Going the distance

ANNUAL REPORT

2013

OMERS

Going the distance

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OMERS

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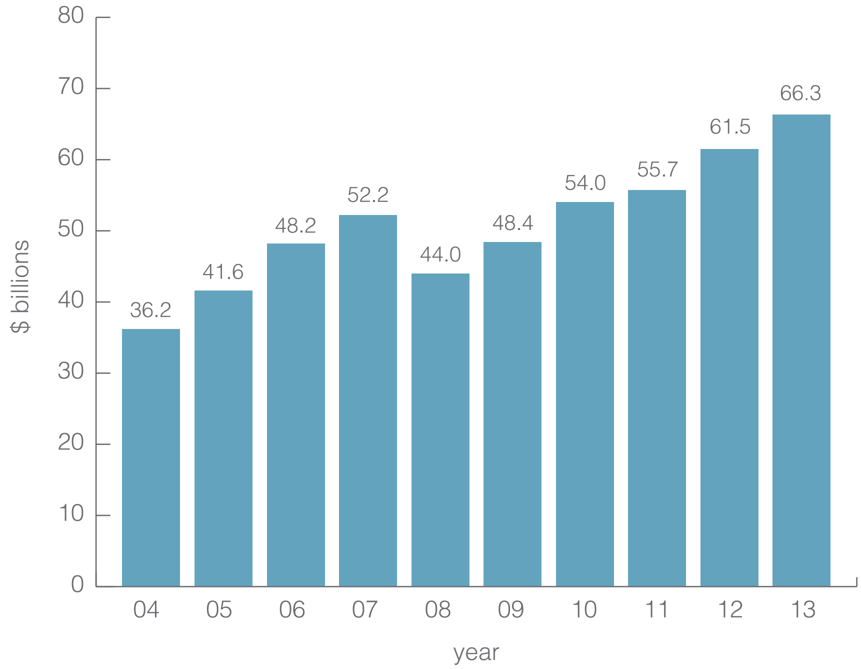


Net Investment Asset Growth of the OMERS Pension Plans

As at December 31, Market Value

OMERS Sponsors Corporation

Almost 1 in every 20 people employed in Ontario is an OMERS member

OMERS is one of Ontario's largest pension plans

$65.1 billion **net assets***

6.53% gross rate of return (net rate of return 6.00%)

OAC | SC Governed by OMERS Administration Corporation (OAC) and Sponsors Corporation (SC) Boards with representatives of employees and employers

"AAA" Triple "A" credit rating

2014 Best Employers in Canada By Aon Hewitt

One of the "Best Employers in Canada" for the sixth consecutive year

OMERS 50

In 2013, OMERS celebrated 50 years as the pension plan for local government employees across Ontario

* For the OMERS Pension Plans (the Plans). All other figures apply to the OMERS Primary Pension Plan (the Plan)

Our primary goal at OMERS is to contribute to the financial well-being of our members in retirement – today and tomorrow. That is our promise. It defines us and lives at the core of everything we do. Out of this deep responsibility to our members comes our commitment that by "going the distance" we will support OMERS members through their pension plan long into the future.

In 2013, OMERS Primary Pension Plan (the Plan) achieved a 6.53% gross rate of return generating $4 billion in total investment income. In addition, the funding deficit was reduced by $1.3 billion to $8.6 billion. The total net assets for the Plans reached $65.1 billion. The year also saw us continuing to implement changes recommended in the OMERS Governance Review 2012 – with the appointment of our first independent Chair of the Board of OMERS Administration Corporation (OAC), enhanced competencies of our Board members, and improved communication channels with our stakeholder groups.

Our objective is to return the Plan to full funding, while maintaining the sustainable growth and liquidity needed to help address the aging demographic of our membership. We are building the future of the Plan – a future that will continue to deliver on our promise to you. "Going the distance" – the theme of this year's *Annual Report* – means being strategic in our focus on the long-term health of our Plan and a solid commitment to our members.

2013 results show a $1.3 billion decline in the funding deficit

from $9.9 billion in 2012 to $8.6 billion in 2013 (as at December 31)

the Plan is on target to be fully funded by 2025

as a result of a recent benefit reduction, contribution rate changes and a long-term investment approach

the OMERS Sponsors Corporation (SC) Board sets:

- ✓ contribution rates
- ✓ benefits

$3.5 billion received

in contributions from members and employers in 2013

$2.9 billion paid

in benefits to members and survivors in 2013

patient and disciplined investment approach

to continue to expand our globally diversified portfolio

direct ownership and active management

of investments helps to produce superior, risk-adjusted returns and reduces costs

better public-private asset balance

helps to protect the Plan against public-market volatility

focus on long-term returns

provides sustainable growth and sufficient liquidity to fund pensions today and tomorrow

capital-raise initiatives

such as the Global Strategic Investment Alliance (GSIA) program, Additional Voluntary Contributions (AVCs), plan consolidation and OMERS Investment Management (OIM) investment contracts are targeted to increase assets under management

proactive stakeholder outreach

provides accurate and timely information and seeks engagement and input on Plan issues

client-focused philosophy

drives improvements in processes and systems, such as more direct delivery of services to members – providing members with more financial options, while simplifying employer administration

2013 client services stats

194,500
phone calls to/from OMERS client services

$28,300
average annual pension for newly retired member

19,400
pension benefit claims processed

1,785
member presentations and information sessions delivered

Going the distance...

...maintaining the financial health of the Plan

...ensuring the alignment of costs and benefits of OMERS Pension Plans

...growing the fund through investment expertise and innovation

...achieving ongoing excellence in investment performance and services

governance improvements

resulted in the appointment of George Cooke, OMERS first independent OMERS Administration Corporation (OAC) Board Chair in 2013, and enhanced competencies for the OAC Board

...responding to member and stakeholder needs

...to deliver on the pension promise.

Letter from OMERS Administration Corporation

Rick Miller

Board Chair, OMERS Administration Corporation

It is our responsibility as OAC Board members to act in the best interests of the OMERS Primary Pension Plan (the Plan). Throughout 2013, we identified and advanced a number of key Board priorities that, together, reflect our ongoing focus on the long-term health and well-being of the OMERS Plan. Everything we do enables us to ensure we are prepared to go the distance and keep the pension promise to Plan members.

In 2013, we reaffirmed OMERS strategic direction for the next five years. Our strategic beliefs are supported by an innovative and robust strategic plan. For the past five years, this plan has been our roadmap to transforming OMERS into a cohesive and disciplined business enterprise that is equipped to compete and prosper in the upheaval of an uncertain global economic environment. We have continued on our trajectory of shifting capital from more volatile capital markets to private market investments and directly owning and actively managing investments instead of retaining external fund managers. By staying the course on our strategy, we are building a strong balance sheet that will enable the Plan to withstand market volatility threats to our assets, maintain growing cash flows and preserve capital. Our strategy maintains that our financial future continues to rest on our four core investment platforms – Oxford, Borealis, OMERS Private Equity and OMERS Capital Markets – which, together, give us a robust asset base to deliver returns to the Plan. We would like to acknowledge the work of senior management in an investment environment full of challenges.

We announced at year's end that Michael Latimer will become President and CEO effective April 1, 2014. The retirement of Michael Nobrega is the final step in a succession planning process that began in 2010 and we anticipate a smooth transition as a result of the strength, experience and knowledge of OMERS gained by his successor over the past several years. Michael Nobrega has had a positive, lasting impact on OMERS. Under his leadership since 2007, our investment strategy has evolved significantly. We opened offices in London, New York and Calgary in order to better access domestic and international markets and opportunities. We formed OMERS Strategic Investments with a mandate to build strategic relationships with like-minded institutional investors and business partners. As part of our capital growth strategy, we are managing pension funds of other organizations and offering the Additional Voluntary Contribution program to our members. Many of these innovations, which have led to a stronger and more stable balance sheet, are now being emulated by other pension funds throughout the world. Thank you, Michael, for a job well done and for always putting OMERS first. You will be missed.

Members want assurances that their pensions are secure and that returning the Plan to fully funded status is job one. A focus throughout 2013 has been to continue our efforts to return the Plan from deficit to surplus over the long term. Over time, defined benefit pension plans like OMERS will cycle through periods of surplus and deficit. When a plan's estimate of its long-term pension obligations is greater than the value of its net assets, it is considered to be in a funding deficit. It is important to understand that this deficit is not like an annual budget shortfall, but rather is a projection reflecting benefit payment cash flows over the next 70 or 80 years to OMERS current members. At its core, the deficit calculation is an indicator that allows us to see into the future and adjust our strategies well before significant issues arise.

Over the past two years, the OAC Board and the OMERS Sponsors Corporation (SC) Board have been addressing the 2012 OMERS Governance Review, which was mandated in 2006 when the Province of Ontario created a new independent governance model for OMERS. We have made significant progress in a number of areas including the appointment of an independent OAC Board Chair and improving communications and engagement with our sponsors and stakeholders.

The close of 2013 brought some significant changes to the membership of the OAC Board. We would like to sincerely thank David O'Brien, Fred Biro, David Carrington and Laurie Nancekivell for their many contributions over their tenure. We welcome returning Board member Bill Aziz and new Board members Darcie Beggs, Lloyd Komori, Bill Butt and Laurie Hutchinson.

In 2013, we also engaged with the SC Board to develop for 2014 and beyond joint initiatives focusing on a long-term funding strategy for the Plan, enhanced stakeholder and sponsor communications, and membership growth. The completion of these initiatives will position the Plan for success in the years ahead.

As a final comment, it has been my great privilege to serve on the OAC Board, both as a member and Chair, for almost 17 years. I look forward to watching continued progress on the things that matter most to our members as OMERS keeps the pension promise!

Thank you,

Rick Miller
March 18, 2014

Letter from the OMERS Sponsors Corporation

Marianne Love
Board Co-Chair, OMERS Sponsors Corporation

Brian O'Keefe
Board Co-Chair, OMERS Sponsors Corporation

Throughout 2013, your SC Board continued to take the appropriate action to preserve the health and sustainability of the OMERS Pension Plans (the Plans) for the benefit of active and retired plan members. We took steps to significantly improve our governance, strategic planning processes and our communications and engagement with stakeholders.

Health & Sustainability of the Plan

In 2010, as plan sponsors, we took action to preserve the integrity of the OMERS Primary Pension Plan (the Plan) by reducing benefits and raising contribution rates to fully fund the Plan by 2025. This year, we filed a funding valuation with the Financial Services Commission of Ontario that confirmed that we were on track to return to fully funded status.

The strength of equity markets during 2013 may have raised expectations for 2013 investment returns. The investment return for 2013 of 6.00 percent (net of investment expenses), fell short of the minimum net return target of 6.50 percent.

While OMERS investment return may not have met expectations, it was sufficient, when combined with some actuarial gains and contributions, to result in an improvement in our funded status. As of the December 31, 2013 funding valuation, the Plan's actuarial liabilities were $73.0 billion and actuarial assets were $64.4 billion leaving a funding shortfall of $8.6 billion and a funded ratio of 88 per cent. Projections show that our current contribution rates are sufficient to pay down that deficit in 10 to 15 years.

While each individual year's results are important, OMERS investment strategy is designed to perform over longer timeframes. The 5- and 10-year rate of returns exceed the 6.50 percent minimum net rate of return required to match assets with liabilities over the long term.

However, historical returns may not be replicable going forward. The long-term financial health of the OMERS pension plans continues to be challenged by the impacts of longevity, lower interest rates and market volatility. Your SC will continue to examine plan design options to better position the Plans to withstand unforeseen external events.

Plan Funding, a Joint Responsibility

Members and employers are jointly responsible for keeping the Plans funded, but there is a limit to how much Plan members and their employers are willing to pay.

Members are already contributing on average close to 11 per cent of their contributory earnings to the Plans, an amount matched by their employers (21.3 percent combined), an unprecedented high for OMERS. Any additional economic or demographic challenges may force us to make difficult choices since there is limited capacity to increase contributions any further.

During 2013, the SC considered five proposals to address funding challenges by reducing Plan benefits. After careful consideration by the SC Board with respect to the short- and long-term impact on members and employers, the proposals were not approved by the Board.

Shortly thereafter, the SC Board began examining a range of potentially acceptable options to enhance the Plans' health and sustainability and started to identify the circumstances under which benefit changes might be required. Work will continue on this important initiative in 2014.

Strengthening our Governance Practices

We hold the view that an organization with good governance practices is better positioned to make high-quality decisions ensuring its success. We therefore welcomed the 2012 OMERS Governance Review and have made it an organizational priority, working with the OAC Board and management, to address each recommendation to strengthen OMERS governance.

Specifically, we created a fifteenth seat on the OAC Board for an Independent Board Chair and worked with the OAC Board to appoint George Cooke as the organization's first Independent Board Chair.

At the same time, we added new capacity requirements and term limits for OAC directors and worked with the OAC Board and sponsor organizations to seek seven candidates that meet these new requirements.

We would like to thank the sponsor organizations for their contribution and commitment to this process. The result is a Board comprised of members with the diversity of skill, experience and competency to oversee a complex pension services and investment organization which we believe will deliver and sustain value for the Plan. Director compensation was also revised to complement these changes.

With respect to our own Board, in 2013, we engaged in our own strategic planning exercise and intend to have our multi-year plan in place in 2014.

Paul Bailey, Wayne McNally and Bruce Miller were reappointed to the SC Board. With the departures of Mark Ferguson and Garth Pierce from our Board, we welcomed two new directors: Fred Biro, a former OAC director, appointed by the Ontario Association of Police Services Boards, and Tim McGuire, appointed by CUPE Local 79 to occupy the seat that rotates between CUPE Locals 416 and 79. On behalf of all SC Board members, we welcome Fred and Tim and express our thanks to Mark and Garth for their commitment and service to the SC Board.

Working Together with the Administration Corporation

OMERS is greater than the SC or OAC. Within our respective mandates we must work collaboratively to ensure our focus remains on a shared vision for the Plans.

Throughout 2013, we continued our strong collaboration on board governance and embarked on the development of the first-ever joint strategic plan. The strategic plan will articulate OMERS high-level goals and principles including funding and communications and engagement strategies. Our shared vision will guide strategic planning, decision-making and will result in closer alignment of the OMERS Boards on the three levers we use to manage the Plans: benefit design, contribution rates and investments.

Improving our Communications and Stakeholder Engagement

Through the 2012 OMERS Governance Review, we were reminded again that engaging a broad range of stakeholders better informs our decision-making, results in more meaningful dialogue, strengthens our relationships and helps us deliver on our commitments as the SC.

We engaged in frank discussions with a broad range of stakeholders on their communications and engagement needs, demonstrating the power of open and transparent communication. Working with the OAC, we introduced a new electronic newsletter late in the year which is designed to keep our member and employer organizations better informed and able to keep their own constituents up-to-date with factual information.

Going forward, we intend to consult more widely before making decisions that impact members and employers, reaching beyond our official sponsor organizations to other stakeholders directly affected by our decisions.

In Closing

We would like to thank our fellow SC Board members and the small but talented team of SC employees for their continued dedication and commitment to working on behalf of all OMERS members and employers. We remain committed to working together to ensure the health and sustainability of the OMERS Plans and to fair and sustainable solutions to the funding challenges we face.

Marianne Love and Brian O'Keefe
March 18, 2014

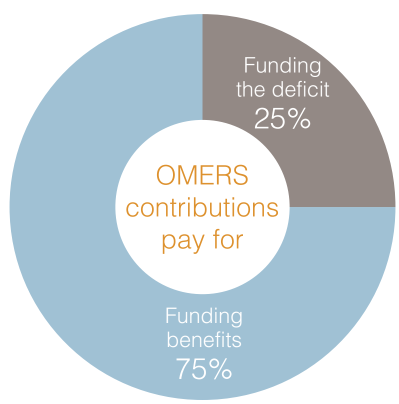
Plan Funding

The Plan's funding deficit at the end of 2013 stands at $8.6 billion, down from $9.9 billion a year earlier. Measures are in place to help reduce the deficit. In 2013, the SC acknowledged that contribution rates are at an unprecedented high and its ability to further increase contribution rates is limited. It has begun exploring benefit reduction options and identifying events that would indicate when Plan changes are needed. Options are reviewed every year through the Specified Plan Change process.

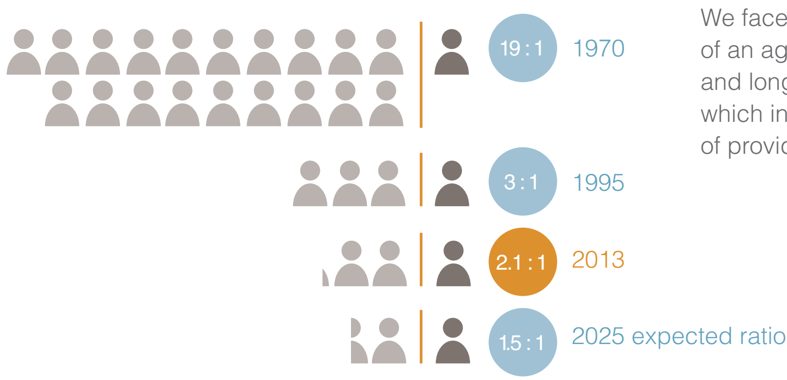
Plan Contribution Rates in 2013

Normal retirement age 65	On earnings up to CPP earnings limit*	9.0%
	On earnings over CPP earnings limit*	14.6%
Normal retirement age 60	On earnings up to CPP earnings limit*	9.3%
	On earnings over CPP earnings limit*	15.9%

* $51,100 in 2013

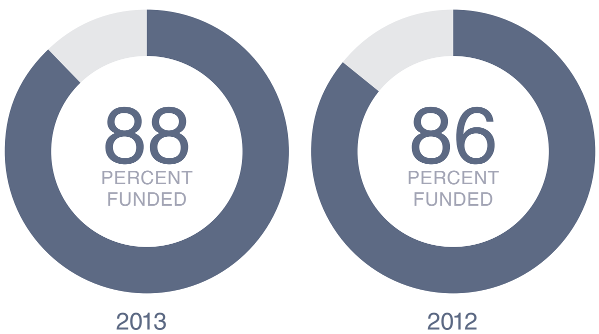


Ratio of Active-to-Retired Members



We face the challenge of an aging membership and longer retirements, which increases the cost of providing benefits.

Funded Ratio



Funded Status*

As at December 31,

* excludes AVC

Strong Governance

OMERS current governance model was created in 2006 by the *Ontario Municipal Employees Retirement System Act, 2006*, which established two Boards with independent mandates. The SC Board has authority over the structure and type of benefits provided to members, contribution rate levels and the composition of the two Boards. The OAC Board is responsible for pension administration, investment strategy, investments and preparation of the Plan valuation. When the governance model was established in 2006, a process for reviewing the new model in 2012 was mandated in the *Ontario Municipal Employees Retirement System Review Act, 2006*.

In early 2013, the report on the 2012 OMERS governance review was released by the Ontario government with recommendations for improvement. The OMERS Boards worked together throughout 2013 to review the recommendations and implement changes, as appropriate. Important changes were made in 2013, including improved communications and engagement efforts with OMERS stakeholder groups, the introduction of mechanisms to improve OAC Board capacity, and the establishment of an Independent Board Chair (IBC) position for the OAC Board. Significant among these efforts was the announcement of Mr. George Cooke as the first-ever IBC on October 1, 2013, as well as the appointment of five new members to the OAC Board through a new competency-based appointment process.

The two Boards will continue to work together through 2014 to address the remaining recommendations including those related to the establishment of a joint strategic plan.

OMERS Investment Strategy – 2013 Highlights

OAC began to transform the investment strategies of the Plan in 2004, with the decision to reduce public market investments from 82% of the total fund to approximately 53% over time, and increase private market investments from 18% to approximately 47%. A second priority was to shift from a concentration of assets in Canada to a more global approach, and a third priority was to directly own and actively manage virtually all investments. The overriding objective of these strategic priorities is to earn more reliable and consistent investment returns to match assets with liabilities over the long term.

An Expanding Global Footprint Through Borealis Infrastructure

Borealis' strategy involves pursuing investments with like-minded investors and strong operating partners as a direct equity investor requiring meaningful ownership and governance rights. Transactions in 2013 resulted in invested and committed capital of more than $3 billion, furthering Borealis' strategy along with OMERS broader strategic goal of achieving greater global diversification.

Significant Transactions in 2013

- NET4GAS, the exclusive operator of the high-pressure gas transmission and transit system located in the Czech Republic, operating more than 3,800 km of natural gas pipelines in Europe.
- Fortum Distribution Finland, the largest electricity distribution system operator in Finland with over 600,000 customers across the country, representing a greater than 20% market share.
- CML HealthCare, a laboratory and medical-imaging business based in Ontario. The combined businesses of LifeLabs, an existing investment, and CML HealthCare now provide high-quality service to 19 million patients annually and employ approximately 5,400 people.

Creating Long-term Value with Oxford Properties Real Estate Portfolio

Oxford's strategy is to add core properties in its key markets through acquisitions and development activity, while upgrading its portfolio through the sale of more seasoned assets. In 2013, Oxford implemented its strategy through the execution of 38 transactions valued at $4.3 billion – including acquisitions, dispositions and commitment to new development projects in each of its vertically integrated platforms in Canada, the US and Europe. Oxford's broad expertise as an asset owner and manager with a robust development pipeline is a clear demonstration of OMERS active management investment strategy.

Significant Transactions in 2013

- Acquired the City of London's landmark shopping centre, Royal Exchange.
- Along with partner Brookfield Properties, signed a pre-let agreement with Schroders for the development of 1 London Wall Place, which marked the largest pre-let agreement in the City of London since 2010.
- Signed a joint venture agreement with Crown Estates, which manages the Queen of England's property portfolio, to redevelop an office and retail complex in London's St. James Market district.
- Construction of the Coach Tower started in the 26-acre, mixed-use Hudson Yards Redevelopment Project in Manhattan.
- Purchased a stake in flagship Manhattan retail and office building 650 Madison Avenue.
- Acquired a 50% interest in the 1.5 million square foot Les Galeries de la Capitale shopping centre in Quebec City.
- Announced the development of Eau Claire Tower, an approximately 600,000 square foot, 25-storey, Class AAA, LEED Gold office tower in downtown Calgary.
- Commenced construction of the new 900,000 sq. ft. EY Tower at 100 Adelaide St., Toronto.
- Expanded Oxford's industrial portfolio in Western Canada by approximately one million sq. ft.

A Strong Year for OMERS Private Equity (OPE) Investments

Realizing Returns to Pay the Pension Promise

OPE invests in businesses with strong market positions and management teams that have well-defined growth plans and prospects. In 2013, OPE set out to add to its portfolio with at least three new platform investments, further diversifying the Plan's exposure to private market assets. Through four very successful asset monetizations, OPE also demonstrated the efficacy of the direct investment model – a key aspect of the broader organization's strategic plan.

Significant Acquisitions in 2013

OPE invested $1.1 billion in the following three companies:

- UK-based Vue Entertainment, one of the largest cinema operators in the world.
- Civica, a market leader in systems and business-process-services software for the public sector, based in the U.K.
- Texas-based Caliber Collision Centers, the largest independent provider of automotive collision repair services in the U.S.

Major Dispositions in 2013

OPE realized $1.7 billion from the following dispositions ($0.5 billion of which was received in January 2014):

- United States Infrastructure Corporation, the leading North American provider of outsourced utility locating services – acquired by OPE in 2010.
- Nordco, the leading provider of maintenance-of-ways equipment and services to North American Class 1 railways – acquired by OPE in 2009.
- Maxxam Analytics, Canada's leader in analytical services and solutions – acquired by OPE in 2008.
- Shares representing about one half of the 15% shareholdings in Constellation Software, which completed an initial public offering in 2006.

Managing Risk in the Public Markets

OMERS Capital Markets (OCM) Implements Diversified, Risk-Balanced Strategy

Restructuring the public markets portfolio to earn more consistent long-term returns is the final piece of the total fund investment strategy and was put in place by OCM in 2013.

Like most pension plans, OCM historically invested 60% in equities and 40% in bonds. While a 60/40 portfolio appears diversified in allocating capital, it actually has 95% of its risk allocated to equities. As a result, the 60/40 portfolio does well when stock markets increase, as occurred in the 1990s and periodically since, but suffers substantial losses when stock markets fall. Replacing the highly concentrated equity approach with diversified, risk-balanced strategies has a higher probability of earning the level of consistent long-term returns required to meet the pension promise.

Building New OMERS Investment Positions

Further Diversifying the Plan's Income Streams

After successfully launching the Global Strategic Investment Alliance, which, to the date of this report, has raised $11.25 billion for infrastructure investing, OMERS Strategic Investments (OSI) continues to build equity positions for OMERS in non-traditional asset classes. The portfolio includes OSI-owned companies that manage oil and gas properties in Western Canada, new technology and other innovative businesses and airports around the world. These and other assets generated strong portfolio returns in 2013. OSI is planning entry into other non-traditional sectors and its activities are attracting capital partners globally.

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Going the distance

OMERS ADMINISTRATION CORPORATION

2013

OMERS
Administration Corporation

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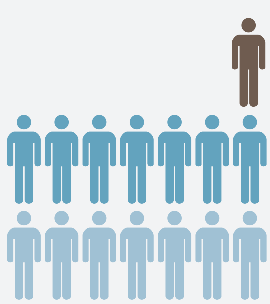
OMERS Administration Corporation (OAC)

is responsible for pension services and administration, investments and Plan valuation.

OAC's purpose begins with our core fiduciary responsibility to act in the best interests of our members – a stewardship that defines us and that lives at the core of everything we do.

OAC Board consists of:



one independent board chair

seven plan member representatives

seven employer representatives

Letter from the President and CEO

Michael Nobrega

President and CEO
OMERS Administration Corporation

A pension plan like OMERS Primary Pension Plan (the Plan) has many different time horizons for measuring how we are meeting the pension promise to Plan members. On the one hand, we live in the very short term, tracking public market investments by the hour, responding to the informational needs of stakeholders every business day, paying pensions every month and producing an annual report at the start of each year to put the past year in perspective. On the other hand, much of what we do proves its value over a long time – the rolling 70-year actuarial valuation of assets and liabilities to measure full funding, the three-year cycle to file with the regulator and confirm contribution rates and, most importantly, investment strategies designed to earn reliable and consistent returns over decades.

In 2013, we put in place the last piece of the Plan's investment strategies to bring greater consistency and strength to long-term investment returns. A more diversified and better-balanced portfolio for investing in public markets was constructed in 2013 as the culmination of a process that began in 2009 in response to concerns about the Plan's exposure to highly volatile stock markets. Today, we invest every new dollar equally between public market assets (stocks, bonds, commodities and such) and private market assets (income-producing real estate, infrastructure and private equity). One powerful outcome is that private market assets, representing 43% of the total fund, are generating predictable, sustainable and consistent long-term returns. In 2013, private market assets earned $3.8 billion and over the past five years contributed $12.5 billion to the Plan.

To achieve the same consistency in public markets, we have built what is known as a beta portfolio to capture market returns from a wide selection of global asset classes and geographies. We have also implemented an alpha portfolio to find and exploit market opportunities to earn cash returns in any market in the world. Replacing the concentrated equity approach with diversified risk-balanced strategies creates a much higher probability of earning the level of consistent long-term returns that the Plan requires. Unfortunately, an unexpected spike in interest rates in May and June 2013 disrupted the rebalancing of the beta portfolio and was the prime reason why our public market teams earned only $200 million in 2013, although they contributed $9.2 billion to the Plan over the past five years. It is difficult, of course, to pick a perfect time to undertake such a major portfolio restructuring and the timing of implementation is not critical to long-term returns. We now have a long-term strategy that balances portfolio risks to the drivers of capital market returns, namely growth and inflation. I urge readers to review the section “Strategies for Investing in Public Markets” starting on page 29 of the Management Discussion and Analysis.

OMERS scored several other notable accomplishments in 2013. One is a $1.3 billion reduction in the actuarial funding deficit to $8.6 billion, the first reduction since the 2008 global credit crisis. Contributing to the smaller deficit were the recognition of investment gains since 2008 under the Plan’s policy of smoothing gains and losses over five years, higher employer and employee contribution rates and lower annual inflation than the independent actuary assumed.

An innovative accomplishment is the steady progress we have made in raising third-party capital so that the Plan has access to sufficient funds to continue acquiring large-scale private market assets that generate reliable and superior long-term returns. The OMERS-sponsored Global Strategic Investment Alliance (GSIA) program expects to raise approximately $12 billion by mid-2014 to invest in global infrastructure assets. In 2013 alone, we also raised over $500 million from Canadian pension plans through contracts invested in our infrastructure and real estate portfolios. As well, funds raised from Plan members under our Additional Voluntary Contribution, past service buy-back and asset transfer programs reached close to $500 million.

OMERS Administration Corporation (OAC) has matured as a diversified and pro-active organization in administering the Plan, investing the pension fund and advocating pension matters. Effective oversight is an increasingly demanding challenge. The OMERS Sponsors Corporation and OAC, working together rose to the challenge by appointing George Cooke as the first Independent Board Chair on October 1, 2013. This governance innovation will be strengthened over the next two years by the transition of the OAC Board to members with experience in investing, finance, pensions, corporate governance and other professional competencies relevant to plan administration, funding and investing.

Many challenges lie ahead, such as managing the investment return expectations of Plan members and sponsors. The long-dated liabilities of the Plan require prudent long-term investment strategies that can generate consistent and stable returns for many decades. Another challenge is pension reform that comes around once every generation and shapes the retirement landscape for another two or three decades. OMERS must maintain a seat at the table with federal and provincial governments in protecting the value of defined benefits against ill-informed critics and by offering solutions for workers lacking pension security. In all of this, OAC has established professionalism and innovation in everything we do and demonstrated leadership in the Canadian pension industry, as we continue to secure the long-term financial sustainability of the Plan. OMERS employees are a large part of what makes us successful. We have supported each other and together have built an organization that is world-class.

Finally, a timing issue that we all face at some point is that of retirement. Rick Miller retired from the OAC Board at the end of 2013 after serving for almost 17 years. I want to wish Rick well and personally thank him for his dedication and commitment to OMERS and for bringing his practical, “down to earth” solution-oriented approach to the issues of the day. On the same topic, I am proud to say that on April 1, 2014 I shall join the ranks of OMERS retirees. As I pass the mantle to my successor, Michael Latimer, OAC’s Chief Investment Officer, I am reminded that delivering the pension promise extends far beyond the term of any single Chief Executive Officer. I am confident that the initiatives taken under my watch, including enhanced governance, prudent and evidence-based investment strategies, international expansion, increased capital under management and membership growth, map an optimistic future for the Plan. I am confident that the investment strategies now in place will be the foundation of OMERS continued success.

Thank you for the privilege of serving as your President and Chief Executive Officer for the past seven years.

Michael Nobrega
March 18, 2014

Governance: OMERS Administration Corporation

Under the *Ontario Municipal Employees Retirement System Act, 2006*, which was proclaimed into force in June 2006, OMERS Administration Corporation (OAC) is responsible for pension administration, valuation of the accrued pension obligation and investment of the pension funds.

Corporate and Board Governance

Effective and transparent pension plan governance is the foundation that allows OMERS to fulfill its pension promise to its members. Throughout its 50-year history, OMERS has continuously sought to achieve high standards in governance, as evidenced by its Governance Vision, Mission and Supporting Principles, which were updated in 2013 after a review led by the Governance Committee.

Governance Vision

The governance vision of OAC is to be globally regarded as a leader in pension plan governance.

Governance Mission

The governance mission of OAC is the pursuit and maintenance of world-class pension plan governance in the interest of its Plan members.

Principles

The updated Vision and Mission are supported by seven Principles, which set out in greater detail how OAC intends to achieve its Vision and meet its Mission. These Principles are:

- High-Performance Board

  OAC will be governed by a high-performance Board chosen through a robust consultative process involving the Sponsors Corporation (SC) and Sponsor Organizations and designed to ensure overall Board competence, team effectiveness and alignment with the strategic direction of the Corporation.

- Fiduciary Role

  OAC Directors and senior management are committed fiduciaries who act in a prudent, diligent and even-handed manner with the highest level of integrity and candour.

- Accountability

  Accountability is a fundamental governance principle at OAC. Clear accountabilities for the OAC Board, its committees and Management promote effective decision-making.

- Independence

  OAC will be governed by a Board that is comprised of Directors who act in a manner which is independent of Management and Sponsor Organizations and always in the interests of the Plan members.

- Leadership

  OAC's leaders, who will work within a diverse and inclusive culture, will be chosen for their fundamental belief in strong governance, their expertise and their professionalism.

- Disclosure

  OAC will follow leading standards of disclosure and transparency in its operations, investments and other activities so that Plan members and other stakeholders are able to readily understand its business, strategies and priorities.

- Governance Reporting

  OAC will regularly examine its governance practices using an independent review process, and the results of the review will be made available to OMERS stakeholders.

Key Board Responsibilities

The OAC Board has many important responsibilities, as outlined in the OAC Board Mandate which can be found on our website. The key responsibility of the OAC Board is to set the overall course of OAC, including its investment direction and objectives, and to ensure that the pension services for which it is responsible are executed effectively and efficiently. It also actively oversees financial reporting and actuarial matters such as the annual valuation of the liabilities of the OMERS Pension Plans (the Plans). The OAC Board approves the strategic planning process followed by OAC as well as the Strategic Plan prepared by the management team. The OAC Board also delegates to Management responsibility for day-to-day business activities including a number of other important functions such as compliance, internal controls and talent management. With respect to these delegations, the role of the OAC Board is to monitor Management and to ensure that its activities remain consistent with the longer term vision, objectives and directional framework set by the OAC Board.

Other key specific responsibilities of the OAC Board include identifying and appointing the Chief Executive Officer (CEO) of OAC as well as assessing the performance of the CEO. Compensation of Management is also set by the OAC Board.

OAC Board Governance

Many policies and practices are in place to support OAC's commitment to leading governance practices and Board performance including:

- Governance Manual that is available on our website;
- comprehensive OAC Board development program that includes external director certification and an internal orientation in OAC Board operations and governance;
- external auditor independence policy;
- detailed Code of Conduct covering areas such as conflict of interest, fiduciary duties and privacy and confidentiality;
- personal and insider trading policy which requires OAC Board members, senior management and applicable employees to pre-clear their personal trading;
- requirement that members of the Audit Committee meet the standard of financial literacy; and
- transparency and accountability processes including regular meetings with members of the Plans and other stakeholders, as well as timely and accurate print and electronic communication of developments. Summaries of OAC Board and committee decisions are published on the OMERS website.

In 2013 the OAC Board spent considerable time dealing with implementation of the recommendations contained in the Reviewer's Report: Ontario Municipal Employees Retirement System (OMERS) Governance Review 2012. The results of that effort include:

- the appointment of the first independent Chair of the OAC Board in OMERS 50-year history. George Cooke was appointed as OAC Board Chair on October 1, 2013 after a thorough and collaborative process with the SC; and
- the appointment of five new OAC Board members who bring to the boardroom table a diverse range of experience and expertise. The appointment process reflects an enhanced nomination process, working with the SC and the Sponsor Organizations, with a view to addressing the broader needs of the OAC Board as a whole.

Further details on OAC's governance practices can be found in the OAC Governance Manual that is available at www.omers.com.

OAC Board Membership

The process for selecting OAC Board members is established by the SC in its By-law No.13, which names specific Sponsor Organizations that have the right to nominate individuals to be considered by the SC for appointment to the OAC Board. According to SC By-law No. 13, in addition to the new 15th member who serves as the independent OAC Board Chair, the OAC Board is comprised of 14 members who are nominated by the following organizations:

- Association of Municipalities of Ontario (2 members);
- Canadian Union of Public Employees (Ontario) (2 members);
- City of Toronto (1 member);
- Electricity Distributors Association (1 member);
- Ontario Association of Children's Aid Societies (1 member);
- Ontario Association of Police Services Boards (1 member);
- Ontario Professional Fire Fighters Association (1 member);
- Ontario Public Service Employees Union (1 member);
- Ontario Secondary School Teachers' Federation (1 member);
- Police Association of Ontario (1 member);
- Retiree Group – appointed from among the Municipal Retirees Organization of Ontario, the Police Pensioners Association of Ontario, the Police Retirees of Ontario and the Retired Professional Fire Fighters of Ontario (1 member); and
- School boards (1 member) (rotation between public and Catholic associations).

OAC Board Appointments

The OAC Board appoints the CEO, who is not a member of the OAC Board, as well as the OAC's independent auditor and external actuary responsible for pension plan valuation and related matters. The OAC Board has its own independent external counsel to provide legal advice to the OAC Board when conflict matters arise.

OAC Board Practice

The OAC Board has regular *in camera* meetings without Management present. The OAC Board also conducts regular evaluations of its performance at the end of meetings as well as annually. It regularly reviews the critical competencies it needs to oversee the affairs of OAC and serve the interests of Plan members. Working with the SC, these competencies have been added as an important enhancement to SC By-law No. 13.

OAC Board Remuneration and Expenses

The remuneration paid to OAC Board members is determined by SC By-law No. 6. In early 2013, the SC reviewed its by-law and made several interim adjustments, changing the compensation so that the Chair receives total compensation of $70,000 per annum while the chairs of committees receive an annual retainer of $38,500 per annum and other members receive an annual retainer of $30,800. No separate meeting fees were payable in 2013. These arrangements are interim; a new compensation approach will be implemented in 2014 reflecting the SC's assessment of a competitive compensation arrangement, while recognizing the public interest component of service on both the OAC and SC Boards.

An OAC Board member who serves as a member of the Appeals Panel is also entitled to receive the applicable annual retainer payment plus an additional meeting fee of $750.00 for each day of attendance at a hearing, provided s/he is present for the full hearing while in session, regardless of the duration of the hearing on any given day.

The table on page 8 includes remuneration paid to OAC Board members as well as other eligible expenses in 2013, with comparable numbers for 2012.

OAC Board Committees

In 2013, the OAC Board had four standing committees which assisted the OAC Board in discharging its responsibilities.

The OAC Board also uses sub-committees from time to time to deal with special situations.

Governance Committee

The Governance Committee annually reviews the mandates of the OAC Board and its committees. It has oversight of the OAC Board orientation and education programs. It is also responsible for implementing periodic internal assessments of the OAC Board's performance. It recommends changes to OAC governance where required to address effectiveness issues; assesses the competency requirements of the OAC Board; and recommends the skills and experience needed for the OAC Board. The Governance Committee is also responsible for reviewing relevant policies relating to governance, including an OAC external communications policy. In 2013, the Committee provided overall oversight of OAC's response to the 2012 Review.

Audit Committee

The Audit Committee assists the OAC Board in fulfilling its oversight responsibilities for the:

- integrity of the financial reporting process and financial statements;
- system of internal controls and the review of the disclosure of financial information;
- system of risk management and fraud risk management;
- internal audit process;
- external audit of the financial statements;
- organizational processes for monitoring compliance with laws and regulations and the Code of Conduct; and
- Ethics Hotline (whistle-blower process) and special investigations.

Human Resources Committee (HRC)

The purpose of the Human Resources Committee is to assist the OAC Board in meeting its fiduciary oversight and related obligations by:

- attracting, engaging and retaining excellent leadership at the senior executive level who are committed to the OAC Mission Statement, Core Values and Leadership Principles;
- overseeing a robust succession management process for the position of CEO; and
- overseeing senior executive performance, compensation and compensation policies.

