

2016 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) (for the primary plan funded status only).

The SC provides strategic oversight and decision-making by sponsors of the OMERS Pension Plans (Plans) 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 Plans, collecting contributions and paying pensions, and investing the funds of the Plans.

The Management Discussion and Analysis contains Management's analysis of the Plans' financial condition, operational results, and the environment in which they operate. The Audit & Actuarial Committee and Board of Directors of OAC have reviewed and approved the contents of this Management Discussion and Analysis as of February 23, 2017. SC management has also reviewed and approved the Primary Plan Funded Status. 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 respect 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 OAC 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 performance returns by asset group. In 2016, the presentation of asset mix was revised to report exposure on a revised asset class methodology. Comparative figures have been restated. 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. This report is not intended for U.S. persons. 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.

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Overview of OMERS Pension Plans

About OMERS

Established in 1962, OMERS provides defined pension plan benefits to local government employees, retirees and their survivors throughout Ontario. The OMERS Primary Pension Plan (the Primary Plan or the Plan) is a jointly sponsored, multi-employer pension plan with nearly 1,000 participating employers in 2016 and 2015, and approximately 470,000 Primary Plan members in 2016, compared to approximately 461,000 in 2015. Employers range from large cities to local agencies. Primary Plan members include union and non-union municipal workers; employees of transit systems and electrical utilities; the non-teaching staff of school boards; police, firefighters and paramedics; and employees of children's aid societies.

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

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 Primary Plan member groups.

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 four businesses, supported by a corporate office:

- Pension Services
- Capital Markets
- Private Markets
- Real Estate and Platform Investments

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.

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 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 defined benefits paid under the Primary Plan, when combined with current Canada Pension Plan (CPP) benefits, are designed to approximate 2% of a member's average annual earnings for the highest-paid 60 consecutive months, multiplied by their years of credited service, to a maximum of 35 years.

The Primary Plan also 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 on termination.

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.

Retirement Compensation Arrangement 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, subject to an overall maximum. The benefit is based on annual earnings capped at the lesser of 150% of the member's base annual compensation or seven times the year's maximum pensionable earnings.

Net assets of the RCA were \$147 million at December 31, 2016, compared to \$135 million at December 31, 2015.

The RCA is not subject to the minimum funding standards of the *Pension Benefits Act* (PBA), and is partially funded on a modified pay-as-you-go basis. The funding target is to 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, 2016, no such agreement was in place. As a result, the Supplemental Plan currently has no members, assets or liabilities.

Primary Plan Funded Status

In 2016, the funded ratio increased to 93.4%, from 91.5% in 2015. The funded ratio is a key indicator of the long-term financial health of the Plan. With \$87.0 billion of pension obligations as at December 31, 2016, compared to \$81.9 billion as at December 31, 2015, the Primary Plan ended 2016 with a funding deficit of \$5.7 billion compared to a deficit of \$7.0 billion at the end of 2015. Net assets on a smoothed basis were \$81.2 billion as at December 31, 2016, compared to \$74.9 billion the previous year. There were no changes to contribution rates or benefits in 2016 and these will remain at current levels in 2017.

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.

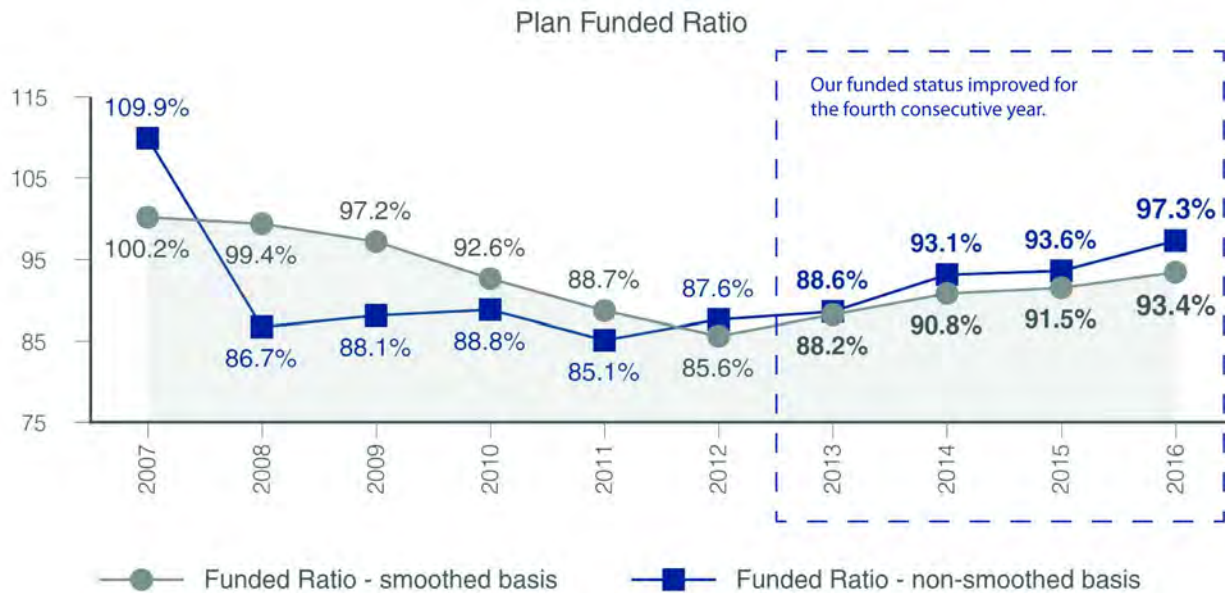
The improvement in funded status during 2016 was the net result of the following factors:

Funded Ratio %		Excess / (Deficit) \$ billions
91.5%	Beginning of year	\$ (7.0)
0.8	Contributions from members and employers to pay down the deficit	0.8
1.7	Recognized investment returns in excess of the discount rate	1.4
(0.7)	Reduction in the discount rate by 5 basis points	(0.6)
0.1	Primary Plan experience and other factors	0.1
n/a	Interest on deficit	(0.4)
93.4%	End of year	\$ (5.7)

The main factors contributing to the improvement in the Plan's funded status are member and employer contributions, and investment returns. The Plan's net investment return was 10.3%, which exceeded both OMERS operating plan target of 7.9% and discount rate of 6.25%. As at December 31, 2016, OAC reduced the discount rate to 6.20%.

The Plan's funded status, on a smoothed basis, has improved for the fourth year in a row mainly due to changes we put in place in 2010 to the Plan's design and contribution rates, along with positive investment returns. OMERS long-term goal is to return the Primary Plan to full funding, with 100% of the assets required to cover accrued pension obligations. OMERS 2020 Strategy advances our funded status to meet full funding by 2025 and, today, we remain on course.

The following chart tracks the funded status of the Plan over the past 10 years.



Managing the Plan's Funded Status

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

- contribution rates
- benefit design
- investment returns

Responsibility for implementing strategies to manage these three levers is shared between 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.

Achieving OMERS target to be fully funded by 2025 is conditional upon actual investment returns and demographic experience.

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 long-term financial health of the Plan.



As the funding status improves, and as the Plan moves from deficit to surplus management zones, the SC will take a conservative approach to reducing contribution rates and restoring benefits.

The Plan is currently in the deficit management zone and contribution rates are scheduled to remain at their current levels until the funded status reaches 100% which, in the absence of any unforeseen events, is targeted to occur no later than December 31, 2025. The 2016 combined employer and member contribution rate of 21.3% exceeds the minimum contribution rates of 19.8% under the PBA. In the event the Plan should move further into deficit, the Funding Management Strategy calls for such additional deficit to be funded by a combination of benefit reductions and contribution increases, subject to an overall contribution cap of 22.6%, after which any remaining deficit is to be funded through benefit reductions.

Once full funding 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 without the deficit payments. Benefit reductions, which occurred while in deficit management zone, are restored at the point when the Plan reaches 105% funded status. Restoration will 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%.

Discount rate

The discount rate is the interest rate used to compute the present value of anticipated future benefit payments. This rate impacts 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 at December 31, 2016 is 6.20%, compared to a discount rate of 6.25% at December 31, 2015, reflecting a reduction in the real discount rate from 4.25% to 4.20%. The assumption for future inflation remains unchanged at 2%.

OAC reduced the Plan's real discount rate by five basis points to build a strategic margin in accordance with our 2020 Strategy. This step was taken to reduce the risks of future contribution rate increases and to provide greater stability for future

benefit levels so as to mitigate the impacts of potential market volatility, adverse demographic experience and Plan maturity. OMERS builds strategic margins when there is positive Plan experience – when actual results are better than OMERS long-term actuarial assumptions.

Each year, OAC considers the opportunity to apply approximately 50% of positive Plan experience to fund a reduction in the real discount rate through increased strategic margins, while allowing the remaining positive Plan experience to speed up our return to fully funded status. OAC only makes discretionary reductions in the Plan's discount rate in a manner that does not increase contribution rates from current levels, or delay the target date for the Plan to be fully funded by 2025. In the event the Plan were to experience a shock, such as a future financial crisis, OAC expects to release strategic margins to increase the discount rate and stabilize the funded status of the Plan, contribution rates and benefits.

Reducing the real discount rate by five basis points in 2016 increased the pension obligation and deficit by \$600 million, and reduced the funded ratio by 0.7%.

OMERS objective is to build 25 basis points of strategic margins by 2020, and up to 50 basis points of strategic margins over the longer term, reducing the Plan's real discount rate towards 4% by 2020 and towards 3.75% over the longer term. 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, 2016, would increase the 2017 normal cost by 0.17%.

Plan Funding Risk

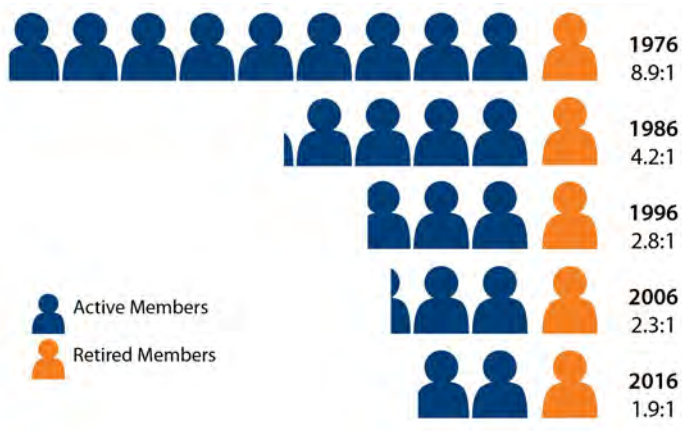
Plan funding risk is the potential that the SC will need to significantly increase contributions or reduce benefits as a result of unfavourable investment performance, adverse Plan experience, or Plan maturity.

