# ONE TEAM on course

OMERS

2009 Annual Report

OMERS Administration Corporation

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2009 Annual Report

OMERS was established in 1962 as the pension plan for employees of local governments in Ontario. On June 30, 2006, the *Ontario Municipal Employees Retirement System Act, 2006* (the OMERS Act) came into effect. The OMERS Act continued the Ontario Municipal Employees Retirement Board as the OMERS Administration Corporation (OAC) and created the OMERS Sponsors Corporation (SC) to replace the Ontario government as plan sponsor.

Sponsors (such as plan members, employers and retirees, through their unions, associations and other organizations) appoint the Board Members of the SC, and since June 30, 2009, the SC appoints OAC Board Members.

### OMERS Sponsors Corporation

OMERS Sponsors Corporation is the Plan Sponsor of the OMERS Plans and consists of 14 Members: 7 plan member representatives and 7 employer representatives.

The SC is responsible for:

- determining plan design for benefits to be provided by the pension plans
- setting contribution rates for members and participating employers
- establishing or changing a reserve to stabilize contribution rates
- setting compensation levels and appointment protocol of SC and OAC Board Members.

### OMERS Administration Corporation

OMERS Administration Corporation Board has 14 board members: 7 plan member representatives and 7 employer representatives. It is the Administrator of the OMERS Plans.

The OAC Board is responsible for:

- appointing and overseeing the OAC management team
- establishing investment and funding policies, asset allocation and investment management of OMERS Pension Plans' assets
- overseeing pension services, administration and plan valuation
- appointing the OAC auditor and the actuary for the OMERS Pension Plans.

### OMERS AC Management

OAC Management conducts the affairs of the OAC and has been delegated broad responsibilities for ensuring that OMERS discharges its statutory and related responsibilities to Plan members, including:

- administering the OMERS Pension Plans
- providing for the actuarial valuation of the OMERS Pension Plans
- investing the OMERS Pension Plans' assets
- providing technical and administrative support for the SC.

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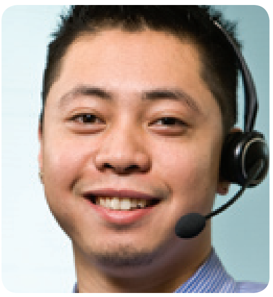
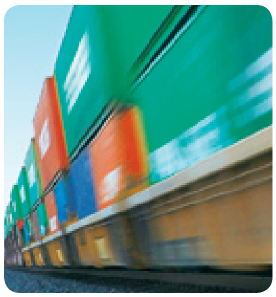
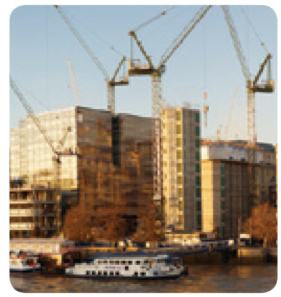
# ONE TEAM on course


The OMERS Administration Corporation team is charting a course for the long-term strength of the OMERS Pension Plans. With a strategy now underway to expand our global footprint and create new investment options, OMERS is making its mark in the international pension industry and on the worldwide investment stage. Our service team is also committed to delivering excellent service to our members and we continue to explore new ways to provide even better efficiency.

The pension landscape is shifting. The recent economic recession and future pension reforms will change the way traditional pension plans operate and invest. These are times of opportunity. **OMERS has established a course for the future – one that is focused on stability and the long-term viability of the OMERS Pension Plans.**

# 2009 Highlights




**OMERS maintains high satisfaction rates for service**

The 2009 OMERS annual member satisfaction survey showed an average satisfaction rate of 89 per cent for the overall level of service, demonstrating our ongoing commitment to high service standards.

**Borealis takes majority position in Detroit River Tunnel Partnership**

In April, Borealis increased its ownership stake in the Detroit River Tunnel Partnership to a majority position. The tunnel transports rail traffic across the Canada-U.S. border and is a vital strategic link in North American transportation infrastructure.

**OMERS Private Equity partners with Public Mobile**

In January, OMERS Private Equity became a significant investor in wireless start-up Public Mobile, which is set for launch in 2010.

**OMERS employees raise over $650,000 for the United Way**

Responding to increased needs in the community, OMERS employees shattered their previous record by donating more than $650,000 to the United Way of Toronto.

**Oxford Properties completes development and leasing of Watermark Place**

Oxford completed the development of the London, U.K. office property and leased it fully to investment bank Nomura for a 20-year term.

**OMERS Strategic Investments forms airport acquisition partnership**

OMERS Strategic Investments formed a long-term strategic partnership with HAS Development Corporation, an affiliate of the Houston Airport System, and Airport Development Corporation, a Canadian airport developer, to pursue airport acquisition and operation activities, initially in Latin America.

**OMERS Private Equity invests in Haymarket Financial**

In November, OMERS Private Equity made a significant investment in Haymarket Financial, a new independent commercial lending institution, alongside private equity firm Towerbrook Capital Partners.

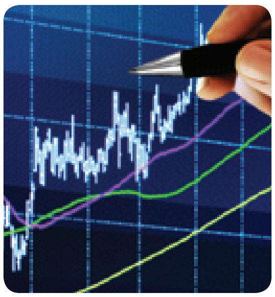
**OMERS named one of 50 Best Employers in Canada**

For the second consecutive year, Hewitt Associates named OMERS to its prestigious list of 50 Best Employers in Canada – a reflection of the energy, enthusiasm and talent of our employees.

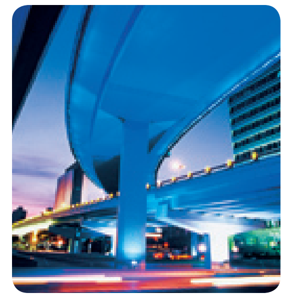
**Maxxam Analytics, an OMERS Private Equity investment, acquires CANTEST Ltd.**

In November, Maxxam Analytics, a company OMERS Private Equity acquired majority control of in 2008, strengthened its market position by acquiring CANTEST Ltd., British Columbia's largest independent analytical laboratory business, specializing in environmental, food and pharmaceutical laboratory services.

- *delivering excellent service*
- *expanding our global footprint*
- *investing in opportunity*







**OMERS Capital Markets enhances investment research team**

In 2009, OMERS Capital Markets repatriated over $2 billion from external managers, established an internally managed Global Equity Portfolio and Tactical Portfolio to provide asset mix flexibility and substantially increased the depth of our investment research team.

**Promoting OMERS Worldwide at Buttonwood**

In October, we promoted our OMERS Worldwide brand by being a Platinum sponsor of The Economist magazine's inaugural Buttonwood Gathering, an international platform for thought leadership on the rebuilding of the global financial system following the recession of 2008 and 2009.

**Borealis invests in new Niagara Regional Hospital**

Borealis, in partnership with Plenary Health Group, became the majority equity provider for a new acute health and cancer care centre in St. Catharines, Ontario. Borealis is committed to the success of the 34-year partnership to build, manage and sustain this world-class facility.

**OMERS Investment Management Inc. (OIM) created**

OIM was created in 2009 to leverage expanded powers legislated to OMERS by the Ontario government to provide third-party investment management services to other pension plans, governments, certain educational institutions and non-profit organizations. Eligible parties will have access to a top flight investment team whose expertise reaches across all asset classes, including public and private markets.

**OMERS Private Equity acquires Nordco**

In June, OMERS Private Equity acquired Nordco, a leading designer, manufacturer, and supplier of critical products and services that help maintain rail infrastructure throughout North America.

**myOMERS member access portal launched**

The myOMERS online member access portal successfully launched in December 2009. The new application provides secure access to member information and statements, as well as improved e-tools, including the Retirement Income Estimator and the Buy-back Estimator.

**OMERS Strategic Investments acquires MMM**

OMERS Strategic Investments completed the purchase of MMM, an industry leader in the provision of high-quality, cost-effective and multidisciplinary engineering solutions for a diverse range of assignments, including planning, project management and structural, mechanical, electrical, transportation, traffic, municipal, landscape and environmental engineering design.

**Oxford continues industry leading Sustainable Intelligence initiatives**

Oxford continued to progress toward its 'Target 2012' commitment – a 20 per cent reduction in greenhouse gas output by 2012 and initiated employee volunteer programs to give back to communities.

# Our Principles

## One

**Ensure the quality of our balance sheet.**

- Our assets are prudently invested and deliver a return that meets our needs within an appropriate risk profile.
- Our assets match our liabilities.
- Our assets and our liabilities are fairly valued.

## Two

**Ensure that the right organizational structure – with clear lines of accountability – is in place to meet our objectives.**

- Our organization is aligned for accountability and clarity of purpose.
- Our organizational structure allows active, hands-on management of our assets.
- Our organizational design provides value for the cost.
- Everyone at OMERS knows what is expected of them and of others.

## Three

**Ensure that our members' needs are understood and met.**

- We understand the needs of all our members.
- We deliver what our members want, where and when they want it, and at a price that represents value for them.

## Four

**Ensure we have the right people in the right jobs.**

- Our business is organized around our primary asset: individuals taking ownership for decisions that they make.
- Our people are motivated, engaged and have the knowledge they need to achieve our goals.
- Our compensation programs reward performance.

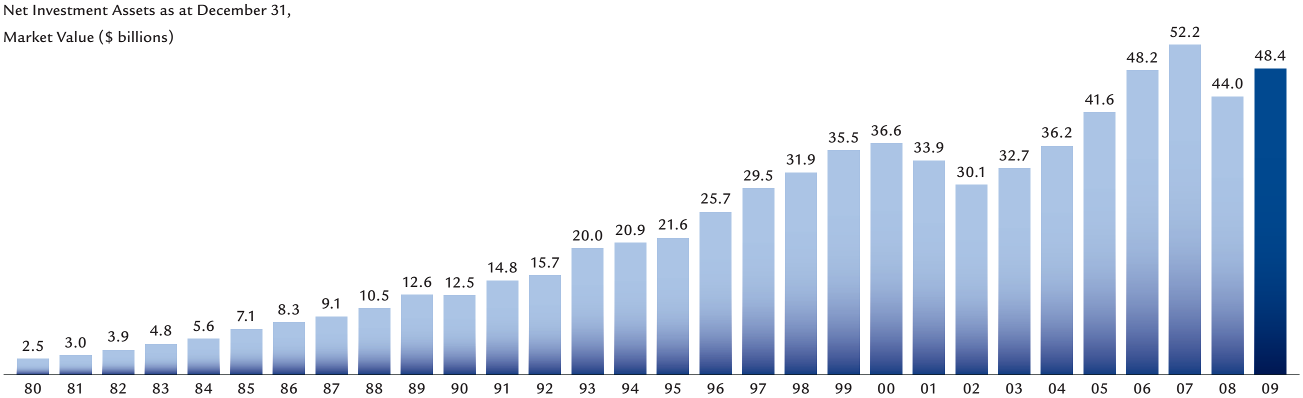
## Five

**Ensure we have access to the right management information.**

- We have the information we need to manage our business.
- Our management information is timely, accurate and actionable.
- This information is universally understood throughout our organization.

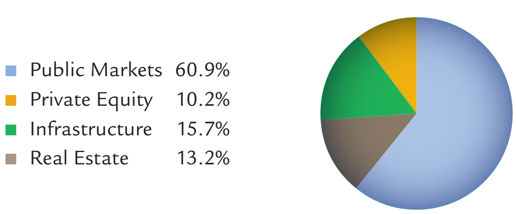
## NET INVESTMENT ASSET GROWTH

Net Investment Assets as at December 31,
Market Value ($ billions)



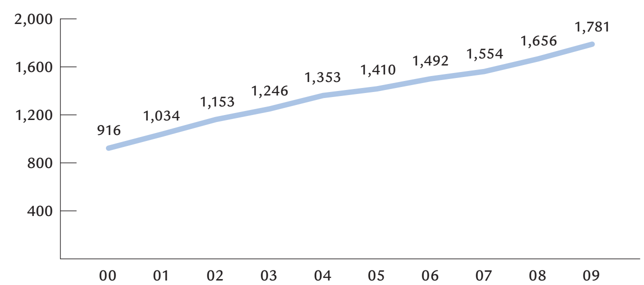

## ASSET MIX

(As at December 31, 2009)
Net Investment Assets



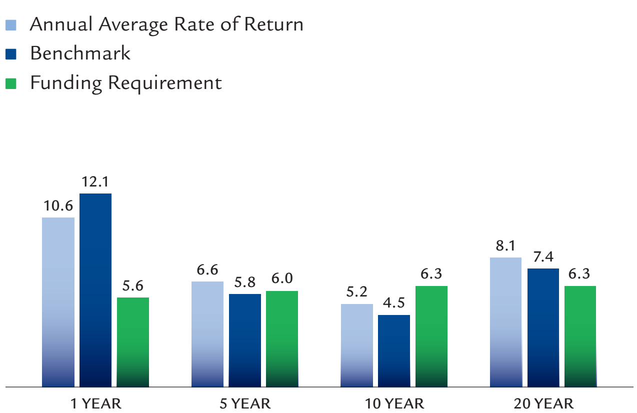

## GROWTH IN MEMBERS' PENSION PAYMENTS

($ millions)



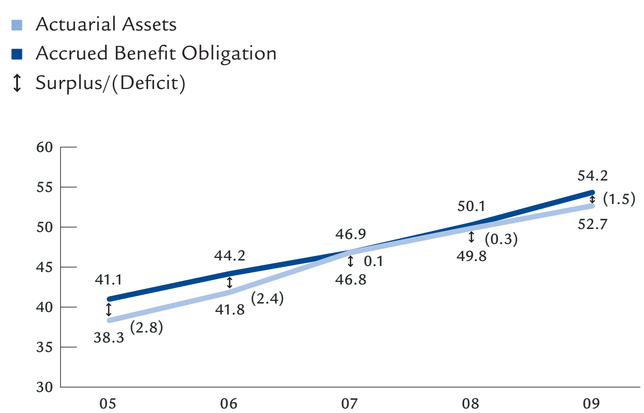

## RATE OF RETURN, BENCHMARK AND FUNDING REQUIREMENT

(%)




## ACTUARIAL ASSETS AND ACCRUED BENEFIT OBLIGATION – OMERS PRIMARY PENSION PLAN

(As at December 31, 2009)
($ billions)



# On course for long-term success

> “We are charting a plan for the future to ensure the OMERS Plans are stable and sustainable.”

**JOHN SABO**
OAC Board Chair

I began my tenure as Chair of the OAC Board on January 1, 2008. Within the next year, the world economy was hit with the global market meltdown. Also, the viability of pensions became a major concern and all levels of government turned their attention to pension reform.

Some people might consider this an inopportune time to be leading a major financial organization; however, I disagree. While these are challenging times, it is even more important that a strong team with dedicated leadership is in place to set the course for a strong future and I am honoured to accept these challenges as Chair of the OAC Board. Together with my OAC Board colleagues, the SC Board and our senior management team, we are charting a plan for the future to ensure the OMERS Pension Plans are stable and sustainable.

During the last two years, many opportunities have emerged through new investment avenues and our team has developed new service programs. The OMERS team is prepared to take advantage of these new opportunities. We are looking to the future with a path to reach our goal of long-term investment returns and continued service excellence.

**Economic Recovery**

Although 2009 ended in a sustained period of recovery for global equity markets, the global financial crisis has reinforced the importance of prudent investing. To that end, OMERS continues to implement its strategy of shifting its asset mix toward private investments with stable returns over the long term.

We are also implementing our five-year strategic plan. The long-term goal of our strategic plan is to create surplus wealth for OMERS members beyond the amount needed to achieve an actuarial balance between assets and liabilities.

Our eye is on long-term results because we have responsibilities to pay pensions far into the future. One or two years of low returns will affect us in the short term; however, OMERS results need to be evaluated in 10, 20 and even 40-year intervals.

**Funding Status**

The funded status of the Plan as at December 31, 2009 reflects a deficit position of $1.5 billion. This is a result of three major factors: 1) the changing demographic of our membership means the cost of providing pension benefits to our membership is increasing; 2) our 2008 investment returns were deeply affected by the downturn in the global markets of 2008; and 3) previous contribution holidays, which were mandated by the *Income Tax Act*, did not allow us to sustain a surplus – a cushion which would have mitigated the effects of the recession.

The funding status will require action from both the OAC and SC. For the OAC Board and OAC Management, investment returns will play an important role in returning the Fund to a healthy status. We are confident that the five-year strategic plan will expand the opportunities OMERS has to increase our future returns.

"We are confident that the five-year strategic plan will expand OMERS."

The funding status is also one of the reasons we have been a long-time proponent of pension reform.

**Pension Reform**

OMERS has been calling for pension reform long before it became front-page news. In 2008, together with the SC Board, we formally presented our concerns to the Ontario Expert Commission on Pensions. We followed this up in February 2009 with our response to the commission's report, which can be found on our website at www.omers.com.

In June 2009, the Ontario government, responding to the report by the Expert Commission on Pensions, passed Bill 162 which dramatically expands OMERS ability to manage third-party pension funds. This is an exciting development for OMERS which led to the establishment of a new entity – OMERS Investment Management (OIM) – and allows us to access additional capital pools to pursue enhanced investment opportunities.

Both the OAC and SC Boards have also approved Additional Voluntary Contributions (AVCs), which will allow members to make additional voluntary contributions which will earn the investment returns generated by the OAC's diverse investment portfolio outside their regular pension contributions. This program, set to launch in 2011, will give our members more retirement investment options.

You will be hearing more about OIM and AVCs in 2010.

**OAC and SC Boards Working Together**

The OAC and SC collaborated during 2009 to establish a Framework Agreement. There are 26 touch points in the agreement, covering a range of areas including, among others, OMERS funding plan process, government relations, joint meetings and so on. This agreement is a valuable tool to support the OMERS governance model.

The OAC/SC Joint Council, which provides a forum for discussion of items outlined in the Framework Agreement, has held three meetings since completion of the agreement and will continue to meet on a regular basis.

The combined efforts of the OAC and SC working together were recognized in November 2009 at the Benefits Canada Awards, where President and CEO Michael Nobrega, Chief Pension Officer Jennifer Brown and Sponsors Corporation Executive Director John Poos all received the distinguished title of Top 25 Most Influential Plan Sponsors.

### OAC Board Member Recognition

I would like to express our gratitude to the following five Board members who concluded their service on the OAC Board in 2009. Our appreciation for their contributions goes out to:

- Ed DeSousa, Director of Finance and Treasurer, Town of Halton Hills, who served on the OAC Board for three years;
- Peter Routliff, International Representative, International Brotherhood of Electrical Workers, who joined the Board in 2003;
- Patrick (Sid) Ryan, President, Canadian Union of Public Employees (CUPE), Ontario Division, who served since 2008;
- Gerard Sequeira, Director of Finance and Administration, Municipal Property Assessment Corporation (MPAC), who joined the Board in 2006; and
- Cam Weldon, Deputy City Manager and Chief Financial Officer, City of Toronto, who joined the Board in 2005.

On behalf of the Board, I would like to welcome our new Board members:

- Bill Aziz, nominated by the Association of Municipalities of Ontario;
- Laurie Nancekivell, nominated by the Ontario Public Service Employees Union;
- Jim Phillips, nominated by the Ontario Association of Children's Aid Societies;
- Leslie Thompson, nominated by the City of Toronto; and
- Sheila Vandenberk, nominated by the Ontario Secondary School Teachers' Federation.

### One Team Working for You

Our purpose is to serve our membership and I believe that a true spirit of teamwork translates into better service. We consistently rank above average in service surveys year after year and we beat our required timeframes and benchmarks for responding to our members' and stakeholders' needs. We also developed myOMERS, an online portal that will give members online access to their pension information. I want to congratulate our frontline workers – who answer your calls and meet you at information sessions – for delivering excellent service.

For the second consecutive year, OMERS was honoured for its high level of employee engagement by being named one of the 50 Best Employers in Canada by Hewitt Associates. At OMERS, we support educational opportunities and foster a culture of camaraderie and cooperation – and that energy and enthusiasm goes beyond work life. Our employees always impress me with their commitment to their community and in 2009 the OMERS team stepped up once again during its annual United Way campaign and raised a record $650,000 for the many agencies in the community that count on the United Way for assistance.

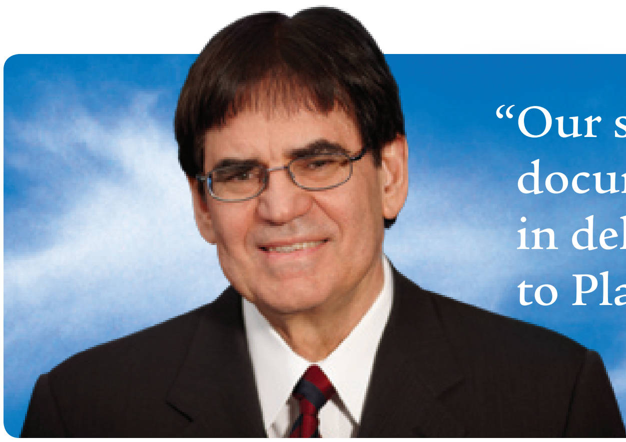
Navigating the changes of the world economy is always challenging, but you can count on the OMERS team to keep us on course to deliver a strong future for our members.

Sincerely,

John Sabo
OAC Board Chair

"For the second consecutive year... OMERS was named one of the 50 Best Employers in Canada."

# Strategic planning for the future



"Our strategy is an evolving real-time document that guides OMERS future in delivering pension entitlements to Plan members."

**MICHAEL NOBREGA**
President and Chief Executive Officer

Despite an encouraging recovery in 2009, global economic uncertainty continues in the wake of the credit crisis that led to the 2008 meltdown of capital markets. We are still in uncharted waters. Economic recovery currently depends on government stimulus spending. Will it be sustainable when this spending ends?

Credit to fuel private sector growth remains tight. Businesses are nervous about new capital investments and hiring, and consumers hesitate to spend. Governments must yet implement fiscal policies to bring growing deficits under control. As a result, investors lack confidence in the future and markets remain highly volatile and unpredictable. Some economists see dark days ahead; others simply troubling turbulence.

This is the unsettling world in which OMERS must make investment decisions and earn investment income to help deal with the $54 billion accrued benefit obligation at December 31, 2009 as well as benefits that will be accrued in 2010 and future years.

Our investment philosophy is shaped by an asset mix policy which allocates 53 per cent of the OMERS Fund to public markets (mostly equities and bonds) and 47 per cent to private markets (real estate, infrastructure and private equity). We closed 2009 with 61 per cent of the $48 billion net investment assets invested in public markets and 39 per cent invested in private markets. With a high allocation of capital to private markets compared with most pension funds, we have decoupled the OMERS Fund somewhat from the volatility of equity markets.

In 2009, our pension fund started on the road to recovery from the investment losses caused by the 2008 financial crisis.

In early 2009, we took a prudent and disciplined approach to investing in public equities as the world stock markets remained volatile and, in our view, presented undue risk to the Plan. This approach ensured that we retained the flexibility to preserve capital while providing the opportunity to participate in a rebound that occurred in the equity markets later in the year. The performance of our private equity and infrastructure investments also provided very strong returns, reinforcing our decision to continue to expand our holdings in the private market asset classes.

Combined with private market investments, the total Fund earned a 10.6 per cent return in 2009. This performance exceeded the 6.5 per cent average annual investment target required over the long term to match assets with the costs of the accrued benefit obligation. The goal is to earn sustainable returns within a tolerable range around the 6.5 per cent target. Over the past five years, including the substantial negative returns experienced in 2008, annual returns have averaged 6.6 per cent and over the past 20 years annual returns have averaged 8.1 per cent.

Despite the positive investment performance, OMERS had a deficit of $1.5 billion at the end of 2009. The deficit will worsen over the next four years as nearly $5 billion of net losses, mostly from the 2008 market meltdown, are recognized, consistent with the actuarial "smoothing" methodology used by the pension industry. The OAC Board, management and sponsors will spend considerable time in 2010 addressing how to regain the surplus position we had as recently as 2007.

**"Over the past five years, annual returns have averaged 6.6 per cent."**

The unsettling nature of our world also includes potentially major pension reform in Canada and Ontario. There is debate in Ontario on whether legislative action is required to consolidate smaller plans into large pension organizations that have deep expertise in plan administration and pension fund investing. Governments are considering whether they should expand, or whether they can afford to expand, retirement benefits to the two-thirds of Canadian workers without a registered pension plan. Possible solutions include introducing new federal or provincial pension plans, or finding ways to permit non-covered workers to join established plans like OMERS. And we continue to discuss with governments the need to reduce the regulatory burden on pension funds, such as the solvency test that we have long argued is a redundant cost to public sector defined benefit plans.

How these events will turn out is uncertain. What we do know is that OMERS has established its credentials as a "go to" multi-employer, jointly sponsored pension plan that is often cited as a model that should be available to a greater portion of the population.

Helping OMERS to embrace an unsettling future is a detailed long-term enterprise-wide strategic plan put in place under a planning process initiated in 2007. The strategy is the outcome of close collaboration between the Board and management of the OAC.

The enterprise-wide strategy plan is a dynamic framework for decision-making. It looks at the coming five years in terms of what we must aspire to accomplish. Progress in meeting the strategic objectives is reviewed at every Board and Investment Committee meeting, culminating in a thorough review of the objectives at an annual strategic planning retreat.

The strategic planning process and intimate involvement of the OAC Board keeps OMERS focused on long-term goals. This continuous process guides OMERS future in delivering pension entitlements to Plan members and ensuring the financial viability of the Plan for its sponsors and members.

Sincerely,

Michael Nobrega

Michael Nobrega
President and Chief Executive Officer

# Governance – OMERS Administration Corporation

Under the *Ontario Municipal Employees Retirement System Act, 2006,* which was proclaimed into law in June 2006, the OMERS Administration Corporation (OAC) is responsible for pension administration, valuation of the accrued benefit obligation and investment of the pension funds.

**Corporate and Board Governance**

Effective and transparent pension plan governance is the foundation that allows OMERS to fulfill its pension promise to its members. Throughout its 47-year history, OMERS has continuously sought to achieve the highest standards in governance, as evidenced by its Governance Vision and Mission.

**Key Board Responsibilities**

The OAC Board of Directors has a number of responsibilities all of which are outlined in the OAC Board of Directors Mandate which can be found on the OMERS website. The key responsibility of the OAC Board of Directors is to set the course for the direction of the OAC. The OAC Board of Directors does this by approving the strategic planning process for the OAC as well as the strategic plan itself which is designed by the management team. The OAC Board of Directors is therefore responsible for setting the overall vision and direction of the OAC. The OAC Board of Directors delegates to management day-to-day business activities and a number of other important functions. With respect to these delegations, the role of the OAC Board of Directors is to monitor management and ensure that its activities remain consistent with the broader term vision, objectives and directional framework set by the OAC Board of Directors.

In addition, key specific responsibilities include reviewing and approving the audited Financial Statements for the OAC on a recommendation of the Audit Committee of the OAC Board, approving investment parameters for the OAC including permitted categories of investments and allocation of funds among those categories and identifying and appointing the Chief Executive Officer (CEO) of the OAC as well as assessing performance of the CEO against approved strategies and business plans.

- Governance Vision
  The OAC Board will be publicly recognized as an industry leader in corporate and pension governance.
- Governance Mission
  The purpose of governance is to ensure effective board and management decision-making through the use of processes and controls to ensure the Plan is administered in the best interests of its members and beneficiaries.

**Board Governance**

Many existing policies and practices are in place that support our commitment to best governance practices, including:

- corporate by-laws and a Governance Manual;
- a board education program that includes mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada, the DeGroote School of Business and McMaster University, as well as mandatory orientation in board operations and governance;
- a formal external auditor independence policy. To preserve the auditors' independence, the auditors are restricted from providing services to the OAC where they act in any capacity where they could reasonably be seen to function in the role of management, audit their own work or serve in an advocacy role on behalf of the OAC;
- a formal Code of Conduct policy, covering areas such as conflict of interest, fiduciary duty, workplace harassment, discrimination, privacy and confidentiality, that applies to OAC Board members and employees each of whom is required to affirm their compliance each year;
- an "ethics hotline" supported by a "whistle-blowing" policy;

- a formal personal and insider trading policy regarding investments. Board members, senior management and appropriate investment and accounting personnel must pre-clear their securities trades, disclose holdings and sign an annual certificate of compliance;
- a requirement that members of the Audit Committee meet the standard of financial literacy; and
- transparency and accountability through regular meetings with plan participants and other stakeholders as well as timely and accurate print and electronic communication. Summaries of OAC Board proceedings are regularly published on the OMERS website.

Further details on the OAC's governance practices are available on the website and specifically can be found in the Governance Manual.

**Board Membership**

The initial appointments of the 14 members of the OAC Board were made by the Ontario Government as set out in the legislation. The legislation also provided for appointments during a transition period until the OMERS Sponsors Corporation established the composition of the OAC Board by SC by-laws.

During 2009 the SC established SC By-law No.13 which names specific sponsor organizations which have the right to name individuals to be considered by the SC for appointment to the OAC Board. According to SC By-law No.13 the OAC Board comprises seven employer and seven plan member representatives nominated by the following:

**Employer Representatives**

- Association of Municipalities of Ontario – 2 members
- City of Toronto – 1 member
- School Boards (rotates between Public and Catholic Boards) – 1 member
- Ontario Association of Police Services Boards – 1 member
- Electricity Distributors Association – 1 member
- Ontario Association of Children's Aid Societies – 1 member

**Plan Member Representatives**

- Canadian Union of Public Employees (Ontario) – 2 members
- Police Association of Ontario – 1 member
- Ontario Secondary School Teachers' Federation – 1 member
- Ontario Professional Fire Fighters Association – 1 member
- Ontario Public Service Employees Union – 1 member
- Members receiving or entitled to a pension (rotates among four retiree organizations representing these members) – 1 member

**Board Independence**

The OAC Board appoints the CEO, who is not a member of the Board, and reviews his/her performance regularly throughout the year. Day-to-day management is delegated to the CEO. The OAC Board also appoints the external auditor, master custodian, external actuary and Vice President, Internal Audit and has retained independent counsel to provide legal advice when required. The OAC Board has regular in-camera meetings without management present.

**OAC Board Remuneration and Expenses**

The remuneration paid to OAC Board members is determined by the Sponsors Corporation By-law No. 6. The SC's by-law provides for the Chair to receive total compensation of $70,000 per annum while Chairs of Committees will receive an annual retainer of $17,800 per annum and other members will receive an annual retainer of $12,800. In addition, the Chairs of Committees and other members will receive a daily meeting fee of $750 to a maximum of 24 meetings per year. For 2009 this compensation was prorated to account for this by-law becoming effective July 1, 2009.

The table on page 14 includes remuneration paid to the OAC Board members for OAC Board and committee meetings as well as other eligible expenses in 2009 with comparable numbers for 2008.

### Board Committees

In 2009, the OAC Board had four standing committees which assisted the Board in discharging its responsibilities. The OAC Board also uses sub-committees from time to time to deal with special situations. During 2009 there were two sub-committees were created or used.

### Investment Committee (Committee of the Whole)

The purpose of the Investment Committee is to enable the OAC Board to meet its fiduciary oversight and related obligations in relation to the OAC's investment policies and strategies and to enable the OAC Board to discharge its related monitoring, compliance and risk mitigation oversight responsibilities.

### Governance Committee

The Governance Committee reviews the mandate of the OAC Board and its committees. It has oversight of the OAC Board Orientation and Education Program and reviews the composition of the committees. This includes: (i) arranging and implementing an annual assessment of the full OAC Board of Directors and individual Directors; (ii) recommending changes to the OAC Board to address effectiveness issues arising out of the assessments; (iii) assessing the competency requirements of the OAC Board and recommending skills and experience needs for the Board; and (iv) reviewing relevant policies relating to governance including external communications standards.

### Audit Committee

The Audit Committee assists the OAC Board in fulfilling its oversight responsibilities for the:

- integrity of the financial reporting process and financial statements;
- system of internal control and disclosures;
- system of risk management and fraud risk management;
- internal audit process;
- external audit of the financial statements;
- actuarial valuation of pension obligations;
- organization's processes for monitoring compliance with laws and regulations and the Code of Conduct; and
- whistleblower mechanism (Ethics Hotline) and special investigations.

### Leadership Resources and Compensation Committee (LRCC)

The purpose of the Leadership Resources and Compensation Committee is to assist the OAC Board in meeting its fiduciary oversight and related obligations by: (i) attracting, retaining and motivating excellent leadership at the senior executive level who are committed to the OAC Mission Statement and Core Values; (ii) overseeing a robust succession planning process for the position of CEO; and (iii) overseeing senior executive performance, compensation and compensation policies.

### Framework Agreement Sub-Committee (FASC)

This sub-committee, originally formed in 2008, was created to negotiate an agreement with the Sponsors Corporation to document the processes and procedures to be followed by the OAC and SC in those points of contact between them that occur in the discharge of their respective duties and responsibilities under the OMERS Act, the PBA and other applicable laws. The Framework Agreement was executed in May of 2009 at which point this sub-committee was disbanded.

### OAC Joint Council Sub-Committee

This sub-committee was formed following the execution of the Framework Agreement to meet with its counterpart from the Sponsors Corporation at the OAC and SC Joint Council ("Joint Council"). This is a venue in which to address matters of importance to either party with respect to oversight and governance of the OMERS Pension Plans including the Framework Agreement.

### OAC Board Attendance

Board and committee meeting attendance in 2009 was as detailed on page 15.

