

Policy Sponsor: CFO and Financial Services

Summary: This accounting policy applies to all OMERS private investments, represented by directly held real estate assets (i.e., revenue producing properties and properties held for development), private equity directly held equity investments (i.e., non-fund investments), infrastructure investments, and real estate and private equity fund investments. This policy also applies to private debt and mortgages held as an asset or an investment liability. **This policy must be approved by the Audit Committee.**

Contents

1. POLICY STATEMENT	1
1.1 Summary of Accounting Policy	1
1.2 Definition of Fair Value.....	1
2. POLICY REQUIREMENTS.....	2
2.1 Policy Implementation.....	2
2.2 Consistency of Application of Valuation Principles.....	3
3. CONTEXT	3
3.1 Internal and Independent Valuations and Valuation Frequency.....	3
3.2 Valuation Components.....	4
3.3 Income Recognition	5
4. DISCLOSURE IN OAC FINANCIAL STATEMENTS	6
4.1 Consolidation of Investments.....	6
5. ACCOUNTABILITY	6
5.1 Review and Approval	6
5.2 Roles and Responsibilities.....	6
6. REPORTING	6
6.1 Reporting of Valuations.....	6
APPENDIX A – IFRS FAIR VALUE CONSIDERATIONS	7
APPENDIX B – IFRS FAIR VALUE HIERARCHY.....	8
APPENDIX C – OAC FINANCIAL STATEMENT DISCLOSURE OF DEBT IN PRIVATE MARKET INVESTMENTS.....	9

1. POLICY STATEMENT

1.1 Summary of Accounting Policy

OMERS accounting policy is to value all assets and liabilities at fair value as required under the Pension Benefits Act and CICA Section 4600. This policy applies to all private market assets managed by OAC. This valuation policy will be applied for all OAC reporting and for valuation results used in determining investment returns for third-party contracts.

1.2 Definition of Fair Value

Consistent with IFRS 13 – Fair Value Measurement, fair value is defined as follows:

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.

IFRS 13 contains a number of factors to consider in the assessment of fair value which, to the extent that they are applicable, should be followed in arriving at the fair value for OMERS consolidated financial statements. Some of the considerations are discussed in Appendix A to this policy.

OMERS year-end consolidated financial statements must incorporate the fair value of OMERS private investments. Disclosure based on the level of inputs used in determining fair value required

by IFRS 13 and as described in Appendix A will also be included in the financial statements. The fair value determination may be conducted at any time during the fiscal year using then currently available information and the result rolled forward to a December 31st value ensuring that significant inputs to the valuation remain valid as at December 31st.

For private investments the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. Other third party events, such as a third party financing, can also provide input. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets. OMERS policy is to record such assets at fair value. Recognizing, however, that such values are estimates, OMERS policy is to achieve a reasonable and prudent estimation of fair value.

2. POLICY REQUIREMENTS

2.1 Policy Implementation

For OMERS private investments this policy will be implemented based on the following principles.

- 2.1.1 The appraisal/valuation will be based on specific individual tangible or intangible assets. No value will be attributed to any class of assets beyond the sum of values of the individual assets.
- 2.1.2 For any public investments included in private investments, such as from a directly held private equity investment that went public or private debt that has a publicly available price, the fair value of the publicly traded investment is deemed to be the closing market price of the investment at the measurement date, subject to section 2.1.3. IFRS 13 requires the use of the price in the bid-ask spread that is most representative of fair value in the circumstances. It specifically allows the use of mid-market or other pricing conventions that are used by market participants as a practical way of defining fair value within a bid-ask spread. A report is produced to monitor the difference between the last trade and the bid price.
- 2.1.3 Where OMERS is restricted in its ability to sell the shares or units of a publicly traded investment included in private investments, whether such public investment is held directly or through a fund, a discount is applied to the closing market price at the measurement date to reflect the potential for the public price to fall before the expiry of the holding period. Such circumstances typically arise because of hold restrictions included in an initial public offering. The discount is 20 per cent where the holding period is three months or more and 10 per cent where the holding period is less than three months.
- 2.1.4 An appraisal/valuation will be performed to support the year-end fair value for all private investments subject to the other provisions noted in this policy. For investments acquired in the current fiscal year, the fair value may be supported by the appraisal/valuation performed on acquisition.
- 2.1.5 Where there is an independent bona fide offer to purchase under consideration at the period-end, the offer may be considered in lieu of, or in addition to, a formal appraisal as such an offer is considered to be a strong indicator of the private investment's value.
- 2.1.6 The fair value of mature directly held private investments is deemed to be the appraised/valuation amount. Mature investments have reasonably predictable future revenue streams or derive their value based on property or commodity values. Future revenue streams may be contractual, such as real estate properties or debt, or be based on historic volumes or regulated pricing, such as pipelines, toll generating assets, or mature commercial businesses.