Unfavourable investment performance includes circumstances where the Plan's returns in the long term are lower than the Plan's discount rate and where fluctuations in the Plan's short-term returns require changes to contributions/benefits. Many economic factors – including financial market volatility, persistently low interest rates, and a high level of competition for asset classes – present risks that impact the ability to generate returns that meet or exceed the Plan's discount rate. Accordingly, each year, OAC tests the reasonableness of the Plan's discount rate to ensure it contains sufficient margins to protect the Plan against adverse experience over the long term.

A significant factor in setting the Plan's discount rate is our asset mix, which is approved by the OAC Board and which reflects target allocations across a set of asset classes. OAC conducts periodic studies – including one in 2016 – to adjust the Plan's asset mix to ensure investments are allocated in a way that maximizes the Plan's ability to return to full funding by 2025. The asset mix also helps our ability to pay pensions without having to sell assets, while minimizing the risk of unexpected Plan design changes.

Adverse plan experience includes unexpected changes in life expectancy, salary increases, retirement and termination trends and future membership levels, leading to actuarial losses and requiring a change to actuarial assumptions that negatively impact pension obligations and funding requirements. We monitor our Plan experience against actuarial assumptions annually and conduct a detailed Plan experience study at least once every five years.

Plan maturity is the phenomenon of a declining active membership relative to the retired member population. Since all Plan funding risk is currently borne by active members and employers, this trend means the cost of funding Plan deficits is increasingly concentrated in a relatively smaller group. The ratio of active members to retired members is a common measure of Plan maturity. The Plan is maturing and will continue to do so in the foreseeable future.



Opportunities to Reduce Plan Funding Risk

In 2016, OMERS continued to assess various options for sharing funding risk more equitably in the future, across the broader population of active and retired members. One of those options is the possible introduction of Modified Inflation Indexing, following formal consultation with key stakeholder groups. While this innovative approach to managing funding risk would have no immediate impact on the Plan, including contribution rates or benefit levels, it would give the OMERS Sponsors Corporation Board some flexibility to alter future levels of indexation, if necessary, and subject to normal governance procedures and a two-thirds supporting vote.

Funding Commitment

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 pension security and sustainability. Contributions and benefits must be balanced to keep pensions secure and sustainable. We must continue to seek investment returns that meet or exceed our long-term targets.

Investment Results

Economic Environment

2016 was characterized by slow global growth and low inflation, with the notable exception of the U.S., which differentiated itself with steadily strengthening real GDP growth and rising inflation.

Financial markets were volatile in 2016, due to numerous economic and political shocks. While it was a year in which markets faced uncertainty – which often causes markets to fall – 2016 often defied forecasts with major political changes resulting in market rallies rather than declines.

Indeed, after a very weak start to the year due to concerns regarding the Chinese outlook, markets were buoyed by expectations of monetary, fiscal and regulatory easing that accompanied Brexit and the U.S. presidential election results. The bond market in particular was strong for the first half of 2016, while equities rose during the second half of the year.

Results

In 2016, the Primary Plan had a return, net of expenses, of 10.3%, compared to a benchmark of 7.9% and OMERS beginning-of-year discount rate of 6.25%. All asset classes delivered strong returns. Public Investments produced net returns of 9.5% and Private Investments produced a net return of 12.0%.

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 equal or exceed these benchmarks.

Current Year Returns at a Glance

Investment returns for the Primary Plan and RCA for 2016 and 2015 were as follows:

For the years ended December 31

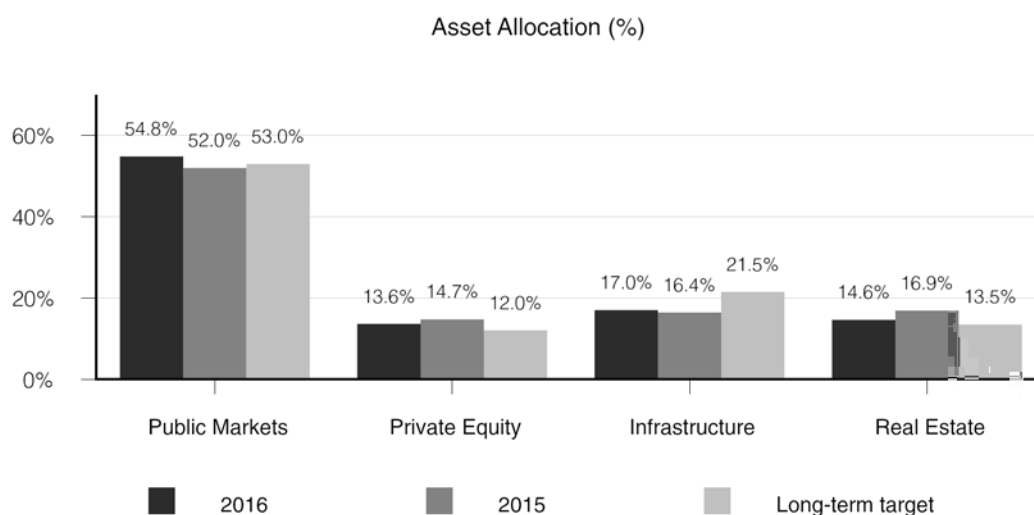
	2016			2015		
	Net Investment Income \$ (millions)	Net Rate of Return (%)	Benchmark (%)	Net Investment Income \$ (millions)	Net Rate of Return (%)	Benchmark (%)
Public Investments	\$ 3,857	9.5%	6.6%	\$ 295	0.7%	7.1%
Private Investments						
Private equity	1,143	12.6	11.3%	939	10.0	11.1%
Infrastructure	1,593	11.0	10.0%	2,040	17.3	9.4%
Real estate	1,555	12.4	8.3%	1,816	15.3	8.1%
Total Private Investments	\$ 4,291	12.0%	9.3%	\$ 4,795	14.5%	9.4%
Total Primary Plan Fund	\$ 8,148	10.3%	7.9%	\$ 5,090	6.7%	7.8%
RCA Investment Fund ¹	\$ 8	7.8%	8.7%	\$ 10	12.5%	12.2%