## OAC BOARD REMUNERATION AND EXPENSES

for the year ended December 31,

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Remuneration(3) | Expenses(1) | Remuneration(3) | Expenses(1) |
| John Sabo, Chair | $ 50,000 | $ 33,039 | $ 30,000 | $ 30,813 |
| Bill Aziz | 21,400 | 997 | – | – |
| David Carrington | 15,400 | 467 | 11,250 | 3,546 |
| Ed DeSousa (4) | 7,500 | 313 | 15,000 | 436 |
| Richard Faber | 26,900 | 30,060 | 15,000 | 27,294 |
| John Goodwin | 28,400 | 13,056 | 15,000 | 8,168 |
| Rick Miller (3) | 26,900 | 57,478 | 15,000 | 80,410 |
| Laurie Nancekivell (6) | 2,489 | 4,973 | – | – |
| David O'Brien | 23,900 | 377 | 18,000 | 605 |
| Jim Phillips | 15,400 | 2,086 | – | – |
| Michael Power | 26,900 | 57,168 | 18,000 | 67,359 |
| Peter Routliff (4) | 9,000 | 4,660 | 18,000 | 19,957 |
| Patrick (Sid) Ryan (4) | 7,500 | – | 3,750 | 362 |
| Gerard Sequeira (3)(4) | 9,000 | 3,260 | 15,000 | 2,714 |
| Eugene Swimmer | 23,650 | 33,681 | 15,000 | 24,296 |
| Leslie Thompson | 15,400 | 3,225 | – | – |
| Sheila Vandenberk | 15,400 | 8,198 | – | – |
| John Weatherup | 22,900 | 9,615 | 15,000 | 24,451 |
| Cam Weldon (3)(4) | 7,500 | 4,735 | 18,000 | 7,452 |
| Former Board Members (5) | – | 647 | 18,000 | 20,731 |
| Other Expenses (2) | – | 125,466 | – | 94,694 |
| **Total** | $ 355,539 | $ 393,501 | $ 240,000 | $ 413,288 |

(1) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred on behalf of the OAC.
(2) Other expenses include Board group meeting expenses not allocated by individual.
(3) Remuneration to Cam Weldon and Gerard Sequeira was paid directly to their employers. Rick Miller Q2, Q3 and a portion of Q4 remuneration was paid to his association.
(4) Former Board Members retired as of June 30, 2009.
(5) Former Board members: Ann Mulvale $302 and David Kingston $345 submitted expenses after retirement.
(6) OPSEU policy prohibits Trustees from receiving honouraria for attendance at pension plan board meetings; therefore, OMERS reimburses Ms. Nancekivell's employer for lost wages only.

## 2009 BOARD/COMMITTEE MEETINGS

| | Board (14) | | Investment (9) | | Audit (6) | | Governance (6) | | LRCC (9) | | Joint Council (3) | | Framework Agreement (8) | | Total (55) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Board Member | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Attended | Total | % |
| Bill Aziz [1] | 12 | 13 | 8 | 8 | 3 | 4 | – | – | 8 | 8 | – | – | – | – | 31 | 33 | 94% |
| David Carrington [2] | 6 | 7 | 4 | 4 | – | – | – | – | – | – | – | – | – | – | 10 | 11 | 91% |
| Ed DeSousa [3] | 6 | 7 | 3 | 5 | – | – | 2 | 3 | 1 | 1 | – | – | – | – | 12 | 16 | 75% |
| Richard Faber | 11 | 14 | 8 | 9 | 6 | 6 | – | – | – | – | 2 | 3 | 7 | 8 | 34 | 40 | 85% |
| John Goodwin | 14 | 14 | 9 | 9 | – | – | – | – | 7 | 9 | – | – | 4 | 8 | 34 | 40 | 85% |
| Rick Miller | 14 | 14 | 9 | 9 | – | – | 6 | 6 | 9 | 9 | – | – | 8 | 8 | 46 | 46 | 100% |
| Laurie Nancekivell [2] | 6 | 7 | 3 | 4 | – | – | 3 | 3 | – | – | – | – | – | – | 12 | 14 | 86% |
| David O'Brien | 13 | 14 | 7 | 9 | – | – | 5 | 6 | – | – | 3 | 3 | 6 | 8 | 34 | 40 | 85% |
| Jim Phillips [2] | 7 | 7 | 4 | 4 | 4 | 4 | – | – | – | – | – | – | – | – | 15 | 15 | 100% |
| Michael Power | 12 | 14 | 7 | 9 | – | – | 6 | 6 | – | – | 3 | 3 | – | – | 28 | 32 | 88% |
| Peter Routliff [3] | 5 | 7 | 4 | 5 | 2 | 2 | – | – | – | – | – | – | – | – | 11 | 14 | 79% |
| Patrick (Sid) Ryan [3] | 0 | 7 | 0 | 5 | – | – | 0 | 3 | – | – | – | – | – | – | 0 | 15 | 0% |
| John Sabo [4] | 14 | 14 | 9 | 9 | 6 | 6 | 4 | 6 | 8 | 9 | 3 | 3 | – | – | 44 | 47 | 94% |
| Gerard Sequeira [3] | 7 | 7 | 5 | 5 | 2 | 2 | – | – | – | – | – | – | – | – | 14 | 14 | 100% |
| Eugene Swimmer | 14 | 14 | 9 | 9 | 6 | 6 | 3 | 3 | 3 | 3 | – | – | – | – | 35 | 35 | 100% |
| Leslie Thompson [2] | 7 | 7 | 4 | 4 | 4 | 4 | – | – | – | – | – | – | – | – | 15 | 15 | 100% |
| Sheila Vandenberk [2] | 7 | 7 | 4 | 4 | – | – | – | – | 6 | 6 | – | – | – | – | 17 | 17 | 100% |
| John Weatherup | 12 | 14 | 8 | 9 | – | – | – | – | 8 | 9 | – | – | – | – | 28 | 32 | 88% |
| Cam Weldon [3] | 6 | 7 | 4 | 5 | 2 | 2 | – | – | – | – | – | – | – | – | 12 | 14 | 86% |
| **Overall Attendance** | 89% | | 87% | | 97% | | 81% | | 93% | | 92% | | 78% | | 88% | | |

(1) Appointed February 4, 2009.
(2) Appointed June 30, 2009.
(3) Term ended June 30, 2009.
(4) Ex officio member for Audit, Governance and LRCC.

# Proxy Voting

We own shares in numerous publicly traded companies around the world. Share ownership carries with it important rights and responsibilities, including the right to vote shares at company meetings.

The proxy vote is an important asset of a pension fund. We exercise our ownership rights by voting proxies diligently in a manner intended to maximize the long-term value of our investments.

We believe that well-managed companies with strong governance practices will generally contribute positively to long-term investment returns. Conversely, poorly-managed companies with poor governance practices are more likely to increase the risk of a long-term investment.

Our proxy voting guidelines contain general statements about how OMERS is likely to vote on an issue. These are not completely rigid positions, and we may consider extenuating circumstances that might call for a different vote than a specific guideline suggests. This may include taking into account different regulatory or corporate governance regimes and customary practices in different jurisdictions.

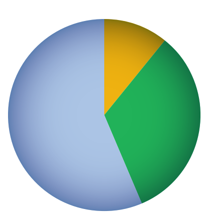
Our proxy voting guidelines, and our voting record for the Canadian and U.S. markets, can be found on our website.

### Proxy Voting Guidelines

OMERS understands the different roles and responsibilities of shareholders, directors and management in the corporate governance system. Accordingly, when OMERS exercises voting rights, we do not seek to manage the companies in which we own shares. However, OMERS considers our vote an important way in which we can influence management and the board of directors and express our view with the way in which the corporation is being managed and overseen.

**PROXY ITEMS VOTED**

| | |
|---|---|
| Canada | 2,045 |
| United States | 6,304 |
| Non-North American | 10,829 |



Our proxy voting guidelines are based on a number of key principles, including:

### Board of Directors

- Good corporate governance practices should be followed to encourage effective and independent boards.

### Executive and Director Compensation

- Executive compensation should be reasonable, performance-based and structured in a manner that aligns management with the long-term interests of shareholders.

### Takeover Protection

- Shareholder rights plans should permit the board and management to respond to takeover offers in a manner that enhances long-term shareholder value.

### Shareholder Rights

- Share structures should support the basic principle linking voting to equity ownership on the basis of "one share, one vote."

### Environmental, Social and Governance

- Well-managed companies that demonstrate high ethical and environmental standards and respect for their employees, human rights and the communities in which they do business contribute to long-term financial performance.

### Proxy Votes in 2009

During 2009, we voted on a total of 19,178 items covering 1,990 shareholder meetings globally. In Canada, we voted on 2,045 items in 239 shareholder meetings. Outside of Canada, we voted on 6,304 items in the U.S. and 10,829 items outside of North America at 1,751 shareholder meetings.

# Senior Management Team


## OMERS Management Team

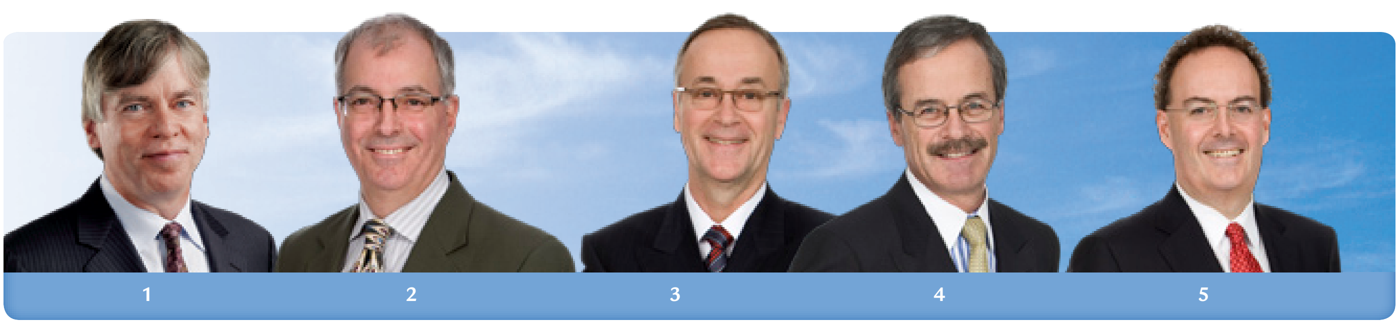
1 **Michael Nobrega**
President and
Chief Executive Officer

2 **Jennifer Brown**
Executive Vice President
and Chief Pension Officer

3 **Blair Cowper-Smith**
Executive Vice President,
Corporate Affairs, and
Chief Legal Officer

4 **Patrick Crowley**
Executive Vice President
and Chief Financial Officer

5 **John Macdonald**
Executive Vice President
and Chief Operating Officer




## Investment Professionals

1 **Jacques Demers**
President and
Chief Executive Officer,
OMERS Strategic
Investments

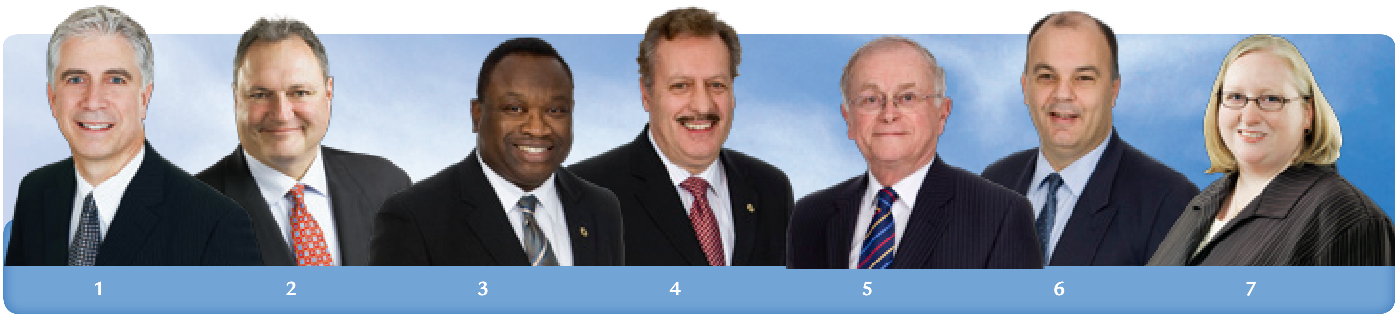
2 **James Donegan**
President and
Chief Executive Officer,
OMERS Capital Markets

3 **Michael Latimer**
President and
Chief Executive Officer,
Oxford Properties Group

4 **Paul G. Renaud**
President and
Chief Executive Officer,
OMERS Private Equity

5 **Michael Rolland**
President and
Chief Executive Officer,
Borealis Infrastructure

# Board of Directors



1 **John Sabo, Chair**
Associate Director – Leading Services and Treasurer of the Board, York Catholic District School Board

2 **Bill Aziz**
President, BlueTree Advisors Inc.

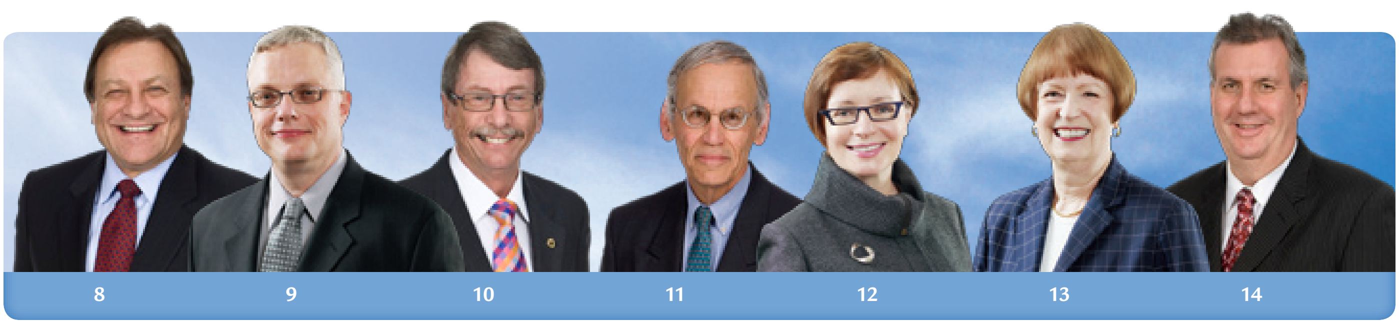
3 **David Carrington**
Energy Service Advisor Toronto Hydro Electric System Limited

4 **Richard Faber**
Retired Member (MROO)

5 **John Goodwin**
Retired Partner, Osler, Hoskin & Harcourt LLP

6 **Rick Miller**
Firefighter, Windsor Fire Department

7 **Laurie Nancekivell**
Intake Case Aide, Children's Aid Society of London and Middlesex



8 **David O'Brien**
Past President & CEO, Toronto Hydro Corporation

9 **Jim Phillips**
Director of Corporate Resources and Foundation CEO, Family and Children's Services of Waterloo Region

10 **Michael Power**
Mayor, Municipality of Greenstone

11 **Eugene Swimmer**
Distinguished Research Professor, School of Public Policy and Administration, Carleton University

12 **Leslie Thompson**
President, LESRISK Debt & Risk Management Inc.

13 **Sheila Vandenberk**
Retired Treasurer, Ontario Secondary School Teachers' Federation

14 **John Weatherup**
President, Canadian Union of Public Employees (CUPE) Local 4400

# 2009 Management's Discussion and Analysis

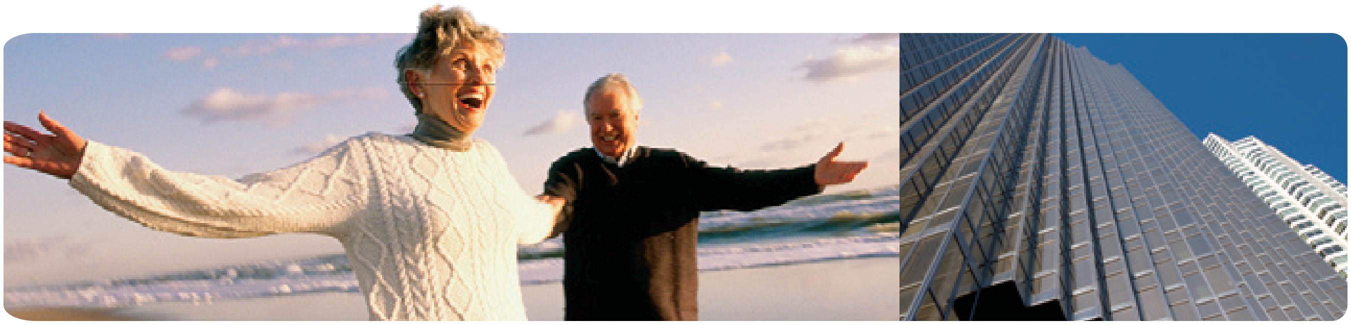
## Table of Contents



OMERS Administration Corporation (the "OAC") is the administrator of the OMERS pension plans (the "OMERS Pension Plans" or the "Plans") as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"). The OMERS Pension Plans (the "Plans") include OMERS Primary Pension Plan (the "Plan"), the Retirement Compensation Arrangement (the "RCA") associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). The OAC is responsible for managing the funds of the Plan, the RCA and the Supplemental Plan (collectively, the "Fund" or the "Funds"). The Funds are managed by the following entities: OMERS Capital Markets (public markets and mortgages), OMERS Private Equity (private equity), Borealis Infrastructure (infrastructure), Oxford Properties Group (real estate) and OMERS Strategic Investments (strategic investments from any asset class) (collectively "the Investment Entities"). In addition, under the OMERS Act, the Ontario Municipal Employees Retirement System ("OMERS") represents the combined retirement system comprised of OMERS Sponsors Corporation (the "SC") which is the Plan sponsor, the OAC, the Plan, the RCA and the Supplemental Plan. This management discussion and analysis is the responsibility of management of the OAC ("management") and contains management's analysis of the OAC's financial condition, operational results and the environment in which it operates as of February 25th, 2010. This section should be read in conjunction with the OAC Consolidated Financial Statements. The Audit Committee and Board of Directors of the OAC (the "OAC Board") have reviewed and approved the contents of this section.

In addition to historical information, this section contains forward-looking statements with respect to management's strategy, objectives, outlook and expectations. Forward-looking statements are preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". By their very nature, those statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent management's views at the date of this report and the OAC does not undertake to update or revise any forward-looking statements as a result of new information, future events, or otherwise.

# Vision and Strategy



## VISION

We have one clear and overriding goal which is keeping the pension promise to our current and our future retirees.

We work as a team in pursuit of outstanding performance that will enable us to meet this objective including:

- generating sufficient returns through the investment of the Funds; and
- providing excellent pension administration services to our members and employers, the most important of which is to pay monthly pensions to retirees.

Our vision focuses on four key areas which are integrated into our strategies and decisions:

### Lead

Be the leader in the pension industry.
We want to be nothing less than the leader in the pension industry. We will earn this status if we rank in the top quartile of investment performance over the long term and if we set the industry standard for service to members and employers.

### Perform

Provide first-in-class investment management.
We recognize the importance of earning superior returns while being conscious of the work we are taking on to keep pensions secure.

### Serve

Deliver superior pension services to our members and employers.
Services to Plan members are one of our top priorities and one of our key strengths.

### Grow

Attract investment partners and employers through our leadership.
Growth is an objective not for its own sake but because it will expand the range and size of investment opportunities we can pursue and allow us to improve our services for the benefit of all members.

## ENTERPRISE-WIDE STRATEGIC PLAN

The OAC has a robust strategic planning process which has evolved to meet the changing environment in which we operate. In 2009, we updated our five-year enterprise-wide strategic plan to cover the period 2009 through 2013, which was approved by the OAC Board. This consolidated strategic plan recognizes that we are more than the sum of our parts and that all areas working together create additional value for the enterprise.

### Strategic Overview

Our goal is to deliver the pension promise to all our members. This is the reason for our existence. In order to meet our pension obligations, on an actuarial basis the Plan must earn a 6.5 per cent return annually (a 4.25 per cent real return plus the projected impact of inflation) on investments over the long term; however, growth in our accrued benefit obligation as benefits are earned and assumptions are updated and the unpredictable nature of investment returns could result in funding surpluses or deficits in any given period of time. A key enterprise-wide strategic objective is to create long-term surplus wealth beyond the 6.5 per cent actuarially determined minimum investment return requirement to protect Plan members and sponsors against potentially sudden and negative surprises that are inherent in financial markets and the ongoing growth in the Plan's liability.

Since the approval of our 2008–2012 strategic plan and the subsequent updates covering the period 2009–2013, the financial markets have changed dramatically. Our five-year strategic plan has not. We continue to execute on the key strategic priorities as follows:

- To enhance investment returns and better manage risks by implementing an enterprise-wide "direct drive" active management strategy which will increase the level of direct active management of our investments.

  Our goal is to have 90 per cent of our assets directly managed by 2012. At the end of 2009, 80.8 per cent of our assets were managed directly compared with approximately 70 per cent at the end of 2008.

- To diversify our asset base globally, reducing exposure to the relatively small Canadian market and securing attractive risk-adjusted returns in specific regions around the world experiencing superior and sustainable rates of economic growth.

  We continue to look at investments outside of the Canadian market in private equity, infrastructure and real estate. In addition we have strengthened our internal resources to invest in public markets outside of Canada.

- To establish a new investment entity that will operate globally through regional relationships and regional offices to assist our existing Investment Entities in sourcing global investments. In addition, where appropriate, this new entity will take direct ownership positions in assets that do not fit under the mandates of the existing Investment Entities.

  In 2009, OMERS Strategic Investments (OSI) began its first full year of operations. OSI is discussed on page 54 of this Annual Report.

- To establish an investment vehicle for leveraging our intellectual capital through exclusive formation and management of investment alliances attractive to both the OAC and like-minded third-party investors. This will allow our Investment Entities to consummate large-scale globally prized acquisitions by co-investing with such alliance partners.

  Progress on this initiative is discussed under the Access to Domestic and International Capital on page 22 of this Annual Report.

- To develop and execute a comprehensive strategy that includes collaboration with other pension funds to persuade the Ontario and federal governments to abolish out-dated quantitative investments restrictions that erode pension fund investment returns in favour of a principles-based approach to prudent investing.

- To continue implementation of the Plan's current asset mix policy of reducing its public markets investments to a target of 53 per cent of net investment assets and increasing private market investments to a target of 47 per cent of net investment assets.

At the end of 2009, the Plan's public markets investments represented 60.9 per cent of net investment assets and private markets investments represented 39.1 per cent of net investment assets. The Plan's asset mix policy is discussed on page 23 of this Annual Report.

- To pursue opportunities to manage pension funds of domestic third-party pension plans and respond to pension consolidation opportunities. This will provide a larger capital base from which to pursue attractive investments.

  Progress on this initiative is discussed under the Access to Domestic and International Capital below.

- To maintain and, where possible, enhance already high levels of service in pension administration and employer and member services.

  Our service levels continue to reflect excellence in terms of the services we provide and the standards we set for ourselves and we are always seeking ways to improve. Our pension services are further discussed on page 36 of this Annual Report.

  The OAC received SC approval for members to contribute additional funds through an additional voluntary contribution program. These additional voluntary contributions, or AVCs, will expand our capital but just as importantly, the capability to make such contributions will respond to longstanding requests by Plan members for the opportunity to invest retirement savings in the Funds to earn the "OMERS return". This is further discussed on page 39 of this Annual Report.

### Access to Domestic and International Capital

We are developing strategies to organize long-term access to capital. This will enable us to acquire larger value investments that we would not otherwise acquire due to risk management considerations.

In June 2009, the Ontario government expanded the OAC's powers to enable us to offer investment management services to a wide range of eligible clients inside and outside Canada including public and private sector pension funds; governments and their agencies; colleges, universities and their endowments; and registered charities. The breadth of these legislated powers acknowledges our ability to deliver such services to others. As permitted by legislation, we have created a wholly owned subsidiary, OMERS Investment Management Inc. (OIM), to carry out our strategies for managing capital from third parties by providing investment management services to eligible clients.

We are also working to access foreign capital through our proposed global strategic investment alliance ("GSIA"). The GSIA seeks to bring together large pools of capital from other large international funds to originate, acquire and manage large-scale real estate and infrastructure assets. The GSIA will enable the OAC to participate in large equity investments that generally provide superior returns, but which could not otherwise be made while maintaining proper diversification.

### Global Diversification

Strategic investment opportunities will be identified through two basic processes. One is new relationships with third-party investors and asset owners, which will expand the OAC's already significant international reach in generating leads on high-quality and preferred investments. The other is through global access companies owned by the OAC through OMERS Strategic Investments that, through their normal course of business around the world, become aware of preferred investment opportunities that offer premium value growth in contributing to the Fund's surplus wealth.

The OAC is expanding its investments internationally on multiple fronts:

- Under the direction of OSI, we are in the early stages of creating a network of offices in key foreign and domestic centres under the OMERS Worldwide brand. In 2008, we introduced the OMERS Worldwide brand which is now used by all our Investment Entities to support our existing brands, while providing a unified global brand and a direct, recognizable connection to a larger global entity. In 2008, we opened our first OMERS Worldwide office in London England; in 2009 we opened our Toronto OMERS Worldwide office; in late 2010 we plan to open an OMERS Worldwide office in Calgary to support our investments in western Canada; and in the future OMERS Worldwide offices may be opened in other large financial centres. The OMERS Worldwide offices are staffed with investment professionals from our Investment Entities.

OMERS Worldwide

- OMERS Capital Markets is building our in-house expertise to manage foreign equities. Historically, most of our active public equity investing has been managed by external managers. By 2013, OMERS Capital Markets' goal is to manage 50 per cent of publicly traded foreign equities internally.
- OMERS Private Equity is in the early stages of leveraging its experience as a direct investor in Canadian private companies by investing in the strategic development of Canadian and foreign companies as global growth platforms.

**Asset Mix Policy**

Our asset allocation policy is based on our belief that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate strong, predictable returns and consistent cash flow with reduced risk to meet the Plan's funding requirements. Our official asset allocation policy determines the investment allocation between the public and private market asset groups. Our investment strategy over the long term is to maintain our asset mix exposure to public market investments, such as public equities and interest bearing investments at approximately 53 per cent of the Plan's net investment assets with the remaining 47 per cent representing exposure to private market investments, such as private equity, infrastructure and real estate.

Since the adoption of our asset mix policy in 2003, the Plan has reduced its exposure to public market investments from 82.2 per cent to 60.9 per cent at the end of 2009, and increased its exposure to private market investments from 17.8 per cent to 39.1 per cent at the end of 2009.

Within the public and private market asset groups, we invest in strategic asset classes (interest bearing assets, real return bonds, public equities, infrastructure, private equity and real estate) which collectively are most likely to meet our pension obligations within the Plan's risk tolerance. We weigh the risk/reward profile of each asset class to ensure that we are reasonably compensated for the risk that we assume and we invest in different asset classes and geographic markets to diversify risk and reduce the volatility of total returns.
We invest in Canada and internationally within the six main asset classes, often in combination with the conservative use of derivative financial instruments which are backed by other investment assets. We use derivative financial instruments to give us exposure to equity markets and actively manage our asset mix. Derivative financial instruments are discussed on page 81 of this Annual Report.

On a consistent basis, our investment professionals actively manage our asset mix, subject to global market conditions, current investment opportunities and our long-term investment targets.

# OAC Summary
# Review of 2009 Results

| Investment Objective | Management Approach | 2009 Performance |
|---|---|---|
| To fulfil the pension promise to our current and future retirees we must produce investment returns that exceed the benchmarks for the asset classes in which we invest within an acceptable risk tolerance. | Define an asset mix strategy and investment strategy to meet the Plan's investment objectives. | Total Plan return of 10.6 per cent compared to 12.1 per cent benchmark.<br>RCA Investment Fund return of 11.3 per cent compared to 16.6 per cent benchmark. |

**Investment Performance Overview**

Through our Investment Entities, we invest in several asset classes – public markets, private equity, infrastructure and real estate – in Canada and around the world.

| Investment Entity | Primary Asset Class |
|---|---|
| OMERS Capital Markets | Public markets, including interest bearing securities, real return bonds and public equities. |
| OMERS Private Equity | Private equity through both direct and indirect (funds) investments. |
| Borealis Infrastructure | Infrastructure-related investments |
| Oxford Properties Group | Real estate investments |
| OMERS Strategic Investments | Strategic assets of any asset class that are considered outside the strategy of the other Investment Entities but are still considered to be in the best interest of the Funds. |

Our Investment Entities are described more fully beginning on page 40 of this Annual Report.

Investment returns for the Plan and RCA for 2009 and 2008 based on investment income before investment management expenses were as follows:

## RETURNS AND BENCHMARKS

| As at December 31, | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Rate of Return** | **Benchmark** | Rate of Return | Benchmark |
| OMERS Capital Markets | **11.0%** | **13.5%** | –19.5% | –19.5% |
| OMERS Private Equity | **13.9%** | **6.7%** | –13.7% | 13.5% |
| Borealis Infrastructure | **10.9%** | **9.0%** | 11.5% | 9.8% |
| Oxford Properties Group | **1.3%** | **6.7%** | 6.0% | 8.3% |
| OMERS Strategic Investments | **-1.2%** | **10.7%** | N/A | N/A |
| Total Primary Plan Fund(i) | **10.6%** | **12.1%** | –15.3% | –13.2% |
| RCA Investment Fund(ii) | **11.3%** | **16.6%** | –26.1% | –27.3% |

(i) Results of the Primary Plan Fund's currency overlay hedging program and the costs of hedging certain private market investments are included in the total return only.

(ii) Excludes the RCA refundable tax balance with the Canada Revenue Agency. Including the refundable tax balance, the RCA rate of return was 4.8 per cent (2008: -12.6 per cent).

In 2009, the markets rebounded after the meltdown in 2008 resulting in significant improvement in rates of return. The Primary Plan Fund earned a 10.6 per cent investment return in 2009 compared with -15.3 per cent return in 2008, while the RCA Investment Fund return improved to 11.3 per cent in 2009 from -26.1 per cent in 2008.

In early 2009, as a result of an economic risk review following the 2008 market collapse, the OAC implemented a strategy to mitigate the risk to the Fund of a further market decline by significantly reducing our public equity exposure. The strategy was implemented to address the OAC's risks including the under-funded status of the pension plan and the related impact to contributions that would likely result from a further sharp decline in public equity markets. Throughout 2009, we continued with this strategy because of the significant risk of another financial system collapse and with it further substantial declines in public equity markets.

As a result of this strategy, the risk for 2009 was sharply reduced. While the portfolio participated in the improving public equity markets as they unfolded in 2009, the strategy caused OMERS Capital Markets and the total Fund to be below their respective relative benchmarks for the year. Although public equity returns were below the relative benchmark for 2009, the returns did exceed our expected absolute return set at the beginning of the year and by the end of 2009 the financial position of the Fund was improved while the risk of a significant decline in public equity values was mitigated.

The Plan's funding requirement is based on earning a real return plus inflation. On an actuarial basis, the funding requirement has been projected to be 6.5 per cent which is discussed under the Plan Funding Status section on page 31 of this Annual Report. For 2009, the actual funding requirement represented a real return of 4.25 per cent plus inflation of approximately 1.3 per cent for a total of 5.6 per cent. The five-year, ten-year and twenty-year funding requirements shown on page 26 are an annual average of the real return requirement and the actual inflation over those time periods. The actual returns for these time periods have been impacted by the -15.3 per cent return in 2008.

Investment returns in 2009 were above the Plan funding requirement. The Plan however, remained in an actuarial deficit position at December 31, 2009 primarily due to the negative returns in 2008. This funding deficit and its contributing factors are discussed under the Plan Funding Status section on page 31 of this Annual Report.