Member Services Committee (MSC)

The Member Services Committee assists the OAC Board in meeting its fiduciary oversight and associated obligations in relation to Plan funding and pension administration policies and strategies, and in discharging its related monitoring, compliance and risk mitigation responsibilities. The Committee ensures oversight of management activities in key areas of pension services and administration, which includes approving pension innovation and strategic matters, overseeing the work of the external actuary and recommending the annual actuarial valuation, including assumptions and methods, to the OAC Board and reviewing OAC communication strategies, material administration projects and changes to pension legislation/regulations. The Committee also acts as the final internal appeals body for determinations by the President governing benefit entitlements under the Plans.

Appeals Panel

The Appeals Panel is drawn from the MSC to serve as an appeals tribunal for Plan members who are appealing decisions of the President and CEO (or his delegates) regarding their pension benefit entitlements. The Appeals Panel hears evidence and renders decisions in these appeals. It retains independent external counsel to assist in its deliberations.

OAC Joint Council Sub-Committee (JCSC)

The OAC Joint Council Sub-Committee, comprising four members of the OAC Board, has been mandated by the OAC Board to participate as the OAC Board's representation on the OAC/SC Joint Council. The OAC/SC Joint Council was formed following the execution of the Framework Agreement with the SC in 2009 as a venue in which to address matters of importance to either party with respect to oversight and governance of the Plans, including the Framework Agreement.

OAC Board Attendance

OAC Board and Committee meeting attendance in 2013 is as detailed on page 9.

OAC Board Remuneration and Expenses

	2013 Remuneration	2013 Expenses (i)	2012 Remuneration	2012 Expenses (i)
Cooke, George (ii)	**$ 37,500**	**$ 1,598**	$ —	$ —
Miller, Rick (iii)	**70,000**	**95,558**	70,000	73,118
Baker, Monty	**35,800**	**4,382**	30,800	23,926
Beatty, David	**30,800**	**33,224**	—	—
Biro, Fred	**35,800**	**29,906**	32,300	19,916
Butt, Bill (iv)	**923**	**—**	—	—
Carrington, David	**30,800**	**688**	37,300	2,894
Crocker, John (v)	**987**	**—**	—	—
Faber, Richard	**35,800**	**60,539**	35,800	32,147
Fenn, Michael	**30,800**	**24,578**	—	—
Nancekivell, Laurie	**30,800**	**9,986**	30,800	26,172
O'Brien, David (vi)	**15,400**	**71**	35,800	12,503
Phillips, James	**35,800**	**21,560**	35,800	22,469
Sabo, John	**30,800**	**49,141**	30,800	22,216
Swimmer, Eugene	**35,800**	**22,457**	30,800	26,248
Vandenberk, Sheila	**35,800**	**19,711**	37,300	22,982
Weatherup, John	**35,800**	**12,928**	30,800	8,891
Former Board Members	**—**	**2,303**	71,600	45,135
Other Expenses (vii)	**—**	**140,508**	—	146,425
Total	**$ 529,410**	**$ 529,138**	$ 509,900	$ 485,042

(i) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred on behalf of OAC. These Board expenses by Directors are reported to the Audit Committee annually.
(ii) OAC Board Chair effective October 1, 2013.
(iii) OAC Board Chair from January 1 to September 30, 2013, Vice Chair effective October 1, 2013.
(iv) OAC Board member effective December 18, 2013.
(v) OAC Board member from November 20 to December 4, 2013.
(vi) Retired from OAC Board on July 1, 2013.
(vii) Other expenses include Board group meeting expenses not allocated by individual.

2013 Board/Committee Meetings

Director [i]	Board		Audit Committee	Governance Committee	Human Resources Committee	Member Services Committee	Joint Council	Committees(Total)		Overall Attendance	
	Attended	%	Attended	Attended	Attended	Attended	Attended	Attended	%	Attended	%
Baker, Monty	15/18	83%	4/4 (Chair)			7/7		11/11	100%	26/29	90%
Beatty, David	17/18	94%		4/10	4/5			8/15	53%	25/33	76%
Biro, Fred	16/18	89%					6/6 (Chair)	6/6	100%	22/24	92%
Carrington, David	17/18	94%	4/4			5/7		9/11	82%	26/29	90%
Cooke, George [i] [iv]	3/3 (Chair)	100%	1/1	3/3	2/2	3/3	2/2	11/11	100%	14/14	100%
Faber, Richard	16/18	89%		9/10	5/5			14/15	93%	30/33	91%
Fenn, Michael	18/18	100%	4/4		5/5			9/9	100%	27/27	100%
Miller, Rick [iii] [iv]	18/18 (Chair & Vice Chair)	100%	4/4	10/10	5/5	7/7	6/6	32/32	100%	50/50	100%
Nancekivell, Laurie	17/18	94%		9/10		6/7		15/17	88%	32/35	91%
O'Brien, David	4/10	40%			0/2			0/2	0%	4/12	33%
Phillips, James	17/18	94%		9/10 (Chair)			6/6	15/16	94%	32/34	94%
Sabo, John	18/18	100%		8/10				8/10	80%	26/28	93%
Swimmer, Eugene	18/18	100%	4/4			6/7		10/11	91%	28/29	97%
Vandenberk, Sheila	17/18	94%				7/7 (Chair)	6/6	13/13	100%	30/31	97%
Weatherup, John	15/18	83%	4/4		5/5 (Chair)			9/9	100%	24/27	89%
Overall Attendance		**91%**	**100%**	**83%**	**90%**	**91%**	**100%**		**90%**		**91%**

(i) OAC Directors also attended other discretionary meetings such as the Spring and Fall Information Meetings, Joint Education Sessions with the SC, New Board and Committee Member Orientation Sessions and in-house education sessions.
(ii) OAC Board Chair effective October 1, 2013
(iii) OAC Board Chair from January 1 to September 30, 2013, Vice Chair effective October 1, 2013.
(iv) Ex officio member for Audit, Governance, HRC and MSC.

Management Certification on Financial Reporting

OAC maintains systems of internal control that are designed to ensure the integrity and fairness of the data presented in the Consolidated Financial Statements, that transactions are duly authorized and that assets are adequately safeguarded. Consistent with our commitment to strong corporate governance and accountability, we complete an annual internal review of internal controls over financial reporting and disclosure controls using a framework derived from the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This review is conducted under the oversight of the Audit Committee on a basis comparable with the requirements for public companies in Canada while taking into account the unique characteristics of a pension plan. OAC Management reports to the Audit Committee with the assertion to the effect that internal controls over financial reporting provide reasonable assurance that all material transactions and events are presented in the OAC's consolidated financial statements and management discussion and analysis and the 2013 review found no material weaknesses with respect to these controls.

Proxy Voting

We own shares in numerous publicly traded companies around the world. Share ownership carries with it important rights and responsibilities, including the right to vote shares at company meetings.

The proxy vote is an important asset of a pension fund. We exercise our ownership rights by voting proxies diligently in a manner intended to maximize the long-term value of our investments.

We believe that well managed companies with strong governance practices will generally contribute positively to long-term investment returns. Conversely, poorly managed companies with poor governance practices are more likely to increase the risk of not achieving positive long-term investment returns.

Our proxy voting guidelines contain general statements about how OMERS is likely to vote on a particular issue. These are not completely rigid positions, and we may consider extenuating circumstances that might call for a different vote than a specific guideline suggests. This may include taking into account different regulatory or corporate governance regimes and customary practices in different jurisdictions.

Our proxy voting guidelines and our voting record for the Canadian and U.S. markets can be found on our website.

Proxy Voting Guidelines

OMERS understands the different roles and responsibilities of shareholders, directors and management in the corporate governance system. Accordingly, when OMERS exercises its voting rights, it does not seek to manage the companies in which it owns shares. OMERS considers its vote an important tool by which it can express its views and influence management and the board of directors over the way in which the corporation is being managed and overseen.

Our proxy voting guidelines are based on a number of key principles, including:

Board of Directors

Good corporate governance practices should be followed to encourage effective and independent boards.

Executive and Director Compensation

Executive compensation should be reasonable, performance-based and structured in a manner that aligns management with the long-term interests of shareholders.

Takeover Protection

Shareholder rights plans should permit the board and management to respond to takeover offers in a manner that enhances long-term shareholder value.

Shareholder Rights

Share structures should support the basic principle linking voting to equity ownership on the basis of “one share, one vote”.

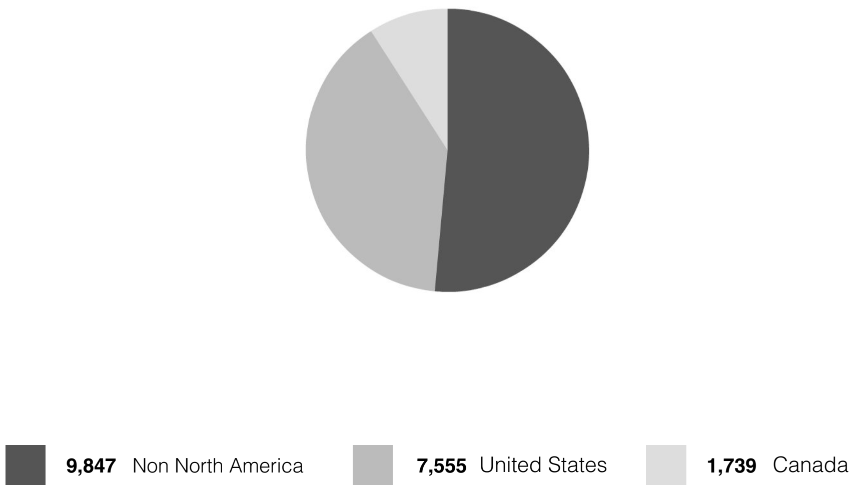
Environmental, Social and Governance

High ethical and environmental standards and respect for their employees, human rights and the communities in which they do business contribute to long-term financial performance.

Proxy Votes

During 2013, we voted on a total of 19,141 items covering 1,909 shareholder meetings globally. In Canada, we voted on 1,739 items in 141 shareholder meetings. Outside of Canada, we voted on 7,555 items in the U.S. and 9,847 items outside of North America at 1,768 shareholder meetings.

Proxy Items Voted



Senior Management Team

OMERS Corporate Management Team is committed to the growth and sustainability of the OMERS Pension Plans for today…and tomorrow.

1 Warren Bell
Executive Vice President and Chief Human Resources Officer

2 Ana Caçoilo
President, OMERS Investment Management

3 Jacques Demers
President and CEO
OMERS Strategic Investments

4 Paul G. Renaud
President and CEO
OMERS Private Equity

5 G. Blair Cowper-Smith
Executive Vice President
Corporate Affairs and Chief Legal Officer

6 Rodney Hill
Executive Vice President
and Chief Auditor

7 James Donegan
President and CEO
OMERS Capital Markets

8 Blake Hutcheson
President and CEO
Oxford Properties Group

9 Jonathan Simmons
Executive Vice President
and Chief Financial Officer

10 Michael Nobrega
President and Chief
Executive Officer

11 Michael Latimer
Executive Vice President
and Chief Investment Officer

12 Jennifer Brown
Executive Vice President
and Chief Pension Officer

13 Patrick Crowley
Executive Vice President
and Chief Operating Officer

14 Michael Rolland
President and CEO
Borealis Infrastructure

OMERS
Administration Corporation

OAC Board Members

The OAC Board is the administrator of the OMERS Pension Plans (the Plans). It has 15 members: 14 members nominated by employer and employee sponsors, plus an Independent Board Chair.

The OAC Board is responsible for:

- appointing and overseeing the OAC management team
- establishing investment and funding policies, asset allocation and investment management of the Plans' assets
- overseeing pension services, administration and Plan valuation
- appointing the OAC auditors and the actuary for the Plans.

Rick Miller,
Chair (Jan - Sep 2013)
Vice Chair (Oct 2013)

George Cooke,
Chair (Oct 2013)

Michael Fenn

Laurie Nancekivell

Monty Baker

David Beatty

Frederick Biro

William (Bill) Butt
(Dec 2013)

David Carrington

Richard Faber

David O'Brien
(Retired Sep 2013)

James Phillips

John Sabo

Eugene Swimmer

Sheila Vandenberk

John Weatherup

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2013 Management Discussion and Analysis

OMERS Administration Corporation ("OAC") is the administrator of the OMERS pension plans (the "OMERS Pension Plans" or the "Plans") as defined in the Ontario Municipal Employees Retirement System Act, 2006 (the "OMERS Act"). The OMERS Pension Plans include OMERS Primary Pension Plan (the "Primary Plan" or the "Plan"), the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (the "RCA") and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). Additional Voluntary Contributions ("AVCs") are offered to Plan members as part of the Primary Plan. OAC is responsible for managing the plans and funds of the Plan, the RCA and the Supplemental Plan (collectively, the "Fund" or the "Funds"). The Funds are managed by the following entities: OMERS Capital Markets (public markets investments, mortgages and private debt), OMERS Private Equity (private equity), Borealis Infrastructure (infrastructure), Oxford Properties Group (real estate) and OMERS Strategic Investments (strategic investments from any asset class) (collectively, the "Investment Entities"). This Management Discussion and Analysis is the responsibility of the management of OAC ("Management") and contains Management's analysis of the Plan's financial condition, operational results and the environment in which they operate as of February 20, 2014. This section should be read in conjunction with the OAC Consolidated Financial Statements. The Audit Committee and Board of Directors of OAC (the "Board") have reviewed and approved the contents of this Management Discussion and Analysis.

In addition to historical information, this section contains forward-looking statements with respect to Management's strategy, objectives, outlook and expectations. Forward-looking statements can be identified by use of words such as "believe", "expect", "may", "could", "intend", "continue" or "estimate" or variations of such words and phrases or statements that certain actions, events or results "may" "could", "would", "might" or "will" be taken or achieved. By their very nature, such statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent Management's views at the date of this report and OAC does not undertake to update or revise any forward-looking statements as a result of new information, future events or otherwise.

We use certain financial measures that are not based on IFRS ("non-IFRS based financial measures"), including Funding Deficit as key metrics in our financial reporting to enable our stakeholders to better understand the performance of our business. Other non-IFRS financial measures that we use include performance returns by asset class and Assets Under Management. These non-IFRS financial measures do not have any standardized meaning and may not be comparable with similar measures used by other companies. They should not be viewed as an alternative to measures of financial performance determined in accordance with IFRS.

This report is not intended for U.S. persons. Interests in the Plan are not and will not be offered or sold in the United States or to or for the account of U.S. persons as defined by U.S. securities laws.

Many factors affect the Plan's performance including changes in market conditions and interest rates and in response to other economic, political or financial developments. Investment returns and values will fluctuate. Past performance is not a guide to or indicative of future results.

Amounts in millions of Canadian dollars except where otherwise noted.

Overview of OMERS Pension Plans and Investment Organization

The OMERS Organization

Established in 1962, the Ontario Municipal Employees Retirement System ("OMERS") provides defined pension benefits to local government employees throughout Ontario. The OMERS Primary Pension Plan is a jointly sponsored, multi-employer pension plan with approximately 1,000 employers and 440,000 plan members. Employers range from large cities, including Toronto, to numerous local agencies with only a handful of employees. Plan members include union and non-union municipal workers; police, firefighters and paramedics; the non-teaching staff of school boards; and employees of children's aid societies, transit systems and electrical utilities.

Plan members and employers contribute equally to the Plan and share equally in funding gains or losses. With $73.0 billion of pension obligations and net assets of $64.4 billion, the Plan ended 2013 with a funding shortfall of $8.6 billion, compared with a shortfall of $9.9 billion in 2012. Subject to investment returns, the Plan should return to surplus position between 2021 and 2025.

In 2006, Ontario legislation replaced the Ontario government as sponsor of the Plan with a statutory corporation called the OMERS Sponsors Corporation ("SC") and continued the administrator as a statutory corporation called OMERS Administration Corporation ("OAC"). The SC and OAC each has its own mandate and board of directors.

OMERS Sponsors Corporation

The SC is responsible, among other duties, for plan design, including setting benefit levels and contribution rates. The 14 members of the SC Board are nominated by designated groups representing employers and Plan members.

OMERS Administration Corporation

OAC is responsible, among other duties, for administration of the Pension Plans, preparation and approval of the actuarial valuations and investment of the pension funds. OAC is governed by a board of directors consisting of 14 members nominated equally by sponsors representing employers and sponsors representing Plan members. As a result of the implementations of key recommendations of the scheduled review of the OMERS Act in 2012 by Tony Dean (who was appointed by the Minister of Municipal Affairs and Housing in May 2012), the SC Board and the OAC Board worked collaboratively to appoint an independent Board Chair for the first time in 2013 as the 15th OAC Board member.

Pension Plans

The OMERS Pension Plans include the OMERS Primary Pension Plan, the Retirement Compensation Arrangement for the OMERS Primary Pension Plan and the Supplemental Plan for Police, Firefighters and Paramedics as follows.

OMERS Primary Pension Plan

There are two components to the Plan. The Plan's defined benefit component pension payments are integrated with the Canada Pension Plan as the benefit formula includes a "bridge" benefit if the member retires before age 65. Including this bridge benefit, the benefits paid under the Plan are calculated by multiplying two per cent of the member's average annual earnings for the highest paid 60 consecutive months ("pensionable earnings") times years of credited service to a maximum of 35 years. At age 65, the bridge benefit of 0.675 per cent of the pensionable earnings (or 0.675 per cent of the average of the yearly maximum pensionable earnings in the year of retirement and the four preceding years, if this amount is less than 0.675 per cent of the pensionable earnings) is subtracted for integration with the Canada Pension Plan. The Plan also provides members with:

- in certain circumstances, inflation protection up to 6% per year with any inflation amount above that carried forward to subsequent years;
- early retirement options;
- disability protection in the event a contributing member becomes disabled and is unable to work;
- survivor benefits; and
- portability options on termination.

The additional voluntary contribution ("AVC") component of the Plan, a voluntary retirement savings arrangement exclusively available to the members of the Plan, continues to gain momentum. Since its launch in 2011, AVCs have grown to $276 million by the end of 2013 compared to $170 million at the end of 2012. Almost 10,000 members of the Plan have thus far made voluntary contributions. Options for AVCs include automatic contributions on a biweekly or monthly basis and lump sum transfers from registered retirement saving vehicles. AVC contributions earn the net investment return (gain/loss) of the Plan.

The Plans's financial statements are set out in Note 8 to the Consolidated Financial Statements.

Retirement Compensation Arrangement for the OMERS Primary Pension Plan

In addition to the Plan for all members, the RCA provides pension benefits for members whose pension benefits under the Plan are limited by ceilings imposed by the *Income Tax Act* ("ITA"). The RCA provides a means to enable retirement savings and contributions on additional earnings. As the RCA is not a registered pension plan, a 50% refundable tax is levied by the Canada Revenue Agency ("CRA") on all contributions made to the RCA as well as on investment income received and realized investment gains. The refundable tax is held by the CRA and earns no investment income for the RCA. The refundable tax is refunded on the basis of one dollar for every two dollars of realized losses or benefits paid out. The RCA is consolidated in OAC's financial statements and is accounted for separately from the Plan. OAC invests the RCA assets, excluding the refundable tax and a small cash balance, in public equities separate from the Plan. Net assets of the RCA were $101 million at December 31, 2013 and $78 million at December 31, 2012. The RCA financial statements are set out in Note 9 to the Consolidated Financial Statements.

OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics

The Supplemental Plan became effective on July 1, 2008, pursuant to the requirements of the OMERS Act. The Supplemental Plan is a separately funded stand-alone multi-employer pension plan that provides supplemental pension benefits that "top up" those available under the Plan for members who are employed in the police and fire sectors which, as defined in the OMERS Act includes paramedics.

The Supplemental Plan is a contributory defined benefit pension plan funded by equal contributions from participating employers and members and by the investment earnings of the Supplemental Plan assets. Participation in the Supplemental Plan is effective only upon agreement between employee groups and their employer. As at December 31, 2013 and 2012, the Supplemental Plan had no assets and no members.

OMERS Investment Organization

OAC has five core investment platforms that execute the investment strategies within the regulatory framework of a fiduciary responsible for prudently investing other people's money. The investment strategies are implemented under the oversight of the OAC Board and senior management, consistent with a rolling five-year enterprise-wide strategic plan that is updated, reviewed and approved annually. The total investment enterprise has the executive leadership, corporate culture and in-house expertise to compete as a principal investor, implement robust risk and other management policies and procedures and comply with international best standards of financial reporting and disclosure. As a principal investor, OAC is committed to directly owning and actively managing the vast majority of investments.

OMERS Chief Investment Officer ("CIO") is responsible for the investment strategy and operational leadership of four core investment platforms referred to as OMERS Investment Entities. OMERS Capital Markets ("OCM") manages all public market investments and Oxford Properties Group ("Oxford"), OMERS Private Equity ("OPE") and Borealis Infrastructure ("Borealis") manage private market investments. These organizations are discussed in greater detail in The Funds section of this annual report.

In addition, OMERS Strategic Investments, the fifth core platform, leads certain corporate strategic initiatives and builds strategic investment platforms to position OMERS as a leading global pension-based investment enterprise. Its mandate is discussed in the The Funds section in this annual report.

In addition, the following corporate entities support the activities of the Investment Entities:

OMERS Investment Management, established in 2009, offers investment arrangements that provide Canadian public and private sector pension plans, governments and their agencies, colleges, universities and their endowments, and Canadian registered charities with access to all or parts of the annual investment return of the OMERS Primary Plan.

OMERS Finance Trust, established in 2010 issues debt in the capital markets under the OMERS brand and provides an alternative source of funding to other Investment Entities within the OMERS group. In doing so, it follows prudent leverage practices and carries the OMERS brand when it raises debt in the capital markets. Debt securities currently issued by OMERS Finance Trust have an OMERS guarantee and are rated "AAA" by two credit rating agencies.

OAC Investment Summary

Achieving the right balance to earn consistent returns

OAC invests globally with assets diversified by geography, economic sector, risk exposure, asset class and income stream. The focus is to earn consistent total fund returns over the medium term (5 years) and longer term (10 years), recognizing that the performance of public markets can be highly uncertain in any single year. Long return horizons smooth out short-term results to align market value assets with extremely long-duration accrued pension benefits. A detailed discussion of OAC's strategic plan is outlined in the Enterprise-Wide Strategic Plan section of this annual report.

The investment strategies implemented at the total fund level involve:

- generally, investing approximately half of each new dollar in public market assets and half in private market assets to balance volatile liquid publicly-traded securities with stable and relatively predictable illiquid privately owned assets;
- prudent use of economic leverage in public markets and financial leverage in private markets to mitigate risk and enhance returns; and
- investing in non-traditional pension fund asset classes to earn sustainable recurring long-term returns.

All investment platforms have expanded their global reach to diversify risk and returns beyond the historical concentration in Canada. Canada is an attractive market but represents less than 3% of world market capitalization and is vulnerable to short-term swings in global commodity prices. Tapping into the economic cycles of different economies offsets overexposure to a relatively small domestic market. In 2013, 52.7% of the Plan's gross assets were invested outside Canada, compared with less than one-third historically.

Working toward this balanced approach has contributed $21.7 billion of cumulative investment income to the Plan in the five years since the 2008 global credit crisis and stock market meltdown. The 8.41% (7.85% net) five-year gross annualized return was substantially above the 7.00% (6.5% net) return estimated by the Plan’s independent actuary as being necessary on an ongoing basis to eliminate the current funding deficit and match assets and liabilities over a longer period of time. Our 10-year gross annualized return was 7.64% (7.14% net). Current year returns are discussed in the "Current year returns at a glance" section on the next page.

OMERS Capital Markets

OMERS Capital Markets manages approximately 57% of the Plan’s assets which are in public markets and include a portfolio of bonds and other interest-bearing assets, publicly traded equities in Canadian and global financial markets as well as currency and commodity positions. Managing the risk created by volatility and high degree of uncertainty requires us to position OAC’s capital markets portfolio to improve earnings power and deliver more consistent returns. This is further discussed in The Funds section of this annual report.

Private market investments are a key contributor to OAC’s strategy to secure consistent and reliable long-term returns. Today, 43% of the Pension Plan net assets are invested in the private markets and managed on behalf of OAC by four investment platforms. The private market assets that OAC prefers are illiquid compared with stocks and bonds. OAC believes that owning these assets long term compensates for illiquidity by delivering strong cash flows and value gains over time, and as such these assets are a good match for the Pension Plan’s liabilities.

Borealis Infrastructure

Borealis Infrastructure is the infrastructure investment arm of OAC. Borealis identifies, pursues and manages investments in large-scale infrastructure businesses on behalf of OAC and other large institutional investors and has assets under management exceeding $20 billion. The infrastructure portfolio consists of assets that are generally protected by revenue, inflation and other guarantees which generate reliable income that is an ideal match with the Pension Plan’s long-term liabilities. Recent deals include equity positions in a Czech Republic natural gas transmission operator; a Michigan-based gas co-generation plant; expansion of Canada’s LifeLabs medical testing clinics through a major acquisition; and four U.S. wind farms. Bruce Power, Canada’s largest nuclear power generation facility and the Pension Plan’s largest single investment, returned to full operating capacity in 2013 as the result of follow-on investments by Borealis and its co-investment partner.

Oxford Properties

Oxford Properties invests on behalf of OAC in a portfolio of high-quality income-producing properties in world-class cities in Canada, the United States and Britain with assets under management exceeding $24 billion. The Oxford portfolio is a reliable source of investment income. Oxford carefully manages leasing risk within the portfolio. Currently, the properties in the portfolio are close to being fully leased with contract terms averaging eight to ten years and leases staggered to avoid a disproportionate amount of renegotiations in any given year. More than 15 major development projects are underway in Toronto, Calgary, Vancouver, London, New York City and Washington. Recent deals include a joint venture to develop London's upscale St. James Market district; co-development of a major office property in London's financial district; acquisition of a prestigious shopping plaza in London; development of a major bank tower in downtown Toronto; and co-development of 12 million square feet of multi-use space in New York's Manhattan.

OMERS Private Equity

OMERS Private Equity focuses on acquiring, on behalf of OAC, majority ownership of private companies in North America and Europe. Today it has assets under management exceeding $7 billion. Recent investments include UK-based VUE Entertainment, one of the largest cinema operators in the world; Civica Group, also headquartered in the U.K., a leading provider of systems and business process services software for the public sector; and Caliber Collision Centers, a U.S.-based leader in providing auto collision services. The investments are expected to be owned for 4 to 7 years and this year completed the exit of three companies which resulted in a combined annual compound return in excess of 40 per cent and over four times the amount of the capital invested.

OMERS Strategic Investments

OMERS Strategic Investments has assets under management of $3 billion, consisting of a Calgary-based oil and gas production company that produced the largest portion of investment income in the OSI 2013 portfolio as natural gas prices began to recover; a U.S.-based global airport management company; and a Canadian technology venture capital firm. OSI also forms relations with like-minded institutional investors around the world to invest with Borealis in large-scale infrastructure assets.

Current year returns at a glance

Investment returns for the Plan and RCA for 2013 and 2012 based on investment income before external manager fund and performance fees and investment management expenses were as follows:

Returns and Benchmarks

For the year ended December 31,	**2013**		2012	
	Rate of Return	**Benchmark** (iii)	Rate of Return	Benchmark (iii)
OMERS Capital Markets	**0.47%**	**7.00%**	7.50 %	8.74% (iv)
OMERS Private Equity	**23.55%**	**38.23%**	19.17 %	22.09%
Borealis Infrastructure	**12.44%**	**9.00%**	12.68 %	8.60%
Oxford Properties	**14.33%**	**7.25%**	16.91 %	7.15%
OMERS Strategic Investments	**9.14%**	**8.10%**	(10.13)%	8.70%
Total Private Markets	**15.50%**	**14.88%**	13.79 %	11.38%
Total Primary Plan Fund (i)	**6.53%**	**10.16%**	10.03 %	9.75%
RCA Investment Fund (ii)	**29.11%**	**30.20%**	11.84 %	12.21%

(i) Investment Entity returns reflect the results of the Plan's currency hedging related activities with external counterparties
(ii) Excludes the RCA refundable tax balance with the Canada Revenue Agency. Including the refundable tax balance, the RCA rate of return was 13.94% (2012: 5.47%).
(iii) See description of benchmark in this section below
(iv) The benchmark for OMERS Capital Markets in 2013 was an absolute return benchmark. For 2012 the OMERS Capital Markets benchmark was a blend of bond and equity indices.

The Plan achieved a gross return of 6.53% in 2013 behind the benchmark of 10.16% largely resulting from significantly lower returns in public markets. Our private market investments produced returns of 15.50% exceeding the benchmark by 62 basis points, demonstrating the effectiveness of the asset mix and direct drive management components of the Strategic Plan. The Plan's net return for 2013 was 6.00% (2012: 9.50%).

The individual Investment Entity returns are discussed in greater detail in The Funds section of this annual report.

Benchmark Returns

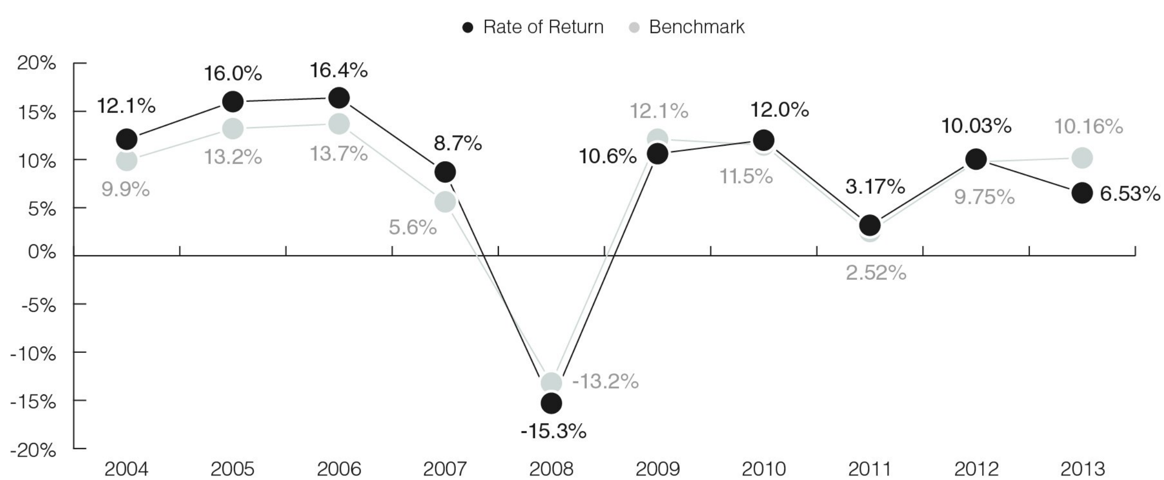
We measure the performance for OMERS Capital Markets, Borealis Infrastructure, Oxford Properties and OMERS Strategic Investments against an absolute return benchmark set at the beginning of each year by the OAC Board. The benchmark for OMERS Private Equity for 2013 was set by the Board using a blended composite as described in the table below. Owing to the inherent difficulties of developing an appropriate benchmark for a specific portfolio of assets, OPE will be moving to an absolute return benchmark starting 2014. We develop a benchmark for total investment activities by aggregating and weighting the individual benchmarks for each entity. Our goal is to earn returns that equal or exceed these benchmarks. The benchmarks used are as follows:

Entity	Benchmark
OMERS Capital Markets	Absolute return of 7.00%
OMERS Private Equity	Hedged aggregate of Global Russell Indices adjusted for geographic and sector exposures, plus a fixed rate component (Mezzanine Debt) plus an illiquidity and leverage premium.
Borealis Infrastructure	Absolute return of 9.00%
Oxford Properties	Absolute return of 7.25%
OMERS Strategic Investments	Absolute return of 8.10%
Total Fund (i)	Weighted Average blend of Investment Entity benchmarks
RCA Investment Fund	Weighted Average blend for the RCA Investment Fund is 5% DEX 30-Day T-Bill + 23.75% S&P/TSX 60 Composite + 23.75% MSCI All World Europe, Asia, Pacific + 47.50% MSCI USA All Cap.

(i) The Total Fund return is measured against a Canadian dollar denominated composite benchmark produced by aggregating returns from each of the policy entity benchmarks, using the Fund's asset mix policy weight.

Annual Rate of Return and Benchmark

For the year ended December 31,



Investment Management and Pension Administration Expenses

Administrative expenses are incurred for direct pension administration, direct investment management and corporate services. Direct pension administration expenses are incurred to provide services to OMERS members and employers. Direct investment management expenses represent those of the Investment Entities managing OMERS investments. Corporate services expenses primarily include corporate information systems, accounting, legal and other governance expenses incurred to support either the pension administration or the investment management functions. These are allocated between pensions and investments based on an estimate of the use of resources.

Investment management expenses increased slightly to $266 million in 2013 from $265 million in 2012. Investment management expenses, including external manager performance and fund fees recorded in investment income, represent an investment management expense ratio of 53 basis points (49 basis points excluding performance fees) for the year ended December 31, 2013 compared to 53 basis points (51 basis points excluding performance fees) for 2012. Pension administration and corporate support expenses were $57 million for the year, compared with $56 million for the previous year.

Net Assets of the Plans

Net Assets

as at December 31,		2013		2012
Net investment assets	**$**	**66,334**	$	61,467
Net pension related assets		**271**		205
Amounts payable under contractual agreements		**(1,524)**		(905)
Net Assets	**$**	**65,081**	$	60,767

Net assets increased by $4,314 million, or 7.1%, compared with an increase of $5,684 million, or 10.3% in 2012. The increase in 2013 was driven primarily by investment returns from all investment categories and the excess of contributions over benefits payments and pension administration expenses.

Changes in Net Assets

for the year ended December 31,		2013		2012
Net assets, beginning of year	**$**	**60,767**	$	55,083
Changes due to investment activities		**3,637**		5,200
Changes due to pension activities		**677**		484
Net Assets, End of Year	**$**	**65,081**	$	60,767

Assets Under Management

Attracting and managing capital on behalf of third-party co-investors enables us to mitigate risk by investing in a greater number of large-scale assets and provides the benefit of cost sharing. Assets under management ("AUM") were $100.2 billion at December 31, 2013, compared to $88.1 billion at December 31, 2012 and have grown by nearly 57% since December 31, 2008, at the height of financial crisis when AUM were $64 billion.

Assets Under Management

(billions) As at December 31,		2013		2012
Net Assets	**$**	**65.1**	$	60.8
Add back:				
Consolidated debt		**8.9**		8.5
Debt in controlled investments		**9.5**		8.0
Third-Party Capital (i)		**8.9**		7.4
Other liabilities		**7.8**		3.4
Total Assets Under Management	**$**	**100.2**	$	88.1

(i) Represents third parties' gross share of equity where OMERS has economic control and holds more than 50% of such investments and funds administered on behalf of other pension plans.

Plan Asset Mix

Asset Class Allocation

In determining the Funds' asset mix exposure, the market value of cash and other investment-related assets and liabilities included in net investment assets as set out in the Consolidated Financial Statements is allocated to the individual asset classes. In addition, derivative exposure and other items, including transactions and balances between Investment Entities, amounts payable under OMERS Return Agreements are allocated to arrive at the Plans' ultimate exposure by asset class. The difference between fair value of net investment assets and exposure primarily represents economic leverage. Exposure is further adjusted by amounts under overlay programs, which have been discussed in the OCM section of this annual report. Net investment assets based on the holdings as set out in the Consolidated Financial Statements and after all allocations are as follows:

Asset Mix – Exposure

			2013			2012
as at December 31,	**Fair value**	**Exposure**	**Asset Mix %**	Fair value	Exposure	Asset Mix %
Public markets (iii)	**$41,709**	**$37,683**	**57.4**	$37,472	$36,754	59.8
Investment related assets	**119**			284		
Investment related liabilities (ii)	**(6,310)**			(2,396)		
Total public markets	**35,518**	**37,683**	**57.4**	35,360	36,754	59.8
Private Markets						
Private equity	**9,208**	**9,097**	**13.8**	7,465	7,460	12.1
Infrastructure	**13,533**	**9,817**	**14.9**	11,572	9,092	14.8
Real estate	**17,603**	**9,112**	**13.9**	15,846	8,130	13.3
Total Private Markets	**40,344**	**28,026**	**42.6**	34,883	24,682	40.2
Investment related assets	**625**			569		
Investment related liabilities (ii)	**(10,153)**			(9,345)		
Net Investment Assets	**$66,334**	**$65,709**	**100.0**	$61,467	$61,436	100.0

(i) Includes short-term deposits, bonds and debentures, mortgages and private debt

(ii) Includes OAC debt, amounts payable under the securities lending program, securities sold under repurchase agreements, accounts payable and other liabilities.

(iii) Includes credit investments not managed by OCM of $236 Million (2012: $336 million)

Debt

OAC has an “AAA” credit rating from two leading credit rating agencies. This has enabled us, where appropriate, to support, through the provision of guarantees, OMERS Finance Trust, and Investment Entity debt, financing at preferred rates to support our investment strategy. Recourse debt includes $1,951 million (2012: $999 million) of debentures and $1,921 million (2012: $2,401 million) of commercial paper. Other debt is secured by specific investments. Consolidated total debt has increased to $8,942 million in 2013 compared to $8,461 million in 2012. Increased borrowing was incurred to finance the acquisition of certain real estate assets by Oxford Properties group.

The Funds

The Funds had net investment assets of $66,334 million at December 31, 2013 (2012: $61,467 million). To meet the pension promise to about 440,000 members of the Plan, we must earn a net 6.5% annual return over the long term (or 4.25% real rate of return when anticipated inflation is excluded). This expected return assumption is set by an independent actuary retained by the Board and is based on the asset mix policy set by the Board.

The long-term asset mix policy is to invest 53% in public markets and 47% in private markets. At the end of 2013, 57.4% was invested with exposure to public markets and 42.6% with exposure to private markets. Public market assets are predominantly publicly traded equities and interest bearing securities. Private market investments are private equity assets and income-producing infrastructure and real estate assets.

The investment target and asset mix policy are reviewed formally at least once a year by the Board with input on future liability changes, economic assumptions and investment expectations from actuarial, financial and economic specialists. The goal is to ensure that the value of invested assets, accumulated through investment income and net contributions from employers and Plan members, matches or exceeds the present value of accrued pension obligations over multiple decades during which markets will go through many positive and negative cycles.

The Board has delegated responsibility for achieving the target return and achieving the Board-approved public/private market asset mix to Management. Management has developed a Board-approved rolling five-year enterprise-wide strategic plan that, among other things, is committed to creating surplus wealth for the Plan above the long-term investment target so as to absorb impact of future volatility. The Board is updated on the progress of the initiatives of the strategic plan at each board meeting with a thorough and extended review conducted at an annual strategic planning session. The strategic plan is discussed in the Enterprise-Wide Strategic Plan section of this annual report.

