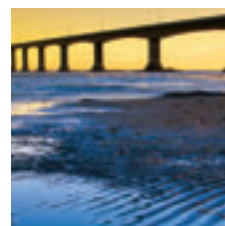
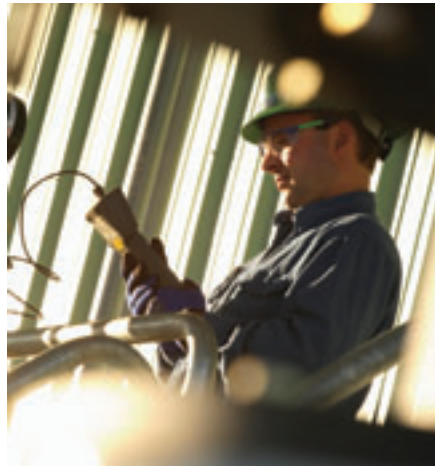
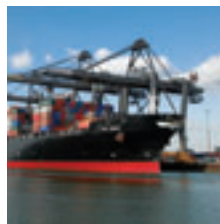


# FOCUS: OUR STRATEGY YOUR FUTURE



**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 and employers, 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 Pension Plans and consists of 14 Members: seven Plan member representatives and seven employer representatives.

The SC is responsible for:

- determining Plan design for benefits to be provided by the OMERS 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 Members and is the administrator of the OMERS Pension 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 auditors 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 to the SC.

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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 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 — with continued focus on the long-term viability of the OMERS Pension Plans and the delivery of the pension promise.



**FOCUS:**  
**OUR STRATEGY**  
**YOUR FUTURE**

# 2011 HIGHLIGHTS

## ENHANCING OPTIONS FOR OUR MEMBERS:

### Additional Voluntary Contributions (AVCs) Begin

Since January 1, 2011, OMERS members are permitted to open an additional voluntary contribution (AVC) account. This concept, developed in response to member requests, enables members to invest in the OMERS Fund. Active members are permitted to transfer all or part of their funds from their existing RRSPs, registered pension plan or deferred profit sharing plan into the AVC account. They can also make automatic biweekly or monthly contributions through the year, which, like RRSP contributions, are tax deductible. By year end, 5,100 OMERS members had contributed \$93 million to the AVC program.

AVCs are similar to a registered retirement savings plan, but they are part of the OMERS Primary Plan and have different withdrawal options. Through AVCs, members can have access to a well-managed, balanced global portfolio, including private market investments. Interest in AVCs continues to be strong.



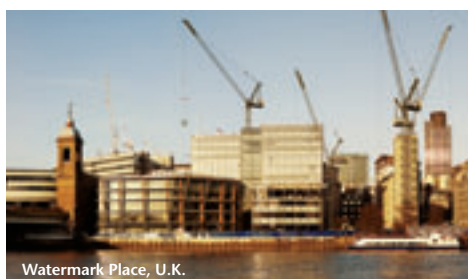
## GROWING OUR OXFORD PROPERTIES REAL ESTATE PORTFOLIO:

### Through significant acquisitions:

#### In Canada – the iconic Metro Toronto Convention Centre

Oxford Properties Group enhanced its already significant profile in Toronto's business core with the September acquisition of the Metro Toronto Convention Centre. The Complex includes the Metro Toronto Convention Centre (MTCC), the 277 Front Street office tower, the InterContinental Hotel and a 1,200 stall parking facility.

**In the U.K. –** Consistent with our strategy to acquire large scale high quality assets, Oxford Properties completed the purchase of Green Park in Reading, U.K. As the most recent acquisition for our growing U.K. portfolio, Green Park is a complement to MidCity Place, Watermark Place and the office development project at 122 Leadenhall. Covering a total of 190 acres, Green Park occupies a prime location on the M4. One of the largest developments of its type in Europe, Green Park offers 1.3 million square feet of Grade A office space and first class amenities. Green Park benefits from a wide-ranging sustainability agenda that is aligned with Oxford Properties' own Sustainable Intelligence program, and includes the reduction of waste and emissions, the promotion of biodiversity, recycling and a green travel plan.



Watermark Place, U.K.



Hudson Yards

### Through significant development:

**In Canada –** RBC WaterPark Place, AAA LEED Gold Development and Oxford Properties are joint venturing with CPP Investment Board in a major new office and retail development overlooking Toronto's waterfront. The tower will be the national headquarters for the Canadian banking business of the Royal Bank of Canada, building on Oxford's 50-year relationship with the RBC.

#### In the U.S. – Hudson Yards

Our New York presence is underscored by strategic relationships such as our joint venture with Related Properties in the 12 million square foot Hudson Yards redevelopment. In 2011, luxury leather goods company Coach Inc. chose Hudson Yards for its global corporate headquarters.

### Without enlarging our carbon footprint:

Global Real Estate Sustainability Benchmark recently placed Oxford among the world's top ten private real estate companies for sustainability practices. This will only be enhanced with every new development. RBC WaterPark Place will join Oxford's award-winning Sustainable Intelligence program as the most cost-effective building in the Oxford portfolio.



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## GROWING OUR ASSETS THROUGH OMERS PRIVATE EQUITY:

### In Canada – Husky International

In joint partnership with Boston-based private equity firm Berkshire Partners, OMERS Private Equity (OPE) acquired Husky International, a leading global supplier of injection molding equipment and services to the plastics industry. Described as a “Canadian success story,” the Ontario-headquartered company has manufacturing plants in Canada, the U.S., Luxembourg and China, serving customers in over 100 countries through more than 40 service and sales offices. Its equipment is used to make an array of products from beverage bottles and food containers to medical devices and consumer electronics parts.



### In the U.K. – V.Group Limited

The world leader in the robust and growing segment of outsourced ship management was acquired by OMERS Private Equity in September. V.Group is also a leading player in crew provision and related marine services. The profitable, U.K.-based company runs and maintains over 700 vessels and operates via 70 international offices in 34 countries. Combined with OMERS extensive international network, V.Group’s experienced and talented management team will be able to pursue further growth in emerging markets.

### In the U.S. – Accelerated Rehabilitation Centers and Great Expressions Dental

OMERS Private Equity acquired a leading U.S. regional network of outpatient physical rehabilitation services in July. Accelerated Rehabilitation Centers operates 223 clinics in eight states. With over 1,300 employees, it offers an industry-leading range of services, including pre- and post-operative care, treatment for orthopedic disorders, sports-related injuries and rehabilitation for injured workers.

Headquartered in Bloomfield Hills, MI, Great Expressions is a leading dental practice management company, with 152 affiliated dental offices in seven states across the Midwest, South and Northeast. With over 1,800 employees, Great Expressions’ affiliated dental offices provide all facets of dental services, including general and preventative care.

## OMERS PRIVATE EQUITY IS A 2011 WINNER OF THE CANADIAN DEALMAKERS PROGRAM

For the second consecutive year, OMERS Private Equity is a winner of the Canadian Dealmakers program. The Dealmakers Mid Market Private Equity Award was presented to OPE in recognition of its acquisition of two platform companies in the North American outpatient rehabilitation sector: CBI Health Group (CBI) and Accelerated Rehabilitation Centers (ARC).

The awards honour Canadian organizations and individuals who have made a significant contribution to the mergers and acquisitions market through measures including innovation, growth, establishment of best practices and value creation.

OMERS Private Equity partnered with management to purchase CBI, one of the largest providers of integrated health care services in Canada, in January 2011. Similarly, OPE partnered with management to acquire Accelerated Rehabilitation Centers, a leading provider of outpatient physical rehabilitation services in the U.S. Midwest in July 2011.



## EXPANDING OPPORTUNITIES FOR OUR ORGANIZATION:

### Official New York Office Opens

In October 2011, OMERS Worldwide officially opened an office at 320 Park Avenue in New York City, a permanent home to our team of 30 investment professionals in real estate, infrastructure, private equity and capital markets. This followed the launch of a fully staffed London U.K. office in 2008, in addition to existing offices in Toronto and Calgary.

### OMERS Ventures Launched

The launch of OMERS Ventures in October created one of Canada’s largest venture capital investment groups. An initiative of OMERS Strategic Investments (OSI), OMERS Ventures is positioned to provide seed investment or growth capital as well as adding value through mentoring or guidance from its team of seasoned investment and operational professionals and an experienced advisory board.



## 2011 HIGHLIGHTS

### CONT'D

#### OBJECTIVE ACCOLADES FROM OUR AUDIENCES:



#### From our employees:

##### One of Canada's 50 Best Employers

For the fourth year in a row, OMERS employees placed our organization among the 50 Best Employers in Canada, as surveyed by Aon Hewitt and published in the October 2011 edition of *Maclean's* magazine. OMERS ranked 16th among more than 260 organizations. In November, OMERS also ranked 11th among larger employers for Best Employers in the Greater Toronto Area – the only pension plan on the list.

## WORLD FINANCE

#### From the investment community:

##### Pension Fund of the Year, Canada

For the second consecutive year, *World Finance* magazine has named OMERS Pension Fund of the Year, Canada. The judges look for a company demonstrating financial stability, a prudent approach to risk and corporate governance, and opportunities for employee development.

# 88%

#### From our members:

##### 2011 Member Satisfaction Surveys

This year's annual survey of our members' satisfaction with OMERS level of service showed an average satisfaction rate of 88 per cent – marking the eighth straight year that our rate exceeded 85 per cent.

## OUR PRINCIPLES

# 1

#### ENSURE THE QUALITY OF OUR BALANCE SHEET

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

# 2

#### ENSURE THAT THE RIGHT ORGANIZATIONAL STRUCTURE IS IN PLACE TO MEET OUR OBJECTIVES

Our organization is aligned with clear lines of accountability and clarity of purpose – everyone knows what is expected of them and of others. This structure allows active, hands-on management of our assets and provides value for the cost.

# 3

#### ENSURE THAT OUR MEMBERS' NEEDS ARE UNDERSTOOD AND MET

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

# 4

#### ENSURE THAT WE HAVE THE RIGHT PEOPLE IN THE RIGHT POSITIONS

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.

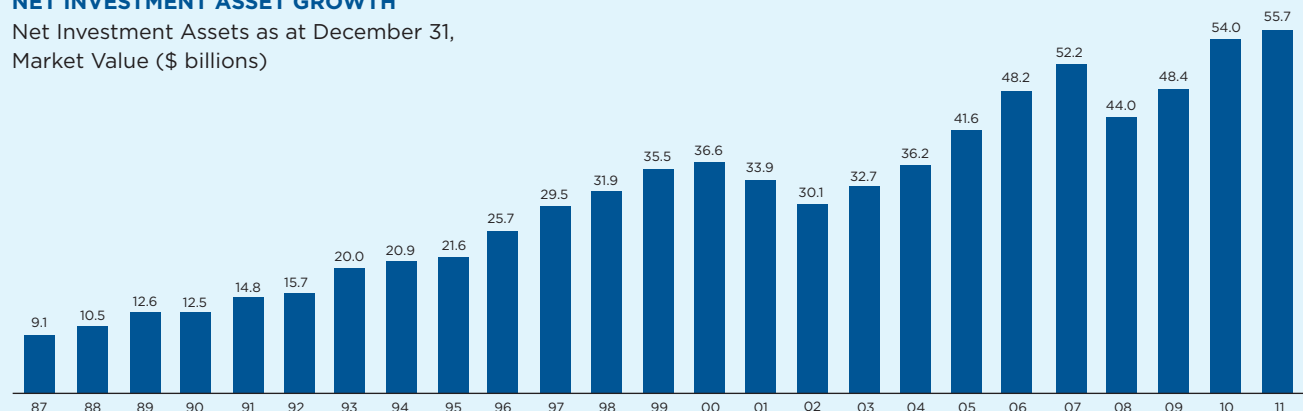
# 5

#### ENSURE WE HAVE ACCESS TO THE RIGHT MANAGEMENT INFORMATION

We have information that is timely, accurate and actionable to manage our business. This information is universally understood throughout our organization.

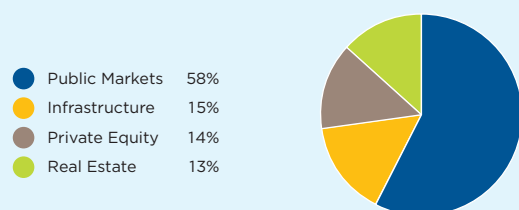
## NET INVESTMENT ASSET GROWTH

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



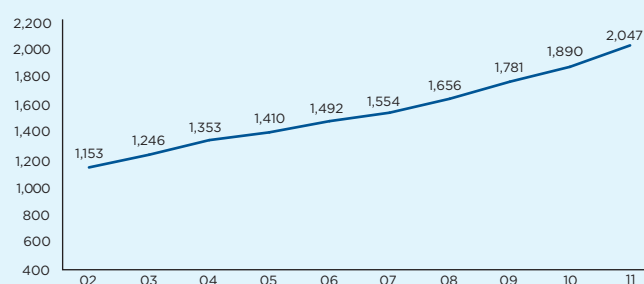
## ASSET MIX

Net Investment Assets as at December 31, 2011



## GROWTH IN MEMBERS' PENSION PAYMENTS

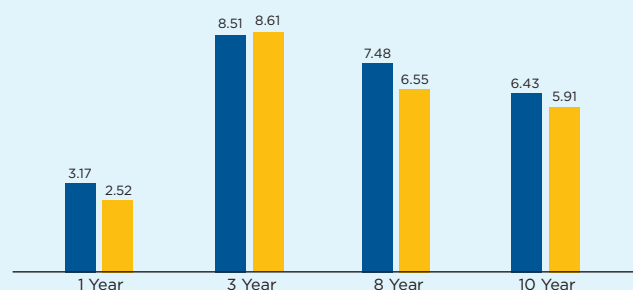
(\$ millions)



## RATE OF RETURN AND BENCHMARK

(%)

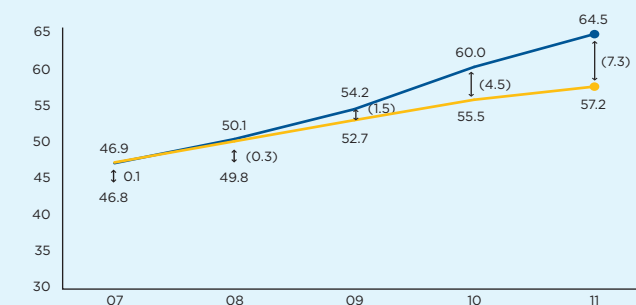
- Annual Average Rate of Return
- Benchmark



## ACTUARIAL ASSETS AND ACCRUED PENSION OBLIGATION — OMERS PRIMARY PENSION PLAN

As at December 31,  
(\$ billions)

- Accrued Pension Obligation
- Actuarial Assets
- Funding Surplus/(Deficit)



## MESSAGE FROM THE CHAIR

# OMERS IS “YOUR PLAN FOR THE FUTURE”



**JOHN SABO** Board Chair  
OMERS Administration Corporation

Your future security always comes first and the OAC Board’s prime stewardship responsibility is our commitment to keeping the pension promise. As the individuals with this accountability, Board members work closely with Management to develop the long-term strategy to ensure that happens, and then constantly monitor the present to help navigate around obstacles that may arise.

My four years as OAC Board Chair have provided me with a unique perspective. After six years as a Board member, I was honoured to have been given the opportunity to serve as Chair beginning in 2008 – a year of challenge on a global level but also a year of major transformation at OMERS.

In looking back, when the first signs of global economic collapse emerged in 2007, OMERS was already developing and implementing an investment strategy that would help stabilize our returns and give us a better balance in our asset mix of public and private investments. In 2003, private assets represented only 18 per cent of our investment portfolio. By a series of strategic and prudent moves over the intervening years, private market investments as of 2011 represent approximately 42 per cent – very close to our strategic goal of an asset balance of 47 per cent in private markets and 53 per cent in public markets, which we believe will provide OMERS with more predictable, consistent returns for the long term.

We followed this shift with a change in the way we manage our investments. The direct-drive approach we adopted means having our own people in major financial centres where we conduct business to assume hands-on investment management and to ultimately reduce overall costs. An example of this initiative was the opening of an OMERS Worldwide office in London, England in 2008, which now oversees a significant amount of private market investments.

In the fall of 2011, we launched an official New York office for OMERS Worldwide, a significant milestone in increasing our global profile and building our international investment relationships. Having experienced professionals in these centres to identify opportunities as they arise is essential to



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## **“BEING WATCHFUL OF YOUR FUTURE INCLUDES NOT ONLY ENSURING THE LONG-TERM SECURITY OF THE PLAN BUT GOING FURTHER TO EXCEL IN SERVING OUR MEMBERS.”**

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our investment strategy. With almost \$10 billion invested in U.S. public and private markets, our expanded office was welcomed and acknowledged by our partners as a real commitment to the region.

Our global presence is just one aspect of the OMERS 2011–2015 Enterprise-wide Strategic Plan, which serves as a road map for our organization. However, our strategic plan is a living document, continuously and jointly monitored and adjusted when required by the Board and Management to ensure we stay on track with a clear vision for the future. It was developed through a consultative process and involves, as a matter of routine, much discussion and analysis of the issues we face currently and are projected to face in the future. This includes the Plan’s funding position and our role in addressing the current deficit position.

Being watchful of your future includes not only ensuring the long-term security of the Plan but going further to excel in serving our members. This year, for example, the Board worked closely with Management to establish a new Member Services Committee to oversee Plan administration and funding.

The successful delivery of the OMERS pension promise is only possible because the Boards of the OMERS Administration Corporation and OMERS Sponsors Corporation work cooperatively with Management toward a common goal. This can be seen in our unified approach to adopting best practices in governance and ongoing joint communication initiatives where appropriate. We each play an important role in ensuring the ongoing health and success of the OMERS Plans and I would like to acknowledge and extend my thanks to the Sponsors Corporation Board for their commitment and decision making this past year that supports this goal.

Developing, implementing and monitoring industry leading governance practices has been and continues to be a focus of the OAC Board. In 2012 the external governance review mandated by the *OMERS Act, 2006* is scheduled to take place and the Board is committed to supporting the Ontario government in its review.

Under our CEO Michael Nobrega and his enterprise senior leadership team we have a highly engaged workforce which has earned OMERS recognition as a Best Employer in Canada for the fourth consecutive year.

This engaged workforce not only speaks well of our operations in terms of the commitment of our employees to the well-being of our Pension Plan but has translated into a continuously growing commitment to corporate citizenship. Since 2007 our employee response to community needs through volunteerism and fund raising has grown exponentially. As tangible evidence of efforts made, the OMERS family in 2011 raised in excess of \$1.0 million for the United Way and provided approximately 2,200 volunteer hours in support of various charitable initiatives. These are very important statistics of which we all should be very proud.

I would like to congratulate Rick Miller who replaces me as OAC Chair. Rick’s experience has prepared him exceedingly well for this role, beginning with his appointment to the OMERS Board in 1997 and for the many contributions he has made during his 15 years of dedicated service. Appreciation and our thanks for exceptional service are also given to John Goodwin who retired from the OAC Board on December 31, 2011. On behalf of the Board, I also want to pay tribute to Michael Power, who passed away in January 2012. Michael was a highly respected member of the OAC Board for 7 years during which time he served as Chair of the Governance Committee for 4½ years and was the key driving force behind the Governance Reform Project which was initiated in 2007 to assist the OAC Board in achieving its Governance Mission and Vision. He will be greatly missed and warmly remembered.

In closing, it has been an honour and privilege to have served as the OMERS Administration Corporation Chair over the past four years, and I can attest to the fact that your Board and Management remain focused on ensuring that OMERS will be “your plan for the future.”



John Sabo  
Board Chair

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MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

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# DEVELOPING A SUCCESSFUL STRATEGY

2011 was a reminder that no institution is immune to the continuing turbulence in the global credit and equity markets.



**MICHAEL NOBREGA**  
President and Chief Executive Officer  
OMERS Administration Corporation

Many sovereign governments, major financial institutions and corporations in the developed world were penalized for fiscal mismanagement and excessive debt through credit downgrades, higher borrowing costs and depressed stock prices. OMERS, with its triple "A" credit rating, navigated the global market turbulence and posted positive earnings for 2011.

OMERS achieved these goals by being a responsible long-term investor which includes being a very prudent user of debt. OMERS recognizes that one-year investment results are not a reliable measure of this commitment. With a multi-decade payout obligation, our goal is to achieve long-term performance at an acceptable level as we press forward with a strategy that anticipates over a five-year planning cycle, how disruptive market changes could impact our future.

Looking first at 2011, the Pension Plan earned a gross investment return of 3.17 per cent, or \$1.7 billion in total investment income, following two years of strong returns that generated \$9.7 billion in net investment income. Our substantial private market investments in infrastructure, real estate and private equity earned 8.20 per cent or total investment income of \$1.8 billion. Our strategy to shift capital from public to private markets is working in accordance with our Strategic Plan's goal to achieve diversification in its asset mix. Our fixed income and real return bond portfolios comprising government bonds, corporate bonds and mortgages within Canada earned impressive returns of 9.13 per cent for fixed income and 17.84 per cent for real return bonds, or total investment income of \$1.4 billion. Public equities were the weak spot, incurring a negative return of 11.29 per cent for Canadian public equities and negative 4.96 per cent for non-Canadian public equities, and a total investment loss of \$1.5 billion. Sudden sharp declines in global equity

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## **“OUR STRATEGIC PLAN HAS ACCOMPLISHED A GOOD DEAL THAT WILL PAY OFF IN THE YEARS AHEAD.”**

markets in the second half of 2011 reminded us once again that stock markets can be fickle. There are many reasons why equity returns weakened – the sovereign debt crisis emanating from Europe, U.S. and European government deficits, a slowdown in growth in leading Asian economies, softer demand for commodities and the threat of global recession. Developing a successful strategy to manage volatility in global equity markets continues to be a top priority in 2012.

One-year returns tell an incomplete story. Our financial contract with almost 420,000 Plan members is to deliver pension benefits over their retirement years. To stabilize performance at a level that fully funds the Plan, we began to shift capital from public to private markets in 2004, when 82 per cent of our total assets were invested in publicly traded stocks, bonds and related securities with the rest in privately owned assets. By 2011, the Plan was much better balanced with 58 per cent invested in public and 42 per cent in private market assets. In the past eight years, we have increased our investment in real estate, infrastructure and private equity transactions primarily in Canada, the United Kingdom and the United States by almost \$18 billion.

This capital shift to private markets is designed to reduce exposure to volatile stock markets by acquiring private investments that generate reliable and rising cash flows to pay pensions. We continuously monitor the allocation of capital to various asset classes, particularly exposure to unpredictable stock markets. The Board and Management are currently conducting our regular triennial asset/liability study that takes the long view on the rising cost of pension benefits and the adjustments that may be necessary to the asset mix policy.

Our continuing challenge is to address the Plan's funding deficit. We are still paying the price of the damage caused by the 2008 global credit crisis and stock market meltdown. As investment gains and losses above and below the funding requirement are smoothed over five years, the Plan continues to recognize losses from 2008 and has not yet recognized all of the gains from 2009 and 2010. This contributed to the Primary Plan funding deficit widening in 2011 to \$7.3 billion from \$4.5 billion in 2010. We expect that it will widen further by the end of 2012, at which point all of the losses suffered in 2008 will be recognized. The funding position of the defined benefit component of the Primary Plan is also affected by the costs of liabilities which rose by \$4.5 billion to \$64.5 billion in 2011.

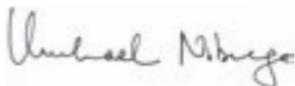
While temporary contribution rate increases and benefit reductions should eliminate the deficit over time, our goal is to get back to surplus sooner by achieving net returns in the 7 per cent to 11 per cent range. Over the last eight years we have earned close to a 7.5 per cent gross annual average return, adding \$24.8 billion to net assets.

Our Pension Services group continues to score well with plan members and employers in the quality of plan administration and product innovation. A visible innovation is the Additional Voluntary Contributions program that enables plan members to contribute to or transfer funds from their registered retirement savings plans (RRSP) and other registered savings plans and receive the OMERS net return on investments. The program was first offered beginning in January 2011. Approximately 5,100 plan members joined the program during 2011. I am pleased to disclose that I was among them and transferred my RRSP savings to OMERS care because I believe in the soundness of our long-term investment strategy.

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Our Strategic Plan, initiated in 2007, has accomplished a good deal that will pay off in the years ahead. For the third consecutive year, OMERS was independently ranked as one of Canada's top employers and most successful pension funds. We have the beginnings of a global footprint with offices in London and New York that enable our investment professionals to find attractive investment opportunities. We have introduced OMERS to institutional investors around the world as a potential co-investment partner. We have persuaded governments to remove unnecessary regulatory barriers for which compliance is expensive and which inhibit investment choices. And by increasing the internal investment management rather than paying third-party fund managers, we will save significant costs to the Fund.

We are confident that our strategic initiatives and innovations described in OMERS Strategic Plan and the risk measures embedded in our enterprise-wide investment approach will enable OMERS to successfully manage the continued turbulence in the global markets and underpin the security of the pension promise to our Plan members.



Michael Nobrega  
President and Chief Executive Officer

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# GOVERNANCE OMERS ADMINISTRATION CORPORATION

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

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## 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 50-year history, OMERS has continuously sought to achieve high standards in governance, as evidenced by its Governance Vision and Mission.

### > 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 OMERS Pension Plans are administered in the best interests of the members and beneficiaries.

## KEY BOARD RESPONSIBILITIES

The OAC Board of Directors (OAC Board) has many important responsibilities, as outlined in the OAC Board Mandate which can be found on our website. The key responsibility of the OAC Board is to set the overall course of OAC, including its investment direction and objectives and to ensure that the pension services for which it is responsible are executed effectively and efficiently. It also actively oversees financial reporting and actuarial matters such as the annual valuation of the OMERS Pension Plans' liabilities. The OAC Board approves the strategic planning process followed by OAC as well as the Strategic Plan prepared by the Management team. The OAC Board delegates to Management responsibility for strategy development and day-to-day business activities, as well as a number of other important functions such as compliance, internal controls and talent management. With respect to these delegations, the role of the OAC Board is to monitor Management and to ensure that its activities remain consistent with the

longer term vision, objectives and directional framework set by the OAC Board.

Key specific responsibilities also include identifying and appointing the Chief Executive Officer (CEO) of OAC as well as assessing the performance of the CEO. Compensation of Management is also a key Board responsibility.

## BOARD GOVERNANCE

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

- a Governance Manual that is available on our website;
- a comprehensive Board development program that includes external director certification and an internal orientation in Board operations and governance;
- an external auditor independence policy;
- a detailed Code of Conduct, covering areas such as conflict of interest, fiduciary duties and privacy and confidentiality;
- a personal and insider trading policy which requires Board members and senior managers to pre-clear their personally directed securities trades;
- a requirement that members of the Audit Committee meet the standard of financial literacy; and
- transparency and accountability processes, including regular meetings with Plan participants and other stakeholders, as well as timely and accurate print and electronic communication of developments. Summaries of OAC Board and Committee decisions are published on the OMERS website.



In 2011, the OAC Board spent considerable time reviewing enterprise risk management programs at OAC, assuming direct responsibility for this activity, which had previously been undertaken by the Audit Committee. Also in 2011, the OAC Board approved a new Special Transactions Review Policy. This policy is the final deliverable in the Board's Governance Reform Project. It establishes additional rules regarding transactions with current or former directors and officers and their families, with sponsor organizations, or other parties who have a close relationship with OMERS, as the Board recognized that these kinds of transactions require additional scrutiny to ensure that any steps taken are in the best interests of plan members. The policy is available in the Governance section of our website. When the OAC Board approved the policy, it directed that we report annually on any transactions subject to the policy. There were no such transactions in 2011.

We expect that in 2012, the OAC Board will be spending considerable time on the province's review of OMERS contemplated by the *OMERS Review Act*, which was passed in 2006 and which requires a general review to take place in 2012.

Further details on OAC's governance practices can be found in the Governance Manual that is available on [www.omers.com](http://www.omers.com).

#### **BOARD MEMBERSHIP**

In 2009 OMERS Sponsors Corporation enacted SC By-law No. 13 which names specific sponsor organizations that have the right to nominate individuals to be considered by the SC for appointment to the OAC Board. According to SC By-law No. 13, the OAC Board is comprised of 14 members who are proposed by the following organizations:

- Association of Municipalities of Ontario (2 members)
- Canadian Union of Public Employees (Ontario) (2 members)
- City of Toronto (1 member)
- Electricity Distributors Association (1 member)
- Ontario Association of Children's Aid Societies (1 member)

- Ontario Association of Police Services Boards (1 member)
- Ontario Professional Fire Fighters Association (1 member)
- Ontario Public Service Employees Union (1 member)
- Ontario Secondary School Teachers' Federation (1 member)
- Police Association of Ontario (1 member)
- Retiree groups (1 member)
- School boards (1 member) (rotation between public and Catholic boards).

#### **BOARD APPOINTMENTS**

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

#### **BOARD PRACTICE**

The OAC Board has regular in camera meetings without Management present. The Board also conducts regular evaluations of its performance at the end of meetings as well as annually. It conducts regular analysis of required Board competencies to serve the interests of Plan members.

#### **OAC BOARD REMUNERATION AND EXPENSES**

The remuneration paid to OAC Board members is determined by SC By-law No. 6. The SC's by-law provides for the Chair to receive total compensation of \$70,000 per annum while the Chairs of Committees receive an annual retainer of \$17,800 per annum and other members receive an annual retainer of \$12,800. In addition, all Board members, with the exception of the Board Chair, receive a meeting fee of \$750 to a maximum of 24 meetings per year.

Hearings of the OAC Appeals Sub-Committee, which meets when required to deal with appeals filed by Plan members, are not subject to, or counted in calculating, the 24 meeting per year limit.

The table on page 14 includes remuneration paid to OAC Board members for OAC Board and Committee meetings as well as other eligible expenses in 2011, with comparable numbers for 2010.

### BOARD COMMITTEES

In 2011, 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.

### 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 OAC's investment policies and strategies and to enable the OAC Board to discharge its related monitoring, compliance and risk mitigation oversight responsibilities on behalf of the OAC Board. The Investment Committee also approves all major transactions.

### GOVERNANCE COMMITTEE

The Governance Committee annually reviews the mandates of the OAC Board and its committees. It has oversight of the OAC Board Orientation and Education Program. It is also responsible for implementing an annual internal assessment of the Board's performance. It recommends changes to OAC governance where required to address effectiveness issues arising out of the assessments; assesses the competency requirements of the OAC Board and recommends skills and experience needs for the Board. The Committee is also responsible for reviewing relevant policies relating to governance, including an OAC external communications policy.

### 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 the review of the disclosure of financial information;
- system of risk management and fraud risk management;
- internal audit process;

- external audit of the financial statements;
- organizational processes for monitoring compliance with laws and regulations and the Code of Conduct; and,
- Ethics Hotline (whistle-blower process) 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:

- attracting, retaining and motivating excellent leaders at the senior executive level who are committed to the OAC Mission Statement and Core Values;
- overseeing a robust succession planning process for the position of CEO; and
- overseeing senior executive performance, compensation and compensation policies.

### MEMBER SERVICES COMMITTEE

In December 2011, the OAC Board established a new Member Services Committee, effective January 1, 2012, to assist the Board in ensuring that plan administration and actuarial valuation issues are fully addressed.

### APPEALS SUB-COMMITTEE

The Appeals sub-committee serves as an appeals tribunal for Plan members who are appealing decisions of the President and CEO (or his delegates) regarding their pension benefit entitlements. The Appeals sub-committee hears evidence and renders decisions in these appeals. It retains independent external counsel to assist it in its deliberations.

### OAC JOINT COUNCIL SUB-COMMITTEE (JCSC)

This sub-committee was formed following the execution of the Framework Agreement with the SC in 2009 as 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

OAC Board and committee meeting attendance in 2011 is as detailed on page 15.

