Statement of Investment Policies and Procedures – **Supplemental Plan**

RISK MANAGEMENT

Deb Barnes

Effective
March 1, 2022

OVERALL PRINCIPLES

This Policy sets out how the assets of the Supplemental Plan for Police, Firefighters and Paramedics (the "Supplemental Plan") are invested by OMERS Administration Corporation ("AC").

The Policy applies to all investments of the Supplemental Plan.

Next renewal date:	January 2023
Frequency of review:	Every year

Supplemental Plan Description

The Supplemental Plan is a multi-employer pension plan governed by the *OMERS Act, 2006*, a registered pension plan under the *Pension Benefits Act* (Ontario) ("PBA") and the *Income Tax Act* ("ITA") and a jointly sponsored pension plan under the PBA. The benefit provisions and other terms of the Supplemental Plan are set out in a stand-alone plan text, as amended from time to time.

The Supplemental Plan is a contributory defined benefit pension plan. The participating employers and members in the Supplemental Plan equally share the required contributions to the Supplemental Plan and the investment experiences of the Supplemental Plan.

Investments must be selected and managed in accordance with the criteria and limitations established by this Policy and applicable legislation, including the *OMERS Act, 2006*, PBA and the ITA.

The Supplemental Plan provides supplemental benefits for members of the Primary Plan (the "Primary Plan") who are employed in the police and fire sectors as defined in the *OMERS Act, 2006* (which includes paramedics as defined in the Ambulance Act). In combination with the benefits provided under the Primary Plan, a member may, provided the member's employer has consented to provide coverage for the particular benefit, become entitled to the following benefits:

- an annual benefit accrual rate of 2.33%;
- unreduced pension if a member's age plus eligible service equals at least 85 years (normal retirement age 65) or 80 years (normal retirement age 60) provided the member is within 10 years of the member's normal retirement date;
- calculation of pension benefits based on the average of the highest contributory earnings over a period of 48 months; and/or

- calculation of pension benefits based on the average of the highest contributory earnings over a period of 36 months.

The benefits under the Supplemental Plan are partially offset by the benefits provided under the Primary Plan. An employer may consent to providing multiple benefit provisions under the Supplemental Plan, but a minimum period of 36 months must elapse before any additional provision is provided.

The Supplemental Plan is subject to substantially the same conditions and provisions as the Primary Plan including, for example, the same survivor benefits. Inflation protection increases the Supplemental Plan's retirement, disability and survivor pensions each year, based on the increase in the Canadian Consumer Price Index ("CPI"), as follows:

- Benefits earned on or before December 31, 2022 receive full inflation protection, up to a maximum increase of 6%. Any excess is carried forward so it can be used in later years when the CPI increase is less than 6%.

- Benefits earned on or after January 1, 2023 are subject to shared risk indexing, meaning that the level of inflation protection will depend on the OMERS Sponsors Corporation ("SC") Board of Directors' annual assessment of the financial health of the Supplemental Plan.

As of the current review date of this Policy, there are no members and hence no assets in the Supplemental Plan.

Investment Objectives of the Supplemental Plan

Strategic Asset Allocation: Since the Supplemental Plan will be subject to unpredictable growth and cash flows in the initial years after the first members join, the assets of the Supplemental Plan will be fully commingled with the assets of the Primary Plan. As such, the long-term asset group mix of the Supplemental Plan will mirror that of the Primary Plan.

AC uses four strategic asset groups (fixed income, equities, real assets and cash and funding) as part of its long-term strategic asset mix. These asset groups are comprised of the following asset classes:

- Fixed income - includes bonds and credit (public or private);
- Equities - includes public equity and private equity;
- Real assets include infrastructure and real estate;
- Cash and funding - includes cash and equivalents, recourse debt and derivatives.

The AC Board has approved the following long-term strategic asset mix allocations:

Asset Group	Asset	Min.	Target	Max.
Fixed Income	Bonds	3%	7.5%	20%
	Credit	12.5%	20%	30%
Equities	Public	20%	27.5%	40%
	Private	12%	17.5%	22%
Real Assets	Infrastructure	17%	25%	32%
	Real estate	12%	22.5%	27%
Cash and funding			-20%	-40%

Implementation of the long-term strategic asset mix is carried out in a prudent manner subject to market conditions and investment opportunities. AC implements the strategic asset mix through its Business Units and through external service providers or other entities (including, without limitation, external professional investment advisors, third-party managed funds, pooled funds, unit trusts and similar vehicles).

Return Expectations: AC is committed to providing secure pensions through receipt of contributions and by investing activities informed by the long-term strategic asset mix designed to deliver approximately 7% average annual net nominal returns over the long-term. In estimating long-term return expectations there is risk that actual results may be different.

Performance Measurement: Investment performance will be evaluated against absolute return, and in certain instances relative, benchmarks that are approved annually by the AC Board. The investment performance of the Supplemental Plan will be reported to the Investment Committee of the AC Board both before and after management expenses incurred at each regularly scheduled meeting. Performance reporting will be consistent with industry recognized practices.