¹) Excludes the RCA refundable tax balances with the Canada Revenue Agency. Including the refundable tax balance net rate of return in 2016 is 4.22% compared to 6.9% in 2015.

Asset Allocation and Exposure

OAC mitigates risk and generates strong, consistent returns in two ways: 1) by diversifying investments across asset type, economic sector and geographic market; and 2) by purchasing quality assets. OAC has a Board-approved asset mix for the Plan (updated in December, 2016), designed to deliver returns over the long term to provide secure and sustainable pensions. Public Investments include fixed income securities in inflation-linked bonds, government bonds and credit, along with public equities, either through the purchase of instruments directly, or through the use of derivatives. OAC also invests in Private Investments through holdings in infrastructure, private equity and real estate, which are selected specifically for their ability to provide more predictable returns and cash flows compared to assets that may be exposed to greater market volatility. Our asset mix, which was applicable for 2016, is reflected in the chart below:

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 return agreements. Net investment asset exposure, based on the holdings as set out in the Consolidated Financial Statements, and after all allocations, 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.

As at December 31

	2016				2015			
	Investment Assets	Investment Liabilities	Net Investment Asset Exposure	Asset Mix %	Investment Assets	Investment Liabilities	Net Investment Asset Exposure	Asset Mix %
Public Investments								
Inflation-Linked Bonds	\$ 5,242		\$ 5,242	6.1 %	\$ 6,400		\$ 6,400	8.2 %
Government Bonds	9,657		9,657	11.2 %	16,376		16,376	21.0 %
Credit	15,114		15,114	17.5 %	9,025		9,025	11.5 %
Public Equity	24,038		24,038	27.8 %	23,265		23,265	29.8 %
Cash	15,919		15,919	18.4 %	20,545		20,545	26.3 %
Economic leverage	(22,650)		(22,650)	(26.2)%	(35,021)		(35,021)	(44.8)%
Total Public Investments	\$ 47,320		\$ 47,320	54.8 %	\$ 40,590		\$ 40,590	52.0 %
Private Investments								
Private Equity	\$ 11,730		\$ 11,730	13.6 %	\$ 11,499		\$ 11,499	14.7 %
Infrastructure	16,462	(1,720)	14,742	17.0 %	15,085	(2,231)	12,854	16.4 %
Real Estate	24,827	(12,209)	12,618	14.6 %	26,393	(13,210)	13,183	16.9 %
Total Private Investments	\$ 53,019	\$ (13,929)	\$ 39,090	45.2 %	\$ 52,977	\$ (15,441)	\$ 37,536	48.0 %
Total	\$ 100,339	\$ (13,929)	\$ 86,410	100.0 %	\$ 93,567	\$ (15,441)	\$ 78,126	100.0 %

During 2016, OAC shifted the Plan's asset mix, increasing its exposure to credit and reducing its exposure to government bonds. We made this shift as we see good opportunities in credit to earn better current income on a risk adjusted basis, with lower economic leverage.

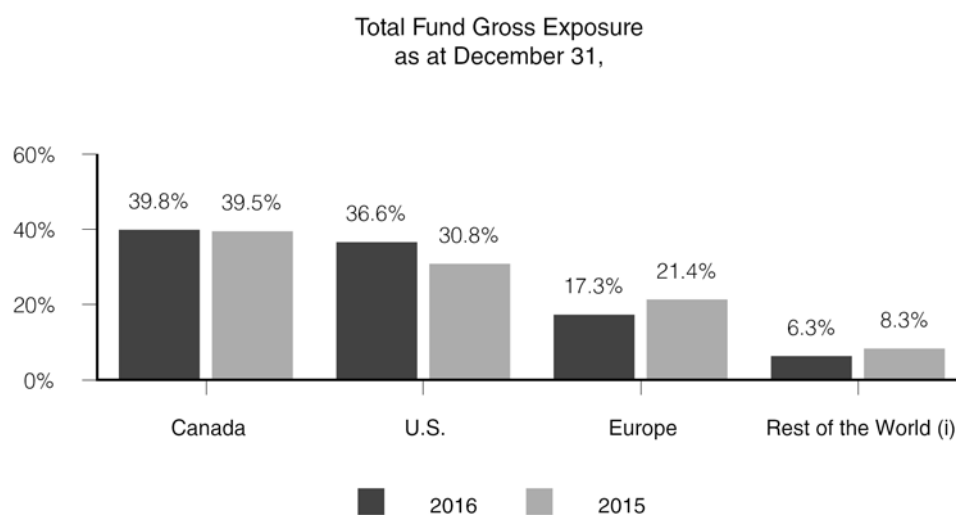
In December 2016, the OAC Board approved a new long-term asset mix for OMERS, which incorporates a higher allocation to infrastructure, private equity and real estate than in the past, together with an explicit allocation to credit. The new asset mix is summarized in the chart below.