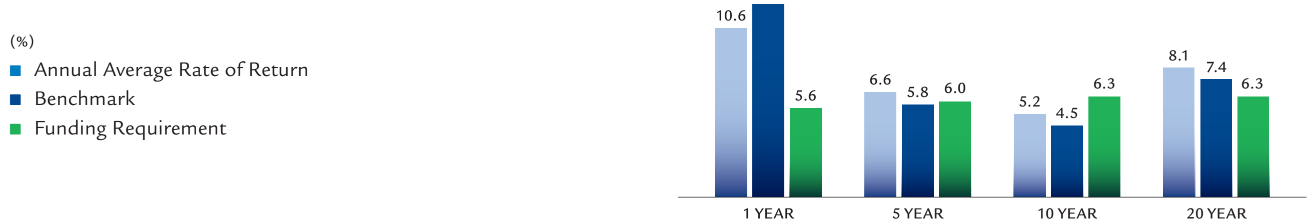
### Benchmark Returns

We measure the performance of each of our public market investment asset classes against a market benchmark and our private market investments against an absolute return set at the beginning of each year. We develop a benchmark for total investment activities by aggregating and weighting the individual benchmarks for each asset class. Our benchmarks are reviewed and approved by the OAC Board. Our goal is to earn returns that exceed these benchmarks. When we exceed the benchmark, our investment managers are adding value to the portfolio above the targeted return for the asset class or the return generated by the markets through passive investments. The benchmarks used by the Funds in 2009 are based primarily on (i) externally computed indices that reflect the results of markets in which we invest in the case of OMERS Capital Markets or (ii) an expected absolute return in the case of OMERS Private Equity, Borealis Infrastructure, Oxford Properties Group and OMERS Strategic Investments. The benchmarks used are as follows:

| Asset Class | Benchmark |
|---|---|
| Interest bearing | Blended DEX 30-day Treasury Bill Index and DEX Universe |
| Real return bonds | DEX Real Return Bond Index |
| Canadian public equities | S&P/TSX Composite Index |
| Non-Canadian public equities | Blended hedged FTSE All World Index (i) excluding Canada and U.S., hedged FTSE All Cap U.S. Index (i) and hedged custom Derivative Index |
| Private equity, infrastructure, real estate | Absolute return set at the beginning of each year based on operating plans approved by the OAC Board. |

(i) Source: FTSE International Limited

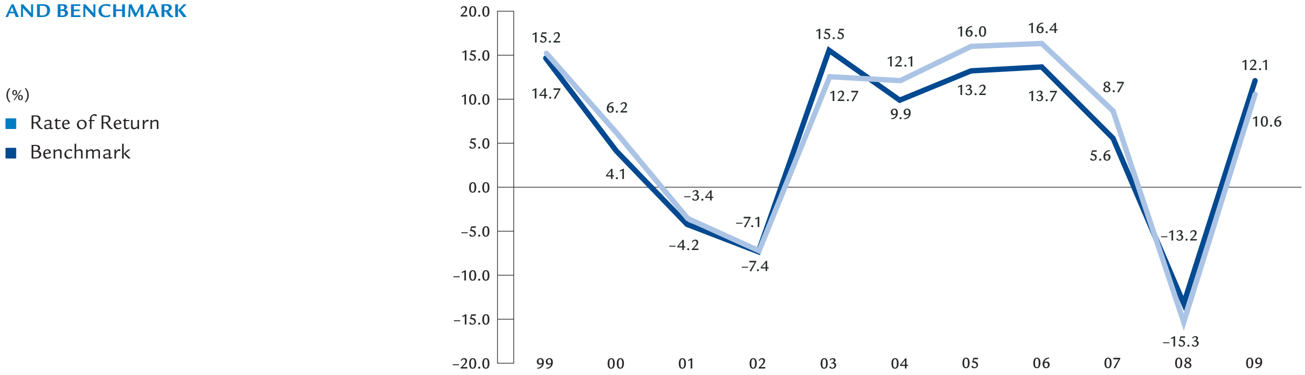
**RATE OF RETURN, BENCHMARK RETURN AND REAL RETURN REQUIREMENT PLUS INFLATION**



For the year ended December 31, 2009, the Plan's total return was 10.6 per cent which was below the aggregate benchmark of 12.1 per cent. OMERS Capital Markets returns were below the benchmark of 13.5 per cent primarily due to the capital preservation policy to "de-risk" the Funds by being significantly overweight in interest bearing securities. Oxford Properties Group investments generated positive returns but they were also below the benchmark as the global financial crisis and onset of a recession impacted real estate valuations. Borealis Infrastructure returns exceeded their benchmark as a result of investments that provided strong and stable cash flows and positive investment valuations in 2009. OMERS Private Equity returns exceeded their benchmark due to increased valuations based on public equity comparable values and continued strong results from direct investments. OMERS Strategic Investments had negative returns as a decline in natural gas prices impacted the valuation of our western Canada energy assets. While the amount of value added by our investment professionals was negative in 2009, it continues to be positive over the last five-, ten- and twenty-year periods as shown in the table below.

| (Billions) | 2009 | 5-Year | 10-Year | 20-Year |
|---|---|---|---|---|
| Value add compared to benchmark | $(0.6) | $1.8 | $2.9 | $3.6 |

ANNUAL RATE OF RETURN AND BENCHMARK



### Net Assets of the Plans

Net assets of the Plans at December 31, 2009 were $47,832 million which includes net investment assets of $48,389 million, net pension-related assets of $177 million less the amount due to administered funds of $734 million.

## NET ASSETS

| (millions) | 2009 | 2008 |
|---|---|---|
| Net investment assets | $ 48,389 | $ 43,994 |
| Net pension-related assets | 177 | 155 |
| Due to administered funds | (734) | (672) |
| **Net Assets** | **$ 47,832** | $ 43,477 |

Net assets increased by $4,355 million, or 10.0 per cent, to $47,832 million in 2009 compared with a decrease of $8,039 million, or 15.6 per cent in 2008. The increase in 2009 was driven by the increase in public equity markets, which rebounded from the significant decline in 2008 and positively impacted both public and private equity valuations, partially offset by a decline in real estate valuations in markets continuing to struggle with the economic downturn.

## CHANGES IN NET ASSETS

| (millions) | 2009 | 2008 |
|---|---|---|
| Net assets, beginning of year | $ 43,477 | $ 51,516 |
| Changes due to investment activities | 4,310 | (8,013) |
| Changes due to pension activities | 45 | (26) |
| **Net Assets, End of Year** | **$ 47,832** | $ 43,477 |

### Investment Management and Pension Administration Expenses

Investment management expenses include expenses incurred in the Investment Entities and the corporate support areas which support the Investment Entities. Investment management expenses were $246 million in 2009, compared to $227 million in 2008. The increase of 8 per cent is primarily related to increased salaries and benefits incurred to support our strategic initiatives and particularly our “direct drive” management strategy. These increased costs were offset by lower investment operating and third-party manager expenses, which reflect the impact of internally managing a greater proportion of our investments.

Pension administration and related corporate support expenses were $48 million for the year, compared with $47 million for the previous year, an increase of 2 per cent. This increase is primarily due to increased salaries and benefits and professional service costs partially offset by lower premises and equipment costs and system development costs.

### Debt

The OAC has maintained a "AAA" credit rating from leading credit rating agencies. This has enabled us, where appropriate, to obtain debt financing at preferred rates to support our investment strategy. Debt outstanding through Oxford Properties Group at December 31, 2009 includes $1,519 million of debentures, $1,296 million of commercial paper as well as $1,703 million in secured debt. In addition, our Borealis Infrastructure portfolio is financed with $3,443 million in secured debt and $1,499 million of commercial paper while OMERS Strategic Investments is financed with $89 million in secured debt. The debentures and commercial paper are supported by the OAC's "AAA" credit rating. Despite ongoing difficult credit markets, Oxford Properties Group and Borealis Infrastructure successfully refinanced all maturing commercial paper and Oxford Properties Group issued $350 million of new debentures in 2009 on the strength of the "AAA" credit rating.

In 2010, we expect to launch OMERS Finance Trust as a key market-facing entity that will refinance existing public debt that will carry the guarantee of the OAC.

### Plan Asset Mix

As discussed in the investment strategy section, one of our investment strategies is to maintain a long-term asset allocation weighted 53 per cent to public market investments and 47 per cent to private market investments. At the end of 2009, private market investments comprised 39.1 per cent of our asset mix compared with 39.8 per cent at the end of 2008. As illustrated in the table on page 30, the market value of our net investment assets with exposure to private equity, infrastructure and real estate grew to $18,917 million, an increase of $1,426 million or 8.2 per cent over 2008.

Given the impact of the challenging global equity markets on the value of our public market investments, our investment professionals are managing our asset mix exposure, monitoring our long-term targets in each asset class and ensuring that the Plan is positioned for future growth. In order to facilitate this management process, the OAC Board now approves the allocation of the Plan net investment asset exposure between the public and private markets and within these two market classifications our investment professionals manage the asset mix allocation to the individual asset classes. The actual asset mix allocation is reported regularly to the OAC Board.

## ASSET MIX – DECEMBER 31 ACTUAL VS. TARGET

| | Actual 2009 | Actual 2008 | Long-term Public/Private Market Allocation |
|---|---|---|---|
| **Public Markets** | | | |
| Interest bearing[(i)] | **22.6%** | 14.0% | |
| Real return bonds | **4.1%** | 4.0% | |
| Public equity | **34.2%** | 42.2% | |
| | **60.9%** | 60.2% | 53.0% |
| **Private Markets** | | | |
| Private equity | **10.2%** | 8.5% | |
| Infrastructure | **15.7%** | 16.1% | |
| Real estate | **13.2%** | 15.2% | |
| | **39.1%** | 39.8% | 47.0% |

(i) Includes short-term deposits, bonds and debentures, mortgages and private debt

In determining the Plans' asset mix exposure, the market value of cash and other investment-related assets and liabilities included in net investment assets per the Consolidated Financial Statements, are allocated to the individual asset classes. In addition, derivative exposure and other items, including transactions and balances between Investment Entities, are allocated to arrive at the Plans' ultimate exposure by asset class. Net investment assets based on the holdings per the Consolidated Financial Statements and after all allocations are as follows:

## ASSET MIX – EXPOSURE

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | | | Asset Mix | | | Asset Mix |
| (millions) | Holdings | Exposure | % | Holdings | Exposure | % |
| **Public Markets** | | | | | | |
| Interest bearing(i) | **$ 15,228** | **$ 10,949** | **22.6%** | $ 12,104 | $ 6,148 | 14.0% |
| Real return bonds | **1,977** | **1,982** | **4.1%** | 1,755 | 1,760 | 4.0% |
| Total interest bearing | **17,205** | **12,931** | **26.7%** | 13,859 | 7,908 | 18.0% |
| Public equity | **14,131** | **16,541** | **34.2%** | 14,904 | 18,595 | 42.2% |
| | **31,336** | **29,472** | **60.9%** | 28,763 | 26,503 | 60.2% |
| **Private Markets** | | | | | | |
| Private equity | **5,048** | **4,953** | **10.2%** | 4,162 | 3,731 | 8.5% |
| Infrastructure | **12,195** | **7,561** | **15.7%** | 12,140 | 7,078 | 16.1% |
| Real estate | **11,975** | **6,403** | **13.2%** | 12,037 | 6,682 | 15.2% |
| | **29,218** | **18,917** | **39.1%** | 28,339 | 17,491 | 39.8% |
| Investment-related assets | **1,173** | **–** | **–** | 1,366 | – | – |
| Investment-related liabilities | **(13,338)** | **–** | **–** | (14,474) | – | – |
| **Net Investment Assets** | **$ 48,389** | **$ 48,389** | **100.0%** | $ 43,994 | $ 43,994 | 100.0% |

(i) Includes short-term deposits, bonds and debentures, mortgages and private debt

### Internal Controls Review

The OAC maintains systems of internal control that are designed to ensure the integrity and fairness of the data presented in the Consolidated Financial Statements and elsewhere in this Annual Report, that transactions are duly authorized and that assets are adequately safeguarded. Consistent with our commitment to strong corporate governance and accountability, we complete an annual internal review of our internal controls over financial reporting and disclosure controls using the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This review is conducted under the oversight of the Audit Committee on a basis consistent with the requirements for public companies in Canada while taking into account the unique characteristics of a pension plan. We have reported to the Audit Committee that based on our 2009 review we found no material issues with our internal controls over financial reporting and disclosure controls.

### Enterprise Risk Management

Our Enterprise Risk Management program ("ERM") enhances our overall governance framework and is intended to identify and manage risk on an integrated basis; to apply consistent risk standards, concepts and policies across the organization; and to make the concept of risk assessment and management an integral and sustainable part of business operations. The ERM program is based on the Enterprise Risk Management-Integrated Framework issued by COSO. The Audit Committee oversees the ERM program and receives regular communications from management on the status of the program and the risks identified by the program.

# OMERS Pension Plans

### OMERS Primary Pension Plan

The OMERS Primary Pension Plan is a multi-employer pension plan whose members consist primarily of employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is a jointly sponsored defined benefit pension plan financed by equal contributions from participating employers and employees as well as by investment earnings of the Plan. The Plan has 400,077 members which is an increase of 2.5 per cent over 2008. The Plan also has 928 participating employers which is an increase of seven employers over 2008.

The Plan's pension payments are integrated with the Canada Pension Plan as the benefit formula includes a "bridge" benefit if the member retires before age 65. Including this bridge benefit, the benefits paid under the Plan are calculated by multiplying two per cent of the member's average annual earnings for the highest paid five consecutive years ("pensionable earnings"), times years of credited service, to a maximum of 35 years. At age 65, the bridge benefit of 0.675 per cent of the pensionable earnings (or 0.675 per cent of the average of the yearly maximum pensionable earnings (YMPE) in the year of retirement and the four preceding years, if this amount is less than 0.675 per cent of the pensionable earnings) is subtracted for integration with the Canada Pension Plan. The Plan also provides members with:

- full inflation protection up to six per cent per year with any inflation amount above that carried forward to subsequent years;
- early retirement options;
- disability protection in the event a contributing member becomes disabled and is unable to work;
- survivor benefits to protect a member's family when a member dies; and
- portability to continue to be a Plan member with 928 employers across Ontario.

### Retirement Compensation Arrangement

In addition to the Plan for all members, an RCA provides pension benefits for members whose pension benefits under the Plan are limited by ceilings imposed by the *Income Tax Act.* The RCA provides a means to enable retirement savings and contributions on members' total earnings. As the RCA is not a registered plan, a 50 per cent refundable tax is levied by the Canada Revenue Agency ("CRA") on all contributions made to the RCA as well as on investment income received and realized investment gains. The refundable tax is held by the CRA and earns no investment income for the RCA. The refundable tax is refunded on the basis of one dollar for every two dollars of realized losses or benefits paid out. The RCA is consolidated in the OAC's financial statements and is accounted for separately from the Plan. The RCA invests its assets, excluding the refundable tax, in public equities. Net assets of the RCA were $48 million at December 31, 2009 and were $39 million at December 31, 2008. The RCA financial statements are set out in Note 8 to the Consolidated Financial Statements on page 89 of this Annual Report.

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

The OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics became effective on July 1, 2008, pursuant to the requirements of the OMERS Act. The Supplemental Plan is a separately funded stand-alone multi-employer pension plan that provides supplemental pension benefits that "top up" those available under the Plan for members who are employed in the police and fire sectors which, as defined in the OMERS Act, includes paramedics.

The Supplemental Plan is a contributory defined benefit pension plan funded by equal contributions from participating employers and members and by the investment earnings of the Supplemental Plan assets. Participation in the Supplemental Plan is effective only upon agreement between employee groups and their employer. As at December 31, 2009, the Supplemental Plan had no assets (December 31, 2008 – no assets) and no members.

### Plan Funding Status

Each year an independent actuary determines the Plan's funded status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2009, the estimated accrued pension obligation for all members (including survivors) of the Plan was $54,253 million, compared with $50,080 million a year earlier. The increase of $4,173 million was primarily due to interest accrued on the pension benefit obligation, plus new benefits accrued during the year, partially offset by benefits paid in 2009. Changes in assumptions and experience gains and losses in 2009 also impacted the benefit obligation. The Plan had an actuarial value of net assets of $52,734 million at the end of 2009, compared with $49,801 million in the prior year. The resulting funding deficit was $1,519 million as at December 31, 2009 compared with a funding deficit of $279 million last year.

## CURRENT YEAR CHANGE IN SURPLUS/(DEFICIT)

| (millions) | 2009 | 2008 |
|---|---|---|
| **OMERS Primary Pension Plan** | | |
| Surplus/(deficit), beginning of year | $ (279) | $ 82 |
| Increase/(decrease) in net assets available for benefits | 4,346 | (8,041) |
| Change in actuarial smoothing adjustments | (1,413) | 10,930 |
| Increase in actuarial value of net assets available for benefits | 2,933 | 2,889 |
| Less: increase in accrued pension benefit obligation | (4,173) | (3,250) |
| **Surplus/(Deficit), End of Year** | **$ (1,519)** | $ (279) |

The funded ratio (actuarial value of net assets divided by accrued pension benefit obligation) at December 31, 2009 is 97.2 per cent compared with 99.4 per cent a year earlier.

In arriving at the actuarial surplus/deficit, changes in the fair value of net assets above or below the long-term nominal actuarial rate of return assumption are deferred and amortized over five years to “smooth out” the peaks and valleys in an individual year’s investment returns caused by market volatility. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The annual actuarial smoothing adjustment is based on the difference between the current year’s actual return and the long-term return expectation (expected inflation plus 4.25 per cent, equivalent to 6.50 per cent in 2009) which is deferred and recognized over five years, adjusted for the recognition of equivalent amounts from the four preceding years. This approach is in keeping with the long-term nature of the Plan and assists in maintaining stable contribution rates.

The downturn in the economy in 2008 reduced the value of our net assets and changes in assumptions relating to future real salary increases of our active members and experience losses increased our pension obligations in 2009. The market value of the Plan’s net assets as at December 31, 2009 was $47,784 million compared with the smoothed actuarial value of $52,734 million. The resulting actuarial smoothing adjustment represents unrecognized net losses of $4,950 million as at December 31, 2009 which will be recognized in the actuarial value of net assets over the next four years. After application of the required actuarial rate of return which is essentially the interest on the unrecognized losses, (as discussed in Note 7 of the Consolidated Financial Statements on page 85 of this Annual Report), and before recognizing any future investment income above or below the long-term actuarial rate of return, the impact of the unrecognized net losses on the Plan surplus/deficit position by year of recognition will be as follows:

| (millions) | Net gains/(losses) |
|---|---|
| 2010 | $ (1,177) |
| 2011 | $ (2,259) |
| 2012 | $ (2,595) |
| 2013 | $ 382 |

## DEFICIT BASED ON FAIR VALUE VS. ACTUARIAL VALUE OF NET ASSETS

| (millions) | 2009 | 2008 |
|---|---|---|
| Fair value of net assets of the Plan | $ 47,784 | $ 43,438 |
| Accrued pension benefit obligation | 54,253 | 50,080 |
| Plan deficit based on fair value of net assets | (6,469) | (6,642) |
| Actuarial value adjustment | 4,950 | 6,363 |
| Plan deficit based on actuarial value of net assets | $ (1,519) | $ (279) |

Based on the fair market value of the Plan's net assets, the deficit as at December 31, 2009 was $6,469 million compared with a deficit of $6,642 million at December 31, 2008, a decrease of $173 million. Net investment income in 2009 had a positive impact even after the increase of $4,173 million in the accrued benefit obligation.

### Funding Outlook

Pension plan funding is made up of two components – the amount required to fund the cost of benefits earned by active members in respect of the current year, which is the normal actuarial cost, and the amount required to eliminate any funding deficits that have emerged.

The SC is responsible for Plan design changes and setting the Plan's contribution rates to ensure the adequacy of funding as well as determining when an actuarial valuation of the Plan should be filed, subject to the requirements under regulations. Under Ontario provincial regulations, a pension plan must file an actuarial valuation report at least once every three years and at that time must take measures to eliminate any going-concern and solvency deficits. The Plan's December 31, 2008 actuarial valuation was filed with the Ontario pension regulator in 2009 and the next required filing is the December 31, 2011 actuarial valuation, although the SC has the discretion to file earlier.

Employer contributions equal member contributions under the Plan. During 2008, a full actuarial review of contribution rates related to the normal cost of providing the plan benefits for normal retirement age 60 and 65 was conducted by the Plan's independent actuary. On the basis of this review, contribution rates were adjusted in 2009. In 2010, contribution rates have been increased to fund the actuarial deficit reported in the December 31, 2008 year-end valuation. The contribution rates for 2008, 2009 and for 2010 are as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| NRA 65 | | | |
| – Up to YMPE(i) | 6.4% | 6.3% | 6.5% |
| – Above YMPE(i) | 9.7% | 9.5% | 9.6% |
| NRA 60 | | | |
| – Up to YMPE(i) | 7.9% | 7.7% | 7.9% |
| – Above YMPE(i) | 13.1% | 12.8% | 10.7% |

(i) YMPE is the Yearly Maximum Pensionable Earnings as set by the Canada Revenue Agency. For the years above, YMPE was as follows: 2010 – $47,200; 2009 – $46,300; 2008 – $44,900.

### Actuarial Assumptions

In calculating the funded position and the ongoing normal actuarial cost to ultimately provide benefits for active members, the actuary makes various demographic and long-term economic assumptions. Demographic assumptions are used to project the future benefits payable to members and beneficiaries and include 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 Plan and on the expectations for future trends. Economic assumptions about future investment returns, i.e., the discount rate, assumptions about inflation and member salary increases affect both the projected benefits and the present value of those future benefits. The actuary's major economic assumptions included in the going-concern funding valuation and normal actuarial cost as at December 31, 2009, which were approved by the OAC Board, are summarized as follows:

- **Inflation Rate**
  The Plan has used an inflation rate assumption of 2.25 per cent per annum for future years in the calculation of future indexing adjustments, as a component of the nominal discount rate for estimating liabilities and the anticipated salary increases, consistent with 2008. Any variation in the actual inflation rate from this assumption will result in experience gains (lower inflation than assumed) or losses (higher inflation than assumed) to the Plan.

- **Discount Rate**
  The Plan's annual nominal rate of return and discount rate for future years is assumed to be 6.50 per cent, the same as 2008. This is based on the 2.25 per cent assumed inflation and a real investment return assumption, based on the Plan's asset mix, of 4.25 per cent, consistent with 2008. A decrease/increase of 50 basis points in the real discount rate, with no change in other assumptions, would result in an approximate increase/decrease of $4,000 million in the total accrued benefit obligation of the Plan.

  The real investment return assumption used in 2009 is unchanged from that used in 2008. It includes a conservative margin to account for potential adverse investment experience so that over the long term there is a greater chance of actuarial gains than losses arising from the Plan's assets. This assumption includes an estimate of the returns expected to be earned over the long term on the Plan's assets over and above fixed income returns, based on the current asset mix. In comparison to some other public sector plans, the Plan has a lower ratio of retired members to active members and our asset mix has a higher proportion of non-fixed income investments. This results in a relatively lower fixed income component in the asset mix and results in a relatively higher real discount rate.

- **Salary Increases**
  The estimated value of the actuarial liability includes an assumption about future increases in the salaries of active members. The salary increase assumption uses an age-based scale which allows for increases in productivity as well as merit and promotion-related earnings increases. For members with normal retirement age of 60, the assumption also includes service-related increases. During 2009, a full review of real salary increases (increases in excess of inflation) for the Plan membership was conducted by the Plan's independent actuary and the assumed average real salary increase for December 31, 2009 valuation is as follows:

| | | NRA 60 | | NRA 65 |
|---|---|---|---|---|
| | Up to 2014 | After 2014 | Up to 2014 | After 2014 |
| Average real salary increase | 1.4% | 1.9% | 1.1% | 1.6% |

This compares to the real salary increase assumption in the 2008 valuation of 1.9 per cent for NRA 60 members and 1.2 per cent for NRA 65 members. The change in the real salary increase assumption resulted in an increase in the Plan's accrued benefit obligation of approximately $479 million and an increase in the RCA accrued benefit obligation of approximately $141 million.

### Retirement Compensation Arrangement

The RCA is funded using a modified pay-as-you-go approach, where inflows from contributions, investment income and the reimbursement of the refundable tax from CRA are used to pay the current benefits to members. The excess of current contributions and investment income over current benefit payments are accumulated for future years' benefit payments.

As a consequence of this modified pay-as-you-go funding policy, the RCA's assets will remain small relative to its liability. However, our actuary estimates that if contributions to the RCA continue as projected, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the near term. A relatively small increase in the number of terminations and retirements at higher income levels, however, can increase actual benefit payments from, and decrease actual contributions to, the RCA.

### Current Year Change in Deficit

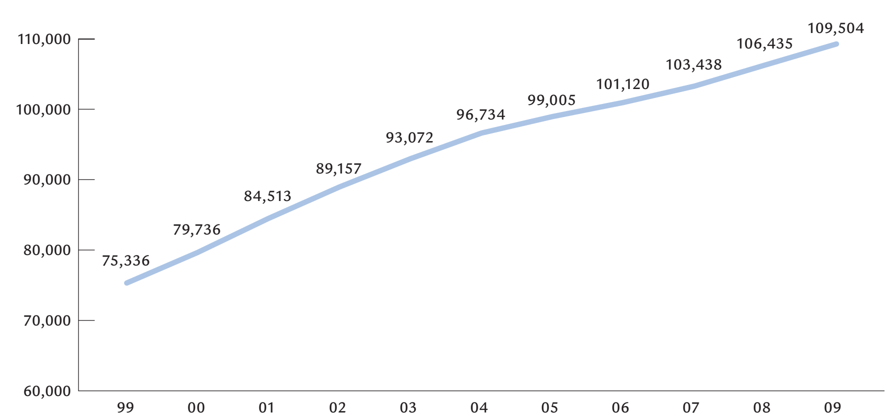
The accrued benefit obligation for the RCA increased from $285 million in 2008 to $486 million at the end of 2009 due to new benefits earned in the year, interest on the accrued benefit obligation, the change in the real salary increase assumption noted above and experience gains/losses – partially offset by monthly benefit and lump sum payments made in the year. The RCA had an estimated funding deficit of $438 million at December 31, 2009 compared with a deficit of $246 million last year as shown below:

| (millions) | 2009 | 2008 |
|---|---|---|
| **Retirement Compensation Arrangement** | | |
| Deficit, beginning of year | $ (246) | $ (199) |
| Increase in net assets | 9 | 2 |
| Less: increase in accrued pension benefit obligation | (201) | (49) |
| **Deficit, End of Year** | **$ (438)** | **$ (246)** |

### Pension Benefits and Contributions

In 2009, the Plan ended the year with over 109,500 retired members and survivors receiving pension benefits. Benefits paid from the Plan in 2009 were $2,045 million, an increase of $22 million over 2008. The increase reflected new retirements, the adjustment of benefits for inflation and higher pension values for new retirees compared with those already receiving benefits, offset by a reduction in transfers to other registered plans and commuted value payments. Benefits paid from the RCA in 2009 were $5 million compared with $4 million in 2008. Contributions to the Plan in 2009 were $2,131 million compared with $2,037 million in 2008. The increase reflects an increase in active members and increased members' salaries. Contributions to the RCA in 2009 were $12 million, an increase of $1 million over 2008.

GROWTH IN NUMBER OF PENSIONERS



### OMERS Pension Group

#### Our mandate is to provide excellent service to our members, retirees, and employers

OMERS Pension Group is the primary communications link with our members and employers. Through rapid service response and a focus on customer satisfaction, we ensure our members and employers receive excellent standards of service. A flexible, expert pension team gives us the capacity to grow – to develop new pension services and features and to be ready for broader opportunities related to pension reform. Three strategies are at the core of OMERS Pension Group's mandate as a professional service organization:

- enhancing internal capabilities;
- responding to external drivers; and
- supporting effective plan governance.

#### Enhancing Internal Capabilities

We continue to build our capabilities by enhancing our internal structure, systems and processes to meet the needs of our members and employers, and to support effective governance of the OMERS Pension Plans.

- In 2009, OMERS Pension Group implemented a Records Information Management ("RIM") program, including document imaging in Policy and Operations areas, to ensure optimum client privacy and streamlined operations.
- To ensure strong leadership and a flexible structure going forward, both a succession planning initiative and a job-rotation program were initiated. The Pension Group has evolved over the past few years to include a strong internal legal and actuarial team, and a broader base of senior operations management to address the increasingly complex issues that the OAC faces.
- Over the next several years, we will ready ourselves for opportunities through a robust training and pension accreditation initiative and ongoing leadership development. We will also enhance our capabilities through continued development of our internal actuarial modelling and analysis systems and our customer contact tracking system.

#### Responding to External Drivers

By responding quickly and intelligently to the external drivers that affect our business, we can be instrumental in influencing the pension landscape in Ontario and better meet the needs of our members.

Members and employers have come to expect excellent service and OMERS Pension Group continues to deliver. Our performance in 2009 against our demanding service standards confirms that our technology and human resource platforms are meeting the challenge of providing excellent pension services. In each month during 2009, we met or exceeded our targets for our key service standards as follows:

- process all key business activities within an average of three business days; and
- answer 80 per cent of incoming calls to Client Services within 100 seconds.

The requirement to deliver outstanding service continues to grow.

- As illustrated in Charts A and B on page 38, we now serve a total membership of 400,077, a 2.5 per cent increase over 2008, as well as 928 employers. In addition, our active member population is aging, with the number of active members 45 years of age and older increasing from 48 per cent of total active members in 2003 to 56 per cent in 2009. This aging membership results in an increase in the normal cost (contributions required to fund the retirement benefit earned in the current year) for the Plan.
- Members of the OMERS Pension Plans belong to a wide variety of unions and association groups. Chart C on page 38 shows a breakdown of our active membership by their affiliation as at December 31, 2009.
- In 2009, we delivered pension payments totalling $1,781 million to our retirees and survivors – keeping the pension promise. In addition, where individuals transferred to other registered pension plans or chose to leave the Plan and forego its guaranteed monthly pension benefit, payments of $269 million were made in the form of transfers or commuted value payments.
- In 2009, we received requests for approximately 32,900 retirement, termination, disability, and pre-retirement death benefits, as well as retirement and termination estimates.
- Communication is a critical element of our service. In 2009, visits to our website exceeded 746,100, an increase of 13.6 per cent over 2008. We also continued our practice of serving our members and building our relationship with employers through regular communication. In addition, we made approximately 1,200 on-site visits in 2009, making presentations to members at information and pre-retirement sessions, and providing technical support to employers.
- In 2009, e-access continued to be the preferred means of communicating with employers, as 853 employers (or 92 per cent of employers, covering 99 per cent of active members) are now registered for our e-access program. The most significant e-access application for both employers and OMERS Pension Group is the e-Form 119 application through which employers report annual member data directly to us through our secure online e-access system. More than 95 per cent of all annual pension statements were issued to members by June 30, 2009, which exceeded our target of 90 per cent in that time frame.

Not only do we serve many individual members on a timely basis, but our annual survey to assess how we are doing at meeting the needs of members and employers reveals that we are doing it well. The 2009 survey results showed an average satisfaction rate of 89 per cent for the overall level of service, which demonstrates continuing recognition of our high standards.

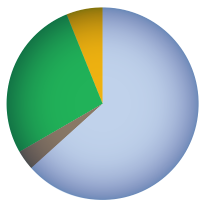
In addition, in a comparative survey conducted by CEM Benchmarking Inc., using 2008 data, we received a 91 out of 100 rating for service to employers, compared with a median rating of 68 for our peer pension plans.

While maintaining outstanding service, OMERS Pension Group continues to build new services and options for Plan members, and respond to pension reform developments:

- The myOMERS member access application was successfully launched in December 2009. The new application provides secure access to member information, statements and improved e-tools, including the Retirement Income Estimator and Buy-back Estimator.
- A flexible payment plan for buy-backs was introduced, enabling eligible members to purchase service and increase their Plan benefit through a monthly direct-debit payment option.

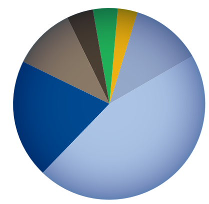
## CHART A – MEMBER PROFILES

| | |
|---|---|
| Active | 254,411 |
| Deferred | 12,622 |
| Retired/Survivor | 109,504 |
| Inactive | 23,540 |
| Total | 400,077 |



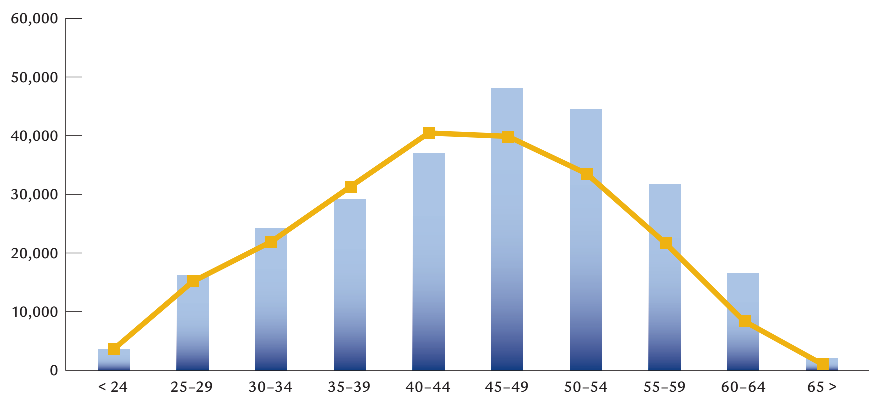
## CHART C – MEMBER AFFILIATION

| | |
|---|---|
| Canadian Union of Public Employees | 45.6% |
| Management/non-union | 20.2% |
| Police associations | 10.4% |
| Ontario Professional Fire Fighters Association | 4.4% |
| Ontario Secondary School Teachers' Federation | 4.2% |
| Ontario Public Service Employees Union | 3.5% |
| Other | 11.7% |



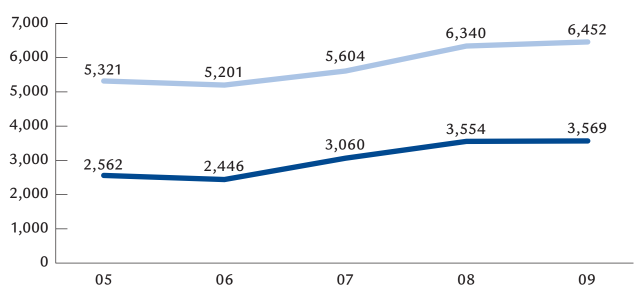
## CHART B – ACTIVE MEMBERS BY AGE

- 2009
- 2003



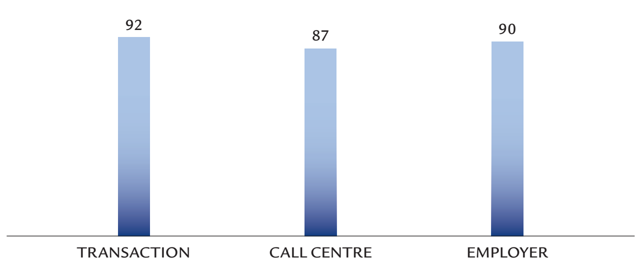

## CHART D – NUMBER OF NEW PENSIONS

- Total New Pensions
- Early Retirements




## CHART E – SATISFACTION SURVEYS

Percentage of respondents who rated OMERS 4 out of 5 or 5 out of 5 for service excellence



- The business case was developed for an important new pension feature: Additional Voluntary Contributions (AVCs). Approved in principle by the SC in 2009, AVCs will enable members to earn the investment returns generated by the OAC's diverse global portfolio on their personal retirement savings, in addition to their pension plan. This program will be developed during 2010 and starting January 2011, members will be able to voluntarily contribute additional funds and transfer their retirement savings to the OAC's AVC program.
- In 2009, the OAC's response to the Ontario Expert Commission on Pensions was submitted to the Minister of Finance. Also in 2009, the OAC Chief Pension Officer, Jennifer Brown, was appointed to the provincial Advisory Council on Pensions and Retirement Income.
- As pension reform moves ahead, we will actively represent the OMERS interests to ensure that Plan members and employers are not adversely impacted.
- In 2010, we will add a private sector service purchase option for members, building on the buy-back payment plan introduced in 2009.