- 2.1.7 The fair value of a non-operating investment (e.g. an investment under construction) or an investment in start up mode (e.g. an investment that is in the early stages of commercial operation, with limited operating history) may be held at cost, where cost is considered the best estimate of fair value, until there is external evidence to support a change in valuation (i.e., values of comparable publicly traded companies, the company becoming publicly traded, real estate leasing data, etc.). Once an investment is commercially operational, with an operating history to support projected cash flows, the fair value is the appraised/valuation amount. Particular attention will be paid to ensuring that the uncertainty in future revenue streams is reflected in the appraised/valuation amount.
- 2.1.8 The fair value of a directly held private investment where OMERS ability to access information is restricted, such as under the terms of the shareholder or other governance agreement, is deemed to be cost. Any change in value must be based on a specific and objectively verifiable reason and be supported by an appraisal/valuation.
- 2.1.9 The fair value of a fund investment where OMERS ability to access information on underlying individual fund investments is restricted, such as under the terms of a limited partnership agreement, is deemed to be the value provided by the fund's General Partner unless there is a specific and objectively verifiable reason to change the value of the investment.
- 2.1.10 Fund investments, where OMERS ability to access information on the underlying individual fund investments is not restricted, are considered to be a series of directly held private investments, the fair value of each of which is to be determined in accordance with the other sections of 2.1 above.
- 2.1.11 For OMERS private debt and mortgages, valuations will be prepared by the relevant investment group utilizing consistent industry standard modelling techniques, and the results will be reviewed for reasonableness by the Investment Operations and Applications Group.

2.2 Consistency of Application of Valuation Principles

- 2.2.1 The valuation principles detailed in this policy shall be applied consistently each period, recognizing that private investments may migrate within sections 2.1.6 to 2.1.7.
- 2.2.2 Where a private investment is valued other than at cost, the selection of the point in the range of the appraisal or valuation which best represents the fair value of the private investment (generally the mid-point) shall be made consistently each period, unless there is a specific and objectively verifiable reason for a change.

3. CONTEXT

3.1 Internal and Independent Valuations and Valuation Frequency

- 3.1.1 Valuations/appraisals may be performed by employees with appropriate knowledge and experience in valuation practices. Such internal valuations may be used for financial statement reporting purposes. Where a private investment is not subject to an independent valuation, it must be subjected to an internal valuation process for that year.
- 3.1.2 All valuations must be in accordance with generally accepted valuation practices and procedures, applied on a consistent basis.
- 3.1.3 For significant private investments (individual investments with a Canadian dollar equivalent fair value at the immediately preceding year-end in excess of \$25 million) valued at the appraised amount, an independent appraisal may be obtained at any

time; however, each significant investment must be independently appraised at least once every three years. In addition, if the local currency fair value of a significant private investment changes by more than 15 per cent in any one year (for reasons other than changes to OMERS capital invested in the asset) that change must be substantiated by an independent appraisal.

- 3.1.4 For greater certainty, an independent appraisal includes the situation where an independent accredited appraiser has reviewed the management valuation and is satisfied that the valuation is fair, reasonable and has been determined on a consistent basis using appropriate valuation techniques.
- 3.1.5 All valuations will be reviewed and formally approved by senior management of the Investment Entities and will be reviewed and approved by the CFO, CIO and CEO, as part of OMERS year-end process. Final independent appraisal/valuation reports (or other independent reporting), where applicable, must be provided to support the approval process.
- 3.1.6 Private investments that individually and in total are not significant to the fund do not require an independent appraisal.
- 3.1.7 The appointment of any external appraiser shall be reviewed by OMERS and the Investment Entities not less frequently than every three years; however, a change of external appraisers shall not be mandatory. This position recognizes the balance between the desire for independence and the desire to have the best available advisors and is consistent with OMERS practice for other service providers.