Investment Strategy

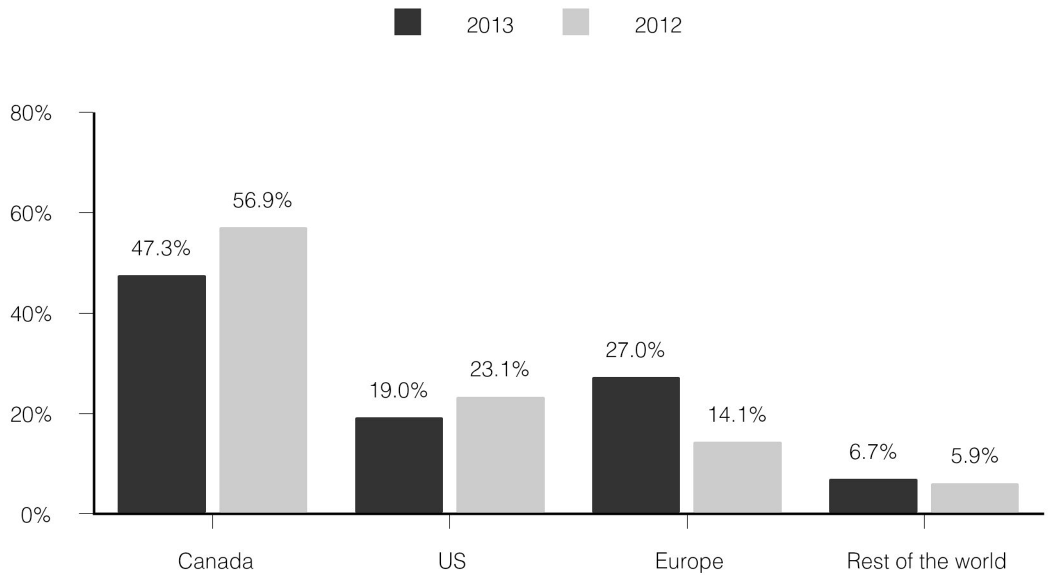
Two cornerstones of the investment strategy are to invest directly in the ownership of public and private market assets and to actively manage these ownership interests to mitigate risks and optimize long-term returns.

The Board believes that active asset management produces superior risk-adjusted returns compared with passive fund investing. This involves originating investments through proprietary research; purchasing assets at prices that should result in long-term value and strong predictable cash flows; developing relationships with like-minded business and investment partners for private market investments; structuring ownership interests in private assets in innovative and regulatory-compliant ways; financing these investments with non-recourse loans or utilizing our treasury competencies to finance investments with recourse loans backed by OAC's "AAA" credit rating; and managing all investments to mitigate risk and maximize returns.

Mitigating risk and maximizing returns require Management to pay attention to diversifying investments by asset class, economic sector and geographic market. About 47.3% (2012: 56.9%) of the OMERS investment exposure is currently in Canada.

Total Fund Country Gross Exposure

as at December 31,



The value of listed market capital in Canada represents less than three per cent of global market capitalization. While Canada continues to offer exceptional long-term investment opportunities, prudence and related risk management practices make it necessary to diversify investments to global economies with different growth profiles. This is readily accomplished in the case of public market investments due to their liquidity and ease of trading in organized markets. In the past three years, we have increased our internal capabilities in global equity research and direct, active and worldwide trading.

The challenge of diversification is different and potentially more complex in the case of private investments. Relationships with investors, business owners and governments are critical to understanding markets and finding suitable investments. Typically, investments in private markets require a large single infusion of capital, are not easily traded and must be held for several years. Research confirms that size matters in earning superior risk-adjusted returns due to economies of scale, securing the necessary concentration of expertise at the operating level and achieving governance efficiencies.

Large-scale private market investments require as much as $500 million for private equity and $3 billion to $10 billion for commercial real estate portfolios and infrastructure assets. The Fund does not generally make investments of this size on its own for risk management reasons. Consequently, a strategic objective is to augment the Fund's capital with third-party capital. As discussed in the Enterprise-Wide Strategic Plan section of this annual report, OAC has built an expert team which now has a multi-decade history of leading or co-leading investor consortia. Our teams in each of the private market entities also possess the negotiating skills to complete due diligence and acquire influential equity positions in assets and companies on behalf of the Fund and its investment partners.

OMERS Capital Markets

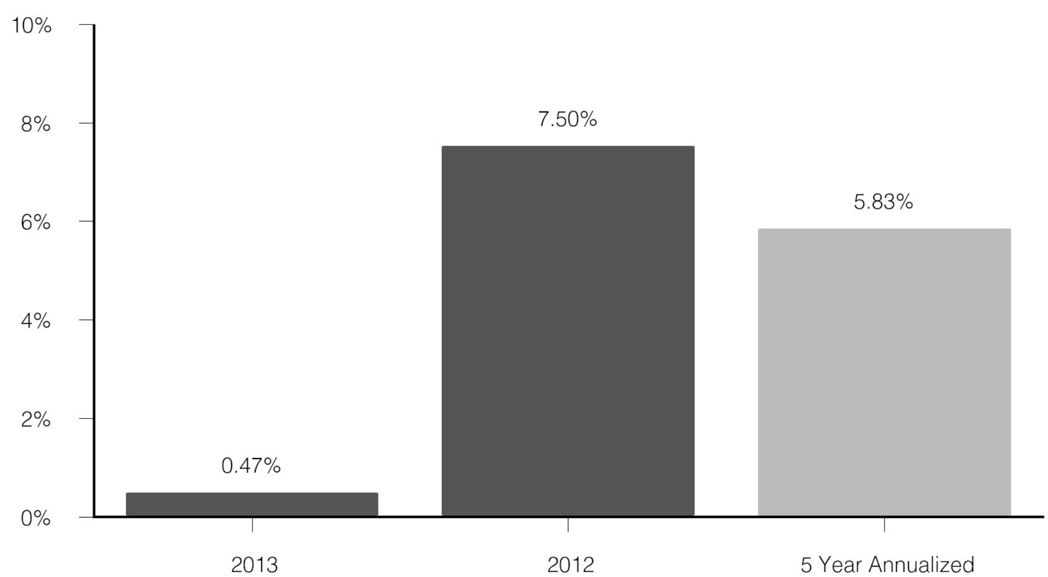
OMERS Capital Markets manages OMERS public markets investment portfolio of bonds and other interest-bearing assets, publicly traded equities in Canadian and global financial markets as well as currency and commodity positions.

Actual returns
for the year ended December 31,

0.47%

The overall OMERS Capital Markets investments gross return in 2013 was 0.47% compared to the 2012 gross return of 7.50%. OCM earned $200 million as the organization completed the transition to a more diversified risk-balanced portfolio designed to deliver more consistent investment returns than the traditional pension plan strategy of investing 60% in equities and 40% in bonds.

Public markets evidence-based research shows, over rolling ten-year periods since 1970, that a risk-balanced portfolio has outperformed a 60/40 portfolio 75% of the time. However, in any one year, the risk-balanced portfolio may underperform the 60/40 portfolio 41% of the time. In 2013, the total beta portfolio lost $407 million due to a sudden unexpected spike in interest rates in the second quarter. As part of the prudent risk management of any beta strategy, portfolio hedges were used in 2013 that contributed $120 million of investment income.



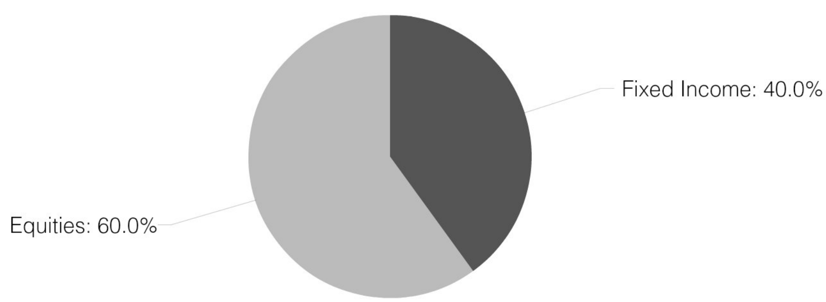
Strategies for Investing in Public Markets

Restructuring the public markets portfolio to earn more consistent long-term returns is the final piece of the total fund investment strategy put in place by OMERS Capital Markets (OCM) in 2013.

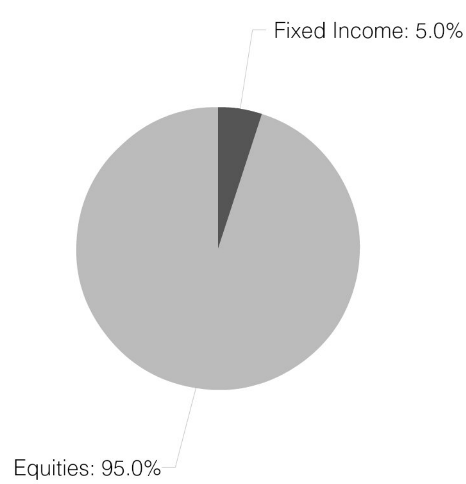
Like most pension plans, OCM historically invested 60% in equities and 40% in bonds. While a 60/40 portfolio appears diversified in allocating capital, it actually has 95% of its risk allocated to equities. As a result, the 60/40 portfolio does well when stock markets increase, as occurred in the 1990s and periodically since, but suffers larger losses when stock markets fall.

Traditional 60/40 Portfolio

Capital Allocation



Risk Allocation



To improve earnings power, OCM has adopted risk-balanced strategies for investing in public markets:

1. A beta portfolio captures market returns, invests in a wide selection of market opportunities and has less equity concentration. We use modest economic leverage to enhance returns over time. The portfolio is rebalanced on a regular basis to maintain a target total portfolio volatility of 10% annually.
2. An alpha portfolio uses active management strategies to find and exploit market opportunities in any market in the world, earn absolute returns and expand overall return potential.

A significant change in our approach is that we have separated the management of the beta and alpha portfolios under different teams, breaking with our previous practice of the same team managing both beta and alpha in an asset class.

Replacing the highly concentrated equity approach with diversified risk-balanced strategies has a higher probability of earning the level of consistent long-term returns required to meet the pension promise.

Rebalancing the portfolio was a complex process that required OCM's traders to size and time transactions to be cost effective in implementing the strategies and minimizing the impact on market pricing. The result of the transition is a portfolio with better risk balance to public equities, nominal and inflation-linked bonds and a broader selection of commodities.

Building the New Strategies

The following graph identifies the building blocks of the new investment model. It compares a hypothetical 60/40 portfolio's historical annualized return from 1970-2013, which had an average risk-free rate of return of 5.25% with a hypothetical portfolio where the risk-free rate is only 1.25%. The column on the right in the graph sets out the expected return of the risk-balanced portfolio.

60/40 Portfolio versus OCM's Risk-Balanced Policy Portfolio

The first building block of each illustrated portfolio return is the risk-free rate (the return on cash) represented by the three-year Government of Canada bond yield. Currently, this return is 1.25%. To do better than 1.25% requires structuring a policy portfolio using different asset classes to generate higher potential returns. This is commonly known as a beta portfolio. The 60/40 portfolio has a long-term average historical beta return of 3.7%. This is the second building block in the chart. Investors generally expect a positive return from beta over the business cycle. The third block is the portfolio's alpha, the additional return earned by skilled investors.

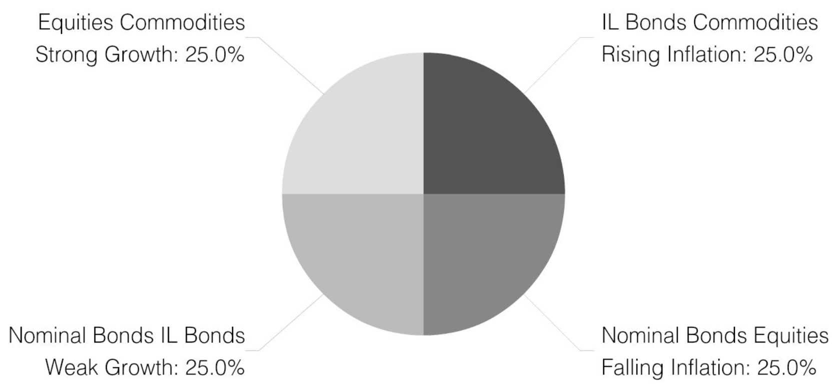
The 5.45% current expected return from a 60/40 portfolio is substantially lower than the 9.45% historical average return realized since 1970 and is short of the 7.0% gross return (6.5% net) required to meet OMERS pension promise. OCM's risk-balanced portfolio is designed to do better than 5.45% by diversifying beta investments across the full universe of markets, balancing risk across economic scenarios using prudent levels of economic leverage, and implementing alpha strategies that further diversify risk and enhance returns. The beta management team is tasked with generating a 5.75% to 6.75% annual return (including the risk-free rate) over business cycles, and other investment professionals implement alpha strategies designed to generate an additional 1.5% to 2.0% to the total portfolio return.

The Beta Portfolio

The beta strategy balances risk to the drivers of capital market returns, namely growth and inflation. The beta portfolio is based on the evidence that:

- equities and commodities perform best when economic growth exceeds investor expectations;
- commodities and inflation-linked bonds perform best when inflation rises faster than investor expections;
- nominal bonds and inflation-linked bonds perform best when economic growth falls short of investor expectations; and
- nominal bonds and equities perform best when inflation is below investor expectations.

Beta Risk Allocation



The beta portfolio does not rely on forecasting the direction of markets and removes the need to predict which of the economic scenarios will prevail when conditions discounted in markets change.

In summary, OAC believes the risk-balanced beta portfolio is better diversified across asset classes and geographies, is less concentrated in equity risk and is expected to experience less capital loss and faster capital recovery during and after periods of recession.

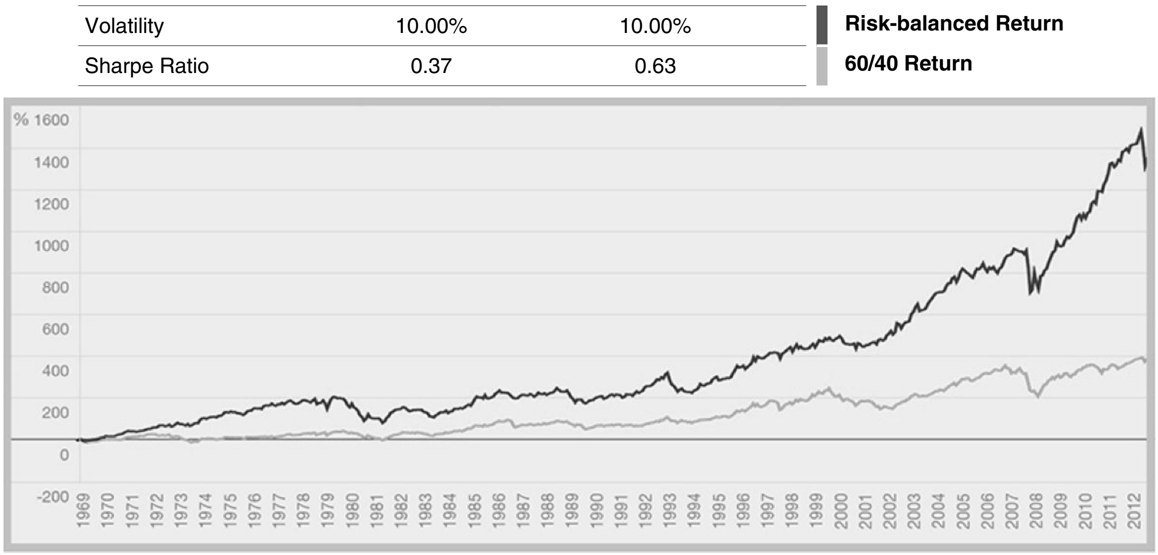
Beta Portfolio Performance versus the 60/40 Portfolio

Our research shows that the risk-balanced beta portfolio will generate superior returns over time. The objective of our beta strategy is an efficient portfolio with a higher Sharpe Ratio, which measures return relative to risk. A portfolio balanced to economic conditions improves the Sharpe Ratio by a factor of almost two when compared with a 60/40 asset mix. Historically, the 60/40 portfolio has a Sharpe Ratio of 0.37 compared with 0.63 for the risk-balanced beta portfolio. This means that every 1% of risk in the beta portfolio earns 0.63% of return.

The chart below tracks the cumulative performance of the traditional 60/40 portfolio and an illustrative risk-balanced beta portfolio if it had been in place since 1970. Five recessions have occurred since 1970. With the exception of the 1979-1982 recession, the hypothetical beta portfolio suffered smaller losses and experienced faster recoveries of capital than the 60/40 portfolio. This is an important feature of OCM's portfolio design as it takes time and exceptional returns to recoup severe losses. The hypothetical risk-balanced portfolio has the same level of risk (10% market volatility) as the 60/40 portfolio, but generates a higher expected return. Market volatility is a measure of expected variability of returns. We expect that the actual return for our beta portfolio will be within 10% of our targeted return of 6.5% (i.e. negative 3.5% to positive 16.5%) in two out of three years over the long term.

Beta Portfolio Performance versus 60/40 Portfolio

	60/40	Risk-balanced Portfolio
Compound Annual Return	10.10%	13.46%
Beta	3.70%	6.30%
Volatility	10.00%	10.00%
Sharpe Ratio	0.37	0.63



Our historical analysis shows that the beta portfolio outperformed the 60/40 portfolio over various time periods. For example, stress testing shows that the risk-balanced beta portfolio outperformed the 60/40 portfolio 59% of the time on a rolling one-year basis, a modest improvement or conversely it underperformed 41% of the time. Over rolling 10-year periods, however, the benefits of the beta strategy become significant, outperforming the 60/40 portfolio 75% of the time. The probability of the beta portfolio outperforming the 60/40 portfolio over the long term is persuasive in enabling OAC to underwrite the pension promise to plan members with greater confidence.

The beta portfolio is not an absolute return strategy. It will incur mark-to-market capital losses when the economy is in recession or there is an unexpected sharp spike in interest rates. This occurred in May and June 2013 when the Federal Reserve announced it would taper its asset purchases and the markets reacted immediately by tightening financial conditions and increasing market interest rates. When interest rates rise at a moderate rate and in an orderly fashion, our research shows that a better-balanced and diversified beta portfolio will still outperform the 60/40 portfolio.

Alpha Strategies

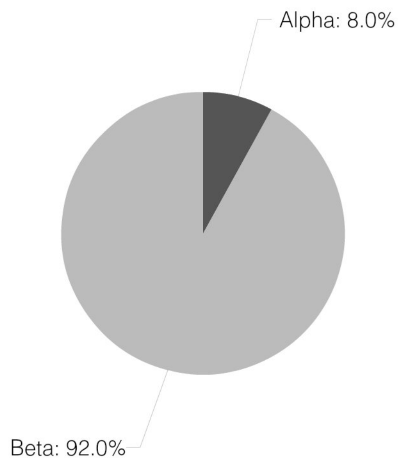
OCM manages its alpha strategies separately from the beta portfolio. This is a departure from the common industry practice of managing beta and alpha together in asset class portfolios with the objective of adding value above a market-based benchmark return. The beta portfolio is a long-term asset mix and does not predict the direction of markets. The alpha portfolio, by contrast, takes views on the direction of investment markets and relies on the skill of internal and external investment teams to deliver absolute returns. The alpha portfolio is uncorrelated to the beta portfolio and, because it is not tied to market returns, adds further diversification at the total portfolio level.

Each alpha team is allocated a risk budget, not capital, and sets a specific absolute dollar return target for the risk assumed. Taking long and short positions gives portfolio managers flexibility to find broader investment opportunities that should improve portfolio returns.

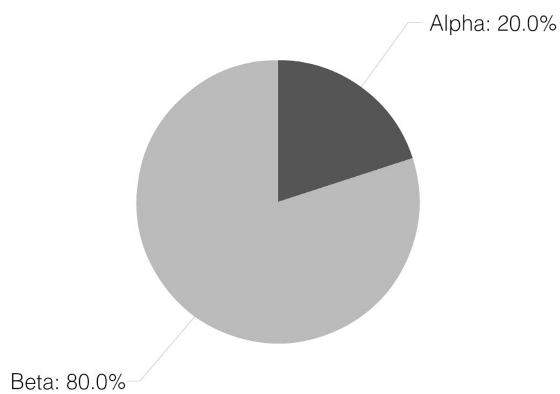
On a risk allocation basis, the alpha strategies currently represent about 8% of public markets risk. OCM will continue to expand alpha risk to as much as 20% of total portfolio risk with the goal of increasing absolute returns from 50 basis points to between 150 and 250 basis points to generate substantially higher dollar profits.

Growing Absolute $ Returns: Alpha and Beta Risk Proportions

2013



2014



Risk Management and Overlay Program

The implementation of our new strategies in 2013 required us to implement more sophisticated risk management techniques to allocate assets in the beta portfolio, set risk budgets for the alpha programs and monitor individual exposures on a daily basis as well as at the aggregate portfolio level. In addition, the more diversified asset base and the increased use of derivatives for both position taking and risk mitigation increased the complexity of our risk management operation. Accordingly, OCM strengthened its risk management activities under a five-member risk management team with newly recruited executive leadership.

OCM is subject to market risk, credit risk, counterparty risk, and liquidity risk together with risks arising from a prudent use of leverage. We endeavor to assume only the amount of risk that is consistent with our risk appetite and produces appropriate rate of return on the capital employed. The daily monitoring and reporting of the portfolio results are compared with the target portfolio, and pre-determined thresholds, if exceeded, will cause the portfolio to be reviewed. The risk budgets are reviewed annually and approved by the Transaction Approval Committee, which is comprised of senior executives of OAC.

Further, the risk management team ensures that the beta portfolio is rebalanced on a regular basis to maintain a target total portfolio volatility of 10% annually and to correct for any fundamental changes in the growth and inflation scenarios. The 10% portfolio volatility is consistent with our historical assumption and we believe that it is still relevant. The general availability and cost of derivative instruments may be adversely impacted by a number of factors including changes in market levels and volatility, and changes in the general market and regulatory environment within these programs.

An important element of our risk management strategy is our overlay program. Overlay programs adjust currency risk, concentration risk in an asset class and other risks that might arise as a result of business cycle conditions.

The notional values of derivatives used in OCM increased to $154.1 billion at December 31, 2013 compared with $40.3 billion at December 31, 2012. We use exchange-traded derivatives in the beta portfolio to leverage our exposures to certain asset classes and to balance risks between the four economic scenarios described above. The notional value of derivatives in this portfolio as at December 31, 2013 was $45 billion.

We use exchange-traded derivatives in the alpha portfolio to create exposure to substantially all of the positions for each strategy. As at December 31, 2013 the notional values of these derivatives was $111 billion, although many of the underlying exposures were offsetting.

We use exchange-traded derivatives in the overlay program to manage exposures of the fund as a whole. As at December 31, 2013 the net notional value of these derivatives was $2 billion, of which $14 billion represented short position as hedges on our bond exposure and $12 billion represented a currency hedge.

Portfolio composition as at December 31, 2013

An analysis of our portfolio composition in terms of fair values and market exposures as at December 31, 2013 is set out below (no comparative information has been provided as our change in investment strategy renders a comparative analysis less meaningful).

	Fair value	Market exposures
Beta portfolio		
Fixed income	$13,968	$19,050
Real return bonds	17,931	18,232
Public equities and Commodities	2,632	16,745
Total Beta portfolio	34,531	54,027
Alpha portfolio	6,566	7,181
Overlay Program	(3)	(17,776)
Other investment assets	379	—
Total investment assets	41,473	43,432
Net investment liabilities	(6,191)	
Economic leverage		(5,975)
Net Investment Assets	$35,282	$37,457

Portfolio performance during 2013

OCM earned net income of $200 million for 2013 for a return of 0.47% and significantly lower than the benchmark of 7.00%. Net income comprised of a loss of $407 million on the beta portfolio and gains of $487 million and $120 million, respectively, on the alpha portfolio and overlay program.

The beta portfolio loss of $407 million occurred principally as a result of a sudden and unexpected spike in interest rates in May and June 2013. Losses during the year on fixed income and real return bonds of $2,336 million offset gains in the year on equities of $2,394 million. Equities benefited from the rise in global stock markets during 2013. Commodities lost $465 million, mainly due to falling gold prices.

The alpha portfolio contributed $487 million in income from 11 different strategies that were active during the year.

The income of $120 million from the overlay program primarily resulted from foreign exchange and fixed income positions.

We understand that our portfolio performance in 2013 is similar to that of other investors with risk parity strategies.

Looking ahead

Entering 2014, global growth remains very uneven with the US performing slightly above trend and Canada, Europe, Japan and Emerging Markets lagging to varying degrees. Inflation rates continue to decline in developed markets and central banks, particularly in Japan and Europe, are acting and prepared to act further to address the risk of outright deflation. The beta portfolio is designed to be agnostic to global growth and inflation outcomes. Rather, it seeks to balance the portfolio to different economic conditions. In doing so, it results in a better diversified portfolio compared to the traditional, equity centric 60/40 portfolio and is positioned to deliver more consistent investment returns over the long term.

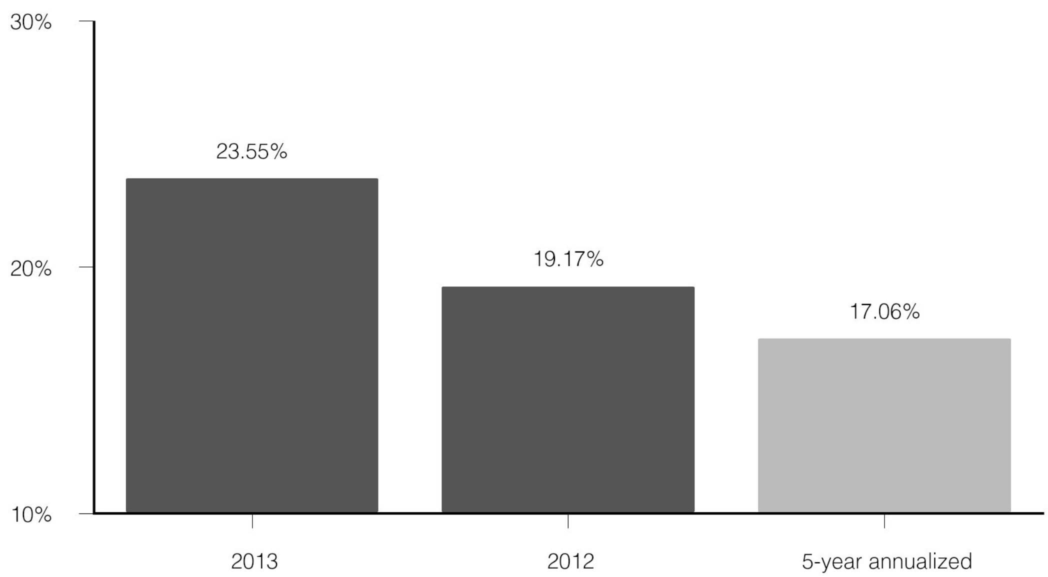
A properly structured absolute return program should enhance returns and further improve diversification at the total portfolio level. The alpha portfolio is where investment views are taken and the ability to invest both long and short creates the absolute return potential in the portfolio. At the end of 2013, the alpha portfolio contained 11 different investment strategies and accounted for 8% of the total OCM portfolio risk. In 2014, the objective is to expand the program by growing existing portfolios and adopting three to five new strategies with the aim of increasing the proportion of risk in the Alpha Program to 20% of the total capital markets portfolio.

OMERS Private Equity

OMERS Private Equity manages private equity investments on behalf of OAC, through direct investments in private companies and also through third-party funds.

Actual returns
for the year ended December 31,

23.55%
OMERS Private Equity gross return in 2013 was 23.55% compared to the 2012 gross return of 19.17%.



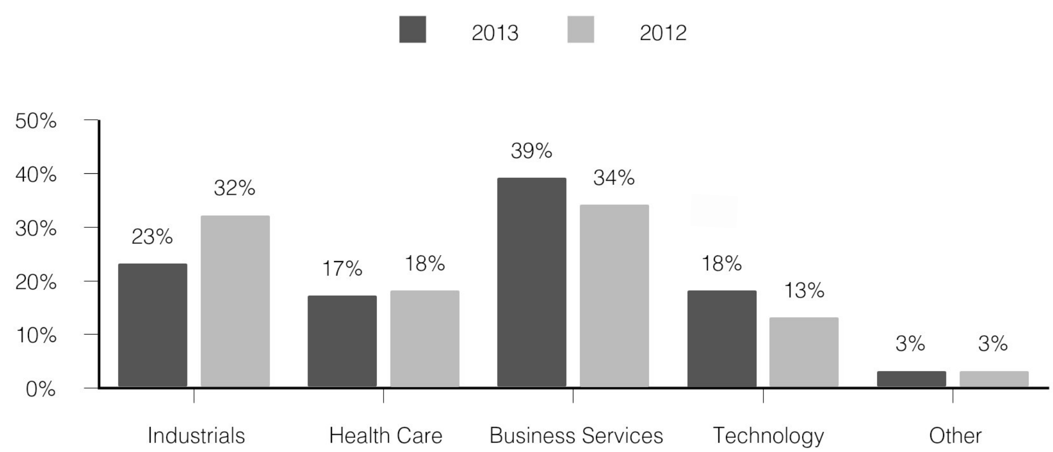
Our approach

OMERS Private Equity's investment strategy focuses on acquiring the majority control of a company with an enterprise value between $200 million to $1.5 billion. We will consider other ownership structures, including joint control and/or having significant influence with trusted, like-minded partners as long as we have the governance rights commensurate with our investment. Our investment approach is premised on a long-term, active partnership with talented management teams. Our investment mandate is flexible to capitalize on the prevailing market conditions and financial markets and to invest in a broad range of industries in various geographical markets. We firmly believe in direct financial alignment of interest amongst ourselves, the management team of our investments and our investment partners.

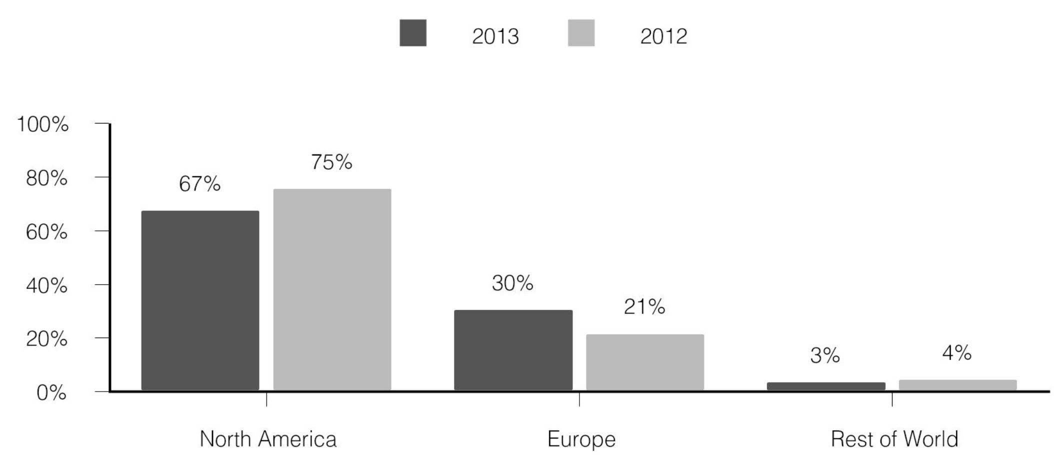
In evaluating investment opportunities, the key criteria that we consider are (i) the current market position and the market outlook for the company's products and services; (ii) the quality and depth of the company's management team and their willingness to invest along with us; (iii) an assessment of the company's strategy for growth; and (iv) our expected return based on the purchase price to acquire the business. After acquisition of an investment, our role is to work closely with the management team and bring the necessary resources to bear so that the business can achieve sustainable, profitable growth.

Our geographical focus is North America and Europe. Our direct investing can take a variety of forms including private market transactions, secondary transactions from private equity funds and corporate carve-outs. The objective remains to have a well diversified investment portfolio, both by industry and by geography.

Total Assets by Sector



Total Assets by Geography



2013 financial performance and investment activity

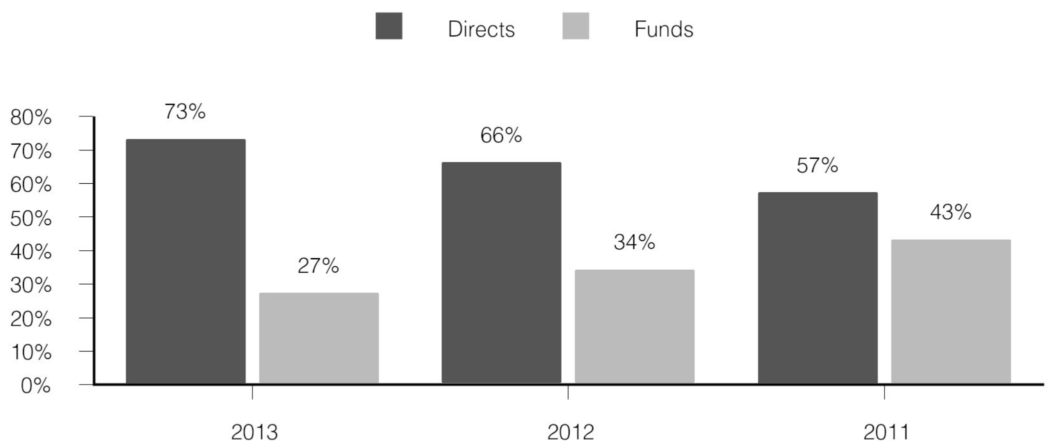
OMERS Private Equity had yet another record year with an actual return of 23.55% (2012:19.17%) and investment income of $1,328 million (2012: $962 million). This was highlighted by the first three realizations of majority control investments each of which resulted in a compounded annual return in excess of 40% on the original investment. We also experienced strong financial performance within most of the other investments managed by us which further supported our performance this year.

During 2013, OMERS Private Equity added three new investments - UK-based VUE Entertainment, one of the largest cinema operators in the world; Civica Group, a market leader in systems and business process services software for the public sector which is also headquartered in the UK; and Caliber Collision Centers, a US-based leader in providing auto collision repair services. The amount invested in the three companies is approximately $1.1 billion.

The three investments sold by OMERS Private Equity were the US-based utility locating firm United States Infrastructure Corporation which was acquired in 2010; the railway equipment and services supplier Nordco, based in the USA which was acquired in 2009; and Maxxam Analytics, a Canadian leader in analytic services and solutions which was acquired in 2008. The agreement to sell Maxxam Analytics was signed on December 20, 2013 and closed on January 31, 2014 whereas the other two transactions were closed in the second and third quarter of 2013. Further, we significantly reduced our ownership interest in Constellation Software from 14.8% at December 31, 2012 to 7.0% at December 31, 2013 at attractive prices.

OMERS Private Equity continued to reduce its investment in funds, as no new commitments have been made since 2009. Cash returned from fund investments through realizations was $497 million and capital calls were $103 million - a trend we have seen for four consecutive years whereby realizations are well above capital calls. Unfunded commitments have declined to $368 million as at December 31, 2013 compared to $2,485 million at December 31, 2008.

Direct vs. Fund Investment



Net Asset Value as at December 31, 2013 rose to $7,101 million as compared to $5,993 million a year ago. The increase reflects the combination of investment income plus new investments offset by realizations which totaled $1,108 million. Direct investments now represent 73% of our assets under management.

Significant direct investments managed by OMERS Private Equity include:

- Accelerated Rehabilitation Centers

  a leading provider of traditional and specialty outpatient physical rehabilitation services with nearly 300 clinics in the U.S. Midwest and is headquartered in Chicago, Illinois;

- Affinia Group

  a leading manufacturer and distributor of aftermarket components for cars, trucks and off-highway vehicles. Affinia's broad range of brake, filtration and chassis products are sold in North and South America, Europe and Asia;

- CBI Health Group

  a leading provider of outpatient rehabilitation and community health care services with over 165 clinics in Canada and is headquartered in Toronto, Ontario. CBI has been selected as one of Canada's Best Managed Companies by Deloitte for 6 consecutive years;

- Caliber Collision Centers

  the largest independent provider of automotive collision repair services in the US with over 160 collision centers and is headquartered in Lewisville, Texas;

- CIVICA

  a UK headquartered, market leading developer and supplier of niche, mission critical software solutions and related IT services to locally based public sector clients in the UK, Australia, New Zealand, Singapore, the US and Canada, helping customers improve service delivery and efficiency;

- Constellation Software

  an international provider of market leading software and services to the public and private sectors. Constellation acquires, manages and builds vertical market software businesses that provide custom mission-critical software;

- Give & Go Prepared Foods

  the North American supplier of mini-treats and cupcakes to the In-Store Bakery sector. Give & Go's popular bite-sized treats are primarily sold under the Two-Bite® and Kimberley's Bakeshoppe™ brands;

- Golfsmith International

  the world's largest golf specialty retailer of golf merchandise from leading manufacturers together with teaching academies, golf simulators and pro shop services. Stores located in Canada operate under the brand name of Golf Town and all stores in the U.S. operate under the brand name of Golfsmith;

- Great Expressions Dental

  a leading dental practice management company with offices in seven states across the midwest, south and northeast U.S.;

- Hayfin Financial

  an independent finance company providing focused lending products to corporate clients and investment management services to institutional clients;

- Husky International

  Ontario-based global supplier of highly engineered system solutions and related aftermarket services and components for the plastics injection molding equipment industry;

- Lifeways

  UK's market leading provider of supported living services for adults with learning disabilities;

- Logibec

  Canada's leading healthcare IT company; its wholly owned US subsidiary MatrixCare is the fastest growing cloud-based EHR solution for the eldercare market;

- Marketwired

  a communications services leader providing clients with the tools to get to know, engage and service their customers. Based in Toronto, Marketwired offers a global newswire distribution solution and through its subsidiary, Sysomos, a suite of best-in-class social media monitoring and analysis products;

- Maxxam Analytics

  the largest privately owned analytical laboratory in Canada; provides analytical testing services to government and major companies in the environment, food, oil and gas, health, forensics and genetic markets;

- V.Group

  a global market leader in outsourced ship management and a leading player in crew provision and related marine services; and

- Vue Cinemas

  a global operator and developer of multiplex cinemas with over 1,350 screens across 151 multiplex cinemas primarily in the UK, Germany, Denmark and Poland.

Looking ahead

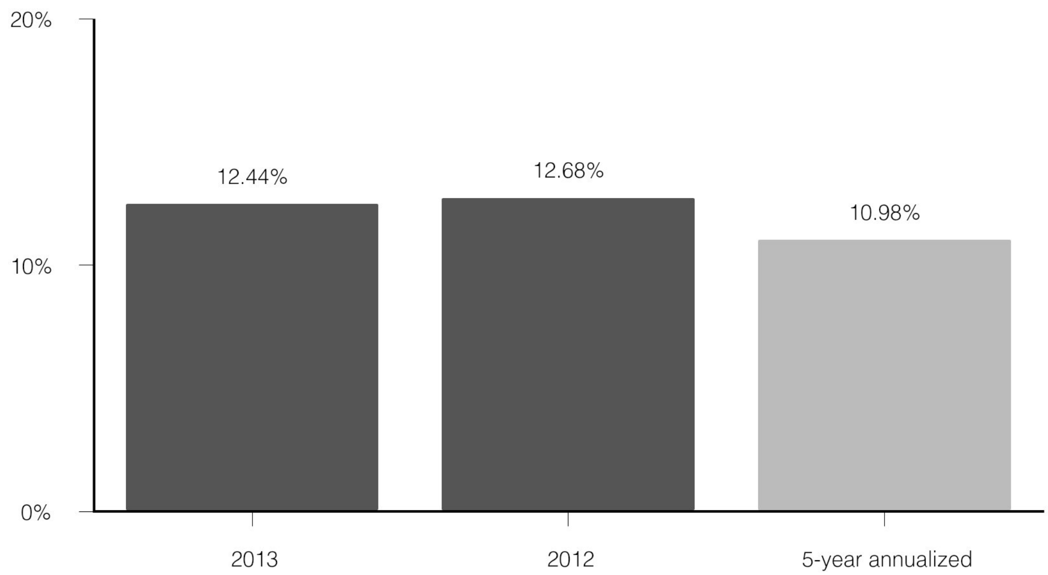
We remain very optimistic about our prospects for 2014. The improving global economy should contribute to continued growth in the operating performance of our businesses. We added three new companies in 2013 which are all positioned to grow, both organically and through acquisition. We do not expect as many realizations as in 2013 as we believe there are several opportunities to further enhance the value of our existing businesses. Our businesses are well insulated for an expected rise in interest rates as we have established fixed rates with long maturities for the majority of our outstanding debt. We believe there will be ample opportunity for new investments as merger and acquisition activity should continue to be robust during the current credit cycle. This should maintain valuations at a high level and we will remain prudent to ensure new investments provide us with the right risk/reward trade-offs.

