OMERS

2018 Annual Report

OMERS

We are OMERS, a jointly sponsored, defined benefit pension plan, with 1,000 participating employers ranging from large cities to local agencies, and almost half a million active and retired members. Our members include union and non-union employees of municipalities, school boards, transit systems, electrical utilities, emergency services and children's aid societies across Ontario. Contributions to the Plan are funded equally by members and employers. OMERS has people working in Toronto, London, New York, Amsterdam, Luxembourg, Singapore, Sydney and other major cities across North America and Europe – serving members and employers, and originating and managing a diversified portfolio of high-quality investments in public markets, private equity, infrastructure and real estate. Our net assets were $97 billion as at December 31, 2018.

The interests of OMERS members, employers, unions, sponsors and other stakeholders are represented by two corporations with separate and distinct mandates:

OMERS Sponsors Corporation (SC) provides strategic and risk oversight, and decision-making with regard to designing pension benefits, setting contribution levels, and determining the composition of the two OMERS Boards.

OMERS Administration Corporation (OAC) provides strategic, risk and operational management in serving Plan members and employers, collecting contributions and paying pensions, and investing the Plan funds.

This bicameral (two-part) structure provides for the effective operation of OMERS as a whole. Specifically, it helps to ensure broad input into decision-making by considering the interests of a large number of stakeholders, and focused expertise in key areas, including plan design, member and employer service, and investments.

The two corporations and their Boards work together, closely and collaboratively, to meet a singular goal: the delivery of secure and affordable defined benefit pensions that address the needs of both members and employers.

The benefits OMERS provides are funded equally from active members' and their employers' contributions, combined with investment income. We estimate that, on average, active members today will have approximately 70% of their lifetime benefits funded by investment returns.

2018 Highlights

96%	2.3%	$97	$4.3	91%	85%
Funded Ratio	Net Rate of Return	Billion in Net Assets	Billion in Pension Payments	Member Satisfaction	Employer Satisfaction

Credit rating of AAA from DBRS, Aa1 from Moody's Investors Service, and AA+ from Standard & Poor's

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The OMERS Pension Plans comprise the OMERS Primary Pension Plan, the Retirement Compensation Arrangement (RCA) for the OMERS Primary Pension Plan, and the Supplemental Pension Plan for Police, Firefighters and Paramedics. When we refer to the "OMERS Plan" or the "Plan" in our communications, it is the OMERS Primary Pension Plan that we are typically referring to, unless otherwise specified.

Year in Review

This Annual Report is addressed to our members, employers, sponsors, unions, associations, and the many others who are interested in OMERS 2018 performance.

The Plan achieved a net investment return of 2.3% against a challenging backdrop, in a year when virtually all major public markets were down. Our five-year net return was 8.1%.

While returns were below our absolute return benchmark of 7.3%, our diversified portfolio of high-quality assets protected OMERS from capital loss during a period of market stress.

In 2018, our smoothed funded ratio increased by two percentage points to 96%, reflecting improvement for the sixth consecutive year. On a fair-value basis, the funded ratio declined by four percentage points from 101% to 97%, as the net return was below the discount rate of 6%.

We undertook a rigorous assessment of the challenges that will influence the long-term health of OMERS, providing an opportunity for further dialogue on the risks facing our Plan.

In 2018, we made progress toward our 2020 Strategy:

- We deployed $10 billion in private market assets, in pursuit of our asset mix targets.
- We directly engaged our stakeholders on the challenges facing our Plan. Based largely on the feedback received, the SC Board made two changes that will address issues of fairness and equity.
- We opened a new investment office in Singapore to support our objective of gradual deployment of capital into higher-growth, Asia-Pacific markets.
- Member satisfaction remained high at 91%.

Since the first year of our 2020 Strategy in 2015:

- Our investment teams have generated $4.1 billion of net returns above our discount rate.
- Net assets have grown by $20 billion to $97 billion.
- We have reduced our discount rate by 0.25% to 6% – three years ahead of the schedule set out in the Strategy.

Contribution rates remain unchanged for 2019.

Our 2020 Strategy

The OAC and SC developed a joint Strategy in 2015, which sets out a five-year roadmap to advance OMERS toward our vision of being a leading model for defined benefit pension plan sustainability.

Our Strategy recognizes that the Plan is maturing. By the end of 2018, the ratio of active to retired members was less than 2:1. As the ratio of contributing members continues to decline, defined benefit payments exceed defined benefit contributions flowing into the Plan. With fewer contributing members to make up for potential investment losses, mature plans are more vulnerable to economic downturns.

In addition to Plan maturity, other broad challenges include:

- longer life expectancy
- changing demographic and workplace trends
- an increasingly uncertain economic environment creating pressure on investment returns
- technology and other developments that could impact jobs in the Ontario municipal sector
- legislative developments, including CPP enhancements that begin to come into effect in 2019

Our 2020 Strategy begins to address these challenges and other headwinds through four pillars of focus:

1. Protecting our funded status
2. Delivering 7-11% net average annual investment returns
3. Building quality relationships
4. Evolving our capabilities and business model

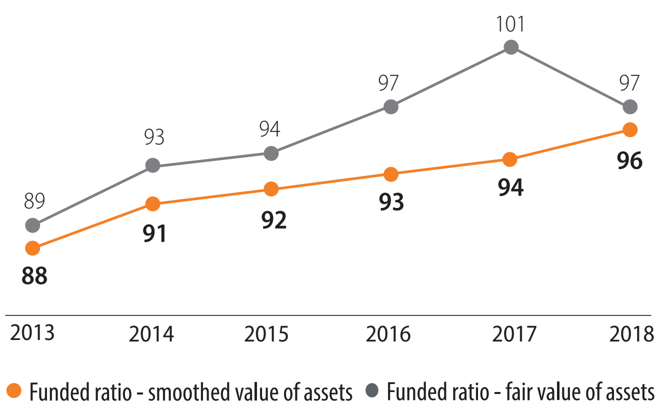
OMERS is advancing to deliver on the major priorities in this Strategy.

Protecting Our Funded Status

The funded ratio is a key indicator of the long-term financial health of the Plan.

The funded ratio is the measure of the value of assets relative to the pension obligations.

Plan Funded Ratio (%)



In 2018, our funded ratio increased by two percentage points to 96% on a smoothed basis, reflecting improvement for the sixth consecutive year. The improvement in the funded ratio in 2018 is attributable to the smoothing of strong investment gains from the prior years, together with member and employer contributions, partially offset by an increase in pension liabilities.

A goal of our Strategy is to be fully funded by 2025.

On a fair-value basis, the funded ratio declined by four percentage points from 101% to 97%, as the net return in 2018 was below the discount rate of 6%.

The discount rate is the interest rate used to determine the present value of pension benefit payments anticipated in the future, and minimum contribution rates. It has two parts: 1) the real discount rate before inflation, and 2) an assumption for inflation.

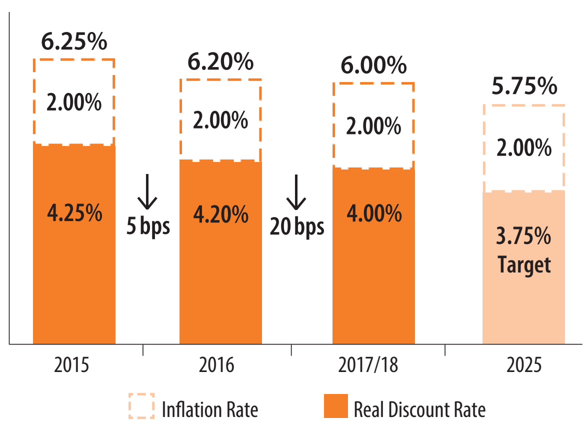
In our 2020 Strategy, OMERS set out an objective to reduce the Plan's real discount rate from 4.25% to 4.0% by 2020, and continue to reduce it to 3.75% over time. Reducing the real discount rate mitigates the risk of future contribution rate increases and provides greater stability for future contribution rates and benefit levels.

We achieved the real discount rate target of 4.0% in 2017, three years ahead of schedule. At December 31, 2018, the real discount rate was unchanged at 4.0%.

The assumption for future inflation was 2.0% for both 2017 and 2018.

We will continue to decrease the real discount rate when investment results and liability experience are better than our long-term actuarial assumptions.

Funding Discount Rate



In 2018, the Sponsors Corporation (SC) continued the *Comprehensive Plan Review*, which began the year before with the objective of ensuring that the Plan is meaningful, affordable and sustainable for generations to come. This rigorous assessment of the challenges, which could impact the long-term health of the OMERS Plan, provides an ongoing opportunity for the SC Board to consider options for mitigating the longer-term risks on behalf of current and future members.

Protecting Our Funded Status

During the *Comprehensive Plan Review*, the SC undertook direct outreach with sponsors, unions, associations, employers and members through in-person forums, webcasts and electronic updates. Key issues were shared regarding the headwinds facing the Plan, the long-term financial implications of those realities, and possible options to address them were discussed. There is still more work ahead, as the assessment of Plan risk and sustainability is an ongoing process.

Several options were considered, including:

- Replace inflation indexing with conditional indexing for future service.
- Update the criteria for early retirement subsidies.
- Integrate the pension formula with the new Year's Additional Maximum Pensionable Earnings (YAMPE), introduced as part of the enhanced Canada Pension Plan (CPP), which came into effect in January 2019.
- Make participation for non-full-time employees mandatory, with possible opt-out.
- Eliminate the current 35-year cap for credited service.
- Allow paramedics to negotiate normal retirement age 60 participation in the OMERS Pension Plan.

In 2018, the SC approved these last two items as changes to the Plan, effective January 1, 2021.

OMERS is committed to further deep analysis of membership trends and factors affecting the Plan, and building on the research conducted through the *Comprehensive Plan Review*. We continue to assess the broad range of challenges ahead.

The data and input collected through the *Comprehensive Plan Review* will equip the SC Board to continue in its efforts to address these challenges.

Contribution rates were unchanged in 2018 and will remain unchanged in 2019. The current average contribution rate paid by members is 10.7%, which is matched equally by employers.

2018 Member Contribution Rates	Normal Retirement Age 65	Normal Retirement Age 60
On earnings up to $57,400*	9.0%	9.2%
On earnings above $57,400*	14.6%	15.8%

*The CPP earnings limit in 2019. There are no changes to contribution rates in 2019.

Delivering 7-11% Net Average Annual Investment Returns

OMERS strategy of investing in a high-quality portfolio of well-diversified assets protected our members' retirement savings from the impact of challenging markets.

In 2018, the net investment return was 2.3%. This return did not achieve our absolute benchmark of 7.3%, because of the negative 8.3% return from public equity. However, our investment teams delivered positive growth, preserving capital and protecting members' retirement savings, at a time when major equity, credit, bond and commodity indices were down.

Infrastructure, private equity and real estate extended their long track record of strong returns, which, along with positive returns in our fixed-income portfolio, buffered the impact of drawdowns in equity markets.

Our one-year and long-term track records are as follows:

Net Return History

	1-year	3-year	5-year	10-year	20-year
Net Return	2.3%	8.0%	8.1%	8.0%	6.6%

In 2018, OMERS teams invested $10 billion in private market assets in pursuit of the long-term asset mix targets approved by the OAC Board in the prior year. Over the last three years, teams also rotated $6.6 billion of capital out of low-yielding, long-dated government bonds into higher-yielding credit investments. This shift shielded our fixed income returns from the impact of rising interest rates, particularly in the U.S.

Since we launched the 2020 Strategy, OMERS has generated $4.1 billion of investment income above our discount rate.

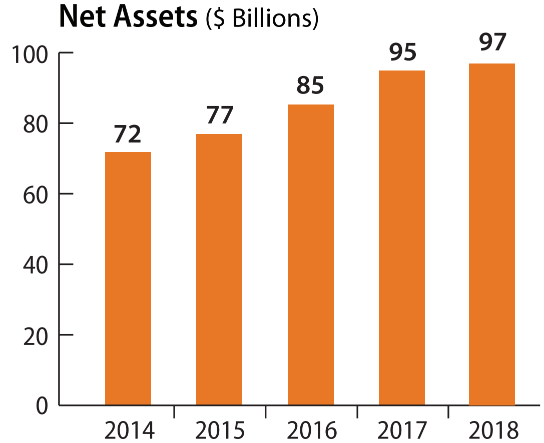
Net Investment Return Summary

	2018	2017
Fixed Income	**1.8%**	4.3%
Public Equity	**-8.3%**	14.7%
Private Equity	**13.5%**	11.1%
Infrastructure	**10.6%**	12.3%
Real Estate	**8.7%**	11.4%

Major Public Market Indices

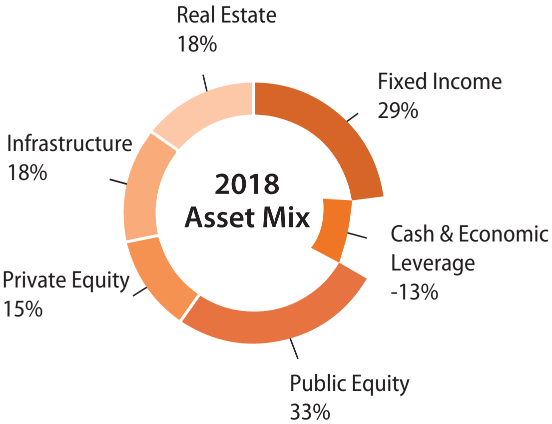
	2018 Total Return
EQUITIES	
S&P TSX Composite (Canada)	**-8.9%**
S&P 500 Index (US)	**-4.4%**
MSCI World Equity Local	**-7.4%**
BONDS	
FTSE TMX Canada Universe Bond Index (CAD)	**1.4%**
Barclays US Corporate High Index	**-2.1%**

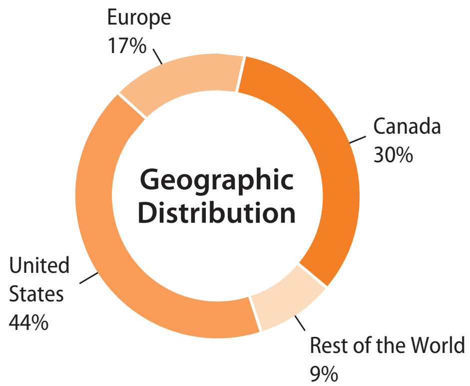
Net Assets ($ Billions)



Delivering 7-11% Net Average Annual Investment Returns

Over the long term, we remain committed to further diversifying our asset mix by adding high-quality, income-producing investments and gradually tilting the portfolio toward high-growth Asian markets. We believe that this approach will improve the return profile of the Plan and provide resiliency in our investment portfolio to mitigate the impact of a challenging investment environment, which we expect in the years ahead.





An *Asset Liability Study* will be conducted for the Plan in 2019. This Study will help to ensure that the asset mix is well-positioned in the context of the maturing liability profile and in accordance with OMERS risk appetite.

Oxford invested in DOOR, a build-to-rent joint venture in the U.K. This venture involves 39% ownership of the portfolio of Get Living, U.K.'s leading privately backed residential company. Get Living has redefined the U.K. residential market by providing unrivalled service for residents, combined with accommodation developed to the highest standard. Oxford brings the considerable success and experience of its multi-family investments and operations in North America to the venture.

In 2018, OMERS acquired Paradigm Outcomes, a market-leading provider of complex and catastrophic medical management to the U.S. workers' compensation industry. For more than 25 years, Paradigm has focused on improving health outcomes and lowering medical costs for complex cases. The company's clinically driven comprehensive care management programs are geared toward delivering innovative solutions and better medical outcomes.

Building Quality Relationships

OMERS strives to consistently meet the needs of our members, employers, sponsors, unions and associations.

In 2018, OMERS worked to strengthen our service mindset:

- We launched a *Retirement Expense Estimator* on **OMERS.com** – our website – to help members see what their expenses may look like after retirement. More than 150,000 pension estimates were provided through **myOMERS.com** – our member portal – to help members with their retirement planning.
- We received more than 209,000 member calls and hosted more than 20,000 attendees at information sessions and webinars across Ontario.
- We helped members save more for retirement, with over $1 billion now in Additional Voluntary Contributions.
- We changed **myOMERS.com** to make it easier for members to update their contact information online.

Our members have an increasing expectation for immediate connection and easy, real-time access to information. To meet that demand, we launched a new OMERS.com website that is easier to navigate and delivers a more modern and intuitive experience. Since its mid-February launch, the website has had more than 800,000 visitors.

The focus for 2018 was on modernizing pension administration by adopting a digital-first strategy. The objective of the strategy is to help members and employers better interact with OMERS and will involve new technologies and process changes. These changes are independent of the redevelopment of our pension administration platform, which will continue to develop in parallel.

A new digital onboarding process was introduced in 2018, which resulted in a high percentage of new members choosing to go paperless. These members have also provided mobile phone numbers, paving the way for digital interactions in the future. We now have more than 80,000 members who have opted for paperless communications.

Working in service of our members is our priority. This includes being available and accessible as members make important decisions. We implemented new, more detailed metrics to better measure employer and member satisfaction. Overall member satisfaction remains high at 91%.

Employers are a key partner in the administration of the OMERS Plan, ensuring that their employees are aware of the benefits. OMERS Employer Support Services team, which was formed in 2017 to assist with complex questions, launched a dedicated phone line in 2018. We also continued to offer webinars and learning forums for the pension administrators in our 1,000 employer organizations.

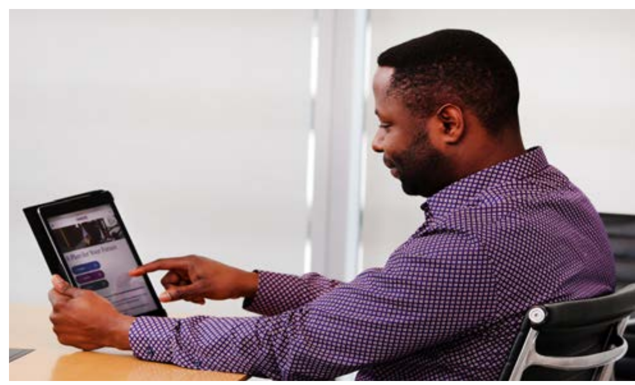
$31,295

Average annual OMERS pension for members who retired in 2018

209,303

Member phone calls handled by Client Services

Building Quality Relationships



Pension Services receives on average more than 130 messages each day from employers through e-correspondence. To improve the tracking of these messages for employers, we developed an automated notification tool to alert them each time there is an update. The dedicated employer service team in Pension Services regularly reviews and reports on electronic correspondence to ensure timely responses. We have also simplified how employers can scan and share documents with us. We have heard directly from employers that these changes have made administering the Plan easier.

Throughout 2018, OMERS senior management from both the Administration and Sponsors Corporations met with sponsoring organizations, unions and associations. We appreciate the time that is shared with us as we continue to partner on Plan design, Plan administration and connecting with our stakeholders.

In 2018, OMERS became more active in social media. In addition to updating our LinkedIn profile, we launched on Facebook, recognizing that this is a channel where our members are already active. Anyone can follow us on Facebook for news of Plan developments, along with highlights on investments, the value of our defined benefit Plan, and career opportunities.

2,465
Member information sessions

115
Employer webinars

85%
Employer satisfaction

Evolving our Capabilities and Business Model

We expanded our global footprint, invested in our operations, and built our risk-management capabilities to better meet our pension obligations.

In early 2018, we opened a new investment office in Singapore to explore opportunities in the Asia-Pacific Region, with investment teams from all our asset classes. These teams have been actively connecting locally to further develop relationships in the region. With investment offices now in cities across North America, the U.K., Europe, Australia and Asia, OMERS is well-positioned to apply deep knowledge of local markets around the world, as we seek out the best opportunities to meet our pension obligations.

Our strategy of building a diversified portfolio of high-quality investments requires highly skilled talent with knowledge and experience to deliver strong, long-term returns. We believe that in-house management generally creates better value than external management. We selectively use third-party managers to obtain access to specialized investment products and markets.

Over the last several years, we have increased global diversification of the portfolio, expanded asset allocation into private assets and introduced credit as a new strategic asset class. The objective of these decisions is to optimize investment returns. In doing so, we accept the related costs, which will vary depending on many factors, including actual performance results and asset mix.

Internal investment management expenses were $540 million in 2018, compared to $409 million in 2017. Increased investment expenses are mainly driven by expanded asset allocation to, and strong performance in our private assets, particularly in private equity, resulting in higher pay-for-performance costs. This increase was partially offset by lower compensation costs in other areas as a result of losses in public investments and the Plan's lower overall return.

In addition to investment management expenses, the Management Expense Ratio (MER) includes external manager performance and pooled fund fees of $99 million ($83 million in 2017), which were higher due to increased allocation and strong performance. Together, these items represent an MER of 66 basis points, compared to 55 basis points for 2017. Over the long term, when OMERS meets benchmark performance objectives, we are targeting our MER to be not more than 50 basis points.

Pension administration expenses were $93 million, representing a Cost Per Member (CPM) of $207 in 2018, compared to $85 million, or a CPM of $195 in 2017. The increase was due to the impact of organizational changes and advancing technologies, including cybersecurity. We expect that our CPM will increase in the near term as we phase in the redevelopment of our pension administration platform. We remain focused on deliberate expense management and the value of every dollar in the Plan.

Overall, we strengthened our approach to risk management. Through the *Comprehensive Plan Review*, we advanced our insights on the risks and challenges facing the Plan and identified possible long-term solutions. OMERS increased awareness of risk across the organization and reinforced the importance of a robust risk culture. We also continued our ongoing work to strengthen cyber-security controls. As risks evolve, we continue to build our capability to anticipate, prepare for and prevent potential negative impacts.

United by purpose, values and principles

OMERS mission is to provide secure, sustainable defined benefit pensions to our members. This purpose unites all employees across OMERS. We believe that how we conduct our business to deliver on that mission is as important as the mission itself. Every day, whatever our roles, and wherever in the world we work, we live by and are connected by these values:

Integrity
Conducting ourselves honestly and ethically in every interaction every day

Service
Committed to high standards of service

Teamwork
Working together to achieve results

Excellence
Continuously striving for extraordinary performance

Stewardship
Careful and responsible management today, while building for the future

In addition to these values, there are key principles that guide OMERS actions:

- Ensuring our investments are sustainable
- Advancing inclusion and diversity
- Growing responsibly
- Being committed to our communities
- Providing effective and transparent governance

Ensuring our investments are sustainable

As OMERS searches the globe for investments that will generate long-term, stable returns, we actively assess each opportunity against a set of factors, including our approach to sustainable investing. We believe that well-run organizations with sound environmental, social and governance (ESG) practices will perform better, particularly over the long term.

OMERS approach to sustainable investing is grounded in four overarching strategies:

Integration	Engagement	Collaboration	Adaptation
Integrate ESG factors into our investment decision-making processes and asset-management practices.	Actively and directly engage with investee companies and other stakeholders to promote sustainable business practices and long-term thinking.	Collaborate with like-minded organizations and investors to exchange information and to advocate for better transparency and performance on relevant standards and practices.	Adapt our capabilities and practices, as we expand our knowledge and deepen our understanding of sustainable investing issues – including evolving practices, norms and regulations – to help to ensure that our approach remains relevant, effective and in the best financial interests of our members over time.

Ensuring our investments are sustainable

What do these strategies look like in practice?

OMERS integrates ESG factors into our investment approach to achieve a more complete risk-return assessment.

In our public markets portfolio, we exercise governance through our proxy voting process, and through direct engagement, where appropriate, alongside our investing peers. We take our responsibilities as a long-term investor very seriously and believe that, by actively engaging in a constructive way, we can influence positive change.

In our private markets investments, OMERS actively engages directly with portfolio companies in various ways. As significant shareholders, we actively participate on the boards of these organizations, whether through our own employees or by appointing independent directors with specialized skills and experience.

OMERS sees significant opportunity in the next generation of clean energy. Climate change initiatives have produced attractive investment opportunities, as renewable and low-carbon energy projects gain traction.

While OMERS invests in the next generation of clean energy, we continue to carefully invest in the traditional energy industry, which remains significant in the global economy. We believe that there is a vital role for responsible and long-term investors to provide leadership on the cleaner and safer production and transportation of traditional energy.

OMERS collaborates with its pension plan peers, other institutional investors, governments and regulatory bodies on a variety of sustainability issues. For example, OMERS is involved in several climate-related initiatives, including a G7 group of institutional investors which, amongst its priorities, is committed to considering how best to implement the recommendations of the Task Force on Climate-Related Financial Disclosures. We are careful to ensure that our participation in institutional investor groups has a meaningful impact for our members.

OMERS continually reviews its practices in this area, and recognizes the evolving nature of global initiatives and regulations in sustainable investing.

In 2018, Oxford Properties, our real estate investing arm, was again named a Sector Leader in the **GRESB Real Estate Assessment** for outstanding leadership in sustainability, finishing in first place in the diversified office/retail North American (non-listed) group, ranking in the top 3% globally.

GRESB®

Ensuring our investments are sustainable

Our commitment to sustainability in our investment portfolio is reflected in the following highlights:

1 **Thames Water**, a water utility in the U.K., was ranked number one in Europe for network utilities by GRESB, a leading sustainability benchmarking organization. The utility company also signed an innovative Revolving Credit Facility, with the interest rate linked to the GRESB benchmark (with any profits made by Thames Water donated to charity).

1

2 **London City Airport**, in the U.K., which is the closest airport to central London and which handles short-haul international flights with a strong emphasis on business travel to destinations across Europe, has launched a program focused on driving leading safety practices. This program has been supported by Environmental Resources Management (ERM), a company within OMERS Private Equity portfolio.