Looking ahead, as the baby boom generation approaches and enters retirement, we anticipate increased interest in pension estimates and service purchases. The OMERS Pension Group will continue to strengthen its core services and add new options by evolving our suite of e-tools and e-publications to support these challenges.

**Supporting Effective Plan Governance**

An effectively governed pension plan helps to ensure that we will deliver on our pension promise to members. During 2009, OMERS Pension Group continued to provide comprehensive support for decision-making by both the OAC and SC Boards.

Under the OMERS Act, the SC is responsible for pension plan design and contribution rates. During 2009, OMERS Pension Group implemented approved SC plan changes, including increasing the maximum age for active membership to 71, filing the December 31, 2008 actuarial valuation, and increasing 2010 contribution rates in response to the December 31, 2008 going-concern deficit.

OMERS Pension Group prepared a comprehensive analysis of the funded position of the Plans, including recommendations to address the current funding shortfall, which are being discussed with the SC. As the OAC addresses a funding challenge over the next several years, the OMERS Pension Group will continue to provide detailed analysis on the status of plan funding and proposed changes and respond to SC decisions.

Moving forward, OMERS Pension Group will address funding challenges and pursue growth opportunities based on a solid platform of service excellence. We will maintain our focus on the OAC's core objective – providing pensions to current and retired employees of more than 920 municipalities, school boards, libraries, police and fire departments and other local agencies across Ontario.

# The Funds

The Funds had net investment assets of $48,389 million at December 31, 2009. To meet the pension promise to over 400,000 members of the OMERS Primary Pension Plan, we must earn a 6.5 per cent annual return over the long-term (or 4.25 per cent real rate of return when anticipated inflation is excluded). This required return is set by an independent actuary retained by the OAC Board of the OMERS Administration Corporation and is based on the asset mix policy set by the OAC Board.

The long-term asset mix policy is to invest 53 per cent in public markets and 47 per cent in private markets. At the end of 2009, 60.9 per cent was invested with exposure to public markets and 39.1 per cent with exposure to private markets. Public market assets are predominantly publicly traded equities and interest bearing securities. Private market investments are primarily income-producing real estate and infrastructure assets, as well as private equity assets.

The investment target and asset mix policy are reviewed formally at least once a year by the OAC Board with input on future liability changes, economic assumptions and investment expectations from actuarial, financial and economic specialists. The goal is to ensure that the value of invested assets, combined with investment income and net contributions from employers and Plan members, matches the present value of accrued pension obligations over multiple decades during which markets will go through many positive and negative cycles.

The OAC Board has delegated responsibility for achieving the required return and achieving the OAC Board approved public/private market asset mix to the OAC management. Management has developed a Board-approved rolling five-year enterprise-wide strategic plan that, among other things, is committed to creating surplus wealth for the Plan above the long-term investment target. The OAC Board is updated on the progress of the initiatives of the strategic plan at each regular board meeting with a thorough and extended review conducted at an annual strategic planning session.

**Investment Strategy**

Two cornerstones of the investment strategy are to invest directly in the ownership of public and private market assets and to actively manage these ownership interests to mitigate risks and optimize long-term returns.

The OAC Board believes that active asset management produces superior risk-adjusted returns compared with passive fund investing. At the OAC, this involves originating investments through proprietary research; purchasing assets at prices that should result in long-term value and strong predictable cash flows; developing relationships with like-minded business and investment partners for private market investments; structuring ownership interests in private assets in innovative and regulatory-compliant ways; financing these investments with non-recourse loans or utilizing the OAC's treasury competencies to finance investments with recourse loans backed by the OAC's ("AAA") credit rating; and managing all investments to mitigate risk and maximize returns.

Mitigating risk and maximizing returns require management to pay attention to diversifying investments by asset class, economic sector and geographic market. About 66 per cent of the OAC's investment exposure is currently in Canada. The value of listed market capital in Canada represents less than three per cent of global market capitalization. While Canada continues to offer exceptional long-term investment opportunities, prudence and related risk management practices make it necessary to diversify investments to global economies with different growth profiles.

This is readily accomplished in the case of public market investments due to their liquidity and ease of trading in organized markets. In the past year, the OAC has increased its internal capabilities in global equity research and direct, active and worldwide trading.

The challenge of diversification is different and potentially more complex in the case of private investments. Relationships with investors, business owners and governments are critical to understanding markets and finding suitable investments. Typically, investments in private markets require a large single infusion of capital, are not easily traded and must be held for several years. Research confirms that size matters in earning superior risk-adjusted returns due to economies of scale, securing the necessary concentration of expertise at the operating level and achieving governance efficiencies.

Large-scale private market investments require as much as $500 million for private equity and $3 billion to $10 billion for commercial real estate portfolios and infrastructure assets. The Fund does not generally make investments of this size on its own for risk management reasons. Consequently, a strategic objective is to augment the Fund's capital with third-party capital. The OAC has built an expert team which now has a multi-decade history of leading or co-leading investor consortia. The OAC also has the negotiating skills to complete due diligence and acquire influential equity positions in assets and companies on behalf of the Fund and its investment partners.

**The OMERS Investment Management Organization**

The OAC today has a deep investment management organization comprised of professional teams dedicated to managing defined asset classes and subclasses. Organizationally, OMERS Capital Markets manages all public market investments and Oxford Properties Group, OMERS Private Equity and Borealis Infrastructure manage private market investments. These organizations are discussed in greater detail on pages 42 – 53 of this Annual Report.

In addition, three corporate investment-related entities, OMERS Strategic Investments, OMERS Investment Management Inc. and OMERS Finance Trust support the activities of the Investment Entities.

### OMERS Strategic Investments

OMERS Strategic Investments, founded in 2008, promotes the intellectual capital in all OMERS investment entities under the OMERS Worldwide brand. Its mandate is discussed on page 54 of this Annual Report.

### OMERS Investment Management Inc.

OMERS Investment Management Inc. was founded in 2009 in response to legislative authority granted to the OAC to provide investment management services through an authorized subsidiary. Eligible clients include Canadian and foreign public and private sector pension plans, governments and their agencies, colleges, universities and their endowments and Canadian registered charities. OMERS Investment Management Inc. has applied for the necessary registration to provide third-party management services to eligible clients.

### OMERS Finance Trust

Commencing in 2010, OMERS Finance Trust will refinance existing public market debt as needed. In doing so, it will follow prudent leverage practices and carry the "OMERS" brand in capital markets. Guaranteed debt securities currently issued by the OAC are rated "AAA" by two credit rating agencies.

## The Funds

# OMERS Capital Markets


OMERS Capital Markets manages public market investments, which include Canadian and non-Canadian investments in bonds, other interest bearing assets and publicly traded equities. These investments are often made in combination with a variety of derivative financial instruments.

As discussed on page 25 of this Annual Report, after the significant market declines in 2008, the OAC implemented a capital preservation strategy to mitigate the risk to the Fund of a further market decline. As a result of this strategy, the risk for 2009 was sharply reduced through lower equity market exposure in both Canadian and non-Canadian equities. While the portfolio participated in the improving equity markets as they unfolded throughout 2009, the strategy caused the rate of return on both Canadian and non-Canadian equities to be below their respective benchmarks. However, equity returns in 2009 still exceeded our expected return set at the beginning of the year.

Equity markets rallied in the last three quarters of 2009 reversing a significant part of the losses experienced in 2008 and the first quarter of 2009. OMERS Capital Markets' return on public market investments, excluding the impact of currency hedging, was 11.0 per cent, below the benchmark of 13.5 per cent. In 2009, OMERS Capital Markets generated net investment income of $2,621 million compared with a net investment loss of $7,192 million a year earlier. The increase from the prior year is attributable primarily to significantly higher returns in Canadian and non-Canadian public equity markets. In 2009, our Canadian public equities returned 34.0 per cent compared with –33.7 per cent in 2008, while our non-Canadian public equities returned 7.3 per cent compared with –25.7 per cent in 2008.

At December 31, 2009, OMERS Capital Markets' investment assets (interest bearing investments, real return bonds and public equities) were $30,686 million, an increase of $1,923 million from $28,763 million at the end of 2008. This increase is primarily due to the recovery in the global equity markets discussed above, offset in part by funding provided to private market investments.

**Interest Bearing Investments**

Interest bearing investments provide low-risk returns that offset the more volatile nature of publicly traded equities. As a result, they are a natural fit for a pension plan.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of $698 million, an increase of $415 million or 147 per cent compared with 2008. Of this total in 2009, $38 million relates to mortgages managed by OMERS Capital Markets on behalf of OMERS Strategic Investments. The return for OMERS Capital Markets' interest bearing investments, excluding real return bonds, was 4.2 per cent compared with 5.2 per cent for the benchmark and 7.1 per cent a year earlier. OMERS Capital Markets was underweight in lower-quality credit interest bearing assets which outperformed higher-quality credit interest bearing assets. This contributed to the lower returns in the interest bearing portfolio compared to the benchmark. Interest rates throughout 2009 have been at historically low levels resulting in lower returns on our interest bearing investments compared with the previous year. Real return bonds produced income of $247 million, an increase of $261 million over 2008 representing a return of 14.3 per cent, slightly below the benchmark of 14.5 per cent.

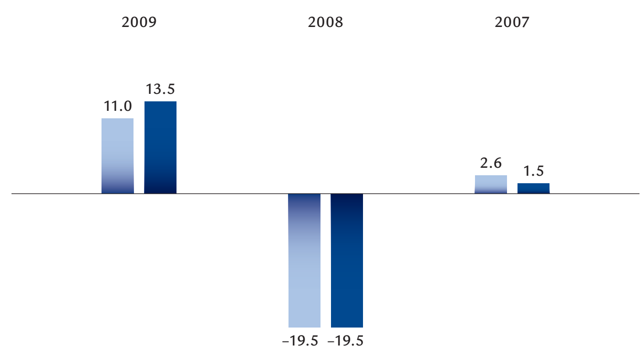
At December 31, 2009, interest bearing investments totalled $17,205 million and consisted of federal bonds, provincial bonds, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private debt and short-term cash equivalent securities. Of this total, $10,299 million was invested with exposure to bonds and debentures, mortgages, private debt and money market, and other short-term investments in OMERS Capital Markets, $650 million was invested in mortgages on behalf of OMERS Strategic Investments; and $1,982 million was invested with exposure to real return bonds. In addition, $1,869 million represented asset backing derivatives programs that provide exposure to public equity markets and $2,405 million related to cash collateral received as part of securities lending transactions and cash amounts allocated to other asset categories. The most significant interest bearing investments held by OMERS Capital Markets at December 31, 2009 were Government of Canada interest bearing securities.

## RETURNS AND BENCHMARKS

The overall OMERS Capital Markets investments return in 2009 was 11.0%. The return is below the benchmark of 13.5% and reflects the impact of the capital preservation strategy adopted after the 2008 meltdown of global equity markets. This strategy was continued throughout 2009.

(%)

- Rate of Return
- Benchmark




| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Rate of Return** | **Benchmark** | Rate of Return | Benchmark |
| Interest bearing | **4.2%** | **5.2%** | 7.1% | 6.2% |
| Real return bonds | **14.3%** | **14.5%** | 0.3% | 0.4% |
| Canadian public equities | **34.0%** | **35.1%** | –33.7% | –33.0% |
| Non-Canadian public equities | **7.3%** | **14.2%** | –25.7% | –26.4% |

**Public Equities**

At December 31, 2009, the Plan had $6,272 million invested in Canadian public equities and $7,859 million in non-Canadian public equities including both actively managed and non-derivative, quantitatively managed portfolios. Included in the non-Canadian public equities are $763 million of assets in absolute return and other similar hedge fund strategies. Exposure to public equities of $16,541 million also includes $2,000 million representing the market value of non-equity assets backing equity derivatives and the net allocation of $410 million of cash and short-term investments and investment related assets less investment related liabilities. OMERS Capital Markets' public equity investments include significant investments in:

- Suncor Energy Inc
- The Toronto-Dominion Bank
- Royal Bank of Canada
- Manulife Financial Corp
- Barrick Gold Corp

Public equity investments generated income before investment management expenses of $1,817 million comprised of income of $1,629 million from the Canadian market and $188 million from non-Canadian markets. Canadian public equities plus Canadian equity derivative exposure earned a return of 34.0 per cent for the year, compared with a benchmark return of 35.1 per cent and a –33.7 per cent return in 2008. Non-Canadian public equities and non-Canadian equity derivative exposure earned a return of 7.3 per cent in 2009, compared with 14.2 per cent for the benchmark and a –25.7 per cent return in 2008. The non-Canadian public equity return was reduced by the increase in value of the Canadian dollar against foreign currencies as the Canadian dollar appreciated against most major currencies, including the yen, the euro, the British pound and the U.S. dollar. These currencies comprise approximately 86 per cent of our foreign currency exposure before the impact of hedging. The increase from the prior year is attributable primarily to significantly higher returns in Canadian and non-Canadian public equity markets.

### Actively Managed Equity Portfolios

Actively managed Canadian equity investments totalled $5,673 million in 2009 compared with $5,334 million in 2008.

OMERS Capital Markets' investment professionals are long-term investors who buy the securities of well-managed, profitable companies. They select, for example, companies that should gain value from synergistic acquisitions or that have a competitive advantage in their industry. Within approved asset allocation guidelines, our investment professionals can take advantage of short-term trading opportunities to generate additional added value.

U.S. equities can comprise up to 10 per cent of our actively managed large cap Canadian equity portfolios. This enables us to add companies in economic sectors that are underrepresented in Canada, such as pharmaceuticals.

As part of our actively managed Canadian equity investments, we manage separate portfolios with more specific mandates to enhance overall investment returns. The nature of these portfolios (smaller concentration and market capitalization) results in increased risk; however, we believe this risk is balanced by our expectation for enhanced returns over the long term. These portfolios include:

- the Canadian Focus Equity Portfolio which had assets of $1,673 million as at December 31, 2009 and invests in a select group of up to 35 companies which are expected to earn above average returns over the long term; and
- the Canadian Small Cap Equity Portfolio which had assets of $230 million as at December 31, 2009 and invests in publicly traded Canadian small capitalization companies with strong growth profiles and positive business outlooks. The added risk of this fund is balanced with an additional return expectation due to the higher growth profile of small capitalization companies.

Participating in global markets increases our portfolio diversification and lowers overall risk. In 2009, we actively invested $7,859 million in the equities of companies outside of Canada, including in the United States, Europe, the Far East, the United Kingdom and emerging markets as shown in the table below:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| (millions) | Holdings | (%) | Holdings | (%) |
| United States | $ 3,422 | 44% | $ 3,725 | 43% |
| Europe | 1,057 | 13% | 1,964 | 23% |
| Far East | 1,382 | 18% | 1,482 | 17% |
| United Kingdom | 706 | 9% | 763 | 9% |
| Emerging markets | 1,292 | 16% | 719 | 8% |
| | $ 7,859 | 100% | $ 8,653 | 100% |

As discussed on page 21 of this Annual Report, our long–term investment strategy is to increase direct active management of our investments. Implementation of this strategy is well underway. OMERS Capital Markets is building on the strength of our team of investment professionals and our strong investment information systems to internally manage a larger portion of our non–Canadian equities. This will give us greater control over our non-Canadian investments, provide an opportunity to add value over passive investing, and is expected to substantially reduce the costs of holding these investments. As part of this strategy $2,400 million of public equity investments were repatriated and managed internally during 2009. This represents 30.5 per cent of our foreign equity holdings and helped bring internally managed investment assets to over 80 per cent of total assets of OMERS Capital Markets at December 31, 2009 compared with approximately 70 per cent at December 31, 2008.

### Quantitatively Managed Equity Portfolios

Our investment professionals earn enhanced and less volatile returns from market indices by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modelling, these strategies are referred to as quantitative management. We have invested $599 million in managed portfolios that target the S&P/TSX Composite Index and other indices.

## Derivative Financial Instruments

In order to manage risk and enhance returns, we enter into a variety of widely used industry standard derivative contracts. These contracts are used in combination with other investment assets with the objective of providing a cost-efficient means to improve returns by mitigating uncompensated risks and to add flexibility to the asset mix. Derivatives also enable us to rebalance the overall asset mix, or the asset mix within a class, on short notice to adjust for market shifts. We held derivatives with a notional value of $18,229 million at December 31, 2009, including $12,814 million of foreign exchange forward contracts.

### Interest Rate Derivatives

We use interest rate derivatives to enhance investment yields and to manage the duration of our interest bearing investments and our fixed versus floating interest rate exposure. At the end of 2009, we held interest rate derivatives with a notional value of $2,656 million.

### Equity Derivatives

We use derivative contracts to replicate Canadian and non-Canadian equity index returns. This exposure to the indices of major equity markets is achieved primarily through the use of equity futures and equity index swap contracts and complements the Canadian equities portfolio and global equity portfolios managed both internally and externally. At December 31, 2009, we had public equity derivative exposure of $2,759 million, representing the notional value of derivatives as follows:

- $305 million in derivative portfolios that provide exposure to the S&P/TSX Composite, the S&P/TSX 60 index and other indices;
- $1,472 million in derivative portfolios that provide exposure to the S&P 500 index; and
- various derivative portfolios totalling $982 million that provide diversified exposure to major equity indices throughout the world.

### Foreign Exchange Derivatives

We use foreign exchange forward contracts to manage our exposure to currencies other than the Canadian dollar and to generate returns through active trading. At December 31, 2009, $16,414 million or 34 per cent of our net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges approximately 50 per cent of our exposure to 14 major currencies, narrowing their volatility relative to the Canadian dollar. In addition, for non-Canadian private market investments we hedge foreign currency exposure up to 100 per cent. Our currency management programs produced a gain of $461 million from our passive currency overlay program and $736 million from hedging private market investments for a total of $1,197 million; compared to total loss of $2,045 million in 2008, which included $1,354 million from our passive currency overlay program and $691 million from hedging private market investments. This is largely a result of the significant appreciation of the Canadian dollar against most major currencies during 2009 compared with the depreciation of the Canadian dollar against these currencies in 2008. Since our currency hedging program was implemented in 2001, it has produced total income of $1,426 million. Our net foreign currency exposure after accounting for our foreign currency management and trading programs at December 31, 2009 was $6,173 million. Our gross and net foreign currency exposure is allocated as shown in the chart below.

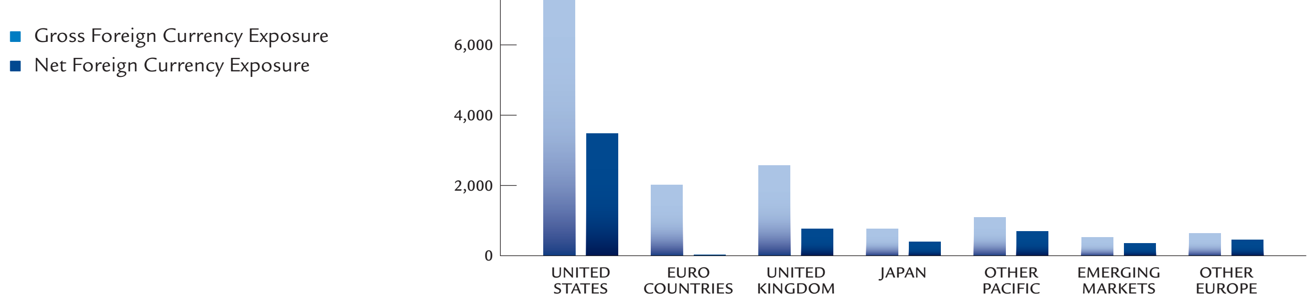
### Credit Risk

The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow prudent risk management policies, limiting our derivative credit risk exposure to less than five per cent of total fund net investment assets. We require that all counterparties have a minimum "A" credit rating. At December 31, 2009, the credit risk exposure was 0.6 per cent of net investment assets or $276 million.

**GROSS AND NET FOREIGN CURRENCY EXPOSURE**

as at December 31, 2009

(millions Canadian dollar equivalent)



## The Funds

# OMERS Private Equity

OMERS Private Equity manages private equity investments through direct investments in private companies and through third-party funds.

OMERS Private Equity's investment strategy focuses primarily on active direct investing whereby it holds a significant interest in investments and as such will influence the management of the investments. OMERS Private Equity intends to build on its success in Canada by actively pursuing active direct investment opportunities around the world, with emphasis on North America and Europe, and continue to build a portfolio of private equity investments diversified by geographic market and industry sector.

OMERS Private Equity's investment strategy involves establishing meaningful partnerships with private companies, either directly or indirectly through international private equity funds. For active direct investments, the principal focus of our investment strategy, we look to invest in private companies that are well managed and in need of capital investment and strategic support to grow their businesses. For private equity funds, we are seeking partners with strong and reputable investment teams that have demonstrated an investment track record to expand the global reach and diversification of our active direct investments.

Our active direct investments are generally in mid-size companies, where our investment will range from $100 million to $500 million. We target companies that have a strong brand, a solid business model, a quality management team that shares our commitment to success and an opportunity to grow both organically and by acquisitions. We have a long-term investment horizon. We bring the combined resources from the OAC's Investment Entities as well as those from our network of global relationships to assist our companies in achieving their goals. Our role is to interact with the management of our companies through regular meetings aimed at enhancing strategic and operational efficiencies and to provide capital to support growth initiatives.

Our fund investment program involves making investment commitments as a limited partner in a select number of top-tier private equity funds. These funds are managed by external investment professionals who have demonstrated over time the ability to consistently out-perform their peers in selecting companies in which to invest. Other factors important in our consideration in making fund commitments include the quality, continuity and depth of the investment management team, the amount of capital the investment management team is committing, the strategic fit within our investment program and, in particular, how it will assist us in our direct investment strategy. The types of fund commitments we make include leveraged buyouts, venture capital, mezzanine debt, distress and special situations. Historically, leveraged buyout strategies have represented the majority of our fund commitments. Individual fund commitments range from $50 million to up to $250 million.

OMERS Private Equity generated a net investment income of $474 million in 2009, compared with net investment loss of $615 million last year. The 2009 return was 13.9 per cent, compared with 6.7 per cent for the benchmark and –13.7 per cent return in 2008. The higher 2009 returns are attributable to a combination of improved operating performance in many of OMERS Private Equity investments and a rebound of global public equity markets that contributed to an increase in market value of investments overall.

During 2009, OMERS Private Equity's investment assets increased to $4,424 million from $4,049 million in 2008, reflecting an increase in the carrying value of a number of its portfolio investments and the capital cost of several new investments made in 2009. The new investments made in the year include a significant ownership position in Public Mobile, one of Canada's new entrants in the wireless telecommunications industry; the acquisition of 100 per cent ownership of Cantest by Maxxam Analytics, to solidify the company's market position in British Columbia; the acquisition of Nordco, a leading designer and manufacturer of maintenance-of-way machinery for the railroad industry; and investment in Haymarket Financial, a newly created speciality finance business in the U.K.

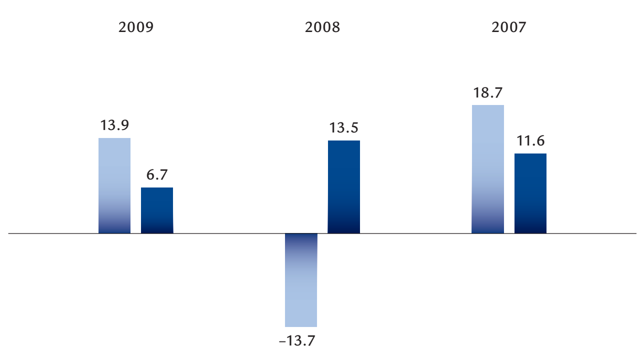
OMERS Private Equity has significant fund investments with leading private equity firms including:

- APAX Partners
- Charterhouse Group
- Hellman and Friedman LLC
- Kohlberg Kravis Roberts & Co. (KKR)
- ONEX
- Performance VC
- Sagard Private Equity Partners
- Texas Pacific Group (TPG)
- Towerbrook
- Tricor Pacific Capital, Inc.

## RETURNS AND BENCHMARKS

OMERS Private Equity return in 2009 was 13.9% compared with a benchmark of 6.7%.

(%)
- Rate of Return
- Benchmark



OMERS Private Equity's significant active direct investments include interests in:

- Affinia Group Inc. – a leading manufacturer and distributor of aftermarket components for cars, trucks and off-highway vehicles. Affinia's broad range of brake, filtration and chassis products are sold in North and South America, Europe, and Asia;
- Cari-All Inc. – a leading North American manufacturer and distributor of retail shopping carts;
- Cengage Learning – delivers highly-customized learning solutions for colleges, universities, instructors, students, libraries, government agencies, corporations and professionals around the world;
- Constellation Software Inc. – an international provider of market-leading software and services to the public and private sectors. Constellation acquires, manages and builds vertical market software businesses that provide custom mission-critical software;
- Cookie Jar Group of Companies – produces and distributes high-quality, non-violent programming and supplemental educational products for children, families and educators worldwide;
- Give and Go Prepared Foods Corp. – a Toronto-based wholesale bakery producing Two-Bite® Brownies, Cinnamon Crunchies™, butter tarts and Two-Bite® Coffee Cakes. Give and Go products are sold throughout Canada and in the U.S.;
- Golf Town – Canada's leading retailer of golf merchandise from leading manufacturers together with teaching academies, golf simulators and pro shop services. Golf Town also provides logo services on apparel and equipment for corporate tournaments and events;
- Haymarket Financial LLP – an independent finance company providing focused lending products to corporate clients and investment management services to institutional clients;
- Marketwire – a leading provider of newswire services, with one of the largest distribution platforms in North America. Based in Toronto, Marketwire has partnerships worldwide to distribute news, and has offices in the U.S. and the U.K.;
- Maxxam Analytics – the largest privately owned analytical laboratory in Canada providing analytical testing services to government and major companies in the environment, food, oil and gas, health, forensics and genetic markets;
- Nelson Education – Canada's leading education publisher, from kindergarten to university and college levels. Nelson offers customized educational solutions for core disciplines such as mathematics, science and language arts;
- Sitel Corporation – a leading global provider of outsourced customer care and back office processing services. Sitel has over 65,000 associates across 28 countries;
- Nordco – a leading designer and manufacturer of critical products and services for the maintenance of railroad infrastructure, serving North American railroads, public transit systems, contractors and equipment leasing companies; and
- Public Mobile – a new entrant in Canada's wireless market.

## The Funds

# Borealis Infrastructure

Borealis Infrastructure (Borealis) manages infrastructure investments for the OAC and is a world leader in developing infrastructure investing as an asset class for institutional investors. Borealis has a proven track record in identifying, investing and managing infrastructure investments around the world and has delivered solid returns, outperforming its benchmark in each of the last five years.

Infrastructure investing generally involves direct investments in inflation-sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both. Individual investments generally require capital commitments for a minimum of 15 to 20 years and typically generate consistent annual cash flows – a perfect fit in meeting our long-term pension obligations. Since starting Borealis in 1999, we have become a significant investor in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors.

Borealis' investments generated net investment income of $731 million in 2009, compared with $596 million a year earlier. The 2009 return based on investment income before investment management expenses and on the Borealis asset mix exposure was 10.9 per cent, compared with 9.0 per cent for the benchmark and an 11.5 per cent return in 2008. The strong, stable returns generated by Borealis' infrastructure investments over the past three years (especially with the significant decline in global public equity markets) illustrates that our strategy of allocating a significant portion of the Plan's investment portfolio to infrastructure investments continues to be a successful strategic initiative.

Borealis' gross investments of $12,117 million are partially funded by $4,942 million in secured debt and commercial paper. Interest expense for the year was $212 million. Borealis continues to fund part of its investments through the Borealis Infrastructure commercial paper program which was launched in December 2008.

During 2009, infrastructure investment assets stayed at approximately the same level as 2008. While we did not make any significant new acquisitions during 2009, significant follow on investments were made in the Bruce Power nuclear power plant located northwest of Toronto, Ontario. Bruce Power is currently working under an agreement with the Ontario Power Authority to restart and refurbish two of the eight reactors at Bruce Power. When the program is completed, Bruce Power is expected to supply approximately 25 per cent of Ontario's electricity up from the current 20 per cent. In addition, Borealis increased its equity ownership in the Detroit River Tunnel from 50 per cent to 83.5 per cent during the year.

Other significant investments made in previous years include interests in:

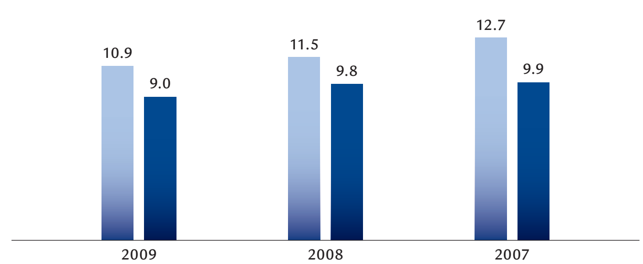
- Teranet – which is the sole provider of access to the Electronic Land Registry System for the Province of Ontario and provides electronic land-based information and services to approximately 80,000 clients in the legal, real estate, financial and health care sectors;
- Oncor – a leading electricity transmission and distribution company in Texas;
- Associated British Ports – the largest port operator in the United Kingdom which owns 21 ports handling approximately 25 per cent of all marine transported goods into and out of the United Kingdom;
- Scotia Gas Networks – which operates the Scotland and the South of England gas distribution networks, comprising approximately 73,000 km of gas lines serving approximately 5.6 million customers;

- LifeLabs – Canada's largest provider of laboratory services which provides more than 50 million diagnostic tests to more than 10 million patients through nearly 20,000 physicians each year;
- Express Pipeline – which transports crude oil from Alberta to the United States and serves refineries in six western and mid western states;
- Detroit River Tunnel – one of the largest trade corridors in the world;
- Enwave Energy Corporation – which owns the largest deep lake water cooling service in the world and provides environmentally friendly heat and air conditioning to Toronto's downtown office core;
- Confederation Bridge – which links Prince Edward Island and New Brunswick and operates under a concession agreement with the federal government until 2032; and
- Ciel Satellite – which offers wholesale communications satellite capacity to the North American market.

### RETURNS AND BENCHMARKS

The overall infrastructure return in 2009 was 10.9% compared with a benchmark of 9.0%.

(%)
- Rate of Return
- Benchmark



## The Funds

# Oxford Properties Group


Oxford Properties Group (Oxford) is one of North America's largest commercial real estate investment and management firms. Oxford oversees and manages approximately $18 billion of real estate for itself and on behalf of its co-owners and investment partners at December 31, 2009.

Oxford's focus is to build a global platform for real estate investment, providing superior risk-adjusted returns and secure, sustainable and growing cash flows for the Plan. Oxford's strategy focuses on the ownership and active management of significant assets, diversified by property type, geographic market, partner relationship and risk-reward profile. A diversified real estate portfolio of this nature generates reliable cash flows, facilitating our ability to meet both current and future benefit obligations. Furthermore, actively managed real estate generally appreciates in capital value over time in step with inflation, which helps to offset the inflation exposure of our pension liabilities.

Oxford's operating income declined slightly from $533 million in 2008 to $510 million in 2009 primarily as a result of lower net operating income from the retail, hotel and industrial sectors due to lower occupancies. Net investment income dropped from $431 million in 2008 to $127 million in 2009 primarily due to downward property valuation adjustments of $312 million and a mark-to-market loss of $70 million on debt obligations. The continued impact of the global economic crisis and the reduced economic activity in certain sectors of the economy have resulted in a decline in real estate market values primarily for the Calgary office portfolio, hotels and foreign assets, leading to a decline in the overall real estate return to 1.3 per cent in 2009, compared with a 2009 benchmark return of 6.7 per cent and a 6.0 per cent return in 2008.

Oxford's total real estate assets were valued at $11,975 million at December 31, 2009. Total assets under management of $18 billion at December 31, 2009 will decline to $16 billion on January 1, 2010 resulting from the end of an asset management agreement.

Oxford's real estate portfolio is partially funded by $4,518 million in mortgages, debentures, commercial paper and other debt. This has increased by $620 million from 2008 primarily due to two new debenture issuances totalling $350 million and an increase of $204 million in outstanding commercial paper.

At December 31, 2009, our direct portfolio consisted of 108 properties, located primarily in Canada, the U.K. and the U.S. with a total leaseable area of 46.9 million square feet, 2,929 hotel rooms and 20,410 residential units. The portfolio composition is shown in the table below:

### DIRECT REAL ESTATE PORTFOLIO COMPOSITION

| | Percentage of Portfolio Based on Market Value |
|---|---|
| Office | 43% |
| Retail | 26% |
| Hotels and resorts | 13% |
| Residential | 9% |
| Properties under development | 5% |
| Industrial | 4% |
| | 100% |

Oxford's office portfolio, with the exception of one asset located in the U.K., is diversified geographically in Canada across six major markets including Toronto, Vancouver, Calgary, Edmonton, Ottawa and Montreal. The largest concentration is in the Greater Toronto Area representing approximately 58 per cent of the market value of the office portfolio. The most significant properties are:

- TD Canada Trust Tower, Royal Bank Plaza and the Richmond-Adelaide Centre in Toronto;
- Centennial Place, Bow Valley Square and Canterra Tower in Calgary; and
- Watermark Place, a 525,000 square foot class "AAA" office building located in London, U.K., developed and leased during the year.