3.2 Valuation Components

- 3.2.1 Property held for development (including land held for development) generally has no contractual revenue stream and as such the valuation is a less precise exercise. Such assets should be valued in accordance with section 2.1.6 or 2.1.7 as appropriate.
- 3.2.2 For private investments in funds and partnerships, the value of an investment is determined based on the individual underlying investments. Where a fund or partnership has working capital assets, OMERS share of the value of these assets is included in the valuation of the private investment.
- 3.2.3 The overall valuation policy of OMERS is set out in section 2.1 and is dependent on the degree to which the investment is an established business with stable revenue streams. For start up or non-operating investments, the fair value of the underlying investments may be held at OMERS cost, where cost is the best estimate of fair value, unless there is external evidence to support a change in the valuation. The independence, completeness and accuracy of such evidence should be considered and might include one or a combination of:
 - information from the General Partner managing a fund;
 - OMERS special knowledge of the investment through direct or other fund investments;
 - knowledge that the investment is not performing well and, in the case of fund investments, knowledge that the General Partner does not intend to continue supporting the company;
 - knowledge that comparable companies have been trading (if public) or otherwise been funded at significantly different valuations;
 - the issuance by the company of an initial public offering;
 - evidence that the investment is an established business with a stable revenue stream;

- knowledge that the investment is operating in an industry or geographic location that is experiencing a material economic change that is reasonably expected to impact the valuation; and
- knowledge that the investment has experienced a change in value due to factors such as changes in non-OMERS ownership, changes in management, changes in the investment's business plan, changes in the investment's regulatory environment or its inability to meet profitability targets.

3.3 Income Recognition

With OMERS adoption of CICA 4600, income will be recognized in the following manner:

- 3.3.1 Under CICA Section 4600, all investments are presented on a non-consolidated basis even when the investment is in an entity over which the pension plan has control or can exercise significant influence. The AcSB summary on CICA 4600 issued in June 2010, noted that "Investments in entities over which the pension plan has control or can exercise significant influence are presented on the same basis as all other investments (for example, consolidation or equity accounting are not to be used)". The components of total investment income reported by OMERS are as follows:
- investment income payable to OMERS via interest, dividends or real estate rental income. To be consistent with other investments, investment income is recognized as dividends from the operating investment asset are declared or, alternatively, as interest from debt instruments is due.
 - the total change in the fair value of the investment. The unrealized gain/loss should represent the adjustment required to bring the market value of the investment to its estimated fair value.
 - the realized gain/loss on disposition of the investment.
- 3.3.2 For real estate investments which generate rental income, all rental income is payable to OAC or the Investment Entity (i.e. Oxford). Rental income (net of expenses) is recognized as investment income with the unrealized gain/loss representing the adjustment required to bring the market value of the property to its estimated fair value.
- 3.3.3 On at least a quarterly basis, the valuation of private markets investments must be reviewed for significant changes since the previous year-end valuation. Based on this review, changes since the prior year-end valuation or quarterly re-valuation should, subject to materiality, be recorded in the relevant investment entity's financial results.
- 3.3.4 For non-quarter end monthly reporting, an estimate of the change in valuation may be booked based on the investment entity's knowledge of external market factors as well as the performance of the individual investments.
- 3.3.5 Cash received that is a return of capital is not income but rather a reduction of the cost base of the private investment.
- 3.3.6 Cost incorporates subsequent additions and dispositions to/from the investment.
- 3.3.7 OMERS cost and fair value may not include acquisition or pursuit costs such as legal, tax, engineering and other external professional fees for the specific investment. Such costs for specific investments as well as costs related to general market research and internal advisor costs should be expensed as incurred and classified as an investment expense to reduce total investment income.
- 3.3.8 Management fees are to be expensed as incurred. Base management fees are to be classified as an investment administrative expense while performance fees are to be expensed as part of investment income.

3.3.9 Management fees received from a fund manager or an investee company should not be netted against base management fees paid unless the amount netted is disclosed or unless the fee received is to reimburse OMERS for costs incurred on behalf of the investee.

3.3.10 For private equity and real estate fund investments, sundry expenses funded through capital calls are to be expensed, consistent with base management fees, as incurred.

4. DISCLOSURE IN OAC FINANCIAL STATEMENTS

4.1 Consolidation of Investments

4.1.1 CICA 4600 requires investment assets to be presented on a non-consolidated basis even when the investment is in an entity over which the pension plan has control or can exercise significant influence.

4.1.2 CICA 4600 also requires investment assets to be disclosed separately from investment liabilities. Investment liabilities are liabilities that are incurred by the pension plan in investment-related activities.