Liquidity of Investments: Plan liquidity is managed to ensure that sufficient liquidity is available to meet future obligations as they become payable during both normal and adverse market conditions.

Categories of Investments

The Supplemental Plan invests directly and indirectly in the four asset groups identified above. Within each asset group there are various asset classes. Depending on the nature of the investment, it is possible that an investment could fit within the description of more than one asset class in which case the asset will be classified according to the class to which it most closely aligns based upon an assessment of its underlying characteristics. The asset groups described below may include other asset classes which share similar risk/return characteristics.

Fixed Income

Fixed income investments typically pay a fixed or floating amount of interest at regular intervals over a period of time. Coupon payments and contractual maturities of fixed income investments provide liquidity to the Supplemental Plan. The fixed income asset group includes the following asset classes:

- bonds - debt issued by governments or government agencies, including derivatives that emulate such instruments; this may include nominal or inflation linked securities where the underlying principal or return is indexed to inflation; and
- credit investments - debt issued by an entity that is neither a government nor a government agency including derivatives that emulate such instruments; this may include nominal or inflation linked securities where the underlying principal or return is indexed to inflation. They may have fixed or floating rate payments, be secured by other assets or be convertible into other securities and be issued by either public or private companies. Credit investments includes asset backed financing such as royalty-related income streams.

Equities

Equities include both public equities and private equities.

- Public equities are securities that represent ownership in a reporting issuer and include securities listed on recognized exchanges. Public equities include domestic and global equities, commodities, equity derivatives, equity pooled vehicles such as ETFs, hedge funds, closed end funds and publicly traded REITs.
- Private equity is the ownership of equity or equity-like securities in companies (including funds) that do not generally trade on a recognized exchange. Private equity investments have the potential for higher returns through active management and increased leverage but have potentially higher risk than other asset classes. Venture capital and growth equity are considered to be private equity.

Real Assets

Real assets include private investments in infrastructure and real estate.

- Infrastructure investments are generally direct investments in large-scale services (e.g., toll roads, electricity production and transmission) or businesses with high barriers to entry, often supported by public regulation or substantially contracted revenue streams that operate over extended periods of time. Infrastructure investments are expected to produce predictable and stable cash flows and returns.
- Real estate investments are generally direct and indirect investments in real estate assets (e.g. industrial, office, retail, hotel and residential income producing properties and development properties). A diversified portfolio of real estate investments is expected to produce predictable and stable cash flows and returns.

Cash and Funding

Cash consists of cash and equivalent investments used to maintain plan liquidity. Funding includes debt guaranteed by AC to gain exposure to other asset classes to the extent it has not been allocated as debt to an asset class. Derivative exposure is reflected in each asset class with an offset included in cash and funding.

Supplemental Plan Governance

Delegation of Authority: In fulfilling its duties, the AC Board may delegate responsibilities for the investment of the Supplemental Plan to the CEO and provide the CEO with the power to sub-delegate.

Annual Review and Filing Requirements: This Policy will be reviewed and approved by the AC Board at least annually. A copy of this Policy will be filed with the Financial Services Regulatory Authority of Ontario and delivered to AC's actuary, in each case within 60 days of any amendment thereto.

Delegation of Voting Rights: AC retains overall responsibility for voting proxies related to securities owned by the Supplemental Plan. AC exercises voting rights in a manner that is consistent with its Proxy Voting Guidelines. AC exercises judgment in connection with the voting of any proxy on a case-by-case basis and may also engage a proxy voting service provider.

Consideration of Environmental, Social, and Governance Factors: Consistent with its Sustainable Investing Policy, AC believes that well run organizations with sound environmental, social and governance (“ESG”) practices will perform better, particularly over the long term. AC encourages the adoption of policies and practices that maximize financial performance including responsible corporate behavior with respect to ESG.

AC integrates ESG factors, including climate change, into its investment decision-making process and asset management practices, as such factors could have a material impact on investment performance. AC may determine that there are industries, sectors, jurisdictions, markets, or companies where the risks posed by ESG factors outweigh any potential benefits of investing. AC exercises voting rights in respect of its public equity portfolio in a manner consistent with its *Proxy Voting Guidelines.* AC may also encourage responsible corporate behavior through direct engagement with the public and private companies in which it invests.

AC believes that the consideration of ESG factors is both prudent and consistent with its objective to meet its long-term payment obligations to members.

Valuation of Investment Assets and Liabilities

Investments are stated at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. It is best evidenced by a publicly quoted market price, if one exists. AC uses quoted public market prices for the valuation of its assets wherever such quoted prices exist.

Where a public market price is not observable, an estimate of fair value will be prepared in accordance with generally accepted valuation practices applied on a consistent basis. At least once every three years, external accredited valuators perform an independent valuation or conduct a review of AC’s valuations in respect of significant private assets to confirm the reasonableness of the valuations as well as the methodologies employed.