Borealis Infrastructure

Borealis identifies, pursues and manages investments in large-scale infrastructure businesses worldwide. As at December 31, 2013, assets under management for OAC and on behalf of other institutional investors were approximately $20 billion.

Actual returns
for the year ended December 31,

12.44%
The overall infrastructure gross return in 2013 was 12.44% compared to the 2012 gross return of 12.68%.



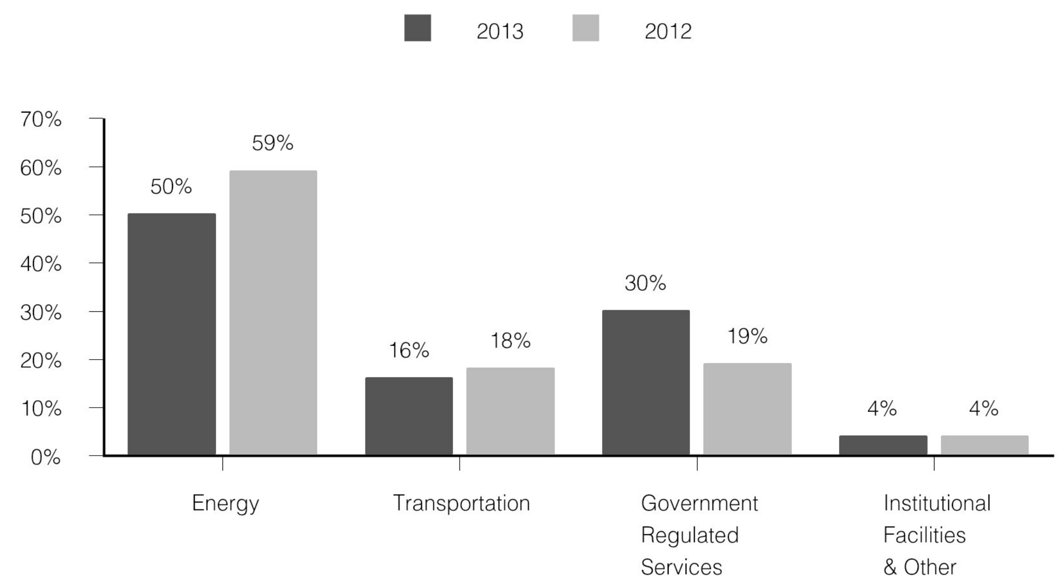
Infrastructure investing generally involves direct investments in inflation-sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both. Individual investments generally require large up-front or near term capital commitments and typically generate strong inflation-linked cash returns – a very good fit in matching our long-term pension obligations.

Borealis employs a direct-drive active management strategy in originating and managing infrastructure assets that generally exhibit strong underlying, inelastic demand with predictable, stable cash flows supported by regulation or long-term contracts with low-risk counterparties. We actively manage investments through majority or significant minority positions and bring to investee companies the experience gained through managing a large infrastructure asset portfolio as well as the relationships developed with governments, regulators, lenders, other investors and members of the business community. Borealis also plays an active role in ensuring that each investment has the right management team in place with meaningful incentives that promote alignment with shareholders. In instances where we do not hold a majority interest in an investment, we partner with like-minded investors with aligned interests such as other pension, corporate and government investors as well as strong operating partners that can bring operational expertise to the investment, both in evaluating its potential and in managing and improving its performance.

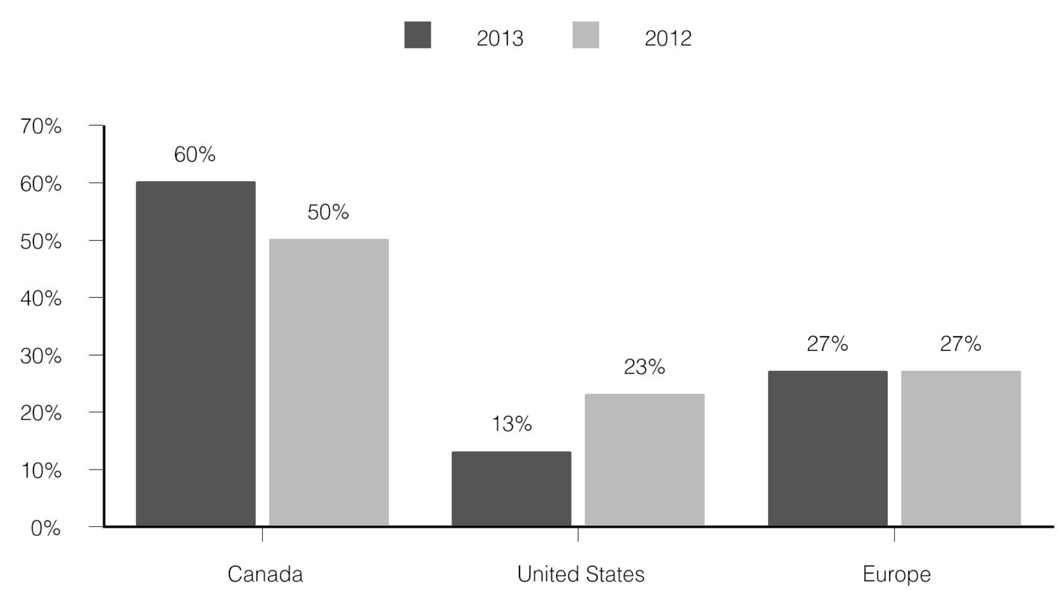
Investments managed by Borealis generated net investment income of $1,004 million in 2013, compared with $986 million in 2012. The 2013 gross rate of return before investment management expenses was 12.44%, compared to 12.68% in 2012. In addition, Borealis' investments generated a cash yield of 10.2% in 2013 compared to 7.2% in 2012.

Borealis' investments can be grouped into four primary sectors and three main geographic regions as illustrated below:

Total Assets by Sector



Total Assets by Geography



The energy sector includes investments in regulated utilities, power generation, power and gas, transmission and distribution and oil pipelines. We adhere to a patient and disciplined investment approach and continue to prudently diversify our portfolio by industry sector, geography, size and stage of development while pursuing higher probability, lower execution risk opportunities.

Net investments managed by Borealis increased to $11,582 million in 2013 from $9,820 million in 2012. The increase in net assets primarily represents investment value appreciation and new acquisitions. Advancing on its global growth strategy, Borealis acquired a 50% interest in NET4GAS, s.r.o. (“N4G”). N4G is the sole owner and operator of the high pressure gas transmission and transit system located in the Czech Republic. It is a key international transit business that supplies gas to a large market area, including Germany and Central Europe. N4G’s transit business is underpinned by long-term capacity contracts with credible counterparties and its transmission business is supported by transparent regulation. N4G represents a high-quality energy asset generating long-term stable, high cash yielding returns for OMERS.

In addition, Borealis, through the existing investment in LifeLabs Medical Laboratory Services (“LifeLabs”), acquired a 100% stake in the public shareholding of CML Healthcare (“CML”), a laboratory diagnostics and medical imaging business. Combined, LifeLabs and CML provide more than 90 million diagnostic tests to more than 19 million patients annually. This investment marks a significant commitment by Borealis in Canada’s healthcare sector and places LifeLabs in a better position to develop long-term sustainable healthcare solutions for the Province of Ontario. LifeLabs has achieved a similar position in British Columbia through the acquisition of 100% of the assets of B.C. Biomedical Laboratories Ltd, a medical diagnostic testing business in British Columbia, which closed in early 2013.

Lastly, Borealis, with its partners NextEra Energy Canada and Enbridge Inc., was selected to develop the East-West Tie Line, a 400 km long transmission line that runs between Thunder Bay and Wawa. The East-West Tie Line is intended to improve the reliability of electricity supply in Northwestern Ontario by increasing the amount of electricity that can be transferred between the transmission system in the Northwest and the rest of Ontario.

On January 30, 2014, Borealis announced the acquisition of Cameco's 31.6% interest in Bruce Power LP ("Bruce B") which operates four of the eight reactors at the world's largest nuclear facility. The aggregate purchase price is $450 million and the effective date of the sale is December 31, 2013. This will increase Borealis' interest in Bruce Power to just over 56%. Closing of the transaction is subject to completion or waiver of right of first offer process by the other limited partners and receipt of certain regulatory approvals.

During 2013, HS1 Limited, the operator and manager of U.K.'s only high speed rail line, completed its refinancing of the $2.3 billion (£1.3 billion) bank debt used for the concession purchase in November 2010. During the year, HS1 raised $1.3 billion (£760 million) in the U.K. bond market, which was significantly higher than its target. These funds combined with a US private placement last year and a new bank facility has allowed HS1 to successfully refinance its original acquisition facility ahead of schedule reinforcing the underlining quality and strength of the business.

Borealis also completed the previously announced sale of the 33% ownership interest in Express Pipeline for gross proceeds of approximately $441 million (US$430 million). Although Borealis employs a “buy and hold” investment strategy in infrastructure assets, it made a decision to exit from this investment in 2012 for strategic reasons. This transaction created significant value for OMERS and the opportunity to redeploy capital in large-scale global infrastructure assets.

Borealis is the exclusive asset service provider for the Global Strategic Investment Alliance ("GSIA"). The GSIA made its first investment in 2013, with the syndication of approximately a one-third stake in Midland Cogeneration Venture, a Michigan-based 1,633 megawatt cogeneration plant which was acquired in late 2012.

Other significant investments made in prior years include interests in:

- Associated British Ports

  the largest port owner and operator in the United Kingdom with 21 ports handling approximately 25% of all seaborne trade into and out of the United Kingdom;

- Ciel Satellite

  a wholesale communications satellite that offers telecommunication broadband capacity to the North American market;

- Confederation Bridge

  a 12.9 kilometre bridge that links Prince Edward Island and New Brunswick and operates under a concession agreement with the Government of Canada until 2032;

- Detroit River Tunnel
  a railway tunnel that operates as one of the largest trade corridors in the world;
- Oncor
  a leading electricity transmission and distribution company in Texas;
- Scotia Gas Networks
  a company which operates the Scotland and South of England gas distribution networks, comprising approximately 74,000 km of gas lines serving approximately 5.8 million customers;
- Teranet
  the operator of Ontario's Electronic Land Registry System under a 50-year exclusive agreement with the Ontario government;
- Vento
  a portfolio of four wind farms geographically diversified across the U.S., totaling 599 megawatts; and
- Hospitals
  three large hospitals in the Province of Ontario, serving communities in the Greater Toronto Area and Capital Region.

Looking ahead

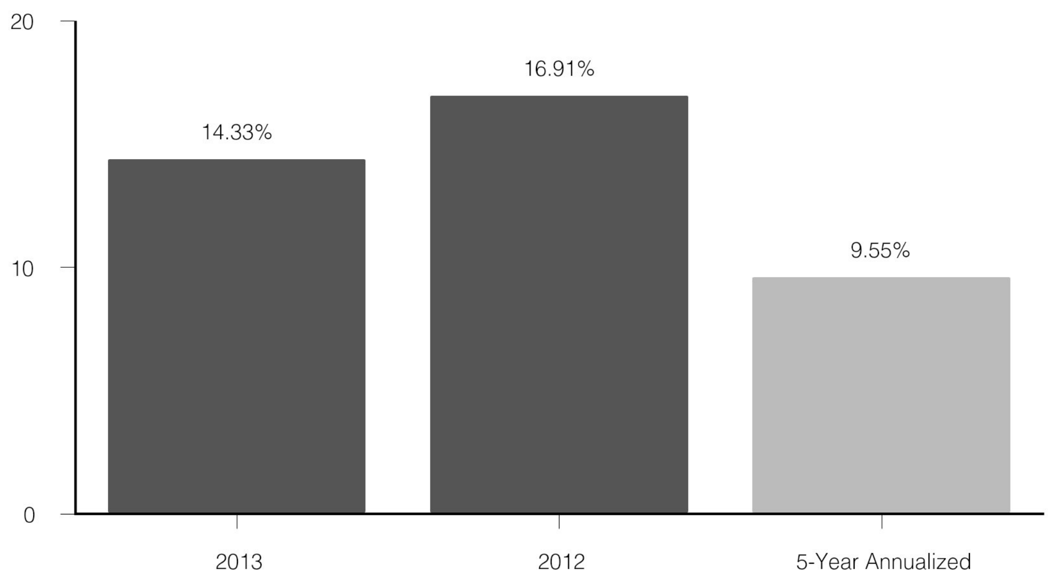
The competition for quality core infrastructure assets is considerable, as prolonged slow growth, low inflation and low interest rates in developed economies are driving increased demand for stable, high yielding investments. That said, the global infrastructure market and the pipeline of attractive potential opportunities for large-scale infrastructure assets are strong and deep. During 2013, Borealis made a number of large investments on behalf of OAC in the energy and health care sectors and expanded its global investment footprint through investment and/or local resources in jurisdictions such as the Czech Republic, Finland and Australia. In line with Borealis' long-term strategy, it will continue to expand its global presence by examining infrastructure opportunities in jurisdictions or geographies which exhibit stable political and regulatory environments.

Oxford Properties Group

Oxford Properties Group is one of North America's largest commercial real estate investment, development and management organizations. Oxford oversees and manages approximately $24 billion (2012: approximately $22 billion) of real estate investments for OAC and on behalf of co-owners and investment partners as at December 31, 2013.

Actual returns
for the year ended December 31,

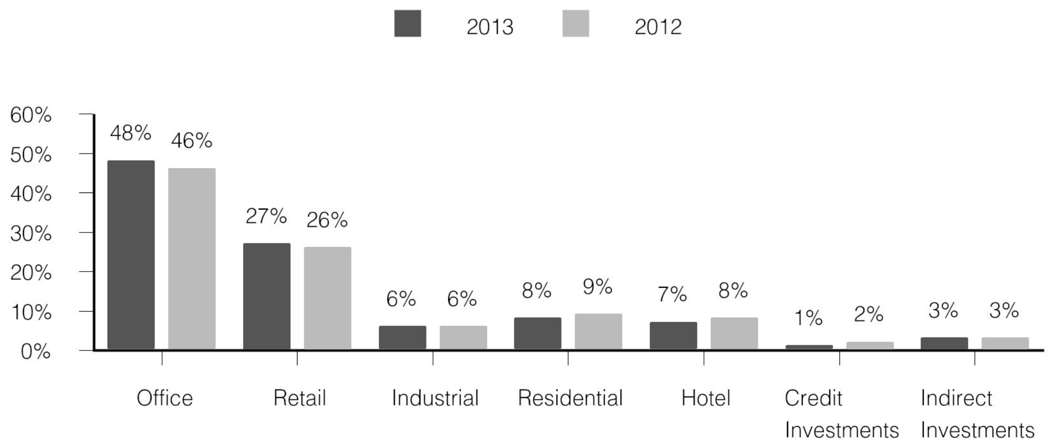
14.33%
The overall real estate gross return in 2013 was 14.33% compared to a gross return of 16.91% in 2012.



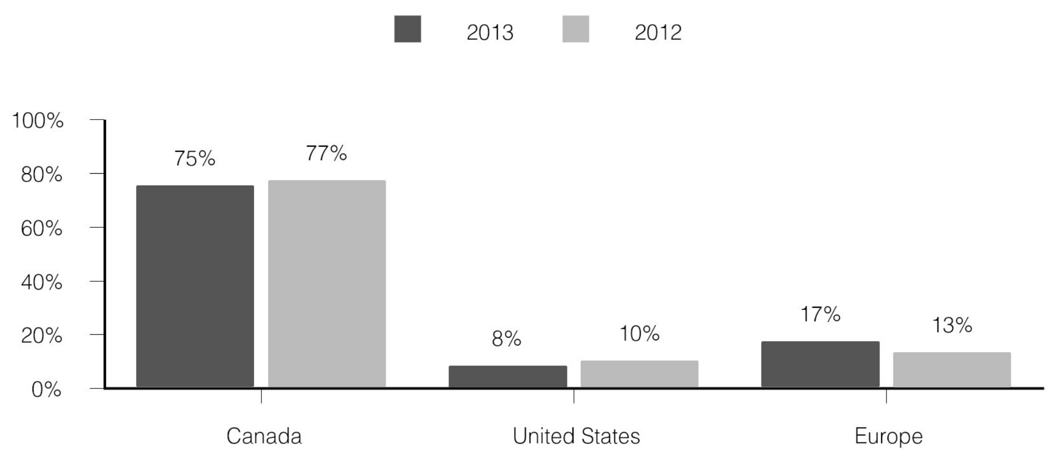
Oxford is a fully-integrated global platform for real estate investment with a focus on delivering superior risk-adjusted returns and secure, sustainable and growing cash flows for OAC on behalf of the Plan. Oxford's strategy is to build portfolios and platforms of scale in targeted asset classes and markets through the ownership, development and active management of world-class assets which are diversified by property type, geographic market, partner relationship and risk-reward profile. A diversified real estate portfolio of this nature is expected to generate predictable cash flows, facilitating OMERS ability to meet both current and future pension benefit obligations. Furthermore, actively managed real estate generally appreciates in capital value over time which helps to offset the inflation exposure of the Plan's pension liabilities.

Portfolio Composition

Total Assets by Sector



Total Assets by Geography



At December 31, 2013, OAC's direct real estate portfolio managed by Oxford consisted of over 130 assets, located primarily in Canada, the U.S., the U.K. and Germany, with a total leasable area of 48.3 million square feet of office, retail and industrial space, 3,502 hotel rooms and 15,775 residential units.

The office portfolio is diversified geographically in Canada (across six major markets: Toronto, Vancouver, Calgary, Edmonton, Ottawa and Montreal), the U.K. and the U.S. The largest concentration is in the Greater Toronto Area representing approximately 35% of the market value of the office portfolio. The most significant office properties are:

- Richmond-Adelaide Complex, Metro Centre and a 50% interest in each of Royal Bank Plaza and the TD Canada Trust Tower in Toronto;
- Centennial Place and a 50% interest in each of Bow Valley Square and Devon Tower in Calgary;
- Watermark Place, King Edward Court and a 50% interest in MidCity Place in London, U.K.; and
- Green Park Business Park in Reading, U.K.

The retail portfolio is comprised of 19 properties, primarily super regional and regional shopping centres, totaling 16.9 million square feet. The properties are located across Canada, the U.S. and the U.K. with the largest concentration in the Greater Toronto Area. The most significant properties are:

- a 50% ownership interest in Yorkdale Shopping Centre, Square One Shopping Centre, Scarborough Town Centre and Upper Canada Mall in the Greater Toronto Area;
- a 50% ownership interest in Les Galeries de la Capitale in Quebec City;
- Southcentre Mall in Calgary;
- Kingsway Garden Mall in Edmonton;
- 5th Avenue high street retail at 52nd Street in Manhattan, New York; and
- The Royal Exchange in London, U.K.

The hotel portfolio includes major Canadian landmark resort properties located in Banff, Lake Louise and Jasper, Alberta; Whistler, British Columbia; and Montebello, Quebec and two urban centre hotels in Vancouver, British Columbia and Toronto, Ontario.

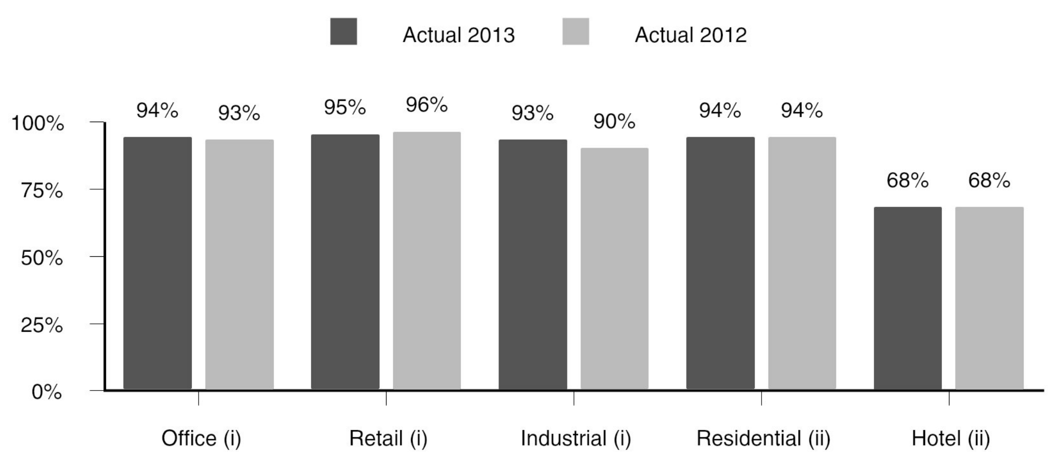
The multi-family residential portfolio consists of 15 properties located in Ontario, Quebec, Nova Scotia, and 8,173 residential units located in Germany. The industrial use assets include over 35 buildings, business parks and development sites in the Greater Toronto Area, Vancouver, Calgary and Edmonton markets.

The real estate portfolio also includes properties held for/under development which form the basis of its active development program. Current active development projects include four office towers in Toronto, Vancouver and Calgary, two office towers in London, U.K. and industrial properties in Edmonton and Calgary. Oxford is also continuing the co-development of Hudson Yards, a mixed use office, retail and residential project in Manhattan, New York, U.S. During 2013, Oxford acquired an interest in two development sites and is moving forward to co-develop a 262,000 square foot mixed use office complex in London, U.K. and to co-develop a 401,000 square foot office tower in Washington, U.S. in addition to acquiring a premier land site in Calgary.

Oxford's net investment income decreased from $1,279 million in 2012 to $1,237 million in 2013. Net investment income is primarily comprised of net operating income, income from credit investments, unrealized gains and losses resulting from changes in the market value of the real estate assets and liabilities, and realized gains and losses.

Oxford's net operating income decreased by $95 million in 2013 to $542 million primarily due to a non-recurring significant lease surrender payment negotiated at Green Park Business Park in Reading, U.K. in 2012 and the net impact of acquisitions and dispositions. Occupancy levels remain strong across the portfolio and consistent with prior years.

Occupancy %



(i) Based on the percentage of gross leasable area occupied as at December 31
(ii) Based on average unit occupancy for the year

Net gains in 2013 were $650 million (2012: $625 million) representing net realized and unrealized gains on real estate assets of $525 million (2012: $593 million) and an unrealized gain on debt obligations of $125 million (2012: $32 million).

OAC also holds credit instruments related to high quality real estate assets, managed by Oxford, that yield a strong risk-adjusted return. The credit investments portfolio contributed $56 million of net investment income in 2013 (2012: $24 million).

The overall real estate return was 14.33% in 2013, compared to a benchmark return of 7.25% and a 16.91% return in 2012. The 2013 return exceeded the benchmark primarily due to the increase in the market values for real estate properties and the market value adjustments for debt in Canada and the U.K. being higher than anticipated a year ago.

OAC's total owned real estate assets managed by Oxford were valued at $17,839 million (including indirect investments of $684 million and credit investments of $236 million) at December 31, 2013, compared to $16,182 million (including indirect investments of $490 million and credit investments of $336 million) as at December 31, 2012, representing an increase of $1,657 million. This increase is mainly due to the market value appreciation of the real estate portfolio and net investment activity during the year. Major acquisitions during 2013 included:

- King Edward Court, an office building in London, U.K.;
- a 50% interest in Les Galeries de la Capitale, a retail shopping centre in Quebec;
- a 20% interest in 650 Madison Avenue, a mixed use office and retail property in New York City, U.S.;
- The Royal Exchange, a high street retail property in London, U.K.;
- a 50% interest in the St James's Market development sites in London, U.K.;
- 500 6th Ave., a land site in Calgary;
- L'Aristocrate and Domaine des Meandres, a multi-residential complex in Quebec City; and
- two sites directly north of the existing Hudson Yards project in New York City, U.S.

Oxford continues to pursue a global investment strategy in targeted international markets to diversify the portfolio and enhance returns. In 2013, Oxford increased the international diversification to 25% of the portfolio from 23% in 2012 as a result of several strategic acquisitions in the U.K. and U.S. as noted above.

Oxford also manages a relatively small portfolio of indirect real estate investments (primarily real estate funds and other real estate related investments) that were valued at $684 million as at December 31, 2013, an increase of $194 million from December 31, 2012.

The real estate portfolio is partially funded by $7,634 million in mortgages, debentures and commercial paper as at December 31, 2013, compared to $6,848 million as at December 31, 2012. The net increase in debt of $786 million in 2013 is primarily due to new borrowings related to acquisitions and development projects.

Looking ahead

Looking forward, Oxford will continue to execute against its core strategies in all regions in order to continue delivering strong risk-adjusted returns for the Plan. It will remain focused on the following key strategies:

- prudently increasing assets under management;
- diversifying and rebalancing the portfolio globally;
- advancing and completing development projects that enhance portfolio returns;
- continuing to use conservative amounts of leverage to enhance overall returns and refinancing borrowings to take advantage of the continuing low interest rate environment and to manage the debt maturity profile; and
- an unwavering commitment to customer service excellence and teamwork.

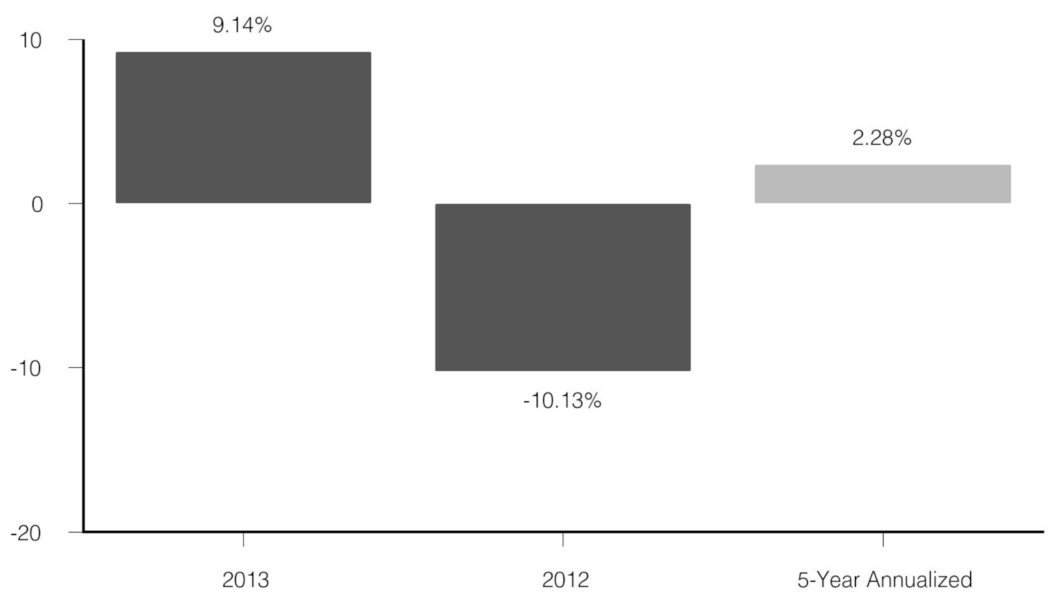
Oxford monitors and remains cautious with respect to the continued volatility in the global financial markets and its impact on investment activity and market fundamentals. Oxford, on behalf of OAC, is well positioned to take advantage of all market cycles. Oxford has a strong platform across all regions in which it operates.

OMERS Strategic Investments

OMERS Strategic Investments is a multi-purpose strategic platform which has a broad mandate to lead certain corporate strategic initiatives and to build strategic investment assets, which will position OMERS as a leading global pension-based investment enterprise.

Actual returns
for the year ended December 31,

9.14%
The overall OSI gross return in 2013 was 9.14% compared to the 2012 gross return of -10.13%.



OSI's mandate is to develop investment relationships for OMERS and make investments which by their compelling risk/return profile, their complementary relationship to OAC's core investment platforms or their innovative business models having important investment benefits for OMERS offer considerable promise to:

- provide OAC with a "first mover" advantage;
- enhance OAC's competitive advantage by developing creative solutions to complex strategic initiatives embedded in the OAC Strategic Plan; or
- generate appropriate risk-adjusted returns through investments in natural resources, innovation, and new sectors and new markets.

In the execution of this mandate, OSI will:

- drive the development of three existing "first mover" platforms: OMERS Energy, OMERS Ventures and Airports Worldwide;
- strengthen recognition of the OMERS Worldwide global brand in order to develop relationships with global capital partners and access co-investment capital and investment opportunities for the benefit of OSI and the core investment entity platforms;

- assess and underwrite investments in natural resources, innovation and new sectors and new markets;
- create investment structures to access co-investors and the benefits of cost sharing;
- complete the closing of the OAC Board-approved GSIA program by December 31, 2014; and
- develop the OSI organization to manage a larger portfolio of “first mover” initiatives and investments going forward.

The Global Strategic Investment Alliance (GSIA) was established to build strategic relationships with like-minded global institutional investors. The GSIA enhances OAC's ability to secure preferred large-scale private market investments while leveraging OAC's investment management expertise. The total committed amount to the GSIA at December 31, 2013 was USD$8.75 billion, composed of the USD$5.0 billion OMERS commitment plus USD$1.25 billion from each of three large Japanese investment partners.

OSI has the mandate to manage a portfolio of investments which do not fit under the mandates of the other Investment Entities. OSI’s current investments are in the following areas:

- Resources, which are a major driver of Canada’s long-term economic prosperity. Resource investments represent $1.3 billion in net investment assets and include OMERS Energy/OMERS Energy Services and CEDA International.
- Innovation, which is a major driver in the new world economy. Investments in this space represent almost $500 million in net investment assets and include OMERS Ventures and MMM Group.
- New markets and products, which represent significant investment opportunities for OAC and provide the opportunity to form new business relationships. These opportunities enable investments to be made in a cost-effective manner in markets where OAC has not invested directly in the past. At December 31, 2013 the principal investments in this space are in airports and in concessions agreements to manage airports through Airports Worldwide and lottery operations currently through North Star New Jersey Lottery group.

In 2013, OSI generated net investment income of $158 million for a gross investment return of 9.14% compared with a net investment loss of $201 million in 2012. At December 31, 2013, 53% of net investment assets managed by OSI are in the Alberta oil and gas sector (December 31, 2012, 67%). The loss in 2012 was driven by the year-end valuation of these assets which were impacted by significant declines in oil and natural gas prices. In 2013 the improved OSI investment return is primarily due to improved returns in OSI's resource and innovation investments.

During 2013, OSI’s net investment assets increased from $1,516 million at December 31, 2012 to $2,496 million at December 31, 2013. The increase reflects investments funded during the year, primarily in OMERS Energy, CEDA, Airports Worldwide, Lottery Operations and OMERS Ventures as well as the positive market valuations in the portfolio.

Looking Ahead

OSI has assisted with developing and extending OMERS investing relationships around the world. To date this has contributed to the success of the GSIA and has already contributed to the identification of investment opportunities. Over time we expect that these relationships will continue to develop and lead to additional co-investment opportunities with like-minded investment partners for both OSI and the other Investment Entities.

In 2014 OSI will continue the process of building our organization to acquire and actively manage a larger portfolio of “first mover” initiatives and investments. Additional investments would likely include increased investment through our existing platforms, OMERS Energy, OMERS Ventures and Airports Worldwide as well as investments in natural resources, innovation, and new sectors and new markets.

OMERS Pension Services

OMERS Pension Services is the primary communications link with our members, employers and stakeholders. We provide excellent service, ensure rapid response times and we continue to evolve with the move to a client-centric service model.

Today, we operate in a challenging and changing environment. Internally, we face the challenge of an aging membership and longer retirements. The ratio of active-to-retired members in the OMERS Plan has declined significantly over the years. In 1970, the ratio was about 19:1. By 1995, the ratio had declined to 3 to 1. It is now 2.1 to 1 and by 2025 it is expected to have declined even further to 1.5 to 1. The decline in the proportion of active members coupled with the fact that members are living longer increases the cost of providing for pension benefits.

Externally, we operate in an era of pension reform and public debate on pensions. Conflicting and misguided information about pensions and pension scrutiny has created a challenging communication environment for us. Our focus has shifted from simply administering the OMERS Pension Plans to responding to and partaking in pension reform and the public debate on pensions.

As governments come to terms with an aging population and tackling a pension system with cumbersome regulatory barriers to growth and change, OMERS contribution to this public debate has become very important as we have the experience and expertise. Through advocacy and collaboration with other pension plans, we have exhibited leadership in the industry. Our reputation speaks for itself; we can offer solutions for innovative pension reform to improve retirement income coverage for Canadians and ensure reform supports OMERS strategic initiatives.

We also know that the defined benefit (DB) pension plan model like OMERS has significant long-term positive impact on the economy. Two studies conducted by the Boston Consulting Group released in 2013 showed that large public pension organizations help to strengthen the Canadian economy, provide Canadians with one of the strongest retirement income systems in the world, and contribute significantly to national prosperity. The studies also revealed that retirees with a DB pension like OMERS contribute significantly to the economy through spending and taxes and are less likely to rely on government assistance.

Given the importance of the DB pension model and challenges we face today, moving forward we will be innovative and connect with clients to create OMERS advocates and ambassadors. Looking into the future, we expect that the size advantage and economies of scale that OMERS currently possesses can be maintained through growth.

Through our strategies, decisions and day-to-day activities we will leverage the four key pillars of Pension Services Strategic Operating Plan to engage and connect with our clients, grow, innovate and deliver on our pension promise to members. The four pillars are:

1. Research-Driven Client Focus

We will engage our clients to deepen the relationship and create advocacy for the OMERS brand.

This entails researching and better understanding what pension information and services are important to members which will guide us as we work to enhance awareness of options such as Additional Voluntary Contributions (AVCs) as well as implement a client-focused online communications strategy.

2. Innovative Products and Services

We understand the importance of developing innovative products to increase value to our stakeholders and grow our membership.

In 2013, in response to member and employer requests, changes to the innovative AVC program were implemented to provide more flexibility and options for participants. Participants can now make catch-up payments for automatic contributions to an AVC account, transfers to an AVC account are available year-round, and employers can choose to offer payroll deductions for AVCs.

3. Talent and Knowledge Management

Our organizational agility depends on developing the skills for the future through a talent and knowledge management program to meet the changing needs of the business and our employees.

Talent and knowledge management at OMERS is focused on developing integrated strategies to increase workplace productivity through improved processes for attracting, developing and retaining our people. This work reflects our belief that OMERS needs to ensure it possesses the required skills and aptitude to meet current and future business needs.

4. Deepen Strategic Relationships

We will deepen our relationships and build partnerships with industry and government leaders and key stakeholders.

Strengthening and building relationships with stakeholders is of vital importance to OMERS success. By continuing to deepen our engagement with stakeholders, we will continue to be trusted advisors and, in the process, create OMERS advocates along the way. These relationships will ensure our views are sought after and we remain a relevant voice in the pension landscape.

Enhancing Internal Capabilities

We continue to build our internal capabilities by enhancing our internal structure, systems and processes. In 2013, we continued to make significant progress in meeting the changing demands of the business and our members.

With the successful launch of the first phases of our new pension services systems, we began the direct collection and storage of member contact information and made changes to streamline the member enrolment process. As a result, two-thirds of enrolments submitted by employers are processed on the same day; previously 90% were held up while waiting for additional information to be submitted. Through direct communication, we can begin to engage and connect with Plan members to enrich their experience at key points in their OMERS lifecycle, for example, when they join the Plan and as they approach retirement.

The redevelopment of our pension services systems is a multi-year project and work on it will continue into the next few years. It is one of the key components in our ability to meet the changing pension business landscape, manage increasing Plan complexity and migrate successfully to a client-centric service model.

Our Reach at a Glance

Our membership is diverse and its growing and changing needs influence and drive our business.

- We now serve 982 employers and a total of 439,528 members a 2.5 per cent increase over 2012 (see charts A and B in this section).
- As shown on chart C in this section our members belong to a wide variety of unions and associations.
- Almost 1 in 20 people employed in Ontario is an OMERS member.
- The number of active members 45 years of age and older has increased from 48 per cent of total active members in 2003 to 58 per cent in 2013.
- The number of individuals receiving an OMERS pension continues to grow with over 7,600 new pensioners in 2013. At the same time, the ratio of active-to-retired members is on the decline.

Service and Performance

Our performance in 2013 against a demanding and growing number of transactions confirms our commitment to meeting the challenge of continuing to provide great service, while keeping the pension promise.

In 2013:

- we answered 90 per cent of incoming calls to Client Services within 100 seconds exceeding the target of 80 per cent in a year that saw OMERS Client Services handle over 194,500 incoming and outgoing calls;
- we managed over 19,400 retirement, termination, disability and pre-retirement death benefits claims, approximately 87 per cent of which were initiated through the employer e-access channel or myOMERS;

- we received requests for over 100,000 retirement and termination estimates, representing a 12 per cent increase over last year, and we delivered almost 350 member information sessions;
- we processed 3,626 transactions for members buying back employment service (buy-backs);
- we continued our practice of meeting and communicating with employers and members through a total of 1,800 onsite visits to educate, inform and provide technical support;
- OMERS had approximately 940,000 website visits; and
- we met or exceeded our targets for our key service standards by processing all key business activities within an average of three business days.

Also in 2013:

- the results of our independent survey of our members showed an average satisfaction rate that remains high at 87 per cent for the overall level of service (see chart E in this section); and
- in CEM's annual evaluation of pension plans from around the world, OMERS total score for pension service was 85 out of 100, compared to a peer medium of 76. OMERS also showed industry leadership for high productivity while maintaining lower than average administration costs as compared to 63 peer plans from around the world. CEM Benchmarking Inc. is an independent research firm that conducts an annual evaluation of pension plans in Canada, the US and Europe. The study was based on 2012 data.

At year-end 2013, 95,380 members had registered for myOMERS, an increase of 25% from 2012. myOMERS gives members secure access to their pension information, the option to receive e-statements, the ability to complete their own pension estimates using the myOMERS Retirement Income Estimator tool and the ability to sign up for AVC program.

Financial Profile

- OAC collected a total of $3,544 million (2012: $3,143 million) in contributions from members and employers, and we paid retirement and disability pension payments totaling $2,437 million to our retirees and survivors, compared with $2,256 million in 2012. In addition, where individuals transferred to other registered pension plans, received death benefits or chose to leave the OMERS Plan and forego their guaranteed monthly pension benefit, payments of $467 million were made in 2013 (2012: $410 million).
- In 2013, OAC received a total of $110 million (2012: $117 million) in funds from members transferring their benefit from another pension plan into the OMERS Plan, buying back employment service and making other types of service purchases.
- By the end of 2013, almost 10,000 OMERS members contributed to an AVC account resulting in a total accumulation of funds (including investment earnings) of $276 million (2012: $170 million).
- The average annual pension for a newly retired member in 2013 was approximately $28,300 (see chart F in this section). The average annual amount of pension for all retired members and survivors in 2013 was approximately $19,300 (2012: $18,600).