4.1.3 OAC policy is to net debt incurred by the investment operating entity (i.e. present on OAC Statement of Financial Position on a non-consolidated basis) where such an entity is not managed by OAC personnel. Where an entity is managed by OAC personnel, OAC policy is to present debt (recourse and non-recourse) as OAC's investment related liability, except where such a managed entity is in substance an investment in a cash concession rather than real property. More detailed discussion is presented in Appendix C.

5. ACCOUNTABILITY

5.1 Review and Approval

5.1.1 The results of the valuation process are to be approved by the CFO, CIO and CEO prior to the presentation to the Audit Committee for its review and approval.

5.2 Roles and Responsibilities

5.2.1 The CFO is responsible for the implementation and operation of this policy and ensuring that proper appraisal/valuation practices are followed.

5.2.2 The CEOs of the Investment Entities, directly and through their senior management teams, are responsible for establishing valuation procedures and reporting practices consistent with this policy.

6. REPORTING

6.1 Reporting of Valuations

6.1.1 The results of the annual appraisal/valuation process will be incorporated into the OMERS audited consolidated financial statements, the reporting of investment returns for third-party agreements and other financial reporting as appropriate.

6.1.2 The valuation process and the results of the annual valuation will be reviewed with the Audit Committee as part of the year-end financial review.

HISTORY

Effective Date:	For valuations performed as of December 31, 2011
Approval Dates:	September 23, 2004, June 23, 2005, May 19, 2006, December 21, 2006, February 21, 2008, November 19, 2009, November 18, 2010, November 17, 2011
Next Scheduled Date for Review:	November 2012

APPENDIX A – IFRS FAIR VALUE CONSIDERATIONS

IFRS 13 contains a number of factors that should be considered in the determination of fair value, including the following.

- Fair value assumes the transaction occurs in either the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.
- Assumptions used in assessing fair value should be consistent with those that market participants would use.
- The fair value should not include transaction costs. Transaction costs are not a characteristic of an asset or liability.
- The fair value of a non-financial asset should take into account the market participants' ability to use the asset in its highest and best use.
- When assessing whether fair value at initial recognition of the investment is approximated by the acquisition cost, the following should be considered:
 - if the investment was acquired through a related party, evidence that the transaction was at market value should be documented; and
 - if the transaction occurred under duress of the seller, the cost may not represent fair value.

APPENDIX B – IFRS FAIR VALUE HIERARCHY**Inputs into Determination of Fair Value**

IFRS 13 breaks valuation into three levels based on the inputs that go into the determination of fair value. IFRS 13 requires disclosure of the fair value of investments based on the following fair value hierarchy.

1. Level 1 Inputs

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

2. Level 2 Inputs

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

3. Level 3 Inputs

Level 3 inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little if any market activity for the asset or liability at the measurement date. The fair value measurement objective remains the same, i.e., an exit price from the perspective of a market participant that holds the asset or owes the liability; therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

