

Policy Sponsor: CIO and Investment Risk Management

Summary: This Policy provides objectives, policies and procedures for the investment management of the Primary Plan Fund and applies to all investments managed on behalf of the Primary Plan by the OAC Board through the Investment Entities. **This Policy must be approved by the Investment Committee.**

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1. INTRODUCTION

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

2. COMPLIANCE

IOA will actively monitor investments to ensure compliance with this Policy. Any breaches of this Policy shall be promptly reported by Senior Management to the OAC Board, along with an appropriate plan for resolution of the breach.

3. ANNUAL REVIEW

This Policy shall be reviewed and approved by the OAC Board sitting as the Investment Committee (“Investment Committee”) at least annually and will be delivered to the OAC’s actuary within 60 days of any amendment thereto.

4. DELEGATION OF AUTHORITY

In fulfilling its duties, the Investment Committee may delegate responsibilities for the investment of the Primary Plan Fund to the CEO and provide the CEO with the power to sub-delegate.

5. PLAN DESCRIPTION

The Primary Plan is a multi-employer pension plan governed by the OMERS Act and is a jointly sponsored pension plan under the PBA. 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 employees in the Primary Plan equally share the required contributions to the Primary Plan and the investment experiences of the Primary Plan Fund.

The Primary Plan provides a pension benefit based on two per cent of the member’s annual average earnings for the highest paid 60 consecutive months times years of credited service, to a maximum of 35 years. The Primary Plan pension benefits are integrated with the Canada Pension Plan and the Primary Plan pension formula includes a bridge benefit paid to age 65, as well as survivor benefits and early retirement options. All pensions are indexed to the Consumer Price Index for Canada to a maximum of six per cent per year with any excess carried forward to future years.¹

6. REPORTING

In regard to the Primary Plan Fund, IOA must prepare the following reports to the Investment Committee:

- a bi-monthly report on the asset mix; and
- a bi-monthly report on investment performance.

7. OBJECTIVES AND RETURN EXPECTATIONS

The OAC is committed to providing secure pensions through receipt of contributions and by investing to earn superior returns with due regard for risk. The OAC’s long-term investment goal is to ensure that the value of the Primary Plan Fund exceeds the present value of all accrued pension benefits promised to plan members under the Primary Plan.

The minimum annual inflation-adjusted investment return required to fund the present value of all accrued benefits promised to plan members (based on the going-concern valuation discount rate) is 4.25 per cent (“Minimum Required Real Return”), based upon a 20-year time horizon. The OAC expects the current long-term strategic asset allocation to enable the Primary Plan Fund to earn an average annual real rate of return in excess of the Minimum Required Real Return.

¹ Effective January 1, 2013 there is no indexing of credited service earned after December 31, 2012 during the deferral period before retirement for members who terminated employment before they are eligible for an early retirement pension

8. LONG-TERM STRATEGIC ASSET GROUP MIX

The OAC uses six strategic asset classes (fixed income, public equities, real return bonds, private equity, infrastructure and real estate) as part of its long-term strategic asset allocation. Public and private equity are primarily return enhancers which reduce contributions, while real return bonds, real estate and infrastructure support the liabilities to lower the volatility (i.e. potential dispersion) of contributions. Fixed income offers opportunities to enhance returns as well as support the liabilities. These asset classes are categorized into two broad asset groups: (i) Public Investments (fixed income, public equities and real return bonds) and (ii) Non-Public Investments (infrastructure, private equities and real estate).

The long-term strategic asset group mix sets out an allocation between the Public Investment asset group and the Non-Public Investment asset group and has been developed taking into account the six asset classes and other factors such as the economic and investment environment and the liabilities of the Plan.

The long-term strategic allocation to the Public Investment asset group and Non-Public Investment asset group shown in the table below have been determined by the OAC to be consistent with the Primary Plan long-term investment goals.

Asset Group	Minimum	Target	Maximum
Public Investments	41.0%	53.0%	65.0%
Non-Public Investments	35.0%	47.0%	59.0%

Implementation of the long-term strategic asset group mix will be completed in a prudent manner subject to market conditions and investment opportunities. The OAC will implement the long-term strategic asset group mix through the Investment Entities and through external service providers or other entities (including, without limitation, external professional investment advisors, third-party managed funds, mutual funds, pooled funds, unit trusts and similar vehicles).

