Building Value

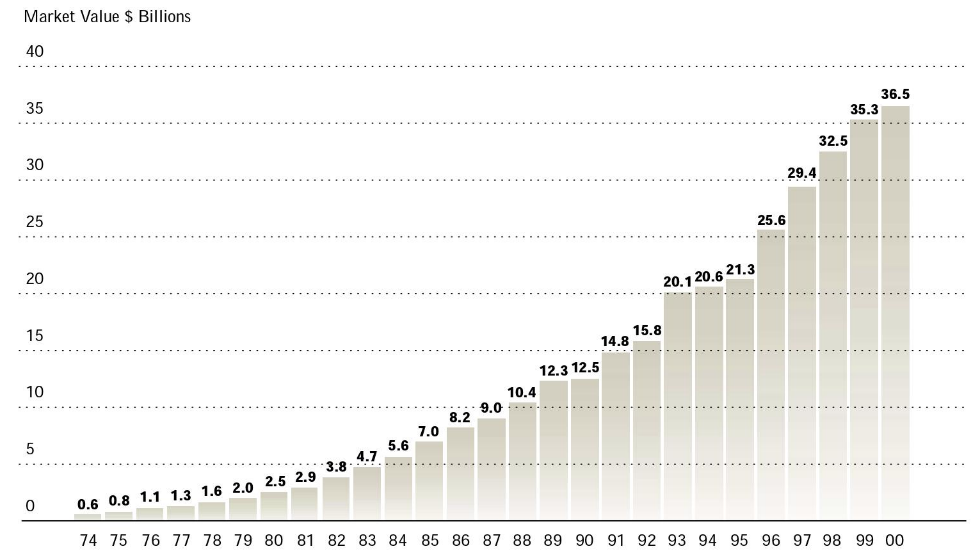
Being Competitive

OMERS

Annual Report 2000

QUICK FACTS

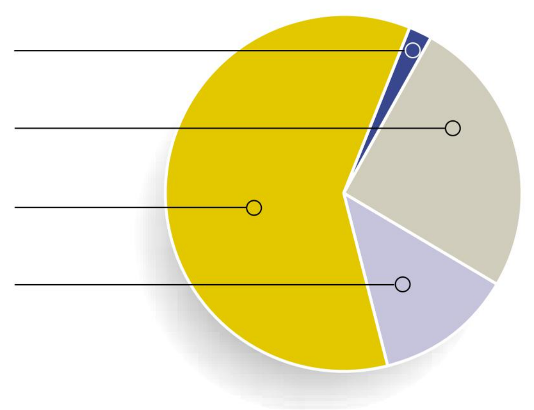
Asset Growth from 1974



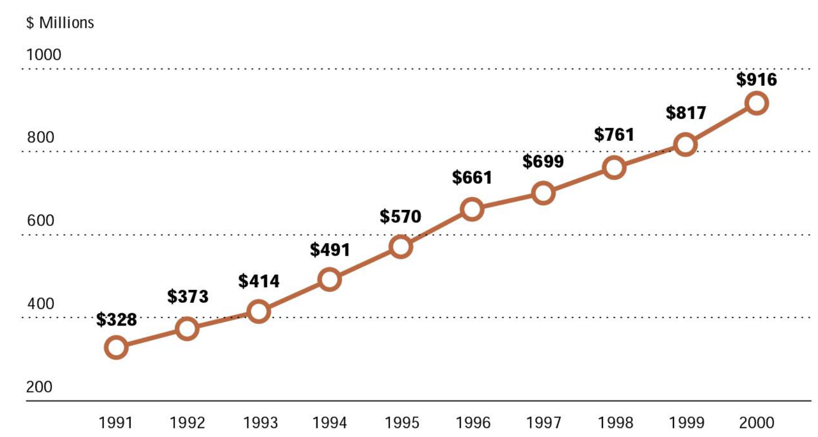
Asset Mix

AS AT DECEMBER 31, 2000

Real Return Bonds	**2.1 %**
Fixed Income	**25.8 %**
Equities	**59.1 %**
Real Estate	**13.0 %**
Total	**100.0 %**

