

Statement of Investment Policies and Procedures – Primary Plan

RISK MANAGEMENT



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OVERALL PRINCIPLES

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

This Policy applies to all investments of the Primary Plan.

Next renewal date:	January 2020
Frequency of review:	Every year

Primary Plan Description

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

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

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

The Primary Plan is designed to provide defined benefit pensions. These pensions are calculated as a percentage of the member’s earnings averaged over the highest 60 consecutive months, multiplied by years of credited service. The Primary Plan pension formula includes a bridge benefit paid to age 65, as well as survivor benefits and early retirement options. Subject to certain exceptions, pensions are indexed to the Consumer Price Index for Canada to a maximum of 6% per year with any excess carried forward to future years.

Funding of the Primary Plan

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

Over the long term, the funding target is to maintain a going concern funded ratio of 100 per cent, with a reserve up to 10 per cent when the Primary Plan is not in deficit.

Factors impacting funding are set out in the SC's Statement of Plan Design Objectives and Strategy for the Primary Plan and OAC's *Primary Plan Funding Policy*. These factors include contribution and benefits levels, actuarial assumptions and methods and the long-term nature of the obligations, which recognizes that the PBA permits OAC to exempt the Primary Plan from funding solvency deficiencies. Funding risk results primarily from uncertainty and volatility in global economies and markets, plan maturity, investment return experience, inflation, changes in contributory earnings, demographic experience, behaviour of employers and members, and legislative, regulatory and political uncertainties.

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

Investment Objectives of the Primary Plan

Return Expectations: OAC is committed to providing secure pensions through receipt of contributions and by investing activities designed to deliver 7-11% annual average net returns. Investments are made through its Business Units: OMERS Capital Markets, OMERS Private Equity, OMERS Infrastructure, Oxford, and OMERS Platform Investments. Target returns for each Business Unit and total fund are set annually by the OAC Board of Directors.

Strategic Asset Allocation: OAC uses four strategic asset groups (fixed income, equities, real assets and short-term instruments) as part of its long-term strategic asset mix. These asset groups are comprised of the following asset classes:

- Fixed income includes inflation linked bonds, ("ILBs"), government bonds and credit investments (public or private);
- Equities includes public equity and private equity;
- Real assets includes infrastructure and real estate; and
- Short-term instruments include net cash and equivalents.

The OAC Board of Directors has approved the following strategic asset mix allocations:

Asset Group	Min.	Target	Max.
Fixed Income <ul style="list-style-type: none"> • ILBs • Government bonds • Credit 	20%	46% 27% 17%	65%
Equities <ul style="list-style-type: none"> • Public equities • Private equities 	23% 15% 8%	36% 22% 14%	55% 45% 20%
Real Assets <ul style="list-style-type: none"> • Infrastructure • Real estate 	23% 13% 10%	41% 23% 18%	50% 28% 23%
Short-term instruments		-23%	-43%

Implementation of the strategic asset mix is carried out in a prudent manner subject to market conditions and investment opportunities. OAC implements the strategic asset mix through its Business Units and through external service providers or other entities (including, without limitation, external professional investment advisors, third-party managed funds, pooled funds, unit trusts and similar vehicles).

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

Categories of Investments

The Primary Plan invests directly and indirectly in the four asset groups identified above. Within each asset group there are various asset classes. Depending on the nature of the investment, it is possible that an investment could fit within the description of more than one asset class in which case the asset will be classified according to the class to which it most closely aligns based upon an assessment of its underlying characteristics. The asset groups described below may include other asset classes which share similar risk/return characteristics.

Fixed Income

Fixed income investments typically pay a fixed or floating amount of interest at regular intervals over a period of time. Coupon payments and contractual maturities of fixed income investments provide liquidity

to the Primary Plan. The fixed income asset group includes the following asset classes:

- inflation linked - investments where the underlying principal or return is indexed to inflation, including derivatives that emulate such instruments;
- government bonds - investments in nominal government bonds and debentures, including derivatives that emulate such instruments; and
- credit investments - derivatives or debt issued by an entity that is neither a government nor a government agency. They may have fixed or floating rate payments, be secured by other assets or be convertible into other securities, and be issued by either public or private companies.

Equities

Equities includes both public equities and private equities.

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

Real Assets

Real assets include private investments in infrastructure and real estate.

