

Policy Sponsor: CIO and Investment Risk Management

Summary: The Statement of Investment Beliefs helps provide direction for the investment organization, investment policies and actions of investment personnel by acting as a guide for the management and administration of the assets of the OMERS Funds in a consistent manner that reflects the views of the OAC Board. The statements are categorized into two main categories: Management of Assets and Governance. **This Statement must be approved by the Investment Committee.**

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1. MANAGEMENT OF ASSETS

1.1 Fund Objective

The OAC's primary long-term goal is to ensure that the value of its invested assets exceeds the present value of its pension benefits promised to plan members throughout their retirement years and to strengthen OMERS funded position. To achieve this objective, the OAC must possess best-in-class investment management expertise and be a leader in managing and administering pension plan benefits. The OAC acknowledges that the primary risk to the Funds is insufficient assets and investment returns to meet pension liabilities and that any significant shortfall will have a detrimental impact on contribution rates and/or benefits.

1.2 Investment Organization

The OAC believes that the investment organization should be efficient, innovative and allow for effective and timely decision making. An effective investment operation with the appropriate culture will reduce the risk of unacceptable investment activities and behaviour. Internal policies and procedures are implemented and updated as necessary to ensure that employees of the OAC and the Investment Entities are aware of the OAC's expectations with respect to ethical and professional conduct. Since considerable effort is required to consistently earn superior returns, a strong research and rigorous due diligence culture is necessary for continued success.

1.3 Human Capital

In addition to recognizing performance and nurturing employee development and management skills, the OAC believes that to attract and retain best-in-class talent, compensation must be consistent with its objective of being a top-performing fund and consistent with industry standards of comparable top-performing funds. The compensation plan must be transparent, provide incentives to achieve the OAC's short- and long-term goals and be aligned with the OAC's goal of being a leader in the pension and investment management industries. Employees of the OAC and the Investment Entities are ultimately accountable to the OAC Board for the performance of the Funds.

1.4 Diversification

The OAC believes that a balance should exist between matching the liabilities of the Funds and generating investment returns. The OAC invests in inflation sensitive investments to better match the liabilities of the Funds and invests in other asset classes to generate additional investment returns. Since investment results are closely linked to the asset allocation decision, changes in the long-term strategic asset mix will only be implemented after an extensive asset mix review which shall be completed at least every three years.

1.5 Active and Passive Investment Management

The OAC believes in active investment management because the prices of securities and investments do not always reflect current and publicly available information. Active management attempts to add value through asset mix decisions and the buying (selling) of what the OAC believes to be undervalued (overvalued) investments. In addition, passive investment strategies, which attempt to replicate a market index, are used to achieve the OAC's goals and objectives through ease of access to liquidity, lower cost and lower risk.

1.6 Internal versus External Management

The OAC believes internal management enhances value add results. However, the OAC recognizes that at times it is more efficient to hire external managers than to build in-house expertise in order to meet its investment objectives. The OAC strives to select best-in-class external managers that exhibit strong ethical behavior and have superior professional management and a proven track record. The use and performance of external managers is assessed on an on-going basis.

1.7 Use of Derivatives

The OAC believes that the use of derivatives and synthetic securities are efficient tools that can be used to help manage the asset mixes of the Funds, obtain exposure to certain markets and hedge the OAC's exposure to interest rates and currencies, for example.

1.8 Risk Management

The OAC believes that appropriate risk management processes will provide a prudent level of risk-taking activity and help ensure the pension promise can be sustained and met over the long run.

The OAC understands that investing exposes the Funds to unanticipated changes in currencies and other market prices. The OAC believes it must manage these risks through appropriate hedging programs (i.e. currency). Other risks inherent in the market (e.g., systematic risk) can be managed through appropriate asset allocation and diversification across many sectors and countries.

1.9 Leverage

The OAC believes that the prudent use of debt (i.e., leverage) may enhance investment returns. Any decision to use leverage shall include consideration of the impact of such leverage on overall risk and investment return.

1.10 Valuation

The OAC believes that consistent and robust procedures are required for valuing the assets and liabilities of the Funds on a timely basis.

1.11 Third-Party Asset Management

The OAC believes managing third-party assets will enhance overall Fund returns by expanding the asset base and improving access to investment opportunities. The OAC believes that assets managed on behalf of third parties should be managed in accordance with OMERS Statement of Investment Beliefs.

2. GOVERNANCE**2.1 Socially Responsible Investing**

The OAC believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business, and that these actions contribute to long-term financial performance. As part of its due diligence in researching investments and monitoring performance, the OAC incorporates environmental, social and governance factors into its decision-making processes.

2.2 Corporate Governance

At any given time, the OAC owns numerous shares in various companies in Canada and internationally. One way in which the OAC encourages these companies to generate shareholder value is through good corporate governance. The OAC believes that well managed companies with strong governance processes generally produce better long-term investment returns. The OAC believes that investing in these types of companies is in the best interest of the Funds.

2.3 Compliance

The OAC believes a compliance framework, which is maintained and revised as appropriate, is required to comply with all legal and regulatory requirements including, without limitation, key legislative obligations in the *Pension Benefits Act* (Ontario) and the *Income Tax Act* (Canada). At a minimum, the OAC will maintain compliance standards consistent with industry practice. The OAC believes that appropriate controls are required to monitor and understand investment activities such as policy constraints, portfolio and asset diversification, trading activities and investment risks.

2.4 Reporting

The OAC believes appropriate reporting of investment activities and results is required. An important element of this reporting is measuring portfolio performance of the investment assets against appropriate benchmarks. Benchmarks should reflect the goals of the Funds and investment activities as well as appropriate risk tolerances.

2.5 Delegation

The OAC believes that appropriate levels of investment authority must be established and delegated within the Policies set by the OAC so as to define responsibility and levels of authority.

HISTORY

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