The retail portfolio comprises 18 properties, primarily super regional and regional shopping centres, totalling 17.7 million square feet. The properties are located across Canada and the U.S., but are predominantly located in the Greater Toronto Area. The more significant properties include:

- a 50 per cent ownership interest in Yorkdale Shopping Centre, Square One Shopping Centre and Scarborough Town Centre in the Greater Toronto Area;
- Kingsway Garden Mall in Edmonton; and
- regional shopping centres in the U.S.

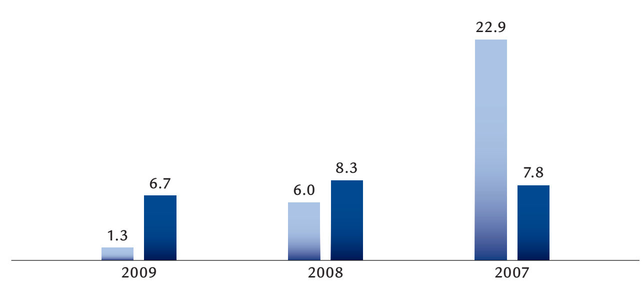
As part of Oxford's global investment strategy, we are actively seeking to increase the international component of our direct real estate investments, which will allow us to diversify our portfolio and enhance returns. At December 31, 2009, approximately 90 per cent of Oxford's direct real estate portfolio based on market value was invested in Canada and the remaining 10 per cent was invested primarily in the U.S., Germany and the U.K.

Oxford also holds and manages a portfolio of indirect investments that were valued at $342 million as at December 31, 2009, a decrease of $186 million from $528 million at December 31, 2008 primarily due to the sale of certain indirect investments.

## RETURNS AND BENCHMARKS

The overall real estate return in 2009 was 1.3% compared with a benchmark of 6.7%.

(%)
- Rate of Return
- Benchmark



## The Funds

# OMERS Strategic Investments

OMERS Strategic Investments (OSI) was established in late 2008 with a broad strategic mandate. A key mandate for OSI is to build long-term strategic relationships with like-minded global institutional investors to form strategic alliances that will enable the OAC to access new sources of capital.

These new sources of capital will enable the OAC to participate in the acquisition of large-scale private market assets around the world. OSI is also responsible for promoting the intellectual capital in all the Investment Entities under the OMERS Worldwide brand and ensuring that the OAC has a presence in and knowledge of global markets through business relationships and a network of OMERS Worldwide offices. OSI is also actively managing value-add investment platforms that will expand our capacity to generate attractive investment opportunities and build global business relationships for the benefit of all the Investment Entities.

OSI had investment assets totalling $1,352 million and generated a net investment loss of $37 million in 2009 for a return of –1.2 per cent. This compares to the benchmark of 10.7 per cent and a net investment loss in 2008 of $3 million. The 2009 loss and negative return were the result of the mark-to-market impact from the sharp declines in natural gas prices on our energy investments in western Canada, the transaction costs associated with the acquisition of our strategic investment platforms to support the growth of the Investment Entities and accelerating the execution of our strategic initiatives.

# Risk Management

We are committed to providing secure pensions to our members by investing in a broad range of assets in a manner that strives to earn superior returns without taking undue risk. It is our objective to ensure that the value of the net assets of the Funds is sufficient to pay all pensions promised to members of the OMERS Pension Plans.

Our ability to meet this objective is affected by two factors:

- fluctuations in the value of the investment portfolio, which are driven by changes in investment markets (primarily market, credit and liquidity risk); and
- changes in the value of the Plan's accrued benefit obligation, which is driven by both economic and demographic factors.

Risk management is an essential part of our corporate and investment strategy as it can mitigate the negative impact of the above factors on the investment portfolio and the accrued benefit obligation. Risk management is supported by our systems of internal controls, procedures and corporate policies including our Code of Conduct and Statement of Investment Policies and Procedures. We continually strive to improve our enterprise-wide approach which involves our OAC Board, management and employees within all areas of the OAC. All employees are required to adhere to policies, procedures and standards that a prudent person would reasonably exercise when managing the assets of others.

The value of the Plan's accrued benefit obligation is sensitive to movements in interest rates and inflation rates similar to changes in the value of a portfolio consisting of Real Return Bonds and nominal bonds. However, the Plan invests in a combination of equities, infrastructure, real estate and a broad range of interest bearing instruments. While this investment strategy diversifies the investment portfolio and assists in maintaining stable and cost-effective contribution rates, it produces a mismatch between the economic characteristics of the accrued benefit obligation and the investment assets. This exposes the Plan to various risks that must be closely monitored and managed.

**Risks Affecting the OMERS Pension Plans**

The Enterprise Risk Management program has identified four categories of risks that could potentially have an adverse effect on the OMERS Pension Plans:

- investment risks (market, credit and liquidity risk) that are an inherent part of investing in capital markets;
- an array of operational risks that we face as a business operation;
- strategic risks inherent in the execution of our longer-term plan; and
- legal and compliance risks that we deal with in the management and administration of the OMERS Pension Plans under the laws of Canada as well as laws and regulations of the various countries where we invest.

**Investment Risk**

We ensure the OMERS Pension Plans' investments are well diversified across assets, industries and regions. The purpose of diversification is to have different segments of the investment portfolio exposed to different investment risks. This reduces the overall volatility of returns and insulates the investment portfolio from the negative impact of adverse returns in any one asset class, industry or region.

Diversification is achieved through the periodic review of and adjustment to the long-term asset mix targets. Our goal is to manage an asset mix that balances risks and rewards, avoids excessive volatility in the investment portfolio and is appropriate for the size and duration of the OMERS Pension Plans' accrued benefit obligations. The target weight of the public and private market asset groups, as a proportion of the total portfolio, are approved annually by the OAC Board with the objective of reaching our long-term strategic asset mix in a prudent and efficient manner. The progress of our actual asset mix towards our annual and long-term strategic asset mix targets is reviewed on an ongoing basis by the OAC Board and management.

We manage a variety of investment risks associated with investing in capital markets including market, credit and liquidity risk. Market, credit and liquidity risks are discussed in our Consolidated Financial Statements on pages 77 – 80 of this Annual Report.

### 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 due to unforeseen external events. Our framework of policies and procedures is designed to identify and manage operational risks through the implementation of controls over data integrity, information processing, management of information technology and through appropriate human resources, systems and practices.

### Strategic Risk

Strategic risk is the risk of not achieving our long-term strategic goals and objectives. The OAC Board and the CEO manage the achievement of our strategic goals by overseeing our policies and the planning and achievement of our long-term goals. The CEO is accountable to the OAC Board for decisions relating to the day-to-day management of the OMERS Pension Plans and the Funds including funding policy, investment strategies, investments pursued, investment management styles and operating results. To manage this risk, we have established a governance framework, business strategy process and performance measures. The OMERS Pension Plans' funding is a significant strategic risk.

To mitigate the potential impact of climate change on investment returns over the longer term, we are participating in a project to assess the impact of potential changes in the climate on our strategic asset allocation. The project, undertaken with a group of climate change experts, will provide a more detailed understanding of the potential impact of climate change on our asset allocation well into the future. The project will identify sign-posts along the way that will permit timely action to mitigate this risk and/or capture new investment opportunities.

#### Funding Risk

Inappropriate policies or decisions related to asset allocation or actuarial methodologies and valuation processes can impact funding of the OMERS Pension Plans. Our ability to pay pensions is not only subject to investment risks but is also subject to the risks associated with the assumptions used in the valuation of the Plan's accrued benefit obligation. There are two sources of this risk: (i) the risk that actual market conditions differ significantly from the assumptions used in the valuation of the accrued benefit obligation, and (ii) unforeseen changes in the major assumptions. The major assumptions that go into the valuation of the accrued benefit obligation include long-term economic conditions (i.e., inflation, the real return on investments and the rate of member salary increases) and the demographics of the membership (i.e., mortality rates, disability rates, rates for terminations, early retirement and marital status).

To manage these risks, the OAC Board appoints an independent actuary to value the accrued benefit obligation annually based on economic and demographic assumptions recommended by the independent actuary, reviewed by management and approved by the OAC Board. The validity of all assumptions is monitored each year against actual experience and adjusted as appropriate.

### Legal and Compliance Risk

Legal and compliance risks arise from changes in or non-compliance with legal and/or regulatory requirements and/or other ethical standards which can undermine the OAC's ability to achieve its objectives. The OAC Board and management, with the assistance of the Legal Division (including the Compliance Branch) and independent expert advisors, monitors situations affecting regulatory compliance that could result in legal or regulatory action. We have established processes to keep abreast of applicable regulatory developments and to advocate for changes where they are in the best interest of Plan members.

Through our governance framework and established policies and procedures, including our Code of Conduct and Personal and Insider Trading Policy for directors and employees, we strive to ensure that values and behavioural expectations are well understood and integrated throughout the organization so as to minimize these risks.

# Critical Accounting Policies

We have established procedures to ensure that our accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"), are applied consistently and that our processes for changing accounting policies are systematic and well controlled.

Consistent with Canadian GAAP, 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 private market investments and the valuation of our accrued benefit obligation.

Our policy is to record all investments at fair value; however, 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 market 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 private market investments acquired within the current fiscal year may be held at cost, where cost 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 the OAC's investment management. As a result, fair values for private market investments are based on estimates which are inherently uncertain. Our policy is to obtain independent support of valuations by accredited independent appraisers at least once every three years, or whenever the valuation changes by more than 15 per cent from the prior year for direct investments and annual audited financial statements for funds investments.

Actuarial assumptions used in determining the accrued benefit obligation reflect management's estimates of future economic factors such as the discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of Plan and RCA members. This process is supported by our independent actuary. The Plan and 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 Note 2 to the Consolidated Financial Statements.

**Transition to International Financial Reporting Standards ("IFRS")**

Rather than mandating pension plans such as the OMERS Plans to adopt existing IFRS for pension plans, the Accounting Standards Board of The Canadian Institute of Chartered Accountants ("CICA") issued an exposure draft during 2009 updating the existing CICA Accounting Standard 4100 Pension Plans. It is likely that this updated CICA standard will be used until the equivalent IFRS standard is updated. In general, we are supportive of this approach and have provided both our general support as well as specific comments on the exposure draft to the CICA.

In the 2009 year-end financial statements, we have adopted several of the proposed changes to Section 4100 as well as changes to the existing CICA handbook that apply to the OAC, including disclosure of investments based on the nature of how they are valued (see Note 3 to the Consolidated Financial Statements). These changes, as well as other proposed changes in the Section 4100 exposure draft involve extended disclosures, primarily relating to measurement and valuation of investments rather than changes to our accounting policies. As such, adoption of the revised Section 4100 is not expected to impact the financial position of the Plan or the RCA. The CICA is expected to issue the revised Section 4100 in the first half of 2010.

# Compensation Discussion and Analysis

**OMERS is a world leader in asset management and aims to attract and retain the best talent.**

The Leadership Resources and Compensation Committee of the OAC Board ("LRCC") is responsible for the OAC's executive compensation, which covers the Leadership Team of the OAC and its Investment Entities (OMERS Capital Markets, Oxford Properties Group, Borealis Infrastructure, OMERS Strategic Investments and OMERS Private Equity). The Leadership Team is comprised of the OAC CEO, the OAC CIO, the Investment Entity CEOs and the Executive Vice Presidents of the OAC's corporate groups.

### Leadership Resources and Compensation Committee Mandate

The purpose of the LRCC is to assist the OAC Board of Directors in meeting the Board's fiduciary oversight and related obligations by: (i) attracting, retaining and motivating exceptional leadership at the senior executive level who are committed to the OAC Mission Statement and Core Values; (ii) overseeing a robust succession planning process for the position of the OAC CEO; and (iii) by overseeing senior executive performance, compensation and compensation policies.

The LRCC is comprised of five members and meets a minimum of four times annually. Members of the LRCC are appointed by the Board from amongst the Board's members and are independent of management. The LRCC retains an external advisor, Global Governance Advisors, to provide executive compensation and any other expertise the LRCC deems appropriate or necessary. It conducts in camera sessions at the end of its meetings, without management present.

The LRCC's key responsibilities include:

- oversight of an annual performance appraisal process for the CEO;
- making recommendations to the OAC Board for compensation arrangements for the CEO, including incentive awards;
- succession planning process for the CEO to facilitate the hiring and, if necessary, termination of the CEO;
- recommending to the OAC Board (on the recommendation of the CEO) the recruitment of and the proposed compensation for the Leadership Team;
- approving the compensation strategy, policy structure and framework for short-term and long-term compensation plans for the Leadership Team; this includes approving performance measures, targets and weightings in the incentive plans;
- reviewing human resource management policies, compensation and benefit plans to ensure appropriate strategic linkages and risk mitigation; and
- reviewing and providing guidance into significant organizational structure changes to ensure alignment with enterprise-wide strategic plans.

As required by its mandate, the LRCC regularly reviews and recommends amendments to its mandate to the Governance Committee. Members of the LRCC for 2009 were:

Chair: Rick Miller

Vice Chair: John Goodwin

Members: Bill Aziz
Sheila Vandenberk
John Weatherup
John Sabo (ex officio)

### Compensation Philosophy and Plans

The OAC's pay-for-performance philosophy seeks to:

- reward employees in a manner consistent with competitive market practice and thereby improve the organization's ability to attract and retain high quality professionals;
- focus employee efforts on critical business/performance targets;
- reward employees for superior performance on results and adjust compensation when performance falls below targets;
- align employee interests with OMERS Plan member interests;
- promote a pay-for-performance culture; and
- encourage and reward long-term performance.

The OAC's pay philosophy is designed to be competitive with a long-term view in order to attract and retain high performing employees. The philosophy is approved annually by the LRCC and is an integral component of the compensation strategy. The total compensation structure for the Leadership Team includes a base salary, benefits, pension and performance-based incentive plans through annual and long-term incentive plans. Base salary and target level performance for short-term and long-term incentives are benchmarked to the median in the marketplace and superior level performance for short-term and long-term incentive plans are benchmarked to the 75$^{th}$ percentile in the marketplace.

### Comparator Groups Used to Set Competitive Pay

The OAC has identified different comparator groups for its various lines of business in setting competitive compensation. This is to closely reflect the competitive market for highly specialized professionals. The comparator groups are reviewed on a regular basis and approved by the LRCC. Typical considerations include other organizations that compete for similar talent, industry specific organizations and organizations with similar financial measures. Within these comparator groups, the OAC reviews compensation levels of comparable jobs and assesses relative performance and size of the comparator institutions.

### Compensation Process and Board Advisor

The OAC's compensation strategy and structure are regularly reviewed by the LRCC with the assistance of an independent advisor. Each year, the LRCC approves the compensation strategy, comparator groups, pay philosophy and overall short-term incentive and long-term incentive plans for the OAC and its Investment Entities. In addition, the LRCC reviews and recommends to the OAC Board the compensation of the OAC CEO and the compensation of the Leadership Team.

The LRCC is assisted regularly by external experts in fulfilling its mandate and Global Governance Advisors were retained in 2009 to provide independent advice and assist the LRCC with the comprehensive review of the compensation plans and philosophy. In addition, several market surveys are conducted by independent advisors and reviewed by the members of the LRCC to assess the competitiveness of the OAC's total compensation structure and levels of compensation. This provides the LRCC with meaningful information in making its recommendations to the OAC Board.

### Salary

The OAC's compensation philosophy is to pay competitive base salaries as defined by the comparator group for each line of business. In general, positions that have a direct impact on investment returns, and executive-level positions, have a greater proportion of their total compensation linked to variable pay and a lesser proportion on base salary. Positions that do not directly impact investment returns, such as corporate and pension service roles, have a larger proportion of their total compensation in base salary and less in variable pay.

### Benefits

All employees at the OAC and the Investment Entities participate in benefits that include vacation entitlement, life and disability insurance, health and dental benefits, and an employee assistance program. In addition, employees participate in either the OMERS Primary Pension Plan and Retirement Compensation Arrangement or defined contribution pension plans through third-party providers.

**Short-term Incentive Plans**

All permanent employees are eligible to participate in an annual short-term incentive plan ("STIP"). The annual plans are designed to attract, retain and motivate high-quality people and to provide competitive, performance-based opportunities based on market practices as identified in the OAC's compensation strategy. Award opportunities vary so that they are aligned with respective comparator groups. Performance measures, weightings and targets are approved for the STIP annually by the LRCC.

Actual STIP awards are calculated using organizational/individual results achieved against approved performance measures and targets. All STIP programs have a threshold level of performance. If the threshold is not met, incentive awards are not paid. Each STIP is calculated based on a percentage of salary, weighted to reflect the role and impact the position has on achievement of corporate business plan objectives. The STIP includes components based on investment results, business unit performance and individual contribution. Investment performance is measured on results in excess of OAC Board-approved benchmarks and is based on one-year or one-year and three-year investment performance.

**Long-term Incentive Plans**

The OAC has long-term incentive plans ("LTIPs") in place for OAC and Investment Entity employees. Participation in these plans is limited to key employees in each organization. The LTIPs are designed to encourage and reward long-term performance; attract, retain and motivate eligible employees by providing the opportunity to realize additional compensation if these long-term performance goals are achieved; and to align a participant's interest with that of Plan members. The LTIP has a three-year employment vesting period before a first payment is disbursed to an eligible participant in order to provide retention value. The LTIP formula rewards overall investment return performance results, with emphasis on meeting pre-approved targets, consistent value-added performance every year, accruing in either three-year or five-year performance periods. Investment performance relates to total fund and/or asset class performance. The actual award paid could be above or below the target amount based on final investment performance results at the end of the specific performance period.

**Compensation**

The table below represents disclosure of base annual earnings, annual incentive plan, long-term incentive plan, employer portion of pension contribution and other compensation earned by the President and Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and the three other most highly compensated executives for the year ended December 31, 2009.

| Name and Principal Position | Year | Base Earnings | Annual Incentive Plan (i) | Long-term Incentive Plan (ii) | Employer Pension Contribution (iii) | Other (iv) | Total |
|---|---|---|---|---|---|---|---|
| **Michael Nobrega (v)** | **2009** | **$ 475,000** | **$ 1,051,210** | **$ 1,362,110** | **$ 200,097** | **$ 143,158** | **$ 3,231,575** |
| President and CEO | 2008 | $ 474,904 | $ 442,863 | $ 1,856,108 | $ 200,014 | $ 301,228 | $ 3,275,117 |
| | 2007 | $ 448,077 | $ 885,425 | $ 1,900,796 | $ 252,627 | $ 113,312 | $ 3,600,237 |
| **Patrick Crowley** | **2009** | **$ 425,000** | **$ 510,000** | **$ 232,800** | **$ 96,034** | **$ 31,582** | **$ 1,295,416** |
| Chief Financial Officer | 2008 | $ 424,904 | $ 425,180 | N/A | $ 88,988 | $ 22,043 | $ 961,115 |
| | 2007 | $ 400,000 | $ 400,000 | N/A | $ 84,078 | $ 13,314 | $ 897,392 |
| **John Macdonald** | **2009** | **$ 425,000** | **$ 510,000** | **$ 924,000** | **$ 123,192** | **$ 78,377** | **$ 2,060,569** |
| Chief Operating Officer | 2008 | $ 398,462 | $ 341,761 | $ 874,500 | $ 131,699 | $ 47,960 | $ 1,794,382 |
| **R. Michael Latimer** | **2009** | **$ 640,000** | **$ 284,480** | **$ 1,978,086** | **$ 57,600** | **$ 93,908** | **$ 3,054,074** |
| President and CEO | 2008 | $ 640,000 | $ 0 | $ 1,955,178 | $ 57,600 | $ 97,828 | $ 2,750,606 |
| OPGI Management GP Inc. (Real Estate) | 2007 | $ 600,000 | $ 600,000 | $ 2,017,149 | $ 54,000 | $ 66,650 | $ 3,337,799 |
| **Michael Rolland (vi)** | **2009** | **$ 425,000** | **$ 820,250** | **$ 1,639,463** | **$ 20,000** | **$ 46,496** | **$ 2,951,209** |
| President and CEO | 2008 | $ 425,000 | $ 848,036 | $ 1,205,889 | $ 9,500 | $ 46,618 | $ 2,535,043 |
| Borealis Capital Corporation (Infrastructure) | 2007 | $ 336,154 | $ 598,229 | $ 1,050,394 | $ 9,000 | $ 45,015 | $ 2,038,792 |

(i) The annual incentive plan is based on a combination of achieving corporate and individual performance objectives, such as investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned.
(ii) The LTIP is awarded based on meeting investment return objectives over a multi-year performance period. The amount reported for a given year reflects the total earned from the LTIP performance period that matured at the end of that year.
(iii) Represents the employer contribution to the OAC's Defined Benefit Primary Pension Plan and RCA or employer contributions to third-party providers of defined contribution pension plans.
(iv) Includes hiring, car and other allowances, insurance and other benefits.
(v) Assumed the role of President and CEO of the OAC on March 12, 2007. Prior to this appointment, Mr. Nobrega held the position of President and CEO of Borealis Capital Corporation (Infrastructure). The 2007 amounts reflect the proportionate compensation from both positions.
(vi) Assumed the role of President and CEO of Borealis Capital Corporation (Infrastructure) on March 12, 2007. Prior to this appointment, Mr. Rolland held the position of Senior Vice President of Borealis Capital Corporation (Infrastructure). The 2007 amounts reflect the proportionate compensation from both positions.

The following table represents disclosure of pension information for those individuals whose remuneration is disclosed in the previous table on page 61 and who are active members of the Plan and the RCA as at December 31, 2009.

| Name and Principal Position | Years of Credited Service | Annual Benefits Payable (i) | Accrued Benefit Obligation at Beginning of the Year | Change in Pension Value | Accrued Benefit Obligation at End of the Year |
|---|---|---|---|---|---|
| Michael Nobrega<br>President and CEO | 2.8 | $ 133,815 | $ 1,128,109 | $ 821,472 | $ 1,949,581 |
| Patrick Crowley<br>Chief Financial Officer | 3.1 | $ 40,238 | $ 385,489 | $ 307,696 | $ 693,185 |
| John Macdonald<br>Chief Operating Officer | 2.0 | $ 29,686 | $ 210,704 | $ 320,014 | $ 530,718 |

(i) Annual pension benefit payable as at December 31, 2009, if the individual had elected to retire on that date. This amount is based on pensionable earnings and credited service up to December 31, 2009 and includes any bridge benefits payable.

# Responsibilities of Management, the Actuary and External Auditors

The OMERS Administration Corporation (the "OAC") is the administrator of the OMERS pension plans (the "OMERS Pension Plans") as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"). The OMERS Pension Plans include OMERS Primary Pension Plan (the "Plan"), the Retirement Compensation Arrangement (the "RCA") associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). The OAC is responsible for managing the funds of the Plan, the RCA and the Supplemental Plan (collectively, the "Funds"). As at December 31, 2009, membership in the Supplemental Plan was nil.

The consolidated financial statements of the OAC have been prepared by management and approved by the Board of the OAC (the "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, Internal Audit reviews the 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 Committee, which is comprised of directors who are not officers or employees of the OAC, assists the OAC Board in executing this responsibility. The Audit 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 Committee reviews the annual consolidated financial statements and recommends them to the OAC Board for approval.

The independent actuary is appointed by the OAC Board. It is the independent actuary's responsibility to carry out annual valuations of the accrued benefit obligations of the OMERS Pension Plans in accordance with accepted actuarial practice and, after review by management, to report thereon to the OAC Board. The Audit Committee assists the OAC Board in executing this responsibility. The results of the independent actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the independent 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 the OAC and its active, inactive and retired members.

The external auditors are also appointed by the OAC Board. Their responsibility is to report to the OAC Board whether in their opinion the consolidated statement of net assets, the consolidated statement of application of net assets to accrued benefit obligation and surplus/(deficit) and the consolidated statement of changes in net assets for the year ended December 31, 2009 present fairly in all material respects, the net assets and surplus/(deficit) of actuarial value of net assets as compared with the accrued benefit obligation in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit 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 net assets, changes in net assets and surplus/(deficit) of actuarial value of net assets as compared with the accrued benefit obligation of the OAC as of the date and for the periods presented in this Annual Report.

Michael Nobrega
President and Chief Executive Officer

Patrick G. Crowley
Executive Vice President and Chief Financial Officer

Toronto, Canada, February 25, 2010

# Actuarial Opinion

We conducted actuarial valuations as at December 31, 2009 of the OMERS Primary Pension Plan (the "Primary Plan") and the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (the "RCA") administered by OMERS Administration Corporation (the "OAC"). The purpose of the valuations is to fairly present the actuarial funded status of the Primary Plan and the RCA as at December 31, 2009, for inclusion in this Annual Report in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

The results of the actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of $54,253 million in respect of benefits accrued for service to December 31, 2009. The actuarial assets at that date were $52,734 million indicating a going concern actuarial deficit of $1,519 million. Ongoing adequacy of the current 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 all 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, 2009 (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 $438 million. Contributions, based on the top-tier Primary Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Primary Plan. We expect that if contributions to the RCA continue, the annual cash inflow will be more than sufficient to cover the annual benefit payments for the short to medium term.

The actuarial valuations of the Primary Plan and the RCA as at December 31, 2009 were conducted using the Unit Credit Actuarial Cost Method with projection of earnings, and membership data as at December 1, 2009 and financial information as at December 31, 2009 supplied by the OAC. The December 1, 2009 membership data was adjusted, among other things, for the following:

- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2010.
- estimated credited service accruals in 2009; and
- estimated earnings for 2009.

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

- the data are sufficient and reliable for the purpose of the valuations;
- the assumptions adopted are, in aggregate, 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.

Respectfully submitted

Watson Wyatt Canada ULC, a Towers Watson Company

Ian Markham
Fellow, Canadian Institute of Actuaries

Marshall Posner
Fellow, Canadian Institute of Actuaries

Toronto, Canada
February 25, 2010

# Auditors' Report

**To the Board of OMERS Administration Corporation**

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to accrued benefit obligation and surplus/(deficit) of OMERS Administration Corporation as at December 31, 2009 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of OMERS Administration Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets and surplus/(deficit) of actuarial value of net assets as compared with the accrued benefit obligation of OMERS Administration Corporation as at December 31, 2009 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants,
Licensed Public Accountants

Toronto, Canada
February 25, 2010

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF NET ASSETS

(millions)

| As at December 31, | Note | | 2009 | | 2008 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments | 3 | $ | 60,554 | $ | 57,102 |
| Other investment assets | 5a | | 862 | | 861 |
| Amounts due from pending trades | | | 311 | | 505 |
| Other assets | 5b | | 231 | | 206 |
| Total Assets | | | 61,958 | | 58,674 |
| **Liabilities** | | | | | |
| Investment liabilities | 6 | | 13,084 | | 13,381 |
| Due to administered funds | | | 734 | | 672 |
| Amounts payable from pending trades | | | 254 | | 1,093 |
| Other liabilities | | | 54 | | 51 |
| Total Liabilities | | | 14,126 | | 15,197 |
| **Net Assets** | | $ | 47,832 | $ | 43,477 |

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.
Guarantees, commitments and contingencies are discussed in Note 15.

Signed on Behalf of the Board of OMERS Administration Corporation

Chair

Chair of Audit Committee

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

| (millions)<br>For the year ended December 31, | Note | 2009 | 2008 |
|---|---|---|---|
| **Changes Due to Investment Activities** | | | |
| Net investment income/(loss) | 9 | $ 4,310 | $ (8,013) |
| **Changes Due to Pension Activities** | | | |
| Contributions | 11 | 2,143 | 2,048 |
| Benefits | 12 | (2,050) | (2,027) |
| Pension administrative expenses | 13a | (48) | (47) |
| | | 45 | (26) |
| **Total Increase/(Decrease)** | | 4,355 | (8,039) |
| Net assets, beginning of year | | 43,477 | 51,516 |
| **Net Assets, End of Year** | | $ 47,832 | $ 43,477 |

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

## CONSOLIDATED STATEMENT OF APPLICATION OF NET ASSETS TO ACCRUED BENEFIT OBLIGATION AND SURPLUS/(DEFICIT)

| (millions)<br>As at December 31, | Note | 2009 | 2008 |
|---|---|---|---|
| **OMERS Primary Pension Plan** | 7 | | |
| Accrued benefit obligation | | $ 54,253 | $ 50,080 |
| Actuarial value adjustment of net assets | | (4,950) | (6,363) |
| Surplus/(deficit) | | (1,519) | (279) |
| **Net Assets in OMERS Primary Pension Plan** | | 47,784 | 43,438 |
| **Retirement Compensation Arrangement** | 8 | | |
| Accrued benefit obligation | | 486 | 285 |
| Surplus/(deficit) | | (438) | (246) |
| **Net Assets in Retirement Compensation Arrangement** | | 48 | 39 |
| **Net Assets** | | $ 47,832 | $ 43,477 |

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

# Notes to Consolidated Financial Statements

Year ended December 31, 2009

## NOTE 1

### DESCRIPTION OF PLANS ADMINISTERED BY OMERS ADMINISTRATION CORPORATION

The OMERS Administration Corporation (the "OAC") is a corporation without share capital under the *Ontario Municipal Employees Retirement System Act*, 2006 (the "OMERS Act"). The OAC is the administrator of the OMERS pension plans (the "OMERS Pension Plans") as defined in the OMERS Act. The OMERS Pension Plans include OMERS Primary Pension Plan (the "Plan"), the Retirement Compensation Arrangement (the "RCA") associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). The OAC is responsible for managing the funds of the Plan, the RCA and the Supplemental Plan (collectively, the "Funds"), in accordance with the *Pension Benefits Act* (Ontario) (the "PBA"), the *Income Tax Act* (Canada) (the "*Income Tax Act*"), and the OMERS Act. Under the OMERS Act, the OMERS Sponsors Corporation (the "SC") is the sponsor of the OMERS Pension Plans. The Ontario Municipal Employees Retirement System ("OMERS") represents the combined retirement system comprised of the SC, the OAC, the Plan, the RCA and the Supplemental Plan.

The accrued benefit obligations of any of the OMERS Pension Plans can not be funded by the assets of either of the other two OMERS Pension Plans. As at December 31, 2009, membership in the Supplemental Plan was nil.

#### OMERS Primary Pension Plan

The Plan is a multi-employer 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 Plan is governed by the OMERS Act and the benefit provisions and other terms of the Plan are set out in the plan text.

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

a) Funding – The Plan is a jointly sponsored defined benefit pension plan funded by equal contributions from participating employers and members and by the investment earnings of the Plan assets. Contribution rates are set by the SC. The required contributions are identified through the actuarial valuation, and are determined in accordance with the OMERS Act, the *Income Tax Act* and the PBA, according to the actuarial needs of the Plan.

b) Pensions – The normal retirement age ("NRA") is 65 years for all Plan members, except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement 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. The Plan benefits are integrated with the Canada Pension Plan.

c) Death Benefits – Death benefits are available to a surviving spouse, eligible dependent children or designated beneficiary 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) Withdrawals and Transfers from the Plan – Subject to lock-in provisions, a member that has terminated employment prior to eligibility to retire has the option to withdraw or transfer his/her benefits from the Plan to another retirement savings vehicle.

e) Escalation of Pensions – Pension benefits are increased for inflation through an annual adjustment equal to 100 per cent of the increase in the average Consumer Price Index ("CPI") from the prior year. This 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, any excess is carried forward to future years.

f) Disability Pensions – A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan. The pension is calculated using a member's years of credited service and the average annual earnings during the member's highest 60 months of consecutive earnings consistent with a standard pension. Disability pensions continue until normal retirement or until the member is able to return to work.

g) Income Taxes – The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and as such 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.

**Retirement Compensation Arrangement**

The RCA was established to provide pension benefits based on full earnings for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The RCA net assets available for benefits are accounted for separately from the Plan and the Supplemental Plan and the accrued benefit obligation of the RCA is valued separately from the Plan and Supplemental Plan accrued benefit obligations.

**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 Supplemental Plan is a separately funded multi-employer pension plan that provides supplemental pension benefits that "top up" those available under the Plan for members of the Plan who are employed in the police and fire sectors which, as defined in the OMERS Act, includes paramedics. The Supplemental Plan is governed by the OMERS Act and the benefit provisions and other terms of the Supplemental Plan are set out in the plan text. The Supplemental Plan is registered with FSCO and the Canada Revenue Agency. The Supplemental Plan is registered under Registration #1175892.

The Supplemental Plan is a contributory defined benefit pension plan funded by equal contributions from participating employers and members and by the investment earnings of the Supplemental Plan assets. Contribution rates are set by the SC. Participation in the Supplemental Plan is effective only upon agreement between an employee group and an employer.

Neither the Plan nor the RCA is permitted to pay costs for the Supplemental Plan. As such, until March 31, 2012, unless the Supplemental Plan has sufficient funds based on the administrative portion of contributions, any administrative costs of the Supplemental Plan are funded through a start up grant from the Province of Ontario.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

These consolidated financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the OAC as a separate financial reporting entity independent of the employers and Plan members.

Certain comparative figures have been restated to conform to the current year's presentation.

**Consolidation**

The consolidated financial statements include the accounts of the OAC's subsidiaries. The subsidiaries were formed for the purpose of investing in certain private equity, infrastructure and real estate assets. With the exception of private equity investments with a defined exit strategy, the consolidated financial statements include the financial assets, liabilities and operating results for all investment entities where the OAC has effective control for accounting purposes, and for variable interest entities where the OAC is the primary beneficiary. For investment entities where the OAC has joint ownership and control for accounting purposes, a proportionate share of the fair value of assets, liabilities and operating results is included in the consolidated financial statements. Entities over which the OAC has significant influence are accounted for using the equity basis of accounting, stated at fair value.

For private equity investments with a defined exit strategy, the fair value of the investments is stated net of all assets and liabilities of the investment company.