	Target
Fixed Income	46%
Inflation-Linked Bonds	2%
Government bonds	27%
Credit	17%
Equities	36%
Public Equities	22%
Private Equities	14%
Real Assets	41%
Infrastructure	23%
Real Estate	18%
Short-term Instruments (net cash and equivalents including economic leverage)	(23)%

Country Exposure

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

During 2016, OAC increased exposure to the U.S. economy and reduced exposure to Europe.

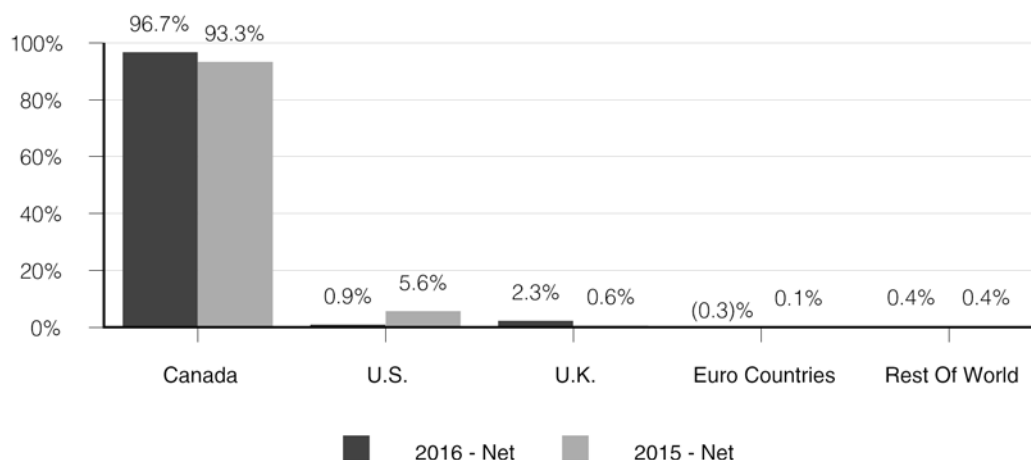


(i) Included in Rest of the World are commodity contracts. We do not consider commodity-contract risk to be country-specific.

Currency Exposure

The graph below represents total Fund currency exposure net of hedging. We have a currency management program that hedges our foreign investments back to Canadian dollars and we also take active positions. During 2016, foreign exchange losses of \$3.1 billion compared to a gain of \$5.5 billion in 2015 were offset by gains on hedging of \$2.9 billion in 2016 compared to a loss on hedging of \$4.3 billion in 2015.

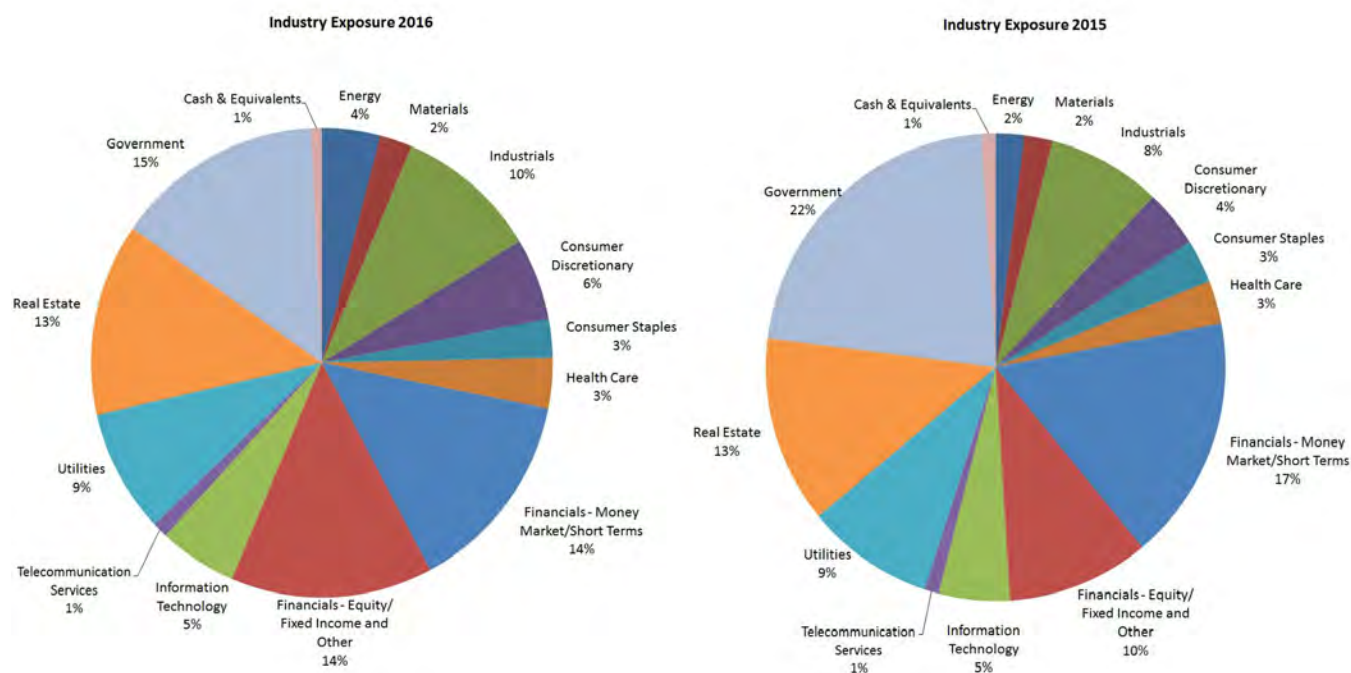
Net Currency Exposure (%)



Industry Exposure

The OMERS portfolio remains highly diversified across industries.

