

Our 2020 Strategy: Driving Plan Sustainability

In 2016, OMERS continued to execute on the 2020 Strategy put in place the year before.

Our Strategy, which sets out a five-year roadmap, is advancing OMERS toward our vision of being a leading model for defined benefit pension plan sustainability.

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

- A maturing Plan as the number of retired members increases relative to contributing members
- A challenging investment environment
- An evolving pension landscape as retirement security remains a priority for governments

Our Goals:

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

Our Strategy is working and contributed to our solid 2016 results. It is based on four pillars:

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

We are proud of the strong progress OMERS made in 2016 to deliver on our 2020 Strategy. This report highlights our progress on each of these pillars over the year.



Protecting our funded status

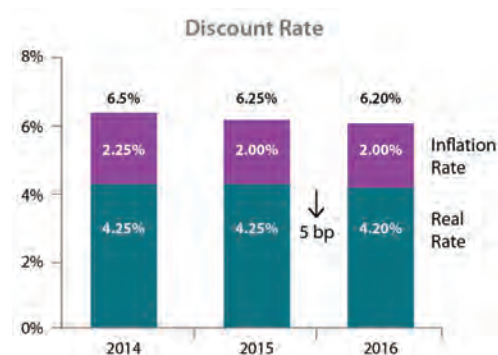
To ensure that we deliver on our pension promise.

KEY HIGHLIGHTS:

In 2016, contribution rates and benefits were unchanged, and they will remain at current levels in 2017. The current average contribution rate by members is 10.7% and is matched equally by employers.

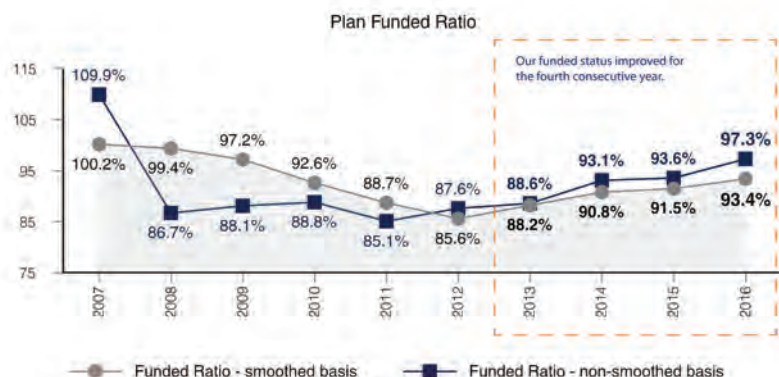
In 2016, the funded ratio increased to 93.4%, up from 91.5% in 2015. The improvement in OMERS funded ratio for the fourth year in a row is due mainly to a combination of increases to contribution rates put in place in 2010, as well as positive investment returns. OMERS 2020 Strategy aims to return the Plan to full funding by 2025 and, today, we remain on course.

To reduce funding risk, OMERS reduced the Plan's real discount rate (net of inflation) from 4.25% to 4.20%, effective December 31, 2016. A lower real discount rate can help absorb the impact of potential funding stress, such as a future financial crisis. In such a situation, OMERS could raise the discount rate to

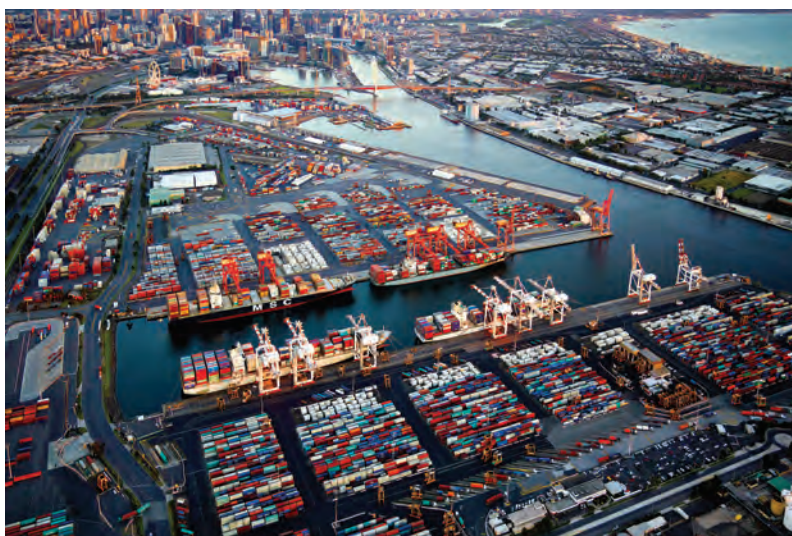


stabilize the funded status of the Plan, and mitigate the negative impact on benefits and contribution rates.