2

3 **ERM** is a leading global provider of environmental, safety, risk and social consulting services. Sustainability is at the heart of its business, the core of the company's service offering and its business operations. The company's main areas of focus are: their own internal sustainability performance; the partnerships they have with clients to advance their ESG agendas; and the ERM Foundation, which facilitates staff fundraising and pro-bono work to deliver on community projects that support sustainability goals.

3

4 **Bruce Power**, which provides one-third of Ontario's energy, is at the centre of the largest climate-change initiative in North America. Its clean nuclear generation enabled Ontario's phase-out of coal-fired electricity, leading to a reduction of smog days. We are proud of our long-term investment in Bruce Power, which has been part of the OMERS portfolio for more than 15 years. Bruce Power, and the clean energy it produces, represents a key part of the province's overall energy mix. In 2018, OMERS continued to provide significant investment for Bruce Power's multi-year life extension plan.

4

Ensuring our investments are sustainable

5 **Alexander Mann Solutions**, which provides talent acquisition and management solutions to companies worldwide, has completed a comprehensive report focusing on evolving sustainability and ESG practices at the company.

5

6 **Leeward Renewable Energy, LLC**, a leading asset owner, operator and developer of wind projects in the U.S., was acquired by OMERS in 2018. Leeward owns and operates 19 wind farms across nine states, comprising 1.7 GW. The company plays an important role in the renewable energy future of U.S. power markets.


6

7 **ArcTern Ventures**, a global, early-stage venture capital company, is focused on breakthrough clean technologies. In Canada, ArcTern works closely with MaRS Discovery District, North America's largest urban innovation hub, to find the highest potential companies in cleantech. ArcTern invests across six core cleantech sectors, including renewable energy, energy use and storage, circular economy, advanced manufacturing and materials, mobility, and agritech. The company's goal is to both help with climate change and to advance the innovation economy.

ARCTERN
VENTURES
7

8 **"The Stack"** is the largest office development currently underway in Vancouver, Canada. The property covers 540,000 square feet and will feature smart building technology and multi-modal transportation options. The building is targeting LEED Platinum status and is one of only two highrise towers in Canada to be part of the Net Zero Carbon pilot. To encourage cycling to work and employee fitness, The Stack will also feature club-quality fitness and cycling facilities, including 250 bike stalls located at ground level.


8

Advancing inclusion and diversity

Our people are at the core of all that we do. To continue building a strong team that can deliver on our mission over the very long term, we know that we need to foster an environment that is broadly inclusive and that offers meaningful employee experiences.

In 2018, we strengthened our commitment to supporting an inclusive and diverse workplace. We saw a global groundswell of employee engagement that led to the launch of employee resource groups: Pride at OMERS and Women at OMERS. At the same time, our employees expanded the work and focus of our Inclusion and Diversity Council within businesses across the organization, and around the world. These groups celebrated alongside major global events such as International Women's Day, Black History Month and Pride.

We continued to advance the role of women in leadership, both inside OMERS and in our industry. In 2018, one-third of our roles at the Director level and above, were led by women. We were recognized for taking bold and innovative steps by winning the *2018 Women in Capital Markets Award for Excellence in Innovation*. This award was in recognition of our partnership with RBC in launching Canada's first Exchange-Traded Fund that focuses on gender diversity on boards in Canada.

OMERS employee engagement reflects the continuing evolution of OMERS culture, the pride employees have working here, their drive to be personally successful, and their commitment to helping OMERS succeed.

OMERS was recognized in 2018 for taking bold and innovative steps to improve inclusion and diversity.

Growing responsibly

As we grow, with operations around the world, we strive to build our organization in a responsible way.

With the support of Oxford Properties as the landlord of our offices, we are continuously improving our energy efficiency and promoting smaller footprints.

At the same time, OMERS is mindful of leveraging efficiencies to secure relationships with vendors that will achieve the best result for our business and for our Plan. When selecting vendors, OMERS engages them through a competitive process. We choose those who are reputable and we look for pricing that is at or below the market rate.

A key element of our investment approach is to diversify the Plan's investments geographically and by asset class. In our Capital Markets business alone, over the last five years, we have increased the number of countries in which we invest by 30% and the number of product types by 50%. The continuing diversification requires that we hire and develop professionals with the skills and knowledge that enable us to invest in new ways. To continue to be successful in this evolving context, we recognize the importance of attracting and engaging the right people, and our talent agenda remains a key priority across the organization.

We remain mindful of ensuring that we are operating in the most efficient ways possible, including through better use of automation. For example, we have kept securities administrative costs flat over the past five years by using technology to automate an increasing number of our business processes. In fact, over 90% of the business processes for securities transactions in our middle office have now been automated, compared with 30% four years ago. We are committed to driving responsible operations as we prepare for the Plan doubling in scale over the next decade.

Being committed to our communities

OMERS members are dedicated to public service and spend their careers building our communities. They inspire us to be passionate supporters of our communities.

Volunteer Days provide the opportunity for employees to actively engage with organizations that positively impact our communities. For example:

In Toronto, OMERS volunteers helped out at the Yonge Street Mission's Evergreen Centre for Street Youth and Covenant House where we prepared and served meals. We also volunteered to support maintenance projects at Matthew House, which helps settle newcomers and refugees, and with the Toronto and Region Conservation Authority, where we helped with planting.

In the U.K., we supported the East End Community Foundation by packing gifts and food parcels for families in need. Volunteers in London also built a new garden area for the Parkside Gardening Project, a community garden for people suffering from mental illness.

In 2018, OMERS employees also raised funds that were directed to several local, community-based charities, as well as various large organizations like the United Way and New York Cares, which help create vibrant communities where we live and work.

Oxford continued to reduce carbon emissions across its global buildings portfolio in 2018, and is on track to achieve its 30% reduction target by 2025. OMERS received a *Green Apple Award for Environmental Best Practice* in 2018 for keeping 492 tons of furniture out of the landfill through resale, recycling and charitable donations to non-profit organizations, in relation to our office move to the EY Tower at 100 Adelaide in Toronto. For this same initiative, OMERS also received the *Corporate Citizen Award* at the 2018 *REmmy Awards*, which recognizes leadership, excellence, innovation, sustainable design and social responsibility in corporate real estate and workplace management.

Providing effective and transparent governance

Effective and transparent governance is fundamental in fulfilling the pension promise. Throughout our history, OMERS has focused on achieving high standards in governance and has continued to evolve our governance model and practices.

The OMERS Act, 2006 provides that OMERS Sponsors Corporation determines the composition of the two OMERS Boards, including the nomination and appointment process for the OAC Board Chair and Directors. In 2017, an updated Competency Framework process for the OAC Board was developed.

In 2018, the two Boards also conducted an evaluation of the performance of OAC's Board Chair, which resulted in a unanimous decision by both Boards to reappoint George Cooke for a third three-year term.

Effective January 1, 2018, Yung Wu was appointed to the OAC Board to replace Eugene Swimmer. Also effective January 1, 2018, the following Directors were reappointed to the OAC Board: Monty Baker, Cliff Inskip and Charlene Mueller.

Effective April 1, 2018, Jason Chan was appointed to the SC Board to replace Tim Maguire. Jennifer Richards was appointed to the SC Board on January 1, 2019, to replace Diana Clarke.

In 2018, we thanked Marianne Love for her leadership as a Co-Chair of the SC Board since the inception of the OMERS Sponsors Corporation, and we welcomed Barry Brown to that role effective January 1, 2019.

The SC and OAC have collaborated on the oversight and governance of the Plan. In 2015, the two corporations worked together to develop one joint Strategy for OMERS. Each Board approved those aspects of the 2020 Strategy related to their respective roles and responsibilities, and endorsed the overall direction. Similarly, the Boards are both responsible for monitoring the implementation and effectiveness of the 2020 Strategy.

In 2018, the two Boards continued their planning for the development of OMERS medium- and longer-term strategies, and advanced these joint discussions.

Further details about the specific governance practices of the SC are at **www.omerssc.com/Sponsors/Governance**, while more details about the specific governance practices of OAC are at **www.omers.com/governance**.

Board Members

OMERS Sponsors Corporation


Barry Brown
Board Co-Chair


Frank Ramagnano
Board Co-Chair


Marianne Love
Board Co-Chair, to December 2018


Dan Axford


Paul Bailey


Frederick Biro


Jason Chan
(from April 2018)


Diana Clarke
(until December 2018)


Peter Derochie


Charlie Macaluso

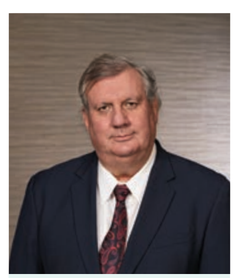

Tim Maguire
(until March 2018)


Mary McConville


Joe Pennachetti


Jennifer Richards
(from January 2019)


Sandra Sahli


John Weatherup

2018 Committee Members

Audit Committee
Chair: Pete Derochie
Jason Chan
Diana Clarke
Joe Pennachetti
Marianne Love (ex officio)
Frank Ramagnano (ex officio)

Governance Committee
Chair: Sandra Sahli
Dan Axford
Barry Brown
Mary McConville
Joe Pennachetti
John Weatherup
Marianne Love (ex officio)
Frank Ramagnano (ex officio)

Human Resources & Compensation Committee
Chair: Paul Bailey
Dan Axford
Fred Biro
Barry Brown
Jason Chan
Mary McConville
Marianne Love (ex officio)
Frank Ramagnano (ex officio)

Plan Design Committee
Chair: Fred Biro
Committee of the Whole

Joint Council Representatives
Marianne Love
Frank Ramagnano

Board Members

OMERS Administration Corporation

George Cooke
Board Chair

Bill Aziz

Monty Baker

David M. Beatty

Darcie Beggs

William (Bill) Butt

Paul Elliott

Michael Fenn

Laurie Hutchinson

Cliff Inskip

Charlene Mueller

James Phillips

Penny Somerville

David Tsubouchi

Yung Wu

2018 Committee Members

Audit & Actuarial Committee
Chair: Bill Butt
Monty Baker, Paul Elliott, Laurie Hutchinson, Cliff Inskip, Charlene Mueller, George Cooke (ex officio)

Governance Committee
Chair: Jim Phillips
Darcie Beggs, Michael Fenn, Penny Somerville, David Tsubouchi, George Cooke (ex officio)

Human Resources Committee
Chair: Monty Baker
Bill Aziz, David Beatty, Darcie Beggs, David Tsubouchi, George Cooke (ex officio)

Investment Committee
Chair: Bill Aziz
Members: David Beatty, Bill Butt, Paul Elliott, Cliff Inskip, Penny Somerville, Yung Wu, George Cooke (ex officio)

Technology Committee
Chair: Michael Fenn
Monty Baker, Laurie Hutchinson, Charlene Mueller, Jim Phillips, Yung Wu, George Cooke (ex officio)

Appeals Committee
Chair: David Tsubouchi
Darcie Beggs, Paul Elliott, Jim Phillips

Joint Council
George Cooke
Jim Phillips

Risk Oversight Committee
Chair: Penny Somerville
Darcie Beggs, Laurie Hutchinson, Cliff Inskip, George Cooke (ex officio)

OMERS

Looking Ahead

As we approach the latter stages of execution on the 2020 Strategy, OMERS has achieved many of the major deliverables already. We remain focused on the priorities that will guide us through the next two years with this plan.

We appreciate that our Strategy is a roadmap and that there is room for adjustment, as we regularly review the landscape and assess the forces at play to make updates and adjustments, where required.

For example, OMERS is refining our processes to engage with and support members. We know that member and employer satisfaction with our service is critically important, so we are looking at new ways to better gauge broader satisfaction with measurements that will help us continuously improve.

As we look further into the future, the OMERS OAC and SC Boards have been working together to develop an updated Strategy for the organization.

The new long-term Strategy will focus on:

- ensuring the Plan is sustainable, affordable and meaningful;
- managing assets and liabilities to reflect Plan maturity;
- continuing to lower the discount rate; and
- continuing to build a high-quality, well-diversified investment portfolio.

Successful execution of the long-term plan will help OMERS address the challenges that lie ahead, and further advance the Plan toward our vision of being a leading model for defined benefit pension plan sustainability.

As OMERS works on the next iteration of its Strategy, both Boards recognize that the gradual trend of Plan maturity and other headwinds are increasing the risk profile of the Plan. Moving forward, we will need to continue to assess potential changes to Plan design, and our funding and investment strategies to ensure the long-term financial health of the Plan.

Michael

MICHAEL LATIMER
Chief Executive Officer,
OMERS Administration Corporation

PAUL HARRIETHA
Chief Executive Officer,
OMERS Sponsors Corporation

George

GEORGE COOKE
Board Chair,
OMERS Administration Corporation

Frank

FRANK RAMAGNANO and BARRY BROWN
Board Co-Chairs,
OMERS Sponsors Corporation

2018 Management Discussion and Analysis

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This Management Discussion and Analysis is the responsibility of the Management of OMERS Administration Corporation (OAC) and OMERS Sponsors Corporation (SC).

The SC provides strategic oversight and decision-making with regard to designing benefits, setting contribution levels, and determining the composition of the two OMERS Boards. OAC provides strategic and operational management in serving members and employers of the OMERS Pension Plans (the Plans), collecting contributions and paying pensions, and investing the Plans' funds.

The Management Discussion and Analysis contains Management's analysis of the Plans' financial condition, operational results, and the environment in which the Plans operate. The Board of Directors of OAC has reviewed and approved the contents of this Management Discussion and Analysis, as at February 22, 2019. SC management has reviewed and approved the Primary Plan Funded Status section of the Management Discussion and Analysis. This Management Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

In addition to historical information, this section contains forward-looking statements with regard to Management's strategy, objectives, outlook and expectations. Forward-looking statements made in this section represent Management's views at the date of this report, and Management does not undertake to update or revise any forward-looking statements as a result of new information, future events or otherwise. Many factors affect the Plans' performance, such as changes in market conditions, interest rates, demographics and technological factors. Investment returns and values will fluctuate. Past performance is not a guide to or indicative of future results.

We use certain financial measures that are not based on Generally Accepted Accounting Principles (GAAP), including funding deficit, as key metrics in our financial reporting to enable our readers to better understand the performance of our business. Other non-GAAP financial measures that we use include investment results by asset group. These non-GAAP financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies or pension plans. They should not be viewed as an alternative to measures of financial performance determined in accordance with GAAP. Interests in the Plans are not and will not be offered or sold in the U.S., or to or for the account of U.S. persons, as defined by U.S. securities laws.

Overview of OMERS Pension Plans

About OMERS

Established in 1962, OMERS Primary Pension Plan (the Primary Plan or the Plan) is a jointly-sponsored, defined benefit pension plan, with 1,000 participating employers ranging from large cities to local agencies and almost half a million active and retired members. Our members are union and non-union employees of municipalities, school boards, transit systems, electrical utilities, emergency services and children's aid societies across Ontario. OMERS has people working in Toronto, London, New York, Amsterdam, Luxembourg, Singapore, Sydney and other major cities across North America and Europe - serving members and employers, and originating and managing a diversified portfolio of high-quality investments in public markets, private equity, infrastructure and real estate.

The Primary Plan is funded by equal contributions from members and employers, and by the investment earnings of the Primary Plan's assets.

The Primary Plan is sponsored by OMERS Sponsors Corporation (SC) and administered by OMERS Administration Corporation (OAC). The SC and OAC each have their own mandates and Boards of Directors.

OMERS Sponsors Corporation

The SC is primarily responsible for Plan design, including setting benefit levels and contribution rates, and determines the composition of the two OMERS Boards. The SC Board comprises 14 members, half of whom are appointed by employer groups, and half of whom are appointed by unions and associations of the Primary Plan.

OMERS Administration Corporation

OAC has three main responsibilities:

- investing the pension funds;
- administering the Plans and paying pension benefits to members; and
- preparing and approving the actuarial valuations.

To carry out these responsibilities, OAC is organized into the following businesses, which are supported by a corporate office:

- Pension Services
- Capital Markets
- Infrastructure
- Private Equity
- Real Estate

OAC is governed by a Board of Directors consisting of 14 members nominated by sponsor organizations and appointed by the SC Board, and an independent Chair, also appointed by the SC Board in a joint process with the OAC Board.

Pension Plans

The OMERS Pension Plans comprise the OMERS Primary Pension Plan, the Retirement Compensation Arrangement (RCA) for the OMERS Primary Pension Plan, and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics.

OMERS Primary Pension Plan

There are two components to the OMERS Primary Pension Plan: defined benefits and Additional Voluntary Contributions (AVCs). The Primary Plan is designed to provide defined benefit pensions. The lifetime pension is calculated as a percentage of the member's earnings averaged over the highest 60 consecutive months, multiplied by years of credited service. In 2018, the Sponsors Corporation eliminated the current 35-year cap for credited service beginning in 2021.

Based on years of service, the Primary Plan currently provides eligible members with:

- inflation protection;
- a bridge benefit, which ceases at age 65, when CPP benefits are expected to commence;
- early retirement options;
- disability protection in the event a contributing member becomes disabled and is unable to work;
- survivor benefits for a spouse and dependent children; and
- portability options between eligible employment.

Benefits payable under the Primary Plan are limited by the maximum pension allowed under the *Income Tax Act* (ITA). The Primary Plan's financial statements are set out in the Notes to the Consolidated Financial Statements.

The AVC component of the Primary Plan enables members to make additional voluntary contributions on which the member receives the net investment return of the Primary Plan.

Retirement Compensation Arrangement (RCA) for the OMERS Primary Pension Plan

The RCA provides pension benefits, using the OMERS pension formula, which are above the maximum pension allowed under the ITA. The benefit is based on annual earnings capped at the lesser of 150% of the member's base annual current compensation, or seven times the year's maximum pensionable earnings.

The RCA net assets were $148 million and the accrued pension obligations were $851 million at December 31, 2018, compared to $162 million and $813 million, respectively, at December 31, 2017.

The RCA is not subject to the minimum funding standards of the *Pension Benefits Act* (PBA), and is funded on a modified pay-as-you-go basis. The funding target is to help ensure that the existing RCA Fund, projected contributions and investment earnings, are sufficient to pay for benefits and expenses for a period of 20 years following each valuation date.

OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics

The Supplemental Plan is a separately funded, stand-alone, multi-employer pension plan for members who are police, firefighters or paramedics. It provides supplemental pension benefits that top up those available under the Primary Plan. Participation in the Supplemental Plan is effective only upon an agreement between an employee group and its employer. As at December 31, 2018, no such agreement was in place. As a result, the Supplemental Plan currently has no members, assets or liabilities.

Primary Plan Funded Status

In 2018, the funded ratio increased to 96%, from 94% in 2017. The funded ratio is an indicator of the long-term financial health of the Plan. With $99.1 billion of pension obligations as at December 31, 2018, compared to $93.6 billion as at December 31, 2017, the Primary Plan ended 2018 with a funding deficit of $4.2 billion, compared to a deficit of $5.4 billion at the end of 2017. Net assets on a smoothed basis were $94.9 billion as at December 31, 2018, compared to $88.2 billion the previous year.

There were no changes to contribution rates or benefits in 2018, and these will remain at current levels in 2019.

The funded ratio is the relationship of Plan assets to pension obligations on a going-concern basis. Plan assets are calculated by smoothing investment returns – above or below the Plan's discount rate – over a five-year period. By smoothing asset values, contribution rates can be set, and benefits designed, while taking a long-term view of investment performance. The deficit represents the difference between the pension obligations and the smoothed value of assets. At the end of 2018, unrecognized investment returns were $1.4 billion compared to $6.0 billion in 2017, which will be recognized over the next four years.

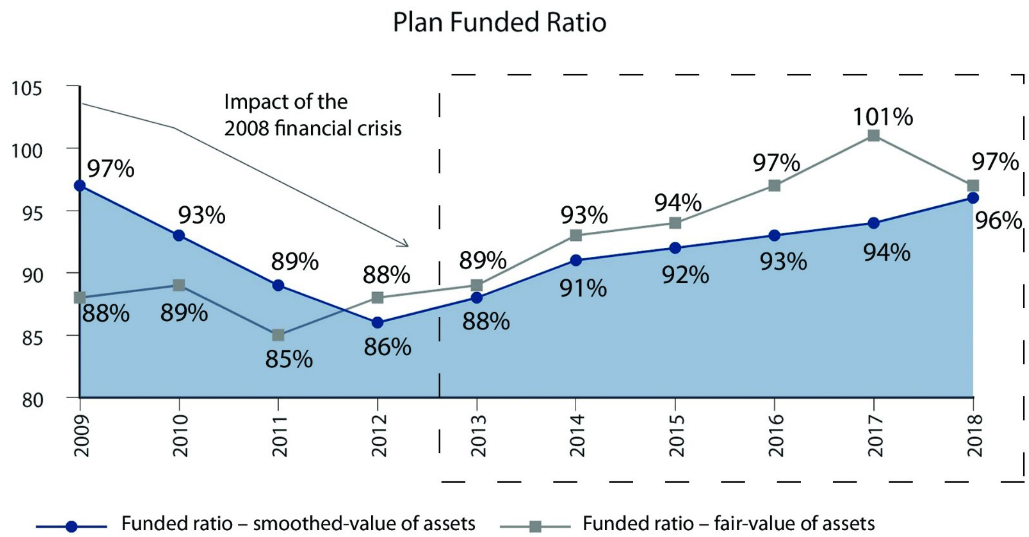
The improvement in funded status during 2018 was the net result of the following factors:

Funded Ratio %			Deficit $ billions
94%	**Beginning of year**	$	(5.4)
1	Contributions from members and employers to pay down the deficit		0.7
2	Recognized investment returns in excess of the discount rate		1.5
(1)	Primary Plan experience and other factors		(0.7)
n/a	Interest on deficit		(0.3)
96%	**End of year**	$	(4.2)

The Plan's net investment return was 2.3%, which was below both OMERS operating plan target of 7.3% and discount rate of 6.0%. The Plan's funded status, on a smoothed basis, has improved mainly due to smoothed investment returns in excess of the discount rate from the previous four years, together with member and employer contributions. We remain on target to meet the OMERS 2020 Strategy goal of returning the Primary Plan to full funding by 2025, while reducing the discount rate further over time, in response to Plan maturity and in line with OAC Board of Directors' risk appetite.

Achieving OMERS Strategy goal to be fully funded by 2025 is conditional upon actual investment returns, demographic experience and changes to actuarial assumptions.

The following chart tracks the funded status of the Plan over the past 10 years. In 2018, the funded ratio based on the fair value of assets, declined by four percentage points from 101% to 97%, as the net return was below the discount rate of 6%.



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Managing the Plan's Funded Status

Making good decisions to protect the Plan's funded status is critical in keeping the Plan healthy over the long term. Three levers are available to manage the Plan's funded status:

- contribution rates
- benefit design
- investment returns.

Responsibility for implementing strategies to manage the three levers is shared between the SC and OAC.

The SC sets contribution rates and benefit levels, taking into consideration the Plan's funded status (surplus, reserve or deficit). Decisions are guided by a clear framework – a Funding Management Strategy – that protects the Plan's funded status, and supports pension security and sustainability for current and future retirees.

OAC determines the actuarial assumptions and methods used to calculate pension obligations – including the Plan's discount rate, based on advice from an independent actuary – and sets minimum funding requirements in accordance with pension laws and regulations. OAC is also responsible for investments on behalf of the Plan.

OMERS is committed to taking a strategic and co-ordinated approach to using the three funding levers so that decisions are fair, balanced and supportive of long-term sustainability objectives. Contributions and benefits must be balanced to keep pensions secure and sustainable, while ensuring the Plan provides meaningful retirement benefits for its members. We continue to pursue investment returns that meet or exceed our long-term targets.

Opportunities to Reduce Plan Funding Risk

A sustainable defined benefit pension plan will deliver an appropriate range of benefits within an acceptable range of costs, across generations and through both favourable and adverse circumstances. Plan design, and the way that contributions and benefits are managed through time, are fundamental to the long-term health of the Plan.

Beginning in 2019, members and employers will be impacted by gradual enhancements to the Canada Pension Plan (CPP). These will include increasing the CPP income replacement rate from 25% to 33%, and increasing covered earnings to the new Year's Additional Maximum Pensionable Earnings. The OMERS pension formula does not adjust for changes in the CPP. As a result, a member's combined CPP and OMERS pension benefit for future retirees will increase in the long term. As more dollars are being directed to secure more retirement income outside of OMERS, this puts further pressure on OMERS contribution rates, decreasing the available dollars members and employers have to absorb future increases.

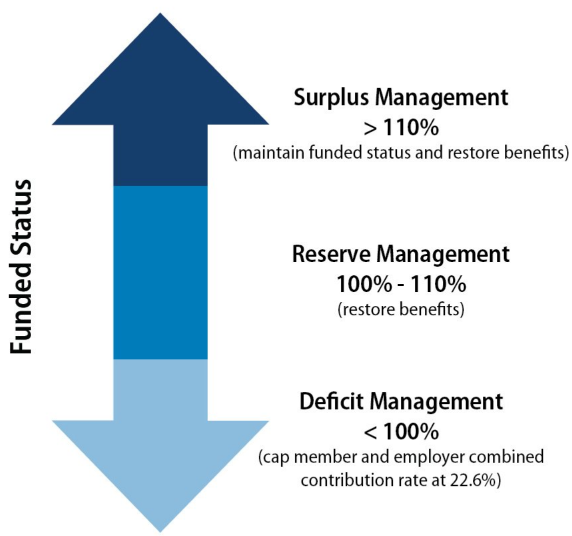
To ensure the Plan remains sustainable, meaningful and affordable for generations to come, the SC initiated a *Comprehensive Plan Review*. In November 2018, the SC Board approved the following Plan changes:

- eliminate the current 35-year cap for credited service
- allow paramedics to negotiate normal retirement age 60 participation in the OMERS Primary Plan.