Inter-company transactions and balances are eliminated in arriving at the consolidated financial statements.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, accrued benefit obligation and related disclosures. Actual results could differ from these estimates. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the accrued benefit obligation.

**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 represents estimates of the consideration that would be agreed upon between arms length, knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted closing market price, if one exists. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Fair value may be determined by reference to a market index, publicly observable market data or through the use of valuation techniques and models which utilize assumptions based on information that is not publicly observable. Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used annually by management to determine fair value. Valuation techniques used include the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models, as appropriate. In these cases the fair value may differ significantly when varying assumptions are used. Accredited external appraisers are required to perform a review of management's valuations to determine the reasonableness of the valuations for each significant private market 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.

The difference between the value of an asset or liability 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 original acquisition. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows and equity accounted earnings during the year and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

**Investment Income/Loss**

Investment income/loss includes interest, dividends, operating income/loss from consolidated and equity accounted investment entities recorded on the accrual basis, gains and losses that have been realized on the disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Where the OAC is able to exercise significant influence over the operations of a private market investment, net income is recognized using the equity method and the investment is adjusted to its fair value. For private investments with a defined exit strategy or where the OAC is not able to exercise control or significant influence, income is recognized, as dividends or distributions are declared and the investment is adjusted to its fair value.

**Transaction Costs**

Transaction 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 in investment income as incurred.

**Investment Liabilities**

Investment liabilities include commercial paper, debentures, mortgages and other debt obligations, primarily related to investments in real estate, infrastructure and private equity. Investment liabilities also include the Funds' liability to return cash collateral received in securities lending transactions. 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, which are carried at their cost amount.

**Amounts Due/Payable from Pending Trades**

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. For derivative contracts, unrealized gains and losses are included in amounts due/payable from pending trades.

**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 investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the settlement is recognized in realized gains/losses.

**Due to Administered Funds**

Under contractual agreements and with the approval of the Government of Ontario, the OAC invests 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. The OAC is authorized under the terms of the various agreements to recover its expenses for administering such funds.

The amount due to administered funds is credited with income based upon their proportionate interest in the Plan's net investment income and the balance reflects the administered funds' proportionate interest in the fair value of the Plan's investments.

**Accrued Pension Benefits and Accrued Benefit Obligation**

The value of accrued pension benefits of the Plan is based on a projected accrued benefits method (pro-rated on service) actuarial valuation prepared by an independent firm of actuaries. This accrued benefit obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the OAC for the purpose of establishing the long-term funding requirements of the Plan. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

The valuation methodology used in the estimation of the accrued pension benefits of the RCA is developed on a basis consistent with the Plan.

**Actuarial Value of Net Assets and Actuarial Value Adjustment**

The actuarial value of net assets for the Plan has been determined by smoothing returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unrecognized actuarial value adjustment to arrive at the actuarial value of net assets.

**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 contract adjustments and transfers from other pension plans are recorded and service is credited when the purchase amount is received.

**Benefits**

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

## NOTE 3

## INVESTMENTS

Total investments, before allocating the effect of derivative contracts, and investment related assets and liabilities as at December 31 are as follows:

| | | 2009 | | 2008 | |
|---|---|---|---|---|---|
| (millions) | Note | Fair Value | Cost | Fair Value | Cost |
| **Public Market Investments** | | | | | |
| **Interest Bearing Investments** | | | | | |
| Cash and short-term deposits [i] | | $ 5,326 | $ 5,326 | $ 6,599 | $ 6,599 |
| Bonds and debentures [ii] | | 8,117 | 8,042 | 3,756 | 3,616 |
| Real return bonds | | 1,977 | 1,639 | 1,755 | 1,596 |
| Mortgages and private debt [iii] | | 1,785 | 1,709 | 1,749 | 2,000 |
| | | 17,205 | 16,716 | 13,859 | 13,811 |
| **Public Equity** | | | | | |
| Canadian public equities | | 6,272 | 5,217 | 6,251 | 7,107 |
| Non-Canadian public equities | | 7,859 | 7,349 | 8,653 | 9,870 |
| | | 14,131 | 12,566 | 14,904 | 16,977 |
| **Total Public Market Investments** | | 31,336 | 29,282 | 28,763 | 30,788 |
| **Private Equity [iv]** | | | | | |
| Canadian private equities [v] | | 2,071 | 1,920 | 1,339 | 1,310 |
| Non-Canadian private equities | | 2,977 | 3,369 | 2,823 | 3,041 |
| **Total Private Equity Investments** | | 5,048 | 5,289 | 4,162 | 4,351 |
| **Infrastructure Investments [v]** | | 12,195 | 11,819 | 12,140 | 11,266 |
| **Real Estate Investments** | | 11,975 | 10,699 | 12,037 | 10,398 |
| **Total Investments** | | 60,554 | 57,089 | 57,102 | 56,803 |
| **Investment Related Assets** | | | | | |
| Other investment assets | 5a | 862 | 924 | 861 | 937 |
| Amounts due from pending trades | | 311 | 35 | 505 | 33 |
| | | 1,173 | 959 | 1,366 | 970 |
| **Investment Related Liabilities** | | | | | |
| Investment liabilities | 6 | (13,084) | (13,015) | (13,381) | (13,353) |
| Amounts payable from pending trades | | (254) | (33) | (1,093) | (105) |
| | | (13,338) | (13,048) | (14,474) | (13,458) |
| **Net Investment Assets** | | $ 48,389 | $ 45,000 | $ 43,994 | $ 44,315 |

(i) Includes restricted cash of $166 million (2008 – $108 million).
(ii) Includes non-Canadian bonds and debentures with a fair value of $230 million (2008 – $16 million).
(iii) Includes mortgages with a fair value of $975 million (2008 – $1,026 million).
(iv) Investment assets are net of the fair value of long term debt of $438 million (2008 – $479 million).
(v) Includes resource properties with a total fair value of $422 million (2008 – $433 million).

The Funds' investments consist of the following major asset classes: public markets (which include public equities and interest bearing investments such as treasury bills, bonds, mortgages and private debt); private equity; infrastructure and real estate. The Funds' investments are made through Investment Entities that are responsible for managing the Funds' investments in specific asset classes. The Investment Entities are OMERS Capital Markets which is primarily responsible for investing in publicly traded interest bearing investments and equities, OMERS Private Equity which focuses on private equity investments, Borealis Infrastructure which focuses on infrastructure investments, Oxford Properties Group which focuses on owning and managing real estate assets and OMERS Strategic Investments which manages strategic investments across all asset classes (collectively the "Investment Entities").

The Funds' net investment assets by entity responsible for managing the Funds' investments are as follows:

| (millions)<br>As at December 31, 2009 | OMERS Capital Markets | OMERS Private Equity | Borealis Infrastructure | Oxford Properties Group | OMERS Strategic Investments | Total |
|---|---|---|---|---|---|---|
| Investment assets | $ 30,686 | $ 4,424 | $ 12,117 | $ 11,975 | $ 1,352 | $ 60,554 |
| Allocation of cash and other | (1,079) | 1 | 873 | 186 | 19 | – |
| Investment related assets | 392 | 30 | 604 | 132 | 15 | 1,173 |
| Investment related liabilities | (2,126) | (3) | (6,101) | (4,971) | (137) | (13,338) |
| **Net Investment Assets** | $ 27,873 | $ 4,452 | $ 7,493 | $ 7,322 | $ 1,249 | $ 48,389 |

| (millions)<br>As at December 31, 2008 | OMERS Capital Markets | OMERS Private Equity | Borealis Infrastructure | Oxford Properties Group | OMERS Strategic Investments | Total |
|---|---|---|---|---|---|---|
| Investment assets | $ 28,763 | $ 4,049 | $ 12,124 | $ 12,037 | $ 129 | $ 57,102 |
| Allocation of cash and other | (493) | (437) | 734 | 195 | 1 | – |
| Investment related assets | 582 | 14 | 632 | 136 | 2 | 1,366 |
| Investment related liabilities | (3,652) | (4) | (6,425) | (4,393) | – | (14,474) |
| **Net Investment Assets** | $ 25,200 | $ 3,622 | $ 7,065 | $ 7,975 | $ 132 | $ 43,994 |

**Investment Valuation Practice**

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 based on management assumptions of investments. 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) Bonds and debentures, real return 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 bonds, derivatives and real return bonds are based on quotes from industry standard sources. For investments where quoted market prices are not available such as mortgages and private debt, 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 Fund are valued based on values provided by the fund manager.

(iii) Private market investments include investments in private equity, infrastructure and real estate assets either held directly or as a limited partner which generally do not have a publicly available market price. For private market 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, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets. Such valuation procedures include one or a combination of the following:

- 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.
- Assessing the investment assets against the value of comparable publicly listed equities.

The Funds' private market investments are valued as follows:

- The fair value of investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values is equal to the appraised amount;
- For non-operating and/or start-up directly held private investments, cost is considered the best estimate of fair value, unless there is a specific and objectively verifiable reason to change the value, which must be supported by an appraisal;
- The fair value of private market investments acquired within the current fiscal year may be held at cost where cost is considered the best estimate of fair value; and
- The fair value of a private fund investment where the 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 swap, futures, option 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.

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 and public equities not traded in an active market.

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 mortgages and private market investments valued based on discounted future cash flow models 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, as at December 31, 2009 are as follows:

| (millions) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Public Market Investments** | | | | |
| **Interest Bearing Investments** | | | | |
| Cash and short-term deposits | $ 193 | $ 4,306 | $ 827 | $ 5,326 |
| Bonds and debentures | – | 8,117 | – | 8,117 |
| Real return bonds | – | 1,977 | – | 1,977 |
| Mortgages and private debt | – | – | 1,785 | 1,785 |
| | 193 | 14,400 | 2,612 | 17,205 |
| Public equity | 13,295 | – | 73 | 13,368 |
| Public fund investments | – | 478 | 285 | 763 |
| **Total Public Market Investments** | 13,488 | 14,878 | 2,970 | 31,336 |
| **Private Equity Investments** | | | | |
| Direct investments | 2 | 341 | 2,059 | 2,402 |
| Fund investments | – | – | 2,646 | 2,646 |
| **Total Private Equity Investments** | 2 | 341 | 4,705 | 5,048 |
| **Infrastructure Investments** | – | – | 12,195 | 12,195 |
| **Real Estate Investments** | 5 | – | 11,970 | 11,975 |
| **Total Investments** | 13,495 | 15,219 | 31,840 | 60,554 |
| **Investment-related Assets** | | | | |
| Other investment assets | – | 222 | 640 | 862 |
| Amounts due from pending trades [(i)] | 37 | 274 | – | 311 |
| | 37 | 496 | 640 | 1,173 |
| **Investment-related Liabilities** | | | | |
| Debt | – | (3,738) | (5,811) | (9,549) |
| Payables under securities lending program | – | (1,960) | – | (1,960) |
| Amounts payable from pending trades [(i)] | (53) | (98) | (103) | (254) |
| Other payables and liabilities | – | (474) | (1,101) | (1,575) |
| | (53) | (6,270) | (7,015) | (13,338) |
| **Net Investment Assets** | $ 13,479 | $ 9,445 | $ 25,465 | $ 48,389 |

(i) Includes fair value of derivatives.

The Level 3 classification includes all assets and liabilities related to assets valued based on non-observable market data. Where the investment asset being valued is an entity, the Level 3 category includes all assets and liabilities of that entity. In addition 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:

| (millions) | Fair Value Dec. 31, 2008 | Total Gain / (Loss) Included in Net Income | Contributed Capital | Capital Returned | **Fair Value Dec. 31, 2009** | **Unrealized Gains/Losses Attributable to Assets Held at Dec. 31, 2009** (i) |
|---|---|---|---|---|---|---|
| Mortgages and private debt | $ 1,749 | $ 321 | $ 79 | $ (364) | **$ 1,785** | **$ 75** |
| Public equity investments | 47 | 5 | 26 | (5) | **73** | **(7)** |
| Public fund investments | 295 | (10) | – | – | **285** | **16** |
| Private equity – direct investments | 1,276 | 59 | 852 | (197) | **1,990** | **(50)** |
| Private equity – fund investments | 2,191 | 258 | 380 | (199) | **2,630** | **239** |
| Infrastructure investments | 7,081 | 732 | 732 | (974) | **7,571** | **111** |
| Real estate investments | 11,285 | (256) | 578 | (34) | **11,573** | **(253)** |
| Real estate fund investments | 389 | (76) | 25 | – | **338** | **(76)** |
| Debt | (753) | (56) | 65 | (36) | **(780)** | **(9)** |
| **Total** | $ 23,560 | $ 977 | $ 2,737 | $ (1,809) | **$ 25,465** | **$ 46** |

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

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. The following hypothetical analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible alternative discount rate assumptions where such reasonably possible alternative assumptions would change the fair value significantly. The impact to the valuation from 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.

| | Increase/Decrease in Discount Rate (basis points) | Increase/Decrease in Net Investment Assets (millions) |
|---|---|---|
| Private equity-direct investments | 60 | $ 130 |
| Infrastructure investments | 20 | 300 |
| Real estate investments | 25 | 210 |
| **Total Impact on Net Investment Assets** | | $ 640 |

The fair value of public market, private equity and real estate fund investments where the OAC does not have access to the underlying investment information are 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.

At December 31, the Funds held the following investments, each having a fair value or cost, exceeding one per cent of the fair value or cost of net investment assets:

| | | | 2009 | | | 2008 |
|---|---|---|---|---|---|---|
| (millions) | Number of Investments | Fair Value | Cost | Number of Investments | Fair Value | Cost |
| Public market investments | – | $ – | $ – | 2 | $ 1,118 | $ 1,076 |
| Private market investments | 13 | 13,335 | 12,390 | 12 | 12,473 | 11,322 |
| | 13 | $ 13,335 | $ 12,390 | 14 | $ 13,591 | $ 12,398 |

Private market 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, William Osler Health Care Centre, Associated British Ports, Scotia Gas Networks, CEDA International, LifeLabs; and real estate ownership interests in Yorkdale Shopping Centre located in Ontario, the Fairmont Banff Springs hotel located in Alberta, TD Canada Trust Tower located in Ontario, the Richmond Adelaide Complex located in Ontario and Centennial Place located in Alberta.

**Investment Risk**

The OAC is exposed to a variety of financial risks as a result of its investment activities and has formal policies and procedures that govern the management of market, credit and liquidity risk. The objective of investment risk management is to minimize unanticipated losses, to optimize the reward-risk trade-off for the Funds and to enhance the ability of the Plans to meet their respective obligations.

Investment risk is managed through various policies including entity level policies, risk measurement policies, and investment policies which establish a target asset mix between public market and private market investments. Within public market investments, policies establish targets between interest bearing and public equity investments and within private market investments, policies establish targets among private equity, infrastructure and real estate investments to ensure diversification across and within asset classes.

The Investment Entities are responsible for managing their investment risk and for ensuring that the returns are in line with the risk taken. The OAC utilizes analytical and reporting tools to manage investment risk and achieve its desired level of risk at the enterprise, public market and non-public market levels. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

### Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and price risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which our investments are held can significantly impact the value of our investments and the funded status of the OMERS Pension Plans.

The OAC uses various investment strategies such as diversification, hedging and the use of derivative instruments to mitigate the various forms of market risk. In addition, investment exposure in various assets and markets are monitored daily.

- FOREIGN CURRENCY RISK

  Investments denominated in currencies other than the Canadian dollar expose the Funds to fluctuations in foreign exchange rates. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The OAC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign exchange forward contracts. The OAC also makes active investments in foreign currencies with the objective of adding value. The net exposure to foreign currencies represents 13 per cent (2008 – 14 per cent) of net investment assets at December 31, 2009.

  The OAC's total currency exposure before the impact of currency hedging and trading activities and the net currency exposure as at December 31 are as follows:

| | 2009 Fair Value By Currency | | | | | 2008 Fair Value By Currency | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (millions Cdn dollar equivalent) | Total Exposure(i) | Hedging Activities | Trading Activities | Net Exposure | % of Total | Total Exposure(i) | Hedging Activities | Trading Activities | Net Exposure | % of Total |
| Canada | $ 31,975 | $ 10,255 | $ (14) | $ 42,216 | 87% | $ 26,071 | $ 11,814 | $ (101) | $ 37,784 | 86% |
| United States | 8,784 | (5,824) | 518 | 3,478 | 7% | 9,590 | (6,934) | 318 | 2,974 | 7% |
| Euro countries | 2,025 | (1,486) | (504) | 35 | 0% | 2,714 | (1,871) | (855) | (12) | – |
| United Kingdom | 2,573 | (1,807) | – | 766 | 2% | 2,319 | (1,756) | 15 | 578 | 1% |
| Japan | 771 | (379) | – | 392 | 1% | 1,495 | (438) | 623 | 1,680 | 4% |
| Other Pacific | 1,093 | (392) | – | 701 | 1% | 667 | (305) | – | 362 | 1% |
| Emerging markets | 524 | (166) | – | 358 | 1% | 643 | (374) | – | 269 | – |
| Other Europe | 644 | (201) | – | 443 | 1% | 495 | (136) | – | 359 | 1% |
| | $ 48,389 | $ – | $ – | $ 48,389 | 100% | $ 43,994 | $ – | $ – | $ 43,994 | 100% |

(i) Currency exposure before the impact of currency hedging and trading activities.

  After giving effect to the impact of hedging and trading activities, a ten per cent increase/decrease in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease/increase in the value of the Funds' net investment assets and an unrealized (loss)/gain of $617 million (2008 – $621 million).

- INTEREST RATE RISK

  Interest rate risk refers to the effect on the fair market value of the Funds' assets and liabilities due to fluctuations in interest rates. Due to the inflation indexing of benefit entitlements and the relatively long-term nature of pension benefits (notes 7 and 8), the accrued benefit obligation is influenced by inflation and long-term rates of return. The impact to the Plan from a change in interest rates will be mitigated as the impact on the valuation of investment assets is generally opposite from the impact on investment liabilities and the accrued benefit obligation. The interest bearing investment portfolio has guidelines on concentration and duration which are designed to mitigate the risk of interest rate volatility.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, as at December 31 are as follows:

| | 2009 | | | | | 2008 | |
|---|---|---|---|---|---|---|---|
| | Term to Maturity | | | | | | |
| (millions) | Within 1 Year | 1 to 5 Years | Over 5 Years | Total | Average Effective Yield (i) | Total | Average Effective Yield (i) |
| Cash and short-term deposits | $ 5,326 | $ – | $ – | $ 5,326 | 0.36% | $ 6,599 | 1.68% |
| Bonds and debentures | 199 | 3,564 | 4,354 | 8,117 | 3.47% | 3,756 | 3.69% |
| Real return bonds (ii) | – | 26 | 1,951 | 1,977 | 1.51% | 1,755 | 2.28% |
| Mortgages and private debt | 197 | 669 | 919 | 1,785 | 4.81% | 1,749 | 5.91% |
| | $ 5,722 | $ 4,259 | $ 7,224 | $ 17,205 | 2.42% | $ 13,859 | 2.83% |

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

After giving effect to derivative contracts (note 4), OAC debt liabilities and amounts payable under the OAC securities lending programs (note 6), 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 interest bearing investments and an unrealized gain/(loss) of $306 million (2008 – $30 million). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of real-return bonds and an unrealized gain/(loss) of $413 million (2008 – $327 million).

- PRICE RISK
  Price risk is the risk that the fair market 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. The 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. The OAC's private market 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 ten per cent increase/decrease in the value of all public equity and private market investments, with all other variables held constant, would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/(loss) of $3,546 million (2008 – $3,609 million).

### Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the OAC, including its inability or unwillingness to pay borrowed principal, interest or rent when they come due. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. The OAC has put in place investment policies and procedures that have established investment criteria designed to manage credit risk by setting limits to credit exposure from individual corporate entities and by requiring collateral where appropriate. The credit quality of financial assets is generally assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. Credit risk associated with derivative financial instruments is discussed in note 4.

The OAC's most significant credit risk exposure arises from its interest bearing investments. At December 31, the Funds' interest bearing investments exposed to credit risk are as follows:

| (millions) | 2009 Interest Bearing Investments | 2009 % of Total | 2008 Interest Bearing Investments | 2008 % of Total |
|---|---|---|---|---|
| Federal government | $ 5,191 | 30% | $ 4,184 | 31% |
| Provincial government | 2,754 | 16% | 1,253 | 9% |
| Corporate | | | | |
| Investment grade | 6,155 | 36% | 4,449 | 32% |
| Non–investment grade | 564 | 3% | 448 | 3% |
| Securities lending cash collateral | 1,960 | 12% | 2,805 | 20% |
| Cash on deposit | 581 | 3% | 720 | 5% |
| | $ 17,205 | 100% | $ 13,859 | 100% |

The OAC participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Funds receive a fee and the borrower provides cash or readily marketable securities of higher value as collateral which mitigates the credit risk associated with the program. As at December 31, 2009, securities with an estimated fair value of $3,762 million (2008 – $3,501 million) were loaned out, while collateral held had an estimated fair value of $3,894 million (2008 – $3,604 million) of which $1,960 million (2008 – $2,805 million) was cash collateral invested in short-term interest bearing investments.

### Liquidity Risk

Liquidity risk is the risk of not being able to meet the Funds' cash requirements in a timely and cost effective manner. Liquidity requirements of each fund are separately managed through income generated from investments, monthly contributions made by members and employers, and by investing in publicly traded liquid assets that are easily sold and converted to cash. These sources of funds are used to pay pension benefits, make additional investments and fund operating expenses.

The OAC's primary future liabilities include the accrued benefit obligation of the Plan (note 7) and the RCA (note 8) and debt financing investments (note 6). The contractual undiscounted principal repayments and term to maturity of the investment liabilities are disclosed in note 6. In the normal course of business, the OAC enters into contracts that give rise to commitments for future payments which may also impact our liquidity (note 15).

## NOTE 4

### DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivatives 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 the management of exposure to market risk, including foreign currency, interest rate and price risk, without directly purchasing or selling the underlying assets or currencies. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

**Derivative Contracts**

Types of contracts currently entered into by the Funds include:

#### Interest Rate Swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts.

#### Bond and Equity Swaps

Bond and equity swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in the value of bond or equity instruments or an index.

#### Bond and Equity Options

Bond and equity options are contractual agreements where the seller (writer) gives the right but not the obligation to a counterparty to buy (call option) or sell (put option) a specified quantity of a financial instrument on or before a specified future date at a predetermined price. The financial instruments may include bonds, a bond index, equities or an equity index. The seller receives a premium from the counterparty for this right. Options may be traded through an exchange or in the over-the-counter market.

#### Bond Forward Contracts

Bond forward contracts are contractual agreements to buy or sell bonds or a bond index at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

#### Equity Index Futures Contracts

Futures contracts are agreements to either buy or sell specified equity indices at a specified price and date in the future. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash settlement of changes in fair value.

#### Foreign Exchange Forward Contracts

Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. Foreign exchange forward contracts are used to provide exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading.

### Credit Risk

The Funds are exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Funds:

- deal only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- arrange 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:

| | | 2009 | | | | 2008 |
|---|---|---|---|---|---|---|
| | Notional | Fair Value (ii) | | Notional | Fair Value (ii) | |
| (millions) | Value (i) | Assets (iii) | Liabilities | Value (i) | Assets (iii) | Liabilities |
| **Interest Rate Contracts** | | | | | | |
| Interest rate swap contracts | $ 1,888 | $ 10 | $ (110) | $ 1,645 | $ 12 | $ (281) |
| Bond index swap contracts | 572 | – | (5) | 575 | 26 | – |
| Bond options – purchased (iv) | 196 | 10 | – | – | – | – |
| | 2,656 | 20 | (115) | 2,220 | 38 | (281) |
| **Equity Contracts** | | | | | | |
| Equity index futures contracts | 2,416 | 2 | (16) | 3,857 | 43 | – |
| Equity index swap contracts | 305 | 7 | – | 224 | 5 | (28) |
| Equity options written (v) | 38 | – | (1) | 26 | – | (2) |
| | 2,759 | 9 | (17) | 4,107 | 48 | (30) |
| **Foreign Exchange** | | | | | | |
| **Forward Contracts** | 12,814 | 247 | (85) | 15,687 | 386 | (680) |
| **Total** | $ 18,229 | $ 276 | $ (217) | $ 22,014 | $ 472 | $ (991) |

(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.
(ii) Fair value represents unrealized gains or losses from derivative contracts which are recorded in the consolidated statement of net assets 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.
(iv) The premium paid on bond options purchased was $5 million.
(v) The premium received on equity options written was $2 million (2008 –$3 million).

The term to maturity based on notional value as at December 31 is as follows:

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| (millions) | Interest Rate Contracts | Equity Contracts | Foreign Exchange Contracts | Total | Interest Rate Contracts | Equity Contracts | Foreign Exchange Contracts | Total |
| Under 1 year | $ 889 | $ 2,759 | $ 12,814 | $ 16,462 | $ 718 | $ 4,107 | $ 15,687 | $ 20,512 |
| 1 to 5 years | 377 | – | – | 377 | 215 | – | – | 215 |
| Over 5 years | 1,390 | – | – | 1,390 | 1,287 | – | – | 1,287 |
| | $ 2,656 | $ 2,759 | $ 12,814 | $ 18,229 | $ 2,220 | $ 4,107 | $ 15,687 | $ 22,014 |

## NOTE 5

## OTHER INVESTMENT ASSETS AND OTHER ASSETS

### a) Other Investment Assets

Other investment assets are comprised of operational accounts receivable and accrued income and other assets related to private equity, infrastructure and real estate investments.

| (millions)<br>As at December 31, | 2009 | 2008 |
|---|---|---|
| Investment receivables | $ 635 | $ 667 |
| Deferred assets, prepaid and other | 227 | 194 |
| Other investment assets | $ 862 | $ 861 |

### b) Other Assets

Other assets are comprised of contributions and other non-investment receivables.

| (millions)<br>As at December 31, | 2009 | 2008 |
|---|---|---|
| Contributions receivable (i) | $ 181 | $ 164 |
| Other non–investment assets | 50 | 42 |
| Other assets | $ 231 | $ 206 |

(i) Contributions receivable represent equal amounts due from employers and members.

# NOTE 6

## INVESTMENT LIABILITIES

The investment liabilities as at December 31 are as follows:

| (millions) | 2009 | 2008 |
|---|---|---|
| Debt (a) | $ 9,549 | $ 8,987 |
| Payable under securities lending program (b) | 1,960 | 2,805 |
| Deferred revenue | 120 | 105 |
| Payables and other liabilities | 1,455 | 1,484 |
| Total | $ 13,084 | $ 13,381 |

(a) Debt is comprised of the following as at December 31:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| (millions) | Fair Value | Cost | Weighted Average Interest Rate | Fair Value | Cost | Weighted Average Interest Rate |
| Oxford Properties Group | | | | | | |
| Secured debt (i) | $ 1,703 | $ 1,756 | 5.57% | $ 1,702 | $ 1,773 | 5.94% |
| Series A debentures (ii) | 540 | 500 | 2.65% | 522 | 500 | 4.29% |
| Series C debentures (iii) | 415 | 400 | 2.93% | 395 | 400 | 4.40% |
| Series D debentures (iv) | 202 | 200 | 4.63% | 187 | 200 | 5.60% |
| ORCH debentures (v) | 177 | 170 | 4.01% | – | – | – |
| ORCH Two debentures (vi) | 185 | 180 | 3.34% | – | – | – |
| Commercial paper (vii) | 1,296 | 1,296 | 0.29% | 1,092 | 1,092 | 2.18% |
| | 4,518 | 4,502 | 3.27% | 3,898 | 3,965 | 4.49% |
| Borealis Infrastructure | | | | | | |
| Secured debt (viii) | 3,443 | 3,421 | 3.70% | 4,744 | 4,682 | 4.35% |
| Commercial paper (ix) | 1,499 | 1,499 | 0.29% | 345 | 345 | 1.79% |
| | 4,942 | 4,920 | 2.67% | 5,089 | 5,027 | 4.18% |
| OMERS Strategic Investments | | | | | | |
| Secured debt (x) | 89 | 89 | 1.90% | – | – | – |
| Total (xi) | $ 9,549 | $ 9,511 | 2.95% | $ 8,987 | $ 8,992 | 4.31% |

(i) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific real estate asset.
(ii) OMERS Realty Corporation Series A 5.48% Debentures issued December 4, 2002, maturing December 31, 2012.
(iii) OMERS Realty Corporation Series C 4.09% Debentures issued May 8, 2008, maturing June 4, 2013.
(iv) OMERS Realty Corporation Series D 4.74% Debentures issued May 8, 2008, maturing June 4, 2018.
(v) OMERS Realty CTT Holdings Inc. Series A 4.75% Debentures issued May 5, 2009, maturing May 5, 2016.
(vi) OMERS Realty CTT Holdings Two Inc. Series A 4.05% Debentures issued May 5, 2009, maturing May 5, 2014.
(vii) OMERS Realty Corporation's Commercial Paper program is authorized up to $1,600 million. Commercial paper outstanding has maturities from January 6, 2010 to March 18, 2010.
(viii) Includes mortgages and other secured debt with various terms to maturity up to 2042 with each debt secured by a specific infrastructure asset.
(ix) Borealis Finance Trust's Commercial Paper program is authorized up to $1,500 million. Commercial paper outstanding has maturities from January 4, 2010 to March 19, 2010.
(x) Debt secured by specific assets maturing on September 13, 2012.

(xi) Scheduled principal repayments for the five years subsequent to December 31, 2009 and thereafter are as follows:

| (millions) | |
|---|---|
| 2010 | $ 3,065 |
| 2011 | 498 |
| 2012 | 975 |
| 2013 | 861 |
| 2014 | 357 |
| Thereafter | 3,755 |
| | $ 9,511 |

(b) As part of the securities lending program, the Plan receives cash collateral that it invests in short-term interest bearing investments. The Plan is obligated to return the cash collateral upon termination of the arrangement. The securities lending agreements may be terminated at any time and as such the collateral is repayable on demand.

## NOTE 7

### OMERS PRIMARY PENSION PLAN

A summary of the financial statements for the Plan as at and for the year ended December 31 is as follows:

| (millions) | 2009 | 2008 |
|---|---|---|
| **Statement of Net Assets** | | |
| Net investment assets | **$ 47,635** | $ 43,306 |
| Other assets | **203** | 182 |
| Other liabilities | **(54)** | (50) |
| **Net Assets** | **$ 47,784** | $ 43,438 |
| **Statement of Changes in Net Assets** | | |
| Net investment income/(loss) | **$ 4,308** | $ (8,008) |
| Contributions | **2,131** | 2,037 |
| Benefits | **(2,045)** | (2,023) |
| Pension administrative expenses | **(48)** | (47) |
| **Total Increase/(Decrease)** | **4,346** | (8,041) |
| Net assets, beginning of year | **43,438** | 51,479 |
| **Net Assets , End of Year** | **$ 47,784** | $ 43,438 |

### Actuarial Value of Net Assets of the Plan

The actuarial value of net assets of the Plan is established such that investment returns above or below the long-term return assumption in effect for the year, 6.50 per cent for 2009 (2008 – 6.75 per cent) are recognized over 5 years to smooth fluctuations in the market value of net assets. For 2009, $1,187 million was credited to the actuarial valuation adjustment because the investment return was in excess of the long-term rate of return assumption. This compares with 2008 when $9,185 million was debited to the actuarial valuation adjustment because the investment return was below the long-term rate of return assumption.

As a result, at December 31, 2009, the Plan has $4,950 million representing the net unrecognized returns below the long-term rate of return assumption (2008 – $6,363 million net unrecognized returns below the long-term rate of return assumption) in the actuarial valuation adjustment reserve. The present value of unrecognized net investment returns by initial year earned and amounts to be recognized from 2010 through 2013 after application of the long-term return assumption are as follows:

(millions)

| Initial Year Earned | Actuarial Valuation Adjustment as at Dec. 31, 2009 (i) | Unrecognized Investment Returns to be Recognized in 2010 | 2011 | 2012 | 2013 | Actuarial Valuation Adjustment as at Dec. 31, 2008 |
|---|---|---|---|---|---|---|
| 2005 | $ – | $ – | $ – | $ – | $ – | $ 716 |
| 2006 | 887 | 945 | – | – | – | 1,666 |
| 2007 | 313 | 167 | 177 | – | – | 440 |
| 2008 | (7,337) | (2,605) | (2,773) | (2,954) | – | (9,185) |
| 2009 | 1,187 | 316 | 337 | 359 | 382 | – |
| | $ (4,950) | $ (1,177) | $ (2,259) | $ (2,595) | $ 382 | $ (6,363) |

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

The change in the actuarial valuation adjustment for the year ended December 31 is as follows:

| (millions) | 2009 | 2008 |
|---|---|---|
| Expected interest on beginning actuarial valuation adjustment (i) | $ (414) | $ 307 |
| Current year returns in excess of/(below) the funding rate (i) | 1,187 | (9,185) |
| Prior years' returns (above)/below the funding rate recognized in the year | 640 | (2,052) |
| **Increase/(Decrease)** | 1,413 | (10,930) |
| Actuarial valuation adjustment, beginning of year | (6,363) | 4,567 |
| **Actuarial Valuation Adjustment, End of Year** | $ (4,950) | $ (6,363) |

(i) Based on the funding rate in effect during the year, 2009 – 6.50 per cent (2008 – 6.75 per cent).