In 2016, OMERS continued to assess various options for sharing funding risk more equitably in the future, across the broader population of active and retired members. One of those options is the possible introduction of Modified Inflation Indexing, following formal consultation with key stakeholder groups. While this innovative approach to managing funding risk would have no immediate impact on the Plan, including contribution rates or benefit levels, it would give the OMERS Sponsors Corporation Board some flexibility to alter future levels of indexation, if necessary, and subject to normal governance procedures and a two-thirds supporting vote.



INVESTMENT HIGHLIGHTS



PORT OF MELBOURNE

OMERS, as part of a consortium, purchased its first investment in Australia with the acquisition of the Port of Melbourne, which is an important link between Australia and its major trading partners. The Port is Australia's largest container, automotive and general cargo port which recently upgraded its facilities. This investment represents further geographic diversification in OMERS portfolio.



CHICAGO SKYWAY

OMERS, as part of a consortium, invested in the Chicago Skyway toll road, which is a critical link between downtown Chicago and its south-eastern suburbs. This investment was selected for its ability to generate predictable returns and cash flows.



YORKDALE

OMERS retail real estate investments are focused on dominant shopping centres in major markets, which provide a complete shopping, dining and entertainment experience. There is no better example of this than Yorkdale in Toronto. In October 2016, we opened a 300,000 square foot expansion at the shopping centre, with approximately 30 new stores, including Nordstrom. Yorkdale continues to be among the highest sales productivity leaders in the North American retail industry.



CENTENNIAL PLACE IN CALGARY

During 2016, OMERS sold a 50%, non-managing interest in a 4.2 million square foot portfolio of high-quality office assets in Calgary and Toronto. This was one of the largest real estate transactions in Canadian history. This transaction allows us to reinvest in new opportunities, while continuing to drive superior returns at the properties for the benefit of OMERS through our retained ownership and management position.



Delivering 7-11% net annual average investment returns

To meet the long-term costs of providing pension benefits.

KEY HIGHLIGHTS:

In 2016, OMERS achieved a net investment return of 10.3%, and a five-year annualized net investment return of 8.5%, consistent with our objectives. We continued to execute on our Strategy of building a diversified portfolio of high-quality investments, which will target net average annual investment returns in the range of 7-11%.

As set out in our 2020 Strategy, a new Asset Mix Study was conducted for the Plan in 2016 with two objectives: 1) maximize our ability to return to full funding by 2025, and 2) minimize the need for unexpected Plan design changes. As a result of the study, OMERS increased target allocations to infrastructure, private equity and real estate, and added explicit allocation to the credit asset class where we see good opportunities.

In 2016, our Capital Markets team continued to invest in equities of companies with strong balance sheets and resilient business models. These investments generate income and produce a consistent capital return with lower volatility than the broad markets. A key to our success has been partnering with best-in-class investors to access credit opportunities on a global basis. Net returns in Capital Markets were 9.5%, compared to 0.7% in 2015.

During 2016, OMERS infrastructure portfolio grew with acquisitions of port, airport, toll road and pipeline assets. Our focus remains on assets with contractually protected, inflation-resilient cash flows, which are an excellent

match for pension payments. Net returns on infrastructure were 11.0%, compared to 17.3% the previous year.

In private equity markets, there were high valuations in 2016, and we used this opportunity to sell select assets to crystallize significant capital gains. Overall, Private Equity, including externally managed funds and an innovation-based program, provided a net return of 12.6% in 2016, compared to 10.0% in 2015.

OMERS real estate portfolio continued to be well-leased and diversified across income-producing properties in major global cities, with returns augmented through real estate development. With sell downs of mature assets, we typically retain a position that will generate management-fee income. By selling down our positions we are able to rotate capital to new investments and diversify risk. Our real estate portfolio net return in 2016 was 12.4%, compared to 15.3% the previous year.

OMERS continued to diversify across industries and geographies in 2016, including our first direct investment in Australia where we have built expertise with deep, local knowledge of the market.