Although several other options were put forth and discussed, the SC Board did not approve those options at this time. The feedback and input collected during the Review will equip the SC Board to continue its efforts to enhance the long-term health of the Plan.

Funding Management Strategy

The Funding Management Strategy, which was adopted by the SC Board in 2014, includes three funding zones, and provides parameters for setting contribution rates and benefits within each zone. The Strategy strives to maintain a healthy balance between the Plan's assets and long-term pension obligations. It clearly sets out the conditions for when contributions and benefits will be adjusted to manage the Plan for long-term financial health.



As the funding status improves, and as the Plan moves from deficit to surplus management zones, the Funding Management Strategy contemplates reductions to contribution rates and restoration of benefits.

The Plan is currently in the Deficit Management zone. In the absence of any unforeseen events, OMERS funded status remains on track to reach 100% by 2025. The 2018 combined employer and member contribution rate of 21.3% exceeds the minimum contribution rates of 19.6% under the Pension Benefits Act (PBA). In the event the Plan should move further into deficit and the minimum contribution rates under the

PBA exceed 21.3%, the Funding Management Strategy calls for such additional deficit to be funded by a combination of benefit reductions and contribution increases. Contribution rates are subject to an overall cap of 22.6%, after which any remaining deficit is to be funded through benefit reductions.

Once 100% funded status is achieved and the Plan enters the Reserve Management zone, the Funding Management Strategy calls for contribution rates to be reduced to normal cost plus 2%, until the funded status reaches 105%, and then reduced further to normal cost plus 1%, until the funded status reaches 110%. Normal cost is the present value of pension benefits accrued during the year. In other words, it is the contribution rate that pays for current service only. Benefit reductions, which occurred while in the Deficit Management zone, are restored at the point when the Plan reaches 105% funded status. Restoration would be on a prospective basis, which means it will only impact benefits earned in the future – not those that have already accrued.

Above a funded status of 110%, the Plan enters the Surplus Management zone, where the objective is to maintain the 110% funded status and further restore benefits. Contribution rates will be set so as to fund the normal cost of benefit accruals. Benefits will be restored retroactively, but only when doing so will not reduce the funded status to below 110%, and when it is considered prudent to do so. Additional contribution rate reductions and benefit enhancements also may occur, but only to the extent the funded status is not reduced to below 110%.

Funding Risk

Funding Risk is the risk that the SC will be required to increase contributions and/or reduce benefits. It includes a combination of Investment, Pension, Operational, and Emerging risk categories. These four categories are described in the Risk Management section. The three main sources of Funding Risk are, 1) investment performance, 2) demographic experience, and 3) Plan maturity.

Investment Performance

Investment performance is impacted by economic factors such as financial market volatility, lower future growth rates, and a high level of competition for asset classes, making it difficult to predict future investment returns. Investment performance impacts Plan funding when investment returns are below the discount rate, and where fluctuations in the Plan's short-term returns require changes to contributions/benefits. Accordingly, each year, OAC tests the reasonableness of the Plan's discount rate to ensure it contains sufficient margins, in accordance with the OAC Board's risk appetite, to protect the Plan against adverse experience over the long term.

An important factor in setting the Plan's discount rate is our target asset mix, which is approved by the OAC Board and provides target allocations across our asset classes. OAC conducts periodic studies to adjust the Plan's target asset mix and optimize the Plan's ability to return to full funding by 2025. The last study was performed in 2016 and is scheduled again for 2019.

With the exception of 2018, when public market returns were negative and overall returns dampened, the Plan has experienced strong investment returns in recent years. In the future, we anticipate that global growth will slow, and future investment returns will be lower compared to historical levels for the past 10 years.

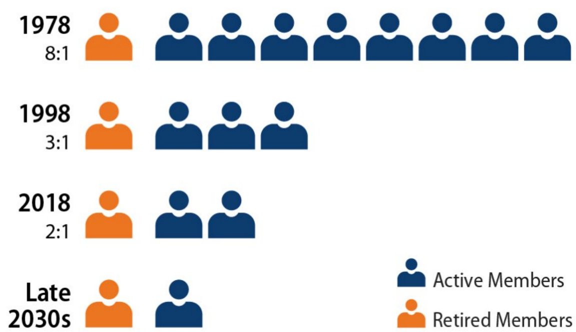
Demographic Experience

Demographic experience includes unexpected changes in life expectancy (such as increased longevity), salary increases, and retirement and termination trends of members. Continuing adverse demographic experience, leading to actuarial losses, requires a change to actuarial assumptions that negatively impact pension obligations and funding requirements. Life expectancy, in particular, has steadily increased over time. This means retirees collect pensions for longer periods, which increases the pension liabilities. We monitor our demographic experience against actuarial assumptions annually, and conduct a detailed experience study at least once every five years, with the most recent study completed in 2018.

Plan Maturity

Plan maturity occurs when there is a declining active membership base relative to the retired member population, which occurs due to a variety of reasons, including: increasing longevity, a decline in the number of active members, retirement patterns and other factors. Since all Plan funding risk is currently borne by active members and employers, this trend means the cost of funding the Plan is increasingly concentrated in a relatively smaller group of active members and the risk of contribution rate increases and benefit reductions is increasing.

The ratio of active members to retired members is a common measure of Plan maturity. The Plan is maturing, as this ratio has declined to less than 2:1 at the end of 2018 and is expected to reach 1:1 in the late 2030s. As the ratio of contributing members continues to decline, defined benefit payments exceed defined benefit contributions. Therefore, we now rely upon investment income to make up the difference, leaving the Plan more vulnerable to economic downturns. Over time, increasing Plan maturity means the Plan Funding Risk will increase, with everything else being equal.



Discount Rate

The discount rate is the interest rate used to determine the Plan's pension obligations and minimum contribution rates. The discount rate is comprised of two main components: 1) the real discount rate (before inflation), which reflects expectations of future real investment returns from the Plan; and 2) an assumption for future inflation.

The discount rate as at December 31, 2018 is 6.0%, the same as the rate as at December 31, 2017. The assumption for future inflation was 2.0% for both 2018 and 2017.

As at December 31, 2018, the real discount rate of 4.0% is net of a strategic margin of 0.25% which was taken prior to 2018.

To protect against funding risk, we continue to target further reductions in the discount rate over time. These reductions will be made when investment performance and demographic experience are better than those anticipated by our long-term actuarial assumptions. OMERS objective is to reduce the Plan's real discount rate to 3.75%. As we reduce our real discount rate, the normal cost of the Plan will increase. Each five-basis-point reduction in the real discount rate, as at December 31, 2018, would increase the normal cost by approximately 0.2% and the pension obligation by $0.7 billion.

Investment Results

Economic Environment

Public markets globally in 2018 can best be characterized as a tug of war between solid economic conditions, driven by strong employment and earnings growth against a backdrop of stable inflation which was overshadowed by trade wars and interest rate increases. The U.S. Federal Reserve interest rate hike of 25 basis points in December marked the fourth increase in 2018, with the pace of increases fueling concerns of an economic slowdown, which culminated in the worst performing December month and the third-worst quarter going back 70 years.

Equity markets concluded a tumultuous 2018 with stock indices posting their worst yearly performance since the financial crisis in 2008, with indices reaching record highs followed by sharp reversals. Broad market indices such as MSCI World (local) index ended the year down 7.4% and the S&P TSX down 8.9%. In the U.S., December 24, 2018 saw the S&P 500 briefly touch bear market territory or a 20% decline from its high. Commodity markets fared no better, with crude oil down 24.8% and broad commodity indices down 13.8%. Credit markets were also impacted by market uncertainty, and with four increases in U.S. interest rates, spreads in the high-yield market widened by 200 basis points and investment grade spreads widened by 50 basis points. Despite the financial turmoil, private markets remained robust during the year.

Results

In 2018, the Primary Plan had a return, net of expenses, of 2.3%, compared to a benchmark of 7.3%. Public investments generated net losses of 4.6% and private investments generated net income of 10.7%. Public investment net returns were negative, reflecting the returns of virtually all capital market indices. The private investment asset classes outperformed against benchmarks.

We measure our performance against an absolute return benchmark approved, before or at the beginning of each year, by the OAC Board. Our goal is to earn stable returns for OMERS that meet or exceed our benchmarks.

Current Year Returns at a Glance

Investment returns for the Primary Plan and RCA for 2018 and 2017 were as follows:

For the years ended December 31,	2018			2017		
	Net Investment Income $ millions	**Net Rate of Return %**	**Benchmark %**	Net Investment Income $ millions	Net Rate of Return %	Benchmark %
Public Investments						
Fixed Income						
Inflation-Linked Bonds	**$ (13)**	**(0.4) %**		$ 85	2.0 %	
Government Bonds	**(65)**	**(0.6)**		44	0.2	
Credit	**577**	**3.1**		1,186	6.9	
Public Equity	**(2,859)**	**(8.3)**		3,937	14.7	
Cash and Short-Term Instruments	**94**	**n/a**		249	n/a	
Total Public Investments	**$ (2,266)**	**(4.6)%**	**6.0 %**	$ 5,501	11.4 %	6.1 %
Private Investments						
Private Equity	**1,601**	**13.5**	**11.2**	1,195	11.1	9.3
Infrastructure	**1,794**	**10.6**	**8.6**	1,917	12.3	8.7
Real Estate	**1,288**	**8.7**	**8.4**	1,455	11.4	8.4
Total Private Investments	**$ 4,683**	**10.7 %**	**9.0 %**	$ 4,567	11.6 %	8.7 %
Total Primary Plan Fund	**$ 2,417**	**2.3 %**	**7.3 %**	$ 10,068	11.5 %	7.3 %
RCA Investment Fund [1]	**$ (1)**	**(1.6) %**	**0.1 %**	$ 12	13.1 %	12.8 %

[1] Excludes the RCA refundable tax balances with the Canada Revenue Agency. The RCA net rate of return including the refundable tax balance in 2018 is (0.8)%, compared to 7.4% in 2017.

Asset Allocation and Exposure

OAC mitigates risk and targets strong, consistent returns by diversifying investments across asset type, economic sector and geographic market, and by purchasing high-quality assets. OAC has a Board-approved target asset mix for the Plan (updated in August 2018), designed to deliver returns over the long term to meet pension obligations. Fixed income investments include securities in inflation-linked bonds, government bonds and credit. Equity includes both public and private equities, either through the purchase of instruments directly, or through the use of derivatives. OAC also invests in real assets, which include infrastructure and real estate – selected specifically for their ability to provide more predictable returns and cash flows.

Asset Mix – Exposure

To arrive at the Plan's ultimate exposure by asset class, the asset mix includes derivatives exposure and other items, such as amounts payable under administered funds. Net investment asset exposure, based on the holdings as set out in the Consolidated Financial Statements, is as set out in the table below. The inclusion of derivatives exposure is reflected in each asset class, with an offset to economic leverage. Economic leverage is the difference between the exposure to an asset class and the fair value of the derivative in the asset class. Net investment asset exposure at the end of 2018 was $98.7 billion ($96.4 billion, 2017) and includes administered funds of $1.4 billion ($1.4 billion, 2017), less the non-investment-related items of $(0.1) billion ($(0.2) billion, 2017).

As at December 31,	2018				2017			
	Investment Assets $ millions	**Investment Liabilities $ millions**	**Net Investment Asset Exposure $ millions**	**Asset Mix %**	Investment Assets $ millions	Investment Liabilities $ millions	Net Investment Asset Exposure $ millions	Asset Mix %
Fixed Income								
Inflation-Linked Bonds	**$ 3,829**		**$ 3,829**	**3.9 %**	$ 3,855		$ 3,855	4.0 %
Government Bonds	**5,692**		**5,692**	**5.7**	6,754		6,754	7.0
Credit	**18,721**		**18,721**	**19.0**	17,653		17,653	18.3
Equities								
Public Equity	**32,681**		**32,681**	**33.1**	32,522		32,522	33.7
Private Equity	**14,243**		**14,243**	**14.4**	11,521		11,521	12.0
Real Assets								
Infrastructure	**20,299**	**(2,378)**	**17,921**	**18.2**	17,044	(1,365)	15,679	16.3
Real Estate	**21,474**	**(3,414)**	**18,060**	**18.3**	14,932	(1,172)	13,760	14.3
Short-Term Instruments								
Cash	**8,806**		**8,806**	**8.9**	13,753		13,753	14.2
Economic Leverage	**(21,243)**		**(21,243)**	**(21.5)**	(19,099)		(19,099)	(19.8)
Total	**$ 104,502**	**$ (5,792)**	**$ 98,710**	**100.0 %**	$ 98,935	$ (2,537)	$ 96,398	100.0 %

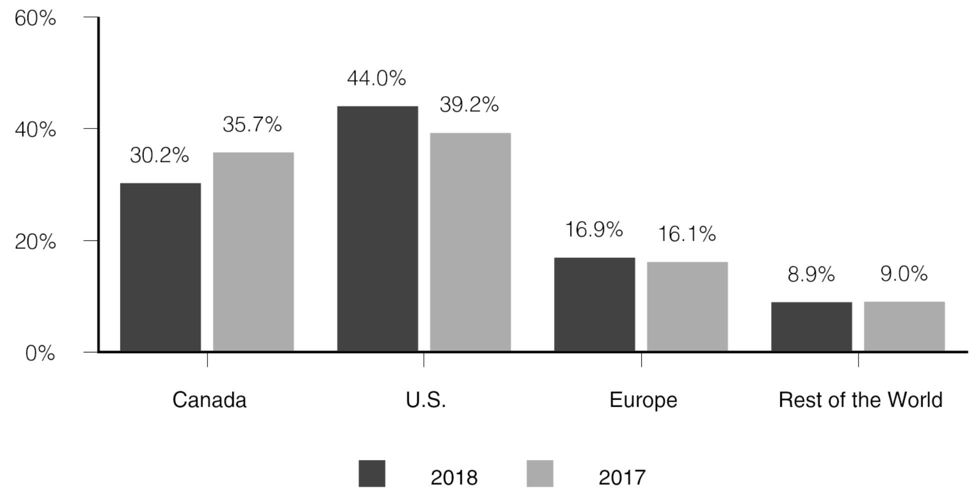
In 2018, we shifted the Plan's asset mix, increasing investments in real assets, private equity and credit, and reducing exposure to government bonds. Declines in the value of public equity due to the market drawdown in 2018, were offset by an increase in derivative exposure and economic leverage.

Country Exposure

The chart below represents the total of the Plan's exposure by country. While Canada continues to offer strong, long-term investment opportunities, prudence and related risk-management practices make it appropriate to diversify investments across global markets with different growth profiles.

During 2018, we increased exposure to the U.S. and Europe, and reduced our exposure to Canada.

Total Fund Exposure[1]
as at December 31,



[1] Exposures are presented net of financial leverage and before economic leverage.

Currency Exposure

Currency exchange rate volatility impacts our returns for investments held in currencies other than the Canadian dollar. Our approach is to hedge a large proportion of our exposure to foreign currencies to protect against the impact of fluctuations. As at December 31, 2018, 95% of currency exposure on our foreign investments was hedged to Canadian dollars. During 2018, foreign exchange gains of $4.1 billion were offset by hedging losses of $4.1 billion. This compared to foreign exchange losses of $2.1 billion, which were offset by hedging gains of $2.1 billion in 2017.

Absent currency hedging, OMERS full-year net return in 2018 would have increased to 6.6% or 4.3% higher than the actual net return of 2.3%, as a result of the Canadian dollar's depreciation relative to other major currencies. Absent currency hedging, OMERS full-year net return in 2017 would have decreased to 9.1% or 2.4% lower than the actual net return of 11.5%, as a result of the Canadian dollar's appreciation relative to other major currencies.

Industry Exposure

The OMERS portfolio remains highly diversified across industries. The table below shows OMERS investment exposure by industry, net of financial leverage and before deducting economic leverage.

As at December 31,	**2018**	2017
Financials	**18.1%**	16.9%
Real Estate	**16.5%**	13.3%
Cash and Cash Equivalents	**5.6%**	11.8%
Industrials	**10.3%**	10.0%
Government	**8.2%**	9.2%
Utilities	**9.5%**	9.0%
Consumer Discretionary	**4.8%**	6.6%
Information Technology	**6.1%**	6.3%
Energy	**5.4%**	5.2%
Health Care	**7.1%**	4.8%
Consumer Staples	**3.1%**	3.0%
Materials	**2.4%**	2.4%
Communication Services	**2.9%**	1.5%
Total	**100.0%**	100.0%

Investment Management and Pension Administration Expenses

Our strategy of building a diversified portfolio of high-quality investments requires highly skilled talent with knowledge and experience to deliver strong long-term returns. We believe that in-house management generally creates better value than external management. We selectively use third-party managers to obtain access to specialized investment products and markets. Over the last several years, we have increased global diversification of the portfolio, expanded asset allocation into private assets and introduced credit as a new strategic asset class. The objective of these decisions is to optimize investment returns. In doing so, we accept the related costs which will vary depending on many factors, including actual performance results and asset mix.

Internal investment management expenses were $540 million in 2018, compared to $409 million in 2017. Increased investment expenses are mainly driven by expanded asset allocation to, and performance in our private assets, particularly in private equity, resulting in higher pay-for-performance costs. This increase was partially offset by lower compensation costs in other areas as a result of losses in public investments and the Plan's lower overall return.

In addition to investment management expenses, the Management Expense Ratio (MER) includes external manager performance and pooled fund fees of $99 million ($83 million, 2017), which were higher due to increased allocation and strong performance. Together, these items represent an MER of66 basis points in 2018, compared to 55 basis points in 2017. Over the long term, when OMERS meets benchmark performance objectives, we are targeting our MER to be lower than 50 basis points.

Pension administration expenses were $93 million, representing a Cost Per Member (CPM) of $207 in 2018, compared to $85 million, or a CPM of $195 in 2017. The increase was due to the impact of organizational changes and advancing technologies, including cybersecurity. We expect that our CPM will increase in the near term as we phase in the redevelopment of our pension administration platform. We remain focused on deliberate expense management and the value of every dollar in the Plan.

Public Investments

Investment Approach

Our approach to investing in public markets is focused on high-quality investments that can generate sustainable income and growth, which we believe results in more consistent returns and lower volatility. We seek investments in companies with strong balance sheets and resilient business models. We partner with leading businesses, operators and best-in-class investors to access investment opportunities on a global basis. Our objective is to construct a well-diversified portfolio, across geographies, sectors, strategies and income streams, that will deliver long-term, consistent, absolute returns to meet the pension liabilities.

2018 Performance

Public investments generated a net loss of 4.6%, compared to a net return of 11.4% for 2017 and our 2018 benchmark of 6.0%. This represents a net investment loss of $2.3 billion in 2018, compared to a net investment income of $5.5 billion in 2017.

Public investments returns reflect the trends in public market indices, which were virtually all negative in 2018. Indices such as the S&P TSX fell 8.9%, the S&P 500 (USD) fell 4.4% and the MSCI World (local) fell 7.4%. This follows a strong performance in the prior year. Public equities lost 8.3% in 2018, compared to a gain of 14.7% in 2017. Inflation-linked bonds and government bonds lost 0.4% and 0.6% respectively in 2018, mainly due to rising U.S. interest rates, compared to gains of 2.0% and 0.2% respectively in 2017. Credit investment returns were negatively impacted by widening spreads, but were positive overall, gaining 3.1% in 2018, compared to 6.9% in 2017. Over the last three years, we rotated $6.6 billion of capital out of low-yielding, long-dated government bonds into higher-yielding credit investments. This shift shielded our fixed income returns from the impact of the continued low-interest-rate environment, particularly in the U.S. These actions also buffered our returns from drawdowns in equity markets in 2018.

Capital Allocation

Public investments were $46.4 billion as at December 31, 2018, compared to $53.2 billion as at December 31, 2017. The decrease in capital was primarily attributable to increased investment in private investments and credit and reduced exposure to government bonds. The amount of capital available for public investments decreased by $3.5 billion primarily due to purchases in other asset classes, and $1.6 billion realized losses from the settlement of foreign-currency hedges.

Sustainable Investing in Public Investments

We actively engage with our most significant investee companies as a shareholder, through our voice with management and exercising our votes. We consider and regularly monitor the Environmental, Social and Governance (ESG) factors that are most relevant and material to our key investments, alongside other factors, as part of our initial decision to invest and ongoing asset-management responsibility.

Proxy Voting

As owners of companies, OMERS has important rights and responsibilities, including the right to vote our shares at company meetings. We exercise our ownership rights through the proxy process by voting our shares, whether with respect to governance matters or corporate transactions, and in connection with other matters being presented to shareholders.

Our voting decisions are based on OMERS Proxy Voting Guidelines, which promote good corporate governance, and which hold boards accountable for their decisions. These guidelines are regularly reviewed and updated to reflect evolving developments, and are publicly accessible on our website. We retain flexibility in our guidelines to consider specific circumstances on any matter, so that we can exercise our votes in the best interests of OMERS.

Although we consider research and recommendations from third-party proxy advisers, responsibility for proxy voting decisions sits internally with OMERS professionals, who make such decisions based on our own opinion as to what is best for OMERS. We do not always agree with the recommendations of proxy advisers or management of companies.

Shareholder Engagement

We encourage responsible corporate behaviour by speaking directly to investee companies, where appropriate. As a large and influential shareholder, OMERS meets with management teams and boards of directors to directly engage them in open and constructive dialogue. By sharing our views directly with leaders of the companies in which we invest, we can encourage responsible corporate behaviour and accountability.

Private Investments

Infrastructure

Investment Approach

Our approach to investing in infrastructure is to seek strong, stable cash flows through investments in large-scale infrastructure businesses in energy, social infrastructure, transportation and telecommunications – primarily in North America, Europe and Australia. Consistent with OMERS strategy to diversify our investments across global markets, we opened an office in Singapore in early 2018.

The infrastructure businesses we invest in include regulated and contracted services supported by long-term arrangements that provide an effective way to manage risk, which contributes to reliable income over the long term.

We take a patient and disciplined approach to infrastructure investing, and we execute on the prudent diversification of our portfolio. We actively manage the absolute and relative exposures, such as industrial sector, technology, demographics and currency, through dynamic asset and portfolio management.

2018 Performance

The infrastructure asset class net return was 10.6%, compared to 12.3% for 2017 and our 2018 benchmark of 8.6%. This represents net investment income of $1.8 billion in 2018, compared to $1.9 billion in 2017 and an operating cash yield of 5.9% in 2018, compared to 8.3% in 2017.

The infrastructure performance in 2018 was attributable, in part, to the sale of Airports Worldwide (a portfolio of airports across the Americas and Europe), and to our active asset management focus which led to operational outperformance across a number of our core assets.

Capital Allocation

Infrastructure investments increased to $20.8 billion in 2018, up from $18.1 billion in 2017. This increase was attributable to the progress made with our capital-deployment strategy, along with increases in the market value of existing assets within our portfolio, net of the Airports Worldwide disposition.

During 2018, we invested in Leeward Renewable Energy LLC (a leading renewable energy producer in the U.S.), BridgeTex Pipelines Company, LLC (a crude oil transportation provider in the U.S.), and increased our investment in Thames Water (a water utility in the U.K.).

Private Equity

Investment Approach

Our approach to investing in private equity is to acquire significant direct ownership interests in private companies (usually majority positions), primarily headquartered in North America, and Europe and with the objective of generating strong capital returns, while appropriately managing risk. We take a thoughtful approach to capital deployment and invest in companies with solid business fundamentals, strong management teams, and opportunities to grow both organically and through acquisitions. The private equity asset class also includes an innovation-based program, including investments in high-potential startup technology-based firms.

2018 Performance

The private equity asset class net return was 13.5%, compared to 11.1% in 2017 and our 2018 benchmark of 11.2%. The 2018 net return represents net investment income of $1.6 billion, which differs from the amount reported as net investment income for private equities of $2.0 billion in the Consolidated Financial Statements. The Consolidated Financial Statements include $0.4 billion of income from private credit funds, which are classified as equity under IFRS, but where the risks and rewards are fixed income in nature. The 2017 net return represents net investment income of $1.2 billion, which differs from the amount reported as net investment income for private equities of $1.3 billion in the Consolidated Financial Statements. The Consolidated Financial Statements include $0.1 billion of income from private credit funds, which are classified as equity under IFRS, but where the risks and rewards are fixed income in nature.

The private equity asset class return was largely driven by a very strong net return of 15.7% by the core private equity platform, underpinned by the growth in the underlying earnings of portfolio companies and successful exits. We strive to identify and position assets for sale to capitalize on our value creation of larger and stronger businesses.

Capital Allocation

Total investments in private equity increased to $19.0 billion in 2018 compared to $14.4 billion, as at December 31, 2017. This increase was attributable to the capital-deployment strategy executed during the year. In 2018, OMERS acquired Alexander Mann Solutions (a global provider of talent acquisition and management services in the U.K.), Paradigm Outcomes (a provider of complex and catastrophic medical management to the U.S. workers' compensation industry), Premise Health (a provider of worksite health centres and services in the U.S.), and Trescal (a global provider of outsourced calibration services in France).

Sustainable Investing in Infrastructure and Private Equity

When considering a potential investment, we employ a framework to review relevant ESG factors. We tailor the depth of assessment required for potential investments, as required, to ensure consistency with OMERS sustainable investing beliefs.

