employees Union - one Director
- Retiree Group - appointed from among the Municipal Retirees Organization of Ontario, the Police Pensioners Association of Ontario, the Police Retirees of Ontario and the Retired Professional Fire Fighters of Ontario - one Director

The OMERS Sponsors Corporation Board has Co-Chairs; one appointed by the Plan member representatives and the other appointed by employer representatives. There is a total of 18 votes on the OMERS Sponsors Corporation Board. The number of votes is equally split between employer and Plan member representatives, and is further proportionately distributed using a weighted voting system.

## OMERS Sponsors Corporation Board Practice

The OMERS Sponsors Corporation Board has regular *in camera* meetings without Management present, as do its committees from time to time. The OMERS Sponsors Corporation Board also conducts periodic evaluations of its performance, most recently in 2015. The OMERS Sponsors Corporation Board periodically reviews its bylaws and governance practices, including committee mandates, to help ensure currency and to reflect leading practices.

## Composition, Mandates and Activities of OMERS Sponsors Corporation Board Committees

The OMERS Sponsors Corporation Board has four standing committees to assist in discharging its responsibilities: Audit, Corporate Governance, Human Resources and Compensation, and Plan Design. In addition, OMERS Sponsors Corporation and OMERS Administration Corporation have a Joint Council to address matters of importance to both Boards.

The **Audit Committee** assists the Directors in fulfilling their responsibilities of oversight and supervision of the:

- quality and integrity of the financial statements;
- compliance with legal and regulatory requirements in respect of financial disclosure and reporting;
- adequacy of the internal accounting controls and procedures; and
- qualifications, independence and performance of the independent auditor of the corporation.

The **Corporate Governance Committee** assists the Directors in fulfilling their responsibilities of:

- developing appropriate corporate governance practices, guidelines and benchmarks for the corporation;
- developing corporate bylaws; and
- appointing OMERS Administration Corporation Board Directors.

The **Human Resources and Compensation Committee** assists with responsibilities related to:

- staff levels and succession planning;
- training, education and orientation programs for OMERS Sponsors Corporation Board Directors;
- compensation structure, including employee benefits;
- expense reimbursement policies for employees;
- compensation and expense reimbursement policies for Board members of OMERS Sponsors Corporation and OMERS Administration Corporation;
- evaluation of the Chief Executive Officer's performance; and
- appointing the Independent Board Chair of OMERS Administration Corporation.

The **Plan Design Committee** assists with responsibilities relating to design of the OMERS Pension Plans, including:

- co-ordinating and facilitating the process of gathering and considering information;
- arranging for the referral of questions to OMERS Administration Corporation staff and legal, actuarial and other professionals engaged by OMERS Sponsors Corporation;
- liaising with OMERS Administration Corporation on issues related to actuarial assumptions; and
- recommending Plan design changes.

OMERS Administration Corporation/OMERS Sponsors Corporation Joint Council is comprised of an equal number of Directors from OMERS Administration Corporation and OMERS Sponsors Corporation Boards, and is intended to discuss and address matters of importance to both Boards with respect to the oversight and governance of the Plans. The Joint Council meets on an as-needed basis.

## Director Orientation and Education

New Directors participate in an orientation process, which includes a comprehensive discussion of the history and mandate of the corporation, OMERS strategy, business planning process and current programs.

Directors also participate in various educational programs and industry conferences, which are either approved or mandated by the organization.

In 2015, ten OMERS Sponsors Corporation Board Directors attended from one to three industry-related conferences and seminars, lasting from one to four days. (Directors are not compensated for related travel time.) In addition, the following educational programs were attended by Board Directors during 2015:

| Education Session | Number of Directors |
|---|---|
| Rotman Board Effectiveness Program | 3 |
| PPAC I – Introduction to Pension Plans | 2 |
| PPAC II – Legislation & Pension Plans | 2 |
| Queen's University - Governance Program | 3 |

## Director Compensation

2015 compensation is as follows:

| 2015 | | Annual Retainer |
|---|---|---|
| Co-Chairs | $ | 75,000 |
| Committee Chair | $ | 40,800 |
| All Other Directors | $ | 35,800 |

No other compensation is provided to OMERS Sponsors Corporation Directors.