**OAC BOARD REMUNERATION AND EXPENSES**

For the year ended December 31,

	<b>2011</b>		<b>2010</b>	
	Remuneration	Expenses <sup>(i)</sup>	Remuneration	Expenses <sup>(i)</sup>
John Sabo (Chair)	\$ 70,000	\$ 39,076	\$ 70,000	\$ 28,524
Bill Aziz	30,800	13,352	30,800	7,675
Frederick Biro <sup>(ii)</sup>	6,200	1,146	-	-
David Carrington	33,800	3,788	30,800	2,959
Richard Faber	35,800	24,496	35,800	21,632
John Goodwin	39,550	7,890	37,300	17,250
Rick Miller	35,800	42,125	35,800	46,418
Laurie Nancekivell <sup>(iii)</sup>	31,550	7,594	23,300	14,079
David O'Brien	35,800	17,389	35,800	8,615
James Phillips	30,800	8,293	30,800	8,937
Michael Power <sup>(iv)</sup>	23,850	27,860	32,800	46,799
Eugene Swimmer	36,550	17,787	32,300	27,523
Leslie Thompson	31,550	3,923	31,550	17,995
Sheila Vandenberg	30,800	20,914	31,550	28,432
John Weatherup	30,800	5,389	30,800	9,923
Other Expenses <sup>(v)</sup>	-	149,871	-	91,049
<b>Total</b>	<b>\$ 503,650</b>	<b>\$ 390,893</b>	<b>\$ 489,400</b>	<b>\$ 377,810</b>

(i) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred on behalf of the OAC. These Board expenses by Director are reported to the Audit Committee annually.

(ii) Joined OAC Board effective September 23, 2011.

(iii) Remuneration to Laurie Nancekivell was paid directly to her sponsor organization.

(iv) Left OAC Board effective September 23, 2011.

(v) Other expenses include Board group meeting expenses not allocated by individual.

## 2011 BOARD/COMMITTEE MEETINGS

Board Member	Board (16)		Investment (11)		Audit (6)		Governance (5)		LRCC (5)		Joint Council (6)		Total (49)	
	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total %
Bill Aziz	15	16	11	11	-	-	-	-	5	5	-	-	31	32 97%
Frederick Biro <sup>(i)</sup>	4	4	1	1	-	-	-	-	1	1	-	-	6	6 100%
David Carrington	16	16	11	11	-	-	-	-	5	5	-	-	32	32 100%
Richard Faber	13	16	10	11	6	6	-	-	-	-	-	-	29	33 88%
John Goodwin	16	16	9	11	5	6	-	-	-	-	-	-	30	33 91%
Rick Miller	16	16	11	11	-	-	-	-	5	5	6	6	38	38 100%
Laurie Nancekivell	16	16	11	11	-	-	5	5	-	-	-	-	32	32 100%
David O'Brien	14	16	9	11	-	-	4	5	-	-	5	6	32	38 84%
James Phillips	12	16	11	11	6	6	-	-	-	-	-	-	29	33 88%
Michael Power <sup>(ii)</sup>	9	12	7	10	-	-	-	-	3	4	-	-	19	26 73%
John Sabo <sup>(iii)</sup>	16	16	11	11	4	6	5	5	4	5	6	6	46	49 94%
Eugene Swimmer	16	16	11	11	-	-	5	5	-	-	-	-	32	32 100%
Leslie Thompson	16	16	11	11	5	6	5	5	-	-	-	-	37	38 97%
Sheila Vandenberk	16	16	10	11	6	6	-	-	5	5	-	-	37	38 97%
John Weatherup	16	16	10	11	-	-	5	5	-	-	6	6	37	38 97%
<b>Overall Attendance</b>	<b>94%</b>		<b>94%</b>		<b>89%</b>		<b>97%</b>		<b>93%</b>		<b>96%</b>		<b>94%</b>	

(i) Joined OAC Board on September 23, 2011.

(ii) Left OAC Board on September 23, 2011.

(iii) *Ex officio* member for Audit, Governance and LRCC Committees.

OAC Directors also attended other discretionary meetings such as the Spring and Fall Information Sessions, Joint Education Sessions with the SC, site visits to several of our Investee Companies and in-house education sessions.

# 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 its voting rights, it does not seek to manage the companies in which it owns shares. However, OMERS considers its vote an important way in which it can influence management and the board of directors and express its view with the way in which the corporation is being managed and overseen.

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

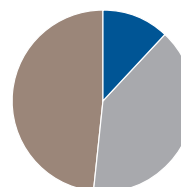
Well-managed companies that demonstrate high ethical and environmental standards and respect for their employees, human rights and the communities in which they do business contribute to long-term financial performance.

## PROXY VOTES

During 2011, we voted on a total of 18,878 items covering 1,660 shareholder meetings globally. In Canada, we voted on 2,261 items in 216 shareholder meetings. Outside of Canada, we voted on 7,520 items in the U.S. and 9,097 items outside of North America at 1,444 shareholder meetings.

### PROXY ITEMS VOTED

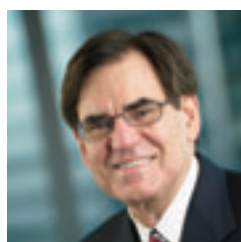
● Canada	2,261
● U.S.	7,520
● Non North America	9,097





# SENIOR MANAGEMENT TEAM

## Corporate Management Team



**Michael Nobrega**  
President and  
Chief Executive Officer



**Warren Bell**  
Executive Vice President and  
Chief Human Resources Officer



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



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



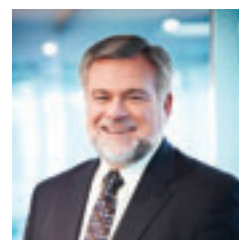
**Patrick Crowley**  
Executive Vice President  
and Chief Financial Officer



**Rodney Hill**  
Executive Vice President  
and Chief Auditor



**Michael Latimer**  
Executive Vice President and  
Chief Investment Officer



**John Macdonald**  
Executive Vice President and  
Chief Operating Officer  
*(retired December 31, 2011)*

## Investment Management Team



**Jacques Demers**  
President and CEO,  
OMERS Strategic Investments



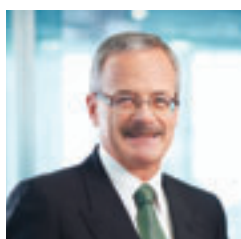
**James Donegan**  
President and CEO,  
OMERS Capital Markets



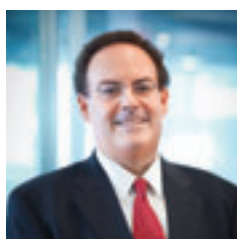
**Wendy Forsythe**  
President, OMERS  
Investment Management  
*(retired December 31, 2011)*



**Blake Hutcheson**  
President and CEO,  
Oxford Properties Group



**Paul G. Renaud**  
President and CEO,  
OMERS Private Equity



**Michael Rolland**  
President and CEO,  
Borealis Infrastructure

# BOARD OF DIRECTORS

For biographies of the  
OAC Board of Directors  
visit [omers.com](http://omers.com).



**John Sabo**  
Chair



**Bill Aziz**



**Frederick Biro**  
*(joined September 23, 2011)*



**David Carrington**



**Richard Faber**



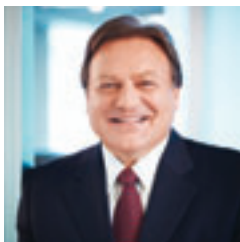
**John Goodwin**  
*(retired December 31, 2011)*



**Rick Miller**



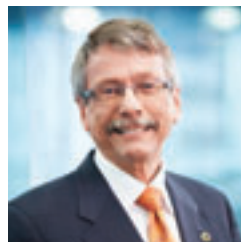
**Laurie Nancekivell**



**David O'Brien**



**James Phillips**



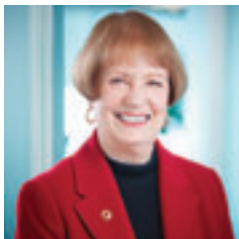
**Michael Power**  
*(retired September 23, 2011)*



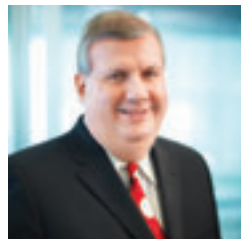
**Eugene Swimmer**



**Leslie Thompson**



**Sheila Vandenberg**



**John Weatherup**

# 2011 MANAGEMENT'S DISCUSSION AND ANALYSIS

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OMERS Administration Corporation ("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 include OMERS Primary Pension Plan (the "Primary Plan" or 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"). Additional Voluntary Contributions ("AVCs") are offered to Plan members as part of the Primary 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, mortgages and private debt), 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"). 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 22, 2012. This section should be read in conjunction with the OAC Consolidated Financial Statements. The Audit Committee and Board of Directors of the OAC (the "Board") have reviewed and approved the contents of this Management Discussion and Analysis.

In addition to historical information, this section contains forward-looking statements with respect to Management's strategy, objectives, outlook and expectations. Forward-looking statements can be identified by use of words such as "believe", "expect", "may", "could", "intend", "continue" or "estimate" or variations of such words and phrases or states that certain actions, events or results "may", "could", "would", "might", "will" be taken or achieved. 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 — to keep the pension promise to our current and future retirees.

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

- generating sufficient returns over the long term 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 risk-adjusted returns in the long term. This means superior returns while being conscious of the actions we are taking 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 OMERS 2011-2015 Enterprise-Wide Strategic Plan is the joint product of the Board and Management of OAC. It has evolved as a shared vision from a consultative strategic planning process.

The Strategic Plan reflects research and industry-leading initiatives developed by Management. It is influenced by open and transparent conversations between Board members and Management that occur at least six times per year when detailed update reports are formally presented to the Board. The focus on strategy is a matter of routine during ongoing liaison between the Board Chair and OAC CEO.

In 2011, collaboration between the Board and Management continued to be at a high level of engagement, consistent with leading governance practices. In February 2011, Board members identified the broad issues that would guide the 2011 strategic planning discussions, including OMERS funding position, global macroeconomic trends and their implications for OMERS investment strategy and the impact and opportunities of potential pension reform in Canada.

In April 2011, the Board devoted a significant amount of time to discussing a draft of the Strategic Plan and approved the final version in June 2011.

The Strategic Plan is a living document. New and revised initiatives and issues arise each year while other initiatives are removed from the plan based on research and due diligence. In addition, events beyond our control at home and abroad influence the content and tone of our strategy. Throughout the year, the Board receives informational updates and is called upon for approval, allowing Management to implement specific initiatives.

The major initiatives of the Strategic Plan include:

### 1. 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 positions the Plan to generate strong, predictable returns and consistent cash flows with reduced risk to meet its funding requirements. This Board-approved policy sets targets and ranges of public and private markets investments. 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.

At the end of 2011, the Plan's public markets investments represented 57.6 per cent of net investment assets and private markets investments represented 42.4 per cent of net investment assets. The investment in private markets is up from 38.3 per cent at December 31, 2010. Depending on the relative 2012 investment returns in public versus private market asset classes and investment opportunities in the private market asset classes, the Plan may be close to achieving its target allocations by the end of 2012.

### 2. DIRECT DRIVE ACTIVE ASSET MANAGEMENT

We are making significant progress in actively managing an increasing proportion of OMERS investments internally to enhance returns and reduce investment costs. The principal drivers are increased direct drive management of foreign publicly traded equities and private equity investments. Our long-term goal is to have 90 per cent of total Fund assets directly managed by 2015. This is expected to result in net savings of over \$275 million over the next four years. As at December 31, 2011, total Fund assets managed internally were 83.8 per cent as compared with 85.6 per cent at the end of 2010. The decrease is due to a temporary shifting of funds to an external manager as part of a tactical decision to mitigate portfolio risk in capital markets investments.

### 3. ACCESS TO DOMESTIC CAPITAL

Accessing domestic capital to build a larger capital base that will enable us to pursue attractive investments continues to be a key priority. OMERS Investment Management (OIM) was established in 2009 with the principal objective of raising domestic capital from other pension plans, and other eligible clients. OIM has built significant awareness of OMERS investment capabilities, particularly in its private market strategies and is in advanced discussions with parties interested in gaining exposure in their funds to the performance of all or part of the annual investment return of the OMERS Primary Plan.

The Additional Voluntary Contributions (AVCs) initiative was successfully launched on January 1, 2011. At its first anniversary, AVCs had accumulated \$94 million.



We are continuing our efforts to pursue traditional and associated employers to either join OMERS or, if they have existing plans, to outsource management of their funds to OMERS.

#### **4. ACCESS TO FOREIGN CAPITAL**

OMERS Strategic Investments (OSI) is leading our efforts to form a Global Strategic Investment Alliance (GSIA) to pursue large investments attractive to both OAC and like-minded investors in the United States, Europe, Asia and the Middle East. These efforts have resulted in considerable interest from many prospective partners, including foreign pension plans and superannuation funds. OMERS is currently engaged in a mutual due diligence process with several of these organizations. We expect that a first close of the GSIA will occur in 2012.

#### **5. STRATEGIC INVESTMENT OPPORTUNITIES**

The OMERS Worldwide brand has been established through OSI to assist the Investment Entities in sourcing global investments. We are in the process of creating a global investment footprint by (i) establishing a network of offices in major financial centers, (ii) building awareness of the OMERS Worldwide brand via a pro-active media strategy, participation in leading business conferences and building relationships with business and government leaders and (iii) creating awareness about our GSIA initiative. A new and expanded New York office with representatives of all the Investment Entities was opened in 2011. We launched OMERS Ventures in 2011 with a mandate of making venture capital investments in response to the pent up demand for new sources of venture capital in Canada.

#### **6. BARRIERS TO GROWTH**

In 2011 progress was made to remove restrictive rules that act as barriers to OMERS growth in two areas. First, the *Pension Benefits Act (Ontario)* (PBA) was amended to clarify that pension plans entering into investment arrangements with OMERS where the return is based on the performance of all or part of the Plan will not violate the rule that limits a pension plan to having no more than 10 per cent of its assets in any one investment. The change clarifies that such a fund will be able to rely on OMERS compliance with the 10 per cent rule. Second, certain sections of the PBA relating to the solvency funding exemption for Jointly Sponsored Pension Plans and other related provisions were proclaimed during 2011. Accordingly, the Primary Plan is exempt from solvency funding.

Also in 2011, the Canadian Minister of Finance announced the federal government's intention to move forward with Pooled Registered Pension Plans (PRPPs). OAC continues to monitor the development of PRPPs to ensure that OMERS is not disadvantaged or deprived of the opportunity to be an eligible provider of PRPPs.

## OAC SUMMARY

## REVIEW OF 2011 RESULTS

INVESTMENT OBJECTIVE	MANAGEMENT APPROACH	2011 PERFORMANCE
Our investment objective is to meet the pension promise and add surplus wealth. To fulfill the pension promise to our current and future retirees we must produce investment returns that generate 6.5 per cent (4.25 per cent real return plus 2.25 per cent inflation rate) or more in net annual returns on 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 3.17 per cent compared to 2.52 per cent for the benchmark.  RCA Investment Fund return of negative 2.42 per cent compared to negative 2.43 per cent for the benchmark.

## 2011 ECONOMIC OVERVIEW

The solid performance that markets experienced in 2009 and 2010 with the broad S&P 500 Index and the S&P/TSX Composite almost doubling uninterrupted from the lows reached in March 2009 to the index highs in April 2011 came to a halt due to a number of macro-economic events. The latter half of 2011 saw a return to the type of daily volatility in equity markets reminiscent of the most recent recession. Most equity markets in developed countries ended the year in negative territory, including the S&P/TSX Composite that ended 2011 down 8.7 per cent. The only exception was the S&P 500 Index, which managed to post, in local terms, a positive 2.1 per cent return in 2011 largely buoyed by better than expected earnings produced by many U.S. corporations.

The financial crisis and recession during 2007–2009 saddled many governments (in particular, the U.S. and those in Europe) with unprecedented levels of debt as they attempted to stabilize the financial system and stimulate growth. While there were many events that impacted the global economy, including a massive earthquake that caused a tsunami and subsequent nuclear incident in Japan and the Arab Spring which saw civil uprisings in many countries in North Africa and the Middle East, financial headlines were dominated by the sovereign debt crisis emanating out of Europe.

OMERS has continued the overweight fixed income strategy to preserve capital in light of global economic uncertainty and to maintain adequate liquidity to meet the funding requirements for private market investments. This strategy has partially mitigated the losses which have occurred in the public markets in the latter half of 2011.

## INVESTMENT PERFORMANCE OVERVIEW

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

Investment Entity	Primary Asset Class
OMERS Capital Markets	Public markets, including interest bearing securities, commercial mortgages, real return bonds and public equities
OMERS Private Equity	Private equity through both direct and indirect (funds) investments
Borealis Infrastructure	Direct infrastructure-related investments
Oxford Properties Group	Real estate direct investments
OMERS Strategic Investments	Direct 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 Fund

Our Investment Entities are described more fully beginning on page 38 of this Annual Report.

Investment returns for the Plan and RCA for 2011 and 2010, based on investment income before external manager performance fees and investment management expenses, were as follows:

For the year ended December 31,	2011		2010	
	Rate of Return	Benchmark	Rate of Return	Benchmark
OMERS Capital Markets	-0.22%	1.26%	11.04%	10.11%
OMERS Private Equity	7.23%	-5.58%	22.21%	28.05%
Borealis Infrastructure	8.79%	8.00%	10.10%	8.50%
Oxford Properties Group	8.40%	6.83%	7.51%	6.65%
OMERS Strategic Investments	7.24%	6.90%	7.65%	7.00%
Total Private Markets	8.20%	4.50%	11.84%	12.39%
Total Primary Plan Fund <sup>(i)</sup>	3.17%	2.52%	12.01%	11.47%
RCA Investment Fund <sup>(ii)</sup>	-2.42%	-2.43%	7.99%	10.09%

(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.

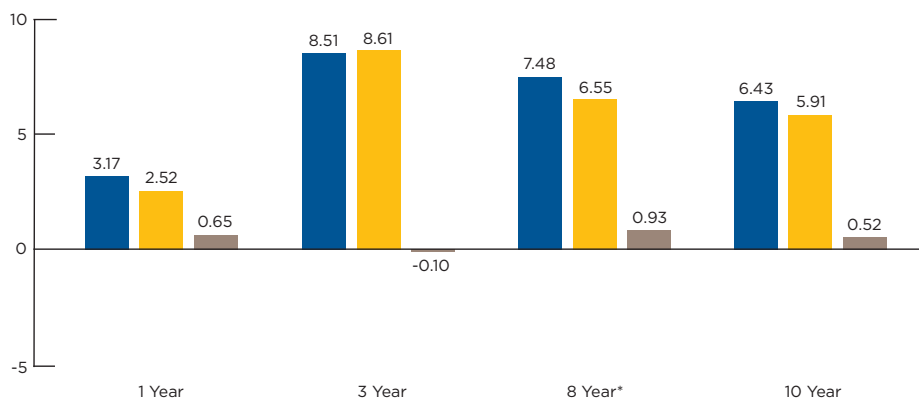
(ii) Excludes the RCA refundable tax balance with the Canada Revenue Agency. Including the refundable tax balance, the RCA rate of return was -1.25 per cent (2010: 4.31 per cent).

The Primary Plan achieved a 3.17 per cent total investment return in 2011, exceeding the benchmark of 2.52 per cent by 65 basis points while the RCA Investment Fund earned negative 2.42 per cent compared with the benchmark of negative 2.43 per cent.

High volatility in public markets has impacted OMERS Capital Markets results with a return of negative 0.22 per cent, 148 basis points below the benchmark of 1.26 per cent. Total private markets returns of 8.20 per cent exceeded the benchmark by 370 basis points across all private market investments demonstrating the effectiveness of the asset mix and direct drive management components of the Strategic Plan. In 2004, we adopted an asset mix policy of allocating a greater portion of our asset mix to private markets investments. Since that time, the Plan has earned \$24.8 billion in total investment income and an average annual investment return of 7.48 per cent despite significant losses sustained in 2008 and the mostly negative returns in public equity markets in 2011. Our returns over this eight year period exceeded the benchmark returns adding \$3 billion in value to the Fund. The rate of return, benchmark and the value added by our investment professionals over the past one, three, eight and ten-year periods is shown in the table below:

#### RATE OF RETURN AND BENCHMARK RETURNS (%)

- Annual Average Rate of Return
- Benchmark
- Value Added



\* Period since adoption of asset mix policy in 2004.

## BENCHMARK RETURNS

We measure the performance of each of OMERS Capital Markets asset classes and OMERS Private Equity against market benchmarks set by the Board that reflect the results of markets in which we invest and for Borealis Infrastructure, Oxford Properties and OMERS Strategic Investments, performance is measured against an absolute return benchmark set at the beginning of each year by the Board. We develop a benchmark for total investment activities by aggregating and weighting the individual benchmarks for each entity. Our benchmarks are reviewed and approved by the OAC Board. Our goal is to earn returns that equal or 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 are as follows:

Entity	Benchmark
OMERS Capital Markets	
- Fixed income	Blended DEX 30 day Treasury Bill Index and DEX Universe Bond Index
- Real return bonds	DEX Real Return Bond Index
- Canadian public equities	S&P/TSX Composite Index
- International equities	Blended MSCI All World excluding Canada and U.S. and MSCI All Cap U.S. Index
OMERS Private Equity	Aggregate of Global Russell indices adjusted for geographic and sector exposures plus an illiquidity and leverage premium; mezzanine debt based on an absolute return benchmark
Borealis Infrastructure, Oxford Properties and OMERS Strategic Investments	Absolute return set at the beginning of each year based on operating plans approved by the Board
Total Fund <sup>(i)</sup>	Weighted Average blend of Entity benchmarks including a 50 per cent hedge in International Equity
RCA Investment Fund	Weighted Average blend for the RCA Investment Fund is 5 per cent DEX 30-Day T-Bill + 23.75 per cent S&P/TSX 60 Composite + 23.75 per cent MSCI EAFE (Mid/Large Cap) + 47.50 per cent MSCI USA All Cap

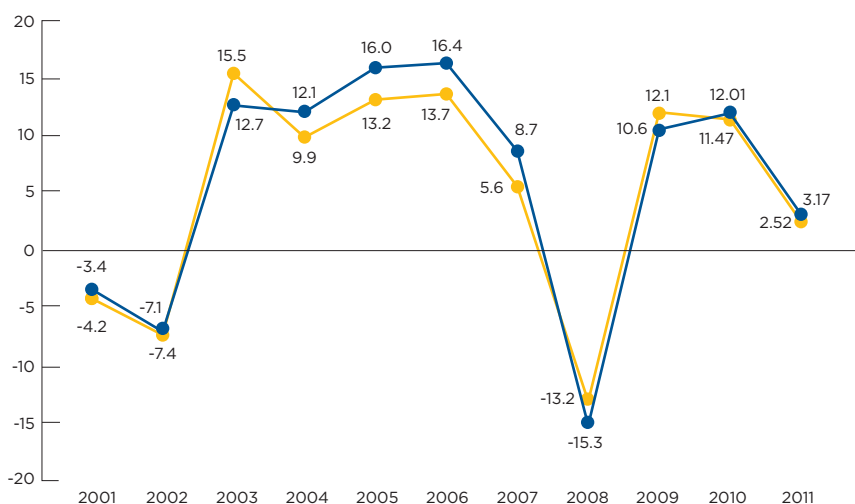
(i) The Total Fund return is measured against a Canadian dollar denominated composite benchmark produced by aggregating returns from each of the policy entity benchmarks, using the Fund's asset mix policy weight.

## ANNUAL RATE OF RETURN AND BENCHMARK

(%)

For the year ended December 31,

—●— Rate of Return  
—●— Benchmark



## NET ASSETS OF THE PLANS

OAC net assets at December 31, 2011 were \$55,083 million which includes net investment assets of \$55,702 million, net pension-related assets of \$209 million less the amount due to administered funds of \$828 million.

### NET ASSETS

(millions)

As at December 31,	2011	2010
Net investment assets	\$ 55,702	\$ 53,965
Net pension related assets	209	193
Due to administered funds	(828)	(809)
<b>Net Assets</b>	<b>\$ 55,083</b>	<b>\$ 53,349</b>

Net assets increased by \$1,734 million, or 3.3 per cent, compared with an increase of \$5,517 million, or 11.5 per cent in 2010. The increase in 2011 was driven primarily by investment returns from private markets investments and the excess of contributions over benefits payments and pension administration expenses. These increases were partially offset by negative returns in OMERS Capital Markets. The returns from Canadian and global equity markets, which experienced strong growth in 2009 and 2010, did not continue the momentum and were mostly negative in 2011.

### CHANGES IN NET ASSETS

(millions)

For the year ended December 31,	2011	2010
Net assets, beginning of year	\$ 53,349	\$ 47,832
Changes due to investment activities	1,363	5,384
Changes due to pension activities	371	133
<b>Net Assets, end of year</b>	<b>\$ 55,083</b>	<b>\$ 53,349</b>

## INVESTMENT MANAGEMENT AND PENSION ADMINISTRATIVE EXPENSES

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

Investment management expenses were \$279 million in 2011 compared to \$268 million in 2010 – an increase of 4.1 per cent. Investment management expenses, including external manager performance fees recorded in investment income, represent an investment management expense ratio of 58 basis points (\$1 basis points excluding performance fees) for the year ended December 31, 2011 compared to 64 basis points (55 basis points excluding performance fees) for 2010. Pension administrative and related corporate support expenses were \$59 million for the year, compared with \$54 million for the previous year – an increase of 9.3 per cent. The increase in administrative expenses is primarily due to the introduction of the Harmonized Sales Tax and the increased staffing and systems costs related to the management of an increasingly larger, more complex and sophisticated Plan.

### DEBT

OAC has maintained an “AAA” credit rating from two leading credit rating agencies. This has enabled us, where appropriate, to obtain debt financing at preferred rates to support our investment strategy. Recourse debt includes \$1,538 million of debentures and \$1,788 million of commercial paper issued through OMERS Finance Trust. The debentures and commercial paper are guaranteed by OAC supported by OAC’s “AAA” credit rating. Other OAC debt is secured by specific investments.

## 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 2011, private market investments comprised 42.4 per cent of our asset mix compared with 38.3 per cent at the end of 2010. As illustrated in the table on page 28, the market value of our net investment assets with exposure to private equity, infrastructure and real estate grew to \$23,591 million, an increase of \$2,935 million, or 14.2 per cent, over 2010.

Given the inherent volatility and the related impact of the global equity markets on the value of our public market investments, our investment professionals constantly manage our asset mix exposure, monitoring our long-term targets in each asset class so that the Plan is positioned for future growth. In order to facilitate this management process, the OAC Board 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 Board. The actual asset mix as at December 31, 2011, compared to the long-term asset mix target, is as follows:

### ASSET MIX – ACTUAL VS. TARGET

As at December 31,	2011	Actual 2010	Long-Term Public/Private Market Allocation
<b>Public Markets</b>			
Interest bearing <sup>(i)</sup>	28.6%	22.3%	
Real return bonds	3.9%	2.7%	
Canadian public equities	6.8%	15.1%	
Non-Canadian public equities	18.3%	21.6%	
	57.6%	61.7%	53.0%
<b>Private Markets</b>			
Private equity	13.9%	12.3%	
Infrastructure	15.3%	14.2%	
Real estate	13.2%	11.8%	
	42.4%	38.3%	47.0%

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



### Asset Class Allocation

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

(millions)

As at December 31,

	2011			2010		
	Holdings	Exposure	Asset Mix (%)	Holdings <sup>(i)</sup>	Exposure	Asset Mix <sup>(ii)</sup> (%)
<b>Public Markets</b>						
Interest bearing <sup>(i)</sup>	\$ 17,988	\$ 15,926	28.6%	\$ 16,632	\$ 12,041	22.3%
Real return bonds	1,743	2,199	3.9%	1,472	1,475	2.7%
Total interest bearing	19,731	18,125	32.5%	18,104	13,516	25.0%
Canadian public equities	2,177	3,787	6.8%	6,994	8,133	15.1%
Non-Canadian public equities	10,246	10,199	18.3%	9,025	11,660	21.6%
	32,154	32,111	57.6%	34,123	33,309	61.7%
<b>Private Markets</b>						
Private equity	7,753	7,764	13.9%	6,633	6,634	12.3%
Infrastructure	9,635	8,490	15.3%	9,593	7,681	14.2%
Real estate	14,516	7,337	13.2%	12,599	6,341	11.8%
	31,904	23,591	42.4%	28,825	20,656	38.3%
Investment related assets	707	-	-	645	-	-
Investment related liabilities	(9,063)	-	-	(9,628)	-	-
<b>Net Investment Assets</b>	<b>\$ 55,702</b>	<b>\$ 55,702</b>	<b>100.0%</b>	<b>\$ 53,965</b>	<b>\$ 53,965</b>	<b>100.0%</b>

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

(ii) Holdings for 2010 adjusted consistent with OAC Consolidated Financial Statements' (Note 2) transition to Canadian Institute of Chartered Accountants (CICA) Handbook Section 4600.

(iii) 2010 asset mix adjusted in accordance with the current year presentation. Previously the cumulative realized and unrealized gains and losses from hedging private markets foreign currency denominated holdings were recorded in the private markets asset class. Effective 2011, private markets exposure is only impacted by the unrealized hedging gains/losses.

### INTERNAL CONTROLS REVIEW

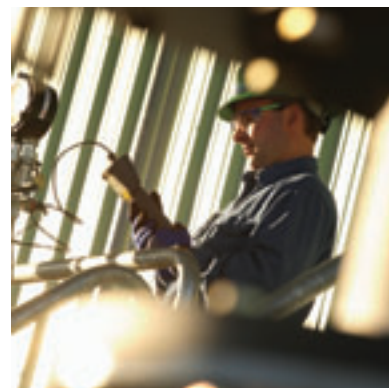
The OAC maintains systems of internal control that are designed to ensure the integrity and fairness of the data presented in the Consolidated Financial Statements and elsewhere in this Annual Report, that transactions are duly authorized and that assets are adequately safeguarded. Consistent with our commitment to strong corporate governance and accountability, we complete an annual internal review of 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. The operating effectiveness of key controls is tested by OAC Audit Services and our external auditors. We have reported to the Audit Committee that based on our 2011 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 a modified Enterprise Risk Management-Integrated Framework issued by COSO.

The primary oversight responsibility for risk management rests with the Board. The 2011 ERM Risk Assessment Report was submitted to the Board in December 2011. The Board receives quarterly communications from Management on the status of the investment risk 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 workers at the school boards. 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 419,007 members which is an increase of 2.3 per cent over 2010. The Plan also has 947 participating employers which is an increase of 16 employers over 2010.

During 2011, OMERS launched the Additional Voluntary Contributions (AVCs) component of the Plan. AVCs are a voluntary retirement savings arrangement available to the members of the Plan.

The Plan's defined benefit component 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 6 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 947 employers across Ontario.

### RETIREMENT COMPENSATION ARRANGEMENT

In addition to the Plan for all members, the 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 pension 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. OAC invests the RCA assets, excluding the refundable tax and a small cash balance, in public equities separate from the Plan. Net assets of the RCA were \$68 million at December 31, 2011 and \$59 million at December 31, 2010. The RCA financial statements are set out in Note 8 to the Consolidated Financial Statements on page 99 of this Annual Report.

## OMERS SUPPLEMENTAL PENSION PLAN FOR POLICE, FIREFIGHTERS AND PARAMEDICS

The 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 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, 2011, the Supplemental Plan had no assets (December 31, 2010 – 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, 2011, the estimated accrued pension obligation for all members (including survivors) of the defined benefit component of the Plan was \$64,548 million, compared with \$60,035 million a year earlier. The increase of \$4,513 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 2011. The pension benefit obligation also increased by \$560 million due to the net impact of actual economic and Plan demographic factors being less favourable than what was assumed for 2011. For the AVC component of the Plan, the accrued pension obligation is equal to the AVC net assets.