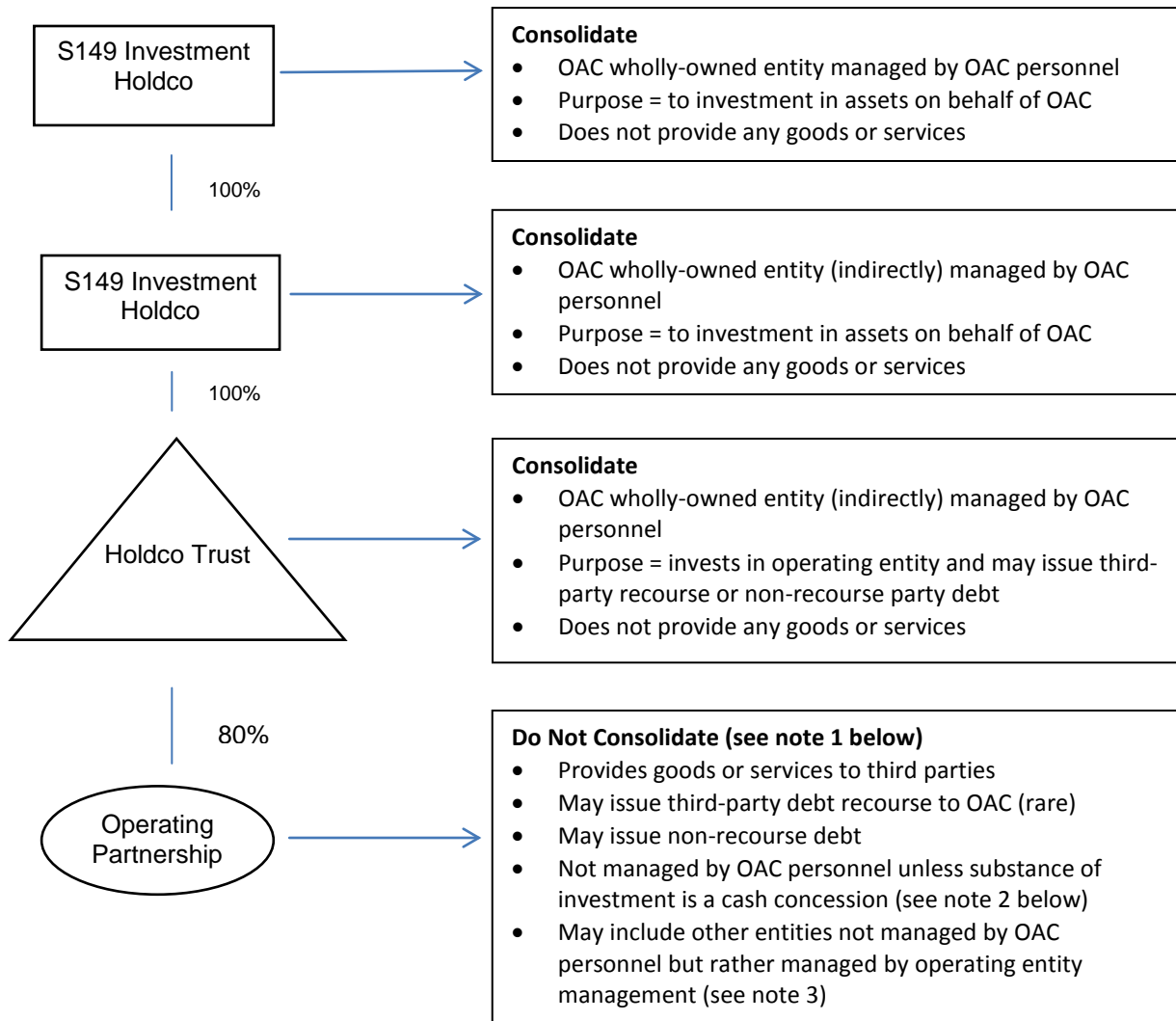
**APPENDIX C – OAC FINANCIAL STATEMENT DISCLOSURE OF DEBT
IN PRIVATE MARKET INVESTMENTS****Considerations in Disclosure of Debt in OAC Statement of Financial Position**

The consolidation of debt on OAC financial statements is dependent on whether the entity issuing the debt is an operating entity and whether that entity is managed by OAC personnel as follows:

- Debt issued by a non-operating OAC entity (established to invest in an operating entity or group of operating entities)
 - where such an entity is managed by OAC personnel, the debt should be consolidated (i.e., debt should be reported as OAC investment-related liabilities) for the purposes of Section 4600; or
 - where such an entity is not managed by OAC personnel but rather is managed by the operating entity management and is in substance part of the overall investment, the debt should not be consolidated.
- Debt issued by an operating entity or group of operating entities (the main function of which is to provide goods or services to third parties, i.e. engaged in commercial activity)
 - where such an entity is not managed by OAC personnel, the debt should not be segregated on OAC's Statement of Financial Position (i.e., should not be consolidated).
 - where such an entity is managed by OAC personnel, the debt should generally be consolidated, e.g., debt in real estate entities managed by Oxford. The exception is where OAC owns and manages property that provides a counterparty with a bargain purchase option at the end of the agreement. This is viewed in substance as an investment in a cash concession rather than an investment in real estate and should not be consolidated.

Intercompany assets/liabilities between a non-operating entity and an operating entity are part of the net investment in the operating entity and should not be separately broken out in OAC financial statements.

The following illustrates the difference between a non-operating entity and an operating entity where the operating entity is not managed by OAC personnel.



Note:

- (1) If managed by OAC personnel and is not in substance a cash concession (see note 2 below), then investment is consolidated.
- (2) An investment where OAC owns and manages property that provides a counterparty with a bargain purchase option at the end of the agreement is in substance an investment in a cash concession rather than an investment in real estate and should not be consolidated.
- (3) Where an entity is not managed by OAC personnel but rather is managed by the operating entity management and is in substance part of the overall investment, the debt should not be consolidated.