A Director's compensation may be paid to the Director or to the organization with which they are affiliated.

OMERS Sponsors Corporation Board compensation was reviewed in detail in 2013, with the assistance of an independent advisor, resulting in the first increase in compensation ($5,000 per Director) since 2009.

## Reimbursement of Expenses

OMERS Sponsors Corporation Board Directors are reimbursed for reasonable and necessary expenses incurred in connection with carrying out the business of OMERS Sponsors Corporation. Reimbursement in this category has been primarily related to travel and accommodation expenses for attending OMERS Sponsors Corporation Board, committee or other similar meetings.

In addition, Directors are required to meet certain educational requirements and to stay current and continue to develop their knowledge and skills. As a result, they are also reimbursed for travel, tuition and other expenses incurred while attending relevant conferences, or other professional and educational programs, within Canada and the continental U.S.

The expenses can vary considerably by year and by Director for a variety of reasons (e.g., Director experience, availability and location of programs, number of meetings, and location of primary residence, etc.). For clarity, travel time itself is not compensated.

OMERS Sponsors Corporation By-Law No. 6 sets out the requirements and approval process for ongoing Director development.

## Board and Committee Meeting Attendance

In 2015, Directors attended anywhere from 15 to 37 meetings, with the median being 23. Details about the number of meetings and Director attendance can be seen on page 123.

## Other Events and Meetings

In 2015, Directors also attended anywhere from one to seven other business events and meetings, including: in-house education sessions, committee meetings of which they were not members, and other business meetings as necessary. Numerous caucus group (member and employer) and individual Director meetings with their sponsor organizations are not tracked, but may occur monthly for some members of the OMERS Sponsors Corporation Board.

**Board Membership Update**

In 2015, we thanked Bruce Miller and John Fleming for the important contributions they made during their terms of service on the OMERS Sponsors Corporation Board. We also welcomed new members Dan Axford, who joined us in October, and Joe Pennachetti, who joined us in January 2016. Dan and Joe were appointed by the Police Association of Ontario and the City of Toronto, respectively.

In 2015 we thanked Brian O'Keefe for his leadership as the Employee Member Co-Chair since the inception of the OMERS Sponsors Corporation and welcomed Frank Ramagnano to that role effective January 1, 2016.

The OMERS Sponsors Corporation continued to implement its new OMERS Administration Corporation Board member appointment process, collaborating closely with sponsor organizations and the OAC independent Board Chair. For a list of OMERS Administration Corporation director appointments, see page 113.

# OMERS Sponsors Corporation Board Remuneration and Expenses

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Remuneration (i)** | **Expenses (ii)** | Remuneration (i) | Expenses (ii) |
| Marianne Love (Co-Chair) | **$ 75,000** | **$ 25,613** | $ 75,000 | $ 19,216 |
| Brian O'Keefe (Co-Chair) | **75,000** | **2,670** | 75,000 | 8,421 |
| Dan Axford (vii) | **8,950** | **9,964** | — | — |
| Paul Bailey (iv) | **38,300** | **10,997** | 35,800 | 15,950 |
| Frederick Biro | **35,800** | **15,928** | 35,800 | 19,705 |
| Barry Brown (iii) | **35,800** | **13,916** | — | — |
| Diana Clarke | **35,800** | **22,185** | 35,800 | 15,327 |
| John Fleming (iv) | **40,800** | **2,871** | 40,800 | 8,323 |
| Jack Jones (iv)(v) | **—** | **—** | 20,400 | 3,173 |
| Charlie Macaluso | **35,800** | **1,191** | 35,800 | 2,351 |
| Tim Maguire | **35,800** | **13,277** | 35,800 | 11,202 |
| Mary McConville | **35,800** | **15,204** | 35,800 | 2,272 |
| Wayne McNally (iv) | **40,800** | **3,960** | 40,800 | 4,614 |
| Bruce Miller (vii) | **29,350** | **14,147** | 40,800 | 21,594 |
| Frank Ramagnano (iv) | **40,800** | **5,611** | 38,300 | 9,246 |
| Sandra Sahli (v) | **35,800** | **25,164** | 17,900 | 8,378 |
| Bruce Stewart | **—** | **—** | 35,800 | 2,747 |
| Former Board Members | **—** | **—** | — | 460 |
| Other Expenses (vi) | **32,051** | **14,482** | 29,268 | 23,450 |
| Total | **$ 631,651** | **$ 197,180** | $ 628,868 | $ 176,429 |

