Going the distance

REPORT TO MEMBERS

Our primary goal at OMERS is to contribute to the financial well-being of our members in retirement – today and tomorrow.

That is our promise. It defines us and lives at the core of everything we do. Out of this deep responsibility to our members comes our commitment that by “going the distance” we will support OMERS members through their pension plan long into the future.

2013

$65.1 billion net assets*

6.53% gross rate of return
(net rate of return = 6.00%)

Almost 1 in every 20 people employed in Ontario is an OMERS member

* For the OMERS Pension Plans. All other figures on this page apply to the OMERS Primary Pension Plan (the Plan).
2013 results show a $1.3 billion decline in the funding deficit from $9.9 billion in 2012 to $8.6 billion in 2013 (as at December 31). The Plan is on target to be fully funded by 2025 as a result of a recent benefit reduction, contribution rate changes and a long-term investment approach.

The OMERS Sponsors Corporation (SC) Board sets:
- contribution rates
- benefits

$3.5 billion received in contributions from members and employers in 2013
$2.9 billion paid in benefits to members and survivors in 2013

Patient and disciplined investment approach to continue to expand our globally diversified portfolio.

Direct ownership and active management of investments helps to produce superior, risk-adjusted returns and reduces costs.

Better public-private asset balance helps to protect the Plan against public-market volatility.

Focus on long-term returns provides sustainable growth and sufficient liquidity to fund pensions today and tomorrow.

Capital-raise initiatives such as the Global Strategic Investment Alliance (GSIA) program, Additional Voluntary Contributions (AVCs), plan consolidation and OMERS Investment Management (OIM) investment contracts are targeted to increase assets under management.

Proactive stakeholder outreach provides accurate and timely information and seeks engagement and input on Plan issues.

Client-focused philosophy drives improvements in processes and systems, such as more direct delivery of services to members – providing members with more financial options, while simplifying employer administration.

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This report is not intended for U.S. persons. Interests in the Plan are not and will not be offered or sold in the United States, or to or for the account of U.S. persons as defined by U.S. securities laws.

Many factors affect the Plan’s performance including changes in market conditions and interest rates and in response to other economic, political or financial developments. Investment returns and values will fluctuate. Past performance is not a guide to or indicative of future results.
Strength, stability and prudence were our dominant themes in 2013, with the Plan achieving a 6.53% gross return, generating $4 billion in total investment income and reducing its funding deficit by $1.3 billion to $8.6 billion. The total net assets for the OMERS Pension Plans reached $65.1 billion. We also completed the shift to a new public markets investment strategy with a more diversified, risk-balanced portfolio. We have built a stable fund, with a “AAA” credit rating, to withstand severe market shocks, preserve liquidity and generate increasing cash flows.

“Going the distance” – the theme of this year’s Report to Members – means being strategic in our focus on the long-term health of our Plan and a solid commitment to our members.
OMERS Overview

OMERS Pension Plans

- Total net assets: $65.1 billion

Investment Strategy:

- Better balance between public and private market assets: 57% public, 43% private
  - 57% public markets
  - 14% private equity
  - 15% infrastructure
  - 14% real estate

- Direct ownership and active management of investments: 88% in-house management, 12% external

- Global diversification:
  - 47% Canada
  - 19% USA
  - 34% International

Member Information:

- Members: 439,528
  - 270,486 active
  - 129,401 retired
  - 39,641 inactive
  - Includes municipal workers, police, firefighters, transit workers, hydro workers, emergency services, children’s aid society workers and school board non-teaching staff

- Employers: 982

- Source of funds:
  - 1/3 contributions
  - 2/3 investments
  - Shared contributions: 50% member, 50% employer
Through the OMERS Worldwide brand, our team of highly skilled investment professionals continues to expand our international presence in public and private markets by unlocking value, attracting domestic and global capital, and using an in-house management approach.

OMERS Worldwide

over 2,500 employees
toronto | new york | london

**infrastructure**
Borealis Infrastructure, on behalf of OMERS and third parties, invests in large-scale infrastructure businesses worldwide and manages a diversified global platform

**real estate**
Oxford Properties is a leading global real estate investment, development and management company

**private equity**
OMERS Private Equity invests in private companies with solid business fundamentals and opportunities to grow

**capital markets**
OMERS Capital Markets invests in publicly traded asset classes including equities, bonds, foreign exchange and derivative instruments

**strategic opportunities**
OMERS Strategic Investments nurtures attractive investments outside the mandate of other OMERS investment platforms

**investment offerings**
OMERS Investment Management allows other pension funds the opportunity to receive the returns of the OMERS Fund

<table>
<thead>
<tr>
<th>infrastructure</th>
<th>real estate</th>
<th>private equity</th>
<th>capital markets</th>
<th>strategic opportunities</th>
<th>investment offerings</th>
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<tr>
<td>Borealis Infrastructure</td>
<td>Oxford Properties</td>
<td>OMERS Private Equity</td>
<td>OMERS Capital Markets</td>
<td>OMERS Strategic Investments</td>
<td>OMERS Investment Management</td>
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<td>healthcare</td>
<td>bonds</td>
<td>capital partnerships</td>
<td>total fund return</td>
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<td>business services</td>
<td>currencies</td>
<td>airports</td>
<td>oxford return</td>
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<td>transportation</td>
<td>industrial</td>
<td>industrial</td>
<td>interest-bearing assets</td>
<td>energy</td>
<td>borealis return</td>
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<td>social infrastructure</td>
<td>residential</td>
<td>technology</td>
<td>publicly traded equities</td>
<td>innovation</td>
<td>OPE return*</td>
</tr>
<tr>
<td>hotels</td>
<td></td>
<td></td>
<td>commodities</td>
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“We are a true long-term investor with a proven track record of consistent returns.”
- Michael Rolland, President & CEO, Borealis Infrastructure