The Plan reports a surplus/deficit position both for accounting purposes and for the actuarial funding of the Plan. For accounting purposes, the surplus/deficit position is based on the fair value of assets compared to the accrued pension obligation. In arriving at the actuarial funding 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 net return and the long-term return expectation (expected inflation of 2.25 per cent plus 4.25 per cent, equivalent to 6.50 per cent in 2011) 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 market value of the Plan’s defined benefit component net assets as at December 31, 2011 was \$54,921 million compared with the smoothed actuarial value of \$57,258 million. The resulting actuarial smoothing adjustment account represents unrecognized net losses of \$2,337 million as at December 31, 2011 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 from prior years (as discussed in Note 7 of the Consolidated Financial Statements on page 95 of this Annual Report) and before recognizing any future year’s investment income above or below the long-term actuarial rate of return, the impact of the unrecognized net losses on the Plan’s surplus/deficit position by year of recognition will be as follows:

(millions)	
For the year ending December 31,	Net gains/(losses)
2012	\$ (2,530)
2013	\$ 452
2014	\$ 75
2015	\$ (543)

Based on the fair market value of the Plan’s net assets, the deficit as at December 31, 2011 was \$9,627 million compared with a deficit of \$6,745 million at December 31, 2010, an increase of \$2,882 million.

The Plan defined benefit component had an actuarial value of net assets of \$57,258 million at the end of 2011 compared with \$55,568 million in the prior year. The resulting funding deficit was \$7,290 million as at December 31, 2011 compared with a funding deficit of \$4,467 million last year.

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

(millions)

As at December 31,

	2011	2010
Fair value of net assets of the Plan, excluding AVCs	\$ 54,921	\$ 53,290
Accrued pension benefit obligation	64,548	60,035
Plan deficit based on fair value of net assets	(9,627)	(6,745)
Actuarial value adjustment	2,337	2,278
Plan deficit based on actuarial value of net assets	\$ (7,290)	\$ (4,467)

**CURRENT YEAR CHANGE IN FUNDING DEFICIT**

(millions)

For the year ended December 31,

	2011	2010
<b>OMERS Primary Pension Plan</b>		
Deficit, beginning of year	\$ (4,467)	\$ (1,519)
Increase in net assets available for benefits, excluding AVCs	1,631	5,506
Change in actuarial smoothing adjustments	59	(2,672)
Increase in actuarial value of net assets available for benefits	1,690	2,834
Less: increase in accrued pension benefit obligation	(4,513)	(5,782)
<b>Deficit, End of Year</b>	<b>\$ (7,290)</b>	<b>\$ (4,467)</b>

The funded ratio (actuarial value of net assets divided by accrued pension benefit obligation) at December 31, 2011 is 88.7 per cent compared with 92.6 per cent a year earlier.

**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, 2010 actuarial valuation was filed with the Ontario pension regulator in 2011 and the next required filing is the December 31, 2013 actuarial valuation, although the SC has the discretion to file earlier.

For current service, employer contributions equal member contributions under the Plan. During 2010, the SC approved temporary increases to the contribution rates to fund the actuarial deficit under the Plan; these increases averaged 1.0 per cent for 2011, 1.0 per cent for 2012 and 0.9 per cent for 2013 for both members and employers.

The resulting contribution rates for members with normal retirement age (NRA) 60 and 65 for 2011 and 2012 are shown in the table below with 2010 rates provided for comparison. The 2013 contribution rates will be set by the SC following receipt of recommendations from an independent actuarial firm with regard to the allocation principles.

	2012	2011	2010
NRA 65			
- Up to YMPE <sup>(i)</sup>	8.3%	7.4%	6.4%
- Above YMPE <sup>(i)</sup>	12.8%	10.7%	9.7%
NRA 60			
- Up to YMPE <sup>(i)</sup>	9.4%	8.9%	7.9%
- Above YMPE <sup>(i)</sup>	13.9%	14.1%	13.1%

(i) YMPE is the Yearly Maximum Pensionable Earnings as set by the Canada Revenue Agency. For the years above, YMPE was as follows: 2012: \$50,100; 2011: \$48,300; 2010: \$47,200.

Although the Plan has a funding deficit of \$7,290 million at the end of 2011 (2010: \$4,467 million), the defined benefit component net cash inflow from contributions less benefit payments and pension administrative expenses for 2011, was \$269 million (2010: \$124 million) which is expected to increase in future years as a result of the temporary contribution rate increases discussed above. Further, with our expected investment returns, combined with post-2012 benefit changes, we expect the Plan will return to surplus within 10 to 15 years.

## 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, 2011, which were approved by the 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 2010. 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 2010. 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 2010. 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 \$4,900 million in the total accrued pension obligation of the Plan.

The real investment return assumption used in 2011 is unchanged from that used in 2010. 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, based on the current asset mix. In comparison to some other public sector plans, the Plan has a higher ratio of active members to retired 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. The assumed average real salary increase (increase in excess of inflation) for the December 31, 2011 valuation is as follows:

	NRA 60		NRA 65	
	Up to 2014	After 2014	Up to 2014	After 2014
Average annual real salary	1.4%	1.9%	1.1%	1.6%

### 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. A relatively small increase in the number of terminations and retirements at higher income levels can increase actual benefit payments from, and decrease actual contributions to, the RCA; 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. Effective January 1, 2012, the funding of the RCA will be managed and monitored to ensure that the current RCA net assets together with future contributions and earnings will be sufficient to provide for the projected benefit payments over the 20-year period following each valuation date. The RCA accrued pension obligation is also sensitive to changes in assumptions and experience gains and losses.

### Current Year Change in Deficit

The accrued pension obligation for the RCA increased from \$468 million in 2010 to \$504 million at the end of 2011. The change was due to new benefits earned in the year, interest on the accrued pension obligation, experience gains/losses and the monthly benefit and lump sum payments made in the year. The RCA had an estimated funding deficit of \$436 million at December 31, 2011 compared with a deficit of \$409 million at December 31, 2010 as shown below:

### CHANGE IN RCA DEFICIT

(millions)

For the year ended December 31,

	2011	2010
Deficit, beginning of year	\$ (409)	\$ (438)
Increase in net assets	9	11
(Increase)/decrease in accrued pension obligation	(36)	18
<b>Deficit, End of Year</b>	<b>\$ (436)</b>	<b>\$ (409)</b>

### PENSION BENEFITS AND CONTRIBUTIONS

In 2011, the Plan ended the year with over 118,300 retired members and survivors receiving pension benefits. Benefits paid from the Plan's defined benefit component in 2011 were \$2,375 million, an increase of \$254 million over 2010. The increase reflected new retirements, the adjustment of benefits for inflation and higher pension values for new retirees compared with those already receiving benefits, as well as an increase in transfers to other registered plans and commuted value payments. Benefits paid from the RCA in 2011 were \$7 million, an increase of \$2 million from 2010.

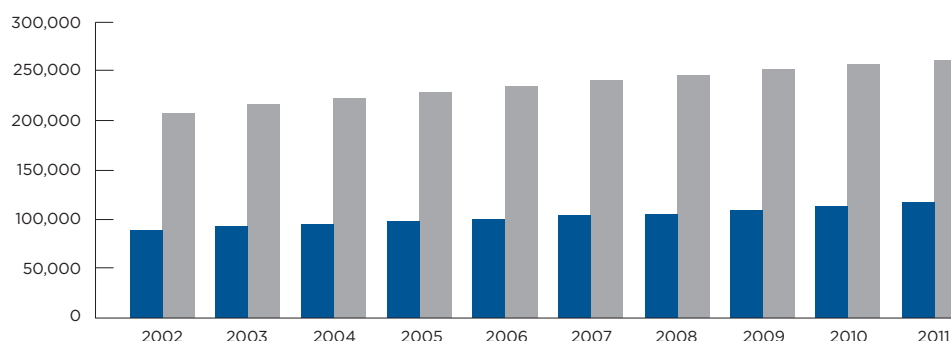


Contributions to the Plan's defined benefit component in 2011 were \$2,702 million compared with \$2,299 million in 2010. The increase reflects an increase in the contribution rates, an increase in active members of 1.5 per cent and increased members' salaries. Contributions to the Plan's AVC component were \$93 million in 2011, the first year of the AVC program. Contributions to the RCA in 2011 were \$18 million, an increase of \$4 million over 2010.

The chart below compares the growth in the number of pensioners versus active members over the past 10 years. The ratio of active members to pensioners was 2.22 at December 31, 2011 compared with 2.28 at December 31, 2010.

#### GROWTH IN NUMBER OF PENSIONERS AND ACTIVE MEMBERS

- Number of Pensioners
- Number of Active Members



#### OMERS PENSION SERVICES

**Our mandate is to provide excellent service to our members and employers.**

OMERS Pension Services is the primary communications link with our members and employers. Through a keen focus on customer satisfaction, we ensure rapid response times and excellent service to our members and employers. A flexible, expert pension team gives us the capacity to innovate and grow – to develop new pension services and features, to drive broader growth opportunities and to be on the forefront of pension reform.

Our growth and innovation initiatives support OMERS strategic objective to raise domestic capital. Ultimately this benefits all plan members, employers and retirees. A larger discretionary capital base affords large-scale investments that can generate stable long-term returns and supports the growing demands of changing demographics, an aging membership and the resulting pressure on liabilities.

Three strategies are at the core of our mandate as a professional service organization:

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

#### Enhancing Internal Capabilities

To meet the needs of our membership, we continue to build our internal capabilities – by enhancing our internal structure, systems and processes and by fostering a culture of leadership and collaboration. In 2011:

- OMERS Pension Services continued to make improvements to its organizational structure by launching a multi-functional operations group and by introducing a Quality and Resource Management department to focus on special projects to improve the efficiency and quality of our services to members and employers;
- we successfully re-engineered our pension service “buy-back” processes to provide individual OMERS members, who have employment service not originally covered by the OMERS pension, with information on the additional contributions required for them to buy back such service in the Plan. This has resulted in a significant reduction in turnaround times for these members and total funds coming into the Plan from buy-backs reached \$36 million in 2011, consistent with 2010; and

- we began a three-year program to redevelop our internal technology systems to accommodate increased Plan complexity and to increase our flexibility.

Both our people and our systems will be positioned to support OMERS strategic initiatives, to address deficit management programs and to pursue pension reform over the next several years. We will foster leadership through core skills development and clear lines of accountability. Action plans will ensure we maintain strong employee engagement and a collaborative culture. To innovate and grow, we will build a business intelligence platform to identify customer segments and develop new service-focused systems architecture.

### Responding to External Drivers

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

Our performance in 2011 against our demanding service standards and a growing number of transactions confirms that we are meeting the challenge of providing excellent pension services. In each month during 2011, we met or exceeded our targets for our key service standards by processing all key business activities within an average of three business days while addressing continued growth in client requests, and by answering 80 per cent of incoming calls to Client Services within 100 seconds in a year that saw OMERS Client Services handle 137,600 incoming calls compared to 121,300 in 2010.

Our membership is diverse and the need to deliver outstanding service continues to grow.

- As illustrated in Charts A and B on page 37, we now serve 947 employers and a total of 419,007 members – a 2.3 per cent increase over 2010. In addition, as a group our active member population is aging. As active members near retirement, they become more interested in the services provided by OMERS. Pension estimates and pre-retirement information sessions become more important to them. The number of active members 45 years of age and older has increased from 48 per cent of total active members in 2003 to 58 per cent in 2011. The fact that the membership is aging results in an increase in the normal cost (i.e. 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 associations. Chart C on page 37 shows a breakdown of our active membership by their affiliation as at December 31, 2011.
- As illustrated in Chart D on page 37, the number of individuals receiving an OMERS pension continues to grow. In 2011, we delivered retirement and disability pension payments totaling \$2,047 million to our retirees and survivors, compared with \$1,890 million in 2010 – keeping the pension promise. In addition, where individuals transferred to other registered pension plans, received death benefits or chose to leave the Plan and forego its guaranteed monthly pension benefit, payments of \$336 million were made in 2011 (2010: \$236 million).
- We received requests for approximately 81,400 retirement and termination estimates, representing a 20 per cent increase over last year. For the most part, these estimates were initiated and completed from beginning to end by OMERS members using the on-line estimate tool now available through OMERS secure member channel myOMERS, which is available on omers.com. In addition, we managed approximately 18,000 retirement, termination, disability, and pre-retirement death benefits queries, an increase of more than 10 per cent over 2010, approximately 80 per cent of which were initiated through the employer e-access channel or myOMERS.
- OMERS introduced a new web analytics tool with new tracking methodology. Using this industry standard analytics tool, OMERS had 771,000 visits to our website in 2011.
- Communication is a critical element of our service. In addition to the detailed information available on our website, we continued our practice of serving our members and building our relationship with employers through approximately 1,200 on-site visits in 2011, making presentations to members at information and pre-retirement sessions and providing technical support to employers.
- At year-end 2011, myOMERS had recorded approximately 57,000 total registrations since it went live in December 2009. Our members appreciate the fast and secure access to their pension information, the option to receive e-statements, as well as the on-line Retirement Income Estimator and Buy-back Calculator tools available through myOMERS.

- In 2011, e-access continued to be the preferred means of communicating with employers as 900 employers (or 95 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 Services is the e-Form 119 application, through which employers report annual member data directly and securely to us online. More than 99 per cent of all annual pension statements were issued to members by June 30, 2011, which exceeded our target of 90 per cent in that time frame. We also handled 9,600 e-correspondence requests in 2011.

Not only do we serve many individual members on a timely basis, but the results of our annual independent survey to assess how we are doing at meeting the needs of members and employers (Chart E on page 37) reveals that we continue to do it well. The 2011 survey results showed an average satisfaction rate of 88 per cent for the overall level of service, which demonstrates continuing recognition of our high standards. 2011 is the eighth straight year that our satisfaction rate exceeded 85 per cent.

While maintaining outstanding service for our core activities, OMERS Pension Services continues to develop new services and options for Plan members and respond to pension reform opportunities during 2011.

- Over 5,100 OMERS members contributed to the Additional Voluntary Contributions program resulting in a total accumulation of funds (including investment earnings) of \$94 million in its first year. The AVC component of the Plan provides members with a new optional retirement savings program that is similar in some respects to Registered Retirement Savings Plans (RRSPs). AVCs enable members to earn the net investment returns generated by OMERS diverse global portfolio on their personal retirement savings, in addition to the defined benefit provided by the Plan. Active members can voluntarily contribute additional funds and all members can transfer funds from their RRSPs, locked-in retirement account, registered pension plan or deferred profit sharing plan to the AVC program.
- To support the AVC program, the myOMERS portal was improved to give members additional opportunities to access the AVC program including on-line sign-up, maintenance and view features, and over 200,000 “outbound” phone calls were made to OMERS members to provide information on the new program.
- We readied ourselves to support our members through legislative changes effective January 1, 2012 related to the distribution of pension benefits in instances of marriage breakdown.
- OMERS continued to be an active participant in provincial and federal pension reform solutions and offered our knowledge and expertise to support government discussions related to improved retirement solutions for Canadians.

### **Supporting Effective Plan Governance**

An effectively governed pension plan helps to ensure that we will grow, innovate and deliver on our pension promise to members. In 2011, Pension Services worked closely with members of the OMERS Administration Corporation Board to support the Board in the introduction of a new Member Services Committee.

Under the OMERS Act, the OMERS Sponsors Corporation is responsible for pension plan design and contribution rates. In 2011, Pension Services provided information and analysis to the SC and supported the implementation of SC decisions including:

- the introduction of a Statement of Plan Design Objectives and Strategy;
- a change requiring an annual review of the RCA to ensure that, on an ongoing basis, the RCA Fund is of sufficient size that it would not be expected to be fully depleted for at least 20 years; and
- the increase in contribution rates for members and employers effective the first full pay in 2012.

Going forward, we will continue to prepare our systems and documents to implement the 2013 contribution rates as determined by the SC, as well as the post-2012 benefit changes.

Most importantly, we will maintain our focus on OMERS core objective – providing pensions to current and retired employees in more than 940 municipalities, school boards, libraries, police and fire departments, and other local agencies across Ontario.

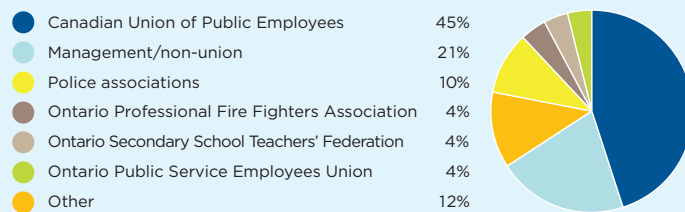
### CHART A MEMBER PROFILE

As at December 31, 2011



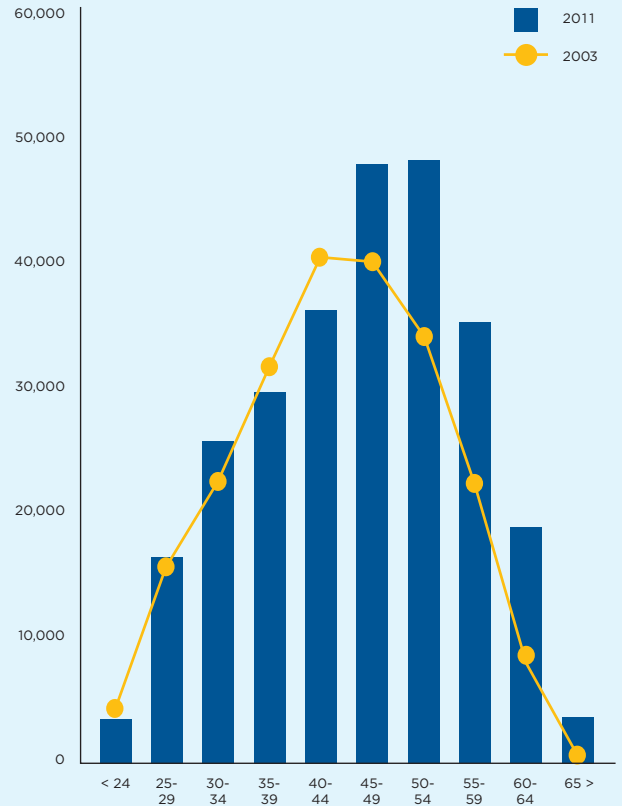
### CHART C ACTIVE MEMBER AFFILIATION

As at December 31, 2011



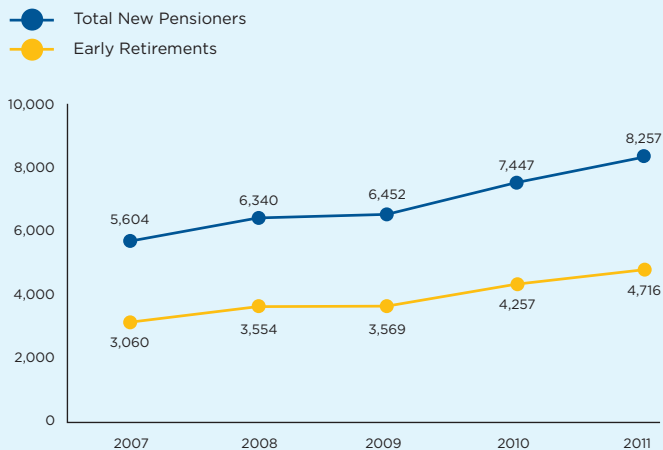
### CHART B ACTIVE MEMBERS BY AGE

As at December 31,



### CHART D NUMBER OF NEW PENSIONERS

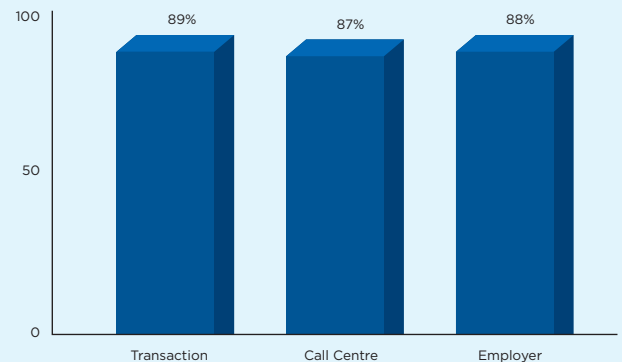
For the year ended December 31,



### CHART E SATISFACTION SURVEYS

For the year ended December 31, 2011

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



## THE FUNDS



The Funds had net investment assets of \$55,702 million at December 31, 2011. To meet the pension promise to over 419,000 members of the 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 expected return assumption is set by an independent actuary retained by the Board and is based on the asset mix policy set by the 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 2011, 57.6 per cent was invested with exposure to public markets and 42.4 per cent with exposure to private markets. Public market assets are predominantly publicly traded equities and interest bearing securities. Private market investments are private equity assets and income-producing infrastructure and real estate assets.

The investment target and asset mix policy are reviewed formally at least once a year by the 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, accumulated through investment income and net contributions from employers and plan members, matches or exceeds the present value of accrued pension obligations over multiple decades during which markets will go through many positive and negative cycles.

The Board has delegated responsibility for achieving the target return and achieving the Board-approved public/private market asset mix to 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 Board is updated on the progress of the initiatives of the strategic plan at each 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 Board believes that active asset management produces superior risk-adjusted returns compared with passive fund investing. 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 our 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 67.5 per cent of the OMERS 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 two years, we have increased our 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. Our teams in each of the private market entities also possess 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 ORGANIZATION**

The OAC today has a deep investment management organization comprised of professional teams dedicated to managing defined asset classes and subclasses led by OMERS Chief Investment Officer (CIO). The CIO is responsible for the investment strategy and operational leadership of OMERS Investment Entities. 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 40 to 54 of this Annual Report.

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

#### **OMERS Strategic Investments**

OMERS Strategic Investments, founded in 2008, is leading certain corporate strategic initiatives and building a portfolio of strategic investment platforms. Its mandate is discussed on page 55 of this Annual Report.

#### **OMERS Investment Management**

OMERS Investment Management (OIM) was established in 2009 following legislative authority granted to the OAC to provide investment management services and products through an authorized subsidiary. Eligible clients include Canadian public and private sector pension plans, governments and their agencies, colleges, universities and their endowments, and Canadian registered charities. OMERS Investment Management offers investment arrangements that provide eligible clients with access to all or parts of the annual investment return of the OMERS Primary Plan.

#### **OMERS Finance Trust**

Established in 2010, OMERS Finance Trust is responsible for the management of all recourse debt of OAC and refinances existing public market debt as needed. In doing so, it follows prudent leverage practices and carries the OMERS brand in capital markets. Guaranteed debt securities currently issued by OAC are rated "AAA" by two credit rating agencies. All OAC guaranteed commercial paper is now issued through OMERS Finance Trust.



## OMERS CAPITAL MARKETS



OMERS Capital Markets (OCM) manages OMERS public markets investment portfolio of bonds and other interest-bearing assets, publicly traded equities in Canadian and global financial markets as well as currency positions.

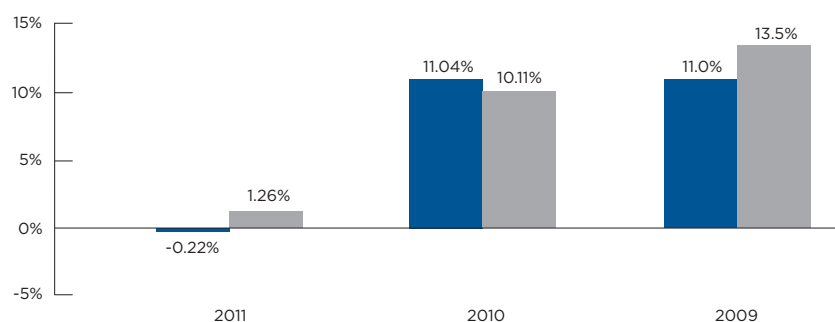
### RETURNS AND BENCHMARKS

For the year ended December 31,

- Rate of Return
- Benchmark

#### **-0.22%**

The overall OMERS Capital Markets investments return in 2011 was -0.22%. The return is below the benchmark of 1.26%.



A summary of public market performance returns by portfolio is discussed below:

For the year ended December 31,

	2011		2010	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Interest bearing	9.13%	9.22%	6.72%	6.42%
Real return bonds	17.84%	18.35%	11.04%	11.09%
Canadian public equities	-11.29%	-8.71%	18.31%	17.60%
Non-Canadian public equities	-4.96%	-4.23%	9.90%	8.04%

The OMERS Capital Markets' return of negative 0.22 per cent is below the benchmark of 1.26 per cent largely driven by under performance in Canadian public equities. OMERS Capital Markets generated a net investment loss of \$296 million in 2011 compared with net investment income of \$3,036 million a year earlier. Asset allocation shifts were made in 2011 resulting in an underweight position against the benchmark in public equities and an overweight position against the benchmark for interest bearing investments and real return bonds.

At December 31, 2011 OMERS Capital Markets net investment assets were \$30,357 million compared with \$30,654 million at the end of 2010.

## 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.

The interest bearing investments, excluding real return bonds, generated total investment income of \$1,083 million compared to \$733 million in 2010. Of this total in 2011, \$25 million (2010: \$nil) relates to debt held by Oxford Properties and \$40 million (2010: \$53 million) relates to mortgages managed by OMERS Capital Markets on behalf of OMERS Strategic Investments. The 2011 return of 9.13 per cent, calculated based on exposure to interest bearing investments, is below the benchmark of 9.22 per cent and is higher than the 2010 return of 6.72 per cent. The increase in income is primarily due to the overweight position in interest bearing investments and the decline in interest rates in 2011, which resulted in strong valuation gains in 2011 of \$590 million compared with gains of \$302 million in 2010. Real return bonds generated total investment income of \$270 million compared with \$167 million in 2010 due to declining real interest rates in 2011, which produced valuation gains in 2011 of \$232 million compared with \$121 million of valuation gains in 2010.

Including assets of other OAC Investment Entities, interest bearing investments include federal and provincial government bonds and corporate bonds of institutional investment grade, mortgages and private debt and cash and short-term cash equivalent securities. Interest bearing investments had a fair value of \$19,731 million at December 31, 2011 including \$17,988 million in cash and short-term deposits, nominal bonds, and mortgages and private debt (2010: \$16,632 million) and \$1,743 million in the real return bond portfolio (2010: \$1,472 million).

Interest bearing investments are used as part of our interest bearing investment portfolio, as collateral received from securities lending activities and as assets backing our derivatives program. At December 31, 2011, our exposure to interest bearing investments (excluding real return bonds) totaled \$15,926 million compared with \$12,041 million as at December 31, 2010 as follows:

(millions)			
As at December 31,		2011	2010
Interest bearing investments holdings	\$	17,988	\$ 16,632
Interest bearing investments backing equity derivatives		(2,774)	(3,075)
Cash collateral for securities lending and exposure from/(to) other programs		712	(1,516)
Interest bearing investments exposure	\$	15,926	\$ 12,041

Our exposure to real return bonds was \$2,199 million at December 31, 2011 compared to \$1,475 million at the end of 2010 as follows:

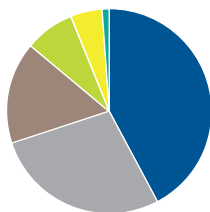
(millions)			
As at December 31,		2011	2010
Real return bonds holdings	\$	1,743	\$ 1,472
Real return bond exposure in other programs		456	3
Real return bonds exposure	\$	2,199	\$ 1,475

## PUBLIC EQUITIES

At December 31, 2011, the Plan had exposure of \$3,787 million (2010: \$8,133 million) to Canadian public equities and \$10,199 million (2010: \$11,660 million) to non-Canadian public equities including both actively managed and non-derivative, quantitatively managed portfolios across various industry sectors and geographies. Approximately 95 per cent of public equity holdings are in dividend paying stocks. Our total exposure to public equities by geography is illustrated in the following graph.

### PUBLIC EQUITIES EXPOSURE BY GEOGRAPHY

U.S.	42%
Canada	28%
Europe	16%
Japan	8%
Emerging Markets	5%
Pacific ex Japan	1%



With respect to our exposure in Europe, we are well diversified and have minimal direct financial sector holdings in the European countries which have the greatest economic concerns (Portugal, Ireland, Italy, Greece and Spain). Also, in aggregate we are below the benchmark weight for Europe excluding U.K.

### Canadian Equity Portfolio

The Canadian public equity holdings which are actively managed generated a total investment loss of \$1,120 million in 2011 compared to a gain of \$1,128 million in 2010. The 2011 return of negative 11.29 per cent, calculated based on exposure to Canadian equities, is below the benchmark of negative 8.71 per cent and the return of 18.31 per cent in 2010. In 2011, the Canadian equity portfolio returns were below the benchmark by 258 basis points in part due to the under performance of the active Core Fund. Going forward, investments in Canadian public equities will be managed through our quantitative investment program and global programs.

Our exposure to Canadian public equities is as follows:

(millions)

As at December 31,	2011	2010
Canadian equity holdings	\$ 2,177	\$ 6,994
Non-equity assets backing equity derivatives	1,433	956
Canadian equity exposure from other programs	177	183
Canadian public equities exposure	\$ 3,787	\$ 8,133

The decline in investments in Canadian equities resulted from asset mix allocation shifts made during the year.

### Non-Canadian Public Equity Portfolio

Non-Canadian public equities generated a total investment loss of \$338 million compared to a gain of \$1,175 million in 2010. The 2011 return of negative 4.96 per cent, calculated based on exposure to non-Canadian public equities, is below the benchmark of negative 4.23 per cent and the 2010 return of 9.90 per cent. Performance in non-Canadian equities was affected by several significant events in 2011, including the earthquake and tsunami in Japan, the ongoing European sovereign debt crisis, and the debt ceiling debates in the United States. These events contributed to the worst annual performance in global equity markets since the financial crisis of 2008.

Participating in global equity markets increases our portfolio diversification and lowers overall risk. As discussed below, active management of our non-Canadian public equity portfolio has been a focus of our strategy in the past few years, while at the same time, we continue to leverage the expertise offered by external managers in global markets. The non-Canadian equity portfolio also includes assets in absolute return and other similar hedge fund strategies.

Our exposure to non-Canadian equities is summarized below:

(millions)

As at December 31,

	2011	2010
Non-Canadian public equity holdings	\$ 10,246	\$ 9,025
Non-equity assets backing equity derivatives	1,292	2,122
Non-Canadian equity exposure from/(to) and other programs	(1,339)	513
Non-Canadian public equities exposure	\$ 10,199	\$ 11,660

The decline in exposure to non-Canadian public equities portfolio resulted from asset mix shifts made during the year to respond to the high level of volatility in global equity markets.

As discussed on page 21 of this Annual Report, our long-term investment strategy is to increase direct active management of our investments. Over the past three years OMERS Capital Markets has been building its team of investment professionals and its investment information systems to increase its capability to internally manage a larger portion of its non-Canadian equities. This gives us greater control over our non-Canadian investments and is expected to substantially reduce the costs of managing these investments. While we are continuing with this strategy, in 2011 tactical decisions were made to place funds with certain external managers. Since the program started three years ago, we have repatriated a net amount of \$3.7 billion from external managers.

## 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. The objective of their use is to provide a cost-efficient means to improve returns by mitigating uncompensated risks and to add flexibility in asset mix management. Notional values of various categories of derivatives held include:

(millions)

As at December 31,

	2011	2010
Interest rate contracts	\$ 3,382	\$ 1,524
Equity contracts	7,302	4,556
Commodity contracts	286	-
Foreign exchange forward contracts	19,038	13,887
	\$ 30,008	\$ 19,967

### 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. Types of interest rate derivative contracts used include interest rate swaps, bond index swap contracts, bond futures contracts and bond options. At the end of 2011, interest rate derivatives with a notional value of \$3,382 million were outstanding compared to a notional value of \$1,524 million at December 31, 2010.