Once we hold an ownership position, OMERS actively enhances ESG practices across our portfolio through the role we take in the management of our portfolio companies. Specifically, we have influence over governance through board representation, as well as actively participating in strategy setting, and regular direct contact with management teams. In almost all circumstances, we hold an equity position with appropriate governance rights, including negative control rights, and participation on boards and related committees. We appoint independent directors to bring in specialized skills and varied experiences, where necessary.

Real Estate

Investment Approach

Our approach to investing in real estate is centered on building a world-class global real estate development, investment and management platform that delivers stable income and capital returns through all cycles. Oxford Properties Group executes and manages this strategy and is the owner, developer and manager of some of the world's best real estate assets.

Oxford is a highly disciplined and thematic global real estate investor, and invests in high-quality assets in sectors and markets where it can outperform the market and generate superior long-term returns. Oxford invests in a diversified portfolio of office, retail, industrial, multi-residential and hotel properties in global gateway cities in Canada, the U.S., Europe and Asia-Pacific, and adds value to investments through leasing, management and development capabilities. The portfolio consists of over 100 million square feet of office, retail and industrial space as well as 7,600 multi-residential units.

2018 Performance

The real estate asset class net return in 2018 was 8.7%, compared to 11.4% in 2017, and our 2018 benchmark of 8.4%. This represents net investment income of $1.3 billion in 2018, compared to $1.5 billion in 2017.

Performance in 2018 was driven by strong operating performance and realized and unrealized mark-to-market gains and was behind our strong performance in 2017.

Capital Allocation

Total investment in real estate increased to $22.3 billion as at December 31, 2018, compared to $15.5 billion, as at December 31, 2017. During the year, Oxford made 20 acquisitions, committed to 13 new developments, and completed three sales transactions, all consistent with our strategy.

In 2018, we entered new markets with a number of significant acquisitions: the take-private acquisition of Investa Office Fund, a portfolio comprising 19 prime office assets in Australia, the acquisition of a 50% interest in IDI Logistics (a fully integrated national logistics platform in the U.S.), the formation of Delancey Oxford Residential (a co-investment platform that invests in large-scale residential assets in the U.K.), and a 20% interest in GLP Europe Development Partners (a development platform in the logistics sector in Europe). Other notable acquisitions include Aalto57, a mixed-use residential and retail building (New York, U.S.), St. John's Terminal, an office development site (New York, U.S.), and Window, a newly-developed office building (Paris, France).

Successfully completed sales transactions included a 50% interest in the 800 Burrard office building (Vancouver, Canada), 135-137 New Bond Street (London, England) and a 49.9% interest in a portfolio of three office properties (Paris, France).

In 2018, Oxford continued to make significant progress on more than 25 active development projects.

Sustainable Investing in Real Estate

In Real Estate, Oxford Properties takes a leadership approach to sustainable investing. Oxford develops strategies, benchmarks performance, sets targets, and implements disciplined practices and new technologies to achieve outstanding results in a range of areas, including energy efficiency, climate impacts, waste management, pollution, community impact, and anti-corruption.

Oxford's long-term perspective aligns our interests with those of our customers and communities. Our investment strategy contemplates decades not years, and so do our development and construction projects, in-building capital programs and management practices. We make decisions with tomorrow in mind, and have one of the most advanced sustainability practices in the industry.

Oxford develops and operates our buildings in a manner consistent with best-in-class sustainability standards across asset classes and markets, including LEED (Canada/U.S. office), BOMA BEST (Canada retail/industrial) and BREEAM (U.K. office). Our list of industry firsts, external awards and achievements related to sustainability is a long one.

Sustainable Intelligence™ is Oxford's formal sustainability program and our Guiding Principles relate to Leadership, Performance, Innovation, Credibility, Risks and Opportunities, and Transparency and Engagement. Our program includes a range of commitments and activities around focused themes, including:

- Climate and Energy: We are a leader in the development and operation of energy-efficient, low-carbon buildings. Our priorities include carbon emissions, energy efficiency and renewable energy.
- Materials and Resources: We critically evaluate the environmental and health aspects of the materials and resources we procure and use in our buildings. Our priorities include materials selection, waste diversion and water consumption.
- Well-being: We incorporate world-class features and amenities in our buildings that support the success of our customers and help them live healthy and active lives. Our priorities include indoor air quality, common areas and customer amenities.
- Community: We engage our stakeholders, creating outstanding buildings and exceptional places and giving back to our communities. Our priorities include partnerships, placemaking and volunteering.

The Plan's Investment Return History

While we measure our investment performance annually, OAC emphasizes long-term performance, as pensions are paid over decades. Consistent long-term performance is important. The table below sets out the Plan's historical returns over a one-, three-, five-, 10- and 20-year period.

Net return for the period ending December 31, 2018	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**20 Year**
	2.3%	8.0%	8.1%	8.0%	6.6%

Investments Outlook

In 2019, we expect the economy to moderate slightly and economic expansion to continue, but at a slower pace than in 2018. Several tailwinds will support activity in 2019, including public valuations at attractive levels and credit spreads at excellent entry points for meeting future liability streams, robust labour markets globally and significant monetary and fiscal policy easing in the major economies globally. This is not without significant headwinds. Protectionist trends and geopolitical tensions will continue to be clear and present risks. Over time, the secular trends of aging populations, rising public indebtedness and higher interest rates will increasingly weigh on economies.

Risk Management

The Chief Risk Officer (CRO) is responsible for the Risk Management Group, which provides independent and objective analysis, and reports to both the Senior Executive Team and the OAC Board of Directors. Day-to-day accountability for managing risks and ongoing execution remains with the business units and functions responsible for making operational decisions.

In 2018, a revised risk framework was approved by the Board of Directors, that describes overall risk-management governance and details the structure for categorizing risks to which the organization is exposed. Overall, we consider "risk" as being an event or decision that results in uncertainty around whether OMERS can effectively execute on its Strategy and achieve its business objectives.

Risks to the Plan are identified, assessed, measured, mitigated, monitored and reported within the context of the risk framework. We categorize these risks as follows: Pension, Investment, Operational and Emerging risks. The risk inherent in the interaction of these categories together is Funding Risk, which we define as the risk that the SC will be required to increase contributions and/or reduce benefits. The Board of Directors approves risk appetite statements which quantitatively and qualitatively describe the desired level of risk within the organization.

There is a series of risk appetite statements for the Primary Plan that address Funding Risk, and additional "subsidiary" risk-appetite statements for each of the categories noted above. Ongoing risk reporting is provided to the Senior Executive Team and the Board of Directors to assist them in discharging their oversight responsibilities.

The Risk-Appetite Statements:

- help define the desired level of risk within the Primary Plan and each of the respective risk categories;
- determine the nature, types, and degree of risk that OMERS is willing to assume through the articulation of qualitative statements and risk tolerances;
- establish metrics that allow OMERS to quantitatively assess its risk positioning relative to its desired risk appetite, as articulated by the qualitative statements and risk tolerances; and
- provide the Board and its Committees with the necessary information and transparency required to effectively discharge their risk oversight responsibilities and make key strategic decisions.

A brief overview of each category, its major components, and how we manage the risks is provided below.

Pension Risk

Pension Risk has two key aspects that affect the Plan: 1) the risk of experiencing significant, unexpected changes in OMERS pension liabilities and normal cost due to demographic experience or assumption changes – leading to the need to change contribution rates or benefits; or 2) the risk of failing to deliver appropriate value or perceived value to members and employers. To evaluate and address these risks, we review our assumption-setting philosophy and the impact of assumptions and methods regularly, in accordance with our Funding Policy; measure and assess value and equity of the Plan design and the actual experience of members; and assess the trade-off that must be made between inter-generational equity and contribution and benefit stability. We continuously enhance tools, practices and resources to deliver insights and analysis which help inform strategic decisions made by Senior Management and the OAC Board.

Investment Risk

Investment Risk includes three major categories: market risk, credit risk and liquidity risk. There are key aspects of Investment Risk that affect the Plan: permanent loss of capital, an appropriate risk-and-return trade-off, and the ability to execute our investment strategies. Items that are evaluated in assessing a permanent loss of capital include market risk, credit risk, counterparty risk, foreign exchange risk and valuation risk. Many of these categories are evaluated using quantitative measures. The risk-and-return trade-off is considered in light of the strategic long-term asset mix, as evaluated at the portfolio level. Liquidity considers both short-term and longer-term requirements and helps promote active planning. Lastly, we consider the ability to execute our investment strategies. This mainly involves qualitative risk analysis. The evaluation of Investment Risk provides support for Senior Management in making strategic investment decisions. These decisions ultimately address the Plans' capability to sustain their long-term obligations to pay pensions.

Operational Risk

Operational Risk is the risk of loss arising either directly or indirectly from operational error due to failure in systems, processes, technology, actions of people, or unforeseen or unexpected external events. Examples of Operational Risk include:

- member and employer services – the risk of failing to efficiently and effectively manage the day-to-day business operations for pension administration and member and employer interactions;
- people – the risk that we may not have the appropriate talent in place to manage and support business activities;
- information technology – the risk that our systems and IT infrastructure may not appropriately support business activities, including protecting our member and investment information against cyber incidents;
- legal and regulatory – the risk that we are not compliant with laws and regulations; and
- process and initiatives – the risk of not having effective process controls in place, or the risk that major initiatives are not managed effectively.

The Operational Risk management program has a range of tools and processes that guide how OAC identifies, evaluates and tracks mitigation activities on an ongoing basis, including regular internal reporting on specific metrics for each area of risk.

Emerging Risks

Emerging Risks are defined as risks that are recognizable, and that may, at any time, accelerate or impact investment activities, or the operations of the enterprise, or potentially impact the Plan. Emerging Risks may not fall within the other three categories of risk noted above, yet may have significant impact on OMERS achieving its strategic objectives. We actively monitor and manage these risks. An Emerging Risk is a matter that, while not currently a top risk, is identified, evaluated and monitored for its potential to become a top risk.

On an ongoing basis, OMERS evaluates and monitors a number of Emerging Risks in an effort to understand their potential impact on our organization. These risks currently include evolving workforce trends, accelerating Plan maturity, and international trade developments (such as Brexit, for example), which remain in flux.

Responsibilities of Management, Actuary and Independent Auditors

The consolidated financial statements of OAC have been prepared by OAC Management (Management) and approved by the Board of OAC (OAC Board). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for pension plans.

Management is responsible for designing, implementing and maintaining an adequate system of internal control over financial reporting to enable the preparation and fair presentation of the consolidated financial statements, including amounts based on estimates and judgment. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information. In addition, our internal audit team reviews OAC's systems of internal controls over financial reporting and disclosure to determine whether these controls are appropriate and operating effectively.

The OAC Board is responsible for approving the annual consolidated financial statements. The Audit & Actuarial Committee, which is comprised of directors who are not officers or employees of OAC, assists the OAC Board in executing this responsibility. The Audit & Actuarial Committee meets regularly with Management, the internal audit team and independent 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 & Actuarial Committee reviews the annual consolidated financial statements and recommends them to the OAC Board for approval.

The external actuary is appointed by the OAC Board. It is the external 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 results of the external actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the external 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 OAC and its active, deferred and retired members.

The independent external 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, 2018 and 2017 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, 2018 and 2017 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 external auditors have full and unrestricted access to Management and the Audit & Actuarial 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 Latimer
Chief Executive Officer

Jonathan Simmons, FCPA, FCA
Chief Financial Officer

Toronto, Ontario
February 22, 2019

Actuarial Opinion

We conducted actuarial valuations as at December 31, 2018 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 (OAC). The purpose of the valuations is to fairly present the actuarial funded status of the Primary Plan and the RCA as at December 31, 2018, for inclusion in this Annual Report in accordance with Section 4600 of Part IV of the Chartered Professional Accountants of Canada Handbook.

The results of the actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of $100,081 million in respect of benefits accrued for service to December 31, 2018 (comprising $99,058 million with respect to the defined benefit component and $1,023 million with respect to the AVC component). The actuarial assets at that date were $95,890 million (comprising $94,867 million with respect to the defined benefit component and $1,023 million with respect to the AVC component), indicating a going concern actuarial deficit of $4,191 million.

The RCA is not fully pre-funded. The actuarial liability in respect of RCA benefits accrued for service to December 31, 2018, net of the RCA assets, was $703 million. The funding of the RCA is managed on a modified pay-as-you go basis and 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, 2018 were conducted using the Projected Benefit Method Prorated on Services, and membership data as at November 3, 2018 and financial information as at December 31, 2018 supplied by the OAC.

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 and RCA's funding policies 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 A. Morse
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 22, 2019

Independent Auditor's Report

To the Board of OMERS Administration Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of OMERS Administration Corporation and its subsidiaries (together, OAC) as at December 31, 2018 and 2017, and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

What we have audited

OAC's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of changes in net assets available for benefits for the years then ended;
- the consolidated statements of changes in pension obligations for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of OAC in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing OAC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate OAC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing OAC's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 OAC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on OAC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause OAC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within OAC to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 22, 2019

Consolidated Statement of Financial Position

As at December 31, (in millions of Canadian dollars)	**2018**	2017
Net Assets Available for Benefits		
Assets		
Investments (note 3)	**$ 108,424**	$ 101,152
Investment related assets (note 3)	**2,780**	3,978
Contributions receivable		
Employers	**182**	159
Members	**182**	159
Other assets	**294**	274
Total Assets	**111,862**	105,722
Liabilities		
Investment related liabilities (notes 3 and 4)	**10,923**	7,175
Amounts payable under contractual agreements (note 5)	**3,247**	3,138
Other liabilities	**253**	211
Total Liabilities	**14,423**	10,524
Net Assets Available for Benefits	**$ 97,439**	$ 95,198
Accrued Pension Obligation and Surplus/(Deficit)		
Primary Plan (note 6)		
Defined benefit component		
Accrued pension obligation	**$ 99,058**	$ 93,614
Surplus/(Deficit)		
Funding surplus/(deficit)	**(4,191)**	(5,403)
Actuarial value adjustment to net assets available for benefits	**1,401**	6,008
	(2,790)	605
Additional Voluntary Contributions component pension obligation	**1,023**	817
Accrued Pension Obligation and Surplus/(Deficit) - Primary Plan	**97,291**	95,036
Retirement Compensation Arrangement (note 7)		
Accrued pension obligation	**851**	813
Surplus/(Deficit)	**(703)**	(651)
Accrued Pension Obligation and Surplus/(Deficit) - Retirement Compensation Arrangement	**148**	162
Accrued Pension Obligation and Surplus/(Deficit)	**$ 97,439**	$ 95,198

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

These financial statements were approved by the Board of Directors on February 22, 2019.

Signed on behalf of the Board of OMERS Administration Corporation

George L Cooke

William Butt

George Cooke,
OAC Board Chair

William Butt,
Chair, Audit & Actuarial Committee

Consolidated Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, (in millions of Canadian dollars)	2018	2017
Changes Due to Investment Activities		
Net investment income (note 8)	**$ 2,205**	$ 9,735
Total Changes Due to Investment Activities	**2,205**	9,735
Changes Due to Pension Activities		
Total contributions received (note 10)	**4,406**	4,193
Total benefits paid (note 11)	**(4,277)**	(4,005)
Pension administrative expenses (note 12)	**(93)**	(85)
Total Changes Due to Pension Activities	**36**	103
Total Increase	**2,241**	9,838
Net Assets Available for Benefits, Beginning of Year	**95,198**	85,360
Net Assets Available for Benefits, End of Year	**$ 97,439**	$ 95,198

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

Consolidated Statement of Changes in Pension Obligations

For the year ended December 31, (in millions of Canadian dollars)	2018	2017
OMERS Primary Pension Plan (note 6)		
Defined Benefit Component		
Accrued pension obligation, beginning of year	**$ 93,614**	$ 86,959
Interest accrued on benefits	**5,592**	5,367
Benefits accrued	**3,410**	3,154
Benefits paid	**(4,225)**	(3,969)
Experience (gains)/losses	**272**	(561)
Changes in actuarial assumptions and methods	**395**	—
Change to strategic margin	**—**	2,664
Accrued Pension Obligation, End of Year	**99,058**	93,614
Additional Voluntary Contributions Component		
Additional Voluntary Contributions obligation, beginning of year	**817**	595
Contributions	**207**	162
Withdrawals	**(22)**	(17)
Attributed net investment income	**21**	77
Additional Voluntary Contributions Obligation, End of Year	**1,023**	817
Retirement Compensation Arrangement (note 7)		
Accrued pension obligation, beginning of year	**$ 813**	$ 739
Interest accrued on benefits	**26**	23
Benefits accrued	**27**	25
Benefits paid	**(30)**	(19)
Experience (gains)/losses	**34**	45
Changes in actuarial assumptions and methods	**(19)**	—
Accrued Pension Obligation, End of Year	**$ 851**	$ 813

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

Notes to Consolidated Financial Statements

NOTE 1

Description of Plans Administered By OMERS Administration Corporation

OMERS Administration Corporation (OAC) is a corporation without share capital, continued under the Ontario Municipal Employees Retirement System Act, 2006 (OMERS Act). OAC is the administrator of the OMERS pension plans (OMERS Pension Plans) as defined in the OMERS Act and is trustee of the pension funds. The OMERS Pension Plans include the OMERS Primary Pension Plan (Primary Plan), the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (RCA) and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (Supplemental Plan). As trustee of the Primary Plan's fund, OAC holds legal title to the pension fund assets and the trust beneficiaries are primarily Primary Plan members. OAC is responsible for administering the OMERS Pension Plans in accordance, as applicable, with the Pension Benefits Act (Ontario) (PBA), the Income Tax Act (Canada) (ITA), and the OMERS Act. Under the OMERS Act, the OMERS Sponsors Corporation (SC) is the sponsor of the OMERS Pension Plans.

The accrued pension obligations of any one of the OMERS Pension Plans cannot be funded by the assets of the other OMERS Pension Plans.

OMERS Primary Pension Plan

The Primary 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 Primary Plan is governed by the OMERS Act, the PBA, the ITA and other applicable legislation. The benefit provisions and other terms of the Primary Plan are set out in the Primary Plan text. The Primary Plan consists of both the defined benefit component and the Additional Voluntary Contribution (AVC) component.

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

Attributes of the defined benefit component of the Primary Plan include:

- Funding –The defined benefit component of the Primary Plan is funded by equal contributions from participating employers and members, and by the investment earnings of the Primary Plan assets. OAC determines the regulatory minimum funding requirements in accordance with the ITA and PBA. The SC sets the actual contribution rates.
- Pensions – The normal retirement age (NRA) is 65 years for all Primary Plan members, except police officers and firefighters, who generally have a normal retirement age of 60 years. The Primary Plan is designed to provide defined benefit pensions. These pensions are calculated as a percentage of the member’s earnings averaged over the highest 60 consecutive months, multiplied by years of credited service.
- Death Benefits – Death benefits are payable to a surviving spouse, eligible dependent children, designated beneficiary, or the member's estate 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.
- Escalation of Pensions – Pensions are increased for inflation through an annual adjustment equal to 100 per cent of the increase in the average Consumer Price Index (CPI) over the prior year's average. This adjustment 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, the excess is carried forward to future years.
- Disability Pensions – A disability pension is available at any age to an active member who becomes totally disabled as defined by the Primary Plan. The pension is calculated using a member’s years of credited

service and the average annual earnings during the member's highest 60 consecutive months of earnings consistent with a normal retirement pension. Generally, disability pensions continue until normal retirement.

- Income Taxes – The Primary Plan is a Registered Pension Plan as defined in the ITA and 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.

The AVC component of the Primary Plan enables members to make additional voluntary contributions on which the member receives the net investment return of the Primary Plan. For the AVC component of the Primary Plan, the only liability of the Primary Plan is members' AVC contributions plus/minus the net investment rate of return of the defined benefit component of the Primary Plan.

Retirement Compensation Arrangement for the OMERS Primary Pension Plan

The RCA is an arrangement that provides pension benefits for Primary Plan members with earnings exceeding the amount that generates the maximum pension allowed by the ITA with respect to service after 1991. It is a separate trust arrangement and is not governed by the PBA and is not a Registered Pension Plan under the ITA. The RCA is governed by the OMERS Act, the ITA and other applicable legislation and is funded by equal contributions from participating employers and members and by the investment earnings of the RCA fund. Current and future contributions are determined to ensure that the existing RCA fund and future investment earnings are expected to be sufficient to pay projected benefits and expenses over the 20-year period following each actuarial valuation date. The RCA net assets available for benefits are invested and accounted for separately from the Primary Plan and the Supplemental Plan, and the accrued pension obligation of the RCA is valued separately from the Primary Plan and Supplemental Plan accrued pension obligations. Expenses of the RCA are paid from the cash flows of the RCA fund.

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 benefit provisions and other terms of the Supplemental Plan are set out in the Supplemental Plan text. The Supplemental Plan is registered with FSCO and with CRA under Registration #1175892.

Until March 31, 2024, unless the Supplemental Plan has sufficient funds based on the portion of contributions allocated for administrative expenses, any administrative costs of the Supplemental Plan are funded through a startup grant from the Province of Ontario.

Participation in the Supplemental Plan is effective only upon agreement between employee groups and their employer. As at December 31, 2018 and December 31, 2017, no such agreement existed and hence the Supplemental Plan had no assets and no members.

NOTE 2

Summary of Significant Accounting Policies

Basis of Presentation

OAC follows the requirements of the Chartered Professional Accountants of Canada (CPA Canada) Handbook Section 4600 – Pension Plans, which 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 CPA Canada Handbook Section 4600. For accounting policies that do not relate to its investment portfolio or pension obligations, OAC follows the requirements of International Financial Reporting Standards (IFRS).

The financial statements also provide disclosures required by regulation 909 of the PBA.

These financial statements include the financial position, changes in net assets available for benefits and changes in pension obligations of OAC and the OMERS Pension Plans.

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

Use of Estimates and Judgments

The preparation of consolidated financial statements requires OAC Management (Management) to make estimates, judgments 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. Areas of significant accounting estimates and judgments include the determination of fair value of financial instruments including valuation of real estate, infrastructure, private equity and private debt investments, certain fund investments and the determination of the accrued pension obligation.

Investments

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

Investments are stated at fair value. Fair value 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. 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. Detailed discussion on valuation methodology is presented in Note 3 – Investments.

The difference between the value of an asset 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 the original acquisition. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows recognized during the year and is reflected in Changes due to Investment Activities in the Consolidated Statement of Changes in Net Assets Available for Benefits.

Derivative Financial Instruments

Derivative financial instruments are financial contracts, the value of which are derived from changes in underlying assets or indices. Derivative transactions are conducted in over-the-counter markets directly between two counterparties or cleared through clearinghouses, or on regulated exchange markets.

Derivative financial instruments are used, when appropriate, to manage the OMERS Pension Plans' asset mix and to assist in managing the exposure to market risk, by increasing or decreasing foreign currency, interest rate and price risk, without directly purchasing or selling the underlying assets or currencies. The fair value of the derivative contracts 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 contracts. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as derivative asset in the investment related assets and contracts with a negative fair value are recorded as derivative liability in the investment related liabilities.

Net 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 in Note 8 – Net Investment Income/(Loss).

Investment income is recognized as interest and real estate rental income is earned, as dividends or distributions are declared, as investments are disposed of 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 total investment income as incurred.

External Manager Fees

Base external manager fees for portfolio management are included 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, and other debt obligations recourse to OAC and incurred to acquire an investment. Investment liabilities also include the amounts payable in respect of securities sold under agreements to repurchase ("Repo Agreements"). Investment liabilities are financial instruments and are stated at fair value. 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 cost plus accrued interest approximates fair value. The credit risk of OAC is also considered in estimating the fair value of investment liabilities.

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.

Pending Trades

Pending trades include accrued receivables/payables from unsettled transactions.

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.

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 Investment Assets, Liabilities, and Derivatives in Note 8 – Net Investment Income/(Loss). Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the rate at the settlement date is also recognized in Net Gain/(Loss) on Investment Assets, Liabilities, and Derivatives in Note 8 – Net Investment Income/(Loss).

Accrued Pension Obligation

The value of the accrued pension obligation of the Primary Plan's defined benefit component is based on the Projected Benefit Method Prorated on Services actuarial valuation prepared by an independent firm of actuaries. This accrued pension obligation is measured in accordance with accepted actuarial practice in Canada using actuarial assumptions and methods adopted by OAC for the purpose of establishing the long-term funding requirements of the Primary Plan. The actuarial valuation included in the Consolidated Financial Statements is consistent with the valuation used for funding purposes.

The AVC pension obligation represents the Primary Plan's liability in respect of the AVC component of the Primary Plan and includes members' AVC contributions plus/minus the net investment rate of return of the defined benefit component of the Primary Plan.

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 Primary Plan’s defined benefit component. The accrued pension obligation of the RCA and the AVC pension obligation 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 Primary Plan is used in assessing the funded position of the Primary Plan, including the determination of minimum legally required contributions. The actuarial value adjustment to the fair value of net assets is the amount of net investment returns above or below the discount rate that are being smoothed and recognized over a five-year period. The fair value of net assets is adjusted by the actuarial value adjustment to arrive at the actuarial value of net assets.