Chart A - Member Profile
as at December 31, 2013

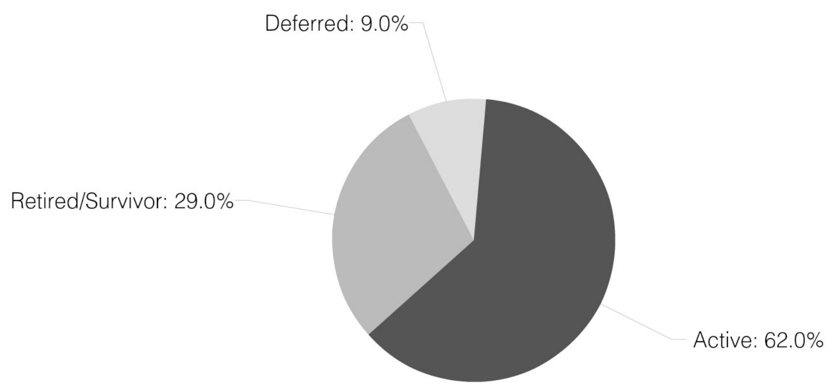


Chart B - Active Members by Age
As at December 31,

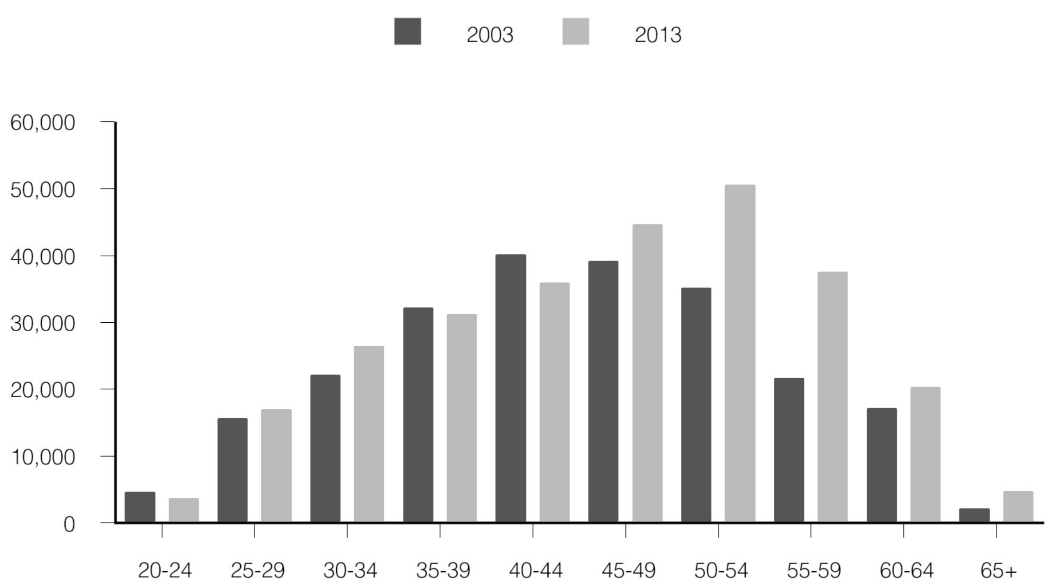


Chart C - Active Member Affiliation
as at December 31, 2013

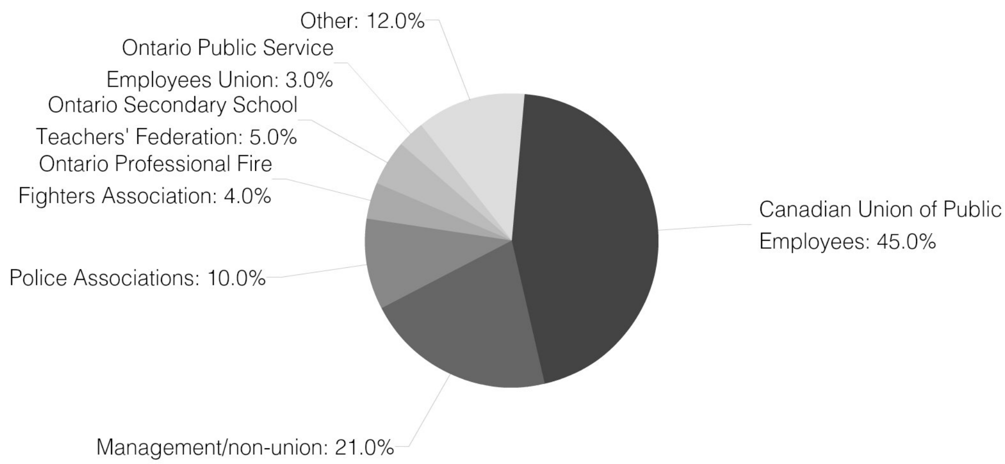


Chart D - Average Annual Pension for New Retired Members 2008-2013
As at December 31,

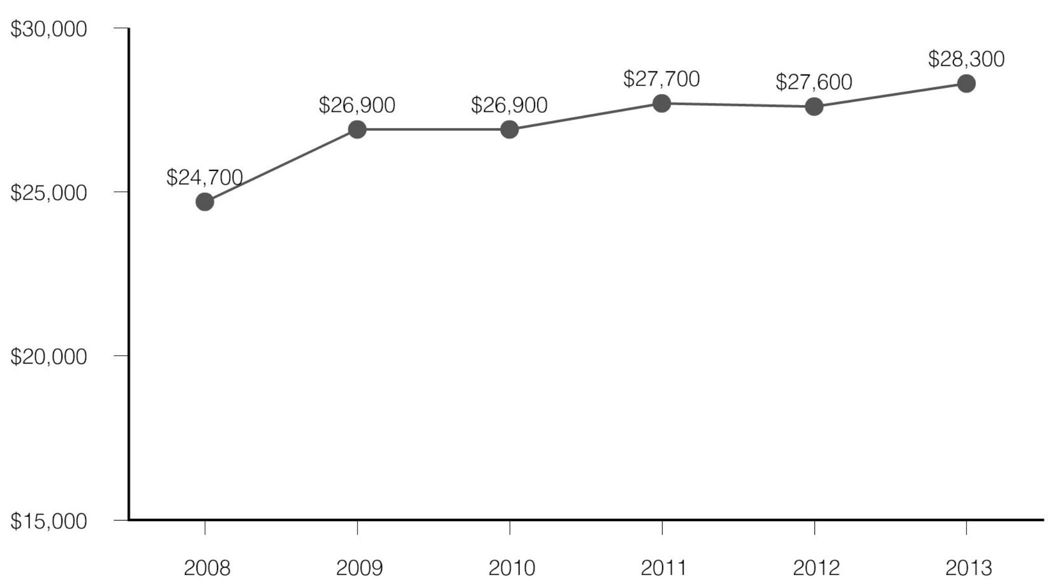
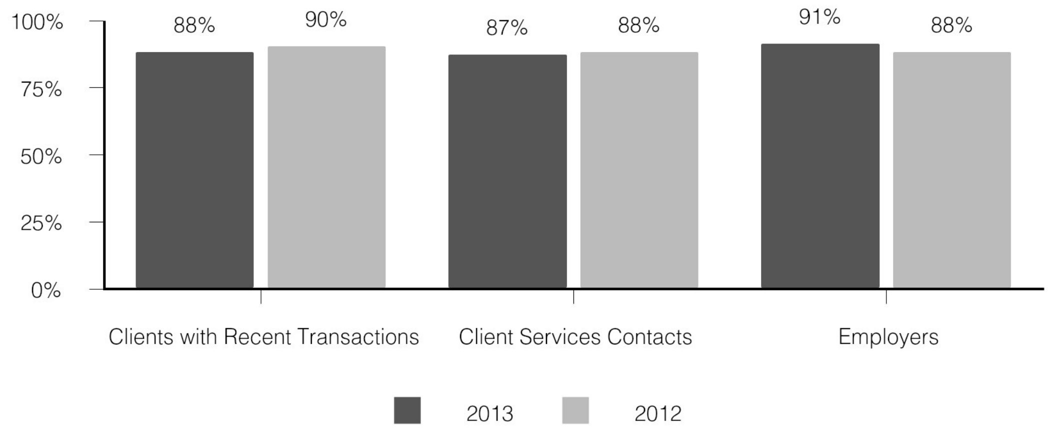
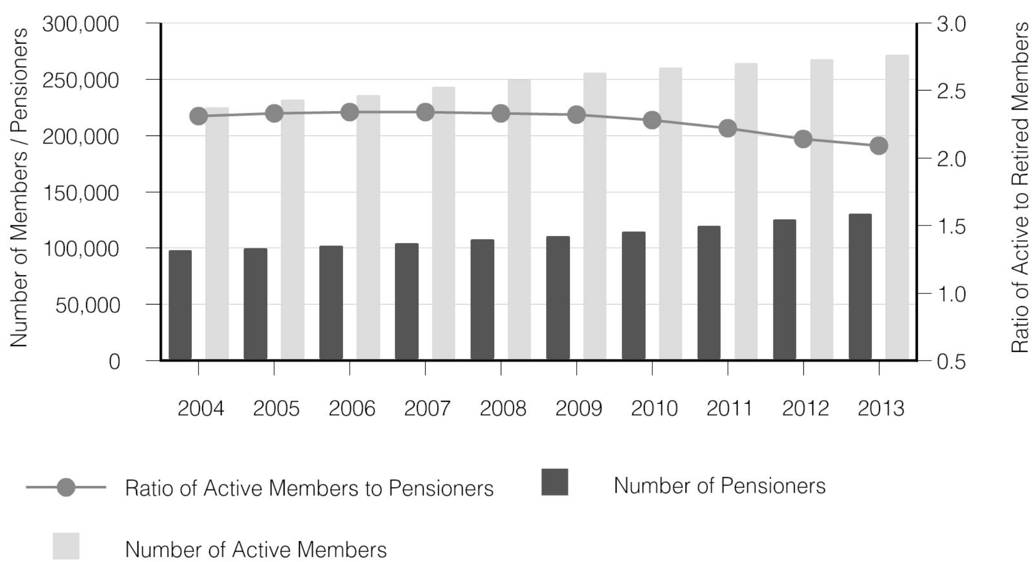


Chart E - Satisfaction Surveys*
For the years ended December 31, 2013 and 2012



* Percentage of respondents who rated OMERS 4 or 5 out of 5 for service excellence

Chart F - Growth in number of pensioners and active members



State of the Plan

The Plan achieved a reduction in funding deficit of $1.3 billion with the actuarial deficit declining to $8.6 billion at December 31, 2013 compared to $9.9 billion at December 31, 2012. The Plan's funded status has also improved to 88.2% at December 31, 2013 compared to 85.6% at December 31, 2012.

The funding deficit is the difference between the Plan's accrued pension obligation, a point-in-time projection reflecting benefit payment cash flows over the next 70 or 80 years to every OMERS member, and the actuarial value of net assets. It is not an annual budget shortfall; it does not accumulate year over year into a growing debt. In a sense, it represents a very early recognition of a funding shortfall that would not otherwise be apparent for decades.

Although the funding deficit doesn't impact our ability to pay pensions in the short- or medium-term, it informs the Plan to proactively deal with the funding deficit and protects Plan members. The Plan provides a secure future and gives the assurance, even to those starting work today, that their pension is well managed and will be there for them when they retire.

Many important financial and demographic factors are considered by OAC's external actuary when estimating OMERS long-term pension obligations and funded status. Uncertain markets can lead to volatile investment returns.

Financial factors include:

- market conditions and the economic outlook;
- member salary trends;
- discount rate;
- inflation expectations; and
- asset values taking into account smoothing and its impact on assets in the prior five years.

Demographic factors include:

- increases in life expectancy;
- the aging of plan membership; and
- retirement trends, including early retirement patterns.

Plan Funding Status

Each year an independent actuary determines the Plan's funded status by comparing the actuarial value of net assets to the accrued pension obligation (i.e., the estimated present value of all pension benefits that members have earned to date). This present value of earned benefits is a "target" used to evaluate whether the assets set aside in the Fund are on track to meet the pension promise in the future, based on a number of estimates and assumptions about the future. On December 31, 2013, the accrued pension obligation for all members (including survivors) of the defined benefit component of the Plan was $73,004 million, compared with $69,122 million a year earlier. The increase of $3,882 million was primarily due to interest on the accrued pension obligation plus new benefits accrued during the year, partially offset by benefits paid in 2013 and the net impact of actual economic and Plan demographic factors being $283 million more favorable than what was assumed for 2013 (2012: $474 million less favourable than that was assumed). For the AVC component of the Plan, the accrued pension obligation is equal to the AVC net assets.

The Plan reports a surplus/deficit position both for accounting purposes and for the funding of the Plan. For accounting purposes, the surplus/deficit position is based on the fair value of net assets compared to the accrued pension obligation. In arriving at the funding surplus/deficit, net investment returns above or below the long-term nominal net actuarial rate of return assumption (i.e., the discount rate) are deferred and amortized over five years to "smooth out" the peaks and valleys in an individual year's investment returns caused by market volatility. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The impact of smoothing is reflected in the actuarial valuation adjustment, based on the difference between the current year's actual net return and the long-term nominal net actuarial rate of return (expected inflation of 2.25% plus 4.25%, equivalent to 6.50% in 2013) which is deferred and recognized over five years, adjusted for the recognition of corresponding amounts from the four preceding years.

The fair market value of the Plan's defined benefit component net assets as at December 31, 2013 was $64,704 million compared with the actuarial value of net assets of $64,363 million. The difference between the market value and the actuarial value is the actuarial valuation adjustment representing unrecognized net gains of $341 million as at December 31, 2013, which will be recognized in the actuarial value of net assets over the next four years. After application of the long-term nominal net actuarial rate of return, which is essentially the interest on the unrecognized losses from prior years (as discussed in Note 8 of the Consolidated Financial Statements of this annual report) and before recognizing any future year's investment income above or below the long-term nominal net actuarial rate of return, the impact of the unrecognized net losses on the Plan's surplus/deficit position by year of recognition will be as follows:

For the year ending December 31,		Net gains/(losses)
2014	$	365
2015		(234)
2016		329
2017		(88)

Based on the fair market value of the Plan's net assets, the deficit as at December 31, 2013 was $8,300 million compared with a deficit of $8,603 million at December 31, 2012, a decrease of $303 million. The decrease in the market value of the deficit is primarily attributable to actuarial gains.

Based on the actuarial value of the Plan's net assets, the funding deficit was $8,641 million as at December 31, 2013 (2012: $9,924 million). The Plan's funding deficit is expected to continue to decline assuming no changes in the current contribution schedule and benefit provisions and that actual plan experience unfolds in accordance with actuarial assumptions.

Deficit Based on Fair Value vs. Actuarial Value of Net Assets

As at December 31,		**2013**		2012
Fair value of net assets of the Plan, excluding AVCs	**$**	**64,704**	$	60,519
Accrued pension benefit obligation		**73,004**		69,122
Plan Deficit Based on Fair Value of Net Assets		**(8,300)**		(8,603)
Actuarial value adjustment		**341**		1,321
Plan Deficit Based on Actuarial Value of Net Assets	**$**	**(8,641)**	$	(9,924)

Current Year Change in Funding Deficit

The funded ratio (actuarial value of net assets divided by accrued pension obligation) at December 31, 2013 is 88.2% compared with 85.6% a year earlier. The ratio of the market value of net assets at December 31, 2013 is 88.6% compared with 87.6% a year earlier.

Funding Outlook

Pension law requires that pension plans such as the Plan take steps to return the fund assets to 100% of the long-term obligations over time. OMERS has a strategy consisting of three components to return the Plan to a fully funded position:

1. an investment strategy designed to generate strong and stable investment returns over the long term,and to generate stable gross returns of 7% to 11% per annum on average;
2. contribution rate increases that were phased in over three years from 2011 to 2013. The contribution rate and benefit measures are set and reviewed annually by the SC; and
3. a benefit reduction starting in 2013 that impacts only Plan members who leave their employment before they are eligible for retirement.

The current contribution rates and benefit provisions (which reflect the changes described in points 2. and 3. above) remain in effect until subsequently revised by the SC.

While OAC's investment strategy is focused on earning consistent and reliable returns over the long term, the short-term objectives are to return the Plan to surplus between 2021 and 2025. In the meantime, OAC continues to carefully monitor any pressures on the funding of the Plan.

Pension plan funding is made up of two components, the amount required to fund the cost of benefits earned by active members in respect of the current year, which is the normal actuarial cost, and the amount required to eliminate any actuarial funding deficits that have emerged. OAC determines these minimum funding requirements.

The SC is responsible for Plan design changes and setting the Plan's contribution rates to ensure the adequacy of funding as well as determining when an actuarial valuation of the Plan should be filed, subject to the requirements under regulations. Under Ontario provincial regulations, a pension plan must file an actuarial valuation report at least once every three years and at that time must take measures to eliminate any going-concern and solvency deficits. The Plan's December 31, 2012 actuarial valuation was filed with the Ontario pension regulator in 2013 and the next required filing is the December 31, 2015 actuarial valuation, although the SC has the discretion to file earlier.

Employer contributions equal member contributions under the Plan.

Temporary contribution rate increases introduced in 2010 for years 2011 to 2013 have now been fully implemented. 2014 contribution rates will remain the same as 2013. The resulting contribution rates for members with normal retirement age ("NRA") 60 and 65 for 2012, 2013 and 2014 are shown in the table below.

	2014	2013	2012
NRA 65			
- Up to YMPE (i)	**9.0%**	9.0%	8.3%
- Above YMPE (i)	**14.6%**	14.6%	12.8%
NRA 60			
- Up to YMPE (i)	**9.3%**	9.3%	9.4%
- Above YMPE (i)	**15.9%**	15.9%	13.9%

(i) YMPE is the Year's Maximum Pensionable Earnings as set by the Canada Revenue Agency. For the years above, YMPE was as follows: 2014: $52,500; (2013: $51,100) (2012: $50,100.)

Actuarial Assumptions

In calculating the funded position and the normal actuarial cost to ultimately provide benefits for active members, the actuary makes various demographic and long-term economic assumptions. Demographic assumptions are used to project the future benefits payable to members and beneficiaries and include assumptions about mortality rates, termination rates and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Plan and on the expectations for future trends. Economic assumptions about future investment returns (i.e., the discount rate), inflation and member salary increases affect both the projected benefits and the present value of those future benefits. OAC's independent actuary's major economic assumptions included in the going-concern funding valuation and normal actuarial cost as at December 31, 2013, which were approved by the Board, are summarized below.

Inflation Rate

The Plan has used an inflation rate assumption of 2.25% per annum for future years in the calculation of future indexing adjustments, as a component of the nominal discount rate for estimating liabilities and the anticipated salary increases, consistent with 2012. Any variation in the actual inflation rate from this assumption will result in experience gains (lower accrued pension obligation due to lower inflation than assumed) or losses (higher accrued pension obligation due to higher inflation than assumed) to the Plan.

Discount Rate

The discount rate is the Plan's long-term nominal net actuarial rate of return and is assumed to be 6.50%, the same as 2012. This is based on the 2.25% assumed inflation and a net real investment return assumption, based on the Plan's long-term strategic asset mix of 4.25%. A decrease/increase of 50 basis points in the real discount rate, with no change in other assumptions, would result in an approximate increase/decrease of $5,800 million in the total accrued pension obligation of the Plan.

The net real investment return assumption used in 2013 is unchanged from that used in 2012. It includes a margin to account for potential adverse investment experience so that over the long term there is a greater chance of actuarial gains than losses arising from the Plan's assets.

Salary Increases

The accrued pension obligation includes an assumption about future increases in the salaries of active members. The salary increase assumption uses an age-based scale which allows for increases in productivity as well as merit and promotion-related earnings increases. For members with normal retirement age of 60, the assumption also includes service-related increases. The assumed average real salary increase (increase in excess of inflation) for the December 31, 2013 valuation is as illustrated below and is unchanged from 2012:

	NRA 60		NRA 65	
	Up to 2014	After 2014	Up to 2014	After 2014
Average annual real salary	1.4%	1.9%	1.1%	1.6%

Mortality

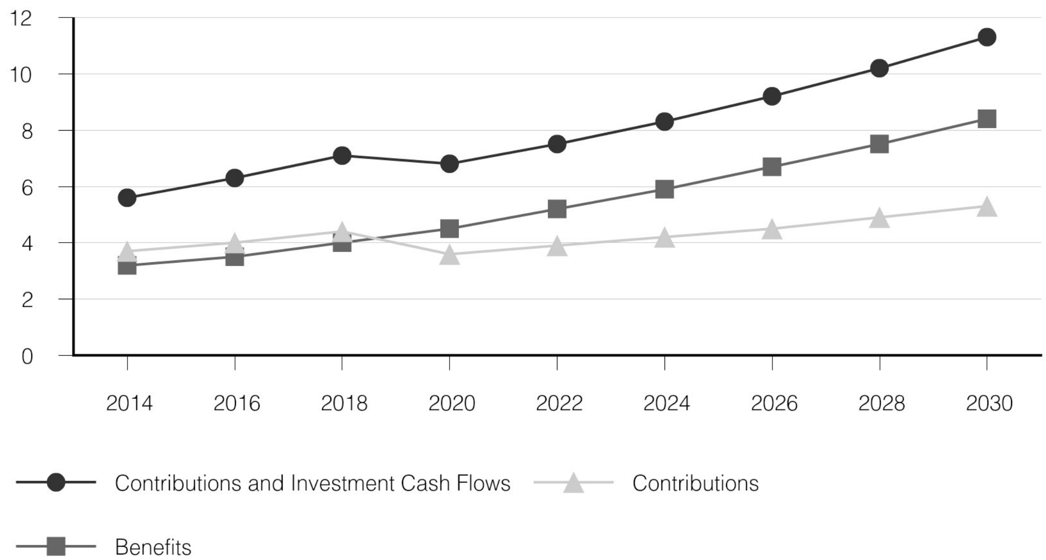
The Canadian Institute of Actuaries (CIA) released a report on February 13, 2014 indicating that Canadians are living longer. The fact that Canadians are living longer will increase the cost of paying future pensions and it could impact the Plan. OAC will be conducting an in depth study in 2014 to evaluate the Plan's actual mortality experience against the recommendations of the CIA report. The outcome of this study will determine if adjustments to its mortality assumptions are required and how and when the resulting changes would affect the funded status of the Plan based on the recommendations of OAC's independent actuary.

Sustainability of pension payments

As for OMERS ability to pay pensions every month, the Plan is healthy and operating well. OAC has built a balance sheet that bodes well for the Pension Plan's financial sustainability. Depending on contribution rates, cash flows from employers and plan members are expected to continue to exceed benefit payments until around 2020. Layering expected investment cash flows on top of the contributions and assuming the Plan continues to produce returns at an average annual rate of 8%, total cash flows are projected to exceed benefit payments well into the 2030s ensuring sufficient long-term liquidity to protect the Pension Plan's capital base. Therefore, the Plan's outlook is very positive and it is not expected to face a cash shortfall in the foreseeable future.

Cash Flows vs. Benefit Payments

Investment cash flows based on net assets earning an average 8.0% annually



In 2013, the Plan ended the year with over 129,000 retired members and survivors receiving pension benefits. Benefits paid from the Plan defined benefit component in 2013 were $2,895 million, an increase of $241 million over 2012. The increase reflected new retirements, the adjustment of benefits for inflation, as well as an increase in death benefits and commuted value payments. Withdrawals from the AVC component were $6 million (2012: $4 million) and benefits paid from the RCA in 2013 were $9 million, a decrease of $3 million from 2012.

Contributions to the Plan's defined benefit component in 2013 were $3,523 million compared with $3,124 million in 2012. The increase is attributable to an increase in active members of 1.5% increased members' salaries and an increase in contribution rates. Contributions to the Plan's AVC component were $100 million in 2013, compared to $67 million in 2012. Contributions to the RCA in 2013 were $21 million, an increase of $2 million over 2012.

Retirement Compensation Arrangement for the OMERS Primary Pension Plan

The RCA is funded using a modified pay-as-you-go approach, where inflows from contributions, investment income and the reimbursement of the refundable tax from CRA are used to pay the current benefits to members. The excess of current contributions and investment income over current benefit payments is accumulated for future years' benefit payments. As a consequence of this modified pay-as-you-go funding policy, the RCA's assets will remain small relative to its liability. A relatively small increase in the number of terminations and retirements at higher income levels can increase actual benefit payments from, and decrease actual contributions to, the RCA; however, OAC's independent actuary estimates that if contributions to the RCA continue as projected, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the near term. Effective January 1, 2012, the funding of the RCA is managed and monitored to ensure that the current RCA net assets together with future contributions and earnings will be sufficient to provide for the projected benefit payments over the 20-year period following each valuation date. The RCA accrued benefit obligation is also sensitive to changes in assumptions and experience gains and losses.

The accrued pension obligation for the RCA increased from $555 million in 2012 to $614 million at the end of 2013. The change was due to new benefits earned in the year, interest on the accrued pension obligation, experience gains/losses, partially offset by the monthly benefit and lump sum payments made in the year. The RCA had an estimated funding deficit of $513 million at December 31, 2013 compared with a deficit of $477 million at the end of 2012.

Enterprise-Wide Strategic Plan

The OAC 2013-2017 Enterprise-Wide Strategic Plan is the joint product of the Board and Management of OAC. The goal of the rolling five-year Strategic Plan "Creating Surplus Wealth for Plan Members and Sponsors" is unchanged since inception of the strategic planning process in 2008. While the investment strategy is focused on earning consistent and reliable returns over the long term, the short-term objectives are to return the Plan to surplus between 2021 and 2025.

The Strategic Plan positions OMERS as a dynamic organization that thinks strategically, embraces innovation and is ready to move into new markets and new products that have different risk and return profiles than our core platforms. The Strategic Plan encapsulates:

- Corporate governance and the relationship between corporate executive leadership and board oversight. Getting the management and governance components right facilitates the achievement of key strategic initiatives.
- Corporate structure and incremental initiatives to achieve greater efficiency, productivity and cost management among the corporate office, core investment platforms and Pension Services and the role of OMERS Strategic Investments as a multi-purpose platform in finding opportunities outside the mandates of the core investment platforms.
- Pension innovations to make plan consolidation and member growth attractive to other pension plans, improve plan demographics, moderate rising costs and increase access to new capital.
- Investment innovations in particular increasing access to third-party capital sources which enable us to invest in high-performance large-scale private market investments in which we would not otherwise invest on our own for risk management reasons.

By 2017, OMERS plans to evolve further as a solid, sound and sustainable pension-based enterprise, with a new generation of executives assuming enterprise leadership. With OAC and SC Board collaboration, OMERS will pursue a global reputation for excellence and innovation in pension governance, pension plan management and pension fund investing.

Management continues to believe that the six pillars discussed below, which remain unchanged since the inception of the strategic planning process in 2008, will help us realize the ideas and ambitions contained in the 2013-2017 Strategic Plan.

1. Asset Mix Policy

We continue to believe that an asset mix with greater exposure to private market investments positions the Plan to generate strong, predictable returns and consistent cash flows with reduced risk to meet its funding requirements over the long term. Our target asset mix allocation to public market investments, such as public equities and interest bearing investments, remains 53% of the Plan's net investment assets with the remaining 47% representing exposure to private market investments, such as private equity, infrastructure and real estate. These allocations are influenced by the availability of attractive private assets and the flow of capital between public and private markets. We place a wide minimum/maximum discretionary band around the allocations to provide flexibility in responding to economic and investment market conditions.

At the end of 2013, the Plan's exposure to public markets investments was 57.4% (2012: 59.8%) of net investment assets and private markets investments represented 42.6% (2012: 40.2%) of net investment assets. The investment in private markets is up from 40.2% at December 31, 2012 due to the strong performance of private market investments in 2013. With significant private market investment opportunities developing, our goal is to achieve the long-term target of 47% for private market investments by 2016.

2. Direct Drive Active Asset Management

OAC has made significant progress in actively managing an increasing proportion of its investments internally to enhance returns and reduce investment costs. The principal drivers are increased direct drive active management of foreign publicly traded equities and private equity investments. Our long-term goal is to have 95% of total fund assets directly managed. The transition to internal management has produced cumulative savings (net of incremental staff and related costs) of $181 million. Total fund assets managed internally were 88.4% as compared with 88.3% at the end of 2012. This increase is attributable to ongoing implementation efforts of both OMERS Capital Markets and OMERS Private Equity.

3. Access to Domestic Capital

Our strategy of accessing domestic capital to build a larger capital base to pursue attractive investment opportunities has been successfully implemented on multiple fronts, and our initiatives are gaining momentum.

OMERS Investment Management ("OIM") is a strategic platform established by OMERS with the principal objective to raise capital from pension plans and other eligible clients domestically within Canada. This additional capital will allow OMERS to build a larger capital base with which to pursue attractive investments. OIM offers eligible clients contracts that provide exposure to the annual investment return of the Plan or the annual investment return of OMERS assets managed by Borealis Infrastructure, Oxford Properties and the assets managed directly by OMERS Private Equity. In 2013, OIM closed contracts with 3 eligible clients totaling $524 million. Subsequent to year end, in January 2014, OIM closed $286 million in contracts with 2 additional eligible clients for total capital raised to date of $810 million. OIM's clients include defined benefit pension plans and endowment funds from the broad public sector (municipal, provincial, and education), as well as defined benefit pension plans from the private sector (public corporations). OIM is actively discussing its contract offering with prospective clients across Canada and expects to close additional contracts in 2014.

Since its implementation in 2011, the AVC program has attracted more than $276 million (2012: $170 million) from almost 10,000 members during a difficult savings period for workers paying higher mandatory contributions to the Plan. Achieving the strategic objective of a funding surplus sooner than later should relieve pressure on contribution rates and eventually encourage more members to save for retirement by contributing to the AVC program. Projected inflows from AVCs are expected to be between $600 million and $750 million by 2017. A potential expansion of the AVC program is to develop, pending the introduction of enabling regulations, an annuity income option for retired members seeking an attractive and affordable alternative to conventional annuity products at age 71.

We continue to pursue regulatory amendments to the *Pension Benefits Act* to facilitate asset transfer and ultimately plan membership growth.

4. Access to Foreign Capital

OAC continues its successful GSIA capital raise program. The initiative, a first for a Canadian pension plan, is gaining traction and has deepened OMERS global reach in accordance with strategic plans previously approved by the OAC Board. The GSIA has raised commitments of US$3.75 billion from three Japanese consortia to be invested alongside OAC's US$5 billion commitment to large-scale infrastructure investments under asset service agreements with Borealis Infrastructure.

5. Strategic Investment Opportunities

The OMERS Worldwide brand has been established through OSI as a unifying global brand to assist the Investment Entities in sourcing global investments. OSI is a multi-purpose investment platform designed as a catalyst for exploring, testing and developing new investment initiatives to enrich the Plan. We are continuing the process of creating a global investment footprint by (i) creating awareness about our GSIA initiatives by participating in leading business conferences and building relationships with business and government leaders, (ii) establishing a network of offices in major financial centres and (iii) building awareness of the intellectual capital of the entire enterprise under the OMERS Worldwide brand via a proactive media strategy.

Launched in 2011, OMERS Ventures partners with promising entrepreneurial companies with significant growth potential and market opportunities in the telecommunications, media and technology sectors. In 2013 OMERS Ventures made new investments in six promising Canadian firms, bringing the total investment portfolio to 19 companies. The goal is to partner with entrepreneurs through the entire investment lifecycle, adding value and helping them to build great companies.

6. Barriers to Growth

OAC continues to work with provincial and federal governments and others in the Canadian pension industry with respect to removing restrictive rules that act as barriers to the Plan's growth. In particular, OAC supports legislation and regulations to facilitate growth by expanding the Plan's membership and asset base through:

- the consolidation of other pension plans into the Plan,
- allowing the employees of the Investment Entities to participate in the Plan,
- ensuring that OMERS is not disadvantaged as a framework for Pooled Registered Pension Plans is developed and as other pension reforms are introduced.

While progress has been made, several legislative and regulatory impediments remain.

Although regulations under the *Pension Benefits Act* were introduced on January 1, 2014 to address asset transfers and plan consolidations between pension plans, these new regulations do not provide a comprehensive solution. Ontario’s 2013 Fall Economic Statement indicated that the remaining asset transfer regulations, such as those which would govern OMERS plan consolidation initiatives, would be introduced at a future date.

With respect to enabling the participation of OMERS Investment Entities in the Plan, Bill 135 amended the OMERS Act in 2010 to allow the participation of such groups; however, additional legislative or regulatory actions are necessary, the timing of which is uncertain. We believe this initiative enhances the alignment of our investment teams with the overall objectives of the Plan.

Risk Management

We are committed to providing secure pensions to our members by investing in a broad range of assets in a manner that strives to earn superior returns without taking undue risk, consistent with our risk appetite. OAC seeks to ensure that the value of the net assets of the Fund are sufficient to pay all pensions promised to members of the OMERS Pension Plans.

For a given contribution rate, our ability to meet the pension promise is affected by two factors:

- fluctuations in the value of the investment portfolio, which are driven by changes in investment markets as a result primarily of market, credit and liquidity risk; and
- changes in the value of the Plan's accrued pension obligation, which are driven by both economic and demographic factors.

Risk management is an essential part of our corporate and investment strategy as it can mitigate the negative impact of the above factors on the investment portfolio and the accrued pension obligation. Risk management is supported by our system of internal controls, programs such as Enterprise Risk Management and Investment Risk Management and our corporate policies including our Code of Conduct, Statement of Investment Authorities and Statements of Investment Policies and Procedures. We continually strive to improve our risk management practices which involve our Board, Management and employees across the enterprise. All employees are required to adhere to policies, procedures and standards that a prudent person would reasonably exercise when managing the assets of others.

Enterprise Risk Management

Enterprise Risk Management ("ERM") is an enterprise-wide program designed to identify, assess, report and monitor risks impacting the achievement of OAC's strategic and business objectives.

OAC manages risk within its Board-approved risk appetite and ensures ongoing dialogue and communication between the Board and Management on key risks impacting the enterprise. The ERM program enhances OAC's overall governance framework by embedding risk awareness and risk management into business activities across the organization and is guided by the following principles:

- Philosophy

  The enterprise will accept risk in line with its risk appetite. We believe that a proactive and systematic approach to managing risk benefits the enterprise through enhanced investment performance and enhanced brand and reputation. Our approach is to manage and control risk rather than avoid or eliminate it. We also believe that strong ERM practices allow for more informed risk-taking and decision-making.

- Culture

  The enterprise fosters a corporate culture in which informed risk-taking is accepted as fundamental to the business.

- Education

  The enterprise promotes training and risk awareness among OAC Board members and employees.

- Learning

  The enterprise promotes the review of past risk events to learn from prior experience.

- Standards

  A standardized risk management methodology is in place to promote consistency in the application of risk assessment, monitoring and reporting processes.

- Risk ownership

  Responsibility for the design of the ERM framework lies with the Enterprise Senior Leadership Team (ESLT). To support this responsibility, accountability is assigned for managing, monitoring and reporting of specific risks.

- Independent assurance

  The enterprise obtains periodic independent assurance on the design and operating effectiveness of its risk management and internal control programs.

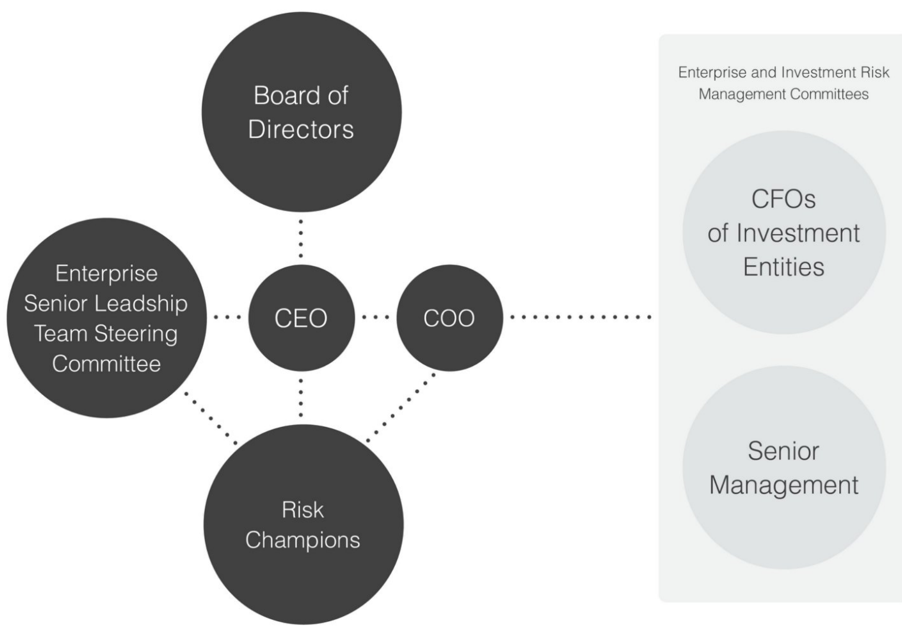
- Integration

  OAC promotes the integration of risk management into all areas of its business including pension administration; investment operations and decision-making; strategic and operational planning; financial reporting; and the design of compensation plans.

The ERM program enhances our overall governance framework and our ability to: (i) identify and manage risk on an integrated basis; (ii) apply consistent risk standards, concepts and policies across the organization; and (iii) make the concept of risk assessment and management an integral and sustainable part of OMERS business operations.

OAC's customized ERM program is based on the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management - Integrated Framework. As illustrated in the chart below, the program is led by the ESLT Steering Committee chaired by the CEO. Each risk has been assigned to an executive Risk Champion, who is responsible for understanding and assessing the risk, and for actively liaising with subject matter experts across the organization. There are two cross-functional and cross-enterprise risk committees, comprised of all Investment Entity Chief Financial Officers ("CFOs") and corporate Senior Management, who are responsible for facilitating the documentation and communication of risk management activities throughout OMERS.

OAC Enterprise Risk Management Program Organization



The primary oversight responsibility for risk management rests with the OAC Board. The OAC Board receives annual and quarterly risk reporting on the status of key risks and related mitigation plans, as well as the identification of any new or emerging risks.

As part of the annual ERM process, all Investment Entities and functional areas are required to perform a risk assessment to identify key risks to the achievement of their respective strategic and business objectives. In addition to ongoing risk assessments, key projects and strategic initiatives are also subject to a rigorous assessment of risks to identify potential gaps and action plans, where necessary.

Risks Affecting the OMERS Pension Plans

The Enterprise Risk Management program has identified four categories of risks that could potentially have an adverse effect on the OMERS Pension Plans:

- investment risks (market, credit and liquidity risk) that are an inherent part of investing in public and private markets;
- an array of operational risks (including employee engagement, employee conduct, client service and fraud risk) that we face in our business operations;
- strategic risks inherent in the execution of our long-term plan (including funding and strategy and planning risk); and
- legal and compliance risks (including fiduciary, regulatory and contractual risk) that we deal with in the management and administration of the OMERS Pension Plans under the laws of Canada as well as laws and regulations of the various countries in which we invest.

Investment Risk

OAC manages investment risk through its Investment Risk Management Framework, which is comprised of five steps:

- identify investment risk inherent in assets both in absolute terms and relative to the objectives and strategies of each portfolio;
- measure/assess investment risk consistently and objectively;
- manage investment risk on an ongoing basis with the objective that returns should be commensurate with the risks taken;
- report and monitor investment risk on a regular basis; and
- review the effectiveness of the Investment Risk Management Framework to continuously improve OAC's ability to manage its investment risks.