Continuing to build quality relationships with Members, Employers and Stakeholders

To ensure that we consistently meet their needs.

KEY HIGHLIGHTS:

In 2016, member satisfaction was strong at 92%. When asked to rate how OMERS meets their needs, members have consistently been very satisfied. A high service standard has been maintained, especially in light of the increased number of members transitioning into retirement. This year, more than 9,000 members began receiving their OMERS pension.

We announced a change to the Additional Voluntary Contribution (AVC) program in 2016 with the addition of a new feature of an income option. For “non-locked-in funds,” this feature allows members to keep funds in an AVC account after reaching age 71. This is a significant development for members who can now withdraw funds over their lifetime, as long as they meet the minimum withdrawal requirements set out in the *Income Tax Act*.

In anticipation of the thousands of members who are expected to retire in the next five years, OMERS has encouraged members to

take advantage of electronic communications for statements and newsletters so that we can all connect effectively and manage Plan costs. More than 44,000 members have signed up to receive electronic statements and newsletters, and we continue to encourage more members to sign up.

We understand members have questions about retirement. More than 125,000 pension estimates were produced through the myOMERS Retirement Income Estimator in 2016. This convenient tool helps members estimate their retirement income and plan for their future.

Client Services answered more than 200,000 phone calls in 2016 and delivered 430 information sessions and 32 webinars – to address member questions clearly and directly.

We also provided convenient access to personal pension information through

\$3.6 billion

IN BENEFIT
PAYMENTS IN 2016

8 out of 10

NUMBER OF MEMBERS
WHO TELL US OMERS
OFFERS GOOD VALUE

myOMERS, an online pension management tool. At the end of 2016, approximately 40% of members were signed up for myOMERS.

Based on consultations, the Sponsors Corporation decided to expand a series of structured meetings to ensure targeted and meaningful engagement with OMERS members who are not affiliated with the organizations which currently nominate or appoint directors to the OMERS Boards. In December 2016, OMERS hosted the first of these meetings with representatives of small unions and representatives of organizations of management who are not union members.

OMERS serves almost 1,000 employers who have an important role in the pension plan – partnering with OMERS to administer pension benefits for members and matching member contributions. We recognize that an OMERS pension is an important part of what employers offer their employees.

We established an Employer Advisory Forum in 2016 with a select cross-section of participants. The intent is to address pension administration matters and to exchange ideas related to areas of common interest, such as technology and Plan demographics.

In 2016, OMERS provided 73 employer information sessions and webinars, with 2,333 employer representatives participating.

OMERS Senior Executive Team met directly with employers, as well as sponsors and other stakeholders throughout the year. These meetings provided an opportunity to achieve a deeper understanding of issues of importance, to build stronger relationships, and to further partner in connecting with members and our community.

18,000⁺

**NUMBER OF NEW
PLAN MEMBERS**

9,000⁺

**MEMBERS WHO
RETIRED IN 2016**



Sustainable Investing at OMERS

OMERS believes that the consideration of environmental, social and governance (ESG) factors is consistent with its objective to meet long-term payment obligations to members. We believe that companies that incorporate ESG factors into their business practices are more likely to be resilient and create value over the long term.

Our approach to sustainable investing relies on three strategies: integration, engagement and collaboration. We believe these strategies are proactive ways to manage ESG risks over the long term. We evaluate each investment opportunity on whether it will allow us to meet our responsibility to provide our members with secure pensions.

Integration

We consider ESG factors in investment decision-making processes and asset-management practices, on a case-by-case basis, where relevant, as such factors could have a material impact on investment performance.

Engagement

We encourage responsible corporate behaviour through direct engagement with the public and private companies in which we invest. We also engage with companies by exercising voting rights consistent with our proxy voting guidelines.

Collaboration

We collaborate with like-minded investors and international organizations to exchange information and advocate for better transparency and performance on ESG factors.

Building Sustainability Excellence



G R E S B

For the fourth year in a row, Oxford Properties, OMERS real estate investment company, has received the top spot in the Global Real Estate Sustainability Benchmark survey (an industry-driven organization committed to assessing the ESG performance of real assets globally) as the North American Regional Sector Leader in the Diversified Office and Retail category. For more than a decade, Oxford has integrated sustainability into the operations of its existing buildings and continues to introduce the latest green building materials and technologies into new developments.