9. CATEGORIES OF INVESTMENT AND LOANS

The Primary Plan Fund is invested directly and indirectly in the six asset classes identified below. Depending on the nature of the investment, it is possible that an investment could fit within the description of more than one asset class. Furthermore, the categories of investments are guidelines and may include other asset classes which share similar risk/return characteristics, for instance commodities and timberland.

Derivatives and synthetic securities may be used for the Primary Plan Fund to replicate or enhance expected returns to these asset classes and to mitigate risk and manage the asset mix of the Primary Plan Fund including its exposure to fixed income, currencies, equities and commodities. Derivatives include, but are not limited to, forwards, futures, options and swaps.

Changing the asset group mix, within the ranges approved by the Investment Committee, may be done directly by changing the allocations to an asset class (e.g. via purchase or sale) or indirectly through the use of derivatives linked to, for example, fixed income, currencies, equities and commodities. The OAC may short sell public market securities to enhance expected returns or to protect capital. Leveraging of assets may result from the use of derivatives which use relatively little capital to achieve significant exposure to underlying markets.

Absolute return strategies are expected to produce positive returns that have a low correlation to broad financial markets and are expected to produce positive returns under a broad range of financial market scenarios. These strategies may use little or no net capital as they involve a

combination of long and short positions, either directly or indirectly through derivatives in securities including, but not limited to fixed income, currencies, equities and commodities.

The investment horizon for these asset classes is generally mid-term to long-term depending on the nature of the asset and the strategy undertaken within the respective asset class.

9.1 Public Investments

Public investments are securities that are generally traded on a recognized public exchange or on an over-the-counter basis. Public investments generally exhibit greater price transparency (i.e. securities prices are publicly observable) and liquidity than non-public investments. Included in the Public Investment asset group are:

9.1.1 Fixed Income Investments

Fixed income investments pay a fixed amount of interest at a regular interval over a period of time, provide income as well as the return of the original capital at maturity and are generally less volatile than equity securities.

9.1.2 Real Return Bonds

Real return bonds are fixed income securities that earn inflation adjusted returns and are generally the closest match with the Primary Plan benefit liabilities.

9.1.3 Public Equities

Public equities are securities that represent ownership in a reporting issuer and include securities listed on recognized exchanges. Public equities are expected to produce higher returns than fixed income securities over the long term but have potentially higher return volatility.

9.2 Non-Public Investments

Non-Public investments are investments in tangible assets or real property that are not generally publicly traded. Included in the Non-Public Investment asset group are:

9.2.1 Private Equity

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly.

Private equity investments have the potential for higher returns than investments in public equities through active management and increased leverage but have potentially higher return volatility.

9.2.2 Infrastructure

Infrastructure investments are generally direct investments in large-scale projects requiring significant capital investment and/or have high barriers to entry.

Infrastructure investments are expected to produce predictable and stable cash flows and returns in excess of those obtained in the fixed income markets but have potentially higher return volatility.

9.2.3 Real Estate

Real estate investments include investment in real estate and real estate related assets.

Real estate investments are expected to produce predictable and stable cash flows and returns in excess of those obtained in the fixed income markets but have potentially higher return volatility.

10. FOREIGN EXPOSURE

Foreign investments are permitted as they may offer the potential for higher returns while diversifying the Primary Plan Fund's asset mix. Total foreign exposure for the Primary Plan Fund will not exceed 75 per cent of the market value of the Primary Plan Fund.

11. SHORT SELLING OF SECURITIES

The OAC may short sell securities in public market assets to enhance expected returns or protect capital. Engaging in short selling of securities will only be done after full consideration of the related risks. These risks will be identified, measured, managed and monitored.

12. RISK MANAGEMENT TOOLS**12.1 Asset/Liability Studies**

The Primary Plan's main long-term risk is that the Primary Plan Fund cannot meet the obligations of the pension promise. To manage this long-term risk, periodic asset/liability studies shall be conducted which will lead to the recommendation and adoption of a long-term strategic asset group mix that is expected to generate a real rate of return above the Minimum Required Real Return necessary to fund the present value of all accrued benefits promised to plan members.