The Plan invests in a combination of public and private equities, commodities, infrastructure, real estate and a broad range of interest bearing instruments in various currencies. The long-term expected return from such an investment portfolio is used to set the funding target of the Plan. This investment strategy diversifies the investment portfolio and assists in maintaining stable and cost-effective contribution rates. The future values of investment assets and liabilities are not known with certainty and change over time. Investment risk reflects the possibility that the return on the Funds' assets will deviate from the actuarially assumed long-term rate of return as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all investments traded in the market.

The assumption of investment risk is necessary to meet the Plans' benefit obligations at a reasonable cost. The goal of investment risk management is not to eliminate risk, but to find a balance between expected returns and the risks required to generate those returns. Further, it is generally accepted that expected investment returns (positive or negative) increase with the amount of risk taken. The higher the risk involved in an investment, the higher the expected return (or potential loss) from that investment. Investment risk is neither good nor bad; a certain amount is needed to generate investment returns required to maintain stable and cost-effective contribution rates. The OAC Board defines the amount of investment risk to be taken through (i) policies, (ii) delegations and (iii) the long-term strategic asset mix.

i) Policies

The OAC Board, through, among other policies, the Statement of Investment Beliefs and the Statements of Investment Policies and Procedures, provides direction for the investment management and administration of the Funds in a manner consistent with the views of the OAC Board.

ii) Delegations

The OAC Board annually delegates certain investment approval authority to the CEO. The Statement of Investment Authorities policy defines delegated authorities including borrowing, follow-on investments and material changes to those decisions. Within the delegated authorities from the OAC Board, the CEO may sub-delegate limits to senior management of OAC or the Investment Entities.

iii) Long-term strategic asset mix

OAC has established an Asset/Liability Management (ALM) process that is critical in setting a long-term strategic asset mix that is expected to generate a real rate of return necessary to meet the Plans' benefit obligations at a reasonable cost and is diversified among asset classes in order to reduce the variability of returns. The ALM process monitors and assesses the long-term strategic asset mix on an ongoing basis and takes into account multiple factors such as the Accrued Pension Obligation, economic and investment environment and incorporates stress and scenario testing of inputs and assumptions.

The ALM process generates several alternative asset mixes that are assessed against the liability structure of the pension plan. The ALM process is used to identify the strategic asset mix which is most likely to:

- provide the investment return required to meet the pension promise; and
- generate additional surplus wealth

while striking an acceptable balance between risk and return.

The OAC Board completed its last asset/liability analysis in October 2012 and confirmed the strategic decision to continue moving towards a 53% public markets and 47% private markets asset mix.

OAC utilizes analytical and reporting tools including: enterprise-wide and Investment Entity-specific policies; ALM analysis; actuarial valuations; risk measures; multiple Board and Management reports; rigorous due diligence and internal 'direct drive' asset management processes to manage investment risk at the enterprise and Investment Entity (public market and non-public market) levels.

OAC ensures that investments are well diversified across assets, industry sectors and geographic regions in order to have different segments of the investment portfolio exposed to different investment risks. This reduces the overall volatility of returns and insulates the investment portfolio from the negative impact of adverse returns in any one asset class, industry or region.

Market, credit and liquidity risks are discussed in our Consolidated Financial Statements in this annual report.

Operational Risk

Operational risk is the risk of loss arising either directly or indirectly from operational error due to failure in processes, systems, technology, actions of personnel or due to unforeseen external events. Our framework of policies and procedures is designed to identify and manage operational risks through the implementation of controls over data integrity, information processing, and management of information technology. These controls are independently reviewed through internal audits and the annual review of our internal controls over financial reporting and disclosure controls discussed in the Governance Section of this Annual Report.

People Risk

A key component of operational risk is people risk. Our human resources practices are designed to mitigate people risk including the loss of key personnel. As OMERS implements its direct drive strategy and repatriates assets from external fund managers, continuing to manage people risk remains a focused priority for the Board and Management.

Information Technology Risk

Information technology and security is a key element of our business operations. Virtually all areas of our business use technology and information to support the achievement of strategic and business objectives. Technology risks include risks associated with data integrity, information security and systems availability and capacity. These risks are actively managed through information security policies and procedures, privacy policies, disaster recovery programs and an annual review of key information technology general and application controls.

Business Continuity Risk

Business operations could be impacted by unforeseen internal or external events, including man-made or natural disasters. To manage this risk and ensure the ongoing operation of critical business functions in the event of a business continuity incident, OAC and its Investment Entities have business continuity and emergency response plans in place. These plans include off-site backup facilities to minimize downtime and increase recovery time in the event of a disaster.

Model Risk

The use of complex models plays an important role in many of our business operations, including investment valuation, risk measurement and asset liability management. Model risk is the risk of error in the development, implementation and use of models. To manage this risk, OAC and its Investment Entities have developed and implemented systems of internal control over the accuracy and completeness of data input into and generated by models. These controls are independently reviewed through internal audits and the annual review of internal controls over financial reporting. In addition, risks associated with information reliability are assessed as part of the annual ERM risk assessment process.

Strategic Risk

Strategic risk is the risk of not achieving our long-term strategic goals and objectives. The Board and the CEO manage the achievement of our strategic goals by overseeing our policies and the planning and achievement of our long-term goals. The CEO is accountable to the Board for decisions relating to the day-to-day management of the OMERS Pension Plans and the Funds including funding policy, investment strategies and investments pursued, investment management styles and operating results. To manage this risk, we have established a governance framework, a business strategy development process and performance measures.

Funding Risk

The OMERS Pension Plans' funding is a significant strategic risk. Inappropriate policies or decisions related to asset allocation or actuarial methodologies and valuation processes can impact the funding of the OMERS Pension Plans. Our ability to pay pensions is not only subject to investment risks but is also subject to the risks associated with the assumptions used in the valuation of the Plan's accrued pension obligation. The major assumptions that go into the valuation of the accrued pension obligation include long-term economic conditions (e.g., inflation, the real return on investments and the rate of member future salary increases) and membership demographics (e.g., mortality, disability, termination and early retirement rates and marital status). The risk arises in two ways: (i) actual market conditions and member demographics may differ from the assumptions used in the valuation of the accrued pension obligation; and (ii) unforeseen changes in major assumptions.

To manage these risks, the Board appoints an independent actuary to value the accrued pension obligation annually based on economic and demographic assumptions recommended by the independent actuary, reviewed by Management and approved by the Board. The validity of all assumptions is monitored each year against actual experience and the assumptions may be adjusted as appropriate.

Legal and Compliance Risk

Legal and compliance risks arise from changes in or non-compliance with legal and/or regulatory requirements in Canada and other countries where we carry on business and invest and/or other ethical standards which may impact OAC's ability to achieve its objectives. The Board and Management, with the assistance of the Legal Division (including the Compliance Office) and independent expert advisors, monitor compliance with OAC's legal and regulatory obligations. We have established processes to keep abreast of applicable regulatory developments and to advocate for changes where they are in the best interest of Plan members.

Through our governance framework and established policies and procedures, including our Code of Conduct and Personal and Insider Trading Policy for directors and employees, we strive to ensure that values and behavioral expectations are well understood and integrated throughout the organization so as to minimize these risks.

Critical Accounting Policies

OAC financial statements are prepared in accordance with the requirements of the Chartered Professional Accountants of Canada (“CPA Canada”) Handbook Section 4600 - Pension Plans (“Section 4600”). For accounting policies that do not relate to the Plans’ investment portfolios or pension obligations, OAC complies on a consistent basis with the requirements of International Financial Reporting Standards. The recognition, measurement and disclosure contained in the 2013 year-end Consolidated Financial Statements are in compliance with the requirements of Section 4600 or the relevant International Financial Reporting Standards

Consistent with Section 4600, investment assets are presented on a non-consolidated basis even when the investment is in an entity over which OAC has effective control. Operating earnings of such entities are recognized as interest is earned, dividends are declared or as real estate rental revenue is earned periodically. OAC total investment income includes valuation adjustments required to adjust the carrying of investments to their fair value.

Consistent with Section 4600 and International Financial Reporting Standards, certain of our accounting policies require subjective or complex judgments and estimates relating to matters that are inherently uncertain. The use of different judgments and estimates could result in materially different amounts being recorded under different conditions or by using different assumptions. As a result, actual results could materially differ from our estimates and assumptions applied in the Consolidated Financial Statements. Significant estimates included in the Consolidated Financial Statements relate to the valuation of investments and the valuation of our accrued pension obligation.

Our policy is to record all investments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The assessment of fair value involves considering many factors for each type of investment held by the Funds. Fair value is based on quoted market prices, where available, and excludes transaction costs which are expensed as incurred. For private market investments where quoted market prices are not available, fair value is generally based on internal or external valuations using generally accepted valuation methods. The fair value of a private market investment acquired within the current fiscal year, a non-operating investment or an investment in a start-up business may be supported by the acquisition valuation where this is considered the best estimate of fair value based upon events since acquisition. For private equity funds, the fair value is generally based on the valuation provided by the fund’s general partner subject to information available to OAC’s investment management. As a result, fair values for private market investments are based on estimates which are inherently uncertain. Our policy is to obtain independent support of valuations for significant private market investments through review by accredited independent appraisers at least once every three years, or whenever the valuation changes by more than 15% from the prior year for private market direct investments and through annual audited financial statements for fund investments.

Actuarial assumptions used in determining the accrued pension obligation reflect Management’s estimates of future economic factors such as the Plans’ nominal rate of return and discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of Plan and RCA members. This process is executed by our qualified team of internal actuaries and supported by our independent actuary. The Plan and RCA’s actual experience could differ from these estimates. Differences are recognized as experience gains or losses in future years.

A summary of our significant accounting policies is presented in Note 2 to the Consolidated Financial Statements.

Report of the Human Resources Committee

Members in 2013	
John Weatherup (Chair)	Michael Fenn
David Beatty	George Cooke (ex-officio)
Richard Faber	Rick Miller (ex-officio)

The purpose of the Human Resources Committee (HR Committee) is to assist the OAC Board in meeting its fiduciary oversight and related obligations by: (i) attracting, engaging and retaining excellent leadership at the senior executive level who are committed to the OAC Mission Statement, Core Values and Leadership Principles; (ii) overseeing a robust succession management process for the position of Chief Executive Officer (CEO); and (iii) overseeing senior executive performance, compensation and compensation policies.

In the 2013 fiscal year, the HR Committee's work included:

- oversight of an annual performance assessment process for the CEO;
- making recommendations to the OAC Board on compensation for the CEO;
- reviewing the candidates for CEO and Enterprise Senior Leadership Team succession as part of the succession management process including discussion of development plans;
- successful advancement of the CEO succession plan including the announcement of Michael Nobrega's upcoming retirement and Michael Latimer as the incoming CEO effective April 1, 2014;
- recommending to the OAC Board a new total compensation plan for the CEO (effective January 1, 2014);
- approving compensation awards and payments for the Enterprise Senior Leadership Team;
- approving the compensation strategy, policy structure and a new total compensation plan for the Enterprise Senior Leadership Team;
- approving key leadership changes including the successful recruitment of a new Chief Financial Officer;
- reviewing compensation and benefits plans to ensure appropriate strategic linkages and risk mitigation; and
- approving compensation-related disclosure in public documents such as the OAC Annual Report.

Independent Compensation Advisor

To assist in executing its responsibilities, the HR Committee engages an independent compensation advisor, Global Governance Advisors, to provide advice. Global Governance Advisors is directly retained and instructed by and reports directly to the HR Committee. All work is pre-approved by the Committee and Global Governance Advisors did not provide any non-Board approved services to the organization during 2013.

During 2013, Global Governance Advisors' scope of services included the following: (i) providing independent executive compensation advice pertaining to the leadership team (i.e. compensation philosophy, performance management, comparator groups, competitive pay positioning and pay mix); (ii) ensuring the Committee understood and were comfortable with the current compensation program for the leadership team; (iii) assisting and counselling the Committee on any recommendations made by Management; (iv) assisting in succession management initiatives; and (v) assisting with any other items that the HR Committee requested.

In addition to the annual scope of services, the HR Committee engaged Global Governance Advisors to: (i) review, redesign and recommend a new total compensation plan for the CEO and leadership team; and (ii) have a detailed involvement in the succession management process pertaining to OAC Chief Executive Officer.

The HR Committee has sole authority to approve the amount of the independent compensation advisor's fees. Executive compensation-related fees paid to our advisor increased in 2013 reflective of the additional services requested. The following table outlines the fees paid for services provided in the last two fiscal years:

Advisor	Executive Compensation - Related Fees		All Other Fees	
	2013	2012	**2013**	2012
Global Governance Advisors	**$526,368**	$291,600	**nil**	nil

Committee Composition & Meetings

Members of the HR Committee are appointed by the OAC Board from amongst the Board's members and are independent of Management. As a cohesive unit they have skills, knowledge and experience in investment management, pensions, economics & public policy, executive leadership & strategy, risk management and talent management. The HR Committee had four meetings and one special meeting during 2013 in order to review key items according to its mandate and annual work plan. At the invitation of the Chair of the HR Committee, members of Management, including the CEO, and the Committee's independent advisor, Global Governance Advisors, attended the meetings. At the end of each meeting there is an *in camera* session without Management present.

2013 Year in Review

Our global growth objectives will continue to place great emphasis on the quality of our people in ensuring the right teams are in place in order to deliver on the pension promise. Our total compensation philosophy and pay-for-performance culture as well as our investment in leadership development are important elements which ensure our ability to attract, retain and engage high-performing talent.

Talent and Succession Management

In addition to executive compensation, the HR Committee is responsible for overseeing OMERS succession management and overall approach to developing our leaders. In 2013 we dedicated time and focus to succession management for the CEO and other leadership team positions. Our Enterprise People Plan was established in 2011 to support the achievement of the objectives laid out in the Enterprise-Wide Strategic Plan. The Enterprise People Plan articulates how we will execute our talent agenda which focuses on the acquisition, engagement, retention and deployment of people who are tasked with the execution of our strategy. We strongly believe in acquiring top talent, while we continuously develop and promote internal talent at all levels.

The expected growth of OMERS over the next five years will require significant acquisition and development of talent in key roles across the organization. We continue to focus on key leadership development programs to help leaders gain a greater understanding of the OMERS business and growth strategy, as well as building and strengthening their leadership capability; in other words, translating our 'Leadership Principles' into what it means to be a leader at OMERS.

The OAC Board has worked closely with Management to develop a comprehensive succession management process designed to ensure OMERS is well positioned with the right leadership talent for the future. In addition, our robust succession management process involving senior leaders across the enterprise provides an excellent view of the talent at OMERS, highlighting key strengths and development areas that are necessary for our future growth.

Risk and Compensation

The continued evolution of our compensation approach supports our talent strategy to attract, engage, reward and retain top talent. Our compensation plans are designed to align with business objectives while ensuring we deliver market competitive compensation that rewards for performance and differentiates across markets.

We keep plan design simple, while ensuring the plans are reflective of leading governance principles. To reflect the importance of risk management in plan design, we ensure that the consideration of risk is incorporated throughout our compensation processes – from design to determination of year-end pools and individual awards. The aim is to achieve a balance between risk and reward so employees are aligned with the long-term investment strategy of OMERS.

Since 2011, all compensation plan reviews include a comprehensive assessment of risk measures. As plans are redesigned, a risk adjustment is introduced where appropriate, allowing the HR Committee to appropriately consider risk when determining final awards. This process ensures an independent assessment of risks taken during the year against the OMERS risk framework, compared to the prior year, as well as the prospective direction of risk in future years. Furthermore, to ensure that compensation awarded under the plan is symmetric with risk outcomes, the Board has the discretion to withhold awards to reflect significant unexpected or unusual events and also has the ability to claw back any variable compensation awarded in the event of a material misrepresentation of results in the prior three years. To align executive interests with those of Plan members and to motivate the creation of long-term value, a significant portion of total compensation is deferred and aligned with enterprise-wide performance measures over the deferral period.

2013 Performance and Compensation

When determining compensation, the HR Committee considers a number of quantitative and qualitative performance measures that were selected due to their alignment with OMERS five-year Enterprise-Wide Strategic Plan. This year, OMERS reduced the funding deficit and continued to strengthen its balance sheet during a year of transition to a new public markets investment strategy to earn more predictable and stable long-term returns. The total fund profit reflected a 6.5 per cent gross return, compared with a minimum target of 7.0 per cent gross return to match assets with liabilities over the long term. Substantial progress was realized in executing the five-year Enterprise-Wide Strategic Plan, which included achievements in increasing the proportion of OMERS investments that are actively managed internally, successfully securing new domestic capital through OMERS Investment Management and the Additional Voluntary Contributions program, securing additional foreign capital through the Global Strategic Investment Alliance, and continuing to influence regulatory reform for the future. The committee believes that the compensation awarded to the Named Executive Officers appropriately reflects overall performance during the year.

Looking ahead to 2014 and beyond

As a committee, we work to ensure our approach to compensation is aligned with the interests of our Plan members and evolving best practices. As we move into the next phase of our strategic plan and look towards the enterprise in the future, we require a compensation framework that will align the senior leaders on the enterprise mission to deliver on the pension promise – by rewarding for growth brought through innovation, strategic investments, acquisitions and fund performance. In 2013, the Board approved a new total compensation plan for the CEO and the leadership team, bringing our senior-most leaders all under one common plan beginning in 2014. Within a total compensation approach, the new plan embeds leading governance features and ensures the appropriate balance of metrics to ensure payments are reflective of the economic environment, overall fund performance outcomes and alignment with Plan members, considering an appropriate level of risk.

Salary increases were not granted to employees in executive positions in 2014. An enterprise-wide salary increase budget of 2.8 per cent was approved for employees below the executive level only.

Conclusion

We will continue to dedicate a significant amount of time to the topic of talent and ensuring that OMERS has the right leaders and the right people who will produce the results that deliver value to our Plan members over the long term. We are confident that our approach to compensation, which includes strong governance practices, achieves the appropriate balance between paying for performance and ensuring compensation programs do not incent excessive risk-taking and also attracts and retains talented leadership. The HR Committee remains committed to being a leader in compensation governance among pension funds and will continue to provide clear and transparent disclosure to our Plan members and stakeholders.

John Weatherup
2013 Chair of the Human Resources Committee

Compensation Discussion and Analysis

OMERS is committed to maintaining transparency with our stakeholders on all facets of our executive compensation program. As part of this commitment, our goal is to provide information that is clear, relevant and appropriate.

This Compensation Discussion and Analysis section highlights OMERS 2013 performance, reviews our executive compensation program in detail, and describes the compensation awards for the Named Executive Officers. The Named Executive Officers include the OAC Chief Executive Officer, OAC Chief Financial Officer (CFO) and the three highest paid members of the leadership team.

Approach to Compensation

OMERS is committed to a pay-for-performance approach to compensation for all employees, including the senior leaders. This philosophy supports the execution of the five-year Enterprise-Wide Strategic Plan and the commitment to ensure the sustainability of the Plan's funding by delivering realistic risk-adjusted returns over the long term.

As a result, the compensation programs are designed to attract, engage and retain high-performing people and ensure they are motivated to pursue OMERS overall investment goal of earning sustainable returns that meet or exceed the Plan's long-term requirements. OMERS recognizes that this must be done with an acceptable level of risk, and the HR Committee is responsible for ensuring our compensation policies and practices do not encourage undue risk-taking. As a result, OMERS has a clear set of incentives that are aligned with the long-term investment strategy and investment risk limits, measured against pre-established Board-approved benchmarks, and are communicated to and understood by management and employees.

Compensation Principles

The objective of the compensation strategy is to attract, engage and retain high-performing people to focus on the long-term viability of the Plan and delivery of the pension promise. To achieve this objective, the executive compensation program is based on the following principles:

- Align with the Interests of Plan Members

  Align employee and executive interests with the interests of the Plan members through effective compensation plan design.

- Align with OMERS Strategy

  Focus employee efforts on critical performance targets and reward for superior performance in achieving results in order to deliver on our commitment to meet the pension promise.

- Pay for Performance

  Promote a pay-for-performance culture where there are clear relationships between pay and performance, ensuring differentiated pay to reward and retain top talent.

- Effective Risk Management

  Ensure compensation plan design does not incent excessive risk-taking and review plans regularly to ensure they are operating as intended.

- Pay Competitively

  Reward employees in a manner consistent with competitive market practice to improve the organization's ability to attract, engage and retain high-performing talent. For total compensation, target level performance is benchmarked to the median in the marketplace and superior level performance is benchmarked to the 75th percentile in the marketplace.

- Good Corporate Governance

  Strive to be a leader on governance and continually review and incorporate industry leading compensation practices that align with our governance model.

Elements of Executive Compensation

Executive compensation for 2013 consists of six main elements: base salary, short-term incentives, long-term incentives, benefits, perquisite cash allowances and pensions. These elements provide a total compensation package designed to attract highly qualified individuals, provide strong incentive to align efforts with OMERS objectives and motivate to deliver performance that creates sustainable results for OMERS members.

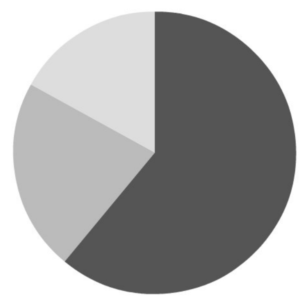
Compensation Element	Plan Description
Fixed Compenstion	
Base Salary	The compensation philosophy aims to pay competitive base salaries as defined by the comparator group. Salaries are reviewed annually at the beginning of each year and increases are generally granted when an executive assumes greater responsibilities, deepens knowledge and expertise, or when there is a significant change in the compensation levels of comparable roles in the comparator group. The HR Committee considers and approves base salaries of the leadership team, while the OAC Board approves the CEO's base salary based on the HR Committee's recommendation.
Benefits, Perquisites and Pension Programs	Employees in Canada participate in benefits that include vacation, life and disability insurance, health and dental benefits, our employee assistance program, and retirement plan. Members of the leadership team also received a perquisite cash allowance in 2013. The leadership team will no longer receive a perquisite allowance commencing in 2014.
Performance Based / At-Risk Compensation	
Short-term Incentive Plan	Short-term Incentive Plans (STIP) are designed to attract, engage and retain high-performing executives by providing competitive, performance-based compensation targets. The STIP has been designed to align compensation with key performance and strategic objectives and individual performance. The HR Committee reviews targets for the leadership team each year as well as upon hire, promotion or when there are significant changes in responsibilities. At the beginning of each year, the HR Committee approves the key areas of focus, performance measures, weightings and targets against which performance will be evaluated. The corporate performance component is based on a scorecard comprised of: (i) investment performance, (ii) pension services performance, and (iii) objectives aligned with OMERS five-year Enterprise-Wide Strategic Plan. There is also an individual component that assesses and rewards leadership performance demonstrated by the executives in the achievement of their key performance objectives and how well they have met their overall job performance expectations. STIP awards are determined as follows for the CEO and corporate senior executives: **STIP Award** Short-term Incentive Plan Target x [Performance on Strategic Planning and Execution + Investment Performance + Pension Services Performance + Individual Performance] Investment Entity leaders have a similar STIP based on performance of their specific business.
Long-term Incentive Plan	The Long-Term Incentive Plan (LTIP) is designed to encourage and reward executives for the achievement of superior and sustained investment performance and align the interests of executives with those of Plan members. The LTIP rewards performance over multiple years to incent the achievement of consistent longer term outcomes. The awards mature on December 31 of the third year following the award date. LTIP awards are determined as follows for the CEO and corporate senior executives: **LTIP Award** Long-term Incentive Plan Target x [Investment Performance: Total Public Markets Performance + Total Private Markets Performance] x OMERS Total Fund Absolute Return Multiplier Investment Entity leaders have a similar LTIP based on performance of their specific business.
Long-term Performance Plan	The Long-term Performance Plan (LTPP) is designed to ensure alignment with the organization's long-term strategic plan by rewarding for both the raising of third-party capital and the investment of that capital. LTPP awards form part of an overall competitive pay offering for key senior executives and are approved annually by the HR Committee. The awards mature on December 31 of the third year following the award date. LTPP awards are determined as follows: **LTPP Award** Long-term Performance Plan Target x [Performance Factor: Based on Third-party Committed Capital Raised and Management Fee Income]

Target Compensation Mix

Aligned with OMERS pay-for-performance approach, total compensation for all members of the leadership team is composed primarily of variable compensation tied to the performance of OMERS and to the asset class investment performance.

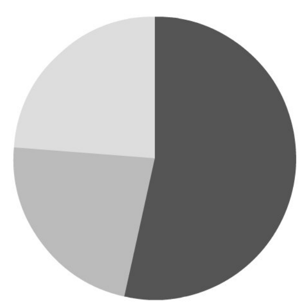
The following tables present the target compensation mix for the OAC President & CEO and Named Executive Officer positions (CFO and three highest paid executives):

OAC President & CEO



61% Long-term Incentive **22%** Short-term Incentive **17%** Base Salary

Named Executive Officers (average)



54% Long-term Incentive **23%** Short-term Incentive **24%** Base Salary

Comparator Groups Used to Set Competitive Pay

OMERS has identified comparator groups for its various businesses in setting competitive compensation to closely reflect the marketplace. The comparator groups are reviewed on a regular basis and approved by the HR Committee. Typical considerations include other organizations that compete for similar talent, industry-specific organizations or organizations with similar objectives. Within these comparator groups, OMERS reviews compensation levels of comparable positions and assesses relative performance and size of the comparator groups. Annually, the compensation comparator groups are used to benchmark compensation for positions across the enterprise. The following chart captures the general parameters used to develop the annual comparator groups:

	Sample Organizations
Corporate Functions	General industry organizations with revenues greater than $1 billion
Pensions Services	Pension Funds, Consulting Firms, General industry organizations with revenues greater than $1 billion
Investment Teams	Investment management organizations including pension funds, asset management firms, banking and insurance. *Local organizations for locations outside of Canada.*
Oxford Properties	Real Estate organizations and Investment management organizations, including pension funds, asset management firms and banking. *Local organizations for locations outside of Canada.*

Alignment to Financial Stability Board Principles – For Effective Governance of Compensation

The HR Committee has taken steps to further strengthen our approach to compensation, including incorporating the Financial Stability Board Principles for Sound Compensation Practices and the associated Implementation Standards. These principles and standards, established in 2009, are intended to ensure effective governance of compensation, alignment of compensation with prudent risk-taking, effective supervisory oversight and stakeholder engagement in compensation. The following paragraphs discuss how OMERS approach to compensation is aligned with these principles and standards.

The HR Committee is composed entirely of outside directors and meets on a regular basis to discuss various compensation and human resources matters. They are responsible for approving compensation plans and policies for the leadership team, including base salary and incentive compensation. The HR Committee has a formal and comprehensive process for approving the design of compensation plans across the organization. On an annual basis, the HR Committee approves the performance measures, weightings and targets at the beginning of the year. At the end of the year, the results are evaluated to determine actual payouts.

Executives have a competitive mix of base salary, variable and deferred compensation. The mix varies by position and level within the organization, with a higher weighting of variable and at-risk compensation at higher executive levels. All STIP and LTIP payments are dependent on performance results based on pre-determined HR Committee approved measures and, where incorporated, the level of risk taken in achieving results versus OMERS risk framework. Executives receive a meaningful portion of their compensation in LTIP awards, subject to performance and vesting requirements. All compensation plans reviewed or designed after 2010 include a comprehensive review of risk measures to determine the impact on compensation awards. The HR Committee uses both quantitative measures and judgment in determining risk adjustments. The risk adjustment accounts for all types of risk including, but not limited to, asset allocation and concentration risk, active risk, regulatory breaches, operational risk and people risk.

OMERS continues to ensure effective governance of compensation and alignment of compensation with prudent risk-taking. The HR Committee remains committed to being a leader in compensation governance among Canadian pension funds and will continue to strive for improvements in disclosure to our Plan members and stakeholders.

2013 Corporate Performance and Compensation

Under Michael Nobrega's leadership, OMERS continues to evolve as a strategic leader with innovative programs and services in the pension industry and investment community. OMERS performed strongly against the five-year strategic plan objectives by continuing to implement the long-term asset mix policy and the initiatives to gain access to domestic and foreign capital, as well as identifying strategic investment opportunities and removing barriers to OMERS growth. These strategic initiatives are discussed in the Management Discussion & Analysis section of this Annual Report.

Pension Services saw continued strong client satisfaction survey results and continued to make significant progress in meeting the changing demands of the business and our members. In 2013, changes to the innovative Additional Voluntary Contributions program were implemented to provide more flexibility and options for Plan members. We also continued to make significant progress on the redevelopment of our pension services systems which will enable us to meet the changing pension business landscape, manage increasing Plan complexity and migrate successfully to a client-centric service model.

Investment performance is critical to fulfill the pension promise to our current and future retirees as OMERS must produce investment returns that exceed the actuarially assumed rate of return, within an acceptable risk tolerance. At the beginning of every year the OAC Board approves target returns for the asset classes in which OMERS invests. The total fund profit reflected a 6.5 per cent gross return, compared with a minimum target of 7.0 per cent gross return to match assets with liabilities over the long term. Starting in 2013, our asset classes are measured against absolute net returns; OMERS Private Equity, Borealis Infrastructure, OMERS Strategic Investments and Oxford Properties exceeded expected performance levels; however, the OMERS Capital Markets return yielded results below target in this year of transition to a new public markets strategy. Results for each entity are further discussed in the Management Discussion & Analysis section of this Annual Report.

Compensation of the CEO

The CEO's total compensation is based on the achievement of pre-determined investment performance goals, pension services performance, and performance against the OMERS five-year Enterprise-Wide Strategic Plan. At the beginning of the year, the OAC Board and the CEO agree on key performance objectives aligned with OMERS strategic and financial goals. At the end of the year, the HR Committee evaluates the CEO's performance against those goals and presents its evaluation to the OAC Board for review and approval. In 2013, these included delivering on key enterprise results, leading the execution of the five-year Enterprise-Wide Strategic Plan, enhancing employee engagement, as well as some key leadership and organization development initiatives. Based on an assessment of Mr. Nobrega's performance against his 2013 priorities, it was determined that the investment objectives were slightly below target although strategic objectives were exceeded which, when combined, results in an above target level of overall performance, although below the prior year.

Mr. Nobrega's 2013 payments are comprised of his 2013 salary plus allowances, 2013 short-term incentive, 2011 long-term incentive and 2011 long-term performance plan.

Compensation Element		Target ($)	Performance Factor		Payment ($)
2013 Salary	$	515,000	n/a	$	515,000
2013 Perquisite Allowance	$	40,000	n/a	$	40,000
2013 Short-term Incentive	$	643,750	126.6%	$	814,988
2011 Long-term Incentive	$	1,287,500	106.2%	$	1,367,325
2011 Long-term Performance Plan	$	386,250	112.5%	$	434,531
Total Compensation Payments				**$**	**3,171,844**

When determining compensation payments, the HR Committee ensures there is a strong link between compensation awarded and actual performance achieved. In determining Mr. Nobrega's annual incentive payment for 2013, the OAC Board assessed his performance against specific objectives that were agreed upon by the OAC Board at the beginning of the year. Given the 2013 performance results, the OAC Board approved the STIP performance factor of 126.6 per cent, which resulted in an actual STIP award of $814,988. For the 2011 LTIP award that matured on December 31, 2013, the three-year pre-determined performance measures resulted in a LTIP performance factor of 106.2 per cent, which recognized the investment returns over the three-year period. The 2011 LTPP award measured performance against the growth in third-party assets over the three-year period. The resulting payment was 112.5 per cent of target.

The HR Committee believes that the compensation awarded to the CEO reflects the actual performance of OMERS and continues to emphasize the OMERS pay-for-performance philosophy.

Summary Compensation Table

The table below represents disclosure of salary, short-term incentives, long-term incentives, employer portion of pension contributions and other compensation paid to or earned by each Named Executive Officer during the three most recently completed financial years.

			Non-Equity Incentive Compensation ($)					
Name and Principal Position	Year	Salary ($)	Short-Term Incentive Plan	Long-Term Incentive Plan (i)	Long-Term Performance Plan (i)	Pension Value ($) (ii)	All Other Compensation ($)	Total Compensation ($)
Michael Nobrega President & CEO	**2013**	**$ 515,000**	**$ 814,988**	**$ 1,287,500**	**$ 515,000**	**$ 128,453**	**$ 92,608**	**$ 3,353,549**
	2012	$ 515,000	$ 1,044,806	$ 1,287,500	$ 386,250	$ 158,175	$ 95,697	$ 3,487,428
	2011	$ 515,000	$ 777,263	$ 1,287,500	$ 386,250	$ 145,715	$ 95,652	$ 3,207,380
Patrick Crowley Chief Financial Officer	**2013**	**$ 438,000**	**$ 550,000**	**$ 547,500**	**$ 43,800**	**$ 98,249**	**$ 28,694**	**$ 1,706,243**
	2012	$ 438,000	$ 613,200	$ 547,500	n/a	$ 102,454	$ 28,693	$ 1,729,847
	2011	$ 438,000	$ 600,000	$ 547,500	n/a	$ 95,261	$ 29,462	$ 1,710,223
Michael Latimer Executive Vice President & Chief Investment Officer	**2013**	**$ 500,000**	**$ 900,000**	**$ 1,250,000**	**$ 100,000**	**$ 127,021**	**$ 101,072**	**$ 2,978,093**
	2012	$ 500,000	$ 1,100,000	$ 1,250,000	n/a	$ 149,124	$ 105,422	$ 3,104,546
	2011	$ 500,000	$ 1,000,000	$ 1,250,000	n/a	$ 112,009	$ 105,186	$ 2,967,195
Blake Hutcheson President & CEO, Oxford Properties Group	**2013**	**$ 475,000**	**$ 950,000**	**$ 1,025,000**	**$ 71,250**	**$ 42,750**	**$ 97,948**	**$ 2,661,948**
	2012	$ 475,000	$ 950,000	$ 1,025,000	n/a	$ 42,750	$ 98,085	$ 2,590,835
	2011	$ 475,000	$ 950,000	$ 1,025,000	n/a	$ 42,750	$ 98,066	$ 2,590,816
Michael Rolland President & CEO, Borealis Infrastructure	**2013**	**$ 438,000**	**$ 875,000**	**$ 1,095,000**	**$ 65,700**	**n/a**	**$ 72,225**	**$ 2,545,925**
	2012	$ 438,000	$ 830,000	$ 1,095,000	n/a	n/a	$ 71,531	$ 2,434,531
	2011	$ 438,000	$ 812,769	$ 1,095,000	n/a	n/a	$ 71,066	$ 2,416,835

(i) The amounts shown represent the value of awards as of the grant date in each calendar year.

(ii) Represents the employer contributions to the Plan and employer contributions to third-party providers of defined contribution pension plans.

Incentive Plan Awards

Long-term incentive awards are granted at the start of the fiscal year and paid out at the end of the vesting period. The following table presents the outstanding long-term incentive awards and most recent payments for each Named Executive Officer.

Name	Year	Type of Award	Award Target Value ($)	Award Maximum Value ($)	Actual Value at Payout ($)
Michael Nobrega President & CEO	**2013**	**LTPP**	**$ 515,000**	**$ 1,030,000**	
		LTIP	**$ 1,287,500**	**$ 2,575,000**	
	2012	LTPP	$ 386,250	$ 772,500	
		LTIP	$ 1,287,500	$ 2,575,000	
	2011	LTPP	$ 386,250	$ 772,500	**$ 434,531**
		LTIP	$ 1,287,500	$ 2,575,000	**$ 1,367,325**
Patrick Crowley Chief Financial Officer	**2013**	**LTPP**	**$ 43,800**	**$ 87,600**	
		LTIP	**$ 547,500**	**$ 1,095,000**	
	2012	LTIP	$ 547,500	$ 1,095,000	
	2011	LTIP	$ 547,500	$ 1,095,000	**$ 581,445**
Michael Latimer Executive Vice President & Chief Investment Officer	**2013**	**LTPP**	**$ 100,000**	**$ 200,000**	
		LTIP	**$ 1,250,000**	**$ 2,500,000**	
	2012	LTIP	$ 1,250,000	$ 2,500,000	
	2011	LTIP	$ 1,250,000	$ 2,500,000	**$ 1,327,500**
Blake Hutcheson President & CEO, Oxford Properties Group	**2013**	**LTPP**	**$ 71,250**	**$ 142,500**	
		LTIP	**$ 1,025,000**	**$ 1,691,000**	
	2012	LTIP	$ 1,025,000	$ 1,691,000	
	2011	LTIP	$ 1,025,000	$ 1,691,000	**$ 1,568,250**
Michael Rolland President & CEO, Borealis Infrastructure	**2013**	**LTPP**	**$ 65,700**	**$ 131,400**	
		LTIP	**$ 1,095,000**	**$ 2,190,000**	
	2012	LTIP	$ 1,095,000	$ 2,190,000	
	2011	LTIP	$ 1,095,000	$ 2,190,000	**$ 2,014,800**

The 2011 long-term incentive awards matured at the end of 2013 and were paid out, leaving the 2012 and 2013 long-term incentive awards outstanding. All long-term incentive awards vest and mature on December 31 of the third year of the plan.

Pension Plan Benefits

The Named Executive Officers participate in different retirement plans. The following section describes the OMERS Pension Plan in which the majority of the Named Executive Officers participate.

Participating Named Executive Officers	Michael Nobrega, Patrick Crowley, Michael Latimer
Pension Formula	2% of "best five" earnings multiplied by years of service from the date of hire (maximum of 35 years).
"Best five" Earnings	The average of the consecutive 5 years of pensionable earnings during which earnings were the highest, where pensionable earnings are capped, as follows: • Cap on incentive pay - Post-2010 earnings will be capped at 150% of contributory earnings calculated before incentive pay. • Additional cap on contributory earnings - Limits total contributory earnings to seven times the CPP earnings limit (effective January 1, 2014 for members enrolled on/after January 1, 2014 and January 1, 2016 for members enrolled before January 1, 2014).
Retirement Age	65
Reduction for Early Retirement	Plan members are eligible to retire early with a reduced pension when they reach the age of 55. There will be a 5% reduction factor, per year.
Form of Pension	The OMERS Pension Plan is paid for the life of the plan member with 66 2/3% of the pension amount continuing to the surviving spouse after death.

Defined Benefit Pension Plan

The table below represents disclosure of estimated pension information for the Named Executive Officers as at December 31, 2013.

Name	Number of Years Credited Service (#)	Annual Benefits Payable ($) At Year End	Annual Benefits Payable ($) At Age 65	Opening Present Value of Defined Benefit Obligation ($)	Compensatory Change ($)	Non-Compensatory Change ($)	Closing Present Value of Defined Benefit Obligation ($)
Michael Nobrega President & CEO	6.8	$ 319,706	n/a	$ 3,642,381	$ 154,772	$ 365,207	$ 4,162,360
Patrick Crowley Chief Financial Officer	12.7	$ 169,870	$ 216,181	$ 1,866,980	$ 172,918	$ 219,603	$ 2,259,501
Michael Latimer Executive Vice President & Chief Investment Officer	8.8	$ 212,458	$ 280,291	$ 2,356,741	$ 151,528	$ 280,209	$ 2,788,478

Defined Contribution Pension Plan

The table below shows the pension information for the Named Executive Officer participating in the organization's defined contribution pension arrangement as at December 31, 2013.