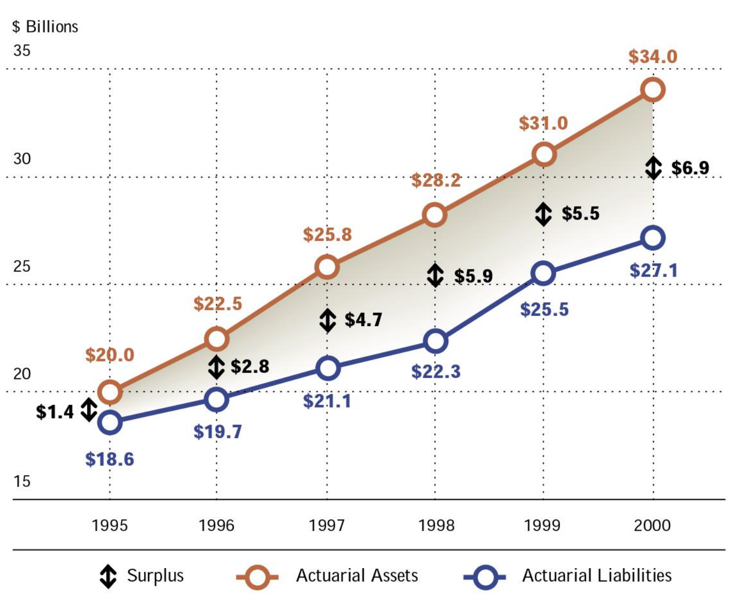


Growth in Pension Payroll

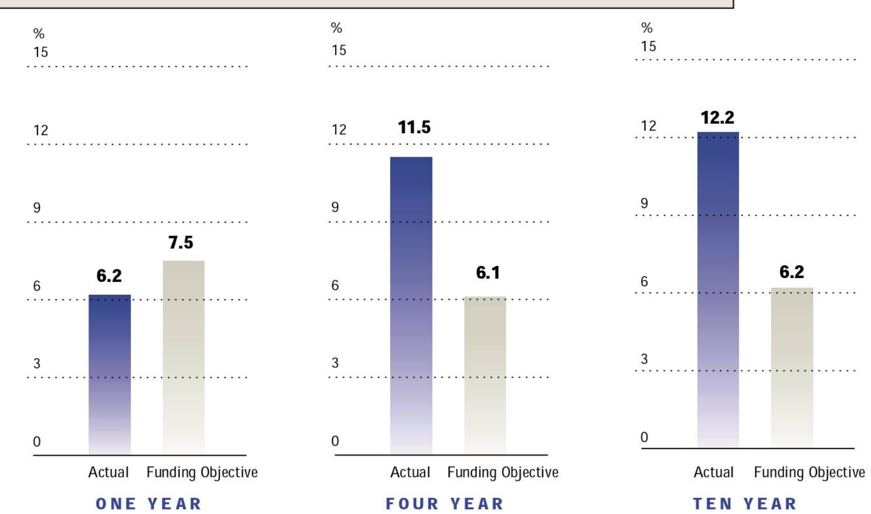


Actuarial Assets and Liabilities

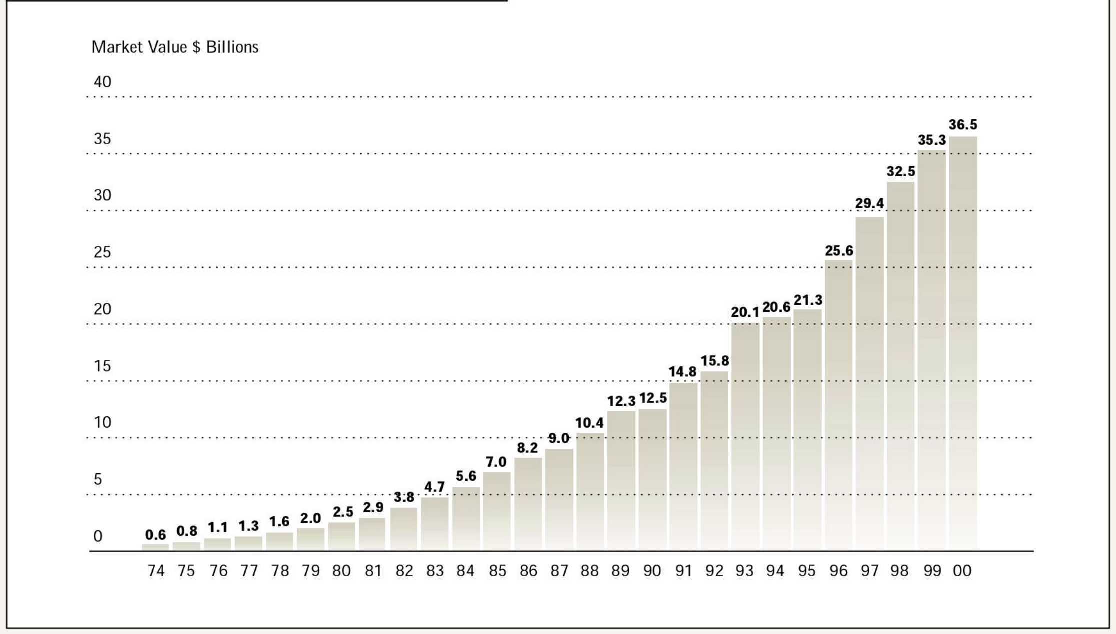
AS AT DECEMBER 31,



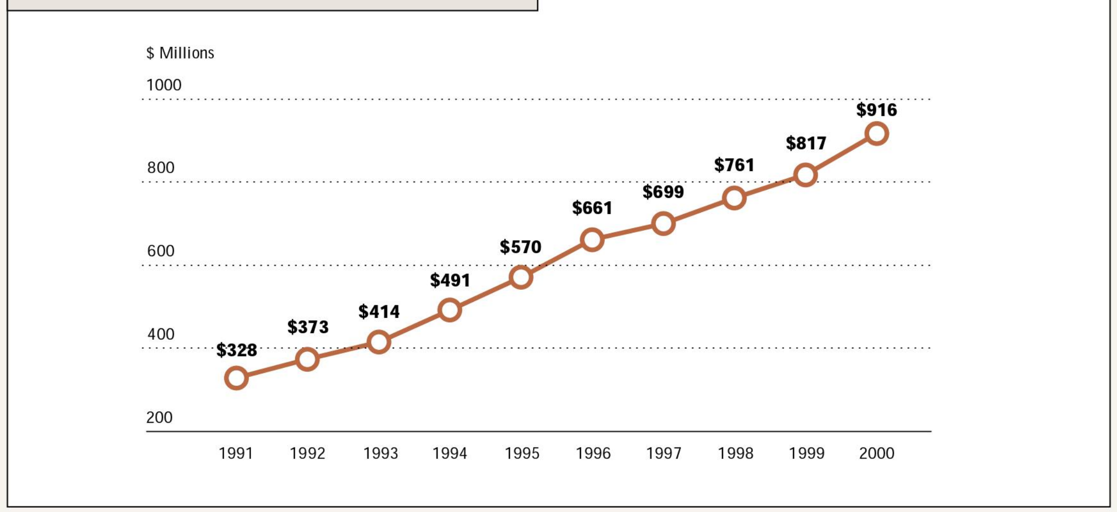
OMERS Rate of Return vs. Funding Objective



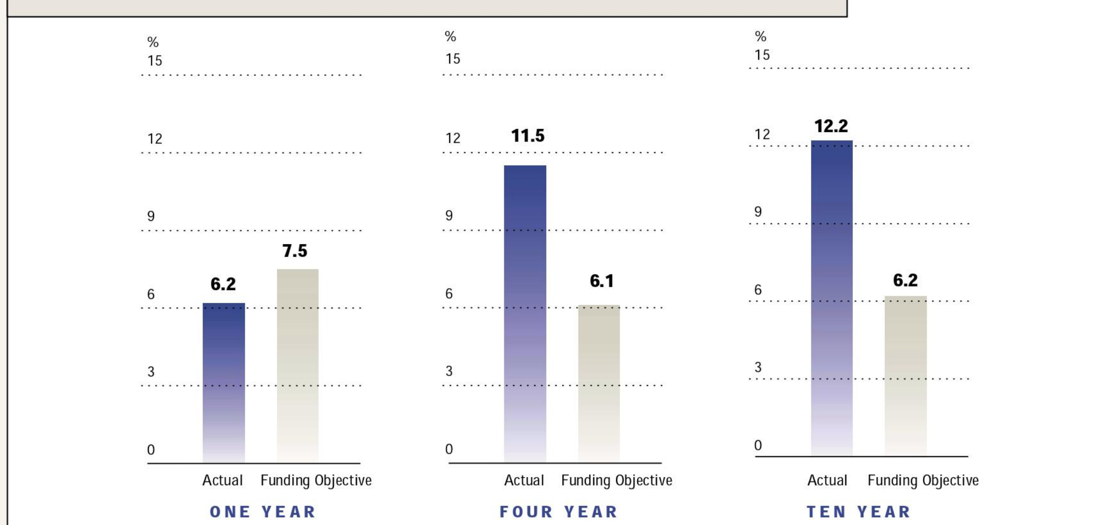
Asset Growth from 1974



Growth in Pension Payroll



OMERS Rate of Return vs. Funding Objective



As one of Canada's largest pension plans, we have 295,000 members and more than 1,000 employers counting on us. OMERS is committed to delivering competitive benefits and cost-effective administrative and investment services.

Building value

We deliver value every day in how we manage the plan and respond to members. Our investment performance guarantees inflation-protected pension benefits. Managing to a surplus makes it possible to offer one of the lowest contribution rates among jointly-managed pension plans.

Being competitive

We strive to be an industry leader in providing cost-effective pension services. Our members demand and deserve pension benefits and services that promise solid value. And we deliver.

Building value

Peter Leiss

Throughout OMERS history, we have ensured the security of our members' pensions by managing to a surplus. One key to our success has been our investment strategy. In 2000, we fine-tuned our asset mix policy to better meet the long-term pension needs of all plan participants. Because the Plan is fully funded, having a surplus puts us in a position to periodically make benefit improvements and provide other rewards for our stakeholders.

But building value is about more than just money. We have also built something tangible for employers, employees and retirees through jointly-managed governance so that OMERS belongs to them as an open, accountable and cost-effective pension organization.

Our commitment to our members and employers extends beyond Board representation. We have a long tradition of consulting members on major changes. Currently we are in a period of the most extensive consultation in our history: first seeking stakeholder input in 2000 on how the funding surplus should be managed; and this year asking for feedback on our future governance.

Consultation on the surplus

We have talked a great deal about surplus over the past three years with our stakeholders. In 2000, we reached out to them once again on how best to manage the continuing surplus. We received written submissions from 18 employee and 19 employer groups plus 900 responses on our web site. A professional telephone survey of 800 active members, retirees and employers was also commissioned.

Not surprisingly, there was no clear consensus. Employees and retirees generally preferred permanent benefit improvements, while employers wanted to avoid choices that risked increased contributions in the future.

Following this input, the Board had to decide on a fair and affordable plan that balanced the interests of all stakeholders. The recommended package would extend the contribution holiday for active members and employers by an extra year through 2002. We also asked the government, which has the final say on plan changes, to approve enhanced lifetime OMERS pension benefits through a further reduction in the CPP offset, and also to allow a longer phase-out of the current early retirement program.

Funding concerns

The consultative process revealed concerns among stakeholders about whether there would be sufficient funds in the plan during an economic downturn.

Considering the highly volatile nature of capital markets, we share this concern. We have asked the federal government to amend

CHAIR'S MESSAGE

the *Income Tax Act* so that the current surplus limit of 110 percent of liabilities can be increased to allow better long-term planning. This change would allow us to build a cushion against an unexpected decline in asset values or an unexpected increase in future benefit costs.

Moving toward autonomy

In all this consultation, stakeholders underlined their trust in OMERS. In fact, many believe OMERS, not the province, should be responsible for plan changes. So do we.

OMERS has been discussing changing its relationship with the province since 1995. In 2000, the Government of Ontario agreed to consider the transfer of responsibility for Board appointments and plan changes to OMERS. It set out conditions to protect taxpayer interests and encourage a more active role by employers. The government assigned OMERS the leadership role in consulting with employers, employees, retirees and their associations, and recommending the best way to accomplish this transfer of responsibility.

One of our goals is a governance structure that expedites plan changes once they have been approved by the jointly-managed Board. Plan participants would no longer experience long delays in realizing the benefits of pension changes. But we want to preserve what has worked well for nearly 40 years. Whatever the governance model, it is important that we continue to ensure our diverse plan participants are fairly represented, and that we maintain the benefits of economies of scale generated by a large plan like OMERS.

A framework for resolution

We hope to complete the consultative process in 2001 and make a recommendation in 2002 to the government on how to assume responsibility for Board appointments and plan changes. We urge individual members and employers, as well as their representative associations, to speak up on their expectations. Our objective is to preserve the best of an efficient and focused organization that is inclusive and continues to build value for all stakeholders. At the same time, we need a "made in OMERS" solution for making timely decisions on plan changes and other matters, all working in the best interests of those who pay for the Plan.

Peter Leiss, *Chair*

Being competitive

Dale E. Richmond

OMERS manages a highly competitive pension plan in the best interests of plan members, local governments and, through them, the taxpayers of Ontario.

By focusing on long-term results, we have made life financially easier for retired members, enabled thousands of workers to retire early with dignity, and through extended contribution holidays, put cash in the pockets of the men and women who work for municipal governments, school boards, libraries, police and fire departments, children's aid societies, and other local agencies.

Their employers have also shared the benefits of the surplus through a contribution holiday. This has lowered their operating costs to the competitive advantage of the province's economy by taking pressure off local taxpayers. In the past two-and-a-half years, the contribution holiday has saved local governments more than $1 billion.

Fulfilling the vision

Nearly 40 years ago, the Ontario legislature saw the wisdom of pooling pension contributions in a single organization to guarantee retirement income for all local government employees. Local governments gained cost efficiencies from an organization that can afford to hire the best professionals in plan administration and capital market investing. Many towns and villages, and numerous local agencies, gained retirement benefits for their employees that they simply could not have afforded on their own. Members could maintain their OMERS benefits if they sought job opportunities in other local governments anywhere in Ontario.