Surplus/Deficit

For financial statement reporting, the surplus/deficit of the Primary Plan is based on the difference between the fair value of the Primary Plan's net assets available for benefits and the Primary Plan's accrued pension obligation. For funding purposes, the Primary Plan's surplus/deficit is based on the difference between the Primary Plan's actuarial value of net assets and the Primary Plan's accrued pension obligation. For the RCA, the surplus/deficit for financial statement reporting purposes is based on the difference between the fair value of RCA net assets available for benefits and the RCA's 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 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 become due, at the first day 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 Pension Plans members and employers. Direct investment management expenses represent expenses of managing OMERS Pension Plans 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.

Future Changes in Accounting Policies

The relevant new guidance issued by the International Accounting Standards Board not yet adopted by OAC includes:

IFRS 16 Leases

IFRS 16 Leases, which replaces IAS 17 Leases, and related interpretations, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors including landlord lease accounting. For lessees, IFRS 16 removes the classification of leases as either operating or financing and requires that all leases be recognized on the statement of financial position, with certain exemptions allowed by this new standard. The standard is effective January 1, 2019 to be applied retrospectively, or on a modified retrospective basis. OAC will be adopting IFRS 16 on a modified retrospective basis. The adoption of the new standard is not material to the OAC financial statements.

NOTE 3

A. Investments

Investments by Fair Value and Cost

Investments and investment related assets and liabilities are as follows:

		2018		2017
	Fair Value	**Cost**	Fair Value	Cost
Fixed Income				
Inflation-Linked Bonds	**$ 3,884**	**$ 3,608**	$ 3,824	$ 3,608
Canadian nominal bonds and debentures	**1,153**	**1,171**	1,988	1,975
Non-Canadian nominal bonds and debentures	**3,658**	**3,617**	4,896	5,138
Private debt and mortgages	**7,588**	**7,425**	5,849	5,946
	16,283	**15,821**	16,557	16,667
Equities				
Public Equity (ii) (vi)				
Canadian public equities	**6,668**	**7,020**	8,733	7,790
Non-Canadian public equities	**13,115**	**11,782**	13,316	12,168
	19,783	**18,802**	22,049	19,958
Private Equity (v) (vi)				
Canadian private equities (iii) (iv)	**1,742**	**2,589**	2,923	2,697
Non-Canadian private equities	**17,215**	**12,943**	11,526	9,566
	18,957	**15,532**	14,449	12,263
	38,740	**34,334**	36,498	32,221
Real Assets				
Infrastructure Investments	**20,796**	**18,981**	18,053	16,909
Real Estate Investments	**22,256**	**18,006**	15,470	11,812
	43,052	**36,987**	33,523	28,721
Short Term Instruments				
Cash and short-term deposits (i)	**10,349**	**10,348**	14,574	14,574
Total Investments	**108,424**	**97,490**	101,152	92,183
Investment Related Assets				
Investment receivables	**325**	**325**	294	294
Deferred assets, prepaid and other	**49**	**81**	44	44
Derivatives	**2,212**	**64**	3,590	100
Pending trades	**194**	**194**	50	50
	2,780	**664**	3,978	488
Investment Related Liabilities				
Investment liabilities (note 4)	**(6,260)**	**(6,161)**	(4,054)	(3,829)
Derivatives	**(4,463)**	**(20)**	(3,097)	(5)
Pending trades	**(200)**	**(200)**	(24)	(24)
	(10,923)	**(6,381)**	(7,175)	(3,858)
Net Investment Assets	**$ 100,281**	**$ 91,773**	$ 97,955	$ 88,813

(i) Includes restricted cash of $91 (December 31, 2017: $227).
(ii) Includes externally managed investments of $2,495 (December 31, 2017: $2,214).
(iii) Includes resource properties with a total fair value of $135 (December 31, 2017: $135).
(iv) Includes venture capital investments of $644 (December 31, 2017: $460).
(v) Includes funds of $3,748(December 31, 2017: $2,093) where the underlying assets are credit investments.
(vi) The 2017 previously reported amounts for investments with a fair value and cost of $3,690 and $3,178, respectively, were reclassified from Public Equity to Private Equity.

Investment Valuation Practices

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 such as Management assumptions or contractual terms. Accredited independent external valuation experts are engaged to perform a review of Management's valuations to determine the reasonableness of the valuations for each significant private investment at least once every three years or where required using a risk-based approach. 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) Nominal bonds and debentures, inflation-linked 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 fixed income and inflation-linked bonds are based on quotes from industry standard sources. For investments, such as mortgages and private debt, where quoted market prices are not available, 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 OMERS Pension Plans are valued based on values provided by the fund manager.

(iii) Investments in private equity, infrastructure and real estate assets, held either directly or as a limited partner, generally do not have a publicly available market price. For such 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, valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets.

The private investments of OMERS Pension Plans are valued as follows:

- For investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values, the valuation is derived by:
  - 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; and
  - assessing the investment assets against the value of comparable publicly listed entities.
- 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.
- The fair value of a private fund investment where 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.
- Where the investment asset is hedged against foreign currency gains and losses, the impact of the hedging activity is included in the valuation.

(iv) Fair value of derivatives, including swaps, futures, options, credit default swaps 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.

Investment Fair Value Hierarchy

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, public equities not traded in an active market, public fund investments and investment related liabilities including debt and securities sold under repurchase agreements.

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 private market investments such as real estate, infrastructure, private equity, mortgages and private debt and investment related liabilities including debt valued based on discounted future cash flow models, comparable publicly listed entities, or sales of similar entities 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:

As at December 31,				**2018**
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	**$ —**	**$ 8,695**	**$ 7,588**	**$ 16,283**
Public Equity	**18,640**	**1,143**		**19,783**
Private Equity	**39**		**18,918**	**18,957**
Infrastructure			**20,796**	**20,796**
Real Estate			**22,256**	**22,256**
Short Term Instruments	**3,025**	**7,324**		**10,349**
Investment Related Assets	**65**	**2,715**	**—**	**2,780**
Investment Related Liabilities	**(100)**	**(10,823)**	**—**	**(10,923)**
Net Investment Assets	**$ 21,669**	**$ 9,054**	**$ 69,558**	**$ 100,281**

As at December 31,				2017
	Level 1	Level 2	Level 3	Total
Fixed Income	$ —	$ 10,857	$ 5,700	$ 16,557
Public Equity (i)	21,143	906		22,049
Private Equity (i)	110	289	14,050	14,449
Infrastructure			18,053	18,053
Real Estate			15,470	15,470
Short Term Instruments	693	13,881		14,574
Investment Related Assets	20	3,958		3,978
Investment Related Liabilities	(218)	(6,957)		(7,175)
Net Investment Assets	$ 21,748	$ 22,934	$ 53,273	$ 97,955

(i) The 2017 previously reported amounts for Level 3 investments of $3,690 were reclassified from Public Equity to Private Equity.

The following table presents the changes in the fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2018:

	Fair Value Dec 31, 2017	Total Gain (Loss) Included in Net Income (i)	Transfers In (Out) (ii)	Purchases	Sales (iii)	Fair Value Dec 31, 2018	Unrealized Gains (Losses) Attributable to Investments Held at Dec. 31, 2018 (iv)
Fixed Income	**$ 5,700**	**$ 434**	**$ 116**	**$ 2,271**	**$ (933)**	**$ 7,588**	**$ 265**
Private Equity	**14,050**	**2,953**	**(8)**	**5,408**	**(3,485)**	**18,918**	**1,745**
Infrastructure	**18,053**	**2,494**	**—**	**2,768**	**(2,519)**	**20,796**	**171**
Real Estate	**15,470**	**1,109**		**6,815**	**(1,138)**	**22,256**	**750**
Total	**$ 53,273**	**$ 6,990**	**$ 108**	**$ 17,262**	**$ (8,075)**	**$ 69,558**	**$ 2,931**

The following table presents the changes in the fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2017:

	Fair Value Dec 31, 2016	Total Gain (Loss) Included in Net Income (i)	Transfers In (Out) (ii)	Purchases	Sales (iii)	Fair Value Dec 31, 2017	Unrealized Gains (Losses) Attributable to Investments Held at Dec. 31, 2017 (iv)
Fixed Income	$ 3,670	$ (256)	$ 10	$ 3,239	$ (963)	$ 5,700	$ (105)
Private Equity	13,516	837		3,410	(3,713)	14,050	1,088
Infrastructure	17,443	1,896		1,665	(2,951)	18,053	(92)
Real Estate	15,084	607		2,087	(2,308)	15,470	666
Total	$ 49,713	$ 3,084	$ 10	$ 10,401	$ (9,935)	$ 53,273	$ 1,557

(i) The unrealized foreign exchange gains and losses are recorded during the year exclude the related impact of hedging activities.
(ii) Represents amounts transferred in(out) of Level 3, the net amount for the year ended December 31, 2018 was $108 (December 31, 2017: $10). This represents reclassification of debt and private investments that became publicly traded.
(iii) Includes return of realized foreign exchange gains and losses.
(iv) Amount represents unrealized market value adjustments recorded during the year which are included in the valuation of assets held at year end only.

Fair Value Assumptions and Sensitivity

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 generated from the investment.

The discount rate is composed of two elements: a risk-free rate, which is the return that would be expected from a secure, virtually risk-free investment, such as a high quality government bond; plus a risk premium. The risk premium is estimated from, where available, implied values of similar publicly traded entities or sales of similar entities (similar properties, in the case of real estate investments). If such information is not available, risk premium is estimated at a level that compensates for the incremental amount of risk associated with a particular investment. The selected discount rates are chosen to be consistent with the risk inherent in the stream of cash flows to which they are applied.

The following 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. These sensitivities are hypothetical and should be used with caution. 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, 2018	**Increase/Decrease in Discount Rate (basis points)**		**Decrease/Increase in Net Investment Assets**
Private credit	**20**	**$**	**38**
Private equity-direct investments	**70**		**996**
Infrastructure investments	**20**		**440**
Real estate investments	**25**		**770**
Total Impact on Net Investment Assets		**$**	**2,244**

As at December 31, 2017	Increase/Decrease in Discount Rate (basis points)		Decrease/Increase in Net Investment Assets
Private credit	20	$	31
Private equity-direct investments	70		726
Infrastructure investments	20		400
Real estate investments	25		550
Total Impact on Net Investment Assets		$	1,707

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.

Significant Investments

The OMERS Pension Plans 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:

			2018			2017
	Number of Investments	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Public Investments	**1**	**$ 1,049**	**$ 1,013**	1	$ 1,070	$ 1,013
Private Investments	**16**	**23,176**	**18,167**	13	16,705	12,455
Total	**17**	**$ 24,225**	**$ 19,180**	14	$ 17,775	$ 13,468

Public 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 include investments in foreign and Canadian government interest bearing securities.

Private investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include ownership interests in Bruce Power, Caliber, Associated British Ports, Teranet, Scotia Gas Networks, Oncor, DTI Global, National Veterinary Associates, Ellevio, Kenan, Thames Water, LifeLabs, and London City Airport; and real estate ownership interests in IDI Logistics, Yorkdale Shopping Centre, and Investa Office Fund.

The effective date of the most recent valuation for the above listed investments was December 31, 2018.

Investment Risk

OAC's primary long-term investment risk is that the value of OAC's assets and its capacity to generate cash is insufficient to meet pension obligations. OAC's future obligation is used to establish the long-term investment objectives combined with an assessment of associated risks.

The OAC Board of Directors, through its Investment Committee, determines the acceptable level of investment risk to be taken. This Committee reviews and recommends the long-term asset mix to the Board for approval. Primary accountability for managing risk, within the Board authorized parameters, is delegated by the Board to the CEO, who further delegates the responsibility to business leaders. The Chief Risk Officer (CRO) is responsible for implementing the Board-approved risk management mandate, including the development of associated policies and limits, and providing independent enterprise-wide oversight of business activities.

OAC's investments are diversified among major asset classes such as fixed income, public equity, private equity, infrastructure and real estate investments. Investment teams within OAC execute specific strategies that are designed to achieve return objectives that reflect both the opportunity and the risk associated with those asset classes. The methods and factors used in the measurement or assessment of investment risk are reviewed on an ongoing basis. The businesses are responsible for measuring, assessing and evaluating their investment risk.

There are three major categories of investment risks that are managed by each business unit and at the OAC level. They are: Market risk, Credit risk and Liquidity risk. A description of each investment risk category and how OAC manages the risk is provided below.

a) Market Risk

Market risk is the risk that the fair value of an investment is impacted by changes in market prices such as foreign exchange rates, interest rates, and equity and commodity prices. For derivative instruments, market risk arises from potential adverse changes in the value of derivative instruments as a result of changes in the underlying market variables. These underlying market variables may include the absolute and relative levels of interest rates, foreign exchange rates, equity, commodity and bond prices and their implied volatilities. To address market risk, investment teams execute various tactical actions and strategies designed to measure, manage and monitor the risks being assumed and to ensure the risks taken are commensurate with their expected returns. An explanation of the nature of each of these sources of market risk appears below.

Foreign Exchange Rates

OAC pays pensions in Canadian dollars and manages a highly diversified portfolio of long-term investments, some of which are denominated in foreign currencies. Over time, the values of these investments expressed in Canadian dollars are impacted by changes in foreign exchange rates. These changes can be either positive or negative and over time can be significant given the volatility of foreign exchange rates. OAC manages the exposures associated with our foreign currency-denominated investments using various tools such as forward contracts and futures. This approach reduces an investment's exposure to foreign exchange rate volatility over time. As illustrated in the table below, OAC employs forward contracts and futures to hedge its exposure to foreign currency volatility for the majority of its non-Canadian dollar investments.

The OMERS Pension Plans' net investment assets by currency before and after the impact of currency hedging and trading activities are as follows:

As at December 31,	**2018**				2017			
	Fair Value By Currency				Fair Value By Currency			
	Gross Exposure	**Impact of Derivatives**	**Net Exposure**	**% of Total**	Gross Exposure	Impact of Derivatives	Net Exposure	% of Total
Canada	**$ 37,268**	**$ 58,089**	**$ 95,357**	**95%**	$ 44,758	$ 48,633	$ 93,391	95%
United States	**42,460**	**(41,726)**	**734**	**1**	36,951	(34,309)	2,642	3
United Kingdom	**9,375**	**(8,546)**	**829**	**1**	7,977	(6,737)	1,240	1
Euro Countries	**5,080**	**(4,918)**	**162**	**—**	4,156	(4,418)	(262)	—
Australia	**2,926**	**(2,750)**	**176**	**—**	831	(780)	51	—
Other Europe	**1,996**	**(1,300)**	**696**	**1**	2,259	(2,558)	(299)	—
India	**306**	**571**	**877**	**1**	320	361	681	1
Hong Kong	**288**	**185**	**473**	**—**	46	177	223	—
Other Asia-Pacific	**531**	**332**	**863**	**1**	637	(493)	144	—
Other	**51**	**63**	**114**	**—**	20	124	144	—
Total	**$ 100,281**	**$ —**	**$ 100,281**	**100%**	$ 97,955	$ —	$ 97,955	100%

Foreign Currency Sensitivity

After giving effect to the impact of hedging and trading activities and with all other variables and underlying values held constant, a five per cent increase/decrease in the value of the Canadian dollar against major foreign currencies would result in an approximate $247 (December 31, 2017: $284) decrease/increase in OAC's net assets as shown below:

As at December 31,				**2018**			2017
Currency	**Change in value of Canadian Dollar**	**Unrealized gain/loss**			Unrealized gain/loss		
United States	**+/- 5%**	**-/+**	**$**	**37**	-/+		132
United Kingdom	**+/- 5%**	**-/+**		**41**	-/+		62
Euro Countries	**+/- 5%**	**-/+**		**8**	-/+		13
Australia	**+/- 5%**	**-/+**		**9**	-/+		3
Other Europe	**+/- 5%**	**-/+**		**35**	-/+		15
India	**+/- 5%**	**-/+**		**44**	-/+		34
Hong Kong	**+/- 5%**	**-/+**		**24**	-/+		11
Other Asia-Pacific	**+/- 5%**	**-/+**		**43**	-/+		7
Other	**+/- 5%**	**-/+**		**6**	-/+		7
Total		**-/+**	**$**	**247**	-/+	$	284

Interest Rate Risk

From an investment perspective, primary exposure to interest rates is a function of the capital deployed in fixed income products and investments both in public and private market asset classes. For investments with fixed rates of interest, the exposure is to rising rates over time (i.e. rising interest rates decreases the market value of investments that have a fixed rate of interest). Interest rate risks include exposure to bonds and debentures, private debt and mortgages. The most significant interest bearing investments that have a fixed rate of interest are the shorter-dated nominal bond futures and long-dated inflation-linked bonds in the public investments portfolio. The exposure to nominal bonds is $11,961 (December 31, 2017: $15,364) with net fair value of the derivative positions totaling negative $1,799 (December 31, 2017: $356). In addition to these investments, OAC holds a variety of other interest bearing investments in private portfolios that also have an exposure to rising interest rates. Lastly, OAC also invests in short-term interest rate related securities primarily for the purpose of maintaining its ability to meet liquidity needs. The following tables illustrate how capital is allocated amongst the various types of interest bearing investments based upon the contractual maturity of the securities:

As at December 31,					**2018**
	Term to Maturity				
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	**Average Effective Yield** (i)
Cash and short-term deposits	**$ 10,349**			**$ 10,349**	**2.1%**
Nominal bonds and debentures	**—**	**3,782**	**1,029**	**4,811**	**4.3**
Inflation-Linked bonds (ii)	**—**	**231**	**3,653**	**3,884**	**0.9**
Mortgages and private debt	**545**	**3,308**	**3,735**	**7,588**	**5.1**
Total	**$ 10,894**	**$ 7,321**	**$ 8,417**	**$ 26,632**	**3.2%**

As at December 31,					2017
	Term to Maturity				
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield (i)
Cash and short-term deposits	$ 14,574	$ —	$ —	$ 14,574	1.4 %
Nominal bonds and debentures	60	3,075	3,749	6,884	3.3
Inflation-Linked bonds (ii)	—	—	3,824	3,824	0.5
Mortgages and private debt	150	2,878	2,822	5,850	6.7
Total	$ 14,784	$ 5,953	$ 10,395	$ 31,132	2.7 %

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

Sensitivity to changes in interest rates

OAC takes actions to reduce or mitigate its exposure to rising interest rates to address both the strategic and tactical objectives of the OMERS Pension Plans. OAC's sensitivity to changes in interest rates is significant in light of the allocation of capital to interest rate sensitive investments that are required to maintain OAC's liquidity and ability to make significant investments in large scale private assets with relatively short notice.

After giving effect to derivative contracts (note 3B), debt liabilities, securities sold short and securities sold under repurchase agreements (note 4), 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 fixed income investments and an unrealized (loss)/gain of $397 (December 31, 2017: $516). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of inflation-linked bonds and an unrealized (loss)/gain of $340 (December 31, 2017: $369).

Equities

OAC makes investments in both public (i.e. publicly traded) and private companies. Investments in publicly traded equities are managed to achieve income through dividends or capital gains or both over time. These investments are exposed to volatility due to changes in market sentiment. The investments in publicly traded equities are actively managed with due regard for risk and return objectives.

In addition to the above, OAC also invests directly in the equity of private companies. These "private equity" investments generate capital gain opportunities that are realized after a particular investment is sold. One of the key risks relating to private equity investments is valuation. OAC employs a comprehensive process to estimate the value of these investments on a regular basis. It should be noted that the risks and the returns associated with private equity are generally higher than publicly traded equities.

Commodities

OAC has invested in commodity futures. The exposure to commodity derivatives is $2,138 (December 31, 2017: $1,884) with net fair value totaling negative $6 (December 31, 2017: $4) which is included in public equities.

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 investments are also subject to price risk as they are impacted by many general and specific market variables.

A 10% increase/decrease in the value of all public equity and private investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss of $8,179 (December 31, 2017: $7,002).

b) Credit Risk

Credit risk is defined as the financial loss that results from the failure of a counterparty (including counterparties to derivative financial instruments) to honour its contractual obligations to OAC. To manage this risk, OAC regularly performs financial analysis of counterparties and issuers it transacts with in addition to using external sources (e.g. credit rating agencies) to assess credit risk exposure. Where appropriate, OAC requires collateral from its counterparties to help offset the perceived risk of an investment transaction. The majority of counterparty related credit risk assumed by OAC is with highly rated global financial institutions with which OAC executes bi-lateral transactions. Based on the financial analysis process referred to above, specific limits are put into place in order to limit how much exposure OAC has with any one counterparty and are also tiered according to the ratings issued by credit rating agencies. Credit risk exposure on derivative financial instruments is represented by the replacement cost receivable of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date. Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily. OAC's most significant credit risk exposure arises from its fixed income investments.

The credit ratings of securities issued or guaranteed by governments are obtained from recognized credit rating agencies. For Corporate sector securities where no rating is available from the credit rating agencies, ratings are determined using an internal rating process that monitors changes in the credit cycle annually when the necessary information is available. Unrated securities comprise of mortgages which were issued with a Loan-to-Value ratio no greater than 70%.

The credit quality of fixed income and short term instruments, net of cash and demand deposits of $3,034 (December 31, 2017: $693) is set out in the table below:

As at December 31,					**2018**
Credit Quality	**Sovereign Governments**	**Provincial Governments**	**Corporate**	**Total**	**% of Total**
AAA	**$ 4,175**	**$ —**	**$ 7**	**$ 4,182**	**18%**
AA+	**719**	**—**	**6,519**	**7,238**	**31**
AA	**—**	**—**	**—**	**—**	**—**
AA-	**—**	**337**	**7**	**344**	**1**
A+	**—**	**209**	**222**	**431**	**2**
A	**—**	**—**	**50**	**50**	**—**
A-	**—**	**—**	**342**	**342**	**2**
BBB+	**—**	**—**	**1,027**	**1,027**	**4**
BBB	**—**	**—**	**1,886**	**1,886**	**8**
BBB-	**—**	**—**	**763**	**763**	**3**
BB+ and lower	**305**	**—**	**4,951**	**5,256**	**22**
Unrated	**—**	**—**	**2,079**	**2,079**	**9**
Total	**$ 5,199**	**$ 546**	**$ 17,853**	**$ 23,598**	**100%**

As at December 31,					2017
Credit Quality	Sovereign Governments	Provincial Governments	Corporate	Total	% of Total
AAA	$ 5,804		$ 31	$ 5,835	19 %
AA+			13,086	13,086	43
AA			—	—	—
AA-		343	239	582	2
A+		213	27	240	1
A			173	173	1
A-			443	443	2
BBB+			1,286	1,286	4
BBB			1,662	1,662	5
BBB-			700	700	2
BB+ and lower	306		4,599	4,905	16
Unrated			1,526	1,526	5
Total	$ 6,110	$ 556	$ 23,772	$ 30,438	100 %

Securities Lending

OAC engages in securities lending of its own securities to third parties in order to facilitate collateral transformation and to support its securities borrowing activities. OAC lends securities to third parties and receives cash as collateral, which mitigates the credit risk. As at December 31, 2018 securities with an estimated fair value of $30 (December 31, 2017: $127) were loaned out in exchange for collateral of $31 (December 31, 2017: $124).

Right of Netting, Offset and Margin

During the normal course of business, OAC is a counterparty to financial instruments that are subject to netting, offset and margin arrangements. In the case of over-the-counter ("OTC") derivatives, with the majority of all counterparties collateral is collected from and pledged to counterparties according to the Credit Support Annex ("CSA") which forms part of International Swaps and Derivatives Association ("ISDA") master agreements. In the case of prime brokerage and other securities borrowing, collateral is provided to the full extent of the liability to the counterparty. In the case of repurchase transactions, under Global Master Repurchase Agreements ("GMRA"), OAC (where selling the security) receives margin in return for securities sold, with an obligation to buy-back equivalent securities in the future. Following an event of default, bankruptcy or other early termination event in respect of the counterparty, OAC is entitled to liquidate transactions under each of the above arrangements, to net all transactions, to liquidate the assets held as margin (where held by OAC) and to offset against obligations to the same counterparty. OAC may not be permitted to net and set-off upon the default of a clearer in respect of exchange traded derivatives and cleared OTC derivatives.

OAC does not offset the financial instruments in its Consolidated Statement of Financial Position, as its rights of offset are conditional. The net amount in the following table represents the effect of the amounts that do not qualify for offsetting but are subject to conditional netting arrangements or similar arrangements. Similar arrangements include GMRAs, security lending agreements and any related rights to financial collateral.

Information for OAC related to these arrangements as at December 31, 2018

As at December 31,					2018
	Nettable amount of Financial Instruments	**Related amounts not set off in the Consolidated Statement of Financial Position**			
		Financial Instruments	**Financial collateral (received) pledged**	**Securities sold under agreement to repurchase**	**Net amount**
Financial Assets					
Derivative assets	**$ 284**	**$ (283)**	**$ —**		**$ 1**
Securities lending	**—**	**—**	**—**		**—**
Total Financial Assets	**$ 284**	**$ (283)**	**$ —**		**$ 1**
Financial Liabilities					
Derivative Liabilities	**$ (2,676)**	**$ 283**			**$ (2,393)**
Securities Borrowing	**(92)**	**—**	**92**		**—**
Repurchase agreements	**(137)**	**—**	**—**	**137**	**—**
Total Financial Liabilities	**$ (2,905)**	**$ 283**	**$ 92**	**$ 137**	**$ (2,393)**

As at December 31,					2017
	Nettable amount of Financial Instruments	Related amounts not set off in the Consolidated Statement of Financial Position			
		Financial Instruments	Financial collateral (received) pledged	Securities sold under agreement to repurchase	Net amount
Financial Assets					
Derivative assets	$ 784	$ (342)	$ —		$ 442
Securities lending					—
Total Financial Assets	$ 784	$ (342)	$ —		$ 442
Financial Liabilities					
Derivative Liabilities	$ (357)	$ 342	$ (164)		$ (179)
Securities Borrowing	(241)		241		—
Repurchase agreements	(962)			962	—
Total Financial liabilities	$ (1,560)	$ 342	$ 77	$ 962	$ (179)

c) Liquidity Risk

Liquidity risk is the risk that OAC will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. OAC has developed forward looking liquidity risk and cash-flow models which are used on a periodic basis to assess the impact of cash requirements and obligations on the liquidity of the OMERS Pension Plans. OAC maintains a portfolio of highly marketable assets that can be sold or funded on a secured basis as protection against any unforeseen cash-flow needs such as to meet capital calls to fund investment commitments and ensuring that sufficient liquid assets are available to fund margin calls in the event of future losses.