**Accrued Pension Benefits of the Plan**

The actuarial present value of accrued benefits is an estimate of the value of pension and other benefit obligations of the 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 the OAC for determining the Plan's minimum funding requirements as set out under the PBA. As the experience of the 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 accrued benefit method (pro-rated on service) 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 Plan as at December 31:

| | **2009** | 2008 |
|---|---|---|
| Assumed rate of inflation | **2.25%** | 2.25% |
| Real rate of return assumed on Plan assets | **4.25%** | 4.25% |
| Discount rate (rate of inflation plus real rate of return) | **6.50%** | 6.50% |

The assumed increases in the real rate of pensionable earnings (i.e. increase in excess of the assumed inflation rate) are dependent on the attained age of the members. These rates of increase were updated in 2009 to reflect recent experience of the Plan and current expectations for future years.

| | **2009** | | | | 2008 | |
|---|---|---|---|---|---|---|
| | **NRA60 (i)** | | **NRA65 (i)** | | | |
| | **Until 2014** | **After 2014** | **Until 2014** | **After 2014** | NRA60 (i) | NRA65 (i) |
| Assumed real rate of pensionable earnings increases (weighted average of a table of age related increases) | **1.40%** | **1.90%** | **1.10%** | **1.60%** | 1.90% | 1.20% |
| Rate of pensionable earnings increases (assumed rate of inflation plus real rate of pensionable earnings increases) | **3.65%** | **4.15%** | **3.35%** | **3.85%** | 4.15% | 3.45% |

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

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 Plan and on the expectations for future trends.

The accrued benefit obligation as at December 31, 2009 takes account of known changes in the Plan membership up to December 1, 2009, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2010, and estimated pensionable earnings and credited service accruals in 2009.

The surplus/(deficit) of the Plan's actuarial value of net assets over accrued benefit obligation is as follows as at December 31:

| (millions) | Note | 2009 | 2008 |
|---|---|---|---|
| Fair value of net assets of the Plan at end of year | | $ 47,784 | $ 43,438 |
| Actuarial value adjustment | | 4,950 | 6,363 |
| Actuarial value of net assets at end of year | | 52,734 | 49,801 |
| Accrued benefit obligation at beginning of year | | 50,080 | 46,830 |
| Interest accrued on benefits | | 3,320 | 3,223 |
| Benefits accrued | | 2,023 | 1,926 |
| Benefits paid | 12 | (2,045) | (2,023) |
| Experience losses/(gains) and changes in actuarial assumptions and methods | | 875 | 124 |
| Accrued benefit obligation at end of year | | 54,253 | 50,080 |
| Surplus/(deficit) of actuarial value of net assets over accrued benefit obligation | | $ (1,519) | $ (279) |

As the Plan provides 100 per cent inflation protection, the accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases, which impacts future benefits, and the assumed real rate of return on plan assets, which is used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

| 50 Basis Point Decrease/Increase | Approximate effect on Accrued Benefit Obligation |
|---|---|
| Rate of pensionable earnings increases | −/+ $1,500 million |
| Real return on plan assets and discount rate | +/− $4,000 million |

**Solvency Valuation**

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented on a going concern basis. In accordance with the PBA, a solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of it being wound up, in management's view, is remote. This special valuation assumes a liquidation scenario. Under this method, the solvency liabilities are determined using discount rates set by reference to long-term nominal bond yields at the valuation date and no allowance is made for future salary increments. The Plan has applied smoothing to the solvency assets and liabilities as permitted under the PBA. Solvency funding is meant to help secure pension plan benefits in the event of a windup of a plan. In the case of a jointly sponsored pension plan such as the Plan, the possibility of a windup is remote and any funding requirements should be based on the long-term going concern position of the Plan.

The actuarial present value of accrued pension benefits for the Plan under the solvency valuation, on a smoothed basis, was estimated to be $50,979 million as at December 31, 2009 (2008 – $46,966 million). This amount excludes the value of future cost of living increases, as permitted under the PBA. As at December 31, 2009, the smoothed value of net assets of the Plan, allowing for a provision for expenses and other adjustments required by the PBA, was $53,267 million (2008 – $49,933 million). On this basis the Plan has a solvency surplus at December 31, 2009 of $2,288 million, compared to a surplus of $2,967 million at December 31, 2008.

## NOTE 8

### RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement provides pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act* with respect to service after 1991. Under the OMERS Act, the OAC is the administrator of the RCA. The investments of the RCA are managed separate from those of the Plan.

The full earnings 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 RCA plans under the *Income Tax Act*. Contributions to the RCA are based on the top-tier Plan contribution rates and are payable to the RCA on the excess of earnings over the maximum contributory earnings allowed under the Plan, which was $137,848 for 2009 (2008 – $131,820). Benefits in excess of the maximum amounts payable from the Plan as allowed by the *Income Tax Act* will be paid from the RCA.

A summary of the financial statements for the RCA as at and for the year ended December 31 is as follows:

| (millions) | 2009 | 2008 |
|---|---|---|
| **Statement of Net Assets** | | |
| Net investment assets | $ 20 | $ 16 |
| Other assets | 28 | 24 |
| Other liabilities | – | (1) |
| **Net Assets** | $ 48 | $ 39 |
| **Statement of Changes in Net Assets** | | |
| Net investment income/(loss) | $ 2 | $ (5) |
| Contributions | 12 | 11 |
| Benefits | (5) | (4) |
| **Total Increase** | 9 | 2 |
| Net assets, beginning of year | 39 | 37 |
| **Net Assets, End of Year** | $ 48 | $ 39 |

The actuarial assumptions used for the RCA are consistent with those used for the Plan except that the discount rate as at December 31, 2009 is 3.25 per cent (2008 – 3.25 per cent), which approximates the effect of the 50 per cent refundable tax applicable to the RCA. A 50 basis point decrease/increase in the assumed real return on plan assets/discount rate (with no change in other assumptions) before reflecting the 50 per cent refundable tax would have a +/− $28 million impact on the accrued benefit obligation.

Determination of the value of the RCA accrued benefit obligation is made on the basis of an actuarial valuation. The deficit of net assets over accrued benefit obligation as at December 31 is as follows:

| (millions) | Note | 2009 | 2008 |
|---|---|---|---|
| Fair value of net assets at end of year | | $ 48 | $ 39 |
| Accrued benefit obligation at beginning of year | | 285 | 236 |
| Interest accrued on benefits | | 9 | 8 |
| Benefits accrued | | 15 | 13 |
| Benefits paid | 12 | (5) | (4) |
| Experience losses/(gains) and changes in actuarial assumptions and methods | | 182 | 32 |
| Accrued benefit obligation at end of year | | 486 | 285 |
| Surplus/(deficit) of actuarial value of net assets over accrued benefit obligation | | $ (438) | $ (246) |

# NOTE 9

## NET INVESTMENT INCOME/(LOSS)

The Fund's investments consist of the following major asset classes: public markets (which includes public equities and interest bearing investments such as treasury bills, bonds, mortgages and private debt); private equity; infrastructure and real estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income/(loss) from derivative financial instruments is a gain of $1,031 million (2008 – loss of $3,396 million).

The Fund's investment income/(loss) by asset classes as at December 31 is as follows:

| (millions) | Investment Income(i) | Net Gain/(Loss) on Investments and Derivatives(ii) | Total Investment Income/(Loss) | Investment Management Expenses (Note 13(b))(iii) | Net Investment Income/ (Loss) |
|---|---|---|---|---|---|
| | | | | | 2009 |
| **Public Market Investments** | | | | | |
| **Interest Bearing Investments** | | | | | |
| Short-term deposits | $ 15 | $ 1 | $ 16 | | |
| Bonds and debentures | 282 | 7 | 289 | | |
| Mortgages and private debt | 72 | 321 | 393 | | |
| | 369 | 329 | 698 | | |
| Real return bonds | 53 | 194 | 247 | | |
| **Public Equity** | | | | | |
| Canadian public equities | 154 | 1,475 | 1,629 | | |
| Non-Canadian public equities | 208 | (20) | 188 | | |
| | 362 | 1,455 | 1,817 | | |
| **Total Public Market Investments** | 784 | 1,978 | 2,762 | (103) | 2,659 |
| **Private Equity** | | | | | |
| Canadian private equities | 56 | 77 | 133 | | |
| Non-Canadian private equities | 24 | 337 | 361 | | |
| **Total Private Equity Investments** | 80 | 414 | 494 | (92) | 402 |
| **Infrastructure Investments** | 758 | 13 | 771 | (43) | 728 |
| **Real Estate Investments (iv)** | 510 | (375) | 135 | (8) | 127 |
| | $ 2,132 | $ 2,030 | $ 4,162 | $ (246) | 3,916 |
| Gain/(loss) from currency hedging activities (v) | | | | | 461 |
| (Income)/loss credited to administered funds | | | | | (67) |
| **Net Investment Income/(Loss)** | | | | | $ 4,310 |

| | | | | | 2008 |
|---|---|---|---|---|---|
| (millions) | Investment Income (i) | Net Gain/(Loss) on Investments and Derivatives(ii) | Total Investment Income/(Loss) | Investment Management Expenses (Note 13(b))(iii) | Net Investment Income/ (Loss) |
| **Public Market Investments** | | | | | |
| **Interest Bearing Investments** | | | | | |
| Short-term deposits | $ 126 | $ – | $ 126 | | |
| Bonds and debentures | 258 | 97 | 355 | | |
| Mortgages and private debt | 89 | (287) | (198) | | |
| | 473 | (190) | 283 | | |
| Real return bonds | 61 | (75) | (14) | | |
| **Public Equity** | | | | | |
| Canadian public equities | 207 | (3,641) | (3,434) | | |
| Non-Canadian public equities | 267 | (4,170) | (3,903) | | |
| | 474 | (7,811) | (7,337) | | |
| **Total Public Market Investments** | 1,008 | (8,076) | (7,068) | (124) | (7,192) |
| **Private Equity** | | | | | |
| Canadian private equities | 55 | (31) | 24 | | |
| Non-Canadian private equities | 23 | (613) | (590) | | |
| **Total Private Equity Investments** | 78 | (644) | (566) | (52) | (618) |
| **Infrastructure Investments** | 467 | 173 | 640 | (44) | 596 |
| **Real Estate Investments** (iv) | 533 | (95) | 438 | (7) | 431 |
| | $ 2,086 | $ (8,642) | $ (6,556) | $ (227) | (6,783) |
| Gain/(loss) from currency hedging activities (v) | | | | | (1,354) |
| (Income)/loss credited to administered funds | | | | | 124 |
| **Net Investment Income/(Loss)** | | | | | $ (8,013) |

(i) Net of total interest on real estate investment liabilities of $155 million (2008 –$167 million) and interest on infrastructure investment liabilities of $212 million (2008 – $209 million). Investment income is also net of transaction costs of $31 million (2008 –$79 million).
(ii) Includes net realized loss of $1,219 million (2008 – net realized loss of $3,061 million).
(iii) Investment management expenses relate to corporate activity.
(iv) Real Estate investment income includes audit costs of $3.4 million (2008 – $2.2 million) and legal costs of $5.3 million (2008 – $6.1 million).
(v) Represents the gain/(loss) on the Fund's passive foreign currency hedging activities.

The Funds' net investment income/(loss) by investment entity as at December 31 is as follows:

**2009**

| (millions) | OMERS Capital Markets | OMERS Private Equity | Borealis Infrastructure | Oxford Properties Group | OMERS Strategic Investments | Total |
|---|---|---|---|---|---|---|
| Public market investments | $ 2,621 | $ – | $ – | $ – | $ 38 | $ 2,659 |
| Private equity investments | – | 474 | – | – | (72) | 402 |
| Infrastructure investments | – | – | 731 | – | (3) | 728 |
| Real estate investments | – | – | – | 127 | – | 127 |
| **Net Investment Income** | $ 2,621 | $ 474 | $ 731 | $ 127 | $ (37) | $ 3,916 |

2008

| (millions) | OMERS Capital Markets | OMERS Private Equity | Borealis Infrastructure | Oxford Properties Group | OMERS Strategic Investments | Total |
|---|---|---|---|---|---|---|
| Public market investments | $ (7,192) | $ – | $ – | $ – | $ – | $ (7,192) |
| Private equity investments | – | (615) | – | – | (3) | (618) |
| Infrastructure investments | – | – | 596 | – | – | 596 |
| Real estate investments | – | – | – | 431 | – | 431 |
| **Net Investment Income** | $ (7,192) | $ (615) | $ 596 | $ 431 | $ (3) | $ (6,783) |

## NOTE 10

### INVESTMENT RETURNS

Investment returns have been calculated in accordance with methods set forth by the CFA Institute and the Pension Investment Association of Canada. The Plan's returns by investment entity and the RCA returns for the year ended December 31 are as follows:

| | 2009 | 2008 |
|---|---|---|
| **OMERS Primary Pension Plan** | | |
| OMERS Capital Markets | | |
| Interest bearing (i)(ii) | 4.2% | 7.1% |
| Real return bonds (ii) | 14.3% | 0.3% |
| Canadian public equities (ii) | 34.0% | –33.7% |
| Non-Canadian public equities (ii) | 7.3% | –25.7% |
| Total OMERS Capital Markets | 11.0% | –19.5% |
| OMERS Private Equity | 13.9% | –13.7% |
| Borealis Infrastructure | 10.9% | 11.5% |
| Oxford Properties Group | 1.3% | 6.0% |
| OMERS Strategic Investments | –1.2% | – |
| Total OMERS Primary Pension Plan (iii) | 10.6% | –15.3% |
| **Retirement Compensation Arrangement** | | |
| RCA Investment Fund (iv) | 11.3% | –26.1% |

(i) Interest bearing investments include short-term deposits, bonds and debentures, mortgages and private debt.
(ii) Returns for individual asset categories in OMERS Capital Markets are based on the exposure OMERS Capital Market has in that category.
(iii) Total returns include the results of the Plan's currency hedging related activities.
(iv) Excludes the RCA refundable tax balance with the Canada Revenue Agency. Including the refundable tax balance, the RCA 2009 rate of return was 4.8 per cent (2008 – negative 12.6 per cent).

## NOTE 11

### CONTRIBUTIONS

| (millions)<br>For the year ended December 31, | 2009 | 2008 |
|---|---|---|
| Current Service contributions [i] | $ 2,077 | $ 1,975 |
| Transfers from other pension plans | 27 | 39 |
| Past service contributions from members [ii] | 29 | 26 |
| Past service contributions from employers [ii] | 10 | 8 |
| | $ 2,143 | $ 2,048 |

(i) Current service contributions are funded equally by employers and members. For NRA 65 members, the 2009 contribution rate was 6.3 per cent (2008 – 6.5 per cent) of earnings up to $46,300 (2008 – $44,900) and 9.5 per cent (2008 – 9.6 per cent) of earnings above that level. For NRA 60 members, the 2009 contribution rate was 7.7 per cent (2008 – 7.9 per cent) of earnings up to $46,300 (2008 – $44,900) and 12.8 per cent (2008 – 10.7 per cent) of earnings above that level.

(ii) Past service contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

For the year ended December 31, 2009, contributions to the Plan were $2,131 million (2008 – $2,037 million) and to the RCA were $12 million (2008 – $11 million).

## NOTE 12

### BENEFITS

| (millions)<br>For the year ended December 31, | 2009 | 2008 |
|---|---|---|
| Members' pensions | $ 1,781 | $ 1,656 |
| Transfers to other registered plans | 184 | 274 |
| Commuted value payments and members' contributions plus interest refunded | 85 | 97 |
| | $ 2,050 | $ 2,027 |

For the year ended December 31, 2009, total benefit payments from the Plan were $2,045 million (2008 – $2,023 million) and from the RCA were $5 million (2008 – $4 million).

## NOTE 13

## PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

(a) Pension administrative expenses [i]

| (millions)<br>For the year ended December 31, | | 2009 | | 2008 |
|---|---|---|---|---|
| Salaries and benefits | $ | 30 | $ | 27 |
| System development and other purchased services | | 6 | | 7 |
| Premises and equipment | | 2 | | 4 |
| Professional services [ii] | | 7 | | 6 |
| Travel and communication | | 3 | | 3 |
| | $ | 48 | $ | 47 |

(b) Investment management expenses [i]

| (millions)<br>For the year ended December 31, | | 2009 | | 2008 |
|---|---|---|---|---|
| Salaries and benefits | $ | 100 | $ | 76 |
| System development and other purchased services | | 14 | | 11 |
| Premises and equipment | | 9 | | 9 |
| Professional services [ii] | | 10 | | 10 |
| Travel and communication | | 9 | | 7 |
| Investment operating and manager expenses [iii] | | 104 | | 114 |
| | $ | 246 | $ | 227 |

(i) Includes allocation of corporate expenses.
(ii) Total professional services expenses include independent actuarial costs of $0.9 million (2008 – $1.0 million), external audit costs of $0.9 million (2008 – $0.7 million) and external legal costs of $4.7 million (2008 – $5.4 million).
(iii) Investment operating and manager expenses includes investment management fees of $97.7 million (2008 – $106.7 million).

## NOTE 14

### CAPITAL

The OAC defines its capital as the funded status (surplus/(deficit)) of each of the OMERS Pension Plans, as determined annually based on the fair value of the net assets of the OMERS Pension Plans, the actuarial value adjustment and an actuarial valuation prepared by the OAC's independent actuary. The OAC's objective is to ensure that the OMERS Primary Pension Plan is fully funded over the long-term through the management of investments, contribution rates and benefits. Investments (note 3), the use of derivatives (note 4) and leverage (note 6) are based on an asset mix that is projected to enable each of the plans to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with each plan's Statement of Investment Policies and Procedures approved by the OAC Board. The RCA is 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 RCA plans.

The funded status of each plan and the related cash flows are also impacted by the level of contributions (note 11) and benefits (note 12). The SC is responsible for setting contribution rates subject to compliance with legislation and determining benefits for the OMERS Pension Plans.

The Plan and Supplemental Plan are subject to FSCO regulations which require a pension plan to file an actuarial valuation report for a funding and solvency valuation at least once every three years. At that time, a plan must take measures to eliminate any funding deficits including solvency deficits, although the possibility of the Plans being wound up is remote. Where the funded status of a plan is filed with a surplus position greater than ten per cent of the accrued benefit obligation, the *Income Tax Act* requires contributions be reduced with the amount of the reduction increasing as the surplus increases. Once the filed surplus reaches 25 per cent of the accrued benefit obligation, regular contributions must be eliminated. The SC is responsible for determining when an actuarial valuation of the Plan and Supplemental Plan should be filed, subject to the requirements under the regulations.

## NOTE 15

### GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, the 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 limited partnership agreements. The future commitments are generally payable on demand based on the capital needs of the investment. As at December 31, 2009, these future commitments totaled $4.8 billion (2008 – $5.8 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was $426 million as at December 31, 2009 (2008 – $397 million). Guarantees and commitments are often provided as part of developing or holding an investment and as such often have no fixed expiration date.

The OAC, in the normal course of business, indemnifies its and its subsidiaries' and affiliates' directors, officers, employees and certain others in connection with proceedings against them. In addition, the OAC may in certain circumstances in the course of investment activities, agree to indemnify a counterparty. Under the terms of such arrangements, the OAC and/or its subsidiaries and affiliates 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 the OAC from making a reasonable estimate of the maximum amount that would be required to pay such indemnifications.

As at December 31, 2009, the 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 the OAC.

# Ten-Year Financial Review

| ($ millions) | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Assets** as at December 31 | | | | | | | | | | |
| Public markets | **31,336** | 28,763 | 43,291 | 43,533 | 39,338 | 30,283 | 30,168 | 23,823 | 27,755 | 30,941 |
| Private equity | **5,048** | 4,162 | 3,608 | 2,951 | 2,391 | 1,460 | 914 | 1,021 | 1,031 | 1,128 |
| Infrastructure | **12,195** | 12,140 | 8,412 | 5,585 | 3,719 | 2,314 | 1,426 | 349 | 279 | – |
| Real estate | **11,975** | 12,037 | 10,904 | 8,541 | 6,180 | 6,898 | 6,920 | 7,747 | 8,181 | 4,707 |
| | **60,554** | 57,102 | 66,215 | 60,610 | 51,628 | 40,955 | 39,428 | 32,940 | 37,246 | 36,776 |
| Other investment assets | **1,173** | 1,366 | 1,001 | 699 | 765 | 494 | 578 | 733 | 652 | 637 |
| Investment liabilities | **(13,338)** | (14,474) | (15,029) | (13,088) | (10,772) | (5,267) | (7,297) | (3,540) | (3,977) | (860) |
| Net investment assets | **48,389** | 43,994 | 52,187 | 48,221 | 41,621 | 36,182 | 32,709 | 30,133 | 33,921 | 36,553 |
| Non investment assets/(liabilities) | | | | | | | | | | |
| Due to administered funds | **(734)** | (672) | (800) | (741) | (639) | (553) | (496) | (440) | (487) | (528) |
| Other assets/(liabilities) | **177** | 155 | 129 | 125 | 83 | 26 | (120) | (188) | (191) | (150) |
| Net assets | **47,832** | 43,477 | 51,516 | 47,605 | 41,065 | 35,655 | 32,093 | 29,505 | 33,243 | 35,875 |
| **Changes in Net Assets** for the year ended December 31 | | | | | | | | | | |
| Net assets, beginning of the year | **43,477** | 51,516 | 47,568 (i) | 41,065 | 35,655 | 32,093 | 29,505 | 33,243 | 35,875 | 34,930 |
| *Changes due to Investment Activities* | | | | | | | | | | |
| Total investment income/(loss) | **4,623** | (7,910) | 4,200 | 6,803 | 5,767 | 3,907 | 3,751 | (2,358) | (1,362) | 2,114 |
| Investment management expenses | **(246)** | (227) | (201) | (169) | (160) | (147) | (158) | (103) | (69) | (62) |
| | **4,377** | (8,137) | 3,999 | 6,634 | 5,607 | 3,760 | 3,593 | (2,461) | (1,431) | 2,052 |
| (Income)/Loss to administered funds | **(67)** | 124 | (61) | (104) | (92) | (66) | (51) | 28 | 4 | (47) |
| Net investment income/(loss) | **4,310** | (8,013) | 3,938 | 6,530 | 5,515 | 3,694 | 3,542 | (2,433) | (1,427) | 2,005 |
| *Changes due to Pension Activities* | | | | | | | | | | |
| Contributions | | | | | | | | | | |
| Employer and member | **2,077** | 1,975 | 1,840 | 1,739 | 1,498 | 1,363 | 404 | – | – | – |
| Other contributions | **66** | 73 | 46 | 53 | 36 | 46 | 42 | 47 | 36 | 30 |
| | **2,143** | 2,048 | 1,886 | 1,792 | 1,534 | 1,409 | 446 | 47 | 36 | 30 |
| Benefit payments to members | | | | | | | | | | |
| Pensions paid | **(1,781)** | (1,656) | (1,554) | (1,492) | (1,410) | (1,353) | (1,246) | (1,153) | (1,034) | (916) |
| Commuted value and other payments | **(269)** | (371) | (279) | (252) | (193) | (145) | (110) | (149) | (159) | (129) |
| | **(2,050)** | (2,027) | (1,833) | (1,744) | (1,603) | (1,498) | (1,356) | (1,302) | (1,193) | (1,045) |
| Pension administrative expenses | **(48)** | (47) | (43) | (38) | (36) | (43) | (44) | (50) | (48) | (45) |
| Net assets, end of year | **47,832** | 43,477 | 51,516 | 47,605 | 41,065 | 35,655 | 32,093 | 29,505 | 33,243 | 35,875 |
| **Application of Net Assets to Accrued Benefit Obligation and Surplus/(Deficit)** as at December 31 | | | | | | | | | | |
| **OMERS Primary Pension Plan** | | | | | | | | | | |
| Net assets | **47,784** | 43,438 | 51,479 | 47,576 | 41,046 | 35,643 | 32,087 | 29,500 | 33,236 | 35,867 |
| Actuarial value adjustment of net assets | **4,950** | 6,363 | (4,567) | (5,791) | (2,707) | 1,168 | 3,888 | 6,048 | 2,239 | (1,913) |
| Actuarial assets | **52,734** | 49,801 | 46,912 | 41,785 | 38,339 | 36,811 | 35,975 | 35,548 | 35,475 | 33,954 |
| Accrued benefit obligation | **(54,253)** | (50,080) | (46,830) | (44,167) | (41,123) | (37,774) | (35,466) | (33,034) | (30,955) | (28,104) |
| Surplus/(Deficit) | **(1,519)** | (279) | 82 | (2,382) | (2,784) | (963) | 509 | 2,514 | 4,520 | 5,850 |
| **RCA** | | | | | | | | | | |
| Net assets | **48** | 39 | 37 | 29 | 19 | 12 | 6 | 5 | 7 | 8 |
| Accrued benefit obligation | **(486)** | (285) | (236) | (172) | (157) | (149) | (69) | (63) | (71) | (54) |
| (Deficit) | **(438)** | (246) | (199) | (143) | (138) | (137) | (63) | (58) | (64) | (46) |
| **Total Annual Rate of Return** for year ended December 31 | | | | | | | | | | |
| **OMERS Primary Pension Plan** | | | | | | | | | | |
| Time-weighted return on market value | **10.6%** | –15.3% | 8.7% | 16.4% | 16.0% | 12.1% | 12.7% | –7.1% | –3.4% | 6.2% |
| Benchmark | **12.1%** | –13.2% | 5.6% | 13.7% | 13.2% | 9.9% | 15.5% | –7.4% | –4.2% | 4.1% |
| Funding requirement (including inflation) | **5.6%** | 5.4% | 6.6% | 5.9% | 6.4% | 6.4% | 6.3% | 8.1% | 5.0% | 7.5% |
| **RCA Investment Fund (ii)** | | | | | | | | | | |
| Time-weighted return on market value | **11.3%** | –26.1% | 8.7% | 16.4% | 16.0% | 12.1% | 12.7% | –7.1% | –3.4% | 6.2% |
| Benchmark | **16.6%** | –27.3% | 5.6% | 13.7% | 13.2% | 9.9% | 15.5% | –7.4% | –4.2% | 4.1% |

(i) 2007 beginning of the year net assets were decreased by $37 million to reflect a change in accounting policy for transaction costs.

(ii) Excludes the RCA refundable tax balance with the Canada Revenue Agency.

# Glossary

**Absolute Return Strategies** – Strategies expected to generate positive returns regardless of the movements of the financial markets due to their low correlation to broad financial markets. Absolute return strategies may be used with the objective of increasing the overall investment portfolio risk-adjusted return while contributing to the stability of the overall investment portfolio returns.

**Accrued Benefit Obligation** – The actuarial present value of future pension benefits earned to date.

**Actuarial Smoothing** – A common practice accepted in the actuarial profession and by pension regulators to reduce the effect of short-term market fluctuations on pension plan funding by deferring and recognizing changes in net assets above or below the long-term funding objective over five years.

**Actuarial Valuation Report** – A report issued by the OAC's actuary on the funded status of the OMERS Pension Plans. The actuarial valuation is based on a set of assumptions, as approved by the OAC Board, that include demographic and economic assumptions.

**Additional Voluntary Contribution (AVCs)** – A new retirement savings opportunity for members of the OMERS Primary Pension Plan, effective January 1, 2011. AVCs will enable members and retirees (to age 70) to take advantage of OMERS investment returns by making additional contributions to the OMERS Fund, at a reasonable cost. Contributions can include ongoing withdrawals from a bank account (for active members) as well as lump-sum transfers from registered retirement savings account (for active, retired and deferred members).

**Basis Point** – One basis point equals 1/100th of one percentage point.

**Benchmark** – A benchmark is a standard or point of reference against which performance of an investment is measured. It is generally a passive external index (i.e., the S&P/TSX Composite Index) or for the OAC's private market investments a predetermined absolute return based on operating plans approved by the OAC Board.

**Benefit Accrual** – The accumulation of pension benefits based on a formula using years of credited service, pensionable earnings and an accrual rate. This is expressed in the form of an annual benefit to begin payment at normal retirement age.

**Bridge Benefit** – A temporary benefit provided to employees who retire prior to age 65. The bridge benefit supplements the pension income until age 65. The bridging benefit is not necessarily related to the size of the prospective government benefits.

**Commercial Paper** – Short-term unsecured debt instruments issued by companies typically to meet short-term financing needs.

**Commuted Value** – The lump sum payment made in lieu of a member's future pension amount 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.

**Currency Hedging** – A technique used to offset the risks associated with the changing value of currency.

**Custom Benchmark** – A benchmark calculated based on the weighted average allocation to two or more underlying benchmarks (i.e., Blended DEX 30 day Treasury Bill Index and DEX Universe).

**Debentures** – Bonds that are not secured by specific assets of a firm.

**Defined Benefit Plan** – In a defined benefit plan members' benefits are determined by a formula usually based on years of service times earnings, rather than by the investment returns made on their pension contributions.

**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 OAC Consolidated Financial Statements.

**"Direct Drive" Active Management** – "Direct drive" active management is where we have involvement in on-going decisions within the businesses we invest in with respect to strategy, major investment decisions, annual financial target setting and the monitoring of performance against these targets, risk management and governance oversight.

**Discount Rate** – A discount rate is the interest rate used to compute the present value of anticipated future benefit payments.

**Enterprise-wide** – This refers to the OAC, including OMERS Pension Group, OMERS Capital Markets, Borealis Infrastructure, OMERS Private Equity, Oxford Properties Group, OMERS Strategic Investments and corporate functions.

**Infrastructure** – Infrastructure investing involves direct investments in inflation sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both.

**Modified Pay-As-You-Go Funding Policy** – Promised retirement benefits are not fully pre-funded, instead contributions are paid to ensure that they are sufficient to fund current benefits. This variation of the funding method is used by the OAC for the RCA, in order to minimize the 50 per cent refundable tax applicable to RCA plans.

**Nominal Bonds** – Bonds that pay interest and principal without contractual adjustments for inflation.

**OAC Board** – The Board of Directors of the OAC.

**OMERS Pension Plans or Plans** – Collectively, the OMERS Primary Pension Plan, the associated Retirement Compensation Arrangement and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics.

**OMERS Primary Pension Plan or the Plan** – The primary registered pension plan administered by the OAC under the OMERS Act.

**Passive Management** – Investing in a manner that replicates the performance of a market index (i.e., S&P/TSX Composite Index).

**Plan Sponsor** – The organization or body, which has the final authority to create a pension plan and/or make revisions to an existing pension plan. Usually the plan sponsor is an employer, but it can also be a union, an association, the government, or a mixture. For the OMERS Pension Plans, the Sponsors Corporation is made up of employer and member representatives and acts as the sponsor.

**Private Equity** – Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly.

**Proxy Voting** – Proxy voting is the process by which a shareholder expresses their views, on proposed corporate actions, by submitting their vote at a company's annual meeting.

**Public Market Investments** – Investments in interest bearing (i.e., bonds, debentures and treasury bills) and equity securities (i.e., stocks, trust units, warrants and mutual fund units) traded on recognized public exchanges.

**Real Rate of Return** – Nominal return adjusted to exclude the impact of inflation.

**Real Return Bonds** – Interest bearing marketable bonds that pay a semi-annual coupon rate calculated based upon the sum of the principal amount and an inflation compensation component that adjusts for inflation.

**Retirement Compensation Arrangement or RCA** – The plan for those of the OMERS Pension Plan members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

**SC** – The OMERS Sponsors Corporation.

**Secured Debt** – Debt backed or secured by collateral to reduce the risk associated with lending for creditors given that if the debtor defaults, the creditor may seize the collateral as repayment of the debt.

**Supplemental Plan** – The OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics is a stand-alone registered pension plan which offers benefits not available in the OMERS Primary Pension Plan and which is not funded from the OMERS Primary Pension Plan.

**Unsecured Debt** – Debt which is not backed or secured by collateral property.

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Disponible en français

OMERS Sponsors Corporation

# ONE TEAM on course

OMERS
Sponsors Corporation

2009 Annual Report

OMERS was established in 1962 as the pension plan for employees of local governments in Ontario. On June 30, 2006, the *Ontario Municipal Employees Retirement System Act, 2006* (the OMERS Act) came into effect. The Act continued the Ontario Municipal Employees Retirement Board as the OMERS Administration Corporation (OAC) and created the OMERS Sponsors Corporation (SC) to replace the Ontario government as plan sponsor.

Sponsors (such as plan members, employers and retirees, through their unions, associations and other organizations) appoint the Board Members of the SC, and since June 30, 2009, the SC appoints OAC Board Members.

**OMERS Sponsors Corporation**

OMERS Sponsors Corporation is the Plan Sponsor of the OMERS Plans and consists of 14 Members: 7 plan member representatives and 7 employer representatives.

The SC is responsible for:

- determining plan design for benefits to be provided by the pension plans
- setting contribution rates for members and participating employers
- establishing or changing a reserve to stabilize contribution rates
- setting compensation levels and appointment protocol of SC and OAC Board Members.

**OMERS Administration Corporation**

OMERS Administration Corporation Board has 14 board members: 7 plan member representatives and 7 employer representatives. It is the Administrator of the OMERS Plans.

The OAC Board is responsible for:

- appointing and overseeing the OAC management team
- establishing investment and funding policies, asset allocation and investment management of the OMERS Pension Plans' assets
- overseeing pension services, administration and plan valuation
- appointing the OAC auditor and the actuary for the OMERS Pension Plans.

**OMERS Management**

OAC Management conducts the affairs of the OAC and has been delegated broad responsibilities for ensuring that OMERS discharges its statutory and related responsibilities to Plan members, including:

- administering the OMERS Pension Plans
- providing for the actuarial valuation of the OMERS Pension Plans
- investing the OMERS Pension Plans' assets
- providing technical and administrative support for the SC.

## Table of Contents

# ONE TEAM on course


Building a team and establishing a new governance model for the OMERS organization has been the focus of the Sponsors Corporation since its inception in 2006. The first three years have been important in creating the foundation that will set the course for the future stability of the OMERS Pension Plans. We are well on our way to completing our initial mandates as stated in the OMERS Act, 2006, and we are confident that the path we are on will meet the best interests of our Plan members and sponsors.