The original vision continues to guarantee competitive pension benefits that, throughout OMERS history, have been improved whenever sufficient surplus was available. The ability to deliver an enhanced pension promise to individuals with widely diverse career paths is one of our greatest accomplishments.

Best-of-class benefits

A recent comparative study of eight major public sector pension plans confirmed our competitive leadership:

- Our normal contribution rates are the lowest among jointly-funded pension plans;
- We currently offer the most attractive unreduced early retirement incentives, including a younger retirement age than most of the plans;
- Our survivor benefits are at the top of the list;
- We are the only pension plan offering a full and extended contribution holiday to employers and employees;
- Our 100% indexing against inflation shares top billing with other pension leaders; and

- Once approved by the province, our proposed CPP offset (which will increase pensions immediately for retirees over 65) will be among the best in the industry.

Providing outstanding value

One of our goals is to be an industry leader in providing cost-effective pension services. Independent studies show that because of our size and efficiencies we provide substantial cost savings through economies of scale and specialization of management compared with smaller plans. Size makes it possible for us to hire top professional managers in plan administration, fund investment and corporate services.

In exchange for a reasonable contribution rate, employers receive reliable and cost-efficient administrative services that deliver retirement security to their employees. Employers further benefit from having OMERS monitor, analyze, recommend and implement appropriate changes and improvements in plan administration and member entitlements.

Competitive investor

We have also built one of the most competitive investment organizations in the Canadian pension fund industry. Our investment strategy and asset allocation policies maximize investment returns within prudent risk management guidelines. The expertise and effort of our

PRESIDENT'S MESSAGE

investment professionals have consistently earned a surplus of invested assets to guarantee future pensions. Furthermore, our investment performance has been in the top quartile of large Canadian pension funds for the past four years.

Pension plan of choice

Remaining competitive is a top priority for OMERS in order to reduce risks, minimize operating costs, and secure the best investment assets available. Behind this competitive drive is our philosophy of managing OMERS as if local employers and employees could choose another pension plan. This forces us to be a leader in providing the best pension value and member services possible.

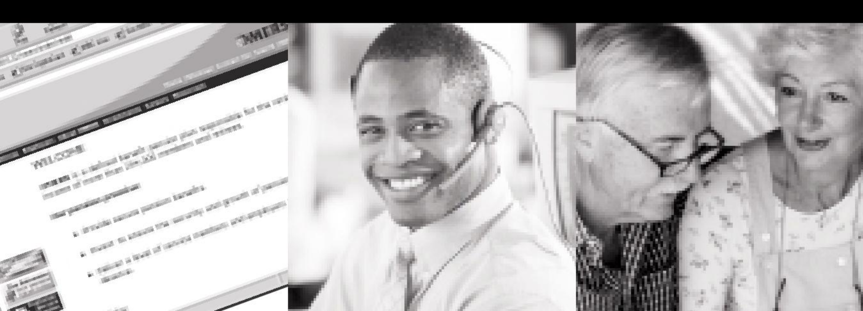
Acknowledgements

I thank our Board for their leadership during the year in dealing with important strategic issues. I also thank our employees for maintaining high standards of professionalism in serving the interests of all our stakeholders.

Dale E. Richmond, *President and CEO*

OPERATING AN EFFECTIVE SERVICE ORGANIZATION

Our commitment to plan participants goes beyond offering competitive pension benefits that our members can rely on as the foundation for their retirement income. Our goal is to deliver high-quality service in everything we do.



PENSION SERVICES

Objectives

For retirees, our most critical role is to pay the pension benefits promised to each member on time every month. For all stakeholders – retirees, members and employers – our pre-eminent goal is to provide high-quality service in everything we do. This means prudent management of the Plan to deliver assured and competitive pension benefits at reasonable cost based on stable contribution rates.

Pension administration

The basic pension guaranteed by OMERS is based on 2% of the member's best consecutive five years of earnings multiplied by the number of years of credited service, to a maximum of 35 years. Those with 35 years of credited service no longer contribute. OMERS provides an additional bridge benefit to members who retire early, roughly equal to the Canada Pension Plan (CPP) benefit they will receive at age 65. At age 65, the OMERS pension is integrated with the CPP.

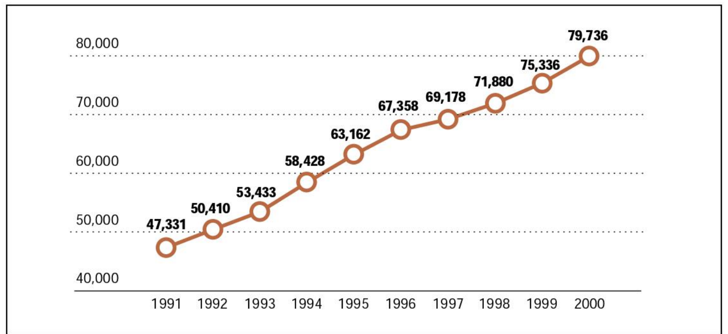
The pensions of individual members vary greatly, reflecting the inherent diversity of the OMERS Plan. The average salary in 2000 was about $42,200 and the average new pension was $17,864.

The pension payroll grew by $99 million to $916 million in 2000 as the pensioner population expanded by 6% to 79,736 people, including members receiving disability pensions, surviving spouses and dependent children.

Of the 6,759 new pensions processed in 2000, 67% were early retirements. That compared with 5,700 new pensions in 1999, of which nearly three-quarters were early retirements.

Expanding membership

Our membership continues to grow, partly because of renewed local hiring in response to the demands of a stronger provincial economy, and partly as the province



Growth in Number of Pensioners

continues to transfer services to the local level. On January 1, 2001 we welcomed close to 5,000 employees in Ontario social housing to OMERS. This follows the recent transfer of 1,100 Go Transit workers and 2,000 Ontario Property Assessment Corporation employees to OMERS.

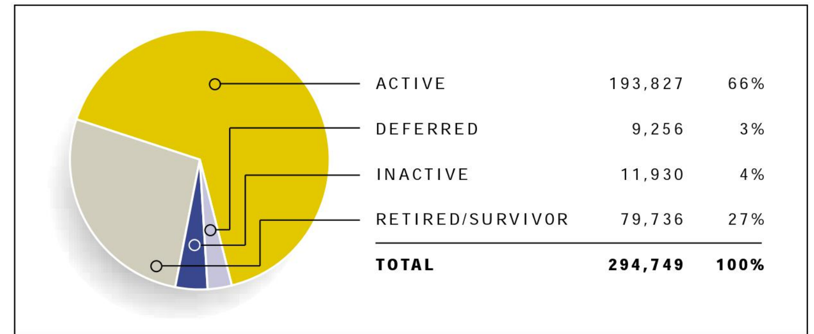
Latest plan improvements

In 2000, we were once again able to propose Plan improvements that will enrich value for all stakeholders. All but the extended contribution holiday must be approved by the provincial government. These recent surplus recommendations follow improvements introduced in 1998 and 1999.

Extended contribution holiday

The contribution holiday for employers and active members was extended until December 31, 2002, subject to annual review by the Board to ensure sufficient surplus is available. The holiday was triggered by a provision in the *Income Tax Act* that requires employer contributions to be suspended when the value of assets exceeds 110% of the present value of future pension benefits. The OMERS Act requires that member contributions cease when employers no longer contribute.

In total, employers and members will have enjoyed a 4 1/2-year contribution holiday since August 1998. When contributions resume, rates will be raised gradually, returning to normal by 2005. For members eligible to retire at 65, the normal contribution level is 6% of salary up to the Year's Maximum Pensionable Earnings (YMPE), and 7.5% after that. For members eligible to retire at 60 (most police officers and firefighters), it is 7% of salary up to the YMPE and 8.5% beyond that.



Member Profile

The YMPE for 2001 is $38,300.

Two other benefit improvements await provincial government approval:

Higher pensions for retirees

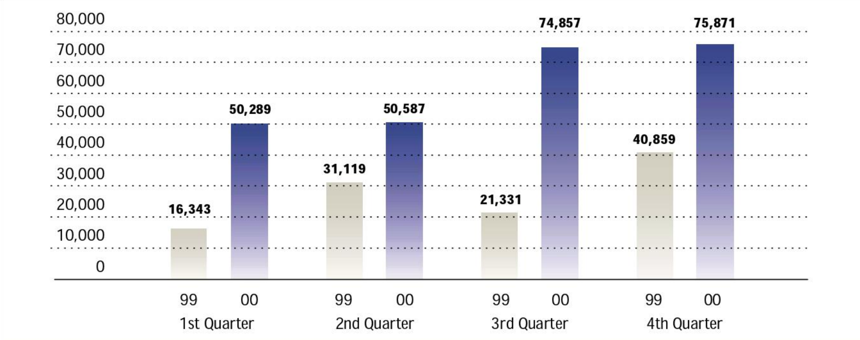
In 2000, the Canada Pension Plan offset was reduced from 0.7% per year of post-1965 credited service to 0.675%, retroactive to January 1, 1999. This is the formula used to integrate the OMERS benefits with the federal pension plan when a member turns 65. We now want to lower the CPP offset further to 0.6%, also retroactive to January 1, 1999.

The latest proposal will mean a 4% to 6% pension increase for most retirees, plus a lump sum payment for the retroactive period.