In the normal course of business, OAC incurs various financial obligations. OAC's liabilities include the following:

- investment liabilities including debt and securities sold short (note 4)
- amounts payable under contractual agreements (note 5)
- accrued pension obligation of the Primary Plan (note 6) and the RCA (note 7)
- contracts that give rise to commitments for future payments (note 15)

Another liquidity risk is the ability of OMERS Finance Trust ("OFT") to cover its commercial paper issuance. OFT is authorised to issue a maximum of $5,000 (December 31, 2017: $3,100) in commercial paper of which $4,098 (December 31, 2017: $1,375) was drawn as at December 31, 2018. The commercial paper is highly rated and further supported by an undrawn $3,750 (December 31,2017: $2,325) revolving credit facility with a syndicate of well capitalized banks to backstop the commercial paper program.

B. Derivative Financial Instruments

The following summarizes the OMERS Pension Plans' derivative portfolio and related credit exposure:

As at December 31,	**2018**			2017		
		Fair Value			Fair Value	
	Notional Value (i)	**Assets (ii)**	**Liabilities**	Notional Value (i)	Assets (ii)	Liabilities
Fixed Income						
Interest Rate Contracts						
Interest rate swap contracts - long positions	**$ 595**	**$ 1**	**$ —**	$ 163	$ 1	$ —
Interest rate swap contracts - short positions	**964**	**—**	**—**	952	—	—
Bond index swap contracts - long positions	**—**		**—**	—		—
Bond index swap contracts - short positions	**649**	**10**	**(19)**	1,081	120	(110)
Inflation swaps - long positions	**204**	**221**	**(220)**	281	302	(299)
Inflation swaps - short positions	**—**	**—**		—	—	
Interest rate swaption	**—**	**—**	**—**	3,007	7	(3)
Bond futures - long positions	**5,439**	**12**	**—**	5,187	8	—
Bond futures - short positions	**1,170**	**—**	**—**	807	—	—
		244	**(239)**		438	(412)
Credit Default Contracts						
Credit default swaps - long positions	**1,007**	**1,328**	**—**	413	748	—
Credit default swaps - short positions	**8,786**	**—**	**(1,323)**	8,619	—	(706)
Credit default swaptions	**1,571**	**—**	**(2)**	501	—	—
		1,328	**(1,325)**		748	(706)
Foreign Exchange Contracts						
Currency options	**8,704**	**28**	**—**	2,324	5	(5)
Foreign exchange forward contracts	**68,821**	**270**	**(2,105)**	50,704	2,114	(1,826)
		298	**(2,105)**		2,119	(1,831)
		1,870	**(3,669)**		3,305	(2,949)
Equities						
Equity Contracts						
Equity index futures contracts - long positions	**9,701**	**49**	**—**	10,048	7	—
Equity index futures contracts - short positions	**484**	**—**	**(4)**	735	—	(17)
Equity index swap contracts - long positions	**—**		**—**	—		—
Equity index swap contracts - short positions	**2,233**	**73**	**(177)**	348	19	(16)
Equity swap contracts - long positions	**—**		**—**	—		—
Equity swap contracts - short positions	**4,915**	**56**	**(177)**	2,003	26	(13)
Equity options	**5,767**	**107**	**(59)**	5,471	99	(10)
		285	**(417)**		151	(56)
Commodity Contracts						
Commodity futures contracts - long positions	**2,138**	**4**	**(10)**	1,884	5	(1)
Commodity futures contracts - short positions	**—**	**—**		—	—	
		4	**(10)**		5	(1)
Foreign Exchange Contracts						
Foreign exchange forward contracts	**13,506**	**53**	**(367)**	15,716	129	(91)
		53	**(367)**		129	(91)
		342	**(794)**		285	(148)
Total		**$ 2,212**	**$ (4,463)**		$ 3,590	$ (3,097)

(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. Notional amounts do not necessarily indicate the amounts of future cash flows or the current fair value of the derivative contracts and, therefore, do not necessarily indicate the Plan's exposure to credit or market risks.

(ii) The fair value of derivative contracts recorded as an asset represents the credit risk replacement cost or the loss to which the OMERS Pension Plans 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.

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

As at December 31,				**2018**				2017
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Interest Rate Contracts	**$ 7,492**	**$ 1,260**	**$ 268**	**$ 9,020**	$ 10,276	$ 1,167	$ 34	$ 11,477
Credit Default Contracts	**2,173**	**9,177**	**14**	**11,364**	576	8,838	119	9,533
Equity Contracts	**20,150**	**2,950**		**23,100**	16,602	2,003		18,605
Commodity Contracts	**2,138**			**2,138**	1,884			1,884
Foreign Exchange Contracts	**91,031**			**91,031**	68,745			68,745
Total	**$ 122,984**	**$ 13,387**	**$ 282**	**$ 136,653**	$ 98,083	$ 12,008	$ 153	$ 110,244

The term to maturity based on the fair value is as follows:

As at December 31,				**2018**				2017
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Interest Rate Contracts	**$ 4**	**$ 1**		**$ 5**	$ 22	$ 3	$ 1	$ 26
Credit Default Contracts	**1**	**3**	**(1)**	**3**	2	39	1	42
Equity Contracts	**(46)**	**(85)**		**(131)**	82	13		95
Commodity Contracts	**(6)**			**(6)**	4			4
Foreign Exchange Contracts	**(2,122)**			**(2,122)**	326			326
Total	**$ (2,169)**	**$ (81)**	**$ (1)**	**$ (2,251)**	$ 436	$ 55	$ 2	$ 493

NOTE 4

Investment Liabilities

The investment liabilities are as follows:

As at December 31,	**2018**	2017
Debt	**$ 5,345**	$ 2,334
Securities sold short	**86**	199
Securities sold under repurchase agreements	**137**	961
Payables and other liabilities	**692**	560
Total	**$ 6,260**	$ 4,054

The debt included in the table above is comprised of the following:

As at December 31,		**2018**			2017	
	Fair Value	**Cost**	**Weighted Average Interest Rate**	Fair Value	Cost	Weighted Average Interest Rate
Real Estate						
Credit facilities and debentures	**$ 1,247**	**$ 1,247**	**2.27%**	$ 802	$ 799	1.76%
Infrastructure						
Secured debt	**—**	**—**	**—**	157	123	2.63
OMERS Finance Trust						
Commercial paper [(i)]	**4,098**	**4,098**	**2.38**	1,375	1,375	1.26
Total	**$ 5,345**	**$ 5,345**	**2.35%**	$ 2,334	$ 2,297	1.52%

(i) Commercial paper outstanding has maturities from January 4, 2019 to March 21, 2019 with interest rates ranging from 1.72% to 2.87%.

Scheduled undiscounted principal and interest repayments on Credit facilities and debentures for the five subsequent years and thereafter are as follows:

As at December 31,		**2018**
2019	**$**	**471**
2020		**816**
2021		
2022		
2023		
Thereafter		
	$	**1,287**

As at December 31,		2017
2018	$	999
2019		175
2020		597
2021		
2022		
Thereafter		
	$	1,771

NOTE 5

Amounts Payable Under Contractual Agreements

Under contractual agreements, OAC invests funds on behalf of The Board of Trustees of Ryerson University and the Transit Windsor Fund (collectively, the Administered Funds). OAC is authorized under the terms of the various agreements to recover expenses for administering such funds.

OAC, through its subsidiary OMERS Investment Management (OIM), establishes investment arrangements (OMERS Return Agreements) that provide eligible clients with access to the performance of all or parts of the annual investment return of the Primary Plan.

The amount due to Administered Funds is adjusted for income/(loss) based upon their proportionate share of the Plan's return. OMERS Return Agreements are adjusted for income/(loss) based upon a contractual agreement that provides a return on investment equal to part of the Primary Plan return.

Amounts payable under contractual agreements are comprised of the following:

As at December 31,		**2018**		2017
Administered Funds	**$**	**1,410**	$	1,374
OMERS Return Agreements		**1,837**		1,764
Amounts payable under contractual agreements	**$**	**3,247**	$	3,138

NOTE 6

OMERS Primary Pension Plan

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

Statement of Financial Position

As at December 31,		2018		2017
Net Assets Available for Benefits	$	**97,291**	$	95,036
Accrued Pension Obligation and Surplus/(Deficit)				
Defined benefit component				
Accrued pension obligation	$	**99,058**	$	93,614
Surplus/(Deficit)				
Funding surplus/(deficit)		**(4,191)**		(5,403)
Actuarial value adjustment of net assets		**1,401**		6,008
		(2,790)		605
Additional Voluntary Contributions component pension obligation		**1,023**		817
Total Primary Plan Accrued Pension Obligation and Surplus/(Deficit)	$	**97,291**	$	95,036

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31,		2018		2017
Statement of Changes in Net Assets				
Net investment income	$	**2,206**	$	9,723
Contributions		**4,388**		4,170
Benefits		**(4,247)**		(3,986)
Pension administrative expenses		**(92)**		(84)
Total Increase		**2,255**		9,823
Net Assets Available for Benefits, Beginning of Year		**95,036**		85,213
Net Assets Available for Benefits, End of Year	$	**97,291**	$	95,036

Accrued Pension Obligation of the Defined Benefit Component

The accrued pension obligation is the actuarial present value of pension obligations of the Primary 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 Primary Plan's minimum funding requirements as set out under the PBA. As the experience of the Primary 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 Prorated On Services is used for the actuarial valuation.

The following are the primary economic actuarial assumptions which have been used in the actuarial valuation of the Primary Plan as at December 31:

Actuarial Assumptions	2018	2017
Assumed rate of inflation	**2.00%**	2.00%
Real rate of return assumed on Primary Plan assets	**4.00**	4.00
Discount rate	**6.00%**	6.00%

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 Primary Plan and on the expectations for future trends. The OAC external actuaries have provided their opinion that assumptions adopted are appropriate for valuing the Primary Plan's accrued pension obligation.

The retirement assumption continues to be an age-based scale and reflects a possibility of retirement after normal retirement age. The mortality assumption continues to be based on Primary Plan experience and includes a projection for longevity improvements in the future.

The assumed increases in the real rate of pensionable earnings (i.e., increase in excess of the assumed inflation rate) were last updated in 2018 to reflect recent experience of the Plan and current expectations for future years and are as follows:

	2018				2017			
	NRA60 (i)		**NRA65 (i)**		NRA60 (i)		NRA65 (i)	
	Before 2023	**After 2022**	**Before 2023**	**After 2022**	Before 2019	After 2018	Before 2019	After 2018
Assumed real rate of pensionable earnings increases (weighted average of a table of age-related increases)	**1.8%**	**1.9%**	**1.1%**	**1.2%**	1.4%	1.8%	0.8%	1.2%
Rate of pensionable earnings increases (assumed rate of inflation plus real rate of pensionable earnings increases)	**3.8%**	**3.9%**	**3.1%**	**3.2%**	3.4%	3.8%	2.8%	3.2%

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

The accrued pension obligation as at December 31, 2018 takes account of known changes in the Primary Plan membership up to November 3, 2018, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2019, and estimated pensionable earnings and credited service accruals in 2018.

Summary of the Primary Plan's financial position is as follows:

As of December 31,	**2018**	2017
Primary Plan fair value of net assets available for benefits	**$ 97,291**	$ 95,036
Less Additional Voluntary Contribution net assets	**1,023**	817
Defined benefit net assets available for benefits	**96,268**	94,219
Actuarial value adjustment	**(1,401)**	(6,008)
Actuarial value of net assets available for benefits	**94,867**	88,211
Less Defined Benefit accrued pension obligation	**99,058**	93,614
Funding surplus/(deficit) of actuarial value of net assets available for benefits over accrued pension obligation	**(4,191)**	(5,403)
Reversal of actuarial value adjustment	**1,401**	6,008
Surplus/(Deficit) of net assets available for benefits over accrued pension obligation	**$ (2,790)**	$ 605

Actuarial Value of Net Assets of the Defined Benefit Component

The actuarial valuation of the Primary Plan was performed by Towers Watson Canada Inc. Under the PBA, an actuarial valuation report prepared by an independent external actuarial firm must be filed with FSCO at least once every three years. The Primary Plan valuation report was last filed for the December 31, 2017 year-end.

The change in the actuarial value adjustment is as follows:

For the year ended December 31,	2018	2017
Expected interest on beginning actuarial value adjustment (i)	**$ 359**	$ 210
Current year returns in excess of/(below) the funding rate (i)	**(2,771)**	3,522
Prior years' returns (above)/below the funding rate recognized in the year	**(2,195)**	(1,103)
Increase/(Decrease) in actuarial value adjustment	**(4,607)**	2,629
Actuarial value adjustment, beginning of year	**6,008**	3,379
Actuarial value adjustment, end of year	**$ 1,401**	$ 6,008

(i) Based on the funding rate in effect during the year, 2018: 6.00% (2017: 6.20%).

The present value of unrecognized net investment returns by initial year they were established and the amounts to be recognized from 2019 through 2022, after application of the long-term rate of return assumption, are as follows:

Initial Year Earned	**Actuarial Value Adjustment as at Dec. 31, 2018(i)**	Unrecognized Investment Returns to be Recognized in 2019	2020	2021	2022	Actuarial Value Adjustment as at Dec. 31, 2017(i)
2014						$ 533
2015	**21**	22				40
2016	**1,352**	717	760			1,913
2017	**2,799**	989	1,048	1,112		3,522
2018	**(2,771)**	(734)	(779)	(826)	(875)	
	$ 1,401	$ 994	$ 1,029	$ 286	$ (875)	$ 6,008

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

The following table provides the potential sensitivity of the accrued pension obligation to changes in the assumed real rate of pensionable earnings increases and the assumed real rate of return on Primary Plan assets. 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 Change	**Approximate Effect on Accrued Pension Obligation**	
As at December 31,	**2018**	2017
Real rate of pensionable earnings increases		
Decrease in assumption	**$ (1,700)**	$ (1,700)
Increase in assumption	**1,800**	1,800
Real return on Primary Plan assets and discount rate		
Decrease in assumption	**7,600**	7,200
Increase in assumption	**$ (6,800)**	$ (6,400)

NOTE 7

Retirement Compensation Arrangement

As the RCA is not a Registered Pension Plan, a 50 per cent refundable tax is levied on all contributions made to the RCA as well as on net investment income received and net realized investment gains. The refundable tax earns no investment income for the RCA; it is refunded on the basis of one dollar for every two dollars of realized losses or benefits paid out.

The 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 retirement compensation arrangements plans under the ITA. Contributions to the RCA are based on the top-tier Primary

Plan contribution rates applied to contributory earnings over a defined earnings threshold, which was $175,223 for 2018 (2017: $170,797). The defined earnings threshold is actively managed and monitored in such a way that current and 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 and expenses over the 20-year period following each annual valuation date. Benefits in excess of the maximum amounts payable from the Primary Plan as allowed by the ITA are paid from the RCA.

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

Statement of Financial Position

As at December 31,		**2018**		2017
Net Assets Available for Benefits	**$**	**148**	$	162
Accrued Pension Obligation and Surplus/(Deficit)				
Accrued pension obligation	**$**	**851**	$	813
Surplus/(Deficit)		**(703)**		(651)
Accrued Pension Obligation and Surplus/(Deficit)	**$**	**148**	$	162

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31,		**2018**		2017
Net investment income/(loss)	**$**	**(1)**	$	12
Contributions		**18**		23
Benefits		**(30)**		(19)
Administrative expenses		**(1)**		(1)
Total Increase		**(14)**		15
Net assets available for benefits, beginning of year		**162**		147
Net assets available for benefits, end of year	**$**	**148**	$	162

The actuarial assumptions used for the RCA are consistent with those used for the Primary Plan except that the RCA discount rate as at December 31, 2018 is 3.15% (2017: 3.15%), which reflects the long-term asset mix of the RCA including the effect of the 50 per cent refundable tax. A 50 basis point change in the assumed rate (with no change in other assumptions) before reflecting the 50 per cent refundable tax would have the following approximate effect on the accrued pension obligation:

50 Basis Point Change	**Approximate Effect on Accrued Pension Obligation**	
As at December 31,	**2018**	2017
Assumed discount rate		
Decrease in assumption	37	36
Increase in assumption	(35)	(34)

NOTE 8

Net Investment Income/(Loss)

The OMERS Pension Plans' investment income/(loss) by asset classes is as follows:

For the year ended December 31,					**2018**
	Investment Income (ii)	**Net Gain/(Loss) on Investment Assets, Liabilities** (iii)	**Total Investment Income/(Loss)** (i)	**Investment Management Expenses (note 12)**	**Net Investment Income /(Loss)**
Fixed Income					
Inflation-linked bonds	**$ 87**	**$ (94)**	**$ (7)**	**$ (6)**	**$ (13)**
Nominal bonds and debentures	**252**	**(1,319)**	**(1,067)**	**(15)**	**(1,082)**
Private debt and mortgages	**445**	**291**	**736**	**(52)**	**684**
	784	**(1,122)**	**(338)**	**(73)**	**(411)**
Equities					
Canadian public equities	**390**	**(1,414)**	**(1,024)**		
Non-Canadian public equities	**501**	**(1,816)**	**(1,315)**		
	891	**(3,230)**	**(2,339)**	**(89)**	**(2,428)**
Canadian private equities (iv)	**3**	**124**	**127**		
Non-Canadian private equities (iv)	**223**	**1,951**	**2,174**		
	226	**2,075**	**2,301**	**(273)**	**2,028**
	1,117	**(1,155)**	**(38)**	**(362)**	**(400)**
Real Assets					
Infrastructure	**1,438**	**445**	**1,883**	**(89)**	**1,794**
Real estate (v)	**696**	**603**	**1,299**	**(11)**	**1,288**
	2,134	**1,048**	**3,182**	**(100)**	**3,082**
Short-term Instruments					
Cash and short-term deposits	**184**	**(33)**	**151**	**(5)**	**146**
Total Investment Income	**$ 4,219**	**$ (1,262)**	**$ 2,957**	**$ (540)**	**$ 2,417**
Income credited under contractual agreements					**(212)**
Net Investment Income/(Loss)					**$ 2,205**

For the year ended December 31,					2017
	Investment Income (ii)	Net Gain/(Loss) on Investment Assets, Liabilities (iii)	Total Investment Income/(Loss) (i)	Investment Management Expenses (note 12)	Net Investment Income /(Loss)
Fixed Income					
Inflation-linked bonds	$ 88	$ 3	$ 91	$ (6)	$ 85
Nominal bonds and debentures	239	896	1,135	(39)	1,096
Private debt and mortgages	309	(149)	160	(26)	134
	636	750	1,386	(71)	1,315
Equities					
Canadian public equities	270	643	913		
Non-Canadian public equities (vi)	327	2,693	3,020		
	597	3,336	3,933	(81)	3,852
Canadian private equities (iv)	(18)	834	816		
Non-Canadian private equities (iv) (vi)	220	410	630		
	202	1,244	1,446	(166)	1,280
	799	4,580	5,379	(247)	5,132
Real Assets					
Infrastructure	1,470	523	1,993	(76)	1,917
Real estate (v)	705	760	1,465	(10)	1,455
	2,175	1,283	3,458	(86)	3,372
Short-term Instruments					
Cash and short-term deposits	152	102	254	(5)	249
Total Investment Income	$ 3,762	$ 6,715	$ 10,477	$ (409)	$ 10,068
Income credited under contractual agreements					(333)
Net Investment Income/(Loss)					$ 9,735

(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 net of external manager performance and pooled fund fees of $99 (December 31, 2017: $83).
(ii) Interest on investment related activities includes interest expense on real estate investment liabilities of $436 (December 31, 2017: $360) and interest on infrastructure investment liabilities of $17 (December 31, 2017: $15).
(iii) Includes net realized loss of $628 (December 31, 2017: gain of $8,139) and is net of transaction and pursuit costs of $269 (December 31, 2017: $199).
(iv) Includes income from funds of $424 (December 31, 2017: $48) where the underlying assets are credit investments.
(v) Real estate investment income includes Oxford Properties Group's operating expenses (net of property management income) of $46 (December 31, 2017: $32). The total audit costs are $3 (December 31, 2017: $3).
(vi) Total investment income previously classified from Non-Canadian public equities of $85, was reclassified to Non-Canadian private equities.

NOTE 9

Investment Returns

OAC investment returns are calculated using a time-weighted rate of return formula in accordance with the industry standard methods, based upon the following principles:

a. Returns are calculated as the percentage of business unit income to the weighted average fair value of the business unit net assets during the period.
b. Fair value is determined as described in notes 2 and 3.
c. Income is determined as described in notes 2 and 8.
d. The OMERS Primary Pension Plan return includes all business unit returns.

The percentage returns for the years ended December 31 are as follows:

For the year ended December 31,	**2018**	2017
OMERS Primary Pension Plan (i)		
Total Gross Return	**3.00%**	12.05%
Gross Returns applicable to OMERS Return Agreements(i)		
OMERS Infrastructure	**11.11%**	12.76%
Oxford Properties	**9.68%**	11.50%

The above gross returns are before the impact of base and performance fees paid to external fund managers and investment management expenses. The Primary Plan net return after all investment costs for the year ended December 31, 2018 was 2.3% (December 31, 2017: 11.5%).

(i) Returns reflect the results of the Primary Plan's currency hedging related activities with external counterparties.

NOTE 10

Contributions

For the year ended December 31,	**2018**	2017
Current year required contributions (i)		
Employers	**$ 1,994**	$ 1,929
Members	**1,994**	1,929
	3,988	3,858
Transfers from other pension plans	**106**	51
Past service contributions from members	**93**	107
Past service contributions from employers	**12**	15
Defined benefit contributions received	**4,199**	4,031
AVC contributions received	**207**	162
Total Contributions Received (ii)	**$ 4,406**	$ 4,193

(i) Current year service contributions are funded equally by employers and members. For NRA 65 members, the 2018 contribution rate was 9.0% (2017: 9.0%) of earnings up to $55,900 (2017: $55,300) and 14.6% (2017: 14.6%) of earnings above that level. For NRA 60 members, the 2018 contribution rate was 9.2% (2017: 9.2%) of earnings up to $55,900 (2017: $55,300) and 15.8% (2017: 15.8%) of earnings above that level.
(ii) OMERS, with 1,000 employers, has an appropriate reconciliation process which reconciles contributions for each employer on a member by member basis. This detailed process ensures that contributions are consistent with member information supplied by the employers.

NOTE 11

Benefits

For the year ended December 31,		2018		2017
Retirement benefits	**$**	**3,546**	$	3,265
Disability benefits		**28**		28
Transfers to other registered plans		**310**		307
Death benefits		**131**		124
Commuted value payments and members' contribution plus interest refunded		**240**		264
Defined benefits paid		**4,255**		3,988
AVC benefits paid		**22**		17
Total Benefits Paid	**$**	**4,277**	$	4,005

NOTE 12

Pension Administrative and Investment Management Expenses

(a) Pension administrative expenses

For the year ended December 31,		2018		2017
Salaries and benefits	**$**	**53**	$	46
System development and other purchased services		**18**		16
Premises and equipment		**4**		6
Professional services (i)		**9**		9
Travel and communication		**9**		8
Total Pension Administrative Expenses	**$**	**93**	$	85

(b) Investment management expenses

For the year ended December 31,		2018		2017
Salaries and benefits (ii)	**$**	**405**	$	287
System development and other purchased services		**28**		28
Premises and equipment		**21**		23
Professional services (i)		**35**		24
Travel and communication		**17**		14
Investment management services		**25**		25
Other		**9**		8
Total Investment Management Expenses	**$**	**540**	$	409

(i) Total professional services expenses include independent actuarial costs of $0.9 (December 31, 2017: $0.6) and external audit costs of $2.4 (December 31, 2017: $1.8).
(ii) Net of management fees earned from portfolio investments of $36.1 (December 31, 2017: $29.9).

NOTE 13

Related Party Disclosures

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

- OAC through Oxford Properties Group paid property taxes to municipal employers of $158 (December 31, 2017: $153) and utility payments to utility employers of $33 (December 31, 2017: $30). The amounts of property taxes 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. The utility payments made to utility companies which are OAC employer entities were based on normal usage and rates that would be paid by a non-related party.

- OAC through Oxford Properties Group earned rental revenue from investee entities of $18 (December 31, 2017: $6) and purchased services from investee entities of $nil (December 31, 2017: $nil). The amounts of rental revenue earned and services purchased were based on normal levies by the individual entities 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 and those senior executives responsible for planning and directing the activities of the OAC.

For the year ended December 31,		2018		2017
Salaries, short-term employee benefits & termination benefits	**$**	**18**	$	15
Post-employment benefits		**1**		1
Other long-term benefits		**7**		8
Total	**$**	**26**	$	24

Other than the above, OAC had no other transactions with key management personnel during the year.