### Equity Derivatives

We use equity 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 index futures and equity index swap contracts and complements the Canadian equities portfolio and global equity portfolios managed both internally and externally. At December 31, 2011, we had public equity derivative exposure of \$7,302 million (2010: \$4,556 million), representing the notional value of derivatives as follows:

- \$3,553 million in derivative portfolios that provide exposure to the S&P 500 index;
- \$1,518 million in derivative portfolios that provide exposure to the S&P/TSX Composite, the S&P/TSX 60 index; and
- various derivative portfolios totaling \$2,231 million that provide diversified exposure to major equity indices throughout the world.

### Commodity Derivatives

We use commodity derivatives to enhance investment yields.

### 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, 2011, \$18,702 million (2010: \$19,546 million) or 34 per cent (2010: 36 per cent) of our net investment assets were exposed to foreign exchange risk before hedging. We hedge approximately 50 per cent of our exposure to public investments denominated in 12 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.

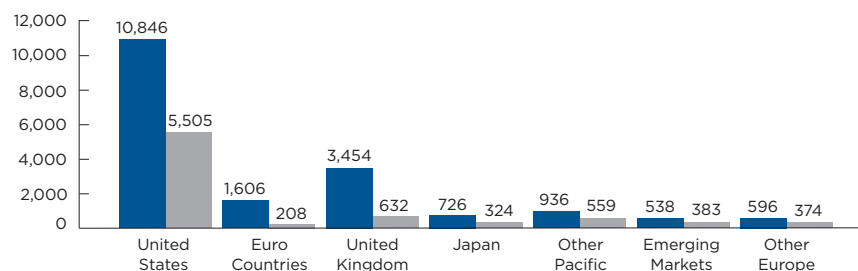
Since our currency hedging program was implemented, it has produced a net gain of \$1,811 million offsetting the currency losses experienced on our foreign currency assets. This is largely a result of the appreciation of the Canadian dollar against most major currencies over this period.

Our net foreign currency exposure after accounting for our foreign currency management and trading programs at December 31, 2011 was \$7,985 million (2010: \$7,974 million). Our gross and net foreign currency exposure is allocated as shown in the chart below:

### GROSS AND NET FOREIGN CURRENCY EXPOSURE

As at December 31, 2011  
(millions of CDN Dollars equivalent)

- Gross Foreign Currency Exposure
- Net Foreign Currency Exposure



### 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, 2011, the credit risk exposure was 0.6 per cent of net investment assets or \$343 million.

### Top 10 Stock Holdings

OMERS Capital Markets' top 10 stock holdings include:

- Pargesa Holding SA
- Royal Bank of Canada
- Toronto-Dominion Bank
- Total SA
- Bank of Nova Scotia
- Exxon Mobil Corp.
- Microsoft Corp.
- Apple Computer Inc.
- Suncor Energy Inc.
- Goldcorp Inc.



# OMERS PRIVATE EQUITY



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

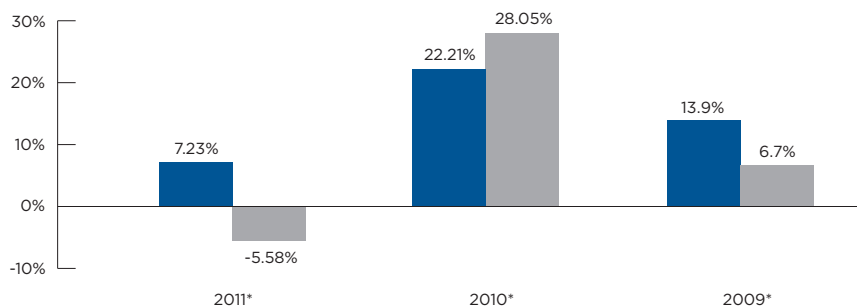
## RETURNS AND BENCHMARKS

For the year ended December 31,

- Rate of Return
- Benchmark

### 7.23%

OMERS Private Equity return in 2011 was 7.23% compared to the one-year benchmark of -5.58%.

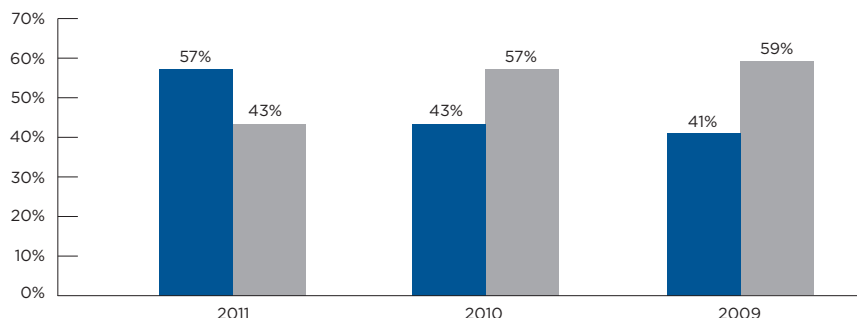


\* Benchmark based on absolute return in 2009 and relative returns in 2010 and 2011.

OMERS Private Equity’s investment strategy focuses on acquiring the majority control of a company with an enterprise value between \$200 million to \$1.5 billion. We will consider other ownership structures, including joint control and/or having significant influence with trusted like-minded partners as long as we have the governance rights commensurate with our investment. Our investment approach is premised on a long-term, active partnership with talented management teams. Our investment mandate is flexible to capitalize on the prevailing market conditions and financial markets and to invest in a broad range of industries in various geographical markets. We firmly believe in direct financial alignment of interest amongst ourselves, the management team of our investments and our investment partners. Our strategic shift toward direct investing that began in 2008 is on track to achieve our target of having over 80 per cent of our assets invested in direct investments by 2015. The chart below illustrates the consistent progress made by OMERS Private Equity’s shift toward directly held and actively managed portfolio over the last three years.

## DIRECT VS. FUND INVESTMENTS

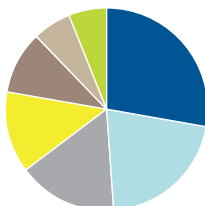
- Direct Investments
- Fund Investments



Our geographical focus is currently Canada, the United States and Europe, with a particular emphasis on the United Kingdom. Our direct investments can take a variety of forms, including private market transactions, secondary transactions from private equity funds and corporate carve-outs. The objective remains to have a well diversified investment portfolio, both by industry and by geography.

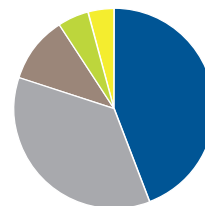
#### TOTAL ASSETS BY SECTOR

Industrials	28%
Consumer Discretionary	21%
Health Care	16%
Information Technology	13%
Financials	10%
Consumer Staples	6%
Other	6%



#### TOTAL ASSETS BY GEOGRAPHY

U.S.	44%
Canada	36%
U.K.	11%
Europe	5%
Other	4%



In evaluating investment opportunities, the key criteria that we consider are the current market position and the market outlook for the company's products and services; the quality and depth of the company's management team and their willingness to invest along with us; an assessment of the company's strategy for growth and our expected return based on the purchase price to acquire the business. Our role is to work closely with the management team and bring the necessary resources to bear so that the business can achieve sustainable, profitable growth.

When measured against our benchmark, OMERS Private Equity had generated a return of 7.23 per cent versus a benchmark return of negative 5.58 per cent. The negative benchmark reflects the turmoil experienced by the global public equity markets which had negative returns this year. The valuation of our investments is generally based on the operating performance of the individual companies and the returns of comparable publicly traded entities. As such, public equity market returns impact OPE investment valuations. The rate of return this year is much lower than the 22.21 per cent reported last year which was impacted by the continued recovery in the global equity markets following the financial crisis that occurred in 2008. Over the three-year period ending December 31, 2011, OMERS Private Equity generated a return of 14.30 per cent versus its benchmark of 8.86 per cent, with net investment income of \$354 million in 2011, compared to \$941 million in 2010. The strong financial performance from a number of our direct portfolio investments contributed to the positive performance against the benchmark this year.

During 2011, OMERS Private Equity's net investment assets increased to \$6,333 million from \$5,568 million in 2010, reflecting both an increase in the market value of existing investments and net new investments made in 2011. A record \$1.6 billion of capital was deployed in 2011. Of this, \$1.3 billion was deployed in direct investments in five new platform investments and one follow-on investment; the balance was spent on capital calls from various fund commitments. The five direct investments in the year include the acquisition of:

- (i) a 44 per cent ownership interest in Ontario-based Husky International Ltd., a global supplier of highly engineered systems solutions and related aftermarket services and components for the plastics injection molding equipment industry and the leading supplier to the PET (PolyEthylene Terephthalate) Preform packaging industry;
- (ii) Accelerated Rehabilitation Centers, which is a leading provider of traditional and specialty outpatient physical rehabilitation services in the U.S. midwest;
- (iii) Great Expressions Dental, which is a leading dental practice management company, with 152 affiliated dental offices in seven states across the midwest, south and northeast U.S.;
- (iv) V.Group Limited, a global market leader in outsourced ship management and a leading player in crew provision and related marine services; and
- (v) the January 4, 2011 closing of the acquisition of the CBI Health Group that had been agreed to in the latter part of 2010.

The follow-on investment was the acquisition of Consolidated Utility Services in the U.S. by United States Infrastructure Corporation to further consolidate the company's position in certain markets.

OMERS Private Equity also had a record amount \$1.2 billion of capital returned through realizations. The majority of this came through realizations from the private equity funds in the first half of the year when credit conditions were much more buoyant.

A continuation of the public equity market volatility experienced in 2011 would present a risk to the 2012 earnings performance of both the direct and fund portfolios. OPE will continue our "direct drive" active management strategy. We will work with the management of our direct investments in achieving their strategic and financial goals.

OMERS Private Equity's significant direct investments, other than the ones noted above, include:

- **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;
- **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;
- **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;
- **Logibec** – a market leader in North America specializing in information systems for the health and social services sector;
- **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;
- **Nordco** – a leading designer and manufacturer of 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 within Canada's wireless voice and data services market serving customers in Ontario and Quebec.

## BOREALIS INFRASTRUCTURE



Borealis Infrastructure (Borealis) manages infrastructure investments for the OAC and ranks as one of the world's largest infrastructure investors. Borealis has a proven track record in identifying, investing and managing infrastructure investments around the world, consistently outperforming its benchmark for the last seven years.

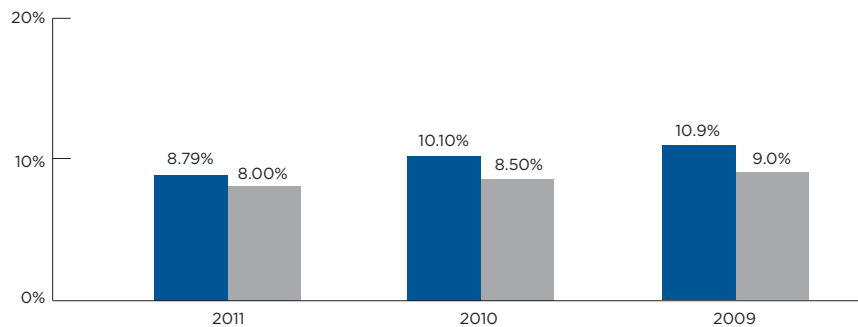
### RETURNS AND BENCHMARKS

For the year ended December 31,

- Rate of Return
- Benchmark

#### 8.79%

The overall Borealis Infrastructure return in 2011 was 8.79% compared with a benchmark of 8.00%.



Infrastructure investing generally involves direct investments in inflation-sensitive assets that are crucial 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 large up-front or near term capital commitments and typically generate strong inflation-linked cash returns – a perfect fit in meeting our long-term pension obligations.

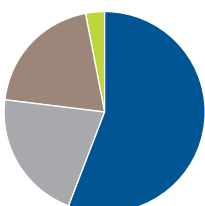
Borealis employs a direct-drive active management strategy in originating and managing infrastructure assets that exhibit strong underlying, inelastic demand with predictable, stable cash flows supported by regulation or long-term contracts with low-risk counterparties. We actively manage our investments through majority or significant minority positions and bring to investee companies the experience gained through managing a large infrastructure asset portfolio as well as the relationships developed with governments, lenders, other investors and members of the business community. Borealis also plays an active role in ensuring that each of its investments has the right management team in place with meaningful incentives that promote alignment with shareholders. In instances where we do not hold a majority interest in an investment, we partner with like-minded investors with aligned interests such as other pension, corporate and government investors as well as strong operating partners that can bring operational expertise to the investment, both in evaluating its potential and in managing and improving its performance.

Our investments are located in Canada, the United Kingdom and the United States. Given the breadth of opportunities and low political and regulatory risk that exists in its current markets, Borealis expects that infrastructure assets located in North America and Western Europe will remain the focus of its efforts for the near term; however, we continue to look opportunistically at infrastructure assets in other jurisdictions or geographies which exhibit stable and strong political and regulatory environments.

Borealis' investments can be grouped into four primary sectors and two main geographic regions as illustrated below.

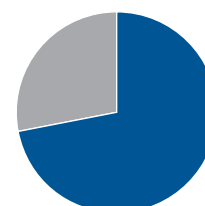
**TOTAL ASSETS  
BY SECTOR**

Energy	56%
Transportation	21%
Government Regulated Services	20%
Institutional & Other	3%



**TOTAL ASSETS  
BY GEOGRAPHY**

North America	72%
U.K.	28%



The energy sector includes investments in regulated utilities, power generation and oil pipelines. We adhere to a patient and disciplined investment approach and continue to prudently diversify our portfolio by industry sector, geography, size and stage of development while pursuing higher probability, lower execution risk opportunities.

Borealis' investments generated net investment income of \$674 million in 2011, compared with \$693 million a year earlier. The 2011 gross rate of return before investment management expenses was 8.79 per cent, compared with 8.00 per cent for the benchmark and 10.10 per cent in 2010. In addition, Borealis' investments generated a cash yield of 5.6 per cent (7.4 per cent based on operating assets) in 2011 compared to 5.4 per cent (7.1 per cent based on operating assets) in 2010. The strong, stable returns and consistent cash flow generated by Borealis' investments over the past three years illustrates that OAC's allocation of a significant portion of its investment portfolio to infrastructure investments continues to be a successful strategic initiative.

During 2011, Borealis' net investments increased to \$8,997 million from \$8,184 million in 2010. While it did not make any significant new acquisitions during 2011, the increase over 2010 is attributable to increases in the market value of its existing investments as well as follow-on capital injections in existing investments. Also, during the year, two significant debt refinancing arrangements were completed for Teranet and Associated British Ports. The Associated British Ports' refinancing was accomplished despite the challenging debt market conditions in Europe. Both transactions illustrate the high quality of these investment assets.

In 2012, we expect refurbishment of Bruce Power's Units 1 and 2 to be complete. This project required a significant investment of development capital over the past few years without generating a corresponding operating return. Once refurbishment is completed, Bruce Power will be the world's largest nuclear facility, generating approximately 25 per cent of Ontario's electricity needs. Bruce Power is in a much different situation than the Fukushima Daiichi nuclear facility in Japan that was impacted by the earthquake and tsunami in 2011 (i.e. geologic location, type of reactors, etc.), however, as with all nuclear operators around the world, Bruce Power believes that the events in Japan require a critical assessment of its own related systems. Bruce Power has already implemented a number of measures to enhance their response capability and has received approval for other minor design changes from the Canadian Nuclear Safety Commission. These additional measures and safeguards will further enhance Bruce Power's already robust disaster plans, consistent with their objective of operating to the highest nuclear standards.

Other significant investments made in prior years include interests in:

- **Ciel Satellite** – a wholesale communications satellite that offers telecommunication broadband capacity to the North American market;
- **Confederation Bridge** – a 12.9 kilometre bridge that links Prince Edward Island and New Brunswick and operates under a concession agreement with the Government of Canada until 2032;
- **Detroit River Tunnel** – a railway tunnel that operates as one of the largest trade corridors in the world;
- **Enwave Energy Corporation** – a company that owns the largest deep lake water cooling service in the world and provides environmentally friendly heating and air conditioning to Toronto's downtown office core;
- **Express Pipeline** – a 2,800 kilometre pipeline that transports crude oil from Alberta to the United States and serves refineries in six western and mid-western states;
- **HS1 Limited** – a company that operates, manages and maintains the United Kingdom's only high-speed rail line connecting St. Pancras International Station in central London to the Channel Tunnel;
- **LifeLabs** – Canada's largest provider of laboratory services that provides more than 50 million diagnostic tests to more than 10 million patients through nearly 20,000 physicians each year;
- **Oncor** – a leading electricity transmission and distribution company in Texas; and
- **Scotia Gas Networks** – a company that operates the Scotland and South of England gas distribution networks, comprising approximately 73,000 kilometres of gas lines serving approximately 5.6 million customers.

OXFORD PROPERTIES GROUP

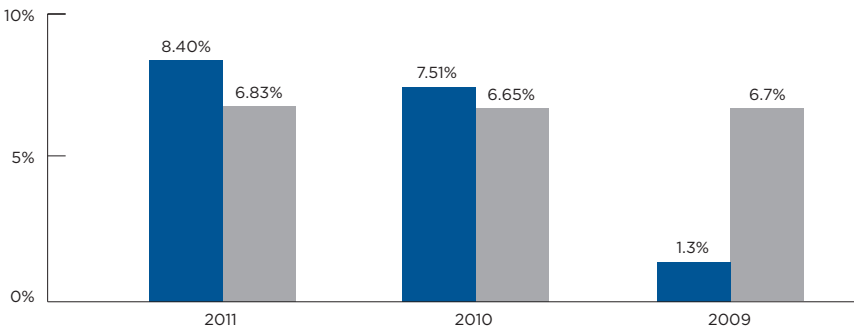


Oxford Properties Group (Oxford) is one of North America’s largest commercial real estate investment, development and management organizations. Oxford oversees and manages approximately \$19 billion (2010: approximately \$17 billion) of real estate for itself and on behalf of its co-owners and investment partners as at December 31, 2011.

RETURNS AND BENCHMARKS

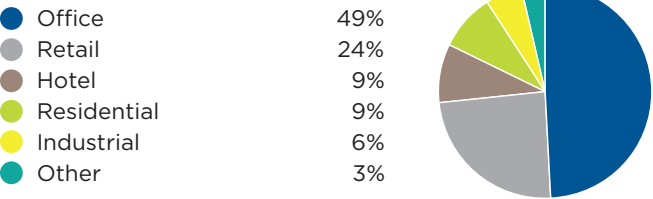
For the year ended December 31,

- Rate of Return
  - Benchmark
- 8.40%**  
The overall real estate return in 2011 was 8.40% compared with a benchmark of 6.83%.

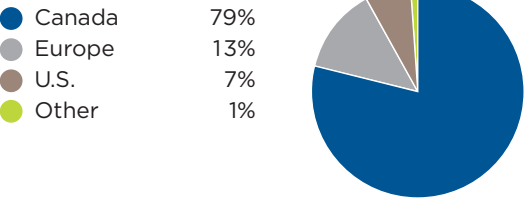


Oxford’s focus is to build a global platform for real estate investment, providing superior risk-adjusted returns and secure, sustainable and growing cash flows for the Plan. Oxford’s strategy focuses on the ownership, development and active management of significant assets, diversified by property type,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

TOTAL ASSETS BY SECTOR



TOTAL ASSETS BY GEOGRAPHY



At December 31, 2011, Oxford’s direct real estate portfolio consisted of 118 properties located primarily in Canada, the U.S., the U.K. and Germany, with a total leasable area of 46.3 million square feet, 3,511 hotel rooms and 21,111 residential units.



Oxford's office portfolio, with the exception of three assets located in the U.K., is diversified geographically in Canada across six major markets: Toronto, Vancouver, Calgary, Edmonton, Ottawa and Montreal. The largest concentration is in the Greater Toronto Area representing approximately 44 per cent of the market value of the office portfolio. The most significant office properties are:

- TD Canada Trust Tower, the Richmond-Adelaide Complex and a 50 per cent interest in Royal Bank Plaza in Toronto;
- Centennial Place and a 50 per cent interest in Bow Valley Square in Calgary;
- Watermark Place and a 50 per cent interest in MidCity Place in London, U.K.; and
- Green Park Business Park in Reading, U.K.

The retail portfolio is comprised of 14 properties, primarily super regional and regional shopping centres, totaling 14.2 million square feet. The properties are located across Canada and the United States 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, Scarborough Town Centre and Hillcrest Mall in the Greater Toronto Area;
- Upper Canada Mall in Newmarket, Ontario;
- Southcentre Mall in Calgary; and
- various regional shopping centres in the U.S.

The hotel portfolio includes major Canadian landmark resort properties located in Banff, Lake Louise and Jasper, Alberta; Whistler, British Columbia; Montebello, Quebec and two urban centre hotels in Vancouver, British Columbia and Toronto, Ontario.

Oxford's multi-family residential portfolio consists of 23 properties located in Ontario, Quebec, Nova Scotia, the southern U.S. and Germany. The industrial use assets include 22 properties in the Greater Toronto Area, Calgary and Edmonton markets.

In addition, Oxford's real estate portfolio includes properties held for/under development which form the basis of its active development program which currently includes the development of three office towers in Toronto and Vancouver, an office tower in London, U.K. and industrial properties in Edmonton and Calgary. Oxford is also continuing the co-development of Hudson Yards, a mixed use office, retail and residential project in Manhattan, New York, U.S.

Oxford is actively pursuing a global investment strategy in targeted international markets to diversify its portfolio and enhance returns. In 2011, in addition to continuing its U.K. and U.S. development projects, Oxford acquired Green Park Business Park, an office complex in Reading, U.K. and a 50 per cent interest in MidCity Place, a landmark office building in Midtown, London, U.K. Oxford's long-term strategic plans are for continuing sector and geographic diversification.

Oxford's current European exposure is limited to its investments in London office assets and residential properties in Germany. The London office investments represent 10 per cent of Oxford's total gross asset value and the German residential properties represent less than 3 per cent of Oxford's total gross asset value.

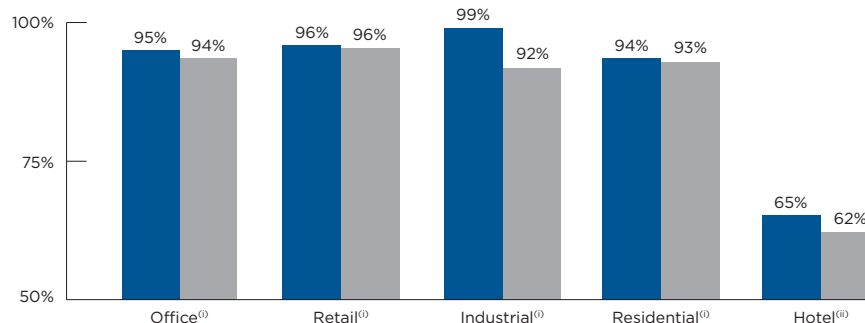
Oxford's net investment income increased from \$487 million in 2010 to \$610 million (\$585 million excluding income from mortgage investments) in 2011. Net investment income is primarily comprised of net operating income and unrealized gains and losses resulting from changes in the market value of the real estate assets and liabilities, and other realized gains and losses.

Excluding the impact of transaction costs and income from mortgage investments, Oxford's net operating income increased by \$49 million in 2011 primarily due to the net impact of acquisitions and the completion of development projects, as well as higher occupancy throughout the portfolio as shown in the table below.

## OCCUPANCY

(%)

- Actual 2011
- Actual 2010



(i) As at December 31

(ii) Based on average occupancy for the year

Net gains in 2011 were \$177 million (\$167 million excluding gains relating to mortgage investments), compared with \$70 million in 2010. The 2011 net gain is mainly due to an unrealized gain in the value of investments of \$211 million (2010: gain of \$157 million) partially offset by a mark-to-market loss of \$52 million on debt obligations (2010: loss of \$79 million). Unrealized valuation gains in investments were primarily in the Canadian office and retail portfolios.

In late 2010, Oxford began executing on its strategy to invest in U.S. debt instruments that yield a strong risk-adjusted return and are secured by high quality real estate assets, which are consistent with its property ownership strategy. This debt investments portfolio contributed \$25 million of net investment income in 2011 which consisted of net operating income of \$15 million and \$10 million of net gains.

The overall Oxford Properties return increased to 8.40 per cent in 2011 compared to a benchmark return of 6.83 per cent and a 7.51 per cent return in 2010.

Oxford's total owned real estate assets were valued at \$14,679 million (including mortgage investments of \$163 million) as at December 31, 2011 compared to \$12,782 million (including mortgage investments of \$183 million) as at December 31, 2010, representing an increase of \$1,897 million. The increase is mainly due to the market value appreciation of the real estate portfolio and net investment activity during the year. In addition to the new investments in the U.K. noted earlier, other major acquisitions during 2011 included:

- Metro Toronto Convention Centre Complex in Toronto;
- a 50 per cent interest in Hillcrest Mall in the Greater Toronto Area;
- Golden Gate Apartments in Toronto;
- an additional 47.5 per cent interest in the Williams Multi-family residential portfolio in the U.S.; and
- 2600 North Park Drive, an industrial property in the Greater Toronto Area and development lands in Burnaby, Vancouver.

Oxford also holds and manages a portfolio of indirect investments that were valued at \$445 million as at December 31, 2011, an increase of \$27 million from \$418 million at December 31, 2010, primarily due to additional investments made during the year.

Oxford's real estate portfolio is partially funded by \$6,160 million in mortgages, debentures and commercial paper as at December 31, 2011 compared to \$5,319 million as at December 31, 2010. The net increase in debt of \$841 million in 2011 is primarily due to new borrowings related to acquisitions made in the year.

## OMERS STRATEGIC INVESTMENTS



OMERS Strategic Investments (OSI) has a broad mandate to lead certain corporate strategic initiatives and to build strategic investment platforms that do not logically fit under the mandates of OMERS existing Investment Entities, which will position OMERS as a leading global pension-based investment enterprise.

OSI has the following overarching objectives:

- to build long-term strategic relationships and co-investment alliances to enable OMERS to raise capital for OMERS Investment Entities;
- to build and manage a portfolio of strategic investment platforms that provide OAC with footholds in key markets around the world which may ultimately be transferred to the Investment Entities, established as standalone platforms, or be sold to third party investors; and
- to establish OMERS global footprint through a network of offices and to communicate the depth and breadth of expertise behind the OMERS Worldwide brand to strategically important investors and operating businesses around the world.

A key part of OSI's mandate is to build long-term strategic relationships with like-minded global institutional investors and form strategic alliances that will enable OAC to leverage its capital alongside new sources of co-investment capital. In executing this mandate OSI is in the process of forming a Global Strategic Investment Alliance (GSIA) with institutional investors in Europe, the United States, Asia and the Middle East. Such an alliance will enhance OMERS ability to secure preferred large-scale private market investments while leveraging OMERS investment management expertise. Relationships have been initiated with many organizations, some of whom are in the advanced stages of forming our initial GSIA.

OSI is actively building a portfolio of specialized strategic 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. An overview of OSI's investment platforms and key investments is as follows:

- The first platform is based on the resource/commodities sector which is a major driver of Canada's long-term economic prosperity. OSI investments in this area include:
  - **OMERS Energy/OMERS Energy Services** – is a Calgary-based oil and natural gas acquisition, exploration, development and production company with oil and gas wells throughout western Canada; and
  - **CEDA International** – is a leading industrial, mechanical and electrical services company which is well established in the Alberta Oil Sands.

- The second platform is in entities that help leverage proprietary expertise and knowledge in engineering, innovation and technology to provide OMERS with additional access to investments and expertise. OSI's investments in this space include:
  - **MMM Group** – is a Canadian-based international engineering company that provides engineering, project management, environmental and advisory services in Canada and abroad in more than 40 countries on five continents. MMM Group is recognized as an industry leader in the provision of quality, cost-effective and technically excellent multidisciplinary solutions for a diverse range of assignments; and
  - **OMERS Ventures** – invests in technology, media, telecommunications, clean tech and life sciences sectors in Canada throughout the lifecycle of a company, starting with small investments in the early stages and then, based on success, followed with larger amounts to drive a company's growth, when substantial value can be harvested.
- The emerging/growth markets platform has been established to enter emerging/growth economies where OAC has not invested directly in the past, primarily in Latin America, South America and Asia, in a cost-effective manner. OSI's investment in this space includes:
  - **ADC & HAS Airports** – OSI has formed a partnership with HAS Development Corporation, an affiliate of the Houston Airport System, and Airport Development Corporation focused on the operation and, where required, the development of airports in growing and important markets around the world. This partnership brings together the operational, technical and financial expertise of the Houston Airport System, the Airport Development Corporation and OSI. Through this partnership we are able to invest and conduct operations in countries where OAC does not have an investment presence at a reasonable cost, opening the door to future investments by OSI and the other Investment Entities in such countries.

OSI is establishing OAC's global footprint through promoting and leveraging the intellectual capital of the entire enterprise under the OMERS Worldwide brand and ensuring that OAC has a presence in and knowledge of global markets through business relationships and a network of OMERS Worldwide offices. In 2011, OSI opened a new OMERS Worldwide office in New York after opening offices in London, England and Calgary in previous years.

In 2011, OSI generated net investment income of \$121 million for a gross investment return of 7.24 per cent compared with the benchmark of 6.90 per cent and net investment income of \$128 million in 2010. The lower income in 2011 is in part due to the transfer of the portion of OMERS mortgage portfolio previously held by OSI to OCM.

OSI's net investment assets decreased from \$2,143 million at December 31, 2010 to \$1,644 million at December 31, 2011. The decrease primarily reflects the transfer of the portion of OMERS mortgage portfolio previously held by OSI to OCM.

## 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 and is consistent with our risk tolerance. OMERS seeks 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.

For a given contribution rate, 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 pension obligation, which are 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 pension obligation. Risk management is supported by our system of internal controls, programs such as enterprise risk management and investment risk management and our 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 Board, Management and employees within all areas of OAC and our Investment Entities. 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 economic value of the Plan's accrued pension obligation is sensitive to movements in Canadian interest rates and inflation rates similar to changes in the value of a portfolio consisting of real return bonds and long-term Canada bonds; however, the Plan invests in a combination of equities, infrastructure, real estate and a broad range of interest bearing instruments in various currencies. 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 pension 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 risk 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 an operating business;
- strategic risks inherent in the execution of our long-term plan including funding risk; 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

The future values of OMERS investment assets and liabilities are not known with certainty and change over time. Investment risk (i.e. market, credit and liquidity risk) reflects the possibility that the value of the Funds' investments will deviate from the actuarially assumed long-term rate of return as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all investments traded in the market.

The fund will incur investment risk in order to meet the Plans' benefit obligations at a reasonable cost. The goal of investment risk management is not to eliminate risk but to find a balance between expected returns and the risks needed to generate those returns. Further, it is generally accepted that expected investment returns (positive or negative) increase with the amount of risk taken. The higher the risk involved in an investment, the higher the expected return (or potential loss) from that investment. Investment risk is neither good nor bad – a certain amount is needed to generate the investment returns required to maintain stable and cost-effective contribution rates. Through various policies, delegations and the long-term strategic asset mix, the OAC Board defines the amount of investment risk to be taken by the Funds. OAC utilizes analytical and reporting tools including enterprise-wide and Investment Entity specific policies; asset/liability studies and actuarial valuations; risk measurement and reporting; and due diligence and internal direct drive asset management processes to manage investment risk at the enterprise and Investment Entity (public market and non-public market) levels.

OAC ensures that OMERS Pension Plans' investments are well diversified across assets, industry sectors and geographic regions in order 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.

The OAC Board receives an annual comprehensive Enterprise Risk Management (ERM) report which includes a risk assessment of all Investment Entities and all functional areas within OAC. In 2011 the consolidated reporting of the investment risks and exposures facing the Fund was enhanced through the development of forward looking liquidity risk models used to assess the impact of tactical and strategic initiatives on Fund liquidity.

Market, credit and liquidity risks are discussed in our Consolidated Financial Statements starting on page 86 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, and management of information technology. Further, our human resources practices are designed to mitigate people risk including the risk of loss of key personnel. These controls are independently reviewed through internal audits and the annual review of our internal controls over financial reporting and disclosure controls discussed on page 28 of this Annual Report. As OMERS implements its direct drive strategy and repatriates assets from external fund managers, continuing to manage people risk remains a focused priority for the Board and Management.