“We are as proud of our accomplishments as we are excited about our future.”
- Blake Hutcheson, President & CEO, Oxford Properties

“We will build on our success by doing what we do best – partnering with proven management teams to grow their companies.”
- Paul Renaud, President & CEO, OMERS Private Equity

“In 2013, we put in place the last piece of our investment strategy to earn more predictable and stable long-term returns.”
- James Donegan, President & CEO, OMERS Capital Markets

“Our path-finding investments are attracting the interest of capital partners globally.”
- Jacques Demers, President & CEO, OMERS Strategic Investments

- Ana Cacoilo, President, OMERS Investment Management

*on directly-owned assets
2013 Financial Overview
OMERS Primary Pension Plan

Gross Rate of Return
For the year ended December 31,

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<th></th>
<th>2013 Rate of Return</th>
<th>2012 Rate of Return</th>
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</thead>
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<tr>
<td>OMERS Capital Markets</td>
<td>0.47%</td>
<td>7.50%</td>
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<tr>
<td>OMERS Private Equity</td>
<td>23.55%</td>
<td>19.17%</td>
</tr>
<tr>
<td>Borealis Infrastructure</td>
<td>12.44%</td>
<td>12.68%</td>
</tr>
<tr>
<td>Oxford Properties</td>
<td>14.33%</td>
<td>16.91%</td>
</tr>
<tr>
<td>OMERS Strategic Investments</td>
<td>9.14%</td>
<td>-10.13%</td>
</tr>
<tr>
<td>Total Private Markets</td>
<td>15.50%</td>
<td>13.79%</td>
</tr>
<tr>
<td>Total OMERS Primary Pension Plan</td>
<td>6.53%</td>
<td>10.03%</td>
</tr>
</tbody>
</table>

The annual average gross rate of return over the last one-, five- and ten-year periods is shown in the table below:

<table>
<thead>
<tr>
<th></th>
<th>One Year</th>
<th>Five Years</th>
<th>Ten Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Return</td>
<td>6.53%</td>
<td>8.41%</td>
<td>7.64%</td>
</tr>
</tbody>
</table>

Funded Ratio

2013: 88 PERCENT FUNDED
2012: 86 PERCENT FUNDED

Funded Status*
As at December 31,

- Smoothed Value of Assets: $64.4 billion in 2013, $73.0 billion in 2012
- Actuarial Liabilities: $9.9 billion in 2013, $59.1 billion in 2012

* excludes AVC
Plan Funding

The Plan’s funding deficit at the end of 2013 stands at $8.6 billion, down from $9.9 billion a year earlier. Measures are in place to help reduce the deficit. In 2013, the Sponsors Corporation (SC) acknowledged that contribution rates are at an unprecedented high and its ability to further increase contribution rates is limited. It has begun exploring benefit reduction options and identifying events that would indicate when Plan changes are needed. Options are reviewed every year through the Specified Plan Change process.

Plan Contribution Rates in 2013

<table>
<thead>
<tr>
<th>Normal retirement age 65</th>
<th>On earnings up to CPP earnings limit*</th>
<th>9.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>On earnings over CPP earnings limit*</td>
<td>14.6%</td>
</tr>
<tr>
<td>Normal retirement age 60</td>
<td>On earnings up to CPP earnings limit*</td>
<td>9.3%</td>
</tr>
<tr>
<td></td>
<td>On earnings over CPP earnings limit*</td>
<td>15.9%</td>
</tr>
</tbody>
</table>

* $51,100 in 2013

OMERS contributions pay for

Funding benefits 75%

Funding the deficit 25%

Strong Governance

OMERS current governance model was created in 2006 by the *Ontario Municipal Employees Retirement System Act, 2006*, which established two Boards with independent mandates. The SC Board has authority over the structure and type of benefits provided to members, contribution rate levels and the composition of the two Boards. The OAC Board is responsible for pension administration, investment strategy, investments and preparation of the Plan valuation. When the governance model was established in 2006, a process for reviewing the new model in 2012 was mandated in the *Ontario Municipal Employees Retirement System Review Act, 2006*.

In early 2013, the report on the 2012 OMERS governance review was released by the Ontario government with recommendations for improvement. The OMERS Boards worked together throughout 2013 to review the recommendations and implement changes, as appropriate. Important changes were made in 2013, including improved communications and engagement efforts with OMERS stakeholder groups, the introduction of mechanisms to improve OAC Board capacity, and the establishment of an Independent Board Chair (IBC) position for the OAC Board. Significant among these efforts was the announcement of Mr. George Cooke as the first-ever IBC on October 1, 2013, as well as the appointment of five new members to the OAC Board through a new competency-based appointment process.

The two Boards will continue to work together through 2014 to address the remaining recommendations including those related to the establishment of a joint strategic plan.

Ratio of Active-to-Retired Members

19:1 1970

3:1 1995

2:1:1 2013

15:1 2025 expected ratio

We face the challenge of an aging membership and longer retirements, which increases the cost of providing benefits.
We think this internet thing is really catching on.

In 1999, **38 million** people had broadband internet. Today, more than **1.2 billion** have it on their mobile phones.

**14.3 trillion** webpages are live on the internet.

Google's advertising revenue is bigger than that of the entire U.S. print industry.

**200+ million** tablets were sold in 2013.

myOMERS is a personalized web portal that is accessible whenever you need it. It offers a variety of online retirement planning tools to assist you at any stage in life. myOMERS also enables us to communicate with you in a secure, cost-effective and environmentally friendly way.

Visit myOMERS.com today and activate your personal account to explore all your pension has to offer.

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