Balancing the cost of pension increases because of this initiative, employers will receive an equivalent credit toward their future contributions.

Extended retirement window

Early retirement incentives are currently available to members who retire within 15 years of their normal retirement age on or before December 31, 2001. We propose a slower closing of the early retirement window. The qualifying factor of age plus service would increase gradually until 2005, when normal early retirement conditions will apply – that is, within 10 years of retirement age with a 90 factor for those who normally retire at 65 and an 85 factor for those who normally retire at 60 (the current temporary early retirement factors are 80 and 75 respectively). This proposal will help members and employers during a period of continuing restructuring in the municipal sector. It will also assist employers to plan for workforce changes as a result of early retirements.



Number of Hits on the Web Continues to Grow

Customer-centered strategy

The introduction of benefit changes over the past two years, and the surge in early retirements, have dramatically increased work volumes. In 2000, for example, our client services staff met with more than 10,000 members and pension staff received well over 100,000 telephone calls. We are interacting more frequently with members and employers, a trend that will accelerate as we expand our electronic capabilities.

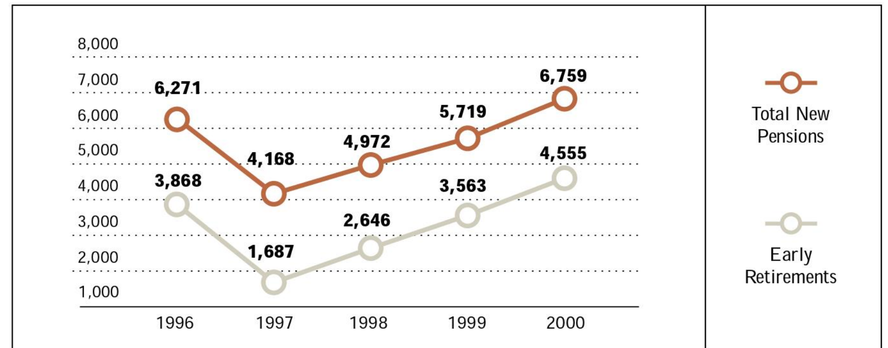
We are also introducing a new service structure built around customer-centered staff teams trained in multiple skills. The purpose is to focus on the customer and provide a single point of contact for each member's total needs.

Improved access for members

Members have indicated they want more information – and want it now – to plan their retirement years. One way in which we have responded is by redesigning the member's annual statement of benefits so that they have more complete information about their future entitlements.

Our newly designed and more user-friendly web site is fast becoming the primary source of timely and comprehensive information for most stakeholders. A new retirement planning section includes checklists, a net income worksheet and other useful information.

The pension calculator launched on our web site late in 1999 continues to gain popularity, with more than 10,000 hits per month. Called the Estimator, this industry-leading pension planner enables members to map their OMERS pension future by varying basic assumptions to calculate retirement options. This service complements requests for pension estimates and has helped members to be better informed when



Number of Retirements in Past Five Years

they contact OMERS. In 2001, we plan to expand the retirement planner to include income sources in addition to the OMERS pension.

Employer support

A priority is to make sure that advances in plan administration move forward together at OMERS and at employer offices. We follow a customer-centered approach, with increased site visits and training programs for local government staff. In 2000, we met with 600 employer representatives at 20 different training sessions. We will provide each employer with a single point of contact in 2001 and we already offer the electronic tools to handle many pension matters in a paperless form.

We have also expanded our employer support through our new Membership Service System, a custom-designed computer system that facilitates higher service standards.

Each week, we post on our web site our record in achieving pre-determined member service standards. The Customer Service Monitor is the first public accountability of its kind in the pension industry and illustrates the competitive attitude that drives our commitment to innovative service.

The new levels of service efficiency have considerably reduced the average time it takes to process retirement claims. Similar gains in processing time have been achieved in handling termination claims, pension quotes, disability claims, and buy backs.

DEVELOPING A GLOBAL INVESTMENT ORGANIZATION

OMERS has built a powerful investment organization to compete in domestic and global markets. Our long-term investment horizon and diversified portfolio emphasize stability of returns in order to pay secure pensions.

INVESTMENT SERVICES

Investment objective

On average, the plan needs to earn 4.25% per year above the rate of inflation to meet the long-term cost of benefits. Although Canadian inflation has been low in recent years, it is projected at 3% annually over the long term. As a result, the nominal investment target for the next several years is 7.25%.

The investment objective assumes the plan will maintain a surplus as a contingency reserve against the risk of short-term declines in investment values. It also assumes stable contribution rates over the long term.

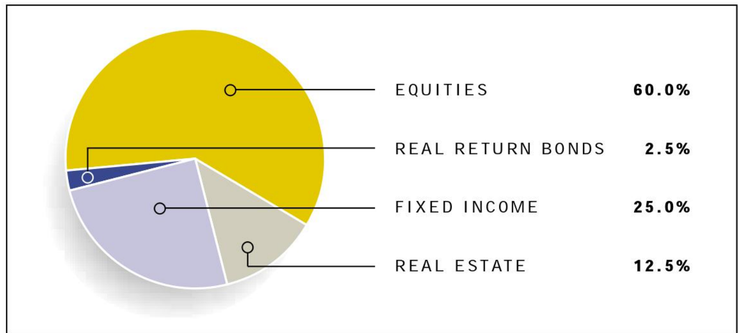
Investment philosophy

The Plan's financial strength and 20-to 30-year investment horizon enable us to follow a prudent investment policy that emphasizes stability of returns by spreading risk over a variety of asset classes. If the Plan had more liabilities than assets, we would have to close the gap by earning higher returns over the long term while tolerating greater volatility in the short term. The Board would also have to consider raising contribution rates.

A pension fund's investment returns are determined by its asset mix policy and the behaviour of the markets in which those assets are invested. The returns of one pension fund compared with another primarily reflect different asset mix decisions that are based on the size and maturity of each plan's liabilities as well as the level of payroll contributions by members and employers.

Asset mix

Setting the asset mix policy involves choosing investments that reflect the Plan's liabilities (the money needed to pay future pensions). A comprehensive review of the asset mix policy normally occurs every four years. The most recent review, completed in September 2000, largely maintained the existing policy but added real-return bonds.



Asset Mix Policy

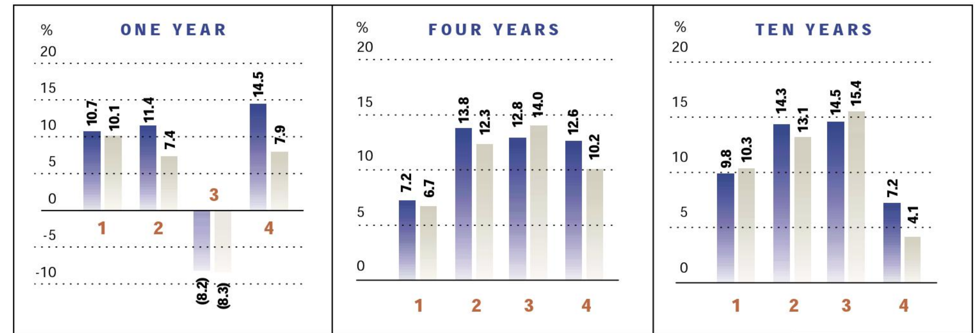
OMERS has four broad asset classes, each with a different risk/reward profile and timeframe for optimum performance:

- Equities, or stocks, are highly volatile in the short term, but are expected to produce better returns than bonds and real estate over the long term. For publicly traded stocks the ideal investment timeframe is 3 to 5 years, while for private equity it can extend to 10 years.
- Bonds are generally less risky and volatile than stocks, and provide steady income as well as the return of the original capital at maturity. The investment timeframe is most often 5 to 10 years.
- Real estate has historically been an effective hedge against inflation, offsetting the indexed nature of pension benefits, and tends to deliver superior returns over a horizon of at least 10 years and usually much longer.
- Real-return bonds are specialized products that earn inflation-adjusted returns and are the closest match with indexed pension payments. The investment timeframe is over twenty years.

Asset allocation

Within the asset mix policy we are shifting a large amount of capital to non-Canadian investments by reducing our Canadian equity holdings. Our goal is to diversify risk to international companies that we expect will produce superior returns over the long term.

At the end of 2000, approximately 27.6% of total assets at market value were exposed to markets outside Canada through direct investments and derivative contracts. On a cost basis, foreign investments at 19.6% of total assets were within the federal government's foreign property limit of 25% for 2000.



Rates of Return vs. Benchmark in each asset class
1 Canadian Fixed Income 2 Canadian Equities 3 Foreign Equities 4 Real Estate

Rate of return
Benchmark

Equities

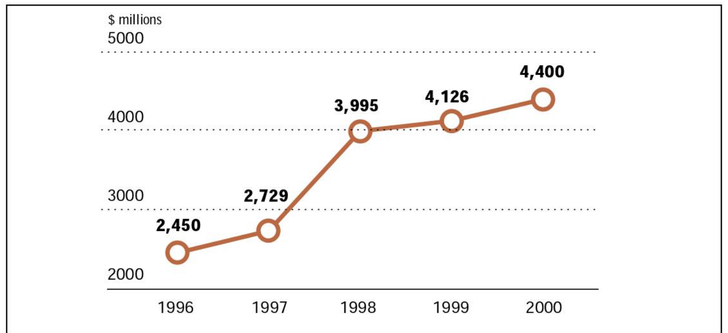
Our equity investing recognizes that when we buy stocks, we acquire an ownership position in companies. At the end of 2000, we had $18.5 billion invested in stocks, of which 61.0% was in Canadian public and private companies. Our revised equity strategy is to think globally in all portfolios, recognizing that often the most successful companies in Canada either have multi-national operations or are companies incorporated elsewhere.