NOTE 14

Capital

OAC defines its capital as the funded status (surplus/(deficit)) of each of the OMERS Pension Plans. The funded status of the OMERS Pension Plans is discussed in note 6 and note 7.

OAC's objective is to ensure that the Primary Plan's 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 3 B) and leverage (note 4) are based on asset mix and risk management policies and procedures. In 2018, a revised risk framework was approved by the Board of Directors, that describes overall risk-management governance and details the structure for categorizing risks to which the organization is exposed. This complements policies such as Statement of Investment Beliefs, Statement of Investment Authorities and Statement of Investment Policies & Procedures (SIP&P). As the Primary Plan's administrator, OAC has adopted a SIP&P for the Primary Plan which sets investment objectives, guidelines and benchmarks used in investing the Primary Plan's assets, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was originally established in 1989 and is reviewed annually by the OAC Board. The SIP&P effective for the year ending December 31, 2018 was amended on August 16, 2018.

The SIP&P establishes long-term strategic asset mix ranges and targets by asset class. The actual asset mix at December 31, 2018 was within the long-term asset mix ranges.

The RCA investments are based on an asset mix and SIP&P separate from those of the Primary Plan. The RCA SIP&P was originally established in 2007 and is reviewed annually by the OAC Board. The SIP&P effective for the year ending December 31, 2018 was last amended on December 15, 2017. The changes included in this amendment are not considered significant.

The Primary Plan's AVC component accrued pension obligation is based on AVC contributions net of withdrawals and administration fee plus net investment rate of return of the defined benefit component of the Primary Plan and as such does not have a surplus/(deficit) position. The Supplemental Plan has no members, net assets or accrued pension obligations. The Supplemental Plan SIP&P was last amended on August 16, 2018. The changes included in this amendment are not considered significant.

NOTE 15

Guarantees, Commitments and Contingencies

As part of normal business operations, OAC enters into guarantees, commitments and contingencies.

Guarantees are provided to third parties with respect to certain investments. The maximum amount payable under guarantees, standby letters of credit and contingent amounts payable provided as part of investment transactions was $2.2 billion as at December 31, 2018 (December 31, 2017: $2.0 billion).

Future commitments and contingencies include those relating to the acquisition of investments which are expected to close in 2019 of $4.1 billion (December 31, 2017: $1.0 billion), and long term commitments related to funds managed by third parties, the development of real estate projects, and the refurbishment of a major infrastructure asset of $16.8 billion (December 31, 2017: $15.0 billion).

OAC, in the normal course of business, indemnifies its directors, officers, employees, its business units 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 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 OAC from making a reasonable estimate of the maximum amount that would be required to pay such indemnifications.

As at December 31, 2018, 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 material adverse effect on the consolidated financial statements of OAC.

Ten-Year Financial Review

As at December 31, (millions of Canadian dollars)	**2018**	2017	2016 [iv]	2015	2014	2013	2012	2011	2010 [i]	2009
Net Assets available for benefits										
Public markets	**46,415**	56,870	49,572	43,631	47,300	41,709	37,472	32,154	34,123	31,336
Private equity	**18,957**	10,759	10,981	11,482	8,767	9,208	7,465	7,753	6,633	5,048
Infrastructure	**20,796**	18,053	17,443	16,349	14,401	13,533	11,572	9,635	9,593	12,195
Real estate	**22,256**	15,470	15,084	27,642	22,253	17,603	15,846	14,516	12,599	11,975
	108,424	101,152	93,080	99,104	92,721	82,053	72,355	64,058	62,948	60,554
Other investment assets	**2,780**	3,978	5,063	1,062	1,017	744	853	707	645	1,173
Investment liabilities	**(10,923)**	(7,175)	(10,254)	(20,534)	(19,490)	(16,463)	(11,741)	(9,063)	(9,628)	(13,338)
Net investment assets	**100,281**	97,955	87,889	79,632	74,248	66,334	61,467	55,702	53,965	48,389
Non investment assets/(liabilities)										
Amounts payable under contractual agreements	**(3,247)**	(3,138)	(2,896)	(2,719)	(2,397)	(1,524)	(905)	(828)	(809)	(734)
Other assets	**405**	381	367	332	245	271	205	209	193	177
Net Assets Available for Benefits	**97,439**	95,198	85,360	77,245	72,096	65,081	60,767	55,083	53,349	47,832
Accrued Benefit Obligation and Surplus/(Deficit)										
Primary Plan										
Defined benefit component										
Accrued pension obligation	**99,058**	93,614	86,959	81,924	76,924	73,004	69,122	64,548	60,035	54,253
Funding Surplus/(Deficit)	**(4,191)**	(5,403)	(5,720)	(6,977)	(7,078)	(8,641)	(9,924)	(7,290)	(4,467)	(1,519)
Actuarial value adjustment of net assets available for benefits	**1,401**	6,008	3,379	1,718	1,771	341	1,321	(2,337)	(2,278)	(4,950)
	(2,790)	605	(2,341)	(5,259)	(5,307)	(8,300)	(8,603)	(9,627)	(6,745)	(6,469)
Additional Voluntary Contributions Component pension obligation	**1,023**	817	595	445	360	276	170	94		
Accrued Pension Obligation and Deficit - Primary Plan	**97,291**	95,036	85,213	77,110	71,977	64,980	60,689	55,015	53,290	47,784
Retirement Compensation Arrangement										
Accrued pension obligation	**851**	813	739	679	619	614	555	504	468	486
(Deficit)	**(703)**	(651)	(592)	(544)	(500)	(513)	(477)	(436)	(409)	(438)
Accrued Pension Obligation and Deficit - Retirement Compensation Arrangement	**148**	162	147	135	119	101	78	68	59	48
Accrued Pension Obligation and Deficit	**97,439**	95,198	85,360	77,245	72,096	65,081	60,767	55,083	53,349	47,832

For the year ended December 31, (millions of Canadian dollars)	**2018**	2017	2016 (iv)	2015	2014	2013	2012	2011	2010 (i)	2009
Changes in Net Assets Available for Benefits										
Net assets available for benefits, beginning of the year	**95,198**	85,360	77,245	72,096	65,081	60,767	55,083	53,349	47,832	43,477
Changes due to Investment Activities										
Total investment income (ii)	**2,957**	10,477	8,575	5,441	7,082	4,000	5,544	1,648	5,735	4,623
Investment management expenses (ii)	**(540)**	(409)	(427)	(351)	(384)	(266)	(265)	(264)	(268)	(246)
	2,417	10,068	8,148	5,090	6,698	3,734	5,279	1,384	5,467	4,377
Income credited under contractual agreements	**(212)**	(333)	(292)	(306)	(222)	(97)	(79)	(21)	(83)	(67)
Net Investment Income/(loss)	**2,205**	9,735	7,856	4,784	6,476	3,637	5,200	1,363	5,384	4,310
Changes due to Pension Activities										
Contributions										
Current year required contributions	**3,988**	3,858	3,690	3,650	3,515	3,434	3,026	2,618	2,227	2,077
Other contributions	**418**	335	275	230	171	210	184	195	86	66
Total Contributions Received	**4,406**	4,193	3,965	3,880	3,686	3,644	3,210	2,813	2,313	2,143
Benefits										
Benefits paid	**(3,574)**	(3,293)	(3,041)	(2,826)	(2,616)	(2,437)	(2,256)	(2,047)	(1,890)	(1,781)
Transfers, commuted value and other benefit payments	(703)	(712)	(585)	(621)	(450)	(473)	(414)	(336)	(236)	(269)
Total Benefits Paid	**(4,277)**	(4,005)	(3,626)	(3,447)	(3,066)	(2,910)	(2,670)	(2,383)	(2,126)	(2,050)
Pension administrative expenses	**(93)**	(85)	(80)	(68)	(81)	(57)	(56)	(59)	(54)	(48)
Net assets available for benefits, end of year	**97,439**	95,198	85,360	77,245	72,096	65,081	60,767	55,083	53,349	47,832
Net Return										
Primary Plan										
Defined Benefit Component										
Time weighted return on market value	**2.3 %**	11.5%	10.3%	6.7%	10.0%	6.0%	9.5%	2.6 %	11.4%	10.0%
Absolute return target	**7.3 %**	7.3%	7.9%	7.8%	7.7%	7.5%	7.2%	7.5 %	7.3%	6.8%
Additional Voluntary Contribution Component										
Time weighted return on market value	**2.3 %**	11.5%	10.3%	6.7%	10.0%	6.0%	9.5%			
Retirement Compensation Arrangement Investment Fund (iii)										
Time weighted return on market value	**(1.6)%**	13.1%	7.8%	12.5%	14.5%	28.5%	10.5%	(4.1)%	7.7%	10.3%
Benchmark	**0.1 %**	12.8%	8.7%	12.2%	14.6%	30.2%	12.2%	(2.4)%	10.1%	16.6%

(i) In preparing financial statements in accordance with CPA Canada Handbook Section 4600 - Pension Plans and IFRS starting in 2011, OAC has adjusted amounts for 2010 (were previously reported in accordance with CICA Handbook Section 4100) for comparative purposes.
(ii) In preparing financial statements in 2012, OAC has reclassified pursuit costs from investment management expenses to total investment income. 2011 balances were adjusted to reflect this reclassification.
(iii) Excludes the RCA refundable tax balance with the Canada Revenue Agency.
(iv) OAC has changed the presentation of debt related to real estate. Effective January 1, 2017 real estate investment assets are presented net of related debt. 2016 comparatives have been restated.

Report of the OMERS Administration Corporation Board

Human Resources Committee

Members in 2018	
Monty Baker (Chair)	Darcie Beggs
Bill Aziz	David Tsubouchi
David Beatty	George Cooke (ex officio)

Our Human Resources Committee (HR Committee) assists the OAC 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 OAC Mission Statement, Core Values and Leadership Principles; (ii) overseeing a robust succession management process for the position of Chief Executive Officer (CEO) and the C-Suite executives; and (iii) overseeing CEO performance, compensation and compensation policies.

In 2018, the HR Committee’s work included:

- oversight of an annual performance assessment process for the CEO;
- making recommendations to the OAC Board on compensation for the CEO;
- reviewing the candidates for CEO and C-Suite executives' succession as part of the succession management process, including discussion of development plans;
- successful advancement of the CEO succession plan;
- reviewing compensation awards for the C-Suite executives;
- reviewing performance assessments for the C-Suite executives;
- reviewing the talent management strategy;
- reviewing compensation plans to ensure appropriate strategic linkages and risk mitigation;
- approving compensation-related disclosure in public documents; and
- continued focus on HR governance matters, including compensation reporting.

Independent Compensation Adviser

The HR Committee engages an independent compensation adviser to provide advice and assistance in executing its responsibilities. Hugessen Consulting (Hugessen) is directly retained and instructed by, and reports directly to, the HR Committee. All work is pre-approved by the HR Committee, and Hugessen did not provide any non-Board-approved services to the organization during 2018.

During 2018, the independent adviser's scope of services included the following:

i. supporting the HR Committee in reviewing CEO pay and performance outcomes;
ii. providing independent executive compensation advice pertaining to the CEO and C-Suite executives (i.e., compensation philosophy, comparator groups, competitive pay positioning and pay mix);
iii. ensuring the HR Committee understood and was comfortable with the current compensation program for the CEO and C-Suite executives;
iv. providing counsel to the HR Committee on any recommendations made by Management;
v. reviewing proposals for new compensation plan designs; and
vi. assisting with any other items that the HR Committee requested.

The HR Committee has sole authority to approve the amount of the independent compensation adviser’s fees. Executive compensation-related fees paid to our adviser in 2018 reflect the services as described above. The following table outlines the fees paid for services provided in 2018 and 2017:

Adviser	Executive Compensation-Related Fees		All Other Fees	
	2018	2017	2018	2017
Hugessen Consulting	$196,215	$133,570	Nil	Nil

HR Committee Composition and Meetings

Members of the HR Committee are appointed by the OAC Board from among the Board's members and are independent of Management. As a cohesive unit, HR Committee members have skills, knowledge and experience in investment management, pensions, economics and public policy, executive leadership and strategy, risk management, talent management, and executive compensation. The HR Committee had four regular meetings and two special meetings during 2018 to review key items according to its mandate and annual work plan. At the invitation of the Chair of the HR Committee, members of Management, including the CEO, and the HR Committee's independent adviser, attended the meetings. At each meeting, there was an *in camera* session without Management present.

Chair of the Human Resources Committee Letter to Plan Members

2018 Year in Review

In our 2020 Strategy, one of the four pillars is centred on evolving our capabilities, which includes ensuring that we attract, engage, develop, retain and reward top talent. In 2018, we continued to do that in various ways, including:

- development programs with a global focus;
- development of a senior leadership pipeline;
- focus on succession management processes, with identification and development of leaders for key positions;
- focus on high-performance culture;
- increasing focus on inclusion and diversity; and
- advancement of our compensation philosophy and our pay-for-performance culture.

This year, several changes were made to our Senior Executive Team effective April 1, which align with our priority of promoting from within, and developing the senior leadership of our organization. Satish Rai was appointed Chief Investment Officer, Blake Hutcheson was appointed President and Chief Pension Officer, Michael Rolland was appointed President and Chief Operating Officer, Asia-Pacific Region and Michelle Banik was appointed Chief People Officer.

Compensation Governance and Risk

Our compensation plans are designed to align with business objectives, while ensuring we deliver competitive compensation that rewards for performance and differentiates across markets. We ensure our plans also continue to reflect leading governance principles by incorporating risk considerations. This allows the HR Committee to appropriately reward behaviours consistent with our desired risk culture. Our aim is to achieve a balance between risk and reward so that employees are aligned with the long-term investment strategy of OMERS.

Furthermore, to ensure compensation and risk outcomes are symmetrical, the OAC Board has the discretion to withhold awards to reflect significant unexpected or unusual events. It also has the ability to claw back any variable compensation awarded in the event of a material misrepresentation of results in the prior three years. To align executive interests with those of Plan members, and to motivate the creation of long-term value, a significant portion of total compensation is deferred and aligned with enterprise-wide performance measures over the deferral period.

Compensation Highlights

The following factors influenced year-end compensation awards:

- Our compensation plans are based on three year returns to ensure alignment with achievement of long-term returns. The 2018 Total Plan net return of 2.3% was below our absolute return benchmark of 7.3%. However, the Total Plan net absolute returns of 8.0% for the three year period 2016 to 2018

exceeded the three-year absolute return benchmark of 7.5%, primarily due to strong results in private investments. This resulted in 2018 business performance factors above target levels.
- In addition, our risk assessments concluded that business risk was being managed consistently with our desired risk culture, resulting in neutral (0%) compensation plan risk adjustments across all our compensation plans.

We review our Total Rewards programs regularly to ensure they remain relevant. As part of the 2018 review, Management established a discretionary compensation framework to ensure flexibility to reward and engage talent as appropriate.

Conclusion

We continue to dedicate significant attention to talent management, ensuring that we have the right people in the right roles to deliver long-term value for Plan members. We are confident that our approach to compensation attracts and engages talented leadership through strong governance practices, while achieving the appropriate balance of protecting against incenting excessive risk-taking, and paying for performance.

Our HR Committee remains committed to a pay-for-performance approach, being a leader in compensation governance, and providing clear and transparent disclosure to Plan members, employers, sponsors and other stakeholders.

Monty Baker
2018 Chair of the Human Resources Committee

Compensation Discussion and Analysis

This Compensation Discussion and Analysis section describes our executive compensation program and awards for the Named Executive Officers. The Named Executive Officers include the CEO, Chief Financial Officer (CFO) and the three highest-paid C-Suite executives.

Approach to Compensation

OMERS is committed to a pay-for-performance approach for all employees. To achieve this, the compensation programs are designed to incent the right behaviour in the delivery of our business objectives within the appropriate risk parameters.

Compensation Principles

The executive compensation program is based on the following principles:

- Align with the interests of Plan members: Align employee and executive interests with Plan member interests through effective compensation plan design.
- Align with OMERS Strategy: Focus employee efforts on critical performance targets and reward for performance results.
- Pay for performance: Promote a pay-for-performance culture where there are clear relationships between pay and performance, ensuring differentiated pay to the reward.
- Effective risk management: Ensure compensation plan design does not incent excessive risk-taking and review plans regularly to ensure they are operating as intended.
- Pay competitively: Reward employees in a manner consistent with competitive market practice to ensure the organization's ability to attract, engage and retain high-performing talent. For total compensation, target-level performance is benchmarked to the 50th percentile, and superior level performance is benchmarked to the 75th percentile in the marketplace.
- Good corporate governance: Strive to be a leader in governance, continually reviewing and incorporating industry-leading compensation practices that align with our governance model.

Elements of Executive Compensation

Executive compensation for 2018 consists of the following elements:

- base salary;
- variable compensation - comprising short-term incentives (STIP) and long-term incentives (LTIP); and
- benefit and retirement programs.

Compensation Element	Description	Compensation Type
Base Salary	Based on market benchmarking and reviewed annually.	Fixed
Short-Term Incentives (STIP)	Based on business and individual performance against pre-established objectives.	Variable (At-Risk)
Long-Term Incentives (LTIP)	Based on business and individual performance against pre-established objectives. LTIP awards are deferred and paid at the end of the three-year performance period.	Variable (At-Risk)
Benefits and Retirement Programs	Includes vacation, life and disability insurance, health and dental benefits, and retirement programs.	Fixed

Design of the Executive Compensation Plan

The CEO, CFO and other Named Executive Officers participate in the Executive Compensation Plan. There are four key steps in determining annual variable compensation awards under the Executive Compensation Plan:

Step 1	Establish target total compensation
Step 2	Establish balanced scorecards
Step 3	Evaluate performance
Step 4	Determine compensation awards

The first two steps take place at the beginning of the plan year and establish the foundation through setting target compensation and performance objectives. Steps three and four occur at the end of the year when performance is measured against objectives, and final awards are determined.

Step 1	Establish target total compensation

Target total compensation is determined at the beginning of the year or upon hire, or with changes in roles or responsibilities.

				Risk-Adjusted Variable Compensation				
Total Compensation	=	Base Salary	+	Annual Cash Compensation (STIP)	+	Long-Term Compensation (LTIP)	+	Benefit and Retirement Programs

For all executives, target total compensation is reviewed annually, as well as at the time of any material change in roles. Our philosophy is to set target total compensation to reflect the median of the competitive market, on average. Targets for an individual executive may be positioned above or below the median to reflect experience, potential, performance or other factors specific to the executive or role.

The HR Committee, with the advice from its independent adviser, reviews target total compensation for C-Suite executives, while the OAC Board of Directors approves the CEO's total compensation, based on the HR Committee's recommendation.

Step 2	Establish balanced scorecards

At the beginning of the year, a balanced scorecard is established for each participant, made up of their key objectives, and is used to assess performance at the end of the year. The balanced scorecard includes performance against net absolute returns and other key priorities.

The table below outlines the rationale for the inclusion of each performance measure.

Performance Measure	Rationale	2018 Weighting				
		CEO	Chief Investment Officer	Chief Risk Officer	Chief Financial Officer	Other Senior Executives
Investment Returns	Net absolute returns aligning executives with the interests of Plan members.	50%	60%	20%	40%	40%
Key Strategy Execution and Leadership Objectives	Strategic & leadership initiatives based on enterprise and business priorities.	50%	40%	80%	60%	60%

The CEO approves the objectives for each member of the C-Suite which are reviewed by the HR Committee. The HR Committee will recommend the annual balanced scorecard for the CEO to the OAC Board of Directors for approval.

Step 3	Evaluate performance

Following the end of the year, performance is assessed for each member of the C-Suite which determines each individual's balanced scorecard factor within a range of 0% to 200%. The OAC Board of Directors evaluates the performance of the CEO. Commentary on 2018 performance for the CEO is discussed in the section **Compensation of the CEO**.

Step 4	Determine compensation awards

At the end of the year, individual risk-adjusted variable compensation awards are determined as outlined below:

Risk-Adjusted Variable Compensation Award	=	Variable Compensation Target	x [	Balanced Scorecard Factor	+/-	Risk Adjustment	]
		STIP + LTIP		0% - 200%		+/- 15%	

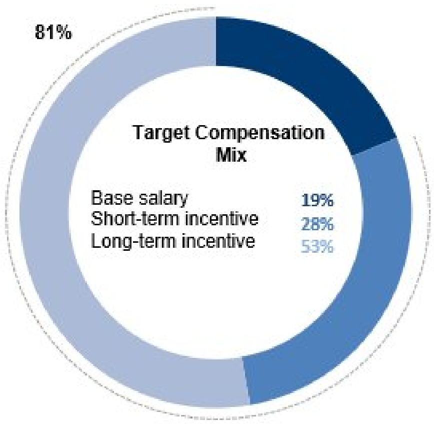
Final awards may range between 0% and 200% of target, based on performance achieved. The HR Committee, with advice from its independent adviser, reviews all variable compensation awards for the C-Suite executives, while the OAC Board of Directors approves the CEO's annual awards based on the HR Committee's recommendation. Once a participant's variable compensation awards are determined, 35% is paid in cash (STIP), and 65% is deferred (LTIP).

Target Compensation Mix

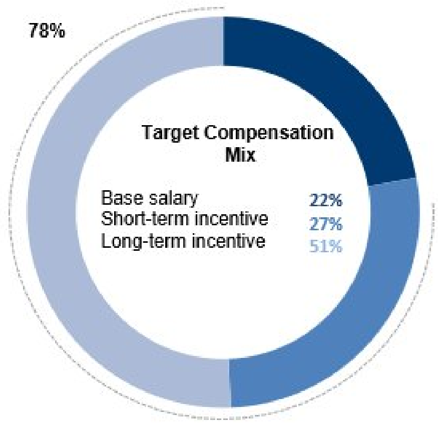
Aligned with OMERS pay-for-performance approach, total compensation for C-Suite executives is comprised primarily of variable compensation tied to investment and individual performance.

The majority of compensation for the CEO and the Named Executive Officer positions is variable and at risk as outlined in the following charts.

CEO



Other Named Executive Officers (Average)



Comparator Groups Used to Set Competitive Pay

OMERS has identified comparator groups for its various businesses in setting competitive compensation to closely reflect the marketplace. The comparator groups are reviewed on a regular basis by the HR Committee.

Typical considerations include other organizations that compete for similar talent, industry-specific organizations, or organizations with similar objectives. OMERS reviews compensation levels of comparable positions, and assesses relative performance, size, geographical scope and complexity.

Compensation Governance

This section outlines key governance-related features to help ensure that compensation aligns with the short- and long-term interests of our Plan members.

OMERS Features	Description
Risk Adjustment	The HR Committee has the ability to modify awards based on how well risk was managed during the year. The adjustment is determined annually and approved by the HR Committee.
Board Discretion	The OAC Board may make the decision to withhold awards of any variable compensation, including the short-term and long-term incentive payments to reflect significant unexpected or unusual events as defined by OMERS at its sole discretion.
Clawback	All variable compensation awards, whether paid or unpaid, are subject to a clawback in the event of a material misrepresentation or financial restatement of results, within a 36-month look-back period. In the event of a material misrepresentation or financial restatement, the HR Committee will determine the extent of the clawback (i.e., who, on an individual or plan basis, will be impacted and to what extent) based on the specific circumstances.

Alignment to Financial Stability Board Principles for Effective Governance of Compensation

The HR Committee has taken steps to further strengthen our approach to compensation, including incorporating the Financial Stability Board Principles (FSB) 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. OMERS continues to adhere to these FSB principles and will continue to review our adherence on an annual basis.

Compensation of the CEO

This section examines the 2018 performance and resulting compensation for the CEO.

Michael Latimer
Chief Executive Officer
OMERS Administration Corporation

2018 Performance

A balanced scorecard was established for Mr. Latimer based on performance achieved against the Total Fund net absolute return (50%) and key strategy execution, and leadership objectives (50%). The OAC Board assessed Mr. Latimer's 2018 performance against the following key individual objectives:

- 2020 Strategy and Implementation;
- 2030 Strategy planning;
- Technology and cyber security;
- Talent management, leadership development, succession and performance management; and
- Effectively managing overall cost effectiveness of OMERS.

Total Compensation Awards

When determining compensation awards, the HR Committee aims to ensure there is a strong link between compensation and performance achieved. In determining Mr. Latimer's annual variable compensation awards for 2018, the OAC Board assessed his performance against specific objectives that were agreed upon by the OAC Board at the beginning of the year. Given the three-year (2016-2018) Total Fund results and his individual performance, the OAC Board approved the variable compensation performance factor of 141% which resulted in the actual awards shown below.