(i) Remuneration is in accordance with By-law #6.
(ii) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred in conducting SC business. These expenses are reviewed by the Audit Committee on a quarterly basis.
(iii) Term commenced January 1, 2015
(iv) Committee Chairs
Paul Bailey - HRCC – Human Resources and Compensation Committee (from October 1, 2015)
John Fleming – CGC – Corporate Governance Committee (to December 31, 2015)
Jack Jones - PDC – Plan Design Committee (to June 30, 2014)
Wayne McNally – Audit Committee
Bruce Miller – HRCC – Human Resources and Compensation Committee (to September 30, 2015)
Frank Ramagnano – PDC – Plan Design Committee (from July 1, 2014)
(v) Jack Jones – term ended June 30, 2014; Sandra Sahli – term commenced July 1, 2014
(vi) Other expenses include Board meeting expenses not allocated by individual and benefits (CPP & EHT)
(vii) Bruce Miller - term ended on September 30, 2015; Dan Axford - assumed the seat on October 1, 2015.

# 2015 Board/Committee Meetings

| Member | SC Board Meetings(i) (14) | | Audit Committee (4) | CGC Meetings (9) | HRCC Meetings (6) | PDC Meetings (4) | Committees (Total) | | Overall Attendance | | Other (ii) Events and Meetings | All Events and Meetings | Education Days (v) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attended | % | Attended | Attended | Attended | Attended | Attended/ Eligible | % | Attended/ Eligible | % | | | |
| Marianne Love (Co-Chair)(iii) | 14 | 100% | 3 | 8 | 6 | 3 | 20/23 | 87% | 34/37 | 92% | 3 | 37 | 10 |
| Brian O'Keefe (Co-Chair)(iii) | 14 | 100% | 4 | 9 | 6 | 4 | 23/23 | 100% | 37/37 | 100% | 3 | 40 | 2 |
| Dan Axford (iv) | 3 | 100% | 1 | | 2 | | 3/3 | 100% | 6/6 | 100% | 3 | 9 | 9 |
| Paul Bailey | 14 | 100% | | 9 | 6 | | 15/15 | 100% | 29/29 | 100% | 3 | 32 | 4 |
| Fred Biro | 14 | 100% | | | 5 | 4 | 9/10 | 90% | 23/24 | 96% | 3 | 26 | 10 |
| Barry Brown | 13 | 93% | 2 | 6 | | | 8/13 | 62% | 21/27 | 78% | 5 | 26 | 5 |
| Diana Clarke | 13 | 93% | | 9 | | | 9/9 | 100% | 22/23 | 96% | 4 | 26 | 17 |
| John Fleming | 13 | 93% | | 8 | 6 | | 14/15 | 93% | 27/29 | 93% | 3 | 30 | |
| Charlie Macaluso | 12 | 86% | | | | 3 | 3/4 | 75% | 15/18 | 83% | 1 | 16 | |
| Tim Maguire | 14 | 100% | 3 | | | 3 | 6/8 | 75% | 20/22 | 91% | 3 | 23 | 13 |
| Mary McConville | 14 | 100% | | 9 | 5 | | 14/15 | 93% | 28/29 | 97% | 3 | 31 | 13 |
| Wayne McNally | 11 | 79% | 4 | | | 4 | 8/8 | 100% | 19/22 | 86% | 3 | 22 | |
| Bruce Miller (iv) | 11 | 100% | 3 | | 4 | | 7/7 | 100% | 18/18 | 100% | 2 | 20 | 6 |
| Frank Ramagnano | 14 | 100% | | | 5 | 4 | 9/10 | 90% | 23/24 | 96% | 3 | 26 | 2 |
| Sandra Sahli | 13 | 93% | | 7 | | 4 | 11/13 | 85% | 24/27 | 89% | 7 | 31 | 17 |
| **Overall Attendance** | | **96%** | **83%** | **90%** | **94%** | **91%** | | **90%** | | **93%** | | | |