- Infrastructure investments are generally direct investments in large-scale services (e.g., toll roads, electricity production and transmission) or businesses with high barriers to entry, often supported by public regulation or long-term contracts with governments or government agencies. Infrastructure investments are expected to produce predictable and stable cash flows and returns in excess of those obtained in the more liquid public fixed income markets.
- Real estate investments include direct and indirect investments in industrial, office, retail, hotel and residential income producing properties and development properties. A diversified portfolio of

real estate investments is expected to produce predictable and stable cash flows and returns.

Short-term instruments

Short-term instruments consist of cash and equivalent short-term investments used to maintain plan liquidity and to achieve economic leverage. Economic leverage is generally achieved through the use of derivative instruments to gain exposure to a variety of asset classes. Short-term instruments also include all debt consolidated on OAC's balance sheet and not allocated to private assets.

Primary Plan Governance

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

Annual Review and Filing Requirements: This Policy is reviewed and approved by the OAC Board of Directors at least annually. A copy of this Policy is filed with the Financial Services Commission of Ontario and delivered to OAC's actuary within 60 days of any amendment thereto.

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

Consideration of Environmental, Social and Governance Factors: OAC believes that well run companies with sound environmental, social and governance ("ESG") practices will perform better in the long term. OAC encourages the adoption of policies and practices that maximize financial performance including responsible corporate behavior with respect to ESG.

OAC incorporates ESG factors into its investment decision-making process and asset management practices, as such factors could have a material impact on investment performance. OAC may determine that there are industries, sectors, jurisdictions, markets, or companies where the risks posed by ESG factors outweigh any potential benefits of investing. OAC exercises voting rights in respect of its public equity portfolio in a manner consistent with its Proxy Voting Guidelines. OAC may also encourage responsible corporate behavior through direct engagement with the public and private companies in which it invests.

OAC believes that the consideration of ESG factors is consistent with its objective to meet its long-term payment obligations to members.

Valuation of Investment Assets and Liabilities

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

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

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

Other Investment Matters

Exposure to Foreign Assets: Foreign investments are permitted as they provide the benefit of diversification to the Primary Plan. Such investments could include components of any of the asset classes described above. OAC limits the exposure to foreign assets to 75% of the gross exposure of the Primary Plan.

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

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

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

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

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

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

Related Party Transactions: 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 Related Party Transactions Review Policy.

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

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

Investment Risk Management

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

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

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

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

Diversification

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

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

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

Exceptions

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

Monitoring and Reporting

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

ROLES & RESPONSIBILITIES

Policy Approver	OAC Board of Directors	Responsible for approving the Policy
Policy Sponsor	Chief Financial Officer	Ultimately accountable for the Policy, including its development, implementation and administration
Policy Manager and Monitor	VP, Risk Metrics	Responsible for the design and operational effectiveness of the day-to-day administration of the Policy, and for its monitoring, compliance and reporting functions

APPENDIX SIP&P – PRIMARY PLAN

The strategic asset mix is described in the Statement of Investment Policies and Procedures (“SIPP”). This appendix has been prepared exclusively to provide the disclosure required by subsection 78(7) of the General PBA Regulation. To the extent of any inconsistency between this appendix and any other provision of the SIPP, the other provision of the SIPP prevails.

Investment Category	Asset Classes in the SIPP
1. Insured contracts	Fixed Income
2. Mutual or pooled funds or segregated funds	Equities, Real Assets, Fixed Income, Short Term Instruments
3. Demand deposits and cash on hand	Short-term instruments
4. Short-term notes and treasury bills	Short-term instruments
5. Term deposits and guaranteed investment certificates	Short-term instruments
6. Mortgage loans	Fixed Income
7. Real estate	Real Assets
8. Real estate debentures	Fixed Income
9. Resource properties	Equities
10. Venture capital	Equities
11. Corporations referred to in subsection 11(2) of Schedule III to the federal investment regulations	Equities, Fixed Income, Real Assets, Short-term instruments
12. Employer issued securities	Not Applicable
13. Canadian stocks other than investments referred to in rows 1 to 12	Equities
14. Non-Canadian stocks other than investments referred to in rows 1 to 12	Equities
15. Canadian bonds and debentures other than investments referred to in rows 1 to 12	Fixed Income
16. Non-Canadian bonds and debentures other than investments referred to in rows 1 to 12	Fixed Income
17. Investments other than investments referred to in rows 1 to 16	Equities, Fixed Income, Real Assets, Short-term instruments