Compensation Element	Target	Award
2018 Salary	$565,000	$565,000
2018 Short-Term Incentive	$856,187	$1,206,887
2018 Long-Term Incentive	$1,590,063	$2,242,113
Total	**$3,011,250**	**$4,014,000**

Summary Compensation Table

The table below represents disclosure of the 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: Short-Term Incentive Plan (STIP)	Non-Equity Incentive Compensation: Long-Term Incentive Plan (LTIP)(i)	Pension Value(ii)	All Other Compensation	Total
Michael Latimer CEO	**2018**	**565,000**	**1,206,887**	**2,242,113**	**53,999**	**58,632**	**4,126,632**
	2017	565,000	1,626,755	3,021,120	53,420	58,518	5,324,813
	2016	565,000	1,583,947	2,941,616	53,033	58,681	5,202,277
Jonathan Simmons Chief Financial Officer	**2018**	**450,000**	**479,400**	**895,600**	**53,999**	**1,129**	**1,880,128**
	2017	450,000	565,250	1,049,750	53,420	1,026	2,119,446
	2016	450,000	605,000	1,010,000	53,033	2,605	2,120,638
Blake Hutcheson President and Chief Pension Officer	**2018**	**500,000**	**1,133,038**	**2,106,962**	**53,999**	**53,706**	**3,847,706**
	2017	500,000	1,197,677	2,079,823	53,420	53,592	3,884,512
	2016	500,000	1,197,677	2,077,323	53,033	53,755	3,881,788
Michael Rolland President and Chief Operating Officer, Asia-Pacific Region	**2018**	**500,000**	**1,201,316**	**2,038,684**	**53,999**	**19,509**	**3,813,508**
	2017	500,000	1,147,125	2,130,375	53,420	19,395	3,850,315
	2016	500,000	1,099,449	1,885,551	53,033	19,218	3,557,251
Satish Rai Chief Investment Officer	**2018**	**500,000**	**1,039,000**	**1,931,000**	**53,999**	**1,254**	**3,525,253**
	2017	500,000	1,147,125	2,130,375	53,420	1,140	3,832,060
	2016	500,000	1,000,000	1,850,000	53,033	1,302	3,404,335

Notes:

(i) 2016, 2017 and 2018 amounts shown represent the LTIP awards reflecting business and individual performance for the calendar year.

(ii) Reflects matching pension contributions that OMERS makes on behalf of employees. Pension contributions are based on capped pensionable earnings, as described in the Pension Plan Benefits table later in this report.

Incentive Plan Awards Table

The following table presents the target value, award value and forecasted payments for outstanding long-term incentives for each Named Executive Officer. LTIP is granted at target value on January 1 of the year and is adjusted to an LTIP award based on the Balanced Scorecard at the end of the year. The LTIP award vests on December 31 of the third year (three-year vesting period). The actual payments depend on the OMERS Total Fund performance over the three-year performance period relative to a performance hurdle. The performance hurdle is the cumulative three-year Total Fund threshold return, which aligns to our funding discount rate.

Forecasted payments were determined using a Total Fund performance factor over the three-year performance period of 98% and 103% for 2018 and 2017 respectively. The payment amount for 2016 is based on the actual three-year performance period factor of 106%.

The 2016 long-term incentive awards matured at the end of 2018 and were paid out, leaving the 2017 and 2018 long-term incentive awards outstanding. All LTIP awards vest and mature on December 31 of the third year of the plan.

Name	Year	Target Value	Award Value	Vesting Date	Forecasted Payment
Michael Latimer CEO	2018	$1,590,063	$2,242,113	December 31, 2020	$2,197,271
	2017	$1,590,063	$3,021,120	December 31, 2019	$3,111,754
	2016	**$1,590,063**	**$2,941,616**	**December 31, 2018**	**$3,118,113**
Jonathan Simmons Chief Financial Officer	2018	$552,500	$895,600	December 31, 2020	$877,688
	2017	$552,500	$1,049,750	December 31, 2019	$1,081,243
	2016	**$552,500**	**$1,010,000**	**December 31, 2018**	**$1,070,600**
Blake Hutcheson President and Chief Pension Officer	2018	$1,300,000	$2,106,962	December 31, 2020	$2,064,823
	2017	$1,121,250	$2,079,823	December 31, 2019	$2,142,218
	2016	**$1,121,250**	**$2,077,323**	**December 31, 2018**	**$2,201,962**
Michael Rolland President and Chief Operating Officer, Asia-Pacific Region	2018	$1,300,000	$2,038,684	December 31, 2020	$1,997,910
	2017	$1,121,250	$2,130,375	December 31, 2019	$2,194,286
	2016	**$1,121,250**	**$1,885,551**	**December 31, 2018**	**$1,998,684**
Satish Rai Chief Investment Officer	2018	$1,300,000	$1,931,000	December 31, 2020	$1,892,380
	2017	$1,121,250	$2,130,375	December 31, 2019	$2,194,286
	2016	**$975,000**	**$1,850,000**	**December 31, 2018**	**$1,961,000**

Pension Plan Benefits

The following section describes the OMERS Plan in which the Named Executive Officers participate:

Pension Formula	2% of "best five" earnings multiplied by years of credited service (maximum of 35 years) less 0.675% of "best five" earnings capped at the five-year average YMPE (Year's Maximum Pensionable Earnings, as set by the Canada Pension Plan).
"Best five" Earnings	The highest average of five consecutive years of pensionable earnings. Pensionable earnings are capped, as follows: • Cap on incentive pay: Post-2010 earnings are capped at 150% of contributory earnings calculated before incentive pay. • 7X YMPE Cap: Total contributory earnings are limited to seven times the YMPE (applies to all earnings if the member enrolled on/after January 1, 2014, and to post-2015 earnings if the member enrolled before January 1, 2014).
Normal Retirement Age	65
Early Retirement	Plan members are eligible to retire early when they reach age 55. Each member's unreduced date is the earliest of the date the member attains their 90 Factor (age and qualifying service), attains 30 years of qualifying service, or turns age 65. If a member retires before their unreduced date, there is a 5% reduction factor per year short of their unreduced date.
Form of Pension	The pension is paid monthly for the life of the member, with 66 2/3% of the member's pension amount continuing to a surviving spouse after the member's death.

Termination Benefits

The treatment under each of the termination scenarios is governed by the terms of the 2018 Executive Compensation Plan, which are summarized in the following table:

	Short-Term Incentive Plan	Long-Term Incentive Plan
Resignation	Forfeited	Forfeited
Retirement (as defined by the compensation plan)	Entitled to a partial award, pro-rated to reflect the period of active employment	Outstanding awards will continue to mature in normal course
Termination without Cause	Entitled to a partial award, pro-rated to reflect the period of active employment	Entitled to a partial award, pro-rated to reflect the period of active employment
Termination with Cause	Forfeited	Forfeited

Board Remuneration and Attendance

OMERS Administration Corporation Board Remuneration		
2018		Annual Retainer
Chair	$	165,000
Committee Chair	$	80,000
All Other Directors	$	65,000

Effective January 1, 2017, new compensation rates came into effect for OMERS Administration Corporation Board members. Under the OMERS Act, OMERS Sponsors Corporation has the legislative authority to determine OMERS Administration Corporation Board remuneration. To implement recommendations of the Dean Report relative to improving skills and collective capacity of the OMERS Administration Corporation Board, OMERS Sponsors Corporation engages an independent consultant from time to time to determine peer practices on Board remuneration. As a result of this work, the OMERS Sponsors Corporation reviewed its bylaw and changed compensation rates for OMERS Administration Corporation Board members. The changes reflect OMERS Sponsors Corporation's assessment of a competitive compensation arrangement, while recognizing the public interest component of service on the OMERS Administration Corporation Board.

Board members who serve as members of the Appeals Committee are also entitled to receive the applicable annual retainer payment plus an additional meeting fee for each day of attendance at a hearing, provided they are present for the full hearing while in session - regardless of the duration of the hearing on any given day. For the Chair of the Appeals Committee, the fee is $1,000 per day and, for all other members of the Appeals Committee, the fee is $750 per day.

OMERS Administration Corporation members do not receive any other remuneration for acting as directors of OMERS Administration Corporation. Board members are reimbursed for reasonable and necessary expenses incurred in connection with carrying out the business of OMERS Administration Corporation. Reimbursement in this category has been primarily related to travel and accommodation expenses for attending OMERS Administration Corporation board, committee or other similar meetings.

In addition, Directors are required to meet certain educational requirements to stay current on key issues and to continue their professional development. Expenses can vary by year and for a variety of reasons, e.g. availability and location of educational programs, number of meetings, and location of primary residence, etc. For clarity, travel time is not compensated.

New Directors participate in an extensive orientation process, which includes a comprehensive discussion of the history and mandate of the corporation, OMERS strategy and investments, business planning process and current programs. Directors also participate in various educational programs and industry conferences, which are either approved or mandated by the organization.

The table on page 97 includes remuneration paid to OMERS Administration Corporation Board members as well as other eligible expenses in 2018, with comparable numbers for 2017. The table on page 98 sets out Board and committee meeting attendance in 2018.

Board Membership Update

Yung Wu was appointed to the OMERS Administration Corporation Board effective January 1, 2018, replacing Eugene Swimmer, who reached his maximum term limit on the Board on December 31, 2017. Monty Baker, Cliff Inskip and Charlene Mueller were reappointed to the OMERS Administration Corporation Board, effective January 1, 2018.

OMERS Administration Corporation Board Remuneration and Expenses

	2018		2017	
	Remuneration (i) (iii)	**Expenses (ii)**	Remuneration	Expenses
Cooke, George (Chair)	**$ 167,000**	**$ 6,456**	$ 167,000	$ 6,878
Aziz, William	**82,000**	**—**	82,000	—
Baker, Monty	**82,000**	**3,177**	82,000	13,745
Beatty, David	**67,000**	**30**	67,000	203
Beggs, Darcie	**68,500**	**20,648**	67,750	25,688
Butt, Bill	**82,000**	**—**	82,000	1,945
Elliott, Paul(	**67,000**	**8,615**	67,000	32,558
Fenn, Michael	**82,000**	**5,831**	82,000	908
Hutchinson, Laurie	**65,000**	**3,136**	65,000	2,624
Inskip, Cliff	**67,000**	**5,955**	67,000	9,743
Mueller, Charlene	**67,000**	**2,415**	67,000	14,282
Phillips, James	**82,000**	**16,078**	82,000	13,883
Somerville, Penny	**82,000**	**1,032**	74,500	7,980
Tsubouchi, David	**68,500**	**12,313**	68,500	14,079
Wu, Yung(iv)	**67,000**	**—**	—	—
Swimmer, Eugene(iv)	**2,000**	**2,400**	69,000	14,496
Vandenberk, Sheila(iv)	**—**	**—**	750	66
Other Expenses (v)	**—**	**48,638**	—	41,328
Total	**$ 1,198,000**	**$ 136,724**	$ 1,190,500	$ 200,406

(i) Remuneration of the Directors of the OAC Board is in accordance with the Director Remuneration Policy effective January 1, 2017.
(ii) Includes reimbursement for normal out-of-pocket business expenses including education, travel for meetings, and communication expenses incurred on behalf of OAC. These Board expenses by Directors are reported to the Audit & Actuarial Committee annually.
(iii) All Directors (except Laurie Hutchinson) are paid an annual technology allowance in the amount of $2,000 to cover all equipment and line charges required to review electronic board materials.
(iv) Member Changes:

- Y. Wu appointed to the Board effective January 1, 2018
- E. Swimmer reached maximum term limit on the Board on December 31, 2017
- S. Vandenberk retired from the Board effective December 31, 2016.

(v) Other expenses include meeting accommodations/meals/catering for OMERS Board meetings and OAC/SC Joint Sessions.

2018 Board/Committee Meetings

Director [i]	OAC Board Meetings (9)		Audit & Actuarial Committee (6)	Governance Committee (5)	Human Resources Committee (7)	Investment Committee (19)	Appeals Committee (1)	Technology Committee (7)	Risk Oversight Committee (10)	Overall Attendance: Committees (Total)		Overall Attendance: All Meetings		Overall Attendance: Scheduled Meetings [ii]	
	Attended	%	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended /Eligible	%	Attended /Eligible	%	Attended /Eligible	%
Aziz, Bill	3	33			7	18				25/26	96	28/35	80	13/17	76
Baker, Monty	9	100	5		7			7		19/20	95	28/29	97	21/22	95
Beatty, David	5	56			7	17				24/26	92	29/35	83	14/17	82
Beggs, Darcie	9	100		5	7		1		9	22/23	96	31/32	97	17/17	100
Butt, Bill	9	100	5[iii]			17[iii]				22/25	88	31/34	91	15/17[iii]	88
Cooke, George (Chair) [iv]	9	100	6	5	7	18	1	7	10	54/55	98	63/64	98	32/32	100
Elliott, Paul	9	100	6			18	1			25/26	96	34/35	97	18/18	100
Fenn, Michael	9	100		5				7		12/12	100	21/21	100	14/14	100
Hutchinson, Laurie	9	100	6					7	10	23/23	100	32/32	100	16/16	100
Inskip, Cliff	9	100	6			17			10	33/35	94	42/44	95	17/17	100
Mueller, Charlene	9	100	6					7		13/13	100	22/22	100	16/16	100
Phillips, James	9	100		5			1	7		13/13	100	22/22	100	15/15	100
Somerville, Penny	9	100		5		17			10	32/34	94	41/43	95	15/15	100
Tsubouchi, David	9	100		5	7		1			13/13	100	22/22	100	17/17	100
Wu, Yung	9	100				16		7		23/26	88	32/35	91	15/15	100
Overall Attendance		**93%**	**95%**	**100%**	**100%**	**91%**	**100%**	**100%**	**98%**		**95%**		**95%**		**96%**

(i) OAC Directors also attended other discretionary meetings such as the Annual Meeting, Joint Education Sessions with the SC, New Board and Committee Member Orientation Sessions and in house education sessions.
(ii) Scheduled meetings are regularly scheduled Board and Committee meetings which exclude special meetings and meetings called on short notice.
(iii) Absent from one Audit & Actuarial Committee meeting and one Investment Committee meeting due to jury duty.
(iv) Board Chair is ex officio member of the Appeals, Audit & Actuarial, Governance, Human Resources, Investment, Risk Oversight and Technology Committees.

OMERS Sponsors Corporation Board Member Remuneration and Attendance

2018 compensation is as follows:

2018		Annual Retainer
Co-Chairs	$	80,000
Committee Chair	$	45,000
All Other Directors	$	38,500

No other compensation is provided to OMERS Sponsors Corporation Directors.

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

The table on page 100 provides information about remuneration.

Reimbursement of Expenses

OMERS Sponsors Corporation Board Directors are reimbursed for reasonable and necessary expenses incurred in connection with carrying out the business of OMERS Sponsors Corporation. Reimbursement in this category has been primarily related to travel and accommodation expenses for attending OMERS Sponsors Corporation Board, committee or other similar meetings.

In addition, Directors are required to meet certain educational requirements to stay current on key issues, and to continue to develop their knowledge and skills. As a result, they are also reimbursed for travel, tuition and other expenses incurred while attending relevant conferences-or other professional and educational programs-within Canada and the continental U.S.

Expenses can vary considerably by year and by Director for a variety of reasons (e.g, Director experience, availability and location of programs, number of meetings, and location of primary residence, etc.) For clarity, travel time is not compensated.

The table on page 100 provides information about expenses.

OMERS Sponsors Corporation By-law No. 6 sets out the requirements and approval process for ongoing Director development.

Board and Committee Meeting Attendance

In 2018, Directors attended anywhere from 27 to 42 meetings, with the median being 36. Details about the number of meetings and Director attendance can be seen on page 101.

Other Events and Meetings

In 2018, Directors also attended up to five other business events and meetings, including in-house education sessions, committee meetings of which they were not members, and other business meetings, as necessary. Numerous informal meetings and individual Director meetings with sponsor organizations are not tracked, but may occur monthly for some members of the OMERS Sponsors Corporation Board.

Director Orientation and Education

New Directors participate in an orientation process, which includes a comprehensive discussion of the history and mandate of the corporation, OMERS strategy, business planning process and current programs.

Directors also participate in various educational programs and industry conferences, which are either approved or mandated by the organization.

In 2018, nine OMERS Sponsors Corporation Board Directors attended up to three industry-related conferences and seminars, lasting from two to four days. (Directors are not compensated for related travel time.)

OMERS Sponsors Corporation Board Remuneration and Expenses

	2018 Remuneration (i)	2018 Expenses (ii)	2017 Remuneration	2017 Expenses
Love, Marianne (Co-Chair)	**$ 80,000**	**$ 22,893**	$ 80,000	$ 20,714
Ramagnano, Frank (Co-Chair)	**80,000**	**10,212**	80,000	8,623
Axford, Dan	**38,500**	**14,580**	38,500	22,664
Bailey, Paul (iii)	**45,000**	**10,481**	45,000	16,183
Biro, Fred (iii)	**45,000**	**16,345**	45,000	14,959
Brown, Barry	**38,500**	**10,065**	38,500	11,197
Chan, Jason (iv)	**28,875**	**11,409**	—	—
Clarke, Diana	**38,500**	**16,780**	38,500	12,714
Derochie, Peter (iii)	**45,000**	**29,574**	45,000	11,042
Macaluso, Charlie	**38,500**	**2,431**	38,500	838
Maguire, Tim (v)	**9,625**	**655**	38,500	4,386
McConville, Mary	**38,500**	**4,018**	38,500	16,107
McNally, Wayne (vi)	**—**	**—**	—	300
O'Keefe, Brian (vi)	**—**	**—**	—	30
Pennachetti, Joe	**38,500**	**8,679**	38,500	17,456
Sahli, Sandra (iii)	**45,000**	**21,297**	45,000	21,295
Weatherup, John	**38,500**	**—**	38,500	—
Other Expenses (vii)	**38,168**	**37,511**	38,109	17,244
Total	**$ 686,168**	**$ 216,930**	**$ 686,109**	**$ 195,752**

(i) Remuneration is in accordance with By-law No. 6.
(ii) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred in conducting SC business. These expenses are reviewed by the Audit Committee on a quarterly basis.
(iii) Committee Chairs
Paul Bailey – Human Resources and Compensation Committee
Sandra Sahli – Corporate Governance Committee
Peter Derochie – Audit Committee
Fred Biro – Plan Design Committee
(iv) Term commenced April 1, 2018.
(v) Term ended March 31, 2018.
(vi) Term ended December 31, 2016. Expenses booked in 2017 were incurred in 2016 and processed after December 31, 2016.
(vii) Other expenses include Board meeting expenses not allocated by individual, and benefits (CPP & EHT)

2018 Board/Committee Meetings

Director	SC Board Meetings[i] (13)		Audit Committee (4)	Corporate Governance Committee (6)	Human Resources and Compensation Committee (3)	Plan Design Committee (16)	Committees (Total)		All Meetings		Other Events and Meetings [ii]	All Events and Meetings	Education Days [iv]
	Attended	%	Attended	Attended	Attended	Attended	Attended/ Eligible	%	Attended/ Eligible	%			
Love, Marianne (Co-Chair) [iii]	13	100%	3	5	2	16	26/29	90	39/42	93	4	43	0
Ramagnano, Frank (Co-Chair) [iii]	13	100%	4	6	3	16	29/29	100	42/42	100	5	47	0
Axford, Dan	13	100%		6	3	16	25/25	100	38/38	100	5	43	0
Bailey, Paul	13	100%			3	16	19/19	100	32/32	100	3	35	0
Biro, Fred	11	85%			3	14	17/19	89	28/32	88	2	30	0
Brown, Barry	12	92%		6	3	15	24/25	96	36/38	95	4	40	0
Chan, Jason	10	100%	2		2	11	15/17	88	25/27	93	3	28	5
Clarke, Diana	13	100%	4	6		16	26/26	100	39/39	100	5	44	0
Derochie, Peter	13	100%	4	6		16	26/26	100	39/39	100	5	44	5
Macaluso, Charlie	12	92%				15	15/16	94	27/29	93	3	30	0
Maguire, Tim	3	100%			1	4	5/6	83	8/9	89	1	9	0
McConville, Mary	13	100%		5	3	16	24/25	96	37/38	97	4	41	0
Pennachetti, Joe	13	100%	4	6		16	26/26	100	39/39	100	5	44	0
Sahli, Sandra	13	100%		6		16	22/22	100	35/35	100	5	40	0
Weatherup, John	13	100%		5		16	21/22	95	34/35	97	5	39	0
Overall Attendance		**98%**	**88%**	**95%**	**96%**	**98%**		**96%**		**97%**			**10**

(i) Board meetings consisted of 12 regularly scheduled meetings and two strategic planning sessions/days, all of which SC Board members were expected to attend.
(ii) Members attended up to one to five additional "Other" meetings and events, such as the Annual Meeting, joint education sessions with the OAC, new Board and Committee member orientation, in-house education sessions, ad hoc meetings of special committees and attendance at Committee meetings of which they are not members. Many members also attended educational programs or pension/governance conferences ranging from two to five days, exclusive of travel time.
(iii) In addition to chairing the SC Board meetings, Co-Chairs are *ex officio* members of all Committees; not all of their other obligations are tracked for attendance purposes.
(iv) Education days refer to the actual number of days members spent at education programs or pension-related conferences and exclude travel time.

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Independent Auditors' Report

To the Board of OMERS Sponsors Corporation

Opinion

We have audited the financial statements of OMERS Sponsors Corporation, which comprise the statement of financial position as at December 31, 2018 and the statement of operations and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Norton McMullen LLP

NORTON MCMULLEN LLP Chartered Professional Accountants, Licensed Public Accountants

Markham, Ontario, Canada
February 15, 2019

Statement of Financial Position

As at December 31,		**2018**		2017
Assets				
Current				
Cash	**$**	**11,547**	$	12,059
OAC receivable		**224,117**		392,862
Prepaid expenses and other assets		**7,876**		1,030
	$	**243,540**	$	405,951
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**242,517**	$	404,928
	$	**242,517**	$	404,928
Net Assets				
Excess/(Deficit) of revenues over expenses from operations				
Balance at beginning of year	**$**	**1,023**	$	1,023
Current year		**—**		—
Balance at end of year	**$**	**1,023**	$	1,023
	$	**243,540**	$	405,951

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

Barry Brown
SC Board Co-Chair

Frank Ramagnano
SC Board Co-Chair

Peter Derochie
Chair, Audit Committee

Statement of Operations

For the year ended December 31,		2018		2017
Revenues				
OAC expense reimbursement	**$**	**2,752,308**	$	2,373,444
	$	**2,752,308**	$	2,373,444
Expenses				
Contract and administrative salaries	**$**	**1,066,395**	$	943,071
Legal		**31,209**		113,978
Audit		**10,735**		8,475
Actuarial		**—**		3,769
Professional advisors		**494,502**		228,606
Other administrative		**165,369**		111,118
Insurance		**81,000**		82,566
Board remuneration (note 3)		**686,168**		686,109
Board expenses (note 3)		**216,930**		195,752
	$	**2,752,308**	$	2,373,444
Excess/(Deficit) of Revenues Over Expenses from Operations	**$**	**—**	$	—

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,		2018		2017
Cash was provided by (used in):				
Operating Activities				
Excess/(Deficit) of revenues over expenses	**$**	**—**	$	—
Changes in non-cash working capital accounts				
OAC receivable		**168,745**		(327,244)
Prepaid expenses and other assets		**(6,846)**		(985)
Accounts payable and accrued liabilities		**(162,411)**		261,863
Increase/(Decrease) in cash	**$**	**(512)**	$	(66,366)
Cash - Beginning of Year		**12,059**		78,425
Cash - End of Year	**$**	**11,547**	$	12,059

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

Notes to Financial Statements

December 31, 2018

Nature of Operations

The OMERS Sponsors Corporation (SC) is a corporation without share capital under the *Ontario Municipal Employees Retirement System Act, 2006* (OMERS Act). The SC is the sponsor of the OMERS Pension Plans (OMERS Pension Plans) as defined in the OMERS Act. The OMERS Pension Plans are administered by OMERS Administration Corporation (OAC) and include the OMERS Primary Pension Plan (Primary Plan) and the Retirement Compensation Arrangement (RCA) associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (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 deciding whether to file actuarial valuations more frequently than is required under the *Pension Benefits Act* (Ontario) (PBA).

NOTE 1

Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNPO) and include the following significant accounting policies:

a) Revenue Recognition

OAC expense reimbursement is recorded as revenue after the expenses are incurred in accordance with the joint SC/OAC protocol.

b) Use of Estimates

The preparation of financial statements is in conformity with Canadian ASNPO 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.

c) Cash

Cash consists of cash on hand and balances with banks that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

d) Financial Instruments

Measure of Financial Instruments

The SC initially measures its financial assets and liabilities at fair value and subsequently measures all its financial assets and liabilities at amortized cost.

Financial assets measured at amortized cost are cash and OAC receivable. Financial liabilities measured at amortized cost are accounts payable and accrued liabilities.

The SC has no financial assets measured at their fair value and has not elected to carry any financial assets or liabilities at fair value.

Impairment

Financial assets measured at amortized cost are tested for impairment when events or circumstances indicate possible impairment. Write-downs, if any, are recognized in excess (deficit) of revenues over expenses and may be subsequently reversed to the extent that the net effect after the reversal is the same as if there had been no write-down. There are no impairment indicators in the current year.

NOTE 2

Bank Operating Facility

The SC maintains an unsecured, uncommitted overdraft facility (demand Operating Overdraft Facility) with a major bank in the amount of $1,000,000; advances would bear interest at the Prime Rate per annum. Access to the overdraft facility was not required in 2018.

NOTE 3

Board Remuneration and Expenses

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

NOTE 4

Financial Instruments

The SC is exposed to various risks through its financial instruments. The following provides a summary of the SC's exposure to risk as at December 31, 2018:

a) Credit Risk

Credit risk is defined as the financial loss that results from the failure of a counterparty to honour its contractual obligations to SC. The SC's main credit risk relates to its OAC receivable. The OAC receivable is due from an organization with a high-quality credit rating and therefore there is limited credit risk associated with this financial instrument.

b) Liquidity Risk

Liquidity risk is the risk that the SC will be unable to meet its financial liabilities in a timely and cost-effective manner. The SC is exposed to this risk mainly in respect to its accounts payable. The SC manages this risk by managing its working capital, ensuring the sufficient credit is available.

c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk. The SC is not exposed to significant market risk.

OMERS

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