Name	Name of the Arrangement	Accumulated value at start of year ($)	Compensatory ($)	Accumulated value at year end ($)
Blake Hutcheson President & CEO, Oxford Properties Group	DC Plan	$ 77,425	$ 31,845	$ 109,269
	DC SERP	$ 60,040	$ 23,885	$ 83,925
	Total	$ 137,465	$ 55,729	$ 193,194

Termination Benefits

The treatment under each of the termination scenarios is governed by the terms of the various incentive plans, which are summarized in the following table.

	Short-term Incentive Plan	**Long-term Incentive Plan**	**Long-term Performance Plan**
Resignation	Forfeited	Forfeited	Forfeited
Retirement	Entitled to a partial award, pro-rated to reflect the period of active employment	Entitled to a partial award, pro-rated to reflect the period of active employment	Entitled to a full award which will mature in normal course
Termination without Cause	Entitled to a partial award, pro-rated to reflect the period of active employment	Entitled to a partial award, pro-rated to reflect the period of active employment	Entitled to a partial award, pro-rated to reflect the period of active employment
Termination with Cause	Forfeited	Forfeited	Forfeited

Conclusion

All OMERS employees are committed to delivering appropriate risk-adjusted returns over the long term to meet the pension promise to Plan members. The approach to executive compensation motivates executives to achieve OMERS strategic objectives prudently by encouraging an appropriate balance between risk and reward. OMERS remains committed to ensuring our compensation policies and programs support our talent management strategy to continue to attract, engage and retain high-performing people who will produce the results that deliver value to our Plan members.

Responsibilities of Management, Actuary and Independent Auditors

The OMERS Administration Corporation (OAC) is the administrator of the OMERS pension plans (the OMERS Pension Plans) as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the OMERS Act). The OMERS Pension Plans include OMERS Primary Pension Plan (the Primary Plan or the Plan), which includes the Defined Benefit and the Additional Voluntary Contribution (AVC) components, and the Retirement Compensation Arrangement (the RCA) associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the Supplemental Plan). OAC is responsible for managing the funds of the Plan, the RCA and the Supplemental Plan (collectively, the Funds). As at December 31, 2013, membership in the Supplemental Plan was nil.

The consolidated financial statements of OAC have been prepared by Management and approved by the Board of the OAC (the OAC Board). Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

Management maintains systems of internal controls and supporting procedures that are designed 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 division of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition, Corporate Audit Services reviews OAC's systems of internal controls to determine whether these controls are appropriate and operating effectively.

The OAC Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of OAC, assists the OAC Board in executing this responsibility. The Audit Committee meets regularly with Management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews the annual consolidated financial statements and recommends them to the OAC Board for approval.

The independent actuary is appointed by the OAC Board. It is the independent actuary's responsibility to carry out annual valuations of the accrued pension obligations of the OMERS Pension Plans in accordance with accepted actuarial practice and to report thereon to the OAC Board. The Member Services Committee assists the OAC Board in executing this responsibility. The results of the independent actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the independent actuary values the benefits provided under the OMERS Pension Plans using appropriate assumptions about future economic conditions (such as inflation, salary increases and investment returns) and demographic factors (such as mortality, termination rates and retirement ages). These assumptions take into account the circumstances of OAC and its active, inactive and retired members.

The independent auditors are also appointed by the OAC Board. Their responsibility is to report to the OAC Board whether in their opinion the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of changes in net assets available for benefits and the statements of changes in pension obligations for the years ended December 31, 2013 and 2012 present fairly in all material respects the financial position, the changes in net assets available for benefits and changes in pension obligations in accordance with Canadian accounting standards for pension plans. The independent auditors have full and unrestricted access to Management and the Audit Committee to discuss any findings arising from their audit related to the integrity of financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The auditors' report outlines the scope of their examination and opinion.

Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by this Annual Report.

Based on my knowledge, the annual financial statements, together with the other financial information included in this Annual Report, fairly present in all material respects the financial position, changes in net assets available for benefits and changes in pension obligations of OAC as of the date and for the periods presented in this Annual Report.

Michael Nobrega
President and Chief Executive Officer

Jonathan Simmons
Executive Vice President and Chief Financial Officer

Toronto, Ontario
February 20, 2014

Actuarial Opinion

We conducted actuarial valuations as at December 31, 2013 of the OMERS Primary Pension Plan (the Primary Plan) and the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (the RCA) administered by OMERS Administration Corporation (OAC). The Primary Plan consists of a defined benefit component and an additional voluntary contribution (AVC) component. The purpose of the valuations is to fairly present the actuarial funded status of the Primary Plan and the RCA as at December 31, 2013, for inclusion in this Annual Report in accordance with Section 4600 of Part IV of the Chartered Professional Accountants of Canada Handbook.

The results of the actuarial valuation of the Primary Plan disclosed total going concern actuarial liabilities of $73,280 million in respect of benefits accrued for service to December 31, 2013 (comprising $73,004 million with respect to the defined benefit component and $276 million with respect to the AVC component). The actuarial assets at that date were $64,639 million (comprising $64,363 million with respect to the defined benefit component and $276 million with respect to the AVC component), indicating a going concern actuarial deficit of $8,641 million. Ongoing adequacy of the Primary Plan's contribution rates will need to be monitored to ensure that future contributions, together with the Primary Plan assets and future investment earnings thereon, will be sufficient to provide for its future benefits.

The RCA provides for pension benefits in excess of the maximum pension benefits under the Primary Plan. The RCA is not fully pre-funded. The actuarial liability in respect of RCA benefits accrued for service to December 31, 2013 (determined using assumptions consistent with those used for the Primary Plan except that the discount rate is adjusted to approximate the effect of the 50 per cent refundable tax under the RCA), net of the RCA assets, was $513 million. Contributions, based on the top-tier Primary Plan contribution rates, are payable to the RCA on the excess of earnings over a defined earnings threshold. The funding of the RCA is managed on a modified pay-as-you go basis and monitored to ensure that the fund will have sufficient assets to provide for the projected benefit payments over the 20-year period following each valuation date.

The actuarial valuations of the Primary Plan and the RCA as at December 31, 2013 were conducted using the Projected Benefit Method Prorated on Services, and membership data as at December 1, 2013 and financial information as at December 31, 2013 supplied by OAC. The December 1, 2013 membership data was adjusted, among other things, for the following:

- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2014,
- estimated credited service accruals in 2013, and
- estimated earnings for 2013.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the membership data are sufficient and reliable for the purpose of the valuations;
- the assumptions adopted were set with reference to the Primary Plan's funding policy and with allowance for refundable taxes under the RCA and are appropriate for the purpose of the valuations; and
- the methods employed in the valuations are appropriate for the purpose of the valuations.

The future experience of the Primary Plan and the RCA may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuations were prepared and our opinions are given in accordance with accepted actuarial practice in Canada.

Respectfully submitted
Towers Watson Canada Inc.

Ian Markham
Fellow, Canadian Institute of Actuaries

Philip A. Morse
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 20, 2014

Independent Auditors' Report

To the Board of OMERS Administration Corporation

We have audited the accompanying consolidated financial statements of OMERS Administration Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OMERS Administration Corporation as at December 31, 2013 and 2012 and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
February 20, 2014

Consolidated Statement of Financial Position

As at December 31, (in millions of Canadian dollars)		2013		2012
Net assets available for benefits				
Assets				
Investments *(note 3)*	**$**	**82,053**	$	72,355
Other investment assets *(notes 3 and 5)*		**401**		366
Derivatives and pending trades *(note 3)*		**343**		487
Contributions receivable				
Employers		**143**		121
Members		**143**		121
Other assets		**98**		79
Total Assets		**83,181**		73,529
Liabilities				
Investment liabilities *(notes 3 and 6)*		**15,604**		11,249
Amounts payable under contractual agreements *(note 7)*		**1,524**		905
Derivatives and pending trades *(note 3)*		**859**		492
Other liabilities		**113**		116
Total Liabilities		**18,100**		12,762
Net Assets Available for Benefits	**$**	**65,081**	$	60,767
Accrued pension obligation and deficit				
Primary Plan *(note 8)*				
Defined benefit component				
Accrued pension obligation	**$**	**73,004**	$	69,122
Deficit				
Funding deficit		**(8,641)**		(9,924)
Actuarial value adjustment to net assets		**341**		1,321
		(8,300)		(8,603)
		64,704		60,519
Additional Voluntary Contributions component pension obligation		**276**		170
		64,980		60,689
Retirement Compensation Arrangement *(note 9)*				
Accrued pension obligation		**614**		555
Deficit		**(513)**		(477)
		101		78
Accrued Pension Obligation and Deficit	**$**	**65,081**	$	60,767

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

Signed on behalf of the Board of OMERS Administration Corporation

George L Cooke

Monty Baker

George Cooke,
OAC Chair

Monty Baker,
Chair, Audit Committee

Consolidated Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, (in millions of Canadian dollars)	**2013**	2012
Changes Due to Investment Activities *(note 10)*		
Investment income	**$ 2,225**	$ 2,352
Changes in fair values of investment assets and liabilities	**1,775**	3,192
Investment management expenses *(note 14(b))*	**(266)**	(265)
Income allocated under contractual agreements	**(97)**	(79)
Total Changes Due to Investment Activities	**3,637**	5,200
Changes Due to Pension Activities		
Contributions *(note 12)*		
Employers	**1,726**	1,523
Members	**1,787**	1,580
Transfers in	**31**	40
Additional Voluntary Contributions	**100**	67
Total Contributions Received	**3,644**	3,210
Benefits *(note 13)*		
Payments	**(2,703)**	(2,485)
Transfers out	**(207)**	(185)
Total Benefits Paid	**(2,910)**	(2,670)
Pension administrative expenses *(note 14(a))*	**(57)**	(56)
Total Changes Due to Pension Activities	**677**	484
Total Increase	**4,314**	5,684
Net assets available for benefits, beginning of year	**60,767**	55,083
Net Assets Available for Benefits, End of Year	**$ 65,081**	$ 60,767

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

Statement of Changes in Pension Obligations

For the year ended December 31, (in millions of Canadian dollars)		2013		2012
OMERS Primary Pension Plan *(note 8)*				
Defined Benefit Component				
Accrued pension obligation, beginning of year	**$**	**69,122**	$	64,548
Interest accrued on benefits		**4,483**		4,193
Benefits accrued		**2,577**		2,561
Benefits paid *(note 13)*		**(2,895)**		(2,654)
Experience (gains)/losses		**(283)**		474
Accrued pension obligation, end of year		**73,004**		69,122
Additional Voluntary Contributions Component				
Additional voluntary contributions obligation, beginning of year		**170**		94
Contributions *(note 12)*		**100**		67
Withdrawals *(note 13)*		**(6)**		(4)
Attributed net investment income		**12**		13
Additional Voluntary Contributions obligation, end of year		**276**		170
Accrued Pension Obligation, End of Year	**$**	**73,280**	$	69,292
Retirement Compensation Arrangement *(note 9)*				
Accrued pension obligation, beginning of year	**$**	**555**	$	504
Interest accrued on benefits		**18**		16
Benefits accrued		**24**		24
Benefits paid *(note 13)*		**(9)**		(12)
Experience (gains)/losses		**26**		34
Change in RCA provisions		**—**		(11)
Accrued Pension Obligation, End of Year	**$**	**614**	$	555

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

(Amounts in millions of Canadian dollars except where otherwise noted)

Notes to Consolidated Financial Statements

NOTE 1

Description of Plans Administered By OMERS Administration Corporation

OMERS Administration Corporation ("OAC") is a corporation without share capital, continued under the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"). OAC is the administrator of the OMERS pension plans (the "OMERS Pension Plans") as defined in the OMERS Act and trustee of the pension funds. The OMERS Pension Plans include the OMERS Primary Pension Plan (the "Plan" or the "Primary Plan"), the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (the "RCA") and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). As trustee of the Plan's fund, OAC holds legal title to the pension fund assets and the trust beneficiaries are primarily Plan members. OAC is responsible for administering the OMERS Pension Plans and investing the funds of the Plan, the RCA and the Supplemental Plan (collectively, the "Funds"), in accordance, as applicable, with the *Pension Benefits Act* (Ontario) (the "PBA"), the *Income Tax Act* (Canada) (the "ITA"), and the OMERS Act. Under the OMERS Act, the OMERS Sponsors Corporation (the "SC") is the sponsor of the OMERS Pension Plans.

The accrued pension obligations of any one of the OMERS Pension Plans cannot be funded by the assets of the other OMERS Pension Plans. As at December 31, 2013 , there were no members in the Supplemental Plan (December 31, 2012 - nil).

OMERS Primary Pension Plan

The Plan is a multi-employer jointly sponsored pension plan, created in 1962 by an Act of the Ontario Legislature, whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is governed by the OMERS Act, the PBA, the ITA and other applicable legislation. The benefit provisions and other terms of the Plan are set out in the Plan text. The Plan consists of both the defined benefit component and the Additional Voluntary Contribution ("AVC") component.

The Plan is registered with the Financial Services Commission of Ontario ("FSCO") and the Canada Revenue Agency ("CRA") under Registration #0345983.

Attributes of the defined benefit component of the Primary Plan include:

a) Funding –The defined benefit component of the Primary Plan is funded by equal contributions from participating employers and members and by the investment earnings of the Plan assets. OAC determines the regulatory minimum funding requirements in accordance with the ITA and PBA. The SC sets the actual contribution rates.

b) Pensions – The normal retirement age ("NRA") is 65 years for all Plan 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 two per cent of the average annual earnings during the member's highest 60 consecutive months of earnings. The Plan benefits are integrated with the Canada Pension Plan at age 65. Early retirement pensions are payable starting from age 55 for members whose NRA is 65 and age 50 for members whose NRA is 60.

c) Death Benefits – Death benefits are payable to a surviving spouse, eligible dependent children, designated beneficiary or the member's estate upon the death of a member. Depending upon eligibility requirements, the benefits may be paid in the form of a survivor pension, lump sum payment or both.

d) Withdrawals and Transfers from the Plan – Subject to locking in provisions, a member that has terminated employment prior to eligibility to retire has the option to withdraw or transfer a lump sum equivalent value of his/her benefits from the Plan to another retirement savings vehicle.

e) Escalation of Pensions – Pension benefits are increased for inflation through an annual adjustment equal to 100 per cent of the increase in the average Consumer Price Index (“CPI”) over the prior year's average. This adjustment is subject to a limit of six per cent in any one year. If the increase in the average CPI exceeds the six per cent limit, the excess is carried forward to future years.

f) Disability Pensions – A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan. The pension is calculated using a member’s years of credited service and the average annual earnings during the member’s highest 60 consecutive months of earnings consistent with a normal retirement pension. Generally, disability pensions continue until normal retirement.

g) Income Taxes – The Plan is a Registered Pension Plan as defined in the ITA and is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable.

The AVC component of the Plan enables members to make additional voluntary contributions on which the member receives the net investment return of the Plan. For the AVC component of the Plan, the only liability of the Plan is members' AVC contributions plus/minus the net investment income or loss of the defined benefit component of the Plan.

Funds in an AVC account can be fully withdrawn when members retire or leave their OMERS employer (subject to any locking-in requirements); however, while a member is active, withdrawals are limited to a maximum of 20 per cent of the previous year-end balance, subject to a minimum of $500. As well, withdrawals are permitted only from March 1 to April 30 of each year.

Retirement Compensation Arrangement for the OMERS Primary Pension Plan

The RCA is an arrangement that provides pension benefits for individuals with earnings exceeding the amount that generates the maximum pension allowed by the ITA with respect to service after 1991. It is a separate trust arrangement and is not governed by the PBA and is not a Registered Pension Plan under the ITA. The RCA is governed by the OMERS Act, the ITA and other applicable legislation and is funded by equal contributions from participating employers and members and by the investment earnings of the RCA fund. Current and future contributions are determined to ensure that the existing RCA fund and future investment earnings are expected to be sufficient to pay projected benefits over the 20-year period following each actuarial valuation date. The RCA net assets available for benefits are invested and accounted for separately from the Plan and the Supplemental Plan, and the accrued pension obligation of the RCA is valued separately from the Plan and Supplemental Plan accrued pension obligations.

OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics

The Supplemental Plan became effective on July 1, 2008, pursuant to the requirements of the OMERS Act. The Supplemental Plan is a separately funded, multi-employer, jointly sponsored pension plan that provides supplemental pension benefits that “top up” those available under the Plan for members of the Plan who are police officers, police civilians, firefighters and paramedics. The Supplemental Plan is governed by the OMERS Act, the PBA, the ITA and other applicable legislation. The benefit provisions and other terms of the Supplemental Plan are set out in the Supplemental Plan text. The Supplemental Plan is registered with FSCO and with CRA under Registration #1175892.

The Supplemental Plan is a contributory defined benefit pension plan funded by equal contributions from participating employers and members and by the investment earnings of the Supplemental Plan assets. Contribution rates are set by the SC. Participation in the Supplemental Plan is effective only upon agreement between an employee group and an employer. As at December 31, 2013 and December 31, 2012, the Supplemental Plan had no assets and no members.

Neither the Plan nor the RCA is permitted to pay costs for the Supplemental Plan. As such, until March 31, 2018, unless the Supplemental Plan has sufficient funds based on the portion of contributions allocated for administrative expenses, any administrative costs of the Supplemental Plan are funded through a start up grant from the Province of Ontario.

NOTE 2

Summary of Significant Accounting Policies

Basis of Presentation

OAC follows the requirements of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook Section 4600 – Pension Plans, which is the basis for Canadian accounting standards for pension plans. The recognition and measurement of OAC assets and liabilities are consistent with the requirements of CPA Canada Handbook Section 4600. For accounting policies that do not relate to its investment portfolio or pension obligations, OAC follows the requirements of International Financial Reporting Standards.

These financial statements include the financial position, changes in net assets available for benefits and changes in pension obligations of OAC and the OMERS Pension Plans. Investments are managed by the following entities: OMERS Capital Markets (which is primarily responsible for investing in publicly traded interest bearing and equity investments as well as commercial mortgages and private debt investments); OMERS Private Equity (which manages private equity investments); Borealis Infrastructure (which manages infrastructure investments); Oxford Properties Group (which manages real estate assets); and OMERS Strategic Investments (which manages strategic investments across all asset classes) (collectively the "Investment Entities"). In accordance with CPA Canada Handbook Section 4600, the consolidated financial statements present the assets and liabilities of the Investment Entities on a consolidated basis and the fair value of investments, on a non-consolidated basis even where OAC has effective control over the operations of that investment.

Inter-company transactions and balances between OAC and the Investment Entities of OAC are eliminated in arriving at the consolidated financial statements.

Certain comparative figures have been restated to conform to the current year's presentation.

Use of Estimates and Judgments

The preparation of consolidated financial statements requires OAC Management ("Management") to make estimates, judgments and assumptions that affect the reported values of assets and liabilities, income and expenses, accrued pension obligations and related disclosures. Actual results could differ from these estimates. Areas of significant accounting estimates and judgments include the determination of fair value of financial instruments discussed in Note 3 – Investments, the determination of the accrued pension obligation discussed in Note 8 – OMERS Primary Pension Plan and Note 9 – Retirement Compensation Arrangement.

Investments

The Funds' investments consist of the following major asset classes: public markets (which include public equities, commodities, derivatives and interest bearing investments such as treasury bills, bonds, mortgages and private debt), private equity, infrastructure and real estate.

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is best evidenced by a quoted closing market price in an active market, if one exists. The determination of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Fair value may be determined by reference to a market index, publicly observable market data or through the use of valuation techniques and models which utilize assumptions based on information that is not publicly observable. Where a public market price in an active market is not available for an investment asset, a suitable method of valuation is used annually by Management to determine fair value. Valuation techniques used include the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models, as appropriate. In these cases the fair value may differ significantly when varying assumptions are used. Accredited independent external valuation experts are engaged to perform a review of Management's valuations to determine the reasonableness of the valuations for each significant private market investment at least once every three years or in any year where the valuation changes by more than fifteen per cent from the prior year.

The 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. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows recognized during the year and is reflected in Changes due to Investment Activities in the Consolidated Statement of Changes in Net Assets Available for Benefits.

Investment Income/Loss

Investment income/loss includes accrued interest, dividends and real estate rental income. Gains and losses that have been realized on the disposal of investments and the unrealized appreciation/depreciation required to adjust investments to their fair value are added to investment income to arrive at Total Investment Income in Note 10 – Net Investment Income/(Loss).

Income is recognized as interest and real estate rental income is earned, as dividends or distributions are declared, as investments are disposed and as investments are adjusted to their fair value.

Transaction and Pursuit Costs

Transaction and pursuit costs which include broker commissions, legal and other professional fees incurred as a part of the due diligence of a potential or completed transaction are expensed to total investment income as incurred.

External Manager Fees

Base external manager fees for portfolio management are expensed in investment management expenses as incurred. Performance fees, which are contractually due to external managers for superior investment returns, and fees for pooled funds, where OAC's investment return from the fund is net of fees, are expensed in investment income as incurred.

Investment Liabilities

Investment liabilities include commercial paper, debentures, mortgages, and other debt obligations incurred by OAC to acquire an investment, primarily in the real estate and infrastructure asset classes. Investment liabilities also include the Plan's liability to return cash collateral received in securities lending transactions, derivative related liabilities as well as the amounts payable in respect of securities sold under agreements to repurchase ("Repo Agreements"). Investment liabilities are designated as financial instruments and are stated at fair value. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature, for which cost plus accrued interest approximates fair value. The credit risk of OAC is also considered in estimating the fair value of investment liabilities.

Liabilities incurred in entities in which OAC has invested are netted as part of investment assets, even when the investment is in an entity over which OAC has effective control or can exercise significant influence.

Derivatives and pending trades

Derivatives and pending trades includes unrealized gains and losses from derivative contracts.

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature.

Foreign Currency Translation

Certain investments are denominated in foreign currencies. The fair values of such investments 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 Net Gain/(Loss) on Investment Assets, Liabilities, and Derivatives in Note 10 – Net Investment Income/(Loss). Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the rate at the settlement is also recognized in Net Gain/(Loss) on Investment Assets, Liabilities, and Derivatives in Note 10 – Net Investment Income/(Loss).

Accrued Pension Benefits and Accrued Pension Obligation

The value of the accrued pension obligation of the Plan's defined benefit component is based on the Projected Benefit Method Prorated on Services actuarial valuation prepared by an independent firm of actuaries. This accrued pension obligation is measured in accordance with accepted actuarial practice in Canada using actuarial assumptions and methods adopted by OAC for the purpose of establishing the long-term funding requirements of the Plan. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

The AVC pension obligation represents the Plan's liability in respect of the AVC component of the Plan and includes members' AVC contributions plus/minus the net investment income or loss of the defined benefit component of the Plan.

The valuation methodology used in the estimation of the accrued pension obligation of the RCA is developed on a basis consistent with the accrued pension obligation of the Plan's defined benefit component. The AVC pension obligation and the accrued pension obligation of the RCA are separate from the accrued pension obligation of the Plan's defined benefit component.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets for the Plan is used in assessing the funding position of the Plan, including the determination of minimum legally required contributions. The actuarial value adjustment to the fair value of net assets is the amount of net investment returns above or below the actuarial long-term rate of return assumption that are being smoothed and recognized over a five-year period. The fair value of net assets is adjusted by the actuarial value adjustment to arrive at the actuarial value of net assets.

Surplus/Deficit

For financial statement reporting, the surplus/deficit of the Plan is based on the difference between the fair value of the Plan's net assets available for benefits and the Plan's accrued pension obligation. For funding purposes, the Plan's surplus/deficit is based on the difference between the Plan's actuarial value of net assets and the Plan's accrued pension obligation. For the RCA, the surplus/deficit for financial statement reporting purposes is based on the difference between the fair value of RCA net assets available for benefits and the RCA's accrued pension obligation.

Contributions

Contributions from employers and members due to the OMERS Pension Plans as at the end of the year are recorded on an accrual basis. Service purchases that include, but are not limited to, leaves of absence, conversion of normal retirement age and transfers from other pension plans are recorded and service is credited when the purchase amount is received. Contributions for AVCs are recorded when the contribution is received.

Benefits

Benefit payments to retired members are recorded as they are due, at the first of each month. Commuted value payments and transfers to other pension plans are recorded in the period in which OAC is notified. Accrued benefits for active members are recorded as part of the accrued pension obligation.

Administrative Expenses

Administrative expenses are incurred for direct pension administration, direct investment management and corporate services and are recorded on an accrual basis. Direct pension administration expenses represent expenses to provide direct services to OMERS Pension Plans members and employers. Direct investment management expenses represent expenses of the Investment Entities managing OMERS Pension Plans investments. Corporate services expenses primarily include corporate information systems, accounting, legal and other governance expenses incurred to support either the pension administration or the investment management functions. These are allocated between pensions and investments based on an estimate of the use of resources.

Approval of the Financial Statements

These financial statements were approved by the Board of Directors on February 20, 2014.

NOTE 3

Investments

Investments by Fair Value and Cost

Total investments, before allocating the effect of derivative contracts, and investment related assets and liabilities are as follows:

As at December 31,	2013		2012	
	Fair Value	**Cost**	Fair Value	Cost
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits (i)	**$ 12,638**	**$ 12,638**	$ 7,973	$ 7,973
Bonds and debentures (ii)	**1,193**	**1,258**	10,112	9,677
Real return bonds	**17,754**	**18,036**	4,128	3,707
Mortgages and private debt (iii) (iv)	**1,228**	**1,199**	1,640	1,577
	32,813	**33,131**	23,853	22,934
Public Equity (iv)				
Canadian public equities	**462**	**449**	1,823	1,737
Non-Canadian public equities	**8,434**	**7,630**	11,796	10,902
	8,896	**8,079**	13,619	12,639
Total Public Market Investments	**41,709**	**41,210**	37,472	35,573
Private Equity (v)				
Canadian private equities (vi) (vii)	**4,632**	**3,828**	3,718	3,453
Non-Canadian private equities	**4,576**	**4,331**	3,747	3,767
Total Private Equity Investments	**9,208**	**8,159**	7,465	7,220
Infrastructure Investments (v)	**13,533**	**11,991**	11,572	10,305
Real Estate Investments	**17,603**	**15,088**	15,846	13,595
Total Investments	**82,053**	**76,448**	72,355	66,693
Investment Related Assets				
Other investment assets *(note 5)*	**401**	**576**	366	494
Derivatives and pending trades (viii)	**343**	**112**	487	277
	744	**688**	853	771
Investment Related Liabilities				
Investment liabilities *(note 6)*	**(15,604)**	**(15,442)**	(11,249)	(10,984)
Derivatives and pending trades (ix)	**(859)**	**(113)**	(492)	(196)
	(16,463)	**(15,555)**	(11,741)	(11,180)
Net Investment Assets	**$ 66,334**	**$ 61,581**	$ 61,467	$ 56,284

(i) Includes restricted cash of $156 million (December 31, 2012 – $92 million), treasury bills of $635 million (December 31, 2012 – $442 million) and term deposits of $57 million (December 31, 2012 – $162 million).
(ii) Includes non-Canadian bonds and debentures with a fair value of $131 million (December 31, 2012 – $905 million).
(iii) Includes mortgages with a fair value of $1,127 million (December 31, 2012 – $1,390 million).
(iv) Includes externally managed investments of $4,307 million (December 31, 2012 –$4,638 million).
(v) Investment assets are net of long-term debt incurred in entities where OAC has effective control as presented in Note 6 (a).
(vi) Includes resource properties with a total fair value of $728 million (December 31, 2012 – $495 million).
(vii) Includes venture capital of $241 million (December 31, 2012 – $117 million).
(viii) Includes amounts due from pending trades of $38 million (December 31, 2012 - $274 million).
(ix) Includes amounts payable from pending trades of $64 million (December 31, 2012 - $193 million).

The Funds' net investment assets by Investment Entity responsible for managing the Funds' investments are as follows:

As at December 31,												**2013**
		OMERS Capital Markets		**OMERS Private Equity**		**Borealis Infrastructure**		**Oxford Properties Group**		**OMERS Strategic Investments**		**Total**
Investment assets	**$**	**41,473**	**$**	**7,208**	**$**	**13,029**	**$**	**17,839**	**$**	**2,504**	**$**	**82,053**
Allocation of cash and other		**(311)**		**—**		**89**		**207**		**15**		**—**
Investment related assets		**430**		**6**		**17**		**290**		**1**		**744**
Investment related liabilities		**(6,310)**		**(113)**		**(1,553)**		**(8,463)**		**(24)**		**(16,463)**
Net Investment Assets	**$**	**35,282**	**$**	**7,101**	**$**	**11,582**	**$**	**9,873**	**$**	**2,496**	**$**	**66,334**

As at December 31,												2012
		OMERS Capital Markets		OMERS Private Equity		Borealis Infrastructure		Oxford Properties Group		OMERS Strategic Investments		Total
Investment assets	$	37,136	$	6,016	$	11,501	$	16,182	$	1,520	$	72,355
Allocation of cash and other		(291)		—		70		210		11		—
Investment related assets		575		6		34		236		2		853
Investment related liabilities		(2,396)		(29)		(1,785)		(7,514)		(17)		(11,741)
Net Investment Assets	$	35,024	$	5,993	$	9,820	$	9,114	$	1,516	$	61,467

Investment Valuation Practices

Fair values are based on quoted prices in an active market or where such pricing is not available, fair value is estimated using observable market inputs such as interest rates, quoted prices of comparable securities or unobservable inputs such as Management assumptions. Fair values are determined as follows:

(i) Short-term deposits are recorded at amortized cost, which together with accrued interest income approximates fair value.

(ii) Bonds and debentures, real return bonds and public equities are valued at year-end quoted market prices, where available. For public equities the quoted market prices are based on exchange prices while bonds and real return bonds are based on quotes from industry standard sources. For public market investments, including mortgages and private debt, where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities, independent asset appraisals, and financial analysis. Externally managed hedge funds where details of individual securities are not maintained by the Funds are valued based on values provided by the fund manager.

(iii) Private market investments include investments in private equity, infrastructure and real estate assets, held either directly or as a limited partner, which generally do not have a publicly available market price. For private market investments, the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. While not exact, valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets.

The Plans' private market investments are valued as follows:

- For investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values, the valuation is derived by:
    - discounting projected future cash flows of an investment using discount rates which reflect the risk inherent in the projected cash flows. Discount rates and projected cash flows are based on internal assumptions and external inputs.
    - assessing the investment assets against the value of comparable publicly listed entities.
- For non-operating and/or start-up directly held private investments, the value may be held at cost where cost is considered the best estimate of fair value, until there is evidence to support a change in valuation.

- The fair value of a private fund investment where OAC's ability to access information on underlying individual fund investments is restricted, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's general partner unless there is a specific and objectively verifiable reason to vary from the value provided by the general partner.

(iv) Fair value of derivatives, including swap, futures, options, credit default swaps and forward contracts, are determined using quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

Investment Fair Value Hierarchy

Fair value measurements of investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy as follows:

Level 1

Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level 1 primarily includes publicly listed equity investments.

Level 2

Fair value is based on valuation methods that make use of inputs, other than quoted prices included within Level 1, that are observable by market participants either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level 2 primarily includes debt securities and derivative contracts not traded on a public exchange, public equities not traded in an active market, public fund investments and investment related liabilities including debt, payables under securities lending program and securities sold under repurchase agreements.

Level 3

Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level 3 primarily includes private market investments such as real estate, infrastructure, private equity, mortgages and private debt and investment related liabilities including debt valued based on discounted future cash flow models, comparable publicly listed entities, or sales of similar entities which reflect assumptions that a market participant would use when valuing such an asset or liability.

Net investment assets based on the valuation level within the fair value hierarchy are as follows:

As at December 31,				**2013**
	Level 1	**Level 2**	**Level 3**	**Total**
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits	**$ 550**	**$ 12,088**	**$ —**	**$ 12,638**
Bonds and debentures	**—**	**1,193**	**—**	**1,193**
Real return bonds	**—**	**17,754**	**—**	**17,754**
Mortgages and private debt	**—**	**—**	**1,228**	**1,228**
	550	**31,035**	**1,228**	**32,813**
Public equity	**4,869**	**—**	**97**	**4,966**
Public fund investments	**—**	**2,776**	**1,154**	**3,930**
Total Public Market Investments	**5,419**	**33,811**	**2,479**	**41,709**
Private Equity Investments				
Direct investments	**356**	**31**	**6,822**	**7,209**
Fund investments	**—**	**—**	**1,999**	**1,999**
Total Private Equity Investments	**356**	**31**	**8,821**	**9,208**
Infrastructure Investments	**—**	**—**	**13,533**	**13,533**
Real Estate Investments	**—**	**111**	**17,492**	**17,603**
Total Investments	**5,775**	**33,953**	**42,325**	**82,053**
Investment Related Assets				
Other investment assets	**—**	**89**	**312**	**401**
Derivatives and pending trades	**99**	**243**	**1**	**343**
Total Investment Related Assets	**99**	**332**	**313**	**744**
Investment Related Liabilities				
Debt	**—**	**(4,735)**	**(4,207)**	**(8,942)**
Payables under securities lending program	**—**	**(43)**	**—**	**(43)**
Securities sold short	**(3,573)**	**(144)**	**—**	**(3,717)**
Securities sold under repurchase agreements	**—**	**(2,047)**	**—**	**(2,047)**
Other payables and liabilities	**—**	**(11)**	**(844)**	**(855)**
Derivatives and pending trades	**(48)**	**(445)**	**(366)**	**(859)**
Total Investment Related Liabilities	**(3,621)**	**(7,425)**	**(5,417)**	**(16,463)**
Net Investment Assets	**$ 2,253**	**$ 26,860**	**$ 37,221**	**$ 66,334**

As at December 31,				2012
	Level 1	Level 2	Level 3	Total
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits	$ 567	$ 7,406	$ —	$ 7,973
Bonds and debentures	—	10,112	—	10,112
Real return bonds	—	4,128	—	4,128
Mortgages and private debt	—	—	1,640	1,640
	567	21,646	1,640	23,853
Public equity	9,816	88	59	9,963
Public fund investments	—	2,856	800	3,656
Total Public Market Investments	10,383	24,590	2,499	37,472
Private Equity Investments				
Direct investments	42	273	5,170	5,485
Fund investments	—	—	1,980	1,980
Total Private Equity Investments	42	273	7,150	7,465
Infrastructure Investments	—	—	11,572	11,572
Real Estate Investments	—	—	15,846	15,846
Total Investments	10,425	24,863	37,067	72,355
Investment Related Assets				
Other investment assets	—	96	270	366
Derivatives and pending trades	347	131	9	487
Total Investment Related Assets	347	227	279	853
Investment Related Liabilities				
Debt	—	(3,434)	(5,027)	(8,461)
Payables under securities lending program	—	(933)	—	(933)
Securities sold short	(256)	—	—	(256)
Securities sold under repurchase agreements	—	(842)	—	(842)
Other payables and liabilities	—	(11)	(746)	(757)
Derivatives and pending trades	(227)	(127)	(138)	(492)
Total Investment Related Liabilities	(483)	(5,347)	(5,911)	(11,741)
Net Investments Assets	$ 10,289	$ 19,743	$ 31,435	$ 61,467

The Level 3 classification includes all assets and liabilities related to investments valued based on non-observable market data. Where the investment asset is being valued as an entity, the Level 3 category includes the fair value of that entity. In addition, where the investment asset is hedged against foreign currency gains and losses, the impact of the hedging activity is included in the valuation.

The following table presents the changes in the fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2013:

	Fair Value Dec 31, 2012	**Total Gain/ (Loss) Included in Net Income**	**Transfers In (Out)** (i)	**Contributed Capital**	**Capital Returned** (ii)	**Fair Value Dec 31, 2013**	**Unrealized Gains/ (Losses) Attributable to Investments Held at Dec. 31,** (iii)
Mortgages and private debt	$ 1,640	**$ (35)**	**$ —**	**$ 20**	**$ (397)**	**$ 1,228**	**$ (30)**
Public equity investments	59	**(15)**	**—**	**53**	**—**	**97**	**(15)**
Public fund investments	800	**121**	**—**	**233**	**—**	**1,154**	**121**
Private equity-direct investments	5,128	**1,009**	**(84)**	**1,544**	**(864)**	**6,733**	**756**
Private equity-fund investments	1,984	**308**	**73**	**82**	**(476)**	**1,971**	**49**
Infrastructure investments	10,669	**1,050**	**—**	**2,533**	**(1,406)**	**12,846**	**314**
Real estate investments	14,928	**804**	**—**	**1,766**	**(1,118)**	**16,380**	**755**
Real estate fund investments	490	**13**	**(111)**	**239**	**(58)**	**573**	**14**
Debt	(4,263)	**(65)**	**243**	**654**	**(330)**	**(3,761)**	**(76)**
Total	$ 31,435	**$ 3,190**	**$ 121**	**$ 7,124**	**$ (4,649)**	**$ 37,221**	**$ 1,888**

The following table presents the changes in the fair value measurements in Level 3 of the fair value hierarchy for the year ended December 31, 2012:

	Fair Value Dec 31, 2011	Total Gain/ (Loss) Included in Net Income	Transfers In (Out) (i)	Contributed Capital	Capital Returned (ii)	Fair Value Dec 31, 2012	Unrealized Gains/ (Losses) Attributable to Investments Held at Dec. 31, (iii)
Mortgages and private debt	$ 1,695	$ 12	$ —	$ 172	$ (239)	$ 1,640	$ 16
Public equity investments	135	13	(88)	20	(21)	59	12
Public fund investments	280	35	—	765	(280)	800	9
Private equity-direct investments	4,537	466	46	754	(675)	5,128	231
Private equity-fund investments	2,791	132	—	203	(1,142)	1,984	(54)
Infrastructure investments	9,405	993	(46)	1,717	(1,400)	10,669	468
Real estate investments	13,715	479	—	1,395	(661)	14,928	500
Real estate fund investments	445	23	—	55	(33)	490	23
Debt	(3,061)	(130)	—	267	(1,339)	(4,263)	(2)
Total	$ 29,942	$ 2,023	$ (88)	$ 5,348	$ (5,790)	$ 31,435	$ 1,203

(i) Represents amounts transferred in(out) of Level 3, the net amount for the year ended December 31, 2013 was $121 million (December 31, 2012– negative $88 million) This represents reclassification of debt and private investments that became publicly traded.

(ii) Includes return of realized hedging gains. The unrealized hedging gains and losses are recorded as part of the valuation of such assets.

(iii) Amount represents unrealized market value adjustments recorded during the year which are included in the valuation of assets held at year end only.

Fair Value Assumptions and Sensitivity

Level 3 financial instruments are valued using internal models and the resulting valuations are significantly affected by non-observable inputs, the most significant of which is the discount rate as the discount rate reflects both current interest rates as well as the uncertainty of future cash flows from the investment.

The discount rate is composed of two elements, a risk free rate, which is the return that would be expected from a secure, virtually risk-free investment, such as a high quality government bond; plus a risk premium that compensates for the relative level of risk associated with a particular investment. The selected discount rates are chosen to be consistent with the risk inherent in the stream of cash flows to which they are applied.