### **STRATEGIC RISK**

Strategic risk is the risk of not achieving our long-term strategic goals and objectives. The 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 Board for decisions relating to the day-to-day management of the OMERS Pension Plans and the Funds including funding policy, investment strategies, and investments pursued, investment management styles and operating results. To manage this risk, we have established a governance framework, a business strategy development process and performance measures. In addition, the OAC conducts a formal asset/liability study at least every three years. This study identifies the optimum asset mix based on the identified asset classes and their corresponding market volatility and the required liquidity of the Plan. The next asset liability study will be undertaken in 2012.

The OMERS Pension Plans' funding is a significant strategic risk as discussed in funding risk below.

### **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 pension obligation. The major assumptions that go into the valuation of the accrued pension obligation include long-term economic conditions (i.e., inflation, the real return on investments and the rate of member future salary increases) and membership demographics (i.e., mortality, disability, termination and early retirement rates and marital status). The risk arises in two ways: (i) actual market conditions and member demographics differ significantly from the assumptions used in the valuation of the accrued pension obligation; and (ii) unforeseen changes in other major assumptions.

To manage these risks, the Board appoints an independent actuary to value the accrued pension obligation annually based on economic and demographic assumptions recommended by the independent actuary, reviewed by Management and approved by the Board. The validity of all assumptions is monitored each year against actual experience and the assumptions may be 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 Board and Management, with the assistance of the Legal Division (including the Compliance Office) and independent expert advisors, monitor situations affecting regulatory compliance that could result in 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 behavioral expectations are well understood and integrated throughout the organization so as to minimize these risks.

## CRITICAL ACCOUNTING POLICIES

As of January 1, 2011, financial statements of pension plans such as OAC must be in compliance with the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 4600 – Pension Plans (“CICA Section 4600”). The recognition, measurement and disclosure contained in the 2011 year end Consolidated Financial Statements are in compliance with the requirements of CICA Section 4600.

CICA Section 4600 requires that in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, a pension plan shall comply on a consistent basis with either International Financial Reporting Standards (IFRS) in Part I of the Handbook or accounting standards for private enterprises in Part II of the Handbook, to the extent that those standards do not conflict with the requirements of Section 4600. OAC has chosen to comply on a consistent basis with the International Financial Reporting Standards.

The adoption of CICA Section 4600 had no impact on OAC's net assets available for benefits, the accrued pension obligations and deficits or total investment income as reported in prior years' financial statements. Consistent with CICA Section 4600, investment assets are presented on a non-consolidated basis even when the investment is in an entity over which OAC has effective control. Earnings of such entities are recognized as interest is earned, dividends are declared or as real estate rental revenue is earned. OAC total investment income includes valuation adjustments required to adjust the carrying of investments to their fair value.

An explanation of how the transition to Section 4600 and IFRS has affected OAC's financial statements disclosure is set out in Note 2 to the Consolidated Financial Statements on page 76 of this Annual Report.

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

Actuarial assumptions used in determining the accrued pension obligation reflect Management's estimates of future economic factors such as the Plans' nominal rate of return and discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of 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 starting on page 76 of this Annual Report.



# COMPENSATION DISCUSSION AND ANALYSIS

## REPORT OF THE LEADERSHIP RESOURCES AND COMPENSATION COMMITTEE

The Leadership Resources and Compensation Committee of the Board (LRCC) is responsible for OMERS executive compensation across the enterprise.

### LEADERSHIP RESOURCES AND COMPENSATION COMMITTEE MANDATE

The purpose of the LRCC is to assist the Board in meeting its fiduciary oversight and related obligations by: (i) attracting, engaging and retaining excellent leadership at the senior executive level who are committed to the Enterprise Leadership Principles, Mission Statement and Core Values; (ii) overseeing a robust succession management process for the position of the OAC President & Chief Executive Officer (CEO); and (iii) overseeing senior executive performance, compensation and compensation policies.

The LRCC's key responsibilities include:

- oversight of an annual performance appraisal process for the CEO;
- making recommendations to the Board for compensation arrangements for the CEO;
- succession management process for the CEO;
- recommending to the Board the recruitment of and the proposed compensation for the Enterprise Senior Leadership Team;
- approving the compensation strategy, policy structure and framework for short-term and long-term compensation plans for the Enterprise Senior Leadership Team;
- reviewing human resources management policies, compensation and benefits plans to ensure appropriate strategic linkages and risk mitigation; and
- reviewing and providing guidance with respect to significant organizational structure changes to ensure alignment with enterprise-wide strategic plans.

The LRCC regularly reviews and recommends amendments to its mandate to the Governance Committee.

### KEY ACTIVITIES FOR FISCAL 2011

In 2011, the LRCC engaged in all of the above key responsibilities including reviewing new compensation plans for OMERS Capital Markets, Oxford Properties and OMERS Strategic Investments (OMERS Ventures) businesses. The Committee also reviewed a new comprehensive succession management process designed to ensure OMERS is well positioned with the right talent for the future.

### EXTERNAL ADVISORS

To assist in executing its responsibilities, the LRCC engages an external advisor, Global Governance Advisors (GGA), to provide independent advice. During 2011, GGA's scope of services included the following: (i) provided independent executive compensation advice pertaining to the Enterprise Senior Leadership Team (i.e. compensation philosophy, performance management, comparator groups, competitive pay positioning and pay mix); (ii) ensured the Committee understood and were comfortable with the current compensation program for the Enterprise Senior Leadership Team; (iii) assisted and counselled the Committee on any recommendations made by Management; (iv) conducted board education sessions that provided the Board with an overview of emerging trends and best practices; (v) assisted in any succession planning initiatives; and (vi) assisted with any other items that the LRCC requested.

The LRCC has sole authority to approve the amount of the external advisor's fees. For its services provided to the Board in 2011, GGA received \$138,500. GGA did not provide any non-Board approved services to the organization during 2011.

### COMMITTEE COMPOSITION

The LRCC is comprised of at least five members of the OAC Board 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. It conducts in camera sessions at the end of every meeting, without Management present.

Members of the LRCC for 2011 were:

**Chair:** Rick Miller

**Vice Chair:** Sheila Vandenberg

**Members:** Bill Aziz

David Carrington

Michael Power (*until September 23, 2011*)

Frederick Biro (*after September 23, 2011*)

John Sabo (*ex-officio*)

## LEADERSHIP RESOURCES AND COMPENSATION COMMITTEE

### MESSAGE FROM THE CHAIR

OMERS is committed to maintaining full transparency with our stakeholders on all facets of our executive compensation program. As part of this commitment, our goal is to provide information that is clear, relevant and appropriate. The Compensation Discussion and Analysis section highlights OMERS 2011 performance, reviews our executive compensation program in detail and describes the compensation awards for the Named Executive Officers. The Named Executive Officers include the OAC Chief Executive Officer (CEO), OAC Chief Financial Officer (CFO) and the three highest paid members of the Enterprise Senior Leadership Team.

### Talent Management

The potential growth of OMERS over the next five years will require significant talent development. It is critical that the approach to compensation is integrated with the talent strategy to continue to attract highly qualified and capable people in all jurisdictions. It will be equally important to enhance our people development capability in continuing to grow our own talent at all levels leading to senior management roles across OMERS as part of our succession management strategy.

### Approach to Compensation

We are committed to providing performance-based incentives to continue to attract, engage and retain high performing people. Our compensation program strongly links executive pay to actual performance achieved and aligns employee interests with that of Plan members. Our compensation plans are designed to motivate executives to achieve OMERS strategic objectives prudently, while ensuring an appropriate balance between risk and reward.

### 2011 Performance and Compensation

When determining compensation, the committee considers a number of quantitative and qualitative performance measures that were selected due to their alignment with OMERS five-year strategic plan. This year, investment performance results were below our expectations given the realities of the financial markets. Substantial progress was realized, however, in executing the five-year enterprise-wide strategic plan, which included achievements in moving toward a more balanced weighting between public market and private market assets and significant advancement in securing additional capital to invest for the benefit of OMERS members. Additionally, important and substantial advancement was made in how OMERS supports members directly from our Pension Operations group including the launch of the Additional Voluntary Contribution (AVC) program to allow members to save even more for retirement while sharing in the OMERS investment returns. The committee believes that the compensation awarded to the Named Executive Officers appropriately reflects overall performance during the year.

### Risk Management and Compensation

Effective risk management is an important component of OMERS culture and business strategy. We believe that our compensation programs encourage prudent and appropriate risk taking by: (i) providing a mix of short-term and long-term compensation, which encourages executives to take a balanced view; (ii) providing at-risk compensation which can result in payouts as low as zero if minimum levels of performance are not met; and (iii) capping the amount that can be earned in any incentive plan, even in the case of extraordinary performance. We are continuously working to improve how we factor risk management into compensation decisions to incent management to achieve our desired investment results with due regard for effective risk management.

### Preparing for 2012

Effective 2011, executive perquisites were discontinued across the enterprise, replaced by a perquisite cash allowance which will be reviewed regularly by the LRCC. Salary increases were not granted to employees in executive positions. Given the current market conditions an enterprise-wide salary increase budget of 2.1 per cent was approved for 2012.

### Conclusion

We are confident that our approach to compensation, which includes strong governance practices, achieves the appropriate balance between effectively paying for performance and ensuring compensation programs do not incent excessive risk taking, and also attracts and retains talented leadership. The LRCC remains committed to being a leader in compensation governance among pension funds and will continue to provide clear and transparent disclosure to our Plan members and stakeholders.



Rick Miller  
2011 Chair, Leadership Resources and Compensation Committee

## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes the compensation philosophy, policies and programs and discusses the compensation provided in 2011 to the CEO, CFO and the three other most highly compensated members of the Enterprise Senior Leadership Team.

### APPROACH TO COMPENSATION

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

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

### COMPENSATION PRINCIPLES

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

1. **Align with the interests of Plan members** – Align employee interest with the interests of the Plan members through effective policy and plan design.
2. **Align with OMERS strategy** – Focus employee efforts on critical investment/performance targets and reward for superior performance in achieving results.
3. **Pay for Performance** – Promote a pay-for-performance culture and reward employees for superior performance on results and adjust compensation when performance falls below targets.
4. **Effective Risk Management** – Ensure compensation plan design does not create an incentive for excessive risk taking and review each compensation plan regularly to ensure that it is operating as intended.
5. **Pay Competitively** – Reward employees in a manner consistent with competitive market practice to improve the organization's ability to attract, engage and retain high quality professionals. Base salary and target level performance for short-term and long-term incentive plans are benchmarked to the median in the marketplace and superior level performance for short-term and long-term incentive plans are benchmarked to the 75th percentile in the marketplace.
6. **Good Corporate Governance** – Strive to be a leader on governance issues and continually review and incorporate appropriate compensation practices that align with evolving best practices. The pay philosophy is approved annually by the LRCC and is an integral component of the compensation strategy.

### COMPARATOR GROUPS USED TO SET COMPETITIVE PAY

OMERS has identified different comparator groups for its various lines of business in setting competitive compensation to closely reflect the competitive market for our workplace. 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, OMERS reviews compensation levels of comparable positions and assesses relative performance and size of the comparator institutions.

### ELEMENTS OF THE EXECUTIVE COMPENSATION PLAN

Executive compensation for 2011 consists of six main elements: base salary, short-term incentives, long-term incentives, benefits, perquisite cash allowances and pensions. These elements provide a total compensation package designed to attract highly qualified individuals, provide strong incentive to align efforts with OMERS objectives and motivate to deliver performance that creates sustainable results for OMERS members.

## Salary

The compensation philosophy aims to pay competitive base salaries as defined by the comparator group. Salaries are reviewed annually at the beginning of each year and any increases are generally granted when an executive assumes greater responsibilities, deepens knowledge and expertise, or when there is a significant change in the compensation levels of comparable roles in the comparator group. The LRCC considers and approves base salaries of the Enterprise Senior Leadership Team, while the OAC Board approves the CEO's base salary based on the LRCC's recommendations.

In order to reward executives for performing in the interests of Plan members, their compensation is split into two parts. Annual performance is rewarded immediately through the short-term incentive plan and to ensure that performance is sustained, a long-term incentive plan is in place.

## Short-term Incentive Plan

The Short-term Incentive Plan (STIP) is designed to attract, engage and retain high-performing executives by providing competitive, performance-based compensation targets. The STIP has been designed to align compensation with key performance and strategic objectives and individual performance. The LRCC reviews short-term incentive targets for the Enterprise Senior Leadership Team each year as well as upon hire, promotion or when there are significant changes in responsibilities.

At the beginning of each year, the LRCC approves the key areas of focus, performance measures, weightings and targets against which performance will be evaluated. The corporate performance component is based on a scorecard comprised of: (i) investment performance; (ii) pension services performance; and (iii) objectives aligned with OMERS five-year enterprise-wide strategic plan. There is also an individual component that assesses and rewards leadership behaviours demonstrated by the executives in the achievement of their key performance objectives and how well they have met their overall job performance expectations.

STIP awards are determined as follows for the CEO and corporate senior executives:

<b>STIP AWARD</b>	Salary	x	Short-term Incentive Target (%)	x	<div> <div>Investment Performance</div> <div>+</div> <div>Pension Services Performance</div> <div>+</div> <div>Strategic Plan Objectives</div> <div>+</div> <div>Individual Objectives</div> </div>
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Investment entity leaders have a similar STIP based on performance of their specific business.

## Long-term Incentive Plan

Long-term Incentives are designed to: (i) encourage and reward executives for the achievement of superior and sustained investment performance; and (ii) align the interests of executives with those of Plan members.

The Long-term Incentive Plan (LTIP) rewards overall investment return performance results, with emphasis on consistent value-added performance over the three-year period. The awards vest and mature on the third anniversary of the award date.

LTIP awards are determined as follows for the CEO and corporate senior executives:

<b>LTIP AWARD</b>	Salary	x	Long-term Incentive Target (%)	x	<div> <div>Investment Performance</div> <div> <div>Total Public Markets • Value Add</div> <div>+</div> <div>Total Private Markets • Value Add • Absolute Return</div> </div> </div>	x	OMERS Total Fund Absolute Return Multiplier
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Investment entity leaders have a similar LTIP based on performance of their specific business. The CEO is also eligible for an award under the long-term performance plan (LTPP) which is based on value-add generated from growth of assets under management.

**BENEFIT, PERQUISITE AND PENSION PROGRAMS**

All employees participate in benefits that include vacation, life and disability insurance, health and dental benefits, our employee assistance program and pension plan. In 2011, executive perquisites were discontinued for the Enterprise Senior Leadership Team and replaced by a perquisite cash allowance which will be regularly reviewed by the LRCC.

**ALIGNMENT TO FINANCIAL STABILITY BOARD PRINCIPLES – FOR EFFECTIVE GOVERNANCE OF COMPENSATION**

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

The LRCC is composed entirely of independent directors and meets on a regular basis to discuss various compensation and human resources matters. They are responsible for approving compensation plans and policies for the Enterprise Senior Leadership Team, including base salary and incentive compensation. The LRCC has a formal and comprehensive process for approving the design of compensation plans across the organization. On an annual basis, the LRCC approves the performance measures, weightings and targets at the beginning of the year. At the end of the year, the results are evaluated to determine actual payouts.

Executives have a competitive mix of base salary, variable and deferred compensation. The mix varies by position and level within the organization, with a higher weighting of variable and at risk compensation at higher executive levels. All STIP and LTIP award payouts are dependent on performance results based on pre-determined LRCC approved measures and the level of risk taken in achieving results versus OMERS risk framework. Executives receive a meaningful portion of their compensation in LTIP awards, subject to performance and vesting requirements. All compensation plans reviewed or designed after 2010 include a comprehensive review of risk measures to determine the impact on compensation awards. The LRCC uses both quantitative measures and judgment in determining risk adjustments. The risk adjustments account for all types of risk which include but are not limited to asset allocation and concentration risk, active risk, regulatory breaches, operational risk and people risk.

OMERS continues to ensure effective governance of compensation and alignment of compensation with prudent risk taking. The LRCC remains committed to being a leader in compensation governance among Canadian pension funds and will continue to strive for improvements in disclosure to our Plan members and stakeholders.

**2011 PERFORMANCE AND EXECUTIVE COMPENSATION**

Incentive compensation for the CEO and corporate senior executives is based on performance against pre-determined investment performance results, pension services performance, and performance against OMERS five-year enterprise-wide strategic plan. This section highlights the performance during the year and how it translates into the compensation awarded to the Named Executive Officers.

**2011 Corporate Performance**

Under Mr. Nobrega's leadership, OMERS continues to evolve as a strategic leader with innovative programs and services in the pension industry and investment community.

OMERS performed strongly against the five-year strategic plan objectives by continuing to implement the long-term asset mix policy and the initiatives to gain access to domestic and foreign capital, as well as identifying strategic investment opportunities and removing barriers to OMERS growth. These strategic initiatives are discussed in the MD&A section of this Annual Report.

Pension Services met or exceeded all the targets to ensure our members and employers receive excellent service by continuing to enhance our internal capabilities, focusing on excellent execution, supporting effective plan governance and successfully launching the Additional Voluntary Contribution (AVC) program, which allows Plan members to save further for retirement while sharing in the OMERS investment returns.

Investment performance is critical to fulfill the pension promise to our current and future retirees as OMERS must produce investment returns that exceed the actuarially assumed rate of return, within an acceptable risk tolerance. At the start of every year the OAC Board approves benchmarks for the asset classes in which OMERS invests. The total Fund return for 2011 was below expectations given the realities of the financial markets. For Borealis Infrastructure, Oxford Properties and OMERS Strategic Investments, benchmarks are based on projected absolute returns and met or exceeded expected performance levels for 2011. For OMERS Capital Markets and OMERS Private Equity, benchmarks are based on a market benchmark. OMERS Capital Markets returns were below the benchmark, while OMERS Private Equity was above its benchmark. Results for each entity are further discussed in the MD&A section of this Annual Report.

### Compensation Decisions

When determining compensation, the LRCC ensures there is a strong link between executive compensation and actual performance achieved. Given the 2011 performance results, the LRCC approved the STIP performance factor of 120.7 per cent for the CEO, which resulted in actual STIP awards reported in the charts below. For the 2009 LTIP award that matured on December 31, 2011, the three-year pre-determined performance measures resulted in a payout below target, which recognized the investment returns over the three year period. The LRCC believes that the compensation awarded to the Named Executive Officers closely reflects the actual performance of OMERS and continues to emphasize executive retention as well as supports the OMERS pay-for-performance philosophy.

### SUMMARY COMPENSATION TABLE

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

Name and Principal Position	Year	Salary	Non-Equity Incentive Compensation		Pension Value <sup>(i)</sup>	All Other Compensation <sup>(ii)</sup>	Total Compensation
			Annual Incentive Plan	Long-Term Incentive Plan <sup>(i)</sup>			
Michael Nobrega President & CEO	2011	\$ 515,000	\$ 777,263	\$ 790,364	\$ 145,715	\$ 95,652	\$ 2,323,994
	2010	\$ 515,000	\$ 1,179,496	\$ 1,191,259	\$ 276,707	\$ 90,573	\$ 3,253,035
	2009	\$ 475,000	\$ 1,051,210	\$ 1,362,110	\$ 200,097	\$ 143,158	\$ 3,231,575
Patrick G. Crowley Executive Vice President and Chief Financial Officer	2011	\$ 438,000	\$ 600,000	\$ 353,584	\$ 95,261	\$ 29,462	\$ 1,516,307
	2010	\$ 438,000	\$ 613,200	\$ 532,932	\$ 152,824	\$ 31,531	\$ 1,768,487
	2009	\$ 425,000	\$ 510,000	\$ 232,800	\$ 96,034	\$ 31,582	\$ 1,295,416
R. Michael Latimer Executive Vice President and Chief Investment Officer	2011	\$ 500,000	\$ 1,000,000	\$ 549,120	\$ 112,009	\$ 105,186	\$ 2,266,315
	2010	\$ 500,000	\$ 1,100,000	\$ 1,762,128	\$ 214,257	\$ 122,638	\$ 3,699,023
	2009	\$ 640,000	\$ 228,480	\$ 1,978,086	\$ 57,600	\$ 93,908	\$ 2,998,074
Michael Rolland President & CEO, Borealis Capital Corporation	2011	\$ 438,000	\$ 812,769	\$ 1,845,563	\$ 22,000	\$ 49,066	\$ 3,167,398
	2010	\$ 438,000	\$ 841,377	\$ 1,958,516	\$ 21,000	\$ 46,537	\$ 3,305,430
	2009	\$ 425,000	\$ 820,250	\$ 1,639,463	\$ 20,000	\$ 46,496	\$ 2,951,209
Paul Renaud President & CEO, OMERS Private Equity	2011	\$ 438,000	\$ 798,985	\$ 1,384,438	\$ 22,450	\$ 78,278	\$ 2,722,151
	2010	\$ 438,000	\$ 810,300	\$ 1,364,260	\$ 22,000	\$ 73,360	\$ 2,707,920
	2009	\$ 425,000	\$ 569,500	\$ 800,000	\$ 21,000	\$ 70,725	\$ 1,886,225

(i) The amount reported for a given year reflects the total earned from the LTIP performance period that matured at the end of that year.

(ii) Represents the employer contributions to the Plan and employer contributions to third-party providers of defined contribution pension plans.

(iii) Includes insurance, benefits and other allowances.

## INCENTIVE PLAN AWARDS

Long-term Incentive Plan (LTIP) awards are granted at the start of the fiscal year and paid out at the end of the vesting period. The following table presents the outstanding LTIP awards for each Named Executive Officer.

Name	Year	Type of Award	Award Target Value	Maximum Value at Payout
Michael Nobrega President & CEO	2011	LTPP	\$ 386,250	\$ 579,375
	2011	LTIP	1,287,500	2,575,000
	2010	LTPP	386,250	579,375
	2010	LTIP	1,287,500	2,575,000
Patrick G. Crowley Executive Vice President and Chief Financial Officer	2011	LTIP	547,500	1,095,000
	2010	LTIP	547,500	1,095,000
R. Michael Latimer Executive Vice President and Chief Investment Officer	2011	LTIP	1,250,000	2,500,000
	2010	LTIP	1,250,000	2,500,000
Michael Rolland President & CEO, Borealis Capital Corporation	2011	LTIP	1,095,000	2,190,000
	2010	LTIP	1,095,000	2,190,000
Paul Renaud President & CEO, OMERS Private Equity	2011	LTIP	1,095,000	2,190,000
	2010	LTIP	1,095,000	2,190,000
	2010	LTIP	1,095,000	2,190,000

The 2009 LTIP awards matured at the end of 2011 and were paid out, leaving the 2010 and 2011 LTIP awards outstanding. All LTIP awards vest and mature on the third anniversary of the award date, with the exception of Paul Renaud's additional 2010 LTIP award, which vests and matures on the fourth anniversary of the award date. The LRCC approved a 2012 LTIP award for each member of the Enterprise Senior Leadership Team. The minimum value of the long-term incentive awards is zero, based on the achievement of performance targets.



## PENSION PLANS

The table below represents disclosure of estimated pension information for the Named Executive Officers as at December 31, 2011.

Name	Number of Years Credited Service	Annual Benefits Payable		Opening Present Value of Defined Benefit Obligation	Compensatory Change	Non-Compensatory Change	Closing Present Value of Defined Benefit Obligation
		At Year End	At Age 65				
Michael Nobrega President & CEO	4.808	\$ 222,270	n/a	\$ 2,700,423	\$ 69,245	\$ 270,659	\$ 3,040,327
Patrick G. Crowley Executive Vice President and Chief Financial Officer	8.910	\$ 92,625	\$ 204,627	\$ 1,038,652	\$ 219,885	\$ 139,046	\$ 1,397,583
R. Michael Latimer Executive Vice President and Chief Investment Officer	6.843	\$ 93,786	\$ 211,897	\$ 1,369,434	\$ 278,527	\$ 183,268	\$ 1,831,229
Paul Renaud President & CEO, OMERS Private Equity	2.153	\$ 25,967	\$ 41,924	\$ 435,126	\$ -	\$ 35,393	\$ 470,519

## CONCLUSION

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

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**RESPONSIBILITIES OF MANAGEMENT, THE ACTUARY AND INDEPENDENT AUDITORS**

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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"), which includes the Defined Benefit and the Additional Voluntary Contribution components, and 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, 2011, 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, Corporate Audit Services reviews the OAC's systems of internal controls to determine whether these controls are appropriate and operating effectively.

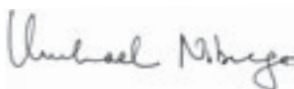
The OAC Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of the OAC, assists the OAC Board in executing this responsibility. The Audit Committee meets regularly with management and the 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 pension obligations of the OMERS Pension Plans in accordance with accepted actuarial practice and 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 independent auditors are also appointed by the OAC Board. Their responsibility is to report to the OAC Board whether in their opinion the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of changes in net assets available for benefits and the statements of changes in pension obligations for the years ended December 31, 2011 and 2010 present fairly in all material respects, the financial position, the changes in net assets available for benefits and changes in pension obligations in accordance with Canadian accounting standards for pension plans. The independent auditors have full and unrestricted access to management and the Audit Committee to discuss any findings arising from their audit related to the integrity of financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The auditors' report outlines the scope of their examination and opinion.

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

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



Michael Nobrega  
President and Chief Executive Officer

Toronto, Canada  
February 22, 2012



Patrick G. Crowley  
Executive Vice President and Chief Financial Officer

We conducted actuarial valuations as at December 31, 2011 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 Primary Plan consists of a defined benefit component and an additional voluntary contribution ("AVC") component. The purpose of the valuations is to fairly present the actuarial funded status of the Primary Plan and the RCA as at December 31, 2011, for inclusion in this Annual Report in accordance with Section 4600 of the Canadian Institute of Chartered Accountants Handbook Part IV.

The results of the actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of \$64,642 million in respect of benefits accrued for service to December 31, 2011 (comprising \$64,548 million with respect to the defined benefit component and \$94 million with respect to the AVC component). The actuarial assets at that date were \$57,352 million (comprising \$57,258 million with respect to the defined benefit component and \$94 million with respect to the AVC component), indicating a going concern actuarial deficit of \$7,290 million. Ongoing adequacy of the Primary Plan's contribution rates will need to be monitored to ensure that future contributions, together with the Primary Plan assets and future investment earnings thereon, will be sufficient to provide for its future benefits.

The RCA provides for pension benefits in excess of the maximum pension benefits under the Primary Plan. The RCA is not fully pre-funded. The actuarial liability in respect of RCA benefits accrued for service to December 31, 2011 (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 \$436 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. The funding of the RCA is managed on a modified pay-as-you go basis and, effective January 1, 2012, monitored to ensure that the fund will have sufficient assets to provide for the projected benefit payments over the 20-year period following each valuation date.

The actuarial valuations of the Primary Plan and the RCA as at December 31, 2011 were conducted using the Unit Credit Actuarial Cost Method with projection of earnings, and membership data as at December 2, 2011 and financial information as at December 31, 2011 supplied by the OAC. The December 2, 2011 membership data was adjusted, among other things, for the following:

- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2012;
- estimated credited service accruals in 2011; and
- estimated earnings for 2011.


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

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

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

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

Respectfully submitted  
Towers Watson Canada Inc.



Ian Markham  
Fellow, Canadian Institute of Actuaries



Philip Morse  
Fellow, Canadian Institute of Actuaries

Toronto, Canada  
February 22, 2012

## INDEPENDENT AUDITOR'S REPORT

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### TO THE BOARD OF OMERS ADMINISTRATION CORPORATION

We have audited the accompanying consolidated financial statements of OMERS Administration Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of changes in net assets available for benefits and changes in pension obligations for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

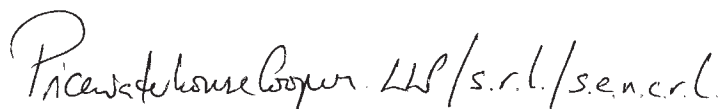
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OMERS Administration Corporation as at December 31, 2011, December 31, 2010, and January 1, 2010, and the changes in its net assets available for benefits and changes in its pension obligations for the years ended December 31, 2011 and 2010, in accordance with Canadian accounting standards for pension plans.



Chartered Accountants, Licensed Public Accountants

Toronto, Ontario  
February 22, 2012

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions) As at,	December 31, 2011	December 31, 2010	Opening Balance January 1, 2010
<b>Net Assets Available for Benefits</b>			
<b>Assets</b>			
Investments (note 3)	\$ 64,058	\$ 62,948	\$ 57,287
Other investment assets (note 5)	332	263	235
Amounts due from pending trades	375	382	311
Contributions receivable			
- Members	114	99	90
- Employers	114	100	91
Other assets	65	66	50
<b>Total Assets</b>	<b>65,058</b>	<b>63,858</b>	<b>58,064</b>
<b>Liabilities</b>			
Investment liabilities (note 6)	8,802	9,392	9,293
Due to administered funds	828	809	734
Amounts payable from pending trades	261	236	151
Other liabilities	84	72	54
<b>Total Liabilities</b>	<b>9,975</b>	<b>10,509</b>	<b>10,232</b>
<b>Net Assets Available for Benefits</b>	<b>\$ 55,083</b>	<b>\$ 53,349</b>	<b>\$ 47,832</b>
<b>Accrued Pension Obligations and Deficit</b>			
<b>Primary Plan (note 7)</b>			
Defined benefit component			
Accrued pension obligation	\$ 64,548	\$ 60,035	\$ 54,253
Deficit			
Funding deficit	(7,290)	(4,467)	(1,519)
Actuarial value adjustment of net assets	(2,337)	(2,278)	(4,950)
	(9,627)	(6,745)	(6,469)
	54,921	53,290	47,784
<b>Additional Voluntary Contributions Component</b>			
Pension obligation	94	-	-
	55,015	53,290	47,784
<b>Retirement Compensation Arrangement (note 8)</b>			
Accrued pension obligation	504	468	486
Deficit	(436)	(409)	(438)
	68	59	48
<b>Accrued Pension Obligations and Deficit</b>	<b>\$ 55,083</b>	<b>\$ 53,349</b>	<b>\$ 47,832</b>

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

Signed on behalf of OMERS Administration Corporation



Rick Miller  
OAC Chair



Jim Phillips  
Chair, Audit Committee

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

(millions)

For the year ended December 31,

	2011	2010
<b>Changes Due to Investment Activities (note 9)</b>		
Investment income	\$ 1,988	\$ 1,912
Changes in fair values of investment assets and liabilities and derivatives	(246)	3,641
Investment management expenses (note 13(b))	(279)	(268)
Gain/(loss) from currency hedging	(79)	182
Income allocated to administered funds	(21)	(83)
	<b>1,363</b>	<b>5,384</b>
<b>Changes Due to Pension Activities</b>		
Contributions (note 11)		
- Employers	1,317	1,121
- Members	1,362	1,165
- Transfers in	41	27
- Additional voluntary contributions	93	-
	<b>2,813</b>	<b>2,313</b>
Benefits (note 12)		
- Payments	(2,193)	(1,992)
- Transfers out	(190)	(134)
	<b>(2,383)</b>	<b>(2,126)</b>
Pension administrative expenses (note 13(a))	(59)	(54)
	<b>371</b>	<b>133</b>
<b>Total Increase</b>	<b>1,734</b>	<b>5,517</b>
Net assets available for benefits, beginning of year	<b>53,349</b>	<b>47,832</b>
<b>Net Assets Available for Benefits, End of Year</b>	<b>\$ 55,083</b>	<b>\$ 53,349</b>

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

**STATEMENT OF CHANGES IN PENSION OBLIGATIONS**

(millions)

For the year ended December 31,

2011

2010

**OMERS Primary Pension Plan (note 7)****Defined Benefit Component**

Accrued pension obligation, beginning of year	\$ 60,035	\$ 54,253
Interest accrued on benefits	3,904	3,601
Benefits accrued	2,434	2,211
Benefits paid (note 12)	(2,375)	(2,121)
Experience losses	560	491
Changes in actuarial assumptions and methods	(10)	1,600
Accrued pension obligation, end of year	64,548	60,035

**Additional Voluntary Contributions Component**

Additional voluntary contributions obligation, beginning of year	-	-
Contributions	93	-
Withdrawals	(1)	-
Attributed net investment income	2	-
Management/administration fee	-	-
Additional voluntary contributions obligation, end of year	94	-

	\$ 64,642	\$ 60,035
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(millions)

For the year ended December 31,

2011

2010

**Retirement Compensation Arrangement (note 8)**

Accrued pension obligation, beginning of year	\$ 468	\$ 486
Interest accrued on benefits	15	16
Benefits accrued	24	24
Benefits paid (note 12)	(7)	(5)
Experience losses	4	5
Changes in actuarial assumptions and methods	-	(58)
Accrued pension obligation, end of year	\$ 504	\$ 468

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2011

## 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"). 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" or the "Primary 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"). 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 pension obligations of any of the OMERS Pension Plans cannot be funded by the assets of either of the other two OMERS Pension Plans. As at December 31, 2011, membership in the Supplemental Plan was nil.