The charts below illustrate OMERS investment exposure by industry before economic leverage.



Investment Management and Pension Administration Expenses

Investment management expenses were \$427 million in 2016, compared to \$351 million in 2015. The increase is mainly attributable to higher performance-related expenses as a result of stronger investment returns. Expenses also reflect the cost of supporting our key priorities, particularly the growth of our public market investment platform as we pursue our long-term asset mix. Investment management expenses were offset by lower performance fees for third party investments.

The investment management expense for the year ended December 31, 2016, which included external manager performance and fund fees recorded in investment income, represent an investment Management Expense Ratio of 61 basis points, compared to 57 basis points for 2015. Over the long term, we are targeting our Management Expense Ratio to be lower than 50 basis points.

Pension administration expenses were \$80 million for 2016, compared to \$68 million for 2015. This increase was driven by stronger business performance and development costs associated with the replacement of our pension administration systems. Pension administration expenses represent a Cost Per Member of \$189 for 2016 compared to \$161 for 2015. We expect our Cost Per Member to increase over the near term, as we complete our systems replacement project and deal with anticipated increased volumes of transactions with member retirements. Over the long term we are targeting a Cost Per Member of \$185 or better.

Public Investments

Investment Approach

Our approach to investing in public markets consists of investing in fixed income investments in government bonds, Inflation-Linked Bonds and public and private credit, along with public equity investments, managed mostly by the Capital Markets team. The team's approach is focused on generating current income from high-quality assets and generating a consistent capital return with a lower volatility than the broad markets.

We seek out equity investments in companies with strong balance sheets and resilient business models. We also seek to develop strategic partnerships with best-in-class investors to access credit and other opportunities on a global basis. Our objective is to construct a well-diversified portfolio that will deliver long-term returns in the 6 to 9% range.

2016 Performance

The net return was 9.5%, compared to 0.7% for 2015 and our 2016 benchmark of 6.6%, representing net investment income of \$3.9 billion in 2016, compared to \$0.3 billion in 2015.

These positive returns were driven by investment income of \$2.0 billion from fixed income investments and \$2.0 billion from public equity investments. This compared to investment income of \$1.3 billion in 2015 from fixed income and negative \$914 million from public equity investments. Portfolio weightings in 2016 benefited from strong bond markets in the early part of the year and strong public equity markets during the second half.

Capital Allocation

Total investments in fixed income and public equity investments were \$49.9 billion compared to \$43.6 billion, as at December 31, 2015. The increase in capital was mainly as a result of Public Investments income and foreign currency hedge settlements of \$2.6 billion and \$1.4 billion of capital inflows from Private Investments.

Private Investments

Infrastructure

Investment Approach

Our approach is to seek strong, stable cash flows through investments in large-scale infrastructure businesses in energy, social infrastructure and transportation - primarily in North America, Europe and Australia. These businesses include regulated services with long-term delivery contracts, which are generally protected with revenue, inflation and other support, such as guarantees that contribute reliable income over the long term.

We take a patient and disciplined approach to infrastructure investing, and execute on the prudent diversification of our portfolio by industry sector, geography, size and stage of development.

2016 Performance

The infrastructure net return was 11.0%, compared to 17.3% for 2015 and our 2016 benchmark of 10.0%. This represents net investment income of \$1.6 billion in 2016, compared to \$2.0 billion in 2015. The Plan's portfolio generated an operating cash yield of 7.9% in 2016, compared to 10.5% in 2015. The 2016 results reflected the strong performance of core North American and European portfolios.

OMERS saw strong performance from a number of investments, including Bruce Power, SGN and HS1.

Capital Allocation

Total investments in infrastructure increased to \$17.5 billion in 2016, up from \$16.3 billion in 2015. The increase in total investments was attributable to the progress made with our capital deployment strategy, along with increases in the market value of existing assets within our portfolio.

During 2016, we made our first investment in Australia, with the acquisition of Port of Melbourne, Australia's largest container, automotive and general cargo port. We also invested in the Chicago Skyway toll road, in the company that owns and operates the London City Airport, and Compañía Logística de Hidrocarburos, the leading company for refined oil products transportation and storage in Spain.

Private Equity

Investment Approach

Our core private equity approach is to acquire significant ownership interests in private companies in North America, the U.K. and Europe, with the objective of generating strong capital returns. We take a thoughtful approach to capital deployment and invest in companies with solid business fundamentals, strong management teams and opportunities to grow.

In addition, private equity includes a limited externally managed funds program to gain access to strategic geographies and sectors and an innovation-based program, which invests in high potential startup technology-based firms, along with an energy platform.

2016 Performance

The private equity net rate of return was 12.6%, compared to 10.0% in 2015 and our 2016 benchmark of 11.3%. This represents net investment income of \$1.1 billion for 2016, compared to \$0.9 billion in 2015. Strong returns above the benchmark were driven by investment performance as well as a number of successful exits.