We follow three strategies for equity investing, with the emphasis on active rather than passive management.

Actively managed stocks

Our actively managed stock portfolios held shares of 258 companies with a total value of $13.8 billion at the end of 2000. We invest over several market cycles and principally buy corporate shares to hold rather than trade. Our stock portfolios are about 60% managed by internal staff and 40% by external managers with expertise in particular market sectors. Though we invest in growth companies where large capital gains can be achieved over the long term, albeit at higher risk, we are generally a value investor. This management style emphasizes the earning power or asset value of a company.

Outside Canada, we have a $5.0 billion portfolio managed by several external managers and consisting of approximately 1,100 stocks selected from markets in the United States and internationally. The portfolio decreased by $0.4 billion during the year. Although we select individual companies based on value, portfolio risk is reduced by investing in different economies around the world. Approximately 50% of our foreign equity exposure is in the United States, with the remainder split between Europe, the Far East and emerging markets.



Real Estate Five-year Growth

Indexed stock funds

While OMERS is primarily an actively managed fund, buying shares to replicate a recognized stock index is a cost efficient way to invest in equities.

In Canada, we invest in the shares of the companies that make up the TSE 300 Index, such as major banks, insurance firms, technology companies, consumer goods producers and retailers, and resource companies. In 2000, we had $1.9 billion in Canadian stock indices.

Outside Canada, our index investing focuses on the Standard & Poor's 500 Index of companies in the United States and we had $1.7 billion invested in the index in 2000.

Merchant banking

Investing in private companies diversifies our assets beyond the sometimes-excessive valuations and volatility of public markets. There are numerous private firms in Canada and around the world that can benefit from our financial and strategic support. They offer good capital growth potential over several years, and we eventually realize gains through a public share offering or the sale of our interest to management or other private investors. We are now a major merchant bank funding source in Canada and at the end of 2000 had $1.1 billion in Canadian and foreign private equity and $0.3 billion in private debt.

Fixed-income investments

We manage a $13.5 billion fixed income portfolio that includes Canadian government and corporate bonds, mortgages, and cash and short-term instruments. In 2000, we sold our foreign bond portfolio to provide a better match for our liabilities by concentrating on Canadian opportunities. Given that the federal and provincial governments are reducing their borrowings, we have been developing a stronger corporate bond portfolio that offers higher returns, with $2.7 billion invested at the end of 2000.

Derivatives

Derivatives enable us to maximize exposure to both domestic and foreign markets, provide greater liquidity than owning the underlying assets, are a cost effective form of investing, and enhance overall returns. They also facilitate efficient risk management among different types of assets and global economies. Our derivative contracts are discussed in Note 3 to the financial statements.

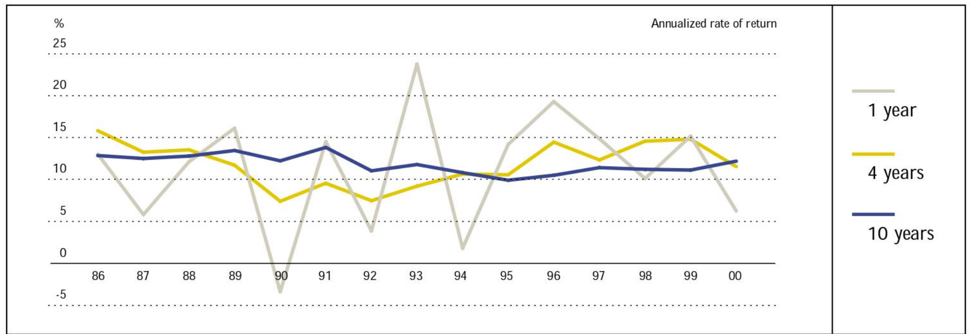
The notional value of derivative contracts in 2000 was $7.8 billion, compared with $4.4 billion a year earlier. Net credit risk exposure at year end was $44 million, or 0.1% of the fund.

We anticipate further growth and opportunities in the derivatives market and can gain market exposure of up to 30% of total assets through these products under our current policy. Extensive monitoring and control processes are in place to manage risk.

Real Estate

Real estate is one of the best investment assets available to match our liabilities. It generates superior returns over several decades, acts as a hedge against inflation, produces regular cash flow from the rental income stream, and generally has lower volatility than stocks and bonds. The cash flow from real estate rental income was sufficient in 2000 to pay 28.1% of all pension benefits.

We have built one of the largest real estate investment portfolios in Canada, valued at $4.4 billion. The portfolio consists primarily of direct property ownership. The 72 directly owned properties are principally "best in class" office buildings and large shopping centres in major urban markets across Canada. OMERS has further diversified its holdings in 2000 by acquiring several multi-family apartment buildings. Approximately 61.8% of the portfolio is in the form of joint ventures with other investors, including pension funds.



Comparison of 1 year, 4-year and 10-year Returns Demonstrates OMERS Long-term Stability

Our total real estate exposure includes equity in Canadian and U.S. property companies, as well as real estate investment trusts (REITs). Consistent with our commitment to global investing, we are diversifying internationally through real estate investment funds.

Real-return bonds

In 2000 we supplemented our investments in real estate with real-return bonds that are also an ideal match with indexed liabilities. At year end, we had invested $773 million in these securities and plan to expand this portfolio to as much as 2.5% of the fund's total assets.

Corporate governance

We own shares in more than 2,500 companies, of which nearly 450 are in Canada. Research shows that companies with good corporate governance tend to generate better shareholder returns. Corporate governance focuses management on creating long-term shareholder value as part of its accountability to the owners.

We publish Proxy Voting Guidelines so that corporate managers and other shareholders understand how we are likely to vote on specific issues that affect shareholder value. We are more frequently active in voting on management proposals, in particular opposing excessive stock options and the re-pricing of options when share values decline. With all the recent mergers and acquisitions, OMERS has taken an increasingly active role in opposing takeover protection measures that might prevent the realization of full shareholder value. OMERS will continue to be active, taking a position on these and other issues.

FINANCIAL PERFORMANCE

Change in net assets

Net assets increased by $945 million in 2000, totaling $35.9 billion at year-end.

Driving the growth in net assets was $2.0 billion in net investment income, compared with $4.6 billion in 1999. This growth can be fully attributed to the Plan's investment strategy. No basic contributions were received from members and employers for the second consecutive year because the contribution holiday continued throughout 2000.

Reducing net assets were approximately $1.0 billion in pension benefit payments. A similar amount was paid out in 1999. Member pensions actually increased by $99 million in 2000, while both commuted value payments and contribution refunds declined (see note 9 to the financial statements).

Also deducted from net assets was $73 million in administrative costs, compared with $70 million a year earlier (administrative expenses are tabulated in note 10 to the financial statements).

Fund performance

Our long-term goal is to exceed the actuarial funding requirement of 4.25% plus the rate of inflation as measured by the Consumer Price Index. Our timeframe for doing this extends over several decades and involves selecting investment assets to pay retirement income to all current Plan members during their lifetime.

Over the past 26 years, since OMERS was empowered to pursue an active investment policy in 1974, the Fund has achieved a compounded annual rate of return of 11.3%. During the past 10 years, performance was even better at 12.2%. These long-term returns are well above the level the Plan requires to remain fully funded.

Returns are also measured in the short term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the investment policy and asset mix to better balance fluctuations over the long term.

In 2000, our annualized rate of return for four years (a standard in the pension fund industry) was 11.5%. This was substantially above the four-year funding requirement of 6.1%.

The one-year return for 2000 was 6.2%, compared with 7.5% for the funding requirement (that is, 4.25% plus 3.2% inflation). The annual return was the lowest since 1994 and reflected generally negative returns by stock markets around the world, though Canadian stocks and real estate, where we invest approximately 40% of total assets, produced positive returns.

Investments at market value totaled $36.5 billion at the end of 2000, or $1.2 billion more than the prior year end. Approximately 60% of invested assets, including derivatives, were equities. Real estate, bonds, mortgages and short-term deposits comprise the remaining 40%.

Asset class performance vs. benchmarks

A short-term goal is to add value above the returns that the markets in which we invest will produce on their own. We measure the performance of each portfolio against an objective benchmark that acts as the proxy for each market. To the extent we exceed the benchmark, we add value to the portfolio. These benchmarks are aggregated and weighted to conform to our asset mix policy to provide a benchmark for the total fund. In 2000, our active-investing efforts added $752 million in value above the asset mix policy.

Following negative returns in 1999, our $13.5 billion Canadian fixed-income portfolios produced a 10.7% return in 2000, outperforming the 10.1% benchmark (a custom blend of the Scotia Capital Bond Universe Index plus the SCI 30 Day T-Bill Index). Contributing to the improved performance were higher returns from our large mortgage portfolio and from private debt. During the year we liquidated our foreign bond portfolio.