(i) Board meetings consisted of 12 regularly scheduled meetings and 2 strategic planning session/days, all of which SC Board Members were expected to attend.

(ii) Members attended from 3-7 additional 'Other' meetings and events, such as the Spring Information Meeting, joint education sessions with the OAC, new Board and committee member orientation, in-house education sessions, ad hoc meetings of special committees and attendance at committee meetings of which they are not members. Many Members also attended educational programs or pension/governance conferences ranging from 2-5 days, exclusive of travel time (see page 120 for more detail).

(iii) In addition to chairing the SC Board meetings, Co-Chairs are ex-officio members of all committees; not all of their other obligations are tracked for attendance purposes.

(iv) Bruce Miller left the SC on September 30; Dan Axford assumed the seat on October 1.

(v) Education days refers to the actual number of days Members spent at education programs or pension-related conferences and does not include travel time.

# Independent Auditors’ Report

## To the Board of OMERS Sponsors Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of OMERS Sponsors Corporation, which comprise the statement of financial position as at December 31, 2015 and the statements of operations and of cash flows 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 not-for-profit organizations, 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 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 auditor's 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 auditor considers 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, these financial statements present fairly, in all material respects, the financial position of OMERS Sponsors Corporation as at December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Norton McMullen LLP

NORTON MCMULLEN LLP Chartered Professional Accountants, Licensed Public Accountants

Markham, Ontario, Canada
February 18, 2016

# Statement of Financial Position

| As at December 31, | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | **$ 12,821** | $ 1,375,285 |
| OAC receivable | **152,057** | 186,286 |
| Prepaid expenses and other assets | **3,327** | 14,438 |
| | **$ 168,205** | $ 1,576,009 |
| **Liabilities** | | |
| Current | | |
| Accounts payable and accrued liabilities | **$ 167,182** | $ 195,273 |
| Grant funds payable (note 5) | **—** | 1,380,736 |
| | **$ 167,182** | $ 1,576,009 |
| **Net Assets** | | |
| Excess/(Deficit) of revenues over expenses from operations | | |
| Balance at beginning of year | **$ —** | $ 2,452,449 |
| Current year | **1,023** | (2,452,449) |
| Balance at end of year | **$ 1,023** | $ — |
| | **$ 168,205** | $ 1,576,009 |

The accompanying notes to the financial statements are an integral part of these financial statements.

