

# Statement of Investment Policies and Procedures – Primary Plan

RISK MANAGEMENT



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Effective  
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## OVERALL PRINCIPLES

This Policy sets out how the assets of the Primary Plan are invested by OMERS Administration Corporation (“AC”). Investments will be selected and held in accordance with the objectives, requirements and limitations described in this Policy.

**This Policy applies to all investments of the Primary Plan.**

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

## Primary Plan Description

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

The Primary Plan is a contributory defined benefit pension plan. Generally, the participating employers and their employees share equally in the investment experiences of and the contributions to the Primary Plan.

Investments are selected and managed in accordance with the criteria and limitations established by this and other investment policies, and applicable legislation, including the *OMERS Act, 2006*, PBA and the ITA.

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. The Primary Plan pension formula includes a bridge benefit paid to age 65, as well as survivor benefits and early retirement options. Inflation protection increases the Primary Plan’s retirement, disability and survivor pensions each year, based on the increase in the Canadian Consumer Price Index (“CPI”), as follows:

- Benefits earned on or before December 31, 2022 receive full inflation protection, up to a maximum increase of 6%. Any excess is carried forward so it can be used in later years when the CPI increase is less than 6%.
- Benefits earned on or after January 1, 2023 are subject to shared risk indexing, meaning that the level of inflation protection will depend on the OMERS Sponsors Corporation (“SC”) Board of

Directors' annual assessment of the financial health of the Primary Plan.

## Funding of the Primary Plan

Funding of the Primary Plan is a joint responsibility of AC and the SC, and is managed through three levers: contributions, benefits and investments .

Factors impacting funding are set out in the SC's *Primary Plan Funding Management Statement* and AC's *Funding Policy – Primary Plan*. These factors include contribution and benefits levels, actuarial assumptions and methods and the long-term nature of the obligations, which recognizes that the PBA permits AC to exempt the Primary Plan from funding solvency deficiencies. Plan/funding risk is the risk that OMERS is not able to deliver sustainable, affordable, and meaningful pensions due to unfavorable investment performance, adverse plan experience, plan maturity, and other risks to which OMERS is exposed.

The Primary Plan's investment policies have regard to these factors as part of the determination of the strategic asset allocation.

## Investment Objectives of the Primary Plan

**Asset/Liability Studies:** The long-term strategic asset mix is a key determinant in the Primary Plan's overall risks and return. AC conducts asset/liability studies, at least every three years, to determine the recommended long-term strategic asset mix and long-term return expectation that aims to at least meet the Primary Plan's objectives to be sustainable, affordable and meaningful.

### Long-term Strategic Asset Mix:

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

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

Implementation of the long-term strategic asset mix is carried out in a prudent manner subject to market conditions and investment opportunities. AC implements the strategic asset mix through its Business Units and through external service providers or other entities (including, without limitation, external professional

investment advisors, third-party managed funds, pooled funds, unit trusts and similar vehicles).

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

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

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

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

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

## Categories of Investments

The Primary Plan invests directly and indirectly in the four asset groups identified above. Within each asset group there are various asset classes. Depending on the nature of the investment, it is possible that an investment could fit within the description of more than one asset class in which case the asset will be

classified according to the class to which it most closely aligns based upon an assessment of its underlying characteristics. The asset groups described below may include other asset classes which share similar risk/return characteristics.

### **Fixed Income**

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

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

### **Equities**

Equities includes both public equities and private equities.

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

### **Real Assets**

Real assets include private investments in infrastructure and real estate.

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

### **Cash and Funding**

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

### **Primary Plan Governance**

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

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

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

**Consideration of Environmental, Social and Governance Factors:** Consistent with its Sustainable Investing Policy, AC believes that well run organizations with sound environmental, social and governance ("ESG") practices will perform better, particularly over

the long-term. AC encourages the adoption of policies and practices that maximize financial performance including responsible corporate behavior with respect to ESG.

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

## Valuation of Investment Assets and Liabilities

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

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

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

## Other Investment Matters

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

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

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

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

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

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

## Derivatives, Repo and Securities Lending

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

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

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

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

## Investment Risk Management

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

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

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

To manage funding risk and investment risk, periodic asset liability studies and annual projections of the overall plan's financial position will be conducted.

## Diversification

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

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

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

## Exceptions

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

## Monitoring and Reporting

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

### ROLES & RESPONSIBILITIES

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