12.2 Diversification

In the long-run, the performance of the Primary Plan Fund is determined mainly by the long-term strategic asset group mix decision. Diversification is an important risk management tool because it reduces the variability of returns by spreading the Primary Plan Fund's long-term risk among:

- asset classes;
- countries and industries;
- asset holding periods;
- currencies; and
- securities

12.3 Derivatives

Where appropriate and prudent, derivatives are used to replicate asset returns (i.e. gain exposure to an asset class) and as a risk management tool to manage the Primary Plan Fund's exposure to fixed income, currencies, equities and commodities and other financial market risks. Derivatives may also be used to manage the Primary Plan Fund's asset mix and liquidity and enhance expected returns. Engaging in derivatives will only be done after full consideration of the related risks. These risks will be identified, measured, managed and monitored.

12.4 Analytical Tools

Analytical investment tools are used to measure market exposures and risk and to ensure that the assets of the Primary Plan Fund are managed prudently.

13. LIQUIDITY

The OAC will ensure the Primary Plan Fund maintains sufficient liquidity to meet the financial obligations of the Primary Plan Fund as they come due. The liquidity of specific asset classes is considered in the development of the OAC's strategic asset group mix.

14. DELEGATION/RETENTION OF VOTING RIGHTS

The OAC retains overall responsibility for voting proxies related to securities owned by the Primary Plan Fund. The OAC exercises voting rights in a manner that is consistent with the OAC's [Proxy Voting Guidelines](#). The OAC may exercise judgment in connection with the voting of any proxy on a case-by-case basis and may engage a proxy voting service provider to assist the OAC with its share voting responsibilities.

15. 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.

Corporations should account for their behaviour and its implications for the creation of value. The OAC supports the view that companies should maintain policies and procedures with respect to environmental, social and governance issues that materially affect long-term shareholder value.

The OAC encourages the adoption of high standards of behaviour as a means to maximize long-term shareholder value. 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.

The OAC participates in various investment initiatives through its Investment Entities that provide broader benefits to our economy while generating the returns necessary to meet the obligations to the Primary Plan members. When bidding for or making investments in physical assets in Canada, full consideration will be given to the consequences in respect to the outsourcing or delivery of core government services related to those assets.

16. VALUATION OF INVESTMENT ASSETS

Investments are stated at fair value. Fair value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. It is the OAC's practice to use quoted independent market prices, for the valuation of its assets wherever such quoted prices exist. In cases where a public market price is not readily available, industry accepted models and assumptions will be used to determine valuations.

Where a market price is not available for a non-publicly traded investment asset or liability, a suitable and consistent method of valuation is applied at least annually by management to determine fair value using appropriate valuation techniques, including the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Accredited external appraisers are required to perform a review of management's valuations to determine the reasonableness of the valuations for each significant private market investment at least once every three years or in any year where the valuation changes by more than fifteen per cent from the prior year.

The valuation of investment assets requires significant judgment. The resulting values are included in OAC's annual financial statements which are audited by an independent firm of Licensed Public Accountants.

17. SECURITIES LENDING

The Primary Plan Fund may engage in securities lending activities to generate incremental income. The amount of collateral taken for securities lending should reflect best practices in each local market provided that at all times the OAC or its lending agent receives from the borrower collateral

equal to at least 102 per cent of the market value of the securities loaned. The OAC must retain the ability to recall loaned securities to exercise its proxy voting rights.

18. RELATED PARTY TRANSACTIONS

The OAC 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 OAC's [Special Transactions Review Policy](#).

For the purposes of the applicable legislation, a transaction will be considered by the OAC to be nominal or immaterial if its value is no more than three per cent of the market value of the Primary Plan Fund at the time the transaction is entered into or completed.

19. PERMITTED BORROWING

Borrowing or providing guarantees on behalf of the Primary Plan Fund is permitted in accordance with the PBA and the ITA ("Permitted Borrowing").

The OAC may pledge, charge or otherwise grant a security in assets or post margin as required to, for instance, complete derivative transactions, secure a Permitted Borrowing or guarantee, or complete a short sale, in accordance with applicable law including the ITA and the PBA.

20. PERFORMANCE MEASUREMENT

Investment performance will be evaluated against investment performance benchmarks which provide a standard for an asset class or underlying portfolio against which its performance is assessed. Investment performance benchmarks are approved annually by the OAC Board. The investment performance of the Primary Plan Fund will be reported to the Investment Committee both before and after expenses incurred in the management of the Primary Plan Fund and will be reviewed bi-monthly by the Investment Committee.

HISTORY

Effective Date:	December 1, 2011
Approval Dates:	August 17, 2006; August 24, 2007; November 23, 2007; July 24, 2008, December 17, 2008, May 20, 2009, November 20, 2009, November 19, 2010, March 24, 2011, November 18, 2011
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