Signed on Behalf of the Board of OMERS Sponsors Corporation

Marianne Love
Co-Chair

Frank Ramagnano
Co-Chair

Wayne McNally
Chair, Audit Committee

## Statement of Operations

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| **Revenues** | | | | |
| OAC expense reimbursement | **$** | **2,079,871** | $ | 1,959,243 |
| Interest Income | | **23** | | 8,753 |
| | **$** | **2,079,894** | $ | 1,967,996 |
| **Expenses** | | | | |
| Contract and administrative salaries including payroll taxes and benefits | **$** | **987,797** | $ | 864,318 |
| Legal | | **74,360** | | 150,256 |
| Audit | | **9,020** | | 6,800 |
| Actuarial | | **7,933** | | 12,697 |
| Professional advisors | | **6,395** | | 34,939 |
| Other administrative | | **81,348** | | 81,216 |
| Insurance | | **84,186** | | 84,186 |
| Board remuneration including payroll taxes and benefits (note 3) | | **631,651** | | 628,868 |
| Board expenses (note 3) | | **197,181** | | 176,429 |
| | **$** | **2,079,871** | $ | 2,039,709 |
| **Excess/(Deficit) of Revenues Over Expenses Before Grant Repayment** | | **23** | | (71,713) |
| Grant Repayment (note 5) | | **(1,000)** | | 2,380,736 |
| **Excess/(Deficit) of Revenues Over Expenses from Operations** | **$** | **1,023** | $ | (2,452,449) |

The accompanying notes to the financial statements are an integral part of these financial statements.

# Statement of Cash Flows

| For the year ended December 31, | | 2015 | | 2014 |
|---|---|---|---|---|
| **Cash was provided by (used in):** | | | | |
| **Operating Activities** | | | | |
| Excess/(Deficit) of revenues over expenses | **$** | **1,023** | $ | (2,452,449) |
| Changes in non-cash working capital accounts | | | | |
| OAC receivable | | **34,229** | | 592,630 |
| Prepaid expenses and other assets | | **11,111** | | (6,480) |
| Accounts payable and accrued liabilities | | **(28,091)** | | 17,600 |
| Grant funds payable | | **(1,380,736)** | | 1,380,736 |
| **Decrease in cash** | **$** | **(1,362,464)** | $ | (467,963) |
| Cash - Beginning of Year | | **1,375,285** | | 1,843,248 |
| **Cash - End of Year** | **$** | **12,821** | $ | 1,375,285 |

The accompanying notes to the financial statements are an integral part of these financial statements.

# Notes to Financial Statements

December 31, 2015

## Nature of Operations

OMERS Sponsors Corporation (SC) is a corporation without share capital under the Ontario Municipal Employees Retirement System Act, 2006 (OMERS ACT). The SC is the sponsor of the OMERS Pension Plans (OMERS Pension Plans) as defined in the OMERS Act. The OMERS Pension Plans are administered by OMERS Administration Corporation (OAC) and include the OMERS Primary Pension Plan (Primary Plan) and the Retirement Compensation Arrangement (RCA) associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (Supplemental Plan). The SC is responsible for making decisions about the design of the Plan, the RCA, and the Supplemental Plan, amendments to those plans, setting contribution rates, and the filing of the actuarial valuation as required under the Pension Benefits Act (Ontario) (PBA).

The SC is not subject to income taxes.

## NOTE 1

## Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (the "ASNPO") and include the following significant accounting policies:

### (a) Revenue Recognition

OAC expense reimbursement is recorded as revenue after the expenses are incurred in accordance with the joint SC/OAC protocol. Interest income for operations is recognized as income in the year earned.

### (b) Use of Estimates

The preparation of financial statements is in conformity with Canadian ASNPO which requires management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, and related disclosures. Such estimates include the OAC receivable, and accounts payable and accrued liabilities. Actual results could differ from these estimates.

### (c) Cash

Cash consists of cash on hand and balances with banks that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

### (d) Financial Instruments

#### Measure of Financial Instruments

The SC initially measures its financial assets and liabilities at fair value and subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash and the OAC receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

The SC has no financial assets measured at their fair value and has not elected to carry any financial assets or liabilities at fair value.

### Impairment

Financial assets measured at amortized cost are tested for impairment when events or circumstances indicate possible impairment. Write-downs, if any, are recognized in excess (deficit) of revenues over expenses and may be subsequently reversed to the extent that the net effect after the reversal is the same as if there had been no write-down. There are no impairment indicators in the current year.

## NOTE 2

## Bank Operating Facility

The SC maintains an unsecured, uncommitted overdraft facility (Demand Operating Overdraft Facility) with a major bank in the amount of $1,000,000; advances would bear interest at the Prime Rate per annum. Access to the overdraft facility was not required in 2015.