The valuation of private investment assets requires significant judgment. Valuations are tested for reasonableness against appropriate public comparables as available. The resulting values are included in AC's annual financial statements which are audited by an independent firm of Licensed Public Accountants.

Other Investment Matters

Exposure to Foreign Assets: Foreign investments are permitted as they provide the benefit of diversification to the Supplemental Plan. Such investments could include components of any asset class described above.

Use of Derivatives: AC uses exchange-traded and over-the-counter derivative contracts to gain, reduce or hedge exposure to interest rates, foreign exchange rates, credit, debt instruments, commodities, public equities and other indices. Types of derivatives used include listed futures, options (listed and over-the-counter), swaps and forwards. Exchange-traded derivative and cleared over-the-counter positions are regularly valued using quoted market prices, where available, while bilateral over-the counter derivatives are marked-to-market. Derivatives are only used after full consideration of the related risks and in accordance with internally approved limits and applicable laws and regulations.

Short Selling: AC may short sell securities in public market assets to enhance expected returns or protect capital. Engaging in short selling of securities is done after full consideration of the related risks. These risks are identified, measured, managed and monitored by AC.

Securities Lending: The Supplemental Plan may engage in securities lending activities of its own securities (i) to generate incremental income (ii) for liquidity management purposes, and (iii) in order to facilitate collateral transformation and to support its securities borrowing activities.

Repurchase Transactions: AC enters into securities repurchase (“repo”) transactions for liquidity management purposes and may enter into reverse repo transactions to generate incremental income. Any decision to use repo transactions will include consideration of the impact on the Supplemental Plan. AC only enters into reverse repo transactions in respect of readily marketable liquid securities.

Collateral: AC may pledge, charge or otherwise grant a security interest in assets or post margin as required to complete derivative transactions, secure a permitted borrowing, complete a short sale, or in connection with a repo or reverse repo transaction in accordance with all applicable laws. Assets that can be posted as collateral are set out in legal agreements or are defined by exchanges. The level of collateral pledged is determined and monitored as part of AC’s management of liquidity risk.

Derivatives, Repo and Securities Lending Counterparties and Documentation: AC has established procedures that regulate the approval and ongoing assessment of all counterparties with whom it transacts. In addition, AC ensures these relationships are governed by appropriate documentation that contains specific procedures for close-out netting and termination.

Related Party Transactions: AC may enter into a transaction with a related party of the Supplemental Plan, as determined under the applicable legislation (i.e., PBA or ITA) and in accordance with the requirements of the *Related Party Transactions Review Policy*.

For the purposes of the applicable legislation, a transaction will be considered by AC to be nominal or immaterial if its value is no more than 3% of the market value of the Supplemental Plan at the time the transaction is entered into or completed.

Borrowing: Borrowing or providing guarantees on behalf of the Supplemental Plan is permitted provided it is in accordance with the PBA and the ITA.

Investment Risk Management

AC is exposed to a variety of investment risks. These include but are not limited to:

- Market risk (e.g., interest rate risk, foreign currency risk);
- Liquidity risk; and
- Credit risk.

These risks are measured and managed using systematic quantitative and qualitative approaches that assist AC in assessing the total risk associated with the Supplemental Plan's investment activities. The risk management function assesses key investment risks across the enterprise.

Since membership in the Supplemental Plan is available only if the employer has consented to provide coverage under a particular provision, incoming and outgoing cash flows in the initial years cannot be predicted with any degree of certainty. The short-term liquidity requirements of the Supplemental Plan will be considered through management of the long-term asset group mix of the Supplemental Plan.

To manage funding risk and investment risk, periodic asset liability studies will be conducted.

Diversification

Diversification is an important risk management tool because it reduces the variability of returns by distributing the Supplemental Plan's exposure among:

- asset classes;
- counterparties;
- countries and sectors;
- asset holding periods;
- currencies; and
- securities.

AC regularly reviews the composition of its portfolios and adjusts its exposures based upon its risk appetite.

Exceptions

The Policy Sponsor may grant non-substantive exceptions to this Policy. The reasons for granting an exception should be recorded in writing and communicated annually to the AC Board.

Monitoring and Reporting

AC has various functions and processes that monitor, and report on investment activity under this Policy. These functions include investment operations, risk management and compliance. These functions collectively monitor investment activities to ensure that Business Units operate within all limits established by the organization and in accordance with this and other applicable policies.

ROLES & RESPONSIBILITIES

Policy Approver	AC Board	Responsible for approving the Policy
Policy Sponsor	Chief Risk Officer	Ultimately accountable for the Policy, including its development, implementation and administration
Policy Manager and Monitor	Senior Managing Director, Fund Investment Risk Management	Responsible for the design and operational effectiveness of the day-to-day administration of the Policy, and for its monitoring, compliance and reporting functions