Capital Allocation

Total investments in private equity decreased to \$11.0 billion compared to \$11.5 billion, as at December 31, 2015. In 2016, OMERS successfully exited a number of investments, including bakery industry leader Give and Go Prepared Foods Corporation, Marketwired, a news distribution service, and Great Expressions Dental Centers. OMERS also signed definitive agreements to exit leading independent global maritime service provider V. Group, as well as reduce its holding in Caliber Collision Centers.

Real Estate

Investment Approach

Our approach is centered on building a world class global real estate investment and management platform that delivers stable income and capital returns. Our diversified portfolio, which is managed by OMERS real estate company, Oxford Properties Group, includes 60 million square feet of office, retail and industrial properties, along with multi-family and hotel properties, and development projects in key markets globally.

Our strategy focuses on investing in the major global urban centres in Canada, the U.S. and Europe. The platform is very well-diversified across regions, property types and industry groups and we use our competitive advantage in the development sector to access unique investment opportunities.

2016 Performance

The net return on this portfolio was 12.4% compared to 15.3% in 2015 and our 2016 benchmark of 8.3%. This represents net investment income of \$1.6 billion in 2016, compared to \$1.8 billion in 2015. The performance above benchmark was largely attributable to strong operating performance, realized gains on certain significant dispositions, and a material U.S. deferred tax recovery. European investment activity has been on a selective, opportunistic basis following the Brexit vote.

Capital Allocation

Total investments in real estate, as at December 31, 2016, decreased to \$25.6 billion, compared to \$27.6 billion, as at December 31, 2015. The decrease was driven by our strategy to bring in core, long-term partners on assets we have developed, and by the careful management of risk.

During 2016, Oxford successfully completed a number of sales transactions, including a 50% interest in the Richmond-Adelaide Centre (Toronto), Centennial Place (Calgary), and Eau Claire Tower (Calgary), and a 100% interest in the Green Park office park (U.K.). These transactions contributed to the strong performance in 2016 and materially reduced the overall portfolio risk.

In 2016, Oxford continued to make significant progress on its 20 active development projects.

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, 5, 10, and 20-year period. The 10-year return was adversely impacted by the financial crisis of 2008.

For the period ending December 31, 2016	1 Year	5 Year	10 Year	20 Year
Net Return	10.3%	8.5%	5.6%	7.1%

Investments Outlook

Despite strong equity returns in the second half of 2016, uncertainty continues. Encouraging economic news and interest rate increases in the U.S. are generally positive for OMERS. With prospects for further near-term U.S. interest rate increases, the cycle of low interest rates may be ending, putting pressure on valuations of long-dated fixed income assets, and driving capital flows to equities.

We see continued slow growth and uncertainty ahead in Canada, relating to the impact of potential U.S. policy shifts, although recovering commodity prices should have a positive impact.

Europe remains relatively weak, and uncertainty prevails in the U.K. relating to the Brexit process. Notwithstanding this uncertainty, global investors continue to compete for quality assets, driving private asset prices higher and reducing the level of forward returns.

In the face of these observations, we continue to be thoughtful, disciplined and innovative in our investment approach to provide the returns needed for our members. This includes maintaining our longstanding focus on holding quality assets, and expanding our credit, real estate and infrastructure portfolios. We intend to maintain our overall portfolio defensively to reduce our sensitivity to interest rate changes and are looking to capture potential upside from partial or full sale opportunities from our mature assets. We are also exploring selective opportunities outside our historical areas of concentration in Canada, the U.S. and Europe, and are developing new strategies to further diversify return streams while remaining aligned with the 2020 Strategy.

Pension Services

Member satisfaction was strong at 92% in 2016, up from 90% in 2015. When asked to rate how OMERS meets their needs, members have consistently been satisfied. We are pleased to have maintained a very high service standard, especially in light of the increased number of members transitioning into retirement.

The Additional Voluntary Contribution (AVC) feature changed in 2016 to provide an income option for members so they can keep funds in an AVC account after reaching age 71. This means that, for "non-locked-in funds," members can withdraw funds over their lifetime, provided they meet the minimum withdrawal requirements set out in the ITA.

In 2016, OMERS welcomed over 18,000 new Plan members and 9,000 newly retired members. In addition, we helped 1,600 members consolidate and simplify their pensions in 2016. We also provided 20,300 members with buy-back options so they could consider how these options could increase their OMERS pension.

More questions about retirement are being asked as members anticipate transitioning to this stage in their life. In 2016, more than 125,000 pension estimates were produced by using the myOMERS Retirement Income Estimator, a valuable tool that helps members calculate their retirement income. Client Services answered more than 200,000 phone calls and delivered 430 information sessions and 32 webinars to clearly and directly address member questions. We also made it easier for members to learn about the Plan by launching a digital version of *Member News*.

OMERS is encouraging members to take advantage of electronic communications options for statements and newsletters so that we can all connect effectively and manage Plan costs. While more members are signing up for e-subscription every year, as of the end of 2016, there were still fewer than 45,000 members registered.

OMERS serves almost 1,000 employers, with 12 new employers joining in 2016. We recognize that the OMERS pension is an important part of what employers offer their employees, and we are striving to make the Plan administration more effective to meet employer needs.

Further development work continued in 2016 in support of the new OMERS pension administration system. The new system is designed to replace one that is more than 15 years old and which is nearing the end of its useful life. When launched, the OMERS pension administration system will significantly upgrade our system and processes so that we can more efficiently and effectively support employers, while enhancing our service to members.