In the equity category, our Canadian stock portfolios performed well, earning 12.1% in 2000, compared with 7.5% for their benchmark (a blend of the TSE 300 Index and the Nesbitt Burns Small Cap Index). In recent years, Nortel has dominated the TSE 300 Index and drove its exceptional performance in 1999. In 2000, Nortel declined sharply in value, reducing the TSE 300 return to 7.4%. However, the effect of our exposure to Nortel was muted by the large size of our actively managed stock portfolio at $8.8 billion, compared with $1.9 billion invested in a fund that mirrors the TSE 300 Index.

Our $1.1 billion merchant banking equity operations earned 7.4% compared with 4.9% for the benchmark (an adjusted TSE 300 Index return). Our portfolio has a high exposure to technology companies that we believe will perform well over the long term. Over the past five years, merchant banking has earned an average annual rate of return of 18.9%.

Foreign equities earned a negative 9.3% return, falling short of the negative 8.3% for the benchmark (based on the Russell 3000 Index in the United States and the Goldman Sachs Global Index, excluding Canada and the U.S.) as stock markets around the world declined in 2000. Our portfolios in the Pacific Rim and Emerging Markets under performed against their benchmarks. Another contributing factor was a decline in currency values.

Our total real estate holdings had a strong year with a 14.5% return, almost double the 7.9% performance of the benchmark (85% of the five-year smoothed CPI + 4.75%, and 15% of the TSE 300 real estate sub-index). The exceptional performance reflected the continued strong growth in cash flow from the high-quality properties in our large real estate portfolio.

Growth in liabilities

The actuarial present value of accrued pension liabilities totaled an estimated $27.1 billion at the end of 2000, a 6.3% increase over the previous year.

The Plan's financial obligations to active members, pensioners and former members have grown substantially in recent years, a trend that will continue as the "baby boom" generation enters retirement. Although wage growth has been relatively flat recently, members have been retiring earlier than expected by taking advantage of the plan's early retirement enhancements.

Cash flow

We received $1.5 billion in cash flow during 2000 from interest, dividend and rental property income plus contribution transfers by members joining OMERS from other plans and supplementary payments by employers. In addition, $2.0 billion was realized from the sale of investments. This cash flow more than offset the $1.0 billion paid out in benefits. The Board reviews the effect of the contribution holiday on cash flow annually. Investment income is expected to continue to exceed benefit payments during the remainder of the contribution holiday.

THE PLAN'S FINANCIAL POSITION

The cost of all current and future pensions is estimated on a regular basis to ensure the Plan has enough money to keep the pension promise.

An independent actuary estimates the value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. These estimates are prepared every year and extrapolated over the next 20 years. They assist OMERS in making decisions about the use of surplus funds.

Conservative long-term assumptions are made about three key factors – investment returns, which affect the value of assets, and inflation and salary increases, which affect the cost of future benefits.

Valuing the assets

The market, however, determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more objective picture of the long-term relationship of assets to liabilities.

Valuing the liabilities

To value the liabilities, the actuary examines the Plan's demographics – the age, length of service, salary ranges, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active members, former members who have entitlements in the Plan, and pensioners, surviving spouses and children who receive benefits. In addition, mortality, disability and termination of employment data are factored in. OMERS collects this member data annually from more than 1,000 employers.

Calculating the surplus

The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a Funding Stabilization Reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements.

Statement of Changes in the Surplus

(Millions)	*2000	1999
Surplus, beginning of year	**$ 5,469**	$ 5,921
Increase in net assets available for benefits	**945**	3,550
Increase/(Decrease) in actuarial adjustment to net assets available for benefits	**2,044**	(822)
Increase in actuarial value of net assets available for benefits	**2,989**	2,728
Less: net increase in accrued pension benefits	**1,606**	3,180
Surplus, end of year	**$ 6,852**	$ 5,469

* Projection based on 1999 valuation and changes in assets and benefits during 2000.

BOARD MEMBERS AND SENIOR OFFICERS

Dick McIntosh, Roger Richard, Frederick Biro, Marianne Love

David Carrington, David Kingston, Nancy Bardecki, Bill Rayburn

Walter Borthwick, Susan O'Gorman, Rick Miller, Peter Leiss

BOARD MEMBERS

Employer Representatives
Walter Borthwick
Town of Wasaga Beach

Bill Rayburn, County of Middlesex

Marianne Love, City of Brampton

Frederick Biro
Peel Police Services Board

Roger Richard
Limestone District School Board

1 vacant position

Claude Guillemette
East Ferris Township
(until September 2000)

Employee Representatives
Peter Leiss, Chair
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman, Past Chair
Ontario Nursing Association

Rick Miller
Ontario Professional Firefighters Association

Dick McIntosh, Retired Member

David Kingston
York Regional Police Association

Paul Bailey
Police Association of Ontario
(until September 2000)

Government of Ontario Representative
Nancy Bardecki

SENIOR OFFICERS

Dale Richmond
President and CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Tom Gunn
Senior Vice President
Investments

Debbie Oakley
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

MANDATE AND GOVERNANCE

OMERS PROVIDES PENSION SERVICES TO 295,000 MEMBERS AND MORE THAN 1,000 EMPLOYERS WHO HAVE THE RIGHT TO KNOW HOW THEIR PLAN IS MANAGED AND GOVERNED.

Board Mandate

OMERS mandate is set out in the *OMERS Act* and *Regulation.* Board responsibilities include:
- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix allocation
- Approving contribution rates
- Appointing CEO and monitoring organizational effectiveness
- Establishing executive compensation policy

Board Membership

Board members are appointed by the Provincial Government for a maximum of two three-year terms. OMERS is governed by a thirteen-member board composed of:
- Six employee representatives
- Six employer representatives
- One provincial government representative

Board Accountability

Twelve of the thirteen current members of the Board are Plan members – a constant reminder that policies and decisions must be in the best interests of stakeholders.

There is a mandatory orientation and ongoing continuing education program for Board members including seminars and conferences.

There are meetings 10 times each year plus two annual strategy sessions. The Board attendance in 2000 was close to 100%. The Board holds two regional meetings a year with Plan members.

Board Independence

The Board has access to outside experts in plan administration and fund investment to assist them in undertaking their oversight responsibilities.

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually.

Day–to–day management of OMERS is delegated to the CEO. The Board retains responsibility for strategic management decisions.

Board Governance

The Board Governance Sub–Committee was established in 1998. It consists of the chair, first vice–chair, immediate past chair and vice chairs of the pension, management and investment committees. The Committee reviews the mandate of the Board and committees, evaluates the orientation and education programs, compostition, qualifications, compensation and nomination process for Board members. It conducts a bi–annual Board evaluation with the assistance of outside consultants.

Board Committees

The Board has four standing committees (listed below) and four sub–committees: governance, audit, compensation and appeals.

Executive Committee

Responsible for Board affairs, government relations, organizational changes. Serves as compensation subcommittee to handle executive compensation and performance.

Investment Committee

Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee

Oversees pension administration policy, appoints independent actuary, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee

Responsible for human resources, annual budget, strategic plan and major purchases.

ACTUARIAL COST CERTIFICATE

AS AT DECEMBER 31, 2000 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1999 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 1999 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $25,462.424 million in respect of benefits accrued for service to December 31, 1999. The Actuarial Assets at that date were $30,963.744 million indicating a going concern Actuarial Surplus of $5,501.320 million, of which $1,273.088 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1999 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $32.851 million, leaving an overall Actuarial Surplus of $5,468.469 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 1999. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 2000. Further, we have calculated the Actuarial Assets at December 31, 2000. In our opinion, the assets of the Fund at December 31, 2000 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on both a going concern basis and a wind up basis.

The actuarial valuation of OMERS as at December 31, 1999 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purposes of the valuation,
- the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT & COMPANY

Martin J.K. Brown, F.I.A., Fellow, Canadian Institute of Actuaries
February 23, 2001

RESPONSIBILITIES OF MANAGEMENT, THE ACTUARY AND EXTERNAL AUDITORS

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the annual report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees.

The Audit Sub-committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Sub-committee meets regularly with both management and the external auditors to review the scope and timing of the audit as well as to review any internal control or financial reporting issues and their resolution. The Sub-committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and to report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board whether the consolidated financial statements present fairly, in all material respects, the net assets of the Fund and the changes in its net assets, for the financial year in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Sub-committee to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Dale E. Richmond
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

AUDITORS' REPORT

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 2000 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2000 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 23, 2001

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,	2000	1999
ASSETS		
Investments (Note 2)	**$ 36,469**	$ 35,278
Accrued income	**145**	133
Amounts due from pending trades	**433**	360
Other assets (Note 4)	**16**	23
Total Assets	**37,063**	35,794
LIABILITIES		
Due to administered pension funds (Note 5)	**528**	502
Amounts payable from pending trades	**494**	280
Other pension liabilities	**166**	82
Total Liabilities	**1,188**	864
NET ASSETS (Note 6)	**$ 35,875**	$ 34,930

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,	2000	1999
INCREASES IN NET ASSETS		
Net investment income (Note 7)	**$ 2,033**	$ 4,598
Contributions (Note 8)	**30**	27
Total Increase	**2,063**	4,625
DECREASES IN NET ASSETS		
Benefits (Note 9)	**1,045**	1,005
Administrative expenditures (Note 10)	**73**	70
Total Decrease	**1,118**	1,075
INCREASE IN NET ASSETS	**945**	3,550
Net assets at beginning of year	**34,930**	31,380
NET ASSETS AT END OF YEAR	**$ 35,875**	$ 34,930

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2000

Description of the Plan

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up under the *OMERS Act and Regulation.* The Ontario Municipal Employees Retirement Fund (the Fund) is established in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities, and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency. The Plan is registered under the *Pension Benefits Act* (PBA) of Ontario, Registration #0345983.