### OMERS PRIMARY PENSION PLAN

The Plan is a multi-employer jointly sponsored pension plan, created in 1962 by an Act of the Ontario Legislature, whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The 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 consists of both the defined benefit component and the Additional Voluntary Contributions ("AVCs") component.

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

- a) **Funding** – The defined benefit component of the Primary 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 for the defined benefit component are set by the SC based on the actuarial valuation, and are determined in accordance with the OMERS Act, the ITA 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 sixty 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.

## NOTE 1

### DESCRIPTION OF PLANS ADMINISTERED BY OMERS ADMINISTRATION CORPORATION (continued)

- 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.
- h) **Additional Voluntary Contributions Component** – The Plan also contains a component enabling members to make additional voluntary contributions on which the member receives the net investment return of the defined benefit component of the Plan. For the AVC component of the Plan the only liability of the OAC is the members' contributions plus/minus the net investment return of the Plan funds.

Funds in an AVC account can be fully withdrawn when members retire or leave their OMERS employer (subject to any locking-in requirements); however, while a member is active, withdrawals are limited to a maximum of 20 per cent of the previous year-end balance, subject to a minimum of \$500. As well, withdrawals are permitted only from March 1 to April 30 of each year.

### 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* (ITA). The determination of the value of these benefits is made on the basis of an annual actuarial valuation. The RCA net assets available for benefits are invested and accounted for separately from the Plan and the Supplemental Plan and the accrued pension obligation of the RCA is valued separately from the Plan and Supplemental Plan accrued pension 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, jointly sponsored, 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 CRA. 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. As at December 31, 2011, the Supplemental Plan had no assets (December 31, 2010 – no assets) and no members.

Neither the Plan nor the RCA is permitted to pay costs for the Supplemental Plan. As such, until March 31, 2018, 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

As of January 1, 2011, OAC has implemented the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 4600 – Pension Plans. This standard is the basis for Canadian accounting standards for pension plans. The recognition and measurement of OAC assets and liabilities are consistent with the requirements of CICA Section 4600.

CICA Section 4600 requires that in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, a pension plan shall comply on a consistent basis with either International Financial Reporting Standards in Part I of the Handbook, or accounting standards for private enterprises in Part II of the Handbook, to the extent that those standards do not conflict with the requirements of Section 4600. OAC has chosen to comply on a consistent basis with the International Financial Reporting Standards.

The adoption of CICA Section 4600 had no impact on OAC's net assets available for benefits, the accrued pension obligations and deficits or total investment income. Consistent with CICA Section 4600, investment assets are presented on a non consolidated basis even when the investment is in an entity over which OAC has effective control. Earnings of such entities are recognized as interest and real estate rental income is earned and dividends are declared. OAC total investment income includes valuation adjustments required to bring the investment to its fair value. OAC total investment income of prior years is unchanged as investments continue to be stated at fair value.

#### Transition to CICA Section 4600 and IFRS

In preparing its first financial statements in accordance with CICA Handbook Section 4600 – Pension Plans and IFRS, the OAC has adjusted amounts that were previously reported in accordance with CICA Handbook Section 4100. An explanation of how the transition has affected the OAC's financial position is set out in the following table and the note that accompanies the table.

(millions)	As at January 1, 2010			As at December 31, 2010		
	Reporting Under CICA Section 4100	Effect of Transition to CICA Section 4600 and IFRS	Reporting under CICA Section 4600 and IFRS	Reporting Under CICA Section 4100	Effect of Transition to CICA Section 4600 and IFRS	Reporting under CICA Section 4600 and IFRS
<b>Net Assets Available for Benefits</b>						
<b>Assets</b>						
Investments <sup>(i)</sup>	\$ 60,554	\$ (3,267)	\$ 57,287	\$ 69,139	\$ (6,191)	\$ 62,948
Other investment assets <sup>(i)</sup>	862	(627)	235	1,109	(846)	263
Amounts due from pending trades	311	-	311	382	-	382
Contributions receivable						
- Members	90	-	90	99	-	99
- Employers	91	-	91	100	-	100
Other assets	50	-	50	66	-	66
<b>Total Assets</b>	<b>61,958</b>	<b>(3,894)</b>	<b>58,064</b>	<b>70,895</b>	<b>(7,037)</b>	<b>63,858</b>
<b>Liabilities</b>						
Investment liabilities <sup>(i)</sup>	13,084	(3,791)	9,293	16,327	(6,935)	9,392
Due to administered funds	734	-	734	809	-	809
Amounts payable from pending trades <sup>(i)</sup>	254	(103)	151	338	(102)	236
Other liabilities	54	-	54	72	-	72
<b>Total Liabilities</b>	<b>14,126</b>	<b>(3,894)</b>	<b>10,232</b>	<b>17,546</b>	<b>(7,037)</b>	<b>10,509</b>
<b>Net Assets Available for Benefits</b>	<b>\$ 47,832</b>	<b>\$ -</b>	<b>\$ 47,832</b>	<b>\$ 53,349</b>	<b>\$ -</b>	<b>\$ 53,349</b>

(i) Prior to the adoption of CICA Handbook Section 4600 – Pension Plans and IFRS, investments in an entity controlled by OAC were presented on a consolidated basis. The changes resulting from the adoption of CICA Section 4600 are summarized in the Basis of Presentation section above. The effect of transition to the new standards requires an adjustment in investment assets, other investment assets and investment liabilities to reflect the fact that investments in such assets are no longer consolidated.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### CONSOLIDATION

The consolidated financial statements include the financial position, changes in net assets available for benefits and changes in pension obligations of OAC. OAC investments are managed by the following entities: OMERS Capital Markets (which is primarily responsible for investing in publicly traded interest bearing and equity investments as well as commercial mortgages and private debt investments); OMERS Private Equity (which manages private equity investments); Borealis Infrastructure (which manages infrastructure investments); Oxford Properties Group (which manages real estate assets) and OMERS Strategic Investments (which manages strategic investments across all asset classes) (collectively the "Investment Entities"). In accordance with CICA 4600, the consolidated financial statements present the assets and liabilities of the Investment Entities on a consolidated basis and the fair value of investments, on a non consolidated basis even where OAC has effective control over the operations of that investment.

Inter-company transactions and balances between OAC and the Investment Entities of OAC are eliminated in arriving at the consolidated financial statements.

#### USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with CICA Section 4600 and International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, accrued pension obligations and related disclosures. Actual results could differ from these estimates. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the accrued pension obligation.

#### INVESTMENTS

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.

During 2011, the CICA introduced International Financial Reporting Standard 13 – Fair Value Measurement. This standard defines fair value and sets out a framework for measuring fair value. It is effective for annual periods beginning on or after January 1, 2013, however, early adoption is permitted. OAC has chosen to early adopt the requirements of IFRS 13 for the period beginning January 1, 2011.

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

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

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 in an active market 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 accrued and received during the year and is reflected in net investment income/loss in the consolidated statement of changes in net assets available for benefits.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### INVESTMENT INCOME/LOSS

Investment income/loss includes accrued interest, dividends, and real estate rental income. Gains and losses that have been realized on the disposal of investments, and the unrealized appreciation/depreciation required to adjust investments to their fair value are added to investment income to arrive at total investment income.

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

#### TRANSACTION AND PURSUIT COSTS

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

#### EXTERNAL MANAGER FEES

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

#### INVESTMENT LIABILITIES

Investment liabilities include commercial paper, debentures, mortgages and other debt obligations incurred by OAC to acquire an investment, primarily in the real estate and infrastructure asset classes. 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, for which fair value is deemed to be the cost amount.

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

#### 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, 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 Plan's obligation to return funds to the administered funds.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### ACCRUED PENSION BENEFITS AND ACCRUED PENSION OBLIGATION

The value of the accrued pension obligation of the Plan's defined benefit component is based on a projected accrued benefits method (pro-rated on service) actuarial valuation prepared by an independent firm of actuaries. This accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by 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 AVC pension obligation represents OAC's liability to repay AVC contributions including a pro-rata share of investment income or losses.

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

#### ACTUARIAL VALUE OF NET ASSETS AND ACTUARIAL VALUE ADJUSTMENT

The actuarial value of net assets for the Plan is used in assessing the funding position of the Plan, including the determination of contribution rates. The actuarial value of net assets is determined by smoothing investment 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.

#### SURPLUS/DEFICIT

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

#### CONTRIBUTIONS

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

#### BENEFITS

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

#### ADMINISTRATIVE EXPENSES

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

#### APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on February 22, 2012.

## NOTE 3

### INVESTMENTS

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

(millions) As at,	December 31, 2011		December 31, 2010		Opening Balance January 1, 2010	
	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost
<b>Public Market Investments</b>						
<b>Interest Bearing Investments</b>						
Cash and short-term deposits <sup>(i)</sup>	\$ 6,120	\$ 6,120	\$ 5,573	\$ 5,573	\$ 5,009	\$ 5,009
Bonds and debentures <sup>(ii)</sup>	10,173	9,522	9,177	8,923	8,117	8,042
Real return bonds	1,743	1,266	1,472	1,134	1,977	1,639
Mortgages and private debt <sup>(iii)</sup>	1,695	1,583	1,882	1,744	1,785	1,709
	19,731	18,491	18,104	17,374	16,888	16,399
<b>Public Equity</b>						
Canadian public equities	2,177	2,153	6,994	5,533	6,272	5,217
Non-Canadian public equities	10,246	9,750	9,025	8,173	7,859	7,349
	12,423	11,903	16,019	13,706	14,131	12,566
<b>Total Public Market Investments</b>	<b>32,154</b>	<b>30,394</b>	<b>34,123</b>	<b>31,080</b>	<b>31,019</b>	<b>28,965</b>
<b>Private Equity<sup>(iv)</sup></b>						
Canadian private equities <sup>(v)</sup>	3,827	3,295	3,056	2,433	1,987	1,836
Non-Canadian private equities	3,926	4,114	3,577	3,687	2,988	3,380
<b>Total Private Equity Investments</b>	<b>7,753</b>	<b>7,409</b>	<b>6,633</b>	<b>6,120</b>	<b>4,975</b>	<b>5,216</b>
<b>Infrastructure Investments<sup>(iv)</sup></b>	<b>9,635</b>	<b>8,807</b>	<b>9,593</b>	<b>9,105</b>	<b>9,318</b>	<b>8,712</b>
<b>Real Estate Investments</b>	<b>14,516</b>	<b>13,014</b>	<b>12,599</b>	<b>11,369</b>	<b>11,975</b>	<b>10,699</b>
<b>Total Investments</b>	<b>64,058</b>	<b>59,624</b>	<b>62,948</b>	<b>57,674</b>	<b>57,287</b>	<b>53,592</b>
<b>Investment Related Assets</b>						
Other investment assets (note 5)	332	501	263	440	235	283
Amounts due from pending trades	375	64	382	48	311	35
	707	565	645	488	546	318
<b>Investment Related Liabilities</b>						
Investment liabilities (note 6)	(8,802)	(8,560)	(9,392)	(9,264)	(9,293)	(9,246)
Amounts payable from pending trades	(261)	(73)	(236)	(102)	(151)	(33)
	(9,063)	(8,633)	(9,628)	(9,366)	(9,444)	(9,279)
<b>Net Investment Assets</b>	<b>\$ 55,702</b>	<b>\$ 51,556</b>	<b>\$ 53,965</b>	<b>\$ 48,796</b>	<b>\$ 48,389</b>	<b>\$ 44,631</b>

(i) Includes restricted cash of \$86 million (December 31, 2010: \$39 million, January 1, 2010: \$15 million).

(ii) Includes non-Canadian bonds and debentures with a fair value of \$289 million (December 31, 2010: \$228 million, January 1, 2010: \$230 million).

(iii) Includes mortgages with a fair value of \$1,235 million (December 31, 2010: \$1,216 million, January 1, 2010: \$975 million).

(iv) Investment assets are net of long-term debt as presented in Note 6 (a).

(v) Includes resource properties with a total fair value of \$660 million (December 31, 2010: \$599 million, January 1, 2010: \$422 million).

### NOTE 3

#### INVESTMENTS (continued)

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

(millions) As at December 31, 2011	OMERS Capital Markets	OMERS Private Equity	Borealis Infrastructure	Oxford Properties Group	OMERS Strategic Investments	Total
Investment assets	\$ 31,990	\$ 6,230	\$ 9,515	\$ 14,679	\$ 1,644	\$ 64,058
Allocation of cash and other	(1,004)	94	674	223	13	-
Investment related assets	474	9	11	210	3	707
Investment related liabilities	(1,103)	-	(1,203)	(6,741)	(16)	(9,063)
<b>Net Investment Assets</b>	<b>\$ 30,357</b>	<b>\$ 6,333</b>	<b>\$ 8,997</b>	<b>\$ 8,371</b>	<b>\$ 1,644</b>	<b>\$ 55,702</b>

(millions) As at December 31, 2010	OMERS Capital Markets	OMERS Private Equity	Borealis Infrastructure	Oxford Properties Group	OMERS Strategic Investments	Total
Investment assets	\$ 33,252	\$ 5,364	\$ 9,415	\$ 12,782	\$ 2,135	\$ 62,948
Allocation of cash and other	(1,301)	201	813	273	14	-
Investment related assets	468	7	23	143	4	645
Investment related liabilities	(1,765)	(4)	(2,067)	(5,782)	(10)	(9,628)
<b>Net Investment Assets</b>	<b>\$ 30,654</b>	<b>\$ 5,568</b>	<b>\$ 8,184</b>	<b>\$ 7,416</b>	<b>\$ 2,143</b>	<b>\$ 53,965</b>

(millions) Opening Balance, January 1, 2010	OMERS Capital Markets	OMERS Private Equity	Borealis Infrastructure	Oxford Properties Group	OMERS Strategic Investments	Total
Investment assets	\$ 30,369	\$ 4,454	\$ 9,240	\$ 11,975	\$ 1,249	\$ 57,287
Allocation of cash and other	(762)	(7)	578	186	5	-
Investment related assets	392	5	13	132	4	546
Investment related liabilities	(2,126)	-	(2,338)	(4,971)	(9)	(9,444)
<b>Net Investment Assets</b>	<b>\$ 27,873</b>	<b>\$ 4,452</b>	<b>\$ 7,493</b>	<b>\$ 7,322</b>	<b>\$ 1,249</b>	<b>\$ 48,389</b>



## NOTE 3

### INVESTMENTS (continued)

#### 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 and real return bonds are based on quotes from industry standard sources. For public market 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, held either 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 entities.

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, the value may be held at cost where cost is considered the best estimate of fair value, until there is evidence to support a change in valuation; 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.

## NOTE 3

### INVESTMENTS (continued)

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 are as follows:

(millions)

As at December 31, 2011

	Level 1	Level 2	Level 3	Total
<b>Public Market Investments</b>				
<b>Interest Bearing Investments</b>				
Cash and short-term deposits	\$ 22	\$ 5,094	\$ 1,004	\$ 6,120
Bonds and debentures	-	10,173	-	10,173
Real return bonds	-	1,743	-	1,743
Mortgages and private debt	-	-	1,695	1,695
	22	17,010	2,699	19,731
Public equity	9,400	-	135	9,535
Public fund investments	-	2,608	280	2,888
<b>Total Public Market Investments</b>	<b>9,422</b>	<b>19,618</b>	<b>3,114</b>	<b>32,154</b>
<b>Private Equity Investments</b>				
Direct investments	31	484	4,541	5,056
Fund investments	-	-	2,697	2,697
<b>Total Private Equity Investments</b>	<b>31</b>	<b>484</b>	<b>7,238</b>	<b>7,753</b>
<b>Infrastructure Investments</b>	-	-	9,635	9,635
<b>Real Estate Investments</b>	-	-	14,516	14,516
<b>Total Investments</b>	<b>9,453</b>	<b>20,102</b>	<b>34,503</b>	<b>64,058</b>
<b>Investment Related Assets</b>				
Other investment assets	-	99	233	332
Amounts due from pending trades <sup>(i)</sup>	54	321	-	375
	54	420	233	707
<b>Investment Related Liabilities</b>				
Debt	-	(3,100)	(4,139)	(7,239)
Payables under securities lending program	-	(845)	-	(845)
Other payables and liabilities	(50)	(10)	(658)	(718)
Amounts payable from pending trades <sup>(i)</sup>	(54)	(143)	(64)	(261)
	(104)	(4,098)	(4,861)	(9,063)
<b>Net Investment Assets</b>	<b>\$ 9,403</b>	<b>\$ 16,424</b>	<b>\$ 29,875</b>	<b>\$ 55,702</b>

(i) Includes fair value of derivatives.

### NOTE 3

#### INVESTMENTS (continued)

(millions)

As at December 31, 2010

	Level 1	Level 2	Level 3	Total
<b>Public Market Investments</b>				
<b>Interest Bearing Investments</b>				
Cash and short-term deposits	\$ 93	\$ 4,183	\$ 1,297	\$ 5,573
Bonds and debentures	-	9,177	-	9,177
Real return bonds	-	1,472	-	1,472
Mortgages and private debt	-	-	1,882	1,882
	93	14,832	3,179	18,104
Public equity	15,080	-	96	15,176
Public fund investments	-	553	290	843
<b>Total Public Market Investments</b>	<b>15,173</b>	<b>15,385</b>	<b>3,565</b>	<b>34,123</b>
<b>Private Equity Investments</b>				
Direct investments	113	317	3,082	3,512
Fund investments	-	-	3,121	3,121
<b>Total Private Equity Investments</b>	<b>113</b>	<b>317</b>	<b>6,203</b>	<b>6,633</b>
<b>Infrastructure Investments</b>	-	-	9,593	9,593
<b>Real Estate Investments</b>	-	-	12,599	12,599
<b>Total Investments</b>	<b>15,286</b>	<b>15,702</b>	<b>31,960</b>	<b>62,948</b>
<b>Investment Related Assets</b>				
Other investment assets	-	89	174	263
Amounts due from pending trades <sup>(i)</sup>	37	345	-	382
	37	434	174	645
<b>Investment Related Liabilities</b>				
Debt	-	(3,175)	(4,111)	(7,286)
Payables under securities lending program	-	(1,566)	-	(1,566)
Other payables and liabilities	-	(11)	(529)	(540)
Amounts payable from pending trades <sup>(i)</sup>	(42)	(138)	(56)	(236)
	(42)	(4,890)	(4,696)	(9,628)
<b>Net Investment Assets</b>	<b>\$ 15,281</b>	<b>\$ 11,246</b>	<b>\$ 27,438</b>	<b>\$ 53,965</b>

(i) Includes fair value of derivatives.

### NOTE 3

#### INVESTMENTS (continued)

The Level 3 classification includes all assets and liabilities related to investments valued based on non-observable market data. Where the investment asset is being valued as an entity, the Level 3 category includes the fair value 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, 2010	Total Gain/(Loss) Included in Net Income	Transfers In (Out) <sup>(i)</sup>	Contributed Capital	Capital Returned	Fair Value Dec. 31, 2011	Unrealized Gains/Losses Attributable to Investments Held at Dec. 31, 2011 <sup>(ii)</sup>
Mortgages and private debt	\$ 1,882	\$ (25)	\$ -	\$ 104	\$ (266)	\$ 1,695	\$ (25)
Public equity investments	96	18	-	56	(35)	135	35
Public fund investments	290	9	-	-	(19)	280	9
Private equity – direct investments	3,151	220	61	1,418	(301)	4,549	164
Private equity – fund investments	3,258	144	-	342	(953)	2,791	(61)
Infrastructure investments	8,363	683	(61)	595	(463)	9,117	288
Real estate investments	12,134	251	-	1,676	(137)	13,924	251
Real estate fund investments	418	(46)	-	85	(12)	445	(46)
Debt	(2,154)	(147)	-	157	(917)	(3,061)	(43)
<b>Total</b>	<b>\$ 27,438</b>	<b>\$ 1,107</b>	<b>\$ -</b>	<b>\$ 4,433</b>	<b>\$ (3,103)</b>	<b>\$ 29,875</b>	<b>\$ 572</b>

(i) Represents amounts transferred between assets classes. The net amount transferred represents an infrastructure asset that was transferred to private equity during 2011.

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

Level 3 financial instruments are valued using internal models and the resulting valuations are significantly affected by non-observable inputs, the most significant of which is the discount rate as the discount rate reflects both current interest rates as well as the uncertainty of future cash flows from the investment. The following hypothetical analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible alternative discount rate assumptions for asset categories where such reasonably possible alternative assumptions would change the fair value significantly. The alternative discount rates below are based on the volatility of the respective asset classes. The impact to the valuation from such changes to the discount rate has been calculated independently of the impact of changes in other key variables. In actual experience, a change in the discount rate may be the result of changes in a number of underlying assumptions which could amplify or reduce the impact on the valuation.

As at December 31, 2011	Increase/Decrease in Discount Rate (basis points)	Increase/Decrease in Net Investment Assets (millions)
Private equity – direct investments	60	\$ 230
Infrastructure investments	20	180
Real estate investments	25	300
<b>Total Impact on Net Investment Assets</b>		<b>\$ 710</b>

As at December 31, 2010	Increase/Decrease in Discount Rate (basis points)	Increase/Decrease in Net Investment Assets (millions)
Private equity – direct investments	60	\$ 160
Infrastructure investments	20	380
Real estate investments	25	250
<b>Total Impact on Net Investment Assets</b>		<b>\$ 790</b>

## NOTE 3

### INVESTMENTS (continued)

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

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

(millions)

As at December 31,

	2011			2010		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Public market investments	3	\$ 1,707	\$ 1,662	1	\$ 686	\$ 683
Private market investments	14	12,011	11,158	12	9,524	8,799
	17	\$ 13,718	\$ 12,820	13	\$ 10,210	\$ 9,482

Public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets includes investments in Government of Canada interest bearing securities.

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, Associated British Ports, Scotia Gas Networks, LifeLabs and OMERS Energy Inc.; 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, Centennial Place located in Alberta, Green Park Business Park located in Reading, England and Watermark Place located in London, England.

### INVESTMENT RISK

OAC is exposed to a variety of investment risks as a result of its investment activities and has formal policies and procedures that govern the management of investment risk (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.

Portfolio investment and asset managers are responsible for understanding the investment risk in the various strategies and assets that they manage and invest in. Furthermore, they must ensure that the returns from those assets and strategies are commensurate with the risks involved. As a result, the Investment Entities are responsible for managing their investment risk and ensuring that the returns are commensurate with the amount of risk taken.

Investment risk is managed through various policies including entity level policies, OAC enterprise 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 markets investments, policies establish targets among private equity, infrastructure and real estate investments to ensure diversification across and within asset classes.

OAC utilizes analytical and reporting tools to manage investment risk and achieve its desired level of risk at the enterprise, public market and private market levels. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

#### a) 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 OAC investments and the funded status of the OMERS Pension Plans.

## NOTE 3

### INVESTMENTS (continued)

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. OAC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign exchange forward contracts. OAC also makes active investments in foreign currencies with the objective of adding value. The net exposure to foreign currencies represents 15 per cent (2010: 15 per cent) of net investment assets at December 31, 2011.

OAC's total currency exposure before the impact of currency hedging and trading activities, the impact of hedging and trading activities and the net currency exposure are as follows:

(millions Canadian dollar equivalent)		2011				2010			
As at December 31,		Fair Value By Currency				Fair Value By Currency			
	Total Exposure <sup>(i)</sup>	Hedging Activities	Net Exposure	% of Total	Total Exposure <sup>(i)</sup>	Hedging Activities	Net Exposure	% of Total	
Canada	\$ 37,000	\$ 10,717	\$ 47,717	85%	\$ 34,419	\$ 11,572	\$ 45,991	85%	
United States	10,846	(5,341)	5,505	10%	10,264	(6,681)	3,583	7%	
Euro Countries	1,606	(1,398)	208	0%	2,086	(1,532)	554	1%	
United Kingdom	3,454	(2,822)	632	1%	3,208	(2,131)	1,077	2%	
Japan	726	(402)	324	1%	939	(426)	513	1%	
Other Pacific	936	(377)	559	1%	1,494	(402)	1,092	2%	
Emerging Markets	538	(155)	383	1%	787	(175)	612	1%	
Other Europe	596	(222)	374	1%	768	(225)	543	1%	
	\$ 55,702	\$ -	\$ 55,702	100%	\$ 53,965	\$ -	\$ 53,965	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 \$799 million (2010: \$797 million).

#### • Interest Rate Risk

Interest rate risk refers to the effect on the fair 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 pension 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 pension obligation. The interest bearing investment portfolio has guidelines on concentration and duration which are also designed to mitigate the risk of interest rate volatility.

## NOTE 3

### INVESTMENTS (continued)

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

(millions) As at,	December 31, 2011					December 31, 2010		Opening Balance January 1, 2010	
	Term to Maturity								
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield <sup>(i)</sup>	Total	Average Effective Yield <sup>(i)</sup>	Total	Average Effective Yield <sup>(i)</sup>
Cash and short-term deposits	\$ 6,120	\$ -	\$ -	\$ 6,120	1.07%	\$ 5,573	1.10%	\$ 5,009	0.37%
Bonds and debentures	165	4,127	5,881	10,173	1.76%	9,177	3.08%	8,117	3.47%
Real return bonds <sup>(ii)</sup>	-	50	1,693	1,743	0.26%	1,472	1.09%	1,977	1.51%
Mortgages and private debt	67	827	801	1,695	3.22%	1,882	4.20%	1,785	4.81%
	\$ 6,352	\$ 5,004	\$ 8,375	\$ 19,731	1.54%	\$ 18,104	2.42%	\$ 16,888	2.46%

(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 (loss)/gain of \$579 million (2010: \$367 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 (loss)/gain of \$326 million (2010: \$305 million).

#### • Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. OAC is subject to price risk through its public equity investments and in addition to geographic, industrial sector and entity specific analysis, uses strategies such as diversification and the use of derivative instruments to mitigate the overall impact of price risk. OAC's private 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 \$3,758 million (2010: \$4,045 million).

#### b) Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with 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. 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.

## NOTE 3

### INVESTMENTS (continued)

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

(millions)

As at December 31,

	2011		2010	
	Interest Bearing Investments	% of Total	Interest Bearing Investments	% of Total
Federal government	\$ 6,233	32%	\$ 5,551	31%
Provincial government	3,323	17%	2,848	16%
Municipal	22	0%	21	0%
Corporate				
Investment grade	8,570	44%	7,006	39%
Non-investment grade	461	2%	635	3%
Securities lending cash collateral	845	4%	1,566	9%
Cash on deposit	277	1%	477	2%
	\$ 19,731	100%	\$ 18,104	100%

OAC participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Fund receives 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, 2011, securities with an estimated fair value of \$2,101 million (2010: \$3,615 million) were loaned out, while collateral held had an estimated fair value of \$2,182 million (2010: \$3,750 million) of which \$845 million (2010: \$1,566 million) was cash collateral invested in short-term interest bearing investments.

### c) Liquidity Risk

Liquidity risk describes the Fund's ability to manage financial liability related cash requirements in a timely and cost effective manner. OAC has developed forward looking liquidity risk models which are used on a periodic basis to assess the impact of tactical and strategic initiatives on Fund liquidity.

OAC's primary future liabilities include the accrued pension 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, OAC enters into contracts that give rise to commitments for future payments which may also impact our liquidity (note 16).

The cash requirements related to these liabilities are managed using investment income from public and private investments (note 9), contributions made by both members and employers (note 11), and through investing in assets which may be efficiently converted to cash in both normal and stressed market conditions.

Another part of liquidity risk is OAC's ability to cover its commercial paper issuance. OAC is authorized to issue up to \$3,100 million in commercial paper to help finance future investment opportunities. OAC holds at least 1.5 times the authorized size of the commercial paper program in high quality liquid assets.



## 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, Equity and Commodity Swaps

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

#### Bond, Equity and Commodity Options

Bond, equity and commodity 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 or commodity on or before a specified future date at a predetermined price. The instruments may include bonds, a bond index, equities or an equity or a commodity 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 and Commodity 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; and
- 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.

**NOTE 4****DERIVATIVE FINANCIAL INSTRUMENTS** (continued)

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:

(millions) As at,	December 31, 2011			December 31, 2010			Opening Balance January 1, 2010		
	Notional Value <sup>(i)</sup>	Fair Value <sup>(ii)</sup>		Notional Value <sup>(i)</sup>	Fair Value <sup>(ii)</sup>		Notional Value <sup>(i)</sup>	Fair Value <sup>(ii)</sup>	
		Assets <sup>(iii)</sup>	Liabilities		Assets <sup>(iii)</sup>	Liabilities		Assets <sup>(iii)</sup>	Liabilities
<b>Interest Rate Contracts</b>									
Interest rate swap contracts	\$ 2,332	\$ 11	\$ (66)	\$ 847	\$ 10	\$ (58)	\$ 1,137	\$ 10	\$ (110)
Bond index swap contracts	904	10	(2)	576	-	(4)	572	-	(5)
Bond futures	80	1	-	-	-	-	-	-	-
Bond options – purchased <sup>(iv)</sup>	66	1	-	101	-	-	196	10	-
	3,382	23	(68)	1,524	10	(62)	1,905	20	(115)
<b>Equity Contracts</b>									
Equity index futures contracts	5,167	20	(13)	3,642	1	(6)	2,416	2	(16)
Equity index swap contracts	663	10	(3)	914	27	(22)	305	7	-
Equity options written <sup>(v)</sup>	941	-	(18)	-	-	-	38	-	(1)
Equity options purchased <sup>(vi)</sup>	531	22	-	-	-	-	-	-	-
	7,302	52	(34)	4,556	28	(28)	2,759	9	(17)
<b>Commodity Contracts</b>									
Commodity futures contracts	48	1	-	-	-	-	-	-	-
Commodity swaps contracts	190	-	-	-	-	-	-	-	-
Commodity options written	25	-	-	-	-	-	-	-	-
Commodity options purchased <sup>(vii)</sup>	23	-	-	-	-	-	-	-	-
	286	1	-	-	-	-	-	-	-
<b>Foreign Exchange</b>									
Foreign exchange forward contracts	19,038	267	(109)	13,887	296	(42)	12,814	247	(85)
<b>Total</b>	<b>\$ 30,008</b>	<b>\$ 343</b>	<b>\$ (211)</b>	<b>\$ 19,967</b>	<b>\$ 334</b>	<b>\$ (132)</b>	<b>\$ 17,478</b>	<b>\$ 276</b>	<b>\$ (217)</b>

(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 financial position based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.

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

(iv) The premium paid on bond options purchased in 2011 was \$1 million (December 31, 2010: \$2 million, January 1, 2010: \$5 million).

(v) The premium received on equity options written in 2011 was \$23 million (December 31, 2010: \$nil, January 1, 2010: \$2 million).