## NOTE 3

## Board Remuneration and Expenses

Board remuneration and expenses are recorded in accordance with the SC By-Law #6.

## NOTE 4

## Financial Instruments

The SC is exposed to various risks through its financial instruments.  The following provides a summary of the SC's exposure to risk at December 31, 2015:

### a) Credit Risk

Credit risk is defined as the financial loss that results from the failure of a counterparty to honour its contractual obligations to SC. The SC's main credit risk relates to its OAC receivable. The OAC receivable is due from an organization with a high quality credit rating and therefore there is limited credit risk associated with this financial instrument.

### b) Liquidity Risk

Liquidity risk is the risk that the SC will be unable to meet its financial liabilities in a timely and cost-effective manner. The SC is exposed to this risk mainly in respect to its accounts payable. The SC manages this risk by managing its working capital, ensuring that sufficient credit is available.

### c) Market Risk

Market risk is the risk that the fair value of an investment is impacted by changes in market prices such as foreign exchange rates and interest rates. The SC is exposed to interest rate risk, the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As described in Note 2, the SC is exposed to interest rate risk with respect to its bank operating facility, should it be necessary to use. The SC does not currently hold any financial instruments to mitigate this risk. The exposure to this risk would fluctuate as the debt and related interest rates change from year to year.

## NOTE 5

### Grant Funds Repayment

In previous years the SC received grants for operations from the Ministry of Municipal Affairs and Housing of the Ontario Government (the "Ministry"). The funding agreement with the Ministry stated that any part of the grant funds that have not been used or accounted for by the SC would belong to the Ministry. During 2014, $1,000,000 grant funding was repaid to the Ministry. The grant funding remaining in December 2014 of $1,380,482 was repaid to the Ministry in March 2015.

In the event of any expenses which would not be reimbursed by the OAC, the SC has already obtained an operating facility (note 2) from the bank. Under the terms of the OMERS Act, the SC has the ability, and in accordance with SC By-Law #10, the means, to implement a flat-rate levy on employers and active members of the Plan to fund any such expenses.

# Glossary

### Accrued Pension Obligation

The actuarial present value of future pension benefits that have been earned to date.

### Actuarial Valuation Report

A report issued by the independent actuary on the funded status of the OMERS Pension Plans. The actuarial valuation is based on a set of demographic and economic assumptions approved by the OMERS Administration Corporation Board, and is subject to regulatory requirements and actuarial profession standards.

### Benchmark

A benchmark is a point of reference against which the performance of an investment is measured.

### Bridge Benefit

A temporary benefit provided to eligible members who retire prior to age 65. The bridge benefit is paid until age 65.

### Commuted Value

The lump-sum payment offered to eligible members in lieu of receiving a pension in the future, based on the member's service and earnings to date. The commuted value fluctuates with changes in factors such as the member's age, current inflation and interest rates.

### Derivative/Derivative Financial Instrument

A financial contract that derives its value from changes in underlying assets or indices. Derivative transactions can be conducted on public exchanges or in the over-the-counter market using investment dealers. Derivative contracts include forwards, futures, swaps and options, and are discussed in more detail in note 4 of the Consolidated Financial Statements.

### Discount Rate

A discount rate is the interest rate used to calculate the present value of future pension payments, as reflected in the accrued pension obligation.

### Economic Leverage

The difference between market exposure and the fair value of net investment assets.

### Funding Deficit/Surplus

When the pension obligation is greater than the value of smoothed assets, the Plan is considered to be in deficit. When the value of smoothed assets exceeds the pension obligation, the Plan is considered to be in surplus.

### Market Exposure

Market exposure to an asset class is achieved through the direct purchase of investments or through the use of derivatives.

### Smoothing (Asset Smoothing)

The practice of spreading investment returns in excess of/below the discount rate over a five-year period to minimize the impact of short-term market volatility. Asset smoothing is a common practice and is accepted by the actuarial profession and by pension regulators.

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