Teamwork is especially important as we take into account the many needs and concerns of the diverse groups that encompass our membership. We created the SC as a strong unit from the very beginning, starting at the Board level and building a solid operations team. We also work together with our fellow members from the OAC and OAC Management with a common goal in mind – supporting the health and long-term viability of the OMERS Pension Plans. And, we view our stakeholders as our partners.

We have many opportunities and challenges ahead and the SC team is in place to meet these. As we look at the various factors – including economy, investment performance and changing demographics – we are confident that we are on the right track.

**Your SC team is on course to meet your pension needs – today and in the future.**

# On course in the best interests of the OMERS Pension Plans

"Our commitment to the health and long-term viability of the OMERS Pension Plans remains steadfast."

**BRIAN O'KEEFE**
Co-Chair

**MARIANNE LOVE**
Co-Chair

In November 2009, the Sponsors Corporation adopted the following statement: *"The best interests of the OMERS Sponsors Corporation (SC) includes governance and decision-making practices which support the health and long-term viability of the jointly-sponsored OMERS Pensions Plans and give due consideration to the interests of the stakeholders and other relevant circumstances."*

Although not formalized until the latter part of 2009, the commitment embedded in this statement has been at the heart of every decision we've made and every policy we've established. When we became Co-Chairs, we were very aware of the magnitude – and the significance – of the work required to take over the sponsorship role from the provincial government. Looking back at 2009 and the progress we've made in creating a new governance model for the OMERS Plans, we are pleased with our accomplishments and confident that we are meeting the mandates set out by the OMERS Act, 2006. Our progress is a testament to the teamwork and commitment of the SC.

2009 was a unique year with both challenges and opportunities. The worldwide recession that began in 2008 was still in full force at the beginning of the year. As the year progressed, early signs of recovery paved the way for cautious optimism. The pension industry was a top newsmaker, scrutinized by media and government as concerns about pension plans and their stability became a worldwide concern. While the economy appears to be heading toward recovery, growth is expected to be slow. These continued to be the circumstances we faced as we entered 2010.

During 2009, the SC was focused on six issues. We'd like to devote the rest of our letter to the work done over the past year and our continuing efforts to resolve those issues.

**Funded Status of the Primary Plan**

The funded status of the Plan is our top priority. In 2008, because of the economic recession, the Plans' investment losses resulted in an actuarial deficit of $279 million. At the end of 2009, the deficit stood at $1.5 billion (plus an additional $4.9 billion of deferred losses that must be recognized over the next four years.)

During 2009, we implemented a small contribution increase for 2010 as a first step to addressing the funded status and we are looking at other actions. Investment returns will also play a role in returning the Fund to a surplus, a goal that both Boards are committed to achieving. We know there are some tough choices ahead of us, and we will continue to review this situation, keeping in mind the best interests of the Plan.

**Pension Reform**

Governments at all levels and across the country are reviewing pension legislation and considering changes. Working with the OAC Board and OAC Management, we have made sure that the concerns and best interests of the OMERS Plans are part of every reform discussion. OMERS has always been a leader in advancing pension reform and when governments made a call for input, we were ready. In 2007 we made a joint submission to the Ontario Expert Commission on Pensions and last year, following the release of the Commission's report, we worked with the OAC to develop our response. Links to our initial submission and response can be found on our website.

> "OMERS has always been a leader in advancing pension reform."

**New Initiatives Approved**

The SC Board has supported new initiatives for investment and service opportunities. The provincial government approved third-party management capabilities for OMERS in June 2009, which has resulted in the creation of OMERS Investment Management. We also approved the introduction of Additional Voluntary Contributions to the Plan, which will be available to Plan members in 2011.

**Framework Agreement**

We are particularly proud of the establishment of the Framework Agreement developed in cooperation with the OAC Board. This agreement sets out processes and procedures for items where there are shared responsibilities, providing clarity and guidelines. The Framework Agreement supports the foundation of teamwork that exists between the two Boards and across the organization, and is a very positive touchstone for the future of OMERS. Out of the Framework Agreement came the formation of the Joint Council, which brings together members of the SC and OAC Boards to discuss joint governance matters.

**Composition and Appointment of OAC Board**

Another milestone was the development of the OAC Board composition after much thoughtful consideration and discussion, and the appointment of the new Board members effective July 1, 2009. We are confident that the OAC Board members will continue the legacy of strong leadership as fiduciaries of the Plans.

**SC Board and Operations**

We'd like to thank Fred LeBlanc for his service over the past three years as he steps down from the SC Board. As an inaugural Member of the SC Board, Fred has been part of the team that defined the direction that the SC has undertaken. We welcome Frank Ramagnano, Ontario Professional Fire Fighters Association, who has been an active and contributing SC Member since his appointment earlier this year.

We also want to thank Tim Hammill for his hard work during his term as our Executive Director. Tim joined the SC to lead our administrative team during our formative years. We wish Tim the best upon his retirement. John Poos has joined the team as our new Executive Director. He brings many years of pension and management experience to OMERS that will be invaluable as we tackle the many changes that are in store for us.

The SC team is here for you – our members and stakeholders. As we look ahead at the challenges and opportunities that the changing economy and pension reform will bring in the coming year, our commitment to the health and long-term viability of the OMERS Plans remains steadfast.

Sincerely,

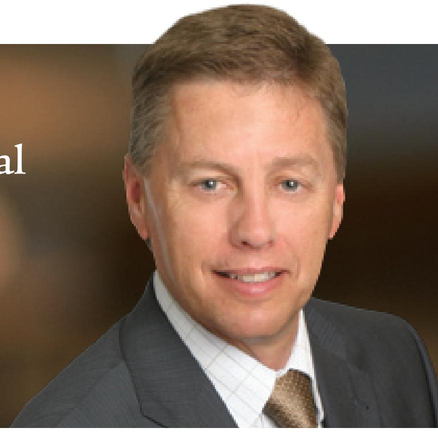
Marianne Love
Co-Chair

Brian O'Keefe
Co-Chair

# A message from the Executive Director

"I am very pleased to have joined the OMERS organization. It has an exemplary international reputation and a profound local presence."

**JOHN POOS**
Executive Director, Sponsors Corporation



Given the relatively short history of the SC, the role and responsibility of the Executive Director has continued to evolve. My predecessor, Tim Hammill, assumed the position of Executive Director while the SC was creating its internal governance structure and policies, and establishing operating protocols with the OAC.

He faced the challenge of creating an operationally efficient organization while remaining focused on the primary pension responsibility of the SC. With the execution of the Framework Agreement with the OAC during 2009 this development process is now nearing completion. Many thanks must go to Tim for his dedication and commitment during this challenging period. He leaves our organization with a strong foundation. With the formal retention of Deb Preston as Director of Pension Policy and Communications completing the SC staff requirements, we are now fully ready to tackle the many challenges facing the OMERS Pension Plans.

Like many pension plans worldwide, OMERS is facing challenges. The market collapse in 2008 will impact the funded status of the OMERS Pension Plan for years to come. Based on the actuarial value of the Plan's net assets, our 2009 deficit is $1.5 billion. However, due to actuarial smoothing there is an additional $4.9 billion in losses that will be recognized over the next four years and additional actuarial assumption changes could impact that number further.

While the OAC will make every effort to deliver solid investment performance, the SC has the responsibility of prudently addressing the Plan's funded position using a combination of contribution and/or benefit changes. Each of the SC Members will bring their particular perspective and expertise into the funding discussion, and I have the responsibility of providing independent leadership and insight into those discussions. I take this responsibility very seriously.

I am very pleased to have joined the OMERS organization. It has an exemplary international reputation and a profound local presence. It's well managed and innovative. While the future of Canadian pension reform is uncertain, I am very confident that OMERS has the talent and creativity to respond positively. The SC will do its part, and I intend to do all I can to assist them along the way, aware that my responsibility is to the Plan. I expect that OMERS will continue to face challenges but I look forward to the future with confidence and optimism.

John Poos
Executive Director, Sponsors Corporation

# Year in Review

Never before has the SC's mandate been more important: decision-making that supports the health and long-term viability of the OMERS Pension Plans. This may seem like an obvious responsibility but the scope affects our 400,000 plus members and encompasses many layers. Following a year when economic recession and pension review has changed this industry's landscape, the decisions that the Members of the SC make today will have long-term effects on our Plan. That's why we are even more committed to and focused on answering two key questions: What is in the best interest of our stakeholders; and, are we on the right course to ensure that the Plan is healthy and viable for our future retirees?

The SC undertook this mandate over three years ago when formed under Bill 206. During that time the SC has made significant progress and reached many milestones. We have focused on good governance and created decision-making practices that will support our mandate. We have a unique jointly-sponsored plan, which means our partnership with our stakeholders is key to our success. For us, that means transparency and open communication. It also means working closely with the OMERS Administration Corporation (OAC) as we plan the future of OMERS.

In 2009, many achievements and decisions were made that set the foundation for the future health of the OMERS Plans.

**Funding and Plan Design**

The global recession had a negative impact on the investment returns in 2008, resulting in a deficit position in the Plan. At the end of 2008, the Fund had a going concern actuarial deficit of $279 million, reflecting only a part of the losses. We addressed this through a small contribution increase for both members and employers, effective January 1, 2010. The deficit at the end of 2009 is $1.5 billion with an additional $4.9 billion that will be recognized over the next four years.

The funding status is one of the SC's top priorities. With a close eye on economic factors, we will continue to review the plan valuation and actuarial projections to determine what additional action may be needed to address current and future deficits. We have filed the 2008 valuation, which provides some time to review the funded position of the Plan and consider what further action is required.

It is highly likely that there may be additional contribution rate increases and/or benefit changes in the future. As the full impact of the remaining $4.9 billion of losses are smoothed into the funded position over the coming years, we will need to monitor investment returns closely.

**Influencing Pension Reform**

Pension reform has been on the agenda for many levels of government this past year and changes to legislation are being considered. We have been a clear voice in the call for pension reform. In 2007 we issued a joint submission with the OAC to the Ontario Expert Commission on Pensions. The Commission's report was released in the fall of 2008, to which we presented another joint response that highlighted key areas that OMERS believes will enhance future growth and stability. Links to our recommendations to the Ontario Expert Commission on Pensions are available on our website.

The SC has a responsibility to speak on behalf of our members and stakeholders to ensure that their best interests will be taken into consideration by governments when it comes to changes in pension legislation. We will continue to champion change that will benefit the OMERS Plans and our members' pensions.

**Specified Plan Changes**

In 2008 the SC's Plan Design Information Committee developed an improved process for Specified Plan Changes that established a simplified approach and greater transparency. Implemented in 2009, this process has proven to be successful and will continue to be used in the future.

In 2009 the following two Specified Plan Changes were approved:

1) Contribution increase for 2010: As a result of the decision to file the 2008 valuation, a small contribution increase was put in place effective January 1, 2010.

2) Incentive Pay Cap: The amount of incentive pay that may be included for pension purposes has been capped. Effective January 1, 2011, a member's earnings, for pension purposes, are capped at 150 per cent of contributory earnings calculated before incentive pay.

### Other Plan Changes

The SC also approved the introduction of Additional Voluntary Contributions beginning in 2011. This new opportunity for Plan members will allow individual members to make additional contributions on a voluntary basis.

A number of minor technical plan changes were also introduced:

- The maximum age at which a pension must commence has been changed from 69 to 71 to align with changes to the *Income Tax Act*. As part of this change, we have implemented a five-year transition period where members who are still employed by an OMERS employer and who turn 69 during this period will have the option of starting their pension before age 71 (or March 1, 2014, if earlier).
- Police and fire associations may preserve and continue to provide NRA 60 benefits to former police officers and firefighters who were police officers or firefighters contributing at NRA 60 within 90 days prior to obtaining their position at the association.
- The Plan language referring to partial plan wind up has been clarified to reflect the requirements under the *Pension Benefits Act*.
- Effective March 1, 2010, members may purchase Canadian private sector service under the buy-back provisions of the Primary Plan (subject to *Income Tax Act* restrictions).
- In addition to the above plan changes, the SC confirmed the rules for participation by Associated Employers and conditions for termination of participation by traditional employers in the OMERS Plans.

### Framework Agreement and Joint Council Established

During 2009, the SC and OAC completed the Framework Agreement. This document outlines the protocols, roles and responsibilities for the two Corporations in situations where there is interaction or shared responsibilities. Having defined processes provides clarity to our teams as they carry out our day-to-day operations and make decisions. As well, under the Framework Agreement, a Joint Council of the OAC and SC Boards was established as the forum where joint governance issues are discussed. The establishment of the Framework Agreement and Joint Council are examples of the increased interaction between the SC and OAC Boards as we work together to lay the groundwork for the future.

### Completion of OAC Board Selection Criteria

The SC also established the OAC Board selection criteria. The composition and representation on the OAC Board is critical as these members act as fiduciaries on behalf of our membership. After many months of discussion, review and consideration, we determined the appropriate composition of the OAC Board. The OAC Board composition has equal representation from Employee and Employer groups and reflects those organizations which represent the largest number of Plan members. The current OAC Board members were appointed effective July 1, 2009 and are listed on Page 18 of the OAC Annual Report.

### SC Executive

Executive Director John Poos was hired on July 22, 2009 to lead a small but dedicated team who handle day-to-day operations at the SC's head office. The team includes Deb Preston, Director, Pension Policy and Communications and Susan Porter, Board Secretary and Office Manager. We are located on the 17th floor at One University Avenue.

### The Course for 2010

With the challenges ahead, the SC will continue to develop an objectives statement that will guide decisions relating to plan design and contribution rates. The pension landscape is changing and we will look at all the factors that affect the Plan.

The funding status will continue to be a high priority as we work with the OAC to return the Fund to a healthy status.

With changes to pension reform initiatives on the horizon, the SC will continue to be at the forefront of discussions and voice key concerns to government. As one of Canada's largest pension plans, we have the retirement future of many Canadians in our hands and are committed to working with your best interests as our first priority.

# Governance – OMERS Sponsors Corporation

The OMERS Act created the SC to fulfill the role of plan sponsor, giving employers and employees more direct control over the pension plan. The SC has committed itself to upholding OMERS long history of exemplary corporate governance through maintaining high standards of integrity, education, transparency and communication in carrying out its responsibilities.

**Governance**

The SC strives to achieve standards based on best practices in corporate governance. To achieve this goal, the SC has developed policies and practices with input and advice from third-party advisors who are expert and experienced in the field. The governance structure includes:

- Corporate by-laws and policies that support the commitment to a best practice standard.
- An education program for Members which includes educational opportunities in the areas of governance, pension administration, benefits strategies and pension plan trustee development, as well as mandatory orientation to the OMERS Pension Plans.
- Transparency and accountability to OMERS Plan participants through regular meetings with plan participants and stakeholders, together with timely and accurate print and electronic communication carried out in conjunction with the OAC, as well as regular updates and website posting of by-laws, by-law amendments and accessible information for submitting proposals for plan design changes.

**Board Membership**

The composition of the Board was established under legislation and confirmed by SC By-Law #4 and is based on a balanced formula reflecting plan membership. A review of the SC composition was completed, taking into account the most recent plan membership statistics to ensure the SC continued to provide the most equitable representation of the participants in the OMERS Pension Plans.

The SC is comprised of seven representatives of employers of plan members and seven representatives of employee organizations as follows:

### Employer Representatives

- Association of Municipalities of Ontario (AMO) – two members
- City of Toronto – one member
- School boards, rotating between public and Catholic boards – one member
- Ontario Association of Police Services Boards – one member
- Ontario Association of Children's Aid Societies – one member
- Electricity Distributors Association (Ontario) – one member

### Plan Member Representatives

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

## BOARD REMUNERATION AND EXPENSES

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Remuneration (1) | Expenses (2) | Remuneration (1) | Expenses (2) |
| Marianne Love (Co-Chair) | **$ 50,000** | **$ 22,847** | $ 30,000 | $ 31,039 |
| Brian O'Keefe (Co-Chair) | **50,000** | **8,632** | 30,000 | 15,392 |
| Wm. (Joe) Aitchison | **26,400** | **11,738** | 15,000 | 13,629 |
| Brian Cain | **26,900** | **6,098** | 18,000 | 13,624 |
| Ann Dembinski | **20,650** | **10,412** | 15,000 | 10,074 |
| John Fleming | **26,900** | **15,168** | 17,000 | 25,087 |
| Jack Jones | **22,900** | **7,613** | 15,000 | 5,085 |
| Fred LeBlanc (3) | **3,000** | **1,942** | 17,000 | 12,771 |
| Charlie Macaluso | **15,000** | **3,518** | 15,000 | 2,221 |
| Bruce Miller | **26,900** | **21,048** | 17,000 | 17,514 |
| Glen Mills | **22,150** | **8,040** | 15,000 | 8,855 |
| Marnie Niemi Hood | **0** | **15,734** | 0 | 21,970 |
| Garth Pierce | **22,150** | **11,808** | 15,000 | 10,882 |
| Frank Ramagnano (4) | **20,400** | **12,209** | – | – |
| Bruce Stewart | **22,900** | **3,030** | 15,000 | 3,748 |
| Other (5) | | **39,370** | | 30,834 |
| **Total** | **$ 356,250** | **$ 199,207** | $ 234,000 | $ 222,725 |

(1) Remuneration is in accordance with By-Law #6; effective July 1, 2009, a base retainer plus per meeting attendance fee to prescribed maximum levels was implemented
(2) Expenses include reimbursement for normal business expenses including education, conference attendance, accommodation and transportation, incurred on an individual basis
(3) Term ended February 28, 2009
(4) Term commenced March 1, 2009
(5) Other expenses include group meeting expenses not allocated by individual

## 2009 BOARD/COMMITTEE MEETINGS

| | Board (15) | | PDIC (13)[8] | | HRCC (16)[8] | | CGC (6)[8] | | Audit (3)[8] | | FASC/Joint[8] Council (11)[6] | | Other (8)[7] | Overall | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Board Member | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Attended | Total | Discretionary | Attended | Total | % |
| Marianne Love [1] | 15 | 15 | 13 | 13 | 14 | 16 | 6 | 6 | | | 9 | 11 | 8 | 65 | 69 | 94 |
| Brian O'Keefe [1] | 15 | 15 | 12 | 13 | 15 | 16 | 6 | 6 | | | 11 | 11 | 8 | 67 | 69 | 97 |
| Wm. (Joe) Aitchison [8] | 14 | 15 | | | 14 | 16 | 6 | 6 | | | | | 6 | 40 | 43 | 93 |
| Brian Cain [2][8] | 15 | 15 | 1 | 1 | 16 | 16 | 1 | 1 | 3 | 3 | | | 6 | 42 | 42 | 100 |
| Ann Dembinski | 14 | 15 | | | 9 | 16 | | | 1 | 3 | | | 4 | 28 | 38 | 74 |
| John Fleming [2][8] | 15 | 15 | 13 | 13 | | | 1 | 1 | | | 9 | 11 | 6 | 44 | 46 | 96 |
| Jack Jones | 15 | 15 | 10 | 13 | | | | | | | | | 6 | 31 | 34 | 91 |
| Fred LeBlanc [3] | 2 | 2 | | | | | | | | | | | | 2 | 2 | 100 |
| Charlie Macaluso [4] | 14 | 15 | 4 | 4 | | | 6 | 6 | | | | | 5 | 29 | 30 | 97 |
| Bruce Miller [2][8] | 14 | 15 | 1 | 1 | 16 | 16 | | | | | 10 | 11 | 5 | 46 | 48 | 96 |
| Glen Mills | 15 | 15 | | | | | | | 3 | 3 | | | 5 | 23 | 23 | 100 |
| Marnie Niemi Hood | 14 | 15 | 12 | 13 | | | 6 | 6 | | | | | 5 | 37 | 39 | 95 |
| Garth Pierce | 15 | 15 | | | | | | | 3 | 3 | | | 4 | 22 | 22 | 100 |
| Frank Ramagnano [4][5] | 13 | 13 | 4 | 4 | | | 5 | 5 | | | | | 6 | 28 | 28 | 100 |
| Bruce Stewart | 15 | 15 | 13 | 13 | | | | | | | | | 4 | 32 | 32 | 100 |
| **Overall Attendance** | 98% | | 94% | | 88% | | 100% | | 83% | | 89% | | | 95% | | |

(1) Co-Chairs are ex-officio members of all committees except Audit
(2) Attended committee meetings by request
(3) Term concluded February 28, 2009
(4) Appointed to PDIC October 1, 2009
(5) Appointed to SC March 1, 2009
(6) Members of FASC were reappointed as members of the Joint Council
(7) 'Other' includes: stakeholder meetings, educational/informational sessions, and a planning retreat which Members attended at their discretion and as their obligations allowed
(8) PDIC – Plan Design Information Committee; Chair – John Fleming
HRCC – Human Resources Compensation Committee; Chair – Bruce Miller
CGC – Corporate Governance Committee; Chair – Joe Aitchison
Audit Committee; Chair – Brian Cain
FASC – Framework Agreement Sub-Committee

There are 18 total votes on the SC. The number of votes is equally split between employer and plan member representatives and is further proportionately distributed using a weighted voting system.

**Compensation and Expenses for SC Members**

Compensation

Effective July 1, 2009, SC Members are compensated through a combination of an annual retainer and meeting fees covering attendance at SC and committee meetings and at other meetings or events such as the SC's annual planning session and the spring and fall information sessions for stakeholders. This change was made following an extensive review by the Human Resources and Compensation Committee of the SC. As part of the process, external compensation advisors completed a market analysis of relevant pension plan peer groups. Following a review and discussion of the available information and experience from both Boards, and from the external advisors, compensation was established at the median level ($50^{th}$ percentile) and the maximum number of compensable meetings was set at 24.

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

The SC Member compensation is as follows:

| | Annual Retainer | Meeting Fee |
|---|---|---|
| Sponsors Corporation Co-Chairs | $70,000 | $0 |
| Committee Chair | $17,800 | $750 |
| All Other Members | $12,800 | $750 |

**Reimbursement of Expenses**

SC Members are entitled to reimbursement of reasonable and necessary expenses incurred in connection with carrying out the business of the SC, subject to the necessary approvals under By-Law #6.

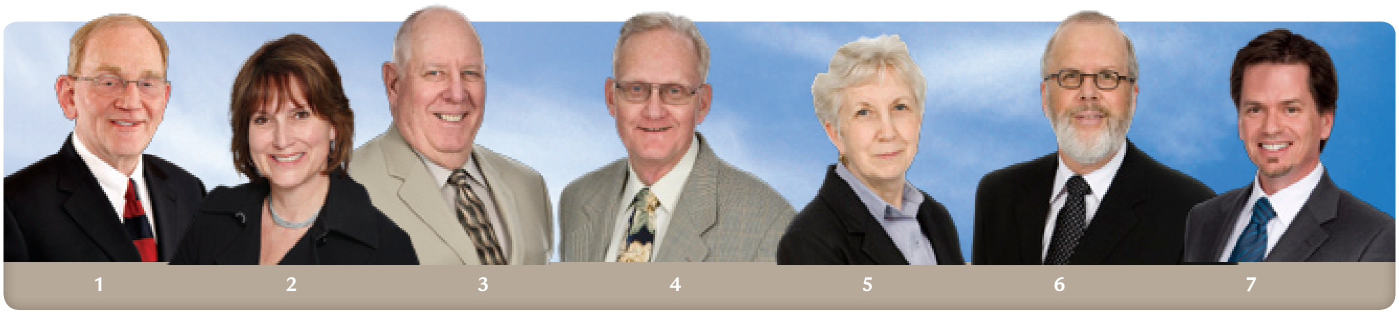
**Education Expenses**

SC Members are reimbursed for travel, tuition and other expenses incurred in attending pension and governance conferences, or other educational programs, which are approved or mandated by the SC under By-Law #6.

**Meeting Attendance**

There were 15 regular meetings of the Board and 38 meetings of standing committees; eight "other" meetings were held, which Members attended at their discretion and as their obligations allowed. Overall attendance in 2009 was 95 per cent compared with 97 per cent in 2008.

# Sponsors Corporation Members




**1 Brian O'Keefe, Co-Chair**
Plan Member Representative for CUPE Ontario

**2 Marianne Love, Co-Chair**
Employer Representative for Association of Municipalities of Ontario

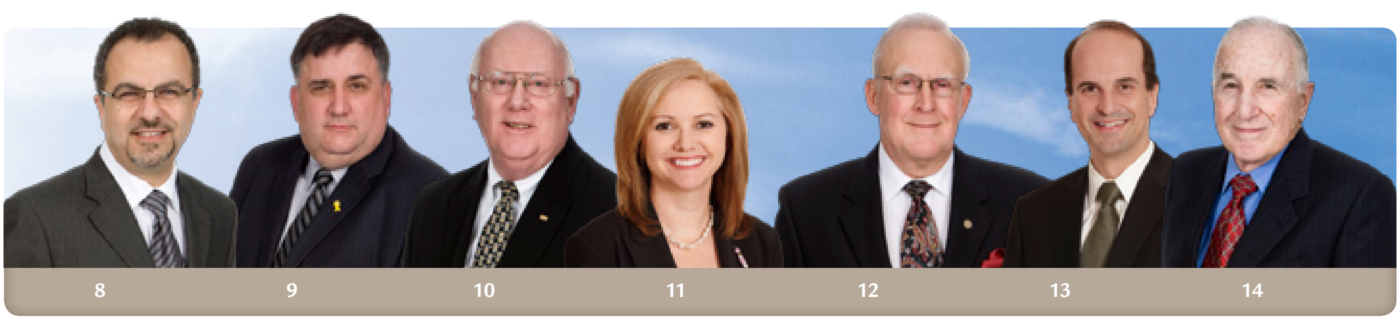
**3 W.J. (Joe) Aitchison**
Employer Representative for Ontario Association of Children's Aid Societies

**4 Brian Cain**
Employer Representative for Ontario Public School Boards' Association

**5 Ann Dembinski**
Plan Member Representative for CUPE Local 79

**6 John Fleming**
Employer Representative for the City of Toronto

**7 Jack Jones**
Plan Member Representative for Ontario Secondary School Teachers' Federation




**8 Charlie Macaluso**
Employer Representative for Electricity Distributors Association

**9 Bruce Miller**
Plan Member Representative for Police Association of Ontario

**10 Glen Mills**
Plan Member Representative for Retirees

**11 Marnie Niemi Hood**
Plan Member Representative for Ontario Public Service Employees Union

**12 Garth Pierce**
Employer Representative for Ontario Association of Police Services Board

**13 Frank Ramagnano**
Plan Member Representative for Ontario Professional Fire Fighters Association

**14 Bruce Stewart**
Employer Representative for Association of Municipalities of Ontario

# Auditors' Report

**To the Board of OMERS Sponsors Corporation:**

We have audited the statement of financial position as at December 31, 2009 and the statements of operations and of cash flows for the year then ended. These financial statements are the responsibility of the OMERS Sponsors Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Langlois Hauck Lettner & Co. LLP

Chartered Accountants
Licensed Public Accountants
North York, Ontario

February 16, 2010

# Financial Statements

## STATEMENT OF FINANCIAL POSITION

| As at December 31, | 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Cash | **$ 2,077,483** | $ 2,085,603 |
| OAC receivable | **588,394** | 399,032 |
| Prepaid expenses | – | 750 |
| **Total Assets** | **$ 2,665,877** | $ 2,485,385 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 228,026** | $ 44,283 |
| **Net Assets** | | |
| Excess / (deficit) of revenues over expenses from operations | | |
| Balance at beginning of year | **2,441,102** | 738,330 |
| Current year | **(3,251)** | 1,702,772 |
| Balance at end of year | **2,437,851** | 2,441,102 |
| **Total Liabilities and Net Assets** | **$ 2,665,877** | $ 2,485,385 |

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

Signed on Behalf of the Board of OMERS Sponsors Corporation

**Marianne Love**
Co-Chair

**Brian O'Keefe**
Co-Chair

**Brian Cain**
Chair of Audit Commitee

## STATEMENT OF OPERATIONS

| For the year ended December 31, | Note | 2009 | 2008 |
|---|---|---|---|
| **Revenues** | | | |
| Government grant revenue | | $ – | $ 750,000 |
| OAC expense reimbursement | | 1,860,837 | 2,014,686 |
| Interest income | | 575 | 19,956 |
| | | 1,861,412 | 2,784,642 |
| **Expenses** | | | |
| Contract and administrative staff including payroll taxes and benefits | | 590,331 | 279,126 |
| Legal | | 227,230 | 206,993 |
| Audit | | 3,727 | 3,552 |
| Actuarial | | 71,863 | 70,917 |
| Professional advisors and other administrative | 3 | 267,869 | 59,780 |
| Insurance | | 136,289 | – |
| Board remuneration including payroll taxes and benefits | 4 | 368,147 | 238,777 |
| Board expenses | | 199,207 | 222,725 |
| | | 1,864,663 | 1,081,870 |
| **Excess / (Deficit) of Revenues Over Expenses from Operations** | | $ (3,251) | $ 1,702,772 |

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

## STATEMENT OF CASH FLOWS

| For the year ended December 31, | 2009 | 2008 |
|---|---|---|
| **Operating Activities** | | |
| Excess / (deficit) of revenues over expenses | $ (3,251) | $ 1,702,772 |
| Changes in non-cash working capital accounts | | |
| OAC receivable | (189,362) | (399,032) |
| Prepaid expenses | 750 | (750) |
| Accounts payable and accrued liabilities | 183,743 | (70,667) |
| **Increase / (Decrease) in Cash** | (8,120) | 1,232,323 |
| Cash at Beginning of Year | 2,085,603 | 853,280 |
| **Cash at End of Year** | $ 2,077,483 | $ 2,085,603 |
| Supplemental disclosures of cash flows from operating activities: | | |
| Interest received | $ 575 | $ 19,956 |

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

# Notes to Financial Statements

Year ended December 31, 2009

## Note 1

### DESCRIPTION OF PLANS SPONSORED BY OMERS SPONSORS CORPORATION

The OMERS Sponsors Corporation (the "SC") is a corporation without share capital under the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"). The SC is the sponsor of the OMERS Pension Plans (the "OMERS Pension Plans") as defined in the OMERS Act. The OMERS Pension Plans are administered by OMERS Administration Corporation (the "OAC") and include the OMERS Primary Pension Plan (the "Plan") and the Retirement Compensation Arrangement (the "RCA") associated with the Plan and the OMERS Supplemental Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). The Ontario Municipal Employees Retirement System ("OMERS") represents the combined retirement system comprised of the SC, the OAC, the Plan, the RCA, and the 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*.

## Note 2

### SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

These financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles, and present the information of the SC as a separate financial reporting entity independent of the employers, Plan members and the OAC.

**Government Grant Revenue Recognition and Net Assets**

Grants for operations are received or receivable from the Ministry of Municipal Affairs and Housing of the Ontario Government (the Ministry). Amounts receivable are recognized as income in the year if the amount to be received can be reasonably estimated and collection is reasonably assured. The funding agreement with the Ministry in place during 2007 stated that any part of the grant funds that have not been used or accounted for by the SC at the time the agreement was to expire, on March 31, 2009, would belong to the Ministry.

In July 2008, following the establishment of, and agreement to, a joint SC / OAC protocol for SC expenditure reimbursement from the OAC and an Ontario Superior Court of Justice decision that confirmed that the OAC may lawfully reimburse the SC in accordance with the categories outlined in the protocol, the Ministry agreed to amend their agreement with the SC. The amended agreement authorizes the SC to use the remaining provincial funding for a period of up to five years (to March 31, 2014), to pay for SC costs that, under the protocol, cannot be reimbursed from the OAC. Net assets consist of government grant funds received, net of expenditures not reimbursed by the OAC, plus interest earned. Interest income for operations is recognized as income in the year received.

**Income Taxes**

The corporation is not subject to Corporate Income Tax.

**Use of Estimates**

The preparation of financial statements is in conformity with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, and related disclosures. Actual results could differ from these estimates.

**Financial Instruments**

Financial instruments and liabilities are initially recorded at fair value and are subsequently accounted for based on the classification of these financial instruments.

Financial assets and liabilities classified as "held-for-trading" are subsequently measured at fair value with changes recognized in the statement of operations. Financial assets classified as "available for sale" are subsequently measured at fair value with changes recognized in the statement of net assets until realized. Financial assets classified as "held-to-maturity", "loan and receivables" and financial liabilities classified as "other financial liabilities" are subsequently measured at amortized cost, using the effective interest method, where applicable.

The corporation has made the following designations in accordance with these standards:

- Cash is a bank balance which is used to fund the normal operations of the corporation, and is classified as "held-for-trading".
- OAC receivable is classified as "loans and receivables".
- Accounts payable and accrued liabilities are classified as "other financial liabilities".

## Note 3

### PROFESSIONAL ADVISORS AND OTHER ADMINISTRATIVE EXPENSES

Professional advisor and other administrative expenses in 2009 consist primarily of various professional advisors, recruitment, training, and other administrative expenses. 2008 consists primarily of an insurance review, recruitment, governance advice, and other administrative expenses. Other administrative expenses consist of training, association fees, equipment, computer equipment, supplies, recruitment costs, travel, postage, catering, research and information, fees and service charges.

## Note 4

### BOARD REMUNERATION AND EXPENSES

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

## Note 5

### FINANCIAL INSTRUMENTS

**Fair Value of Financial Instruments**

Financial instruments of the corporation consist of cash, OAC receivable, and accounts payable and accrued liabilities. The carrying values of the above items approximate their fair value due to their short-term nature.

**Credit Risk**

The corporation's cash is held at a major financial institution. The OAC receivable is due from an organization with a "AAA" credit rating and there is virtually no credit risk.

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