(a) Funding

The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act and Regulation* and the PBA.

(b) Pensions

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

(c) Death Benefits

Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

(d) Withdrawals from the Plan

Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

(e) Escalation of Pensions

Pension benefits are protected from inflation through an annual adjustment equal to 100% of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

(f) Income taxes

OMERS is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and as such is not subject to income taxes for contributions or investment income received.

(g) Retirement Compensation Arrangement

The Retirement Compensation Arrangement (RCA) was established by OMERS to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada).*

In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The RCA is funded on a pay as you go basis. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Investments

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in net investment income in the statement of changes in net assets as unrealized appreciation/depreciation of investments.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.
ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
iii) Real estate, composed primarily of income producing properties, is generally valued through an appraisal process which utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. Jones Lang LaSalle Real Estate Services Inc. and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers engaged for the 2000 valuation process.
The fair value of any real estate which has been recently acquired is based on the purchase price.
iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.
v) Derivatives, including swap, futures, option and forward contracts, are valued at year-end market prices determined by quoted market values where available, or discounted cash flows using current market yields, where quoted market values are not available.

Investment income includes interest, dividends and operating income from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Non-Investment Assets and Liabilities

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains on disposal of investments.

Note 2. Investments

	2000		1999	
(Millions)	**Fair Value**	**Cost**	Fair Value	Cost
Interest Bearing Investments				
Cash and short-term deposits	**$ 2,907**	**$ 2,907**	$ 2,462	$ 2,462
Canadian bonds and debentures	**8,906**	**8,722**	6,071	6,179
Non-Canadian bonds	**–**	**–**	1,573	1,689
Private debt	**299**	**299**	216	224
Mortgages	**1,413**	**1,395**	1,244	1,259
	$ 13,525	**$ 13,323**	$ 11,566	$ 11,813
Non-Interest Bearing Investments				
Canadian equities	**10,732**	**6,900**	11,603	7,304
Non-Canadian equities	**6,684**	**5,435**	7,134	4,678
Real estate	**4,400**	**4,257**	4,126	4,115
Resource properties	**141**	**104**	111	98
Canadian private equities	**444**	**405**	509	297
Non-Canadian private equities	**543**	**434**	229	183
	$ 22,944	**$ 17,535**	$ 23,712	$ 16,675
TOTAL INVESTMENTS	**$ 36,469**	**$ 30,858**	$ 35,278	$ 28,488

At December 31, 2000, the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

	2000 Aggregate			1999 Aggregate		
($ Millions)	**Number of Investments**	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Canadian interest bearing investments	**3**	**$ 1,177**	**$ 1,164**	6	$ 2,134	$ 2,206
Canadian equities	**3**	**2,659**	**1,182**	2	2,612	531
Real estate properties	**3**	**1,148**	**1,000**	3	1,016	915
	9	**$ 4,984**	**$ 3,346**	11	$ 5,762	$ 3,652

Canadian securities where the individual issue has a cost or fair value exceeding one per cent of the fair value or cost of total investments are comprised of interest bearing securities issued by the Goverment of Canada and equity securities issued by BCE Inc., Nortel Networks Corporation and the Royal Bank of Canada. Real estate investments above include ownership interest in the following properties, all of which are located in Ontario: Royal Bank Plaza, Square One Shopping Centre and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $2,721 million at December 31, 2000 (1999 – $2,658 million). OMERS share of the net income earned by these entities was $166 million for the year ended December 31, 2000 (1999 – $151 million) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 2000, securities with an estimated fair value of $2,845 million (1999 – $2,579 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,987 million (1999 – $2,708 million).

Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (see note 3).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Fund's holdings by geographical location of the issuer and by currency as at December 31 are as follows:

	Geographical Location		Currency	
(Millions - Canadian dollar equivalent)	**2000**	1999	**2000**	1999
Canada	**$ 26,410**	$ 25,047	**$ 26,434**	$ 25,600
United States of America	**5,046**	4,677	**5,180**	4,731
Euro zone[(1)]	**1,561**	1,962	**1,523**	1,900
Japan	**1,327**	1,419	**1,328**	1,401
United Kingdom	**967**	1,004	**952**	695
Other Western Europe	**660**	596	**660**	493
Other Pacific	**274**	262	**271**	276
Emerging Markets	**224**	311	**121**	182
	$ 36,469	$ 35,278	**$ 36,469**	$ 35,278

Canadian assets backing derivatives have been allocated to the currency of the underlying asset or index from which the derivative contract derives its value.

(1) Euro zone includes the eleven member countries using the Euro currency.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

	2000					**1999**	
	Term to Maturity						
(Millions)	**Within 1 Year ($)**	**1 to 5 Years ($)**	**Over 5 years ($)**	**Total ($)**	**Average Effective Yield**	Total ($)	Average Effective Yield
Cash and short-term deposits	**2,907**	**-**	**-**	**2,907**	**5.83%**	2,462	5.05%
Canadian bonds and debentures	**682**	**3,412**	**4,812**	**8,906**	**5.59%**	6,071	6.38%
Non-Canadian bonds	**-**	**-**	**-**	**-**	**-**	1,573	5.48%
Private debt	**7**	**40**	**252**	**299**	**8.16%**	216	7.98%
Mortgages	**177**	**506**	**730**	**1,413**	**7.34%**	1,244	8.12%
TOTAL	**3,773**	**3,958**	**5,794**	**13,525**	**5.88%**	11,566	6.19%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 30.5 per cent (1999 – 20.2 per cent) of the Canadian bonds and debentures. In 1999, non-Canadian bonds were composed of liquid and marketable government and supra national debt issues and consisted primarily of the 12 member countries of the Organization for Economic Cooperation and Development.

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and to utilize derivative financial instruments which are designed to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 3.

Note 3. Derivative Financial Instruments

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and fixed income securities portfolio. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps,** which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures,** which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.
- **Options,** which are contractual agreements by which the seller gives the right but not the obligation to a buyer to purchase (or sell) a financial instrument on or before a specified date at a predetermined price. Options may be exchange traded or transacted in the over-the-counter market.

Futures and exchange traded options are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

(Millions)	**2000** Notional Value	**2000** Fair Value Gross Assets	**2000** Fair Value Gross Liabilities	**2000** Credit Risk (replacement cost)	1999 Notional Value	1999 Fair Value Gross Assets	1999 Fair Value Gross Liabilities
Interest rate swap contracts	**$ 927**	**$ 8**	**$ (15)**	**$ 8**	$ 569	$ 4	$ –
Bond index swap contracts	**215**	**1**	**–**	**1**	56	–	–
Equity index swap contracts	**760**	**–**	**(51)**	**–**	887	96	(1)
Equity swap contracts	**67**	**–**	**(7)**	**–**	75	17	–
Equity index futures contracts	**2,860**	**5**	**(24)**	**5**	1,675	7	(3)
Bond options – written	**70**	**–**	**(3)**	**–**	–	–	–
Bond options – purchased	**335**	**5**	**–**	**5**	–	–	–
Foreign exchange forward contracts	**2,581**	**25**	**(33)**	**25**	1,140	3	(13)
Total	**$ 7,815**	**$ 44**	**$ (133)**	**$ 44**	$ 4,402	$ 127	$ (17)

All derivative instruments mature within one year except interest rate swap contracts with a notional value of $410 million that mature between 2001 and 2003 and $34 million that mature between 2005 and 2009 (1999 – $417 million that mature between 2000 and 2002).

Note 4. Other Assets

(Millions)	**2000**	1999
Long term receivables[1]	**$ 8**	$ 15
Other	**8**	8
	$ 16	$ 23

[1] Under the terms of the *OMERS Act and Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years.

Note 5. Due to Administered Pension Funds

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

Note 6. Net Assets

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	2000	1999
Assumed rate of inflation	**3.0%**	3.0%
Assumed rate of pensionable earnings increases	**4.5%**	4.5%
Assumed actuarial rate of return on plan assets	**7.25%**	7.0%

Coincident with the change in assumed actuarial rate of return, the mortality assumption was changed to incorporate assumed annual improvement in mortality rates. The net change in liabilities due to the two assumption changes was not material.

The extrapolation of the actuarial valuation to December 31, 2000, which follows, takes account of amendments made to the plan and approved by the Provincial Government up to December 31, 2000. The 1999 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1999.