In 2016, OMERS provided 73 employer information sessions and webinars, with over 2,300 employer representatives participating.

We established an Employer Advisory Forum which provides an opportunity for employers and OMERS to address pension administration matters and to exchange ideas related to areas of common interest, such as technology and Plan demographics.

OMERS Senior Executive Team held meetings with employers, sponsors and other stakeholders throughout the year. These meetings provide an opportunity to achieve a deeper understanding of issues of importance, to build stronger relationships, and to further partner in connecting with members.

Risk Management

For OAC, managing risk effectively is fundamental to achieving our objectives, and we believe it is underpinned by promoting a strong "tone from the top" and a robust risk culture based on transparency and accountability. We actively engage with key people across the enterprise to identify, assess and manage important risks and emerging issues that could impact the Plans' operations and investment activities.

The primary accountability for managing risk rests with the leaders of each respective business unit or corporate function. On a regular basis, the Risk Management Group provides objective analysis of specific activities and initiatives executed by those responsible for managing key risks to senior management and the OAC Board.

During 2016, we continued to build out the organization's quantitative and qualitative perspectives on key investment and operational risks faced by the Plans.

Top Risks and Emerging Risks

A top risk is one that could have a material impact on the Plans' objectives in the short term, and some of the risks are explained below. An emerging issue is a matter that, while not a top risk at this point, is identified, evaluated and monitored for its potential to become a top risk.

Top Risks

Plan Funding Risk: The most significant risk facing the Plans is plan funding risk – the potential that the SC will need to increase contributions or reduce benefits as a result of unfavourable investment performance, adverse Plan experience, or Plan maturity. The Plans' funding level is impacted by how much and how long pensions will be payable in the future, and by changing economic conditions that influence investment returns. In addressing these factors, we have taken steps to improve the Plans' capacity to pay benefits by assessing the Plans' long-term liquidity profile, increasing the level of diversification within Public Investments, and continuing to focus on diversifying sources of investment returns among less volatile investments. We also approved a revised asset mix for the Primary Plan and built strategic margins into the discount rate that we use to value the pension liability.

Pension Administration: OAC is significantly upgrading its existing legacy pension administration and processing system, which was developed more than 15 years ago. Modernizing the system is critical to continuing to provide efficient, high-quality services to members and employers. This project is complex and, to provide an appropriate level of oversight, we have created a governance structure that includes members of the OAC Board of Directors, executive management, business and technology leaders, and support personnel.

Emerging Risks

We are evaluating and monitoring a number of emerging risks in an effort to understand their potential impact on OMERS. These risks include geopolitical destabilizing trends such as growing economic protectionism and climate change.

Risk Categories

OMERS primary objective is to ensure the sustainability of the Plans to pay pensions to all members into the future. The ultimate expression of our key organizational risk is ensuring sufficient capital exists to meet our pension obligations.

OAC believes that, by managing the components of risk in risk categories – Investment, Operational, Pension and Known-Unknown – in an integrated, transparent and systematic manner, the organization will be successful in achieving our objectives. A brief overview of each category, its major components, and how we manage the risks, is provided below.

Investment Risk

The value of the Plans' assets is affected by a number of expected and unexpected political, social and economic events that jointly impact the outlook for the major asset classes, as well as the individual assets in which OAC invests. OMERS measures the impact of these changes using quantitative methodologies to provide insights into absolute and relative levels of market risk associated with our investments. This analysis also provides a systematic articulation of the amount of market risk at the total portfolio level. These results provide support for senior management in making strategic investment decisions. These decisions ultimately address the Plans' capability to sustain its 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:

information technology - the risk that systems infrastructure may not appropriately support business activities;

people - the risk that we may not have the appropriate talent in place to manage and support business activities;

model - erroneous or inappropriate use of various models used to support business decisions;

privacy and information security - the risk of inappropriate access to, or misuse of, identifiable personal information or other business-sensitive information; and

business continuity - the risk of an unplanned business interruption negatively affecting operating activities.

In 2016, we implemented a comprehensive, systematic and transparent operational risk management program across the entire enterprise. This new program identified key risks directly impacting the achievement of the organization's top business objectives. These risks have been prioritized, and detailed mitigation activities for each have been provided by their respective owners.

The operational risk management program has developed a range of tools and processes that will guide how OAC identifies, evaluates and tracks mitigation activities on an ongoing basis.

A number of significant elements are captured under the operational risk management program, including legal/regulatory risk, people and technology. Each of these elements (plus others) is evaluated on the basis of its unique risk profiles to identify any areas for improvement.

Pension Risk

For risk management purposes, Pension Risk consists of plan funding risk, plan experience and plan maturity. A discussion on the factors contributing to and the steps taken to manage Pension Risk (and other components of plan funding risks) may be found in the Primary Plan Funded Status section of this Management Discussion and Analysis. To address this risk, we continuously enhances tools, practices and resources to deliver insights and analysis that help inform strategic decisions made by senior management and the OAC Board.

Known-Unknown Risks

This category captures those disparate risks that may not specifically or readily fall within the three categories noted above, and yet may have significant impact on OMERS achieving its strategic objectives. Known-unknown risks are defined as those risks which are recognizable (e.g., climate change, geopolitical instability and terrorism) and which may, at any time, accelerate or impact investment activities, or the operations of the enterprise, or potentially impact the Plan. We monitor and manage these risks.