(vi) The premium paid on equity options purchased in 2011 was \$29 million.

(vii) The premium paid on commodity options purchased in 2011 was \$1 million.

**NOTE 4****DERIVATIVE FINANCIAL INSTRUMENTS** (continued)

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

(millions) As at,	December 31, 2011					December 31, 2010				Opening Balance January 1, 2010			
	Interest Rate Contracts	Equity Contracts	Com- modity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	\$ 1,493	\$ 7,302	\$ 286	\$ 19,038	\$ 28,119	\$ 678	\$ 4,538	\$ 13,887	\$ 19,103	\$ 888	\$ 2,759	\$ 12,814	\$ 16,461
1 to 5 years	1,852	-	-	-	1,852	120	18	-	138	327	-	-	327
Over 5 years	37	-	-	-	37	726	-	-	726	690	-	-	690
	\$ 3,382	\$ 7,302	\$ 286	\$ 19,038	\$ 30,008	\$ 1,524	\$ 4,556	\$ 13,887	\$ 19,967	\$ 1,905	\$ 2,759	\$ 12,814	\$ 17,478

**NOTE 5****OTHER INVESTMENT ASSETS**

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

(millions) As at,	December 31, 2011	December 31, 2010	Opening Balance January 1, 2010
Investment receivables	\$ 197	\$ 176	\$ 179
Deferred assets, prepaid and other	135	87	56
Other investment assets	\$ 332	\$ 263	\$ 235

**NOTE 6****INVESTMENT LIABILITIES**

The liabilities incurred by OAC in investment related activities are as follows:

(millions) As at,	December 31, 2011	December 31, 2010	Opening Balance January 1, 2010
Debt (a)	\$ 7,239	\$ 7,286	\$ 6,809
Payable under securities lending program (b)	845	1,566	1,960
Payables and other liabilities	718	540	524
Total	\$ 8,802	\$ 9,392	\$ 9,293

## NOTE 6

## INVESTMENT LIABILITIES (continued)

(a) Debt is comprised of the following:

(millions)	December 31, 2011			December 31, 2010			Opening Balance January 1, 2010		
As at,									
	Fair Value	Cost	Weighted Average Interest Rate	Fair Value	Cost	Weighted Average Interest Rate	Fair Value	Cost	Weighted Average Interest Rate
<b>Oxford Properties Group</b>									
Secured debt <sup>(i)</sup>	\$ 3,175	\$ 3,092	3.81%	\$ 2,222	\$ 2,182	4.56%	\$ 1,703	\$ 1,756	5.57%
Series A debentures <sup>(ii)</sup>	520	500	1.49%	531	500	2.27%	540	500	2.65%
Series C debentures <sup>(iii)</sup>	414	400	1.56%	416	400	2.39%	415	400	2.93%
Series D debentures <sup>(iv)</sup>	226	200	2.51%	212	200	3.81%	202	200	4.63%
ORCH debentures <sup>(v)</sup>	188	170	2.15%	182	170	3.33%	177	170	4.01%
ORCH Two debentures <sup>(vi)</sup>	190	180	1.65%	188	180	2.70%	185	180	3.34%
Commercial paper <sup>(vii)</sup>	-	-	-	-	-	-	1,296	1,296	0.29%
	4,713	4,542	3.14%	3,751	3,632	3.72%	4,518	4,502	3.27%
<b>Borealis Infrastructure</b>									
Secured debt <sup>(viii)</sup>	738	735	2.50%	890	885	2.68%	792	787	1.71%
Commercial paper <sup>(ix)</sup>	-	-	-	-	-	-	1,499	1,499	0.29%
	738	735	2.50%	890	885	2.68%	2,291	2,286	0.78%
<b>OMERS Finance Trust<sup>(x)</sup></b>									
Oxford Properties Group commercial paper	1,447	1,447		1,568	1,568		-	-	
Borealis Infrastructure commercial paper	341	341		1,067	1,067		-	-	
Other	-	-		10	10		-	-	
	1,788	1,788	1.10%	2,645	2,645	1.14%	-	-	-
<b>Total<sup>(xi)</sup></b>	<b>\$ 7,239</b>	<b>\$ 7,065</b>	<b>2.57%</b>	<b>\$ 7,286</b>	<b>\$ 7,162</b>	<b>2.70%</b>	<b>\$ 6,809</b>	<b>\$ 6,788</b>	<b>2.43%</b>

(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 was discontinued during 2010. Effective April 12, 2010 all OAC guaranteed Commercial Paper is issued through OMERS Finance Trust.

(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 was discontinued during 2010. Effective April 12, 2010 all OAC guaranteed Commercial Paper is issued through OMERS Finance Trust.

(x) OMERS Finance Trust's Commercial Paper program is authorized up to \$3,100 million. Commercial Paper outstanding has maturities from January 3, 2012 to March 21, 2012.

(xi) Scheduled undiscounted principal and interest repayments for the five years subsequent to December 31, 2011 and thereafter are as follows:

(millions)	
2012	\$ 3,607
2013	1,366
2014	448
2015	424
2016	1,063
Thereafter	912
	<b>\$ 7,820</b>

## NOTE 6

### INVESTMENT LIABILITIES (continued)

Investment assets where OAC has effective control are presented in the Statement of Financial Position on a non-consolidated basis.

The cost of debt (which is non-recourse to OAC) incurred in such investments is as follows:

(millions) As at,	December 31, 2011	December 31, 2010	Opening Balance January 1, 2010
Borealis Infrastructure	\$ 5,998	\$ 5,460	\$ 2,634
OMERS Private Equity	1,381	664	438
OMERS Strategic Investments	181	167	121
Total	\$ 7,560	\$ 6,291	\$ 3,193

Various derivative financial instruments are used by investment assets of OAC to assist in the management of exposure to interest rate risk in the debt identified above. The notional value of these interest rate swap agreements is \$905 million as at December 31, 2011 (2010: \$825 million).

- (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 anytime and as such the collateral is repayable on demand.

**NOTE 7****OMERS PRIMARY PENSION PLAN**

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

**STATEMENT OF FINANCIAL POSITION**

(millions) As at,	December 31, 2011	December 31, 2010	Opening Balance January 1, 2010
<b>Net Assets Available for Benefits</b>			
Investments	\$ 64,026	\$ 62,919	\$ 57,267
Other investment assets	332	263	235
Amounts due from pending trades	375	382	311
Contributions receivable	227	198	180
Other assets	29	36	23
Investment liabilities	(8,802)	(9,392)	(9,293)
Due to administered funds	(828)	(809)	(734)
Amounts payable from pending trades	(261)	(236)	(151)
Other liabilities	(83)	(71)	(54)
<b>Net Assets Available for Benefits</b>	<b>\$ 55,015</b>	<b>\$ 53,290</b>	<b>\$ 47,784</b>
<b>Accrued Pension Obligation and Deficit</b>			
Defined benefit component			
Accrued pension obligation	\$ 64,548	\$ 60,035	\$ 54,253
Deficit			
Funding deficit	(7,290)	(4,467)	(1,519)
Actuarial value adjustment of net assets	(2,337)	(2,278)	(4,950)
	(9,627)	(6,745)	(6,469)
Additional voluntary contributions component			
Pension obligation	94	-	-
<b>Total Primary Plan Accrued Pension Obligation and Deficit</b>	<b>\$ 55,015</b>	<b>\$ 53,290</b>	<b>\$ 47,784</b>

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

(millions) For the year ended December 31,	2011	2010
Net investment income	\$ 1,364	\$ 5,382
Contributions	2,795	2,299
Benefits	(2,376)	(2,121)
Pension administrative expenses	(58)	(54)
<b>Total Increase</b>	<b>1,725</b>	<b>5,506</b>
Net assets available for benefits, beginning of year	53,290	47,784
<b>Net Assets Available for Benefits, End of Year</b>	<b>\$ 55,015</b>	<b>\$ 53,290</b>

## NOTE 7

## OMERS PRIMARY PENSION PLAN (continued)

## ACTUARIAL VALUE OF NET ASSETS OF THE DEFINED BENEFIT COMPONENT

The actuarial valuation of the Plan was performed by Towers Watson Canada Inc. Under the PBA an independent actuarial valuation must be filed with FSCO at least once every three years. The Plan valuation was last filed for the December 31, 2010 year-end and, if not filed earlier, must be filed for the December 31, 2013 year-end.

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 2011 (2010: 6.50 per cent) are recognized over 5 years to smooth fluctuations in the market value of net assets. For 2011, \$1,686 million was debited to the actuarial valuation adjustment because the investment return was below the long-term rate of return assumption. This compares with 2010 when \$1,816 million was credited to the actuarial valuation adjustment because the investment return was in excess of the long-term rate of return assumption.

As a result, at December 31, 2011, the Plan has \$2,337 million in the actuarial valuation adjustment reserve representing the net unrecognized returns below the long-term rate of return assumption (2010: \$2,278 million net unrecognized returns below the long-term rate of return assumption). The present value of unrecognized net investment returns by initial year they were established and the amounts to be recognized from 2012 through 2015, after application of the long-term return assumption, are as follows:

(millions)

Initial Year Earned	Actuarial Valuation Adjustment as at Dec. 31, 2011 <sup>(i)</sup>	Unrecognized Investment Returns to be Recognized in				Actuarial Valuation Adjustment as at Dec. 31, 2010
		2012	2013	2014	2015	
2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167
2008	(2,773)	(2,954)	-	-	-	(5,209)
2009	673	359	382	-	-	948
2010	1,449	515	548	584	-	1,816
2011	(1,686)	(450)	(478)	(509)	(543)	-
	\$ (2,337)	\$ (2,530)	\$ 452	\$ 75	\$ (543)	\$ (2,278)

(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 adjustment is as follows:

(millions)

For the year ended December 31,	2011	2010
Expected interest on beginning actuarial valuation adjustment <sup>(i)</sup>	\$ (148)	\$ (321)
Current year returns in excess of/(below) the funding rate <sup>(i)</sup>	(1,686)	1,816
Prior years' returns below the funding rate recognized in the year	1,775	1,177
<b>Increase/(Decrease)</b>	<b>(59)</b>	<b>2,672</b>
Actuarial valuation adjustment, beginning of year	(2,278)	(4,950)
<b>Actuarial Valuation Adjustment, End of Year</b>	<b>\$ (2,337)</b>	<b>\$ (2,278)</b>

(i) Based on the funding rate in effect during the year, 2011: 6.50 per cent (2010: 6.50 per cent).

## NOTE 7

### OMERS PRIMARY PENSION PLAN (continued)

#### ACCRUED PENSION OBLIGATIONS OF THE DEFINED BENEFIT COMPONENT

The actuarial present value of the accrued pension obligation is an estimate of the value of pension 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 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 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:

	2011	2010
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.

	2011				2010			
	NRA 60 <sup>(i)</sup>		NRA 65 <sup>(i)</sup>		NRA 60 <sup>(i)</sup>		NRA 65 <sup>(i)</sup>	
	Until 2014	After 2014	Until 2014	After 2014	Until 2014	After 2014	Until 2014	After 2014
Assumed real rate of pensionable earnings increases (weighted average of a table of age related increases)	1.40%	1.90%	1.10%	1.60%	1.40%	1.90%	1.10%	1.60%
Rate of pensionable earnings increases (assumed rate of inflation plus real rate of pensionable earnings increases)	3.65%	4.15%	3.35%	3.85%	3.65%	4.15%	3.35%	3.85%

(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. During 2010, the early retirement assumption was updated to reflect the Plan's recent retirement experience and to account for an anticipated future trend towards older retirement ages.

The accrued pension obligation as at December 31, 2011 takes account of known changes in the Plan membership up to December 2, 2011, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2012 and estimated pensionable earnings and credited service accruals in 2011.



## NOTE 7

### OMERS PRIMARY PENSION PLAN (continued)

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

(millions)

As at December 31,

	2011	2010
Primary Plan fair value of net assets available for benefits	\$ 55,015	\$ 53,290
Less additional voluntary contribution net assets	94	-
Defined benefit net assets available for benefits	54,921	53,290
Actuarial value adjustment	2,337	2,278
Actuarial value of net assets available for benefits	57,258	55,568
Accrued pension obligation	64,548	60,035
Funding deficit of actuarial value of net assets available for benefits over accrued pension obligation	(7,290)	(4,467)
Reversal of actuarial value adjustment	(2,337)	(2,278)
Deficit of net assets available for benefits over accrued pension obligation	\$ (9,627)	\$ (6,745)

As the Plan provides 100 per cent inflation protection, the accrued pension 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 following assumptions (with no change in other assumptions) would have the following approximate effects on the accrued pension obligation:

50 Basis Point Decrease/Increase	Approximate Effect on Accrued Pension Obligation
Real rate of pensionable earnings increases	-/+ \$1,400 million
Real return on plan assets and discount rate	+/- \$4,900 million

## 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*, 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 currently payable to the RCA on the excess of earnings over a defined earnings threshold, which was \$143,912 for 2011 (2010: \$140,652). Effective January 1, 2012, this earnings threshold will be actively managed and monitored in such a way that future contributions to the RCA, together with the existing RCA Fund and future investment earnings, are expected to be sufficient to provide for projected benefit payments over the 20-year period following each annual valuation date. Benefits in excess of the maximum amounts payable from the Plan as allowed by the *Income Tax Act* will be paid from the RCA.

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

### STATEMENT OF FINANCIAL POSITION

(millions) As at,	December 31, 2011	December 31, 2010	Opening Balance January 1, 2010
<b>Net Assets Available for Benefits</b>			
Net investment assets	\$ 32	\$ 29	\$ 20
Other assets	36	30	27
Contributions receivable	1	1	1
Other liabilities	(1)	(1)	-
<b>Net Assets Available for Benefits</b>	<b>\$ 68</b>	<b>\$ 59</b>	<b>\$ 48</b>
<b>Accrued Pension Obligation and Deficit</b>			
Accrued pension obligation	\$ 504	\$ 468	\$ 486
Deficit	(436)	(409)	(438)
<b>Accrued Pension Obligation and Deficit</b>	<b>\$ 68</b>	<b>\$ 59</b>	<b>\$ 48</b>

### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(millions) For the year ended December 31,	2011	2010
Net investment income/(loss)	\$ (1)	\$ 2
Contributions	18	14
Benefits	(7)	(5)
Administrative expenses	(1)	-
<b>Total Increase</b>	<b>9</b>	<b>11</b>
Net assets available for benefits, beginning of year	59	48
<b>Net Assets Available for Benefits, End of Year</b>	<b>\$ 68</b>	<b>\$ 59</b>

**NOTE 8****RETIREMENT COMPENSATION ARRANGEMENT** (continued)

The actuarial assumptions used for the RCA are consistent with those used for the Plan except that the discount rate as at December 31, 2011 is 3.25 per cent (2010: 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 rate (with no change in other assumptions) before reflecting the 50 per cent refundable tax would have a +/- \$25 million (2010: +/- \$25 million) impact on the accrued pension obligation.

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

(millions)

As at December 31,	2011	2010
Fair value of net assets at end of year	\$ 68	\$ 59
Accrued pension obligation at end of year	504	468
Deficit of actuarial value of net assets over accrued pension obligation	\$ (436)	\$ (409)

## NOTE 9

### NET INVESTMENT INCOME/(LOSS)

The Funds' 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 from derivative financial instruments in 2011 is a loss of \$626 million (2010: a gain of \$1,087 million).

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

(millions)

For the year ended December 31,

2011

	Investment Income <sup>(vi)</sup>	Net Gain/(Loss) on Investment Assets, Liabilities and Derivatives <sup>(vi)</sup>	Total Investment Income/(Loss)	Investment Management Expenses (note 13(b)) <sup>(vi)</sup>	Net Investment Income/(Loss)
<b>Public Market Investments</b>					
<b>Interest Bearing Investments</b>					
Short-term deposits	\$ 45	\$ 29	\$ 74		
Bonds and debentures	339	582	921		
Mortgages and private debt	109	(21)	88		
	493	590	1,083		
Real return bonds	38	232	270		
<b>Public Equity</b>					
Canadian public equities	95	(1,215)	(1,120)		
Non-Canadian public equities	228	(566)	(338)		
	323	(1,781)	(1,458)		
<b>Total Public Market Investments</b>	854	(959)	(105)	(126)	(231)
<b>Private Equity</b>					
Canadian private equities	217	131	348		
Non-Canadian private equities	51	128	179		
<b>Total Private Equity Investments</b>	268	259	527	(89)	438
<b>Infrastructure Investments</b>	437	287	724	(53)	671
<b>Real Estate Investments<sup>(vi)</sup></b>	429	167	596	(11)	585
	\$ 1,988	\$ (246)	\$ 1,742	\$ (279)	1,463
Gain/(loss) from currency hedging activities <sup>(vi)</sup>					(79)
(Income)/loss credited to administered funds					(21)
<b>Net Investment Income/(Loss)</b>					\$ 1,363

## NOTE 9

## NET INVESTMENT INCOME/(LOSS) (continued)

(millions)

For the year ended December 31,

2010

	Investment Income <sup>(iii)</sup>	Net Gain/(Loss) on Investment Assets, Liabilities and Derivatives <sup>(iv)</sup>	Total Investment Income/(Loss)	Investment Management Expenses (note 13(b)) <sup>(v)</sup>	Net Investment Income/(Loss)
<b>Public Market Investments</b>					
<b>Interest Bearing Investments</b>					
Short-term deposits	\$ 22	\$ (4)	\$ 18		
Bonds and debentures	339	249	588		
Mortgages and private debt	70	57	127		
	431	302	733		
Real return bonds	46	121	167		
<b>Public Equity</b>					
Canadian public equities	136	992	1,128		
Non-Canadian public equities	167	1,008	1,175		
	303	2,000	2,303		
<b>Total Public Market Investments</b>	780	2,423	3,203	(114)	3,089
<b>Private Equity</b>					
Canadian private equities	71	203	274		
Non-Canadian private equities	93	731	824		
<b>Total Private Equity Investments</b>	164	934	1,098	(99)	999
<b>Infrastructure Investments</b>	540	214	754	(44)	710
<b>Real Estate Investments<sup>(vi)</sup></b>	428	70	498	(11)	487
	\$ 1,912	\$ 3,641	\$ 5,553	\$ (268)	5,285
Gain/(loss) from currency hedging activities <sup>(vii)</sup>					182
(Income)/loss credited to administered funds					(83)
<b>Net Investment Income/(Loss)</b>					<b>\$ 5,384</b>

(i) Investment income includes interest, dividends and real estate operating income accrued or received net of interest expense on liabilities incurred in investment related activities. Investment income is also net of transaction costs of \$121 million (2010: \$80 million) and net of external manager performance fees of \$36 million (2010: \$47 million).

(ii) Interest on investment related activities includes interest on real estate investment liabilities of \$204 million (2010: \$161 million), interest on infrastructure investment liabilities of \$48 million (2010: \$46 million).

(iii) Includes net realized gain of \$698 million (2010: \$2,412 million).

(iv) Investment management expenses relate to corporate activity.

(v) Real estate investment income includes Oxford Properties Group's operating expenses net of property management income of \$14 million (2010: \$23 million) which includes audit costs of \$3.3 million (2010: \$2.6 million) and legal costs of \$5.6 million (2010: \$5.6 million).

(vi) Represents the gain/(loss) on the Fund's passive foreign currency hedging activities.

## NOTE 9

### NET INVESTMENT INCOME/(LOSS) (continued)

The Funds' net investment income/(loss) by Investment Entity is as follows:

(millions)

For the year ended December 31,

2011

	OMERS Capital Markets	OMERS Private Equity	Borealis Infrastructure	Oxford Properties Group	OMERS Strategic Investments	Total
Public market investments	\$ (296)	\$ -	\$ -	\$ 25	\$ 40	\$ (231)
Private equity investments	-	354	-	-	84	438
Infrastructure investments	-	-	674	-	(3)	671
Real estate investments	-	-	-	585	-	585
<b>Net Investment Income/(Loss)<sup>(i)</sup></b>	<b>\$ (296)</b>	<b>\$ 354</b>	<b>\$ 674</b>	<b>\$ 610</b>	<b>\$ 121</b>	<b>\$ 1,463</b>

(millions)

For the year ended December 31,

2010

	OMERS Capital Markets	OMERS Private Equity	Borealis Infrastructure	Oxford Properties Group	OMERS Strategic Investments	Total
Public market investments	\$ 3,036	\$ -	\$ -	\$ -	\$ 53	\$ 3,089
Private equity investments	-	941	-	-	58	999
Infrastructure investments	-	-	693	-	17	710
Real estate investments	-	-	-	487	-	487
<b>Net Investment Income<sup>(i)</sup></b>	<b>\$ 3,036</b>	<b>\$ 941</b>	<b>\$ 693</b>	<b>\$ 487</b>	<b>\$ 128</b>	<b>\$ 5,285</b>

(i) Before gain/(loss) from currency hedging activities and income/(loss) credited to administered funds.

## NOTE 10

### INVESTMENT RETURNS

Investment returns have been calculated in accordance with methods set forth by the CFA Institute.

The Plan's percentage returns by investment entity are as follows:

For the year ended December 31,	2011	2010
<b>OMERS Primary Pension Plan Gross Returns by Entity</b>		
OMERS Capital Markets <sup>(i)</sup>	-0.22%	11.04%
OMERS Private Equity	7.23%	22.21%
Borealis Infrastructure	8.79%	10.10%
Oxford Properties	8.40%	7.51%
OMERS Strategic Investments	7.24%	7.65%
Total OMERS Primary Pension Plan <sup>(ii)</sup>	3.17%	12.01%
<b>Retirement Compensation Arrangement</b>		
RCA Investment Fund <sup>(iii)</sup>	-2.42%	7.99%

The above gross returns are before the impact of external manager performance fees, and administrative expenses. The Plan net return after all investment costs for the year ended December 31, 2011 was 2.59 per cent (2010: 11.37 per cent).

(i) Returns for OMERS Capital Markets are before the impact of external manager performance fees and external manager fees related to public market fund investments (Note 9).

(ii) Total returns include the results of the Plan's currency hedging related activities.

(iii) Excludes the RCA refundable tax balance with CRA. Including the refundable tax balance, the RCA December 31, 2011 rate of return was negative 1.25 per cent (2010: 4.31 per cent).

**NOTE 11****CONTRIBUTIONS**

(millions)

For the year ended December 31,

	2011	2010
Current service required contributions <sup>(i)</sup>	\$ 2,618	\$ 2,227
Transfers from other pension plans	41	27
Past service contributions from members <sup>(ii)</sup>	53	52
Past service contributions from employers <sup>(ii)</sup>	8	7
Contributions before AVC contributions	2,720	2,313
AVC contributions	93	-
	\$ 2,813	\$ 2,313

(i) Current service contributions are funded equally by employers and members. For NRA 65 members, the 2011 contribution rate was 7.4 per cent (2010: 6.4 per cent) of earnings up to \$48,300 (2010: \$47,200) and 10.7 per cent (2010: 9.7 per cent) of earnings above that level. For NRA 60 members, the 2011 contribution rate was 8.9 per cent (2010: 7.9 per cent) of earnings up to \$48,300 (2010: \$47,200) and 14.1 per cent (2010: 13.1 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, 2011, contributions to the Plan defined benefit component were \$2,702 million (2010: \$2,299 million) and to the Plan AVC component were \$93 million (2010: \$nil). Contributions to the RCA for the year ended December 31, 2011 were \$18 million (2010: \$14 million).

**NOTE 12****BENEFITS**

(millions)

For the year ended December 31,

	2011	2010
Retirement benefits	\$ 2,021	\$ 1,866
Disability benefits	26	24
Transfers to other registered plans	190	134
Death benefits	66	46
Commutated value payments and members' contributions plus interest refunded	80	56
	\$ 2,383	\$ 2,126

For the year ended December 31, 2011, total benefit payments from the Plan defined benefit component were \$2,375 million (2010: \$2,121 million) and from the AVC component were \$1 million (2010: \$nil). Benefit payments from the RCA for the year ended December 31, 2011 were \$7 million (2010: \$5 million).



**NOTE 13****PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES**(a) Pension administrative expenses<sup>(i)</sup>

(millions)

For the year ended December 31,

	2011	2010
Salaries and benefits	\$ 35	\$ 34
System development and other purchased services	5	4
Premises and equipment	4	3
Professional services <sup>(ii)</sup>	10	8
Travel and communication	5	5
	\$ 59	\$ 54

(b) Investment management expenses<sup>(i)</sup>

(millions)

For the year ended December 31,

	2011	2010
Salaries and benefits	\$ 147	\$ 130
System development and other purchased services	14	12
Premises and equipment	11	7
Professional services <sup>(ii)</sup>	22	22
Travel and communication	12	11
Investment management services <sup>(iii)</sup>	73	86
	\$ 279	\$ 268

(i) Includes allocation of corporate expenses.

(ii) Total professional services expenses include independent actuarial costs of \$1.1 million (2010: \$0.7 million), external audit costs of \$0.9 million (2010: \$0.9 million) and external legal costs of \$6.2 million (2010: \$7.2 million).

(iii) Includes external management and custody fees.

## NOTE 14

### RELATED PARTY DISCLOSURES

The OAC manages its real estate, infrastructure and private equity businesses through OAC Investment Entities as discussed in Note 1 and holds investments through a network of investment structures or subsidiary companies established in compliance with the OMERS Act, the Pension Benefits Act, the *Income Tax Act* and other statutory, regulatory and tax legislation governing the OAC.

The OAC's related parties include 947 employers whose employees are members of the Plan, the SC, members of OAC Board, key management personnel (defined below) and investments where OAC has controlling interest. Transactions with related parties include the following:

- The OAC, in the normal course of business, purchased bonds at the prevailing market prices that were issued by a municipal employer. The fair market value of the bonds outstanding at December 31, 2011 was \$22 million (2010: \$21 million).
- The OAC through its Oxford Properties Group paid property taxes to municipal employers for the year ended December 31, 2011 of \$231 million (2010: \$221 million). The amounts paid were based on normal levies by the individual municipal employers and were consistent with those that would be paid by a non-related party.

### KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel consist of members of the OAC's Board of Directors, Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Pension Officer and the chief executive officers of OMERS Capital Markets, Oxford Properties Group, Borealis Infrastructure and OMERS Private Equity. The aggregate key management personnel compensation is shown below:

(millions)

For the year ended December 31,

	2011	2010
Salaries and short-term employee benefits	\$ 14	\$ 15
Post-employment benefits	1	1
Other long-term benefits	6	5
	<b>\$ 21</b>	<b>\$ 21</b>

The OAC had no other transactions with key management personnel during the year.

## NOTE 15

### CAPITAL

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 of net assets and the actuarial valuation prepared by the OAC's independent actuary on a going concern basis. The funded status of the Plan is discussed in Note 7 and the funded status of the RCA is discussed in Note 8. OAC's objective is to ensure that the Plan defined benefit component is fully funded over the long-term through the management of investments, contribution rates and benefits. Investments (Note 3), the use of derivatives (Note 4) and leverage (Note 6) are based on an asset mix and risk management policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's Statement of Investment Policies and Procedures as approved by the OAC Board.

The Plan AVC component pension liability is based on net contributions plus investment income and as such does not have a surplus/(deficit) position.

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 RCA investments are based on an asset mix and Statement of Investment Policies and Procedures separate from those of the Plan.

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 above the minimum required to fund the plan, 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 the Plan to file an actuarial valuation report for a funding valuation at least once every three years. At that time, the Plan must take measures to eliminate any going concern funding deficits over a period not to exceed 15 years.

Where the funded status of the Plan is filed with a surplus position greater than ten per cent of the accrued pension obligation, the *Income Tax Act* requires contributions be reduced with the amount of the reduction increasing as the percentage surplus increases. Once the filed surplus reaches twenty-five per cent of the accrued pension 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. There are no similar filing requirements for the RCA as the RCA is not a registered pension plan.

## NOTE 16

### GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, OAC enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include, but may not be limited to, investments in infrastructure, real estate and private equity limited partnership agreements. The future commitments are generally payable on demand based on the capital needs of the investment. As at December 31, 2011, these future commitments totaled \$4.2 billion (2010: \$4.4 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was \$740 million as at December 31, 2011 (2010: \$520 million). Guarantees and commitments are often provided as part of developing or holding an investment and as such often have no fixed expiration date.

OAC, in the normal course of business, indemnifies its and its subsidiaries' and affiliates' directors, officers, employees and certain others in connection with proceedings against them to the extent that these individuals are not covered under another arrangement. In addition, OAC may in certain circumstances in the course of investment activities agree to indemnify a counterparty. Under the terms of such arrangements, OAC 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, 2011, OAC was involved in certain litigation and claims. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of Management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of OAC.

# TEN-YEAR FINANCIAL REVIEW

(\$ millions)	2011	2010 <sup>(i)</sup>	2009	2008	2007	2006	2005	2004	2003	2002
<b>Net Assets Available for Benefits</b> as at December 31,										
Public markets	32,154	34,123	31,336	28,763	43,291	43,533	39,338	30,283	30,168	23,823
Private equity	7,753	6,633	5,048	4,162	3,608	2,951	2,391	1,460	914	1,021
Infrastructure	9,635	9,593	12,195	12,140	8,412	5,585	3,719	2,314	1,426	349
Real estate	14,516	12,599	11,975	12,037	10,904	8,541	6,180	6,898	6,920	7,747
	64,058	62,948	60,554	57,102	66,215	60,610	51,628	40,955	39,428	32,940
Other investment assets	707	645	1,173	1,366	1,001	699	765	494	578	733
Investment liabilities	(9,063)	(9,628)	(13,338)	(14,474)	(15,029)	(13,088)	(10,772)	(5,267)	(7,297)	(3,540)
Net investment assets	55,702	53,965	48,389	43,994	52,187	48,221	41,621	36,182	32,709	30,133
Non investment assets/(liabilities)										
Due to administered funds	(828)	(809)	(734)	(672)	(800)	(741)	(639)	(553)	(496)	(440)
Other assets/(liabilities)	209	193	177	155	129	125	83	26	(120)	(188)
Net assets available for benefits	55,083	53,349	47,832	43,477	51,516	47,605	41,065	35,655	32,093	29,505
<b>Accrued Pension Obligation and Surplus/(Deficit)</b> as at December 31,										
<b>OMERS Primary Pension Plan</b>										
<b>Defined Benefit Component</b>										
Accrued pension obligation	64,548	60,035	54,253	50,080	46,830	44,167	41,123	37,774	35,466	33,034
Funding Surplus/(Deficit)	(7,290)	(4,467)	(1,519)	(279)	82	(2,382)	(2,784)	(963)	509	2,514
Actuarial value adjustment of net assets	(2,337)	(2,278)	(4,950)	(6,363)	4,567	5,791	2,707	(1,168)	(3,888)	(6,048)
	(9,627)	(6,745)	(6,469)	(6,642)	4,649	3,409	(77)	(2,131)	(3,379)	(3,534)
	54,921	53,290	47,784	43,438	51,479	47,576	41,046	35,643	32,087	29,500
<b>Additional Voluntary Contributions Component</b>										
Pension obligation	94	-	-	-	-	-	-	-	-	-
Net assets available for benefits	55,015	53,290	47,784	43,438	51,479	47,576	41,046	35,643	32,087	29,500
<b>RCA</b>										
Accrued pension obligation	504	468	486	285	236	172	157	149	69	63
(Deficit)	(436)	(409)	(438)	(246)	(199)	(143)	(138)	(137)	(63)	(58)
Net asset available for benefits	68	59	48	39	37	29	19	12	6	5
<b>Total Accrued Pension Obligation and Deficit</b>	<b>55,083</b>	<b>53,349</b>	<b>47,832</b>	<b>43,477</b>	<b>51,516</b>	<b>47,605</b>	<b>41,065</b>	<b>35,655</b>	<b>32,093</b>	<b>29,505</b>
<b>Changes in Net Assets Available for Benefits</b> for the year ended December 31,										
Net assets, beginning of the year	53,349	47,832	43,477	51,516	47,568 <sup>(ii)</sup>	41,065	35,655	32,093	29,505	33,243
<b>Changes Due to Investment Activities</b>										
Total investment income	1,663	5,735	4,623	(7,910)	4,200	6,803	5,767	3,907	3,751	(2,358)
Investment management expenses	(279)	(268)	(246)	(227)	(201)	(169)	(160)	(147)	(158)	(103)
	1,384	5,467	4,377	(8,137)	3,999	6,634	5,607	3,760	3,593	(2,461)
(Income)/Loss credited to administered funds	(21)	(83)	(67)	124	(61)	(104)	(92)	(66)	(51)	28
Net investment income/(loss)	1,363	5,384	4,310	(8,013)	3,938	6,530	5,515	3,694	3,542	(2,433)
<b>Changes Due to Pension Activities</b>										
<b>Contributions</b>										
Current service	2,618	2,227	2,077	1,975	1,840	1,739	1,498	1,363	404	-
Other contributions	195	86	66	73	46	53	36	46	42	47
	2,813	2,313	2,143	2,048	1,886	1,792	1,534	1,409	446	47
<b>Benefits</b>										
Pensions paid	(2,047)	(1,890)	(1,781)	(1,656)	(1,554)	(1,492)	(1,410)	(1,353)	(1,246)	(1,153)
Commutated value and other payments	(336)	(236)	(269)	(371)	(279)	(252)	(193)	(145)	(110)	(149)
	(2,383)	(2,126)	(2,050)	(2,027)	(1,833)	(1,744)	(1,603)	(1,498)	(1,356)	(1,302)
Pension administrative expenses	(59)	(54)	(48)	(47)	(43)	(38)	(36)	(43)	(44)	(50)
Net assets available for benefits, end of year	55,083	53,349	47,832	43,477	51,516	47,605	41,065	35,655	32,093	29,505
<b>Total Annual Rate of Return</b> for year ended December 31,										
<b>OMERS Primary Pension Plan</b>										
<b>Defined Benefit Component</b>										
Time weighted return on market value	3.17%	12.01%	10.6%	-15.3%	8.7%	16.4%	16.0%	12.1%	12.7%	-7.1%
Benchmark	2.52%	11.47%	12.1%	-13.2%	5.6%	13.7%	13.2%	9.9%	15.5%	-7.4%
<b>Additional Voluntary Contributions Component</b>										
Time weighted net return on market value	2.59%	-	-	-	-	-	-	-	-	-
<b>RCA Investment Fund<sup>(iii)</sup></b>										
Time weighted return on market value	-2.42%	7.99%	11.3%	-26.1%	8.7%	16.4%	16.0%	12.1%	12.7%	-7.1%
Benchmark	-2.43%	10.09%	16.6%	-27.3%	5.6%	13.7%	13.2%	9.9%	15.5%	-7.4%

(i) In preparing financial statements in accordance with CICA Handbook Section 4600-Pension Plans and IFRS for 2011, OAC has adjusted amounts for 2010 (which were previously reported in accordance with CICA Handbook Section 4100) for comparative purposes.