(Millions)	**2000**	1999
Fair value of net assets at end of year*	**$ 35,867**	$ 34,921
Adjustment to the fair value for actuarial purposes	**(1,913)**	(3,957)
Actuarial value of net assets at end of year	**33,954**	30,964
Actuarial present value of accrued pension benefits at beginning of year	**25,462**	22,283
Interest accrued on benefits	**1,845**	1,893
Benefits accrued	**1,030**	966
Benefits paid	**(1,045)**	(1,005)
Plan amendments	**–**	3,498
Changes to actuarial assumptions	**–**	(1,848)
Experience gains	**(225)**	(325)
Actuarial present value of accrued pension benefits at end of year	**27,067**	25,462
Full earnings pension assets	**8**	9
Full earnings pension liability	**43**	42
Net liability of full earnings pension	**35**	33
	27,102	25,495
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	**$ 6,852**	$ 5,469

* Excludes full earnings pension assets

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 2000 is $1,353 million (1999 – $1,273 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act.*

As part of the ongoing surplus management efforts of the OMERS Board, a number of temporary contribution and benefit measures have been put in place, as summarized in the following table:

Provision	Permanent	Temporary	Effective Dates
Early Retirement Eligibility	10 years prior to Normal Retirement Age (NRA)	15 years prior to NRA	January 1, 1999 to December 31, 2001
Unreduced Early Retirement Factors	90 (NRA 65) or 85 (NRA 60)	80 (NRA 65) or 75 (NRA 60)	January 1, 1999 to December 31, 2001
		85 (NRA 65) or 80 (NRA 60)	January 1, 2002 to December 31, 2002
Early Retirement Reductions (if not eligible for unreduced pension)	5% per year	2.5% per year	January 1, 1998 to December 31, 2002
Contributions	6.0% of earnings to YMPE* plus 7.5% of additional earnings (NRA 65) or 7.0% of earnings up to YMPE* plus 8.5% of additional earnings (NRA 60)	0% of earnings	August 1, 1998 to December 31, 2002 (to be reviewed annually)

* YMPE – Yearly Maximum Pensionable Earnings

New proposals for further benefit changes have been made by the OMERS Board, including an increase in the lifetime pension benefit and an extension of the eligibility period for temporary improvements in early retirement benefits. If these proposals are adopted as amendments to the OMERS Regulation, the total actuarial present value of accrued pension benefits would increase by approximately $1.1 billion as at December 31, 2000.

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act of Ontario,* a wind-up valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be $31,960 million as at December 31, 2000 (1999 – $28,797 million). Under the solvency valuation, net assets are based on their fair value. As at December 31, 2000, the fair value of net assets excluding the full earnings assets was $35,867 million (1999 – $34,921 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

Note 7. Net Investment Income

a) Net Investment Income Before Allocating the Effect of Derivative Contracts

Investment income before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of $34 million (1999 – $28 million) are netted against the particular portfolio where the costs were incurred. Income (loss) from derivative financial instruments of $(371) million (1999 – $300 million) is included in the realized gains/(losses) on disposal and the unrealized appreciation/depreciation in the fair value of investments.

(Millions)	2000	1999
INCOME		
Interest Bearing Investments		
Short-term deposits	$ 153	$ 128
Canadian bonds & debentures	518	363
Non-Canadian bonds	28	81
Private debt	28	15
Mortgages	101	107
	828	694
Equity Investments		
Canadian equities	151	196
Non-Canadian equities	98	88
Resource properties	20	6
Canadian private equities	49	(6)
Non-Canadian private equities	14	2
	332	286
Real Estate Investments	294	276
NET REALIZED GAINS on disposal of investments	2,004	2,002
NET UNREALIZED APPRECIATION/(DEPRECIATION)		
in the fair value of investments	(1,378)	1,425
	2,080	4,683
Less income credited to:		
Administered pension funds	31	69
Provision for supplementary retirement benefits	16	16
	$ 2,033	$ 4,598

b) Investment Income by Major Asset Class

Investment income by major asset class, after allocating the realized and unrealized gains and losses on investments including derivative contracts, is as follows:

(Millions)	2000	1999
Interest Bearing Investments	$ 1,121	$ (153)
Equity Investments		
Canadian	1,419	2,901
Non-Canadian	(880)	1,646
Real estate Investments	420	289
	$ 2,080	$ 4,683

Note 8. Contributions

(Millions)	2000	1999
Employers, long-term receivables		
and interest thereon (note 4)	$ 4	$ 5
Transfers from other pension plans	14	8
Other contributions	12	14
	$ 30	$ 27

Effective August 1998, a contribution holiday for both members and employers was put into place. The contribution holiday is reviewed annually and an extension to December 31, 2002 has been approved. These initiatives were introduced as part of the surplus management measures discussed in note 6.

Note 9. Benefits

(Millions)	2000	1999
Members' pensions	$ 916	$ 817
Commuted value payments	87	121
Members' contributions plus interest refunded	34	57
Transfers to other pension plans	8	10
	$ 1,045	$ 1,005

Note 10. Administrative Expenditures

a) Operating Expenses

(Millions)	2000	1999
Personnel services	$ 36	$ 28
Other purchased services	15	8
Premises and equipment	10	9
Systems development purchased services	6	20
Professional services[1]	3	3
Transport and communication	3	2
	$ 73	$ 70

[1] Professional services includes actuarial costs of $ 0.5 million (1999 – $0.4 million), audit costs of $ 0.4 million (1999 – $0.3 million) and legal costs of $ 0.5 million (1999 – $0.4 million).

b) Executive Compensation

The compensation table represents disclosure of base salary, annual bonus and other compensation earned in 1998, 1999 and 2000 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus[1]	Other Compensation[2]	Taxable Benefits
Dale E. Richmond	2000	$ 310,473	$ –	$ 23,892	$ 22,048
President and C.E.O.	1999	304,431	–	9,955	20,505
	1998	298,899	54,886[3]	–	20,862
Michael Beswick	2000	$ 164,187	$ 19,982	$ 7,964	$ 9,814
Senior Vice President	1999	155,235	12,834	7,507	9,849
Pensions	1998	150,355	3,000	7,254	8,583
Wayne Gladstone	2000	$ 165,148	$ 18,982	$ 12,836	$ 11,662
Senior Vice President	1999	161,984	15,334	7,808	11,678
Finance and Administration	1998	157,907	7,500	7,693	7,056
Tom Gunn	2000	$ 274,569	$ 92,000	$ 22,840	$ 1,232
Senior Vice President	1999	268,269	65,000	21,283	1,074
Investments	1998	248,582	48,494	12,491	4,572
Gillian Platt[4]	2000	$ 84,964	$ 19,982	$ 13,330	$ 5,980
Senior Vice President	1999	142,404	16,834	1,394	10,037
Corporate Affairs	1998	127,983	10,000	1,500	7,481

[1] Based on prior year's performance.

[2] Includes vacation cash-in, lump sum performance supplements and car allowance.

[3] One-time cash buy back award.

[4] No longer employed by OMERS as of July 15, 2000.

Note 11. Commitments

As part of normal business operations OMERS enters into commitments to fund investments in the future. These commitments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2000, these commitments totalled $1.0 billion (1999 – $0.4 billion).

TEN YEAR REVIEW OF FINANCIAL DATA

($ Millions)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Investments at market (*)										
Debt	**13,525**	11,566	12,947	10,625	8,554	6,737	6,560	6,673	5,682	5,678
Equity	**18,544**	19,586	15,587	16,022	14,612	12,149	11,935	11,570	8,505	7,766
Real Estate	**4,400**	4,126	3,995	2,729	2,450	2,391	2,151	1,846	1,646	1,348
	36,469	35,278	32,529	29,376	25,616	21,277	20,646	20,089	15,833	14,792
Assets at market value (*)										
Total Fund	**35,875**	34,930	31,380	29,108	25,378	21,213	18,389	17,778	14,005	13,091
Liability for:										
Supplementary agreements	**148**	131	116	110	121	120	134	139	136	128
Administered pension plans	**528**	502	437	395	341	345	2,463	2,362	1,841	1,719
	36,551	35,563	31,933	29,613	25,840	21,678	20,986	20,279	15,982	14,938
Investment Income earned (including realized & unrealized gains)										
Basic Plan	**2,033**	4,598	2,867	3,692	4,074	2,625	310	3,363	475	1,576
Supplementary benefit agreements	**16**	16	13	11	9	11	13	8	2	2
Administered pension plans	**31**	69	39	51	55	381	44	448	106	208
	2,080	4,683	2,919	3,754	4,138	3,017	367	3,819	583	1,786
Contributions received for										
Basic plan	**–**	–	364	869	874	869	870	890	878	765
Basic plan unfunded liabilities	**30**	27	8	21	8	6	9	11	12	18
Supplementary benefit agreements	**–**	–	–	–	–	1	–	1	-	1
	30	27	372	890	882	876	879	902	890	784
Payments to members										
Pensions paid	**916**	817	761	699	661	570	491	414	373	328
Contributions and interest refunded	**121**	178	149	104	89	67	51	43	37	43
Transfers to other plans	**8**	10	10	9	6	6	4	6	13	13
	1,045	1,005	920	812	756	643	546	463	423	384
Expenditures										
Administration	**73**	70	47	40	35	33	33	31	30	24
Investment operating	**34**	28	30	24	25	22	18	16	15	13
	107	98	77	64	60	55	51	47	45	37
Total Fund annual rate of return										
Time weighted return on market value	**6.2%**	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%	3.9%	14.5%
Benchmark	**4.1%**	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%	20.5%	2.7%	14.2%
Long-term goal	**7.5%**	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%	6.0%	6.3%	8.0%

* Market Value as at December 31.

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