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

(iii) 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 Pension 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 Contributions (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. Such contributions can include ongoing withdrawals from a bank account (for active members) as well as lump-sum transfers from other registered retirement vehicles (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 (e.g., the S&P/TSX Composite Index) or for the OAC's infrastructure and real estate 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.

**Commutated 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 (e.g., 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.

**International Financial Reporting Standards (IFRS)** are a set of principles-based accounting standards developed by the International Accounting Standards Board that is becoming the global standard for the preparation of public company financial statements.

**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 OMERS Administration Corporation.

**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. This includes the defined benefit component and the AVC component.

**Passive Management** Investing in a manner that replicates the performance of a market index (eg. 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*.

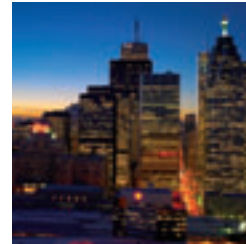
**SC** The OMERS Sponsors Corporation.

**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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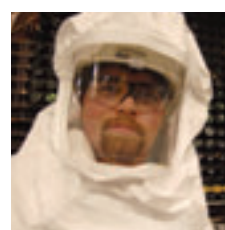
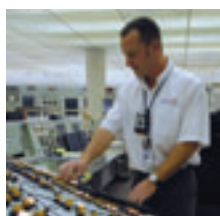
**OMERS**

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# FOCUS: OUR STRATEGY YOUR FUTURE

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**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 and employers, 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 Pension Plans and consists of 14 Members: seven Plan member representatives and seven employer representatives.

The SC is responsible for:

- determining Plan design for benefits to be provided by the OMERS 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 Members and is the administrator of the OMERS Pension 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 auditors 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 to the SC.

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The OMERS Sponsors Corporation is responsible for pension plan design, setting contribution rates and filing the actuarial valuation. For many of our members, their pension is their single largest asset and safeguarding that investment is our primary responsibility. The focus of the Sponsors Corporation is to provide decision-making that supports the health and long-term viability of the OMERS Pension Plans.

We are committed to ensuring that our decisions are always in the best interests of our stakeholders and that we consider the long-term sustainability and growth of the Plan for future retirees in everything we do.

As we move forward we have a clear view of our needs today while focusing on your future.

**FOCUS:**  
**OUR STRATEGY**  
**YOUR FUTURE**



## MESSAGE FROM THE CO-CHAIRS

# FOCUSING ON YOUR FUTURE

Design and funding are crucial to ensuring affordable and sustainable plans that will fulfill the pension promise for the long term.



**MARIANNE LOVE**  
Co-Chair

**BRIAN O'KEEFE**  
Co-Chair

Our primary goal at OMERS Sponsors Corporation (SC) is to ensure that governance and decision-making practices support the health and long-term viability of the OMERS Pension Plans. Our outlook and horizon must consider the retirement of those who have been members for quite some time as well as those who are just starting their careers and will be retiring forty or fifty years from now.

### FUNDING

Like most other pension plans, OMERS is currently dealing with a funding deficit in its Primary Plan that will continue through 2012 as we recognize the last of the losses incurred in 2008. In 2010, the SC established a strategy to address the funding deficit and, despite turbulent markets and the ongoing uncertainty in the U.S. and Europe, the strategy continues to support the Plan. Our plan calls for contribution increases averaging 2.9 per cent over three years and benefit changes in the final year for members who leave the Plan before they qualify for early retirement.

On January 1, 2011, we implemented the first phase of our strategy – increasing contributions to ensure the Fund received an additional one per cent in contributions from both members and employers. During 2011, decisions were made on the second phase of our plan and contribution rate increases were established for 2012. The final phase – determining the 2013 contribution rates – will be completed following a review of principles for allocating contribution rates. Raising contribution rates or changing benefits is a decision not taken lightly but, given the Primary Plan's funded position, these temporary changes are necessary.

A review of our other plans also resulted in changes to enhance the funding flexibility in our Retirement Compensation Arrangement (which pays benefits over and above the maximum payable under the Primary Plan) and changes to the contribution rates for the Supplemental Plan for Police, Firefighters and Paramedics. Additional stability was provided through the filing of the 2010 actuarial valuations.

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## **“OUR MULTI-YEAR STRATEGY IS ON COURSE AND CONTINUES TO SUPPORT THE PLAN.”**

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### **GOVERNANCE**

We firmly believe that good governance is fundamental to ensuring long-term success. Following best practices in governance is an ongoing goal and, having just completed our fifth full year of operation, the SC undertook a number of initiatives to review and update its governance practices. For example, we reviewed our Board and committee structure, confirmed the existing Co-Chair structure and amended the way we appoint Committee Chairs to ensure appropriate balance and succession for the SC committees.

We updated our Board Member Orientation program to train and inform new Members as soon as they join the Board. Our ongoing training and education program for board members was also improved and updated to provide a robust, cost-effective program.

Recognizing the need to consolidate and articulate our internal governance structure, we also developed an “SC Governance, Mandates and Responsibilities” document which defines the SC structure, as well as the mandates and responsibilities of the Board, its Committees, individual Board Members, Co-Chairs, Committee Chairs and the CEO, respectively. You can find detailed information on our website at [www.omerssc.com](http://www.omerssc.com).

Effective governance also requires regular and periodic reviews of Board compensation to ensure it remains current and relevant. In 2011, we reviewed the compensation structure for OAC and SC Board Members. Considerations included a market and industry trend overview provided by an outside advisor, and, after significant discussion, we decided to maintain the current levels and structure.

This year, we reappointed two OAC Board Members, whose terms were set to expire, and appointed two new OAC Board Members who replace other outgoing Members.

### **WORKING TOGETHER - SC AND OAC**

The Boards of the SC and OAC meet regularly, in their entirety as well as through a smaller Joint Council, to discuss issues of relevance to both organizations. These meetings help us develop and maintain a common understanding of issues of joint interest. Through our

respective mandates, the two organizations are able to work together to ensure our focus remains on the OMERS Plans.

The SC and OAC also periodically conduct internal governance reviews to identify strengths as well as opportunities for improvement. This year, the Boards jointly reviewed OMERS decision-making processes, assisted by an external advisor. We are currently reviewing the results and developing an action plan to address the recommendations.

The SC receives significant technical support and information from the OAC to assist us in fulfilling our mandate and we would like to extend our appreciation and sincere thanks for the ongoing support.

### **IN CLOSING...**

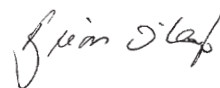
We will continue to monitor the Plan and the impact of investment returns on our strategy and, as always, the SC will continue to work in partnership with the OAC to keep your plans healthy and viable.

On behalf of the SC Board, we would like to thank Marnie Niemi Hood, who stepped down from the SC this year, for her significant contributions since the SC's inception. We welcome to the Board Diana Clarke from OPSEU.

We also want to thank John Poos for his hard work and dedication during his term of leadership with the OMERS SC. John left the SC to pursue other opportunities and Deb Preston has been promoted from her role as Director, Pension Policy and Communications, into the CEO role. Deb's understanding of pensions, OMERS and the industry will be invaluable as the SC moves forward.



Marianne Love  
Co-Chair



Brian O'Keefe  
Co-Chair

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

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# AN IMPORTANT TIME FOR PENSION PLANS

A sound strategy and vision are essential to our success.



**DEB PRESTON**  
Chief Executive Officer

2011 was the fifth full year of operation by the SC. During the start-up period our priority was to develop the governance, infrastructure and processes for the organization. The second phase of growth involved building and developing a strategic direction with regard to plan funding. My predecessor, John Poos, was instrumental in helping the SC lay the foundation for future decisions with regard to contributions and benefits through the establishment of the Statement of Plan Design Objectives and Strategy for the Primary Plan. Work will continue throughout 2012 on further developing a strategic direction and vision.

Throughout 2011, pensions and pension reform remained in the headlines as governments continued to discuss how best to balance coverage and adequacy while managing costs. This is an important time for pension plans such as OMERS and, together with the OAC, we will continue to monitor and participate in these discussions to ensure OMERS is well represented.

As the pension and investment landscape continues to change, communication with our stakeholders becomes even more crucial. At our Spring and Fall Information Sessions, both Boards take the opportunity to update stakeholders. These sessions let us hear directly from our stakeholders and allow us to provide timely, relevant information. In 2011, both sessions were available by webcast which allowed stakeholders, regardless of geography, to participate in real time.

In 2011 we also undertook a full redesign of our website which now reflects industry standards and provides improved navigation. We regularly update our website to provide information on decisions and activities and, as a result, more groups and individuals are now providing input and comments on activities underway at the SC. Be sure to visit our website frequently to get the most up to date information.

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**“AS THE PENSION AND  
INVESTMENT LANDSCAPE  
CONTINUES TO CHANGE,  
COMMUNICATION WITH OUR  
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EVEN MORE CRUCIAL.”**

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As noted by the Co-Chairs, the SC's primary focus in 2011 was ongoing implementation of the three-year plan to manage the funding of the Primary Plan, reviewing the sustainability of the Retirement Compensation Arrangement (RCA) and ensuring appropriate governance and best practices are in place as we move forward into 2012.

We expect market conditions will continue to be turbulent, requiring regular and ongoing monitoring of the Primary Plan's funded position. We also remain ever-mindful of the government's need to review the OMERS governance model in the upcoming year.

The SC will continue to work with the OAC to strengthen the OMERS Plans through a consultative and collaborative environment to help return the Plan to a fully funded position. As always, our goal is to work together to deliver an affordable, sustainable Plan for both members and employers.

I would like to thank the Co-Chairs and Board Members for their ongoing support throughout this past year, as well as our employees for the tremendous work they do. I am very pleased to be part of the SC leadership team and look forward to working with the SC and the OAC as we move forward through these challenging times.



Deb Preston  
Chief Executive Officer



# YEAR IN REVIEW

Many factors contributed to the funding deficit that was our priority in 2011.

The deficit is largely due to the 2008 market losses, but losses due to actuarial assumption changes and an aging population also have had an impact. We expect the effect on our funded position in the Primary Plan to continue through 2012, when the last of the 2008 market losses will be absorbed.

As of December 31, 2011, the Primary Plan defined benefit component has \$54.9 billion in net assets available for benefits and its current funding deficit on a smoothed basis stands at \$7.3 billion. Based on the year-end actuarial value of net assets, the Plan is approximately 89 per cent funded – that is, it has \$89 in assets for every \$100 of long-term pension obligations.

We have begun to implement our multi-year, phased approach to address the deficit, as approved by the SC Board in 2010. This included increasing contributions by an average of 2.9 per cent for both employers and members over three years, beginning January 1, 2011, as well as benefit changes for some members in the third year.

In 2011 the SC approved the second contribution rate increase in this strategy, affecting 2012 contributions. The SC also committed to review how future contributions would be allocated, and will make decisions on the 2013 contribution rates during its annual decision-making cycle.

Starting in 2013, there will be changes to the calculation of benefits members receive if they terminate employment before they are eligible for an early retirement pension – before age 55 (for normal retirement age 65 members) and before age 50 (for normal retirement age 60 members). The changes will only impact service entitlements accrued after 2012. These plan members will not receive pre-retirement inflation protection; nor will they receive subsidized early retirement. These changes will reduce the Plan's long-term liability cost.

There will be no change in the benefit entitlements of current retirees, member survivors or active members who stay in the Plan until their early retirement date.

In 2011, the SC also made changes to the funding of the OMERS RCA. The Primary Plan and the RCA are separate plans with separate funds. While the Primary Plan enjoys favourable treatment under the *Income Tax Act*, the RCA is subject to different taxation. The SC approved a change that would introduce a degree of flexibility into the RCA funding formula. An annual review will be undertaken to ensure there are sufficient funds to avoid depleting the RCA for at least 20 years from each review date. Effective January 1, 2012, the earnings level at which contributions are made to either the OMERS Plan or the RCA will vary each year based on actuarial projections (within a certain range). This change balances sustainability of the RCA with the tax inefficiency created under the *Income Tax Act*.

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Other decisions in 2011 related to the Supplemental Plan contribution rates and the 2010 actuarial valuations. Under the Supplemental Plan an employer can provide additional benefits to Police, Firefighters and Paramedics, where negotiated. Based on revised assumptions, new contribution rates were set, effective January 1, 2011. The SC also decided to file the 2010 Primary Plan and Supplemental Plan valuations with the regulators, which means the next required filing will be the December 2013 valuation.

To ensure pension plan terms and conditions are current and easy to reference, it is good practice to regularly amend and restate Plan texts. The OMERS Primary Plan text was last amended and restated as of April 30, 2007 and, since then, the SC has made a number of amendments to the Plan. In March 2011, the SC approved amended and restated Plan texts for the OMERS Pension Plans which consolidates these amendments and include some additional minor amendments that help maintain the integrity of the Primary Plan, reflect compliance with the applicable governing legislation and provide clarity. Corresponding changes have been made to the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics.

The amended and restated Primary Plan text – effective January 1, 2011 – also includes a technical amendment to clarify the distribution of assets under administration by the OMERS Administration Corporation in the unlikely event that the Primary Plan is wound up.

More detail on the amendments and the updated Plan texts can be found on our website at [www.omerssc.com](http://www.omerssc.com).

#### **SUMMARY**

Over time, defined benefit pension plans such as OMERS will cycle through periods of surplus and deficit. Like many other pension plans, the Primary Plan continues to be affected by the 2008 market losses as well as the ongoing volatility of stock markets.

Our current strategy with regard to contribution and benefit changes, together with the OMERS AC investment strategy, is expected to return the Primary Plan to a fully funded position over time.

As always, we remain committed to ensuring the health, viability and sustainability of your pension plans.



# 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 best practice standards 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 learning 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;
- a process for reviewing SC governance policies and processes to ensure ongoing efficiency and effectiveness of its practices; and
- transparency and accountability to OMERS Plan participants through regular meetings with plan participants and stakeholders, together with timely print and electronic communication carried out in conjunction with the OAC, as well as regular website updates and posting of by-laws, by-law amendments and information for submitting proposals for plan design changes.

In 2011, the SC also developed and published the “SC Governance, Mandates and Responsibilities.” This document consolidates and articulates the SC governance structure, as well as the mandates and responsibilities of the Board, Committees, individual Board Members, Co-Chairs, Committee Chairs and the Chief Executive Officer.

## KEY BOARD RESPONSIBILITIES

The SC’s key responsibilities include:

- making decisions about the design of the OMERS Pension Plans, including benefits to be provided by, and contributions to be made;
- deciding whether to establish a reserve;
- deciding whether to file a valuation more frequently than is required under the *Pension Benefits Act*;
- establishing the composition, remuneration and expense reimbursement for the Boards of the SC and the OAC;
- appointing members to the OAC Board;
- appointing the SC auditor, legal and actuarial advisors and the CEO; and
- approving the Corporation’s budget and audited financial statements.

The SC Members owe a fiduciary duty to the Corporation and must act in the best interests of the SC. The SC believes that:

*The best interests of the Sponsors Corporation include governance and decision-making practices which support the health and long-term viability of the jointly-sponsored OMERS pension plans, and give due consideration to the interests of the stakeholders and other relevant circumstances.*

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## 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 SC composition was last undertaken in 2009 to ensure the SC continued to provide equitable representation of the participants in the OMERS Pension Plans.

The SC has a representative Board with seven pension plan member representatives and seven employer representatives. Members are appointed by their Sponsoring Organizations (as outlined in By-Law #4) for a three-year term. Terms are staggered to ensure ongoing continuity and effectiveness of the Board.

### 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
- Retiree Group – 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

The Board is headed by Co-Chairs, one appointed by the pension plan member representatives and the other appointed by employer representatives. There are a total of 18 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.

In accordance with its by-laws, the SC will be conducting a further review of Board composition in 2012. Many stakeholders have taken the opportunity to provide input which will be considered as the SC completes its review.

## COMPENSATION AND EXPENSES

### Compensation

SC Members are compensated through a combination of an annual retainer and meeting fees covering attendance at Board 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.

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

SC Member compensation was reviewed in 2011, resulting in no changes to the June 2009 structure, as follows:

	Annual Retainer	Meeting Fee*
Co-Chairs	\$70,000	-
Committee Chair(s)	\$17,800	\$750
All Other Members	\$12,800	\$750

\* Maximum number of compensable meetings is 24 and only one fee is paid per day.

### 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.

SC Members are also reimbursed for travel, tuition and other expenses incurred in attending pension and governance conferences, or other educational programs. By-Law #6 sets out the particulars of expense reimbursements.

## BOARD COMMITTEES

The SC has four standing committees to assist the Board in discharging its responsibilities. In addition, the SC and OAC have established a Joint Council to address matters of importance to both boards.

### Plan Design Information Committee (PDIC)

The Plan Design Information Committee assists with responsibilities relating to design of the OMERS pension plans including:

- co-ordinating and facilitating the process of gathering and considering information; and
- arranging for the referral of questions to OMERS Administration Corporation staff and legal, actuarial and other professionals engaged by the SC.

### Human Resources and Compensation Committee (HRCC)

The Human Resources and Compensation Committee's responsibilities relate to:

- staff levels and succession planning;
- training, education and orientation programs for Members of the Corporation;
- compensation structure, including benefits, for employees of the Corporation;
- expense reimbursement policies in respect of employees of the Corporation;
- compensation and expense reimbursement policies in respect of SC Members and members of OMERS Administration Corporation Board; and
- a performance evaluation process for the Chief Executive Officer.

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**Corporate Governance Committee (CGC)**

The Members of the SC are assisted by the Corporate Governance Committee with regard to:

- developing appropriate corporate governance practices, guidelines and benchmarks for the Corporation; and
- developing by-laws for the Corporation.

**Audit Committee**

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

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

**OAC/SC Joint Council**

The Joint Council is comprised of an equal number of Members from the SC and OAC Boards and is intended to discuss and address matters of importance to either Board with respect to the oversight and governance of the OMERS pension plans.

**MEETING ATTENDANCE**

There were 12 regular meetings of the Board and 23 meetings of standing committees, as well as six Joint Council meetings; 11 other information and planning meetings were also held, which Members attended at their discretion and as their obligations allowed. Overall attendance in 2011 was 96 per cent compared with 97 per cent in 2010.

**BOARD REMUNERATION AND EXPENSES**

For the year ended December 31,	2011		2010	
	Remuneration <sup>(i)</sup>	Expenses <sup>(ii)</sup>	Remuneration <sup>(i)</sup>	Expenses <sup>(ii)</sup>
Marianne Love (Co-Chair)	\$ 70,000	\$ 21,530	\$ 70,000	\$ 19,720
Brian O'Keefe (Co-Chair)	70,000	10,098	70,000	14,134
Wm. (Joe) Aitchison <sup>(iii)</sup>	35,800	7,222	35,800	9,717
Paul Bailey <sup>(iv)</sup>	30,800	9,625	13,150	10,393
Diana Clarke <sup>(v)</sup>	24,167	4,755	-	-
Mark Ferguson <sup>(iv)</sup>	30,800	2,342	14,650	2,349
John Fleming <sup>(iii)</sup>	35,800	7,077	35,800	10,942
Jack Jones	30,800	23,527	30,800	25,194
Charlie Macaluso	30,050	2,328	30,050	2,754
Wayne McNally <sup>(iv)</sup>	30,050	8,202	13,900	4,385
Bruce Miller <sup>(iii)</sup>	35,550	19,562	35,800	12,109
Marnie Niemi Hood <sup>(vi)</sup>	3,633	-	29,300	3,890
Garth Pierce <sup>(iii)</sup>	33,550	9,854	31,300	12,745
Frank Ramagnano	30,800	13,373	30,800	14,775
Bruce Stewart	30,800	3,858	29,300	3,036
Former Board Members <sup>(vii)</sup>	-	-	49,450	11,244
Other Expenses <sup>(viii)</sup>	-	43,599	-	51,123
<b>Total</b>	<b>\$ 522,600</b>	<b>\$ 186,952</b>	<b>\$ 520,100</b>	<b>\$ 208,510</b>

(i) Remuneration is in accordance with By-Law #6. Effective July 1, 2009, members receive a base retainer plus a per meeting attendance fee to prescribed maximum levels.

(ii) Includes reimbursement for normal out-of-pocket business expenses including education, meeting, and communication expenses incurred on behalf of the SC.

(iii) Committee Chairs

Joe Aitchison – CGC – Corporate Governance Committee

John Fleming – PDIC – Plan Design Information Committee

Bruce Miller – HRCC – Human Resources and Compensation Committee

Garth Pierce – Audit Committee

(iv) Term commenced July 1, 2010.

(v) Term commenced March 1, 2011.

(vi) Term ended February 28, 2011.

(vii) Term ended June 30, 2010.

(viii) Other expenses include Board meeting expenses not allocated to individuals.

## 2011 BOARD/COMMITTEE MEETINGS

Board Member	Board (12)		PDIC (6)		HRCC (8)		CGC (5)		Audit (4)		Joint Council (6)		Other (11) <sup>(i)</sup>		Overall (52)	
	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Discretionary		Attended	Total %
Marianne Love (Co-Chair) <sup>(ii)</sup>	12	12	6	6	8	8	4	5	-	-	6	6	11		47	98
Brian O'Keefe (Co-Chair) <sup>(ii)</sup>	12	12	6	6	8	8	5	5	-	-	6	6	11		48	100
Wm. (Joe) Aitchison	10	12	-	-	8	8	5	5	-	-	-	-	7		30	94
Paul Bailey	12	12	-	-	8	8	-	-	4	4	-	-	10		34	100
Diana Clarke <sup>(iii)</sup>	10	10	-	-	-	-	-	-	-	-	-	-	11		21	100
Mark Ferguson	11	12	5	6	-	-	-	-	2	4	-	-	10		28	88
John Fleming	11	12	6	6	-	-	-	-	-	-	6	6	10		33	97
Jack Jones	12	12	6	6	-	-	5	5	-	-	-	-	10		33	100
Charlie Macaluso	9	12	6	6	-	-	3	5	-	-	-	-	7		25	83
Wayne McNally	11	12	-	-	8	8	-	-	4	4	-	-	9		32	97
Bruce Miller	12	12	1	1	8	8	-	-	-	-	6	6	10		37	100
Marnie Niemi Hood <sup>(iv)</sup>	1	2	-	-	-	-	-	-	-	-	-	-	1		2	67
Garth Pierce	12	12	-	-	-	-	-	-	4	4	-	-	10		26	100
Frank Ramagnano	11	12	6	6	-	-	5	5	-	-	-	-	10		32	97
Bruce Stewart	11	12	6	6	-	-	-	-	-	-	-	-	10		27	96
<b>Total</b>	<b>93%</b>		<b>98%</b>		<b>100%</b>		<b>90%</b>		<b>88%</b>		<b>100%</b>				<b>96%</b>	

(i) Other includes: stakeholder meetings, education/information sessions, mandatory orientation for new Members and a planning retreat which Members attended at their discretion and as their obligations allowed.

(ii) Co-Chairs are ex-officio members of all committees except the Audit Committee.

(iii) Term commenced March 1, 2011.

(iv) Term concluded February 28, 2011.

Note: Total meetings may vary by Member depending on commencement/conclusion of term dates

# SPONSORS CORPORATION MEMBERS



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



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



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



**Paul Bailey**  
Plan Member Representative  
for Retiree Group



**Diana Clarke**  
Plan Member Representative  
for Ontario Public Service  
Employees Union



**Mark Ferguson**  
Plan Member Representative  
for CUPE Local 416



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



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



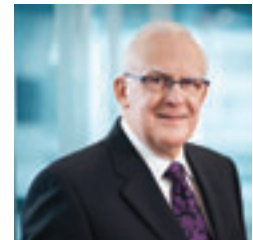
**Charlie Macaluso**  
Employer Representative  
for Electricity Distributors  
Association



**Wayne McNally**  
Employer Representative  
for Ontario Catholic School  
Trustees' Association



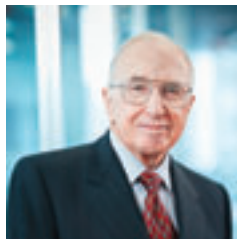
**Bruce Miller**  
Plan Member Representative  
for Police Association  
of Ontario



**Garth Pierce**  
Employer Representative  
for Ontario Association of  
Police Services Boards



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



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

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## INDEPENDENT AUDITOR'S REPORT

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### TO THE BOARD OF OMERS SPONSORS CORPORATION REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of OMERS Sponsors Corporation, which comprise the statement of financial position as at December 31, 2011 and the statement of operations and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of OMERS Sponsors Corporation as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Norton McMullen & Co. LLP*

Chartered Accountants, Licensed Public Accountants

Markham, Ontario  
February 21, 2012



## FINANCIAL STATEMENTS

### STATEMENT OF FINANCIAL POSITION

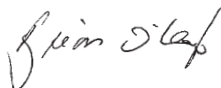
As at December 31,	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 1,979,324	\$ 1,866,949
OAC receivable	594,738	808,490
Prepaid expenses and other assets	6,272	7,899
	<b>\$ 2,580,334</b>	<b>\$ 2,683,338</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 137,336	\$ 249,885
<b>Net Assets</b>		
Excess / (deficit) of revenues over expenses from operations		
Balance at beginning of year	2,433,453	2,437,851
Current year	9,545	(4,398)
Balance at end of year	<b>2,442,998</b>	<b>2,433,453</b>
	<b>\$ 2,580,334</b>	<b>\$ 2,683,338</b>

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

Signed on behalf of the Board of OMERS Sponsors Corporation



Marianne Love  
Co-Chair



Brian O'Keefe  
Co-Chair



Wayne McNally  
Chair, Audit Committee

## STATEMENT OF OPERATIONS

For the year ended December 31,	2011	2010
<b>Revenues</b>		
OAC expense reimbursement	\$ 1,941,961	\$ 2,012,958
Interest income	16,042	7,512
	<b>1,958,003</b>	<b>2,020,470</b>
<b>Expenses</b>		
Contract and administrative salaries, including payroll taxes and benefits	688,702	712,029
Legal	181,333	266,874
Audit	5,605	4,123
Actuarial	68,679	78,264
Professional advisors and other administrative (note 3)	203,512	147,137
Insurance	77,638	77,638
Board remuneration including payroll taxes and benefits (note 4)	536,037	530,293
Board expenses	186,952	208,510
	<b>1,948,458</b>	<b>2,024,868</b>
<b>Excess / (Deficit) of Revenues over Expenses from Operations</b>	<b>\$ 9,545</b>	<b>\$ (4,398)</b>

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

## STATEMENT OF CASH FLOWS

For the year ended December 31,	2011	2010
<b>Operating Activities</b>		
Excess / (Deficit) of revenues over expenses	\$ 9,545	\$ (4,398)
Changes in non-cash working capital accounts		
OAC receivable	213,752	(220,096)
Prepaid expenses and other assets	1,627	(7,899)
Accounts payable and accrued liabilities	(112,549)	21,859
<b>Increase / (Decrease) in Cash</b>	<b>112,375</b>	<b>(210,534)</b>
Cash at Beginning of Year	1,866,949	2,077,483
<b>Cash at End of Year</b>	<b>\$ 1,979,324</b>	<b>\$ 1,866,949</b>
Supplemental disclosure of cash flows from operating activities:		
Interest income	\$ 16,042	\$ 7,512

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

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## NOTES TO FINANCIAL STATEMENTS

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Year ended December 31, 2011

### 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 Pension Plan for Police, Firefighters and Paramedics (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

In previous years the SC received grants for operations from the Ministry of Municipal Affairs and Housing of the Ontario Government (the Ministry). These amounts receivable were recognized as income once the amount to be received could be reasonably estimated and collection was reasonably assured. The initial funding agreement with the Ministry, which was put 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 initial 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 the 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 earned.

##### Income Taxes

The SC 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. Such estimates include the OAC receivable, and accounts payable and accrued liabilities. Actual results could differ from these estimates.

##### Cash Equivalents

Cash equivalents are treasury bills which have been issued for terms not exceeding 180 days that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

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### **NOTE 3**

#### **PROFESSIONAL ADVISORS AND OTHER ADMINISTRATIVE EXPENSES**

Professional advisor and other administrative expenses consist primarily of various professional advisors for information technology and governance issues, training, and other administrative expenses.

### **NOTE 4**

#### **BOARD REMUNERATION AND EXPENSES**

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

### **NOTE 5**

#### **FINANCIAL INSTRUMENTS**

##### **Fair Value of Financial Instruments**

Financial instruments of the Corporation consist of cash and cash equivalents, 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 SC's cash is held at a major financial institution and cash equivalents are all Ontario treasury bills. The OAC receivable is due from an organization with a "AAA" rating and therefore there is virtually no credit risk.



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**OMERS SPONSORS CORPORATION**  
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Toll-free **1.800.387.0813**  
Email **[board@omerssc.com](mailto:board@omerssc.com)**

**For more information,**  
**please visit our website at**  
**[www.omerssc.com](http://www.omerssc.com)**

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**OMERS**  
Sponsors Corporation

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