		Discount Rate Ranges	
As at December 31,	**Discount Rate Methodologies**	**2013**	2012
Mortgage and Private Debt investments	A base rate derived from a risk-free rate yield curve plus credit spread.	**1.8% to 5.0%**	1.7% to 5.1%
Private equity – direct investments	Implied values from similar publicly traded entities or sales of similar entities or risk-free rate adjusted for the risk inherent in projected future cash flows.	**8.6% to 21.1%**	8.6% to 20.6%
Infrastructure investments	Risk-free rate adjusted for the risk inherent in projected future cash flows.	**8.7% to 14.2%**	8.7% to 16.7%
Real estate investments	Risk-free rate adjusted for the risk inherent in projected future cash flows and recent sales of similar properties.	**5.9% to 10.3%**	6.1% to 10.3%

The following hypothetical analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible alternative discount rate assumptions for asset categories where such reasonably possible alternative assumptions would change the fair value significantly. The alternative discount rates below are based on the volatility of the respective asset classes. The impact to the valuation from such changes to the discount rate has been calculated independently of the impact of changes in other key variables. In actual experience, a change in the discount rate may be the result of changes in a number of underlying assumptions which could amplify or reduce the impact on the valuation.

As at December 31, 2013	**Increase/Decrease in Discount Rate (basis points)**		**Decrease/Increase in Net Investment Assets**
Private equity - direct investments	**70**	**$**	**342**
Infrastructure investments	**20**		**221**
Real estate investments	**25**		**375**
Total impact on Net Investment Assets		**$**	**938**

As at December 31, 2012	Increase/Decrease in Discount Rate (basis points)		Decrease/Increase in Net Investment Assets
Private equity - direct investments	70	$	339
Infrastructure investments	20		180
Real estate investments	25		325
Total impact on Net Investment Assets		$	844

The fair value of public market, private equity and real estate fund investments where OAC does not have access to the underlying investment information is based on the value provided by the general partner or other external manager and therefore, in the absence of specific information to support deviating from this value, no other reasonably possible alternative assumptions could be applied.

Significant Investments

The Funds held investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets as follows:

As at December 31,			**2013**			2012
	Number of Investments	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Public market investments	**8**	**$ 7,659**	**$ 7,962**	1	$ 702	$ 680
Private market investments	**12**	**15,110**	**12,919**	13	13,408	11,898
	20	**$ 22,769**	**$ 20,881**	14	$ 14,110	$ 12,578

Public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include investments in foreign and Canadian government interest bearing securities.

Private market investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power; ownership interests in Teranet, Oncor, Associated British Ports, Scotia Gas Networks, LifeLabs, HS1 and OMERS Energy Inc; and real estate ownership interests in Yorkdale Shopping Centre located in Ontario, the Richmond Adelaide Complex located in Ontario, Centennial Place located in Alberta, and Green Park Business Park located in Reading, England.

The effective date of the most recent valuation for the above listed investments was December 31, 2013.

Investment Risk

The Funds are exposed to a variety of investment risks as a result of the investment activities. Formal policies and procedures govern the management of investment risk (market, credit and liquidity risk) across the organization. The objective of investment risk management is to minimize unanticipated losses, to optimize the reward-risk trade-off for the Funds and to enhance the ability of the Plans to meet their respective obligations over the long term.

Investment Entities and asset managers are responsible for understanding the extent of investment risk in the various strategies and assets that they manage. Furthermore, they must ensure that the returns from those strategies and assets are commensurate with the risks involved. Investment risk is managed through various policies including policies which establish a target asset mix between public market and private market investments. Within public market investments, policies establish targets between interest bearing and public equity investments and within private markets investments, policies establish targets among private equity, infrastructure and real estate investments to ensure diversification across and within asset classes. The Funds utilize analytical and reporting tools to manage investment risk and achieve the desired level of risk at the enterprise, public market and, where applicable, private market levels. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

a) Market Risk

Market risk is the risk that the fair value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk encompasses a variety of financial risks, such as foreign currency risk, interest rate risk and price risk. Significant volatility in interest rates, equity values and the value of the Canadian dollar against the currencies in which our investments are held can impact the value of OAC investments and the funded status of the OMERS Pension Plans.

OAC uses various investment strategies such as diversification, hedging and the use of derivative instruments to mitigate the various forms of market risk. In addition, investment exposure in various assets and markets are monitored daily.

- Foreign Currency Risk

  Investments denominated in currencies other than the Canadian dollar expose the Funds to fluctuations in foreign exchange rates. 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. OAC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign exchange forward contracts. OAC also may make active investments in foreign currencies with the objective of adding value. The net exposure to foreign currencies represents 11 per cent (December 31, 2012 – 12 per cent) of net investment assets at December 31, 2013.

  The Funds' total currency exposure before the impact of currency hedging and trading activities, the impact of hedging and trading activities and the net currency exposure are as follows:

As at December 31,	**2013**				2012			
	Fair Value By Currency				Fair Value By Currency			
	Total Exposure (i)	**Hedging/ Trading Activities**	**Net Exposure**	**% of Total**	Total Exposure (i)	Hedging/ Trading Activities	Net Exposure	% of Total
Canada	**$ 37,057**	**$ 22,194**	**$ 59,251**	**89%**	$ 43,078	$ 11,154	$ 54,232	88%
United States	**11,727**	**(5,937)**	**5,790**	**9%**	10,489	(5,927)	4,562	7%
United Kingdom	**10,060**	**(9,657)**	**403**	**1%**	4,368	(3,861)	507	1%
Euro Countries	**4,995**	**(4,841)**	**154**	**0%**	1,887	(1,250)	637	1%
Japan	**(37)**	**54**	**17**	**0%**	364	(52)	312	1%
Other Pacific	**1,491**	**(1,370)**	**121**	**0%**	574	(64)	510	1%
Emerging Markets	**556**	**(424)**	**132**	**0%**	392	29	421	1%
Other Europe	**485**	**(19)**	**466**	**1%**	315	(29)	286	0%
	$ 66,334	**$ —**	**$ 66,334**	**100%**	$ 61,467	$ —	$ 61,467	100%

(i) Currency exposure before the impact of currency hedging and trading activities.

- Foreign Currency Sensitivity

  After giving effect to the impact of hedging and trading activities and with all other variables and underlying values held constant, a five per cent increase/decrease in the value of the Canadian dollar against major foreign currencies would result in an approximate decrease/increase in the Funds' net assets available for benefits and an unrealized gain/loss as noted below:

As at December 31,		**2013**		2012	
Currency	Change in value of Canadian Dollar	**Unrealized gain/loss**		Unrealized gain/loss	
United States	+/- 5%	**-/+**	**$ 290**	-/+	$ 228
United Kingdom	+/- 5%	**-/+**	**20**	-/+	25
Euro Countries	+/- 5%	**-/+**	**8**	-/+	32
Other	+/- 5%	**-/+**	**37**	-/+	76
		-/+	**$ 355**	-/+	$ 361

- Interest Rate Risk

  Interest rate risk refers to the effect on the fair value of the Funds' assets and liabilities due to fluctuations in interest rates. Due to the discount rate methodology employed to determine the accrued pension obligation, the accrued pension obligation is not materially impacted by short term fluctuations in interest rates. The impact to the Funds' net assets from a change in interest rates will be mitigated as the impact on the valuation of investment assets is generally opposite from the impact on investment liabilities. The interest bearing investment portfolio has guidelines on concentration and duration which are also designed to mitigate the risk of changes in interest rates.

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

As at December 31,					**2013**
	Term to Maturity				
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	**Average Effective Yield (i)**
Cash and short-term deposits	**$ 12,638**	**$ —**	**$ —**	**$ 12,638**	**1.13%**
Bonds and debentures	**10**	**65**	**1,118**	**1,193**	**2.95%**
Real return bonds (ii)	**—**	**88**	**17,666**	**17,754**	**0.79%**
Mortgages and private debt	**140**	**463**	**625**	**1,228**	**3.62%**
	$ 12,788	**$ 616**	**$ 19,409**	**$ 32,813**	**1.11%**

As at December 31,					2012
	Term to Maturity				
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield (i)
Cash and short-term deposits	$ 7,973	$ —	$ —	$ 7,973	1.12%
Bonds and debentures	609	4,025	5,478	10,112	2.37%
Real return bonds (ii)	26	50	4,052	4,128	-0.06%
Mortgages and private debt	205	545	890	1,640	3.20%
	$ 8,813	$ 4,620	$ 10,420	$ 23,853	1.59%

(i) Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.
(ii) Real return bond yields are based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

After giving effect to derivative contracts (note 4), OAC debt liabilities and amounts payable under OAC securities lending programs and securities sold under repurchase agreements (note 6), a one per cent increase/decrease in nominal interest rates, with all other variables held constant, would result in an approximate decrease/increase in the value of net interest bearing investments and an unrealized (loss)/gain of $264 million (December 31, 2012 – $443 million). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of real return bonds and an unrealized (loss)/gain of $2,742 million (December 31, 2012 – $668 million).

- Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. OAC is subject to price risk through its public equity investments and in addition to geographic, industrial sector and entity specific analysis, uses strategies such as diversification and the use of derivative instruments to mitigate the overall impact of price risk. OAC's private market investments are also subject to price risk as they are impacted by many general and specific market variables.

After giving effect to derivative contracts, a ten per cent increase/decrease in the value of all public equity and private market investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss as noted below.

As at December 31,		**2013**	2012
	Change in market prices	**Unrealized gain/loss**	Unrealized gain/loss
Canadian public equities	**+/- 10%**	**+/- $ 71**	+/- $ 504
Non-Canadian public equities	**+/- 10%**	**+/- 1,913**	+/- 1,316
Private market investments	**+/- 10%**	**+/- 2,859**	+/- 2,468
		+/- $ 4,843	+/- $ 4,288

b) Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to honour its financial obligations with OAC, including its inability or unwillingness to pay borrowed principal, interest or rent when they come due. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. OAC has put in place investment policies and procedures that have established investment criteria designed to manage credit risk by setting limits to credit exposure from individual corporate entities and by requiring collateral where appropriate. The credit quality of financial assets is generally assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates. Credit risk associated with derivative financial instruments is discussed in note 4.

OAC's most significant credit risk exposure arises from its interest bearing investments. The Funds' interest bearing investments exposed to credit risk are as follows:

As at December 31,				**2013**
	Credit Quality (i)		**Interest Bearing Investments**	**% of Total**
Federal Governments (ii)	**AA to AAA**	**$**	**18,731**	**57%**
Provincial Governments	**A to AA**		**686**	**2%**
Municipal			**—**	**—**
Corporate				
Investment grade				
	AAA- to AAA		**139**	**1%**
	AA- to AA +		**11,768**	**36%**
	A- to A+		**359**	**1%**
	BB- to BBB+		**436**	**1%**
Non-investment grade			**288**	**1%**
Securities lending cash collateral			**43**	**0%**
Cash on deposit			**363**	**1%**
		$	**32,813**	**100%**

As at December 31,				2012
	Credit Quality (i)		Interest Bearing Investments	% of Total
Federal Governments (ii)	AAA	$	8,279	35%
Provincial Governments	A to AAA		3,310	14%
Municipal	AAA		22	0%
Corporate				
Investment grade				
	AAA- to AAA		278	1%
	AA- to AA+		7,267	31%
	A- to A+		1,283	5%
	BBB- to BBB+		1,428	6%
Non-investment grade			527	2%
Securities lending cash collateral			933	4%
Cash on deposit			526	2%
		$	23,853	100%

(i) Based on average rating of major credit rating agencies.
(ii) Includes Canadian and U.S. federal governments.

- Securities Lending Program

  OAC participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Funds receive a fee and the borrower provides cash or readily marketable securities of higher value as collateral which mitigates the credit risk associated with the program. As at December 31, 2013, securities with an estimated fair value of $155 million (December 31, 2012 – $2,154 million) were loaned out, while collateral held had an estimated fair value of $158 million (December 31, 2012 – $2,234 million) of which $43 million (December 31, 2012 – $933 million) was cash collateral invested in short-term interest bearing investments.

- Right of Offset and Collateral

  During the normal course of business, OAC is a counterparty to financial instruments that are subject to netting arrangements. In the case of over-the-counter ("OTC") derivatives, collateral is collected from and pledged to counterparties to manage credit exposure according to the Credit Support Annex ("CSA"), which forms part of the International Swaps and Derivative's Association ("ISDA") master agreements. It is common practice to execute a CSA in conjunction with an ISDA master agreements. Under the ISDA master agreements for OTC derivatives, OAC has a right of offset in the event of default, insolvency, bankruptcy or other early termination. In the ordinary course of business, bilateral OTC exposures under these agreements are substantially mitigated through associated collateral agreements with a majority of our counterparties. In the case of exchange traded derivatives subject to derivative clearing agreements with the exchanges and clearinghouses, there is no provision for set off at default. In the event of default by a counterparty, OAC is entitled to liquidate the assets held as collateral to offset against obligations to the same counterparty. In the case of prime brokerage securities borrowing, collateral is lodged to the full extent of the liability to the counterparty.

  OAC does not offset the financial instruments in its Consolidated Statement of Financial Position, as its rights of offset are conditional. The following table presents the effect of conditional netting and similar arrangements. Similar arrangements include global master repurchase agreements, security lending agreements and any related rights to financial collateral.

Information for OAC related to these arrangements as at December 31, 2013:

As at December 31,	Nettable amount of Financial Instruments	Related amounts not set off in the Consolidated Statement of Financial Position: Financial Instruments	Financial collateral (received) pledged	Securities sold under agreement	2013 Net amount
Financial assets					
Derivative Assets	**$ 243**	**$ (205)**	**$ (19)**	**$ —**	**$ 19**
Securities Lending	**42**	**—**	**(42)**	**—**	**—**
Total Financial Assets	**$ 285**	**$ (205)**	**$ (61)**	**$ —**	**$ 19**
Financial Liabilities					
Derivative Liabilities	**$ (774)**	**$ 205**	**$ 200**	**$ —**	**$ (369)**
Securities Lending	**(4,025)**	**—**	**4,025**	**—**	**—**
Repurchase agreements	**(2,047)**	**—**	**—**	**2,047**	**—**
Total Financial liabilities	**$ (6,846)**	**$ 205**	**$ 4,225**	**$ 2,047**	**$ (369)**

As at December 31,	Nettable amount of Financial Instruments	Related amounts not set off in the Consolidated Statement of Financial Position: Financial Instruments	Financial collateral (received) pledged	Securities sold under agreement	2012 Net amount
Financial assets					
Derivative Assets	$ 172	$ (116)	$ —		$ 56
Securities Lending	2,338	—	(2,338)		—
Total Financial Assets	$ 2,510	$ (116)	$ (2,338)		$ 56
Financial Liabilities					
Derivative Liabilities	$ (264)	$ 116	$ —		$ (148)
Securities Lending	(251)	—	251		—
Repurchase agreements	(842)	—	—	838	(4)
Total Financial liabilities	$ (1,357)	$ 116	$ 251	$ 838	$ (152)

c) Liquidity Risk

Liquidity risk describes the Funds' ability to manage financial liability related cash requirements in a timely and cost-effective manner. OAC has developed forward looking liquidity risk and cashflow models which are used on a periodic basis to assess the impact of cash requirements and obligations on the Funds' liquidity.

OAC's primary future liabilities include the accrued pension obligation of the Plan (note 8) and the RCA (note 9) and debt financing investments (note 6). The contractual undiscounted principal and interest repayments and term to maturity of the investment liabilities are disclosed in note 6.

In the normal course of business, OAC enters into contracts that give rise to commitments for future payments which may also impact our liquidity (note 17).

The cash requirements to meet these liabilities are managed using net investment income from public and private investments (note 10), contributions made by both members and employers (note 12), net of administrative expenses (note 14), and through investing in assets which may be efficiently converted to cash in both normal and stressed market conditions.

Another part of liquidity risk is OAC's ability to cover its commercial paper issuance. OAC is authorized to issue up to $3,100 million in commercial paper to help finance future investment opportunities. OAC holds at least 1.5 times the authorized size of the commercial paper program in high quality liquid assets.

NOTE 4

Derivative Financial Instruments

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivative transactions are conducted in over-the-counter markets directly between two counterparties or on regulated exchange markets.

Derivative financial instruments are used, when appropriate, to manage the Funds' asset mix and to assist in managing the exposure to market risk, by increasing or decreasing foreign currency, interest rate and price risk, without directly purchasing or selling the underlying assets or currencies. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

Derivative Contracts

Swaps

Swaps are contractual agreements between counterparties to exchange a series of cash flows. The swap agreements entered into by the OAC are as follows:

- Interest Rate Swaps – contractual agreements to exchange fixed and / or floating interest payments based on notional amounts.
- Equity Swaps – contractual agreements to exchange the return on an equity security or a group of equity securities for the return based on a fixed or floating interest rate or the return on another equity security or group of equity securities.
- Bond Swaps – contractual agreements to exchange the return on a bond or a bond index for the return based on a fixed or floating interest rate.
- Commodity Swaps – contractual agreements to exchange the return on a commodity index for the return based on a fixed or floating interest rate.
- Credit Default Swaps - contractual agreements that transfer the credit risk of an underlying financial instrument resulting from a specified credit event, such as default or bankruptcy.

Forwards and Futures

Forwards and futures are contractual agreements between counterparties to either buy or sell a specified amount of a currency, commodity or interest bearing financial instrument or index at a specific price and date in the future.

The forward contracts entered into by OAC are as follows:

- Bond Forward Contracts – contractual agreements to buy or sell bonds or a bond index at a specified price and date in the future.
- Foreign Exchange Forward Contracts – foreign exchange forward contracts are contractual agreements to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. The futures contracts that OAC enters into are as follows:

- Equity Index Futures Contracts – agreements to either buy or sell a specified equity index at a specified price and date in the future.
- Commodity Futures Contracts – agreements to either buy or sell a commodity index at a specified price and date in the future.

Options

Options are contractual agreements that convey to the purchaser the right but not the obligation to either buy or sell a specified amount of a currency, commodity or interest bearing financial instrument or index at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right. Options may be transacted on a regulated exchange or in the over-the-counter market.

- Swaptions – contractual agreements that convey to the purchaser the right but not the obligation to enter into or cancel a swap agreement at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right.

Market Risk

Derivative instruments are subject to market risk. Market risk arises from potential adverse changes in the value of derivative instruments as a result of changes in the underlying market variables. These underlying market variables may include the absolute and relative levels of interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities. Market risks, including derivative investments, are discussed in note 3.

Credit Risk

The Funds are exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. The credit risk associated with derivatives is normally a small amount relative to the notional amount of the derivative instrument. In order to mitigate this risk, OAC:

- 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; and
- arranges credit risk mitigation in the form of periodic prepayments of the fair value of contracts.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed 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 replacement cost receivable 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 summarizes the Funds' derivative portfolio and related credit exposure:

As at December 31,	**2013**			2012		
		Fair Value (ii)			Fair Value (ii)	
	Notional Value (i)	**Assets (iii)**	**Liabilities**	Notional Value (i)	Assets (iii)	Liabilities
Interest Rate Contracts						
Interest rate swap contracts	**$ 8,313**	**$ 12**	**$ (39)**	$ 1,935	$ 19	$ (42)
Swaption written	**9,142**	**—**	**(16)**	126	—	(1)
Swaption purchased	**7,708**	**32**	**—**	294	1	—
Bond index swap contracts	**—**	**—**	**—**	806	6	(1)
Bond futures	**1,682**	**2**	**—**	2,983	—	(7)
Bond options written	**39,475**	**—**	**(3)**	996	—	—
Bond options purchased	**32,216**	**6**	**—**	996	1	—
	98,536	**52**	**(58)**	8,136	27	(51)
Equity Contracts						
Equity index futures contracts	**11,006**	**52**	**(1)**	5,519	70	(27)
Equity index swap contracts	**554**	**10**	**(1)**	1,295	23	(1)
Equity options written	**954**	**—**	**(8)**	—	—	—
Equity options purchased	**944**	**11**	**—**	—	—	—
	13,458	**73**	**(10)**	6,814	93	(28)
Commodity Contracts						
Commodity futures contracts	**3,895**	**6**	**(14)**	945	4	—
Commodity swaps contracts	**—**	**—**	**—**	96	—	—
Commodity options purchased	**—**	**—**	**—**	3	—	—
	3,895	**6**	**(14)**	1,044	4	—
Credit Default Contracts	**10,155**	**115**	**(80)**	—	—	—
Foreign Exchange						
Currency futures	**—**	**—**	**—**	513	—	—
Currency options written	**474**	**—**	**(5)**	76	—	—
Currency options purchased	**771**	**18**	**—**	52	—	—
Foreign exchange forward contracts	**26,795**	**41**	**(628)**	23,644	89	(220)
	28,040	**59**	**(633)**	24,285	89	(220)
Total	**$ 154,084**	**$ 305**	**$ (795)**	$ 40,279	$ 213	$ (299)

(i) Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows and is therefore not recorded in the consolidated financial statements. Notional amounts do not necessarily indicate the amounts of future cash flows or the current fair value of the derivative contracts and, therefore, do not necessarily indicate the Plan's exposure to credit or market risks.

(ii) Fair value represents unrealized gains or losses from derivative contracts which are recorded in the consolidated statement of financial position based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.

(iii) The fair value of derivative contracts recorded as an asset represents the credit risk replacement cost or the loss to which the Funds are exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts that permit offsetting of positions or any collateral which may be held.

The term to maturity based on notional value is as follows:

As at December 31,	2013				2012			
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	Within 1 Year	1 to 5 Years	Over 5 Years	Total
Interest Rate Contracts	**$ 95,740**	**$ 1,438**	**$ 1,358**	**$ 98,536**	$ 6,422	$ 1,527	$ 187	$ 8,136
Equity Contracts	**13,447**	**11**	**—**	**13,458**	6,814	—	—	6,814
Commodity Contracts	**3,895**	**—**	**—**	**3,895**	1,044	—	—	1,044
Credit Default Contracts	**10,155**	**—**	**—**	**10,155**	—	—	—	—
Foreign Exchange Contracts	**28,040**	**—**	**—**	**28,040**	24,285	—	—	24,285
	$ 151,277	**$ 1,449**	**$ 1,358**	**$ 154,084**	$ 38,565	$ 1,527	$ 187	$ 40,279

The term to maturity based on the fair value is as follows:

As at December 31,	2013				2012			
	Under 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	Under 1 Year	1 to 5 Years	Over 5 Years	Total
Interest Rate Contracts	**$ 21**	**$ (31)**	**$ 4**	**$ (6)**	$ 4	$ (32)	$ 4	$ (24)
Equity Contracts	**62**	**1**	**—**	**63**	65	—	—	65
Commodity Contracts	**(8)**	**—**	**—**	**(8)**	4	—	—	4
Credit Default Contracts	**35**	**—**	**—**	**35**	—	—	—	—
Foreign Exchange Contracts	**(574)**	**—**	**—**	**(574)**	(131)	—	—	(131)
	$ (464)	**$ (30)**	**$ 4**	**$ (490)**	$ (58)	$ (32)	$ 4	$ (86)

NOTE 5

Other Investment Assets

Other investment assets are comprised of operational accounts receivable, accrued income, and other assets related to private equity, infrastructure and real estate investments.

As at December 31,	2013	2012
Investment receivables	**$ 239**	$ 220
Deferred assets, prepaid and other	**162**	146
Other investment assets	**$ 401**	$ 366

NOTE 6

Investment Liabilities

The investment liabilities are as follows:

As at December 31,		2013		2012
Debt (a)	$	**8,942**	$	8,461
Payable under securities lending program (b)		**43**		933
Securities sold short		**3,717**		256
Securities sold under repurchase agreements (c)		**2,047**		842
Payables and other liabilities		**855**		757
Total	$	**15,604**	$	11,249

a) Debt is comprised of the following:

As at December 31,	2013			2012		
	Fair Value	**Cost**	**Weighted Average Interest Rate**	Fair Value	Cost	Weighted Average Interest
Oxford Properties Group						
Unsecured debt (i)	$ **863**	$ **863**	**1.65%**	$ 34	$ 34	2.37%
Secured debt (ii)	**3,761**	**3,728**	**3.63%**	4,264	4,155	3.19%
ORC Series 1 debentures (iii)	**595**	**593**	**2.71%**			
ORC Series 2 debentures (iv)	**475**	**500**	**3.99%**			
ORC Series 3 debentures (v)	**297**	**300**	**3.34%**			
Series C debentures (vi)	**—**	**—**		404	400	1.42%
Series D debentures (vii)	**218**	**200**	**2.60%**	224	200	2.37%
ORCH debentures (viii)	**183**	**170**	**1.81%**	185	170	2.06%
ORCH Two debentures (ix)	**183**	**180**	**1.46%**	186	180	1.63%
	6,575	**6,534**	**3.15%**	5,297	5,139	2.92%
Borealis Infrastructure						
Secured debt (x)	**446**	**435**	**1.87%**	763	759	2.13%
OMERS Finance Trust						
Commercial paper (xi)	**1,921**	**1,921**	**1.13%**	2,401	2,401	1.12%
Total (xii)	$ **8,942**	$ **8,890**	**2.66%**	$ 8,461	$ 8,299	2.34%

(i) Includes operating lines and non-revolving facilities maturing in 2015 with interest rates ranging from 0.98 per cent to 3 per cent.
(ii) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific real estate asset.
(iii) OMERS Realty Corporation Series 1 2.498% Debentures issued June 5, 2013, maturing June 5, 2018.
(iv) OMERS Realty Corporation Series 2 3.358% Debentures issued June 5, 2013, maturing June 5, 2023.
(v) OMERS Realty Corporation Series 3 3.203% Debentures issued July 25, 2013, maturing July 24, 2020.
(vi) OMERS Realty Corporation Series C 4.09% Debentures issued May 8, 2008, matured June 4, 2013.
(vii) OMERS Realty Corporation Series D 4.74% Debentures issued May 8, 2008, maturing June 4, 2018.
(viii) OMERS Realty CTT Holdings Inc. Series A 4.75% Debentures issued May 5, 2009, maturing May 5, 2016.
(ix) OMERS Realty CTT Holdings Two Inc. Series A 4.05% Debentures issued May 5, 2009, maturing May 5, 2014.
(x) Includes secured debt with various terms to maturity up to 2015 with each debt secured by a specific infrastructure asset.
(xi) OMERS Finance Trust, a wholly owned subsidiary of OAC, Commercial Paper program is authorized up to $3,100 million. Commercial Paper outstanding has maturities from January 2, 2014 to March 17, 2014 with interest rates ranging from 1.11 per cent to 1.14 per cent.

(xii) Scheduled undiscounted principal and interest repayments for the five subsequent years and thereafter are as follows:

As at December 31,		2013
2014	**$**	**2,930**
2015		**1,715**
2016		**1,131**
2017		**835**
2018		**1,341**
Thereafter		**1,973**
	$	**9,925**

As at December 31,		2012
2013	$	4,342
2014		578
2015		803
2016		1,099
2017		753
Thereafter		1,473
	$	9,048

Investment assets where OAC has effective control are presented in the Statement of Financial Position on a non-consolidated basis at fair value. These investments typically incur third-party debt, which is non-recourse to OAC. The cost of debt incurred in such investments is as follows:

As at December 31,		**2013**		2012
Borealis Infrastructure	**$**	**7,274**	$	6,409
OMERS Private Equity		**2,004**		1,464
OMERS Strategic Investments		**181**		165
Total	**$**	**9,459**	$	8,038

b) As part of the securities lending program, OAC receives cash collateral that it invests in short-term interest bearing investments. OAC is obligated to return the cash collateral upon termination of the arrangement. The securities lending agreements may be terminated at anytime and as such the collateral is repayable on demand.

c) OAC sells securities under agreement to repurchase to access liquidity by selling securities and receiving cash. At the time of the sale, OAC agrees to repurchase from the counterparty securities equivalent to those that were sold at a specified time and at an agreed repurchase price. OAC retains economic exposure to changes in the value of the sold securities, as well as any income from the sold securities. Repo Agreements are executed under master repurchase agreements and with counterparties with a credit rating of at least “AA low” or equivalent. Terms are in place to provide OAC the ability to immediately unwind a demand Repo Agreement and to negotiate the early termination of a term Repo Agreement.

NOTE 7

Amounts Payable Under Contractual Agreements

Under contractual agreements, OAC invests funds on behalf of The Board of Trustees of Ryerson University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund (collectively, the “Administered Funds”). OAC is authorized under the terms of the various agreements to recover expenses for administering such funds.

OAC, through its subsidiary OMERS Investment Management (OIM) establishes investment arrangements ("OMERS Return Agreements") that provide eligible clients with access to the performance of all or parts of the annual investment return of the Plan. Eligible clients include Canadian public and private sector pension plans, corporations, governments and their agencies, colleges, universities and their endowments and Canadian registered charities.

The amount due to administered funds is adjusted for income/(loss) based upon their proportionate share of the Plan's return. OMERS Return Agreements are adjusted for income/(loss) based upon a contractual agreement that provides a return on investment equal to all or part of the Plan return.

Amounts payable under contractual agreements are comprised of the following:

As at December 31,	**2013**	2012
Administered Funds	**$ 957**	$ 905
OMERS Return Agreements	**567**	—
Amounts payable under contractual agreements	**$ 1,524**	$ 905

NOTE 8

OMERS Primary Pension Plan

A summary of the financial statements of the Primary Plan is as follows:

Statement of Financial Position

As at December 31,		**2013**		2012
Net Assets Available for Benefits				
Investments	**$**	**81,999**	$	72,318
Other investment assets		**401**		366
Derivatives and pending trades		**343**		487
Contributions receivable		**285**		241
Other assets		**51**		38
Investment liabilities		**(15,604)**		(11,249)
Amounts payable under contractual agreements		**(1,524)**		(905)
Derivatives and pending trades		**(859)**		(492)
Other liabilities		**(112)**		(115)
Net Assets Available for Benefits	**$**	**64,980**	$	60,689
Accrued Pension Obligation and Deficit				
Defined benefit component				
Accrued pension obligation	**$**	**73,004**	$	69,122
Deficit				
Funding deficit		**(8,641)**		(9,924)
Actuarial value adjustment of net assets		**341**		1,321
		(8,300)		(8,603)
Additional Voluntary Contributions component pension obligation		**276**		170
Total Primary Plan Accrued Pension Obligation and Deficit	**$**	**64,980**	$	60,689

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31,		**2013**		2012
Statement of Changes in Net Assets				
Net investment income	**$**	**3,625**	$	5,196
Contributions *(note 12)*		**3,623**		3,191
Benefits *(note 13)*		**(2,901)**		(2,658)
Pension administrative expenses		**(56)**		(55)
Total Increase		**4,291**		5,674
Net assets available for benefits, beginning of year		**60,689**		55,015
Net Assets available for benefits, end of year	**$**	**64,980**	$	60,689

Actuarial Value of Net Assets of the Defined Benefit Component

The actuarial valuation of the Plan was performed by Towers Watson Canada Inc. Under the PBA, an independent actuarial valuation report must be filed with FSCO at least once every three years. The Plan valuation report was last filed for the December 31, 2012 year-end and, if not filed earlier, must be filed for the December 31, 2015 year-end.

The actuarial value of net assets of the Plan is established such that net investment returns above or below the long-term rate of return assumption in effect for the year, 6.50 per cent for 2013 (2012 – 6.50 per cent) are recognized over 5 years to smooth fluctuations in the market value of net assets. For 2013, $273 million was debited to the actuarial value adjustment because the investment return was below the long-term rate of return assumption. This compares with 2012 when $1,280 million was credited to the actuarial value adjustment because the investment return was in excess of the long-term rate of return assumption.

As a result, at December 31, 2013, the Plan has $341 million in the actuarial value adjustment representing the net unrecognized returns in excess of the long-term rate of return assumption (2012 – $1,321 million net unrecognized returns in excess of the long-term rate of return assumption).

The change in the actuarial value adjustment is as follows:

For the year ended December 31,	**2013**	2012
Expected interest on beginning actuarial value adjustment (i)	**$ 86**	$ (152)
Current year returns in excess of/(below) the funding rate (i)	**(273)**	1,280
Prior years' returns above/(below) the funding rate recognized in the year	**(793)**	2,530
Increase/(Decrease) in actuarial value adjustment	**(980)**	3,658
Actuarial value adjustment, beginning of year	**1,321**	(2,337)
Actuarial Value Adjustment, end of year	**$ 341**	$ 1,321

(i) Based on the funding rate in effect during the year, 2013 – 6.50 per cent (2012 – 6.50 per cent).

The present value of unrecognized net investment returns by initial year they were established and the amounts to be recognized from 2014 through 2017, after application of the long-term rate of return assumption, are as follows:

Initial Year Earned	**Actuarial Value Adjustment as at Dec. 31, 2013(i)**	**Unrecognized Investment Returns to be Recognized in 2014**	**2015**	**2016**	**2017**	**Actuarial Value Adjustment as at Dec. 31, 2012(i)**
2009	$ —	$ —	$ —	$ —	$ —	$ 359
2010	548	584	—	—	—	1,030
2011	(957)	(509)	(543)	—	—	(1,348)
2012	1,023	363	387	412	—	1,280
2013	(273)	(73)	(78)	(83)	(88)	—
	$ 341	$ 365	$ (234)	$ 329	$ (88)	$ 1,321

(i) For each initial year, amounts in the actuarial value adjustment are escalated annually by the long-term return assumption. Amounts are recognized in actuarial assets based on the number of years remaining in the five-year smoothing period.

Accrued Pension Obligation of the Defined Benefit Component

The accrued pension obligation is the actuarial present value of pension obligations of the Plan in respect of benefits accrued to date for all active and inactive members. This obligation is measured using the same actuarial assumptions and methods adopted by OAC for determining the Plan's minimum funding requirements as set out under the PBA. As the experience of the Plan unfolds, and as underlying conditions change over time, the actual value of accrued benefits payable in the future could be materially different than the actuarial present value.

The Projected Benefit Method Prorated On Services is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement.

The following are the primary economic actuarial assumptions which have been used in the actuarial valuation of the Plan as at December 31:

Actuarial Assumptions	**2013**	2012
Assumed rate of inflation	**2.25%**	2.25%
Real rate of return assumed on Plan assets	**4.25%**	4.25%
Discount rate (rate of inflation plus real rate of return)	**6.50%**	6.50%

The assumed increases in the real rate of pensionable earnings (i.e., increase in excess of the assumed inflation rate) are dependent on the attained age of the members. These rates of increase were updated in 2009 to reflect recent experience of the Plan and current expectations for future years.

	2013				2012			
	NRA60 (i)		**NRA65** (i)		NRA60 (i)		NRA65 (i)	
	Until 2014	After 2014	Until 2014	After 2014	Until 2014	After 2014	Until 2014	After 2014
Assumed real rate of pensionable earnings increases (weighted average of a table of age-related increases)	**1.40%**	**1.90%**	**1.10%**	**1.60%**	1.40%	1.90%	1.10%	1.60%
Rate of pensionable earnings increases (assumed rate of inflation plus real rate of pensionable earnings increases)	**3.65%**	**4.15%**	**3.35%**	**3.85%**	3.65%	4.15%	3.35%	3.85%

(i) Normal Retirement Age of 60 and 65 years of age respectively.

In addition, demographic assumptions are used to estimate when future benefits are payable to members and beneficiaries, including assumptions about mortality rates, termination rates and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Plan and on the expectations for future trends. The OAC external actuary has provided their opinion that assumptions adopted are appropriate for valuing the Plan's accrued pension obligation.

The accrued pension obligation as at December 31, 2013 takes account of known changes in the Plan membership up to December 1, 2013, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2014, and estimated pensionable earnings and credited service accruals in 2013.

The deficit of the Plan's actuarial value of net assets available for benefits over accrued pension obligation is as follows:

As of December 31,	2013	2012
Primary Plan fair value of net assets available for benefits	**$ 64,980**	$ 60,689
Less Additional Voluntary Contribution net assets	**276**	170
Defined benefit net assets available for benefits	**64,704**	60,519
Actuarial value adjustment	**(341)**	(1,321)
Actuarial value of net assets available for benefits	**64,363**	59,198
Less Defined Benefit accrued pension obligation	**73,004**	69,122
Funding deficit of actuarial value of net assets available for benefits over accrued pension obligation	**(8,641)**	(9,924)
Reversal of actuarial value adjustment	**341**	1,321
Deficit of net assets available for benefits over accrued pension obligation	**$ (8,300)**	$ (8,603)

As the Plan provides inflation protection, the accrued pension obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases, which impacts future benefits, and the assumed real rate of return on plan assets, which is used in the discounting of these future benefits. A 50 basis point change in the following assumptions (with no change in other assumptions) would have the following approximate effects on the accrued pension obligation:

50 Basis Point Decrease/Increase	**Approximate Effect on Accrued Pension Obligation**	
As at December 31,	**2013**	2012
Real rate of pensionable earnings increases	**-/+ 1,600 million**	-/+ 1,500 million
Real return on plan assets and discount rate	**+/- 5,800 million**	+/- 5,600 million

NOTE 9

Retirement Compensation Arrangement

The RCA provides pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the ITA with respect to service after 1991. Under the OMERS Act, OAC is the administrator of the RCA. As the RCA is not a Registered Pension Plan, a 50 per cent refundable tax is levied by the CRA on all contributions made to the RCA as well as on net investment income received and net realized investment gains. The refundable tax is held by the CRA and earns no investment income for the RCA; it is refunded on the basis of one dollar for every two dollars of realized losses or benefits paid out. The remaining assets of the RCA are managed separately from those of the Plan and are primarily invested in the public markets.

The pension benefits provided by the RCA are not fully funded but are funded on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to all retirement compensation arrangements plans under the ITA. Contributions to the RCA are based on the top-tier Plan contribution rates and are paid into the RCA on the excess of contributory earnings over a defined earnings threshold, which was $156,794 for 2013 (2012 – $149,242). The defined earnings threshold is actively managed and monitored in such a way that future contributions to the RCA, together with the existing RCA Fund and future investment earnings, are expected to be sufficient to provide for projected benefit payments over the 20-year period following each annual valuation date. Benefits in excess of the maximum amounts payable from the Plan as allowed by the ITA are paid from the RCA.

A summary of the financial statements for the RCA is as follows:

Statement of Financial Position

As at December 31,		**2013**		2012
Net Assets Available for Benefits				
Investments	**$**	**54**	$	37
Other assets		**47**		41
Contributions receivable		**1**		1
Other liabilities		**(1)**		(1)
Net Assets Available for Benefits	**$**	**101**	$	78
Accrued Pension Obligation and Deficit				
Accrued pension obligation	**$**	**614**	$	555
Deficit		**(513)**		(477)
Accrued Pension Obligation and Deficit	**$**	**101**	$	78

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31,		**2013**		2012
Net investment income/(loss)	**$**	**12**	$	4
Contributions *(note 12)*		**21**		19
Benefits *(note 13)*		**(9)**		(12)
Administrative expenses		**(1)**		(1)
Total Increase		**23**		10
Net assets available for benefits, beginning of year		**78**		68
Net Assets available for benefits, end of year	**$**	**101**	$	78

The actuarial assumptions used for the RCA are consistent with those used for the Plan except that the discount rate as at December 31, 2013 is 3.25 per cent (2012 – 3.25 per cent), which approximates the effect of the 50 per cent refundable tax. A 50 basis point decrease/increase in the assumed rate (with no change in other assumptions) before reflecting the 50 per cent refundable tax would have a +/- $30 million (2012 – +/- $25 million) impact on the accrued pension obligation.

Determination of the value of the RCA accrued pension obligation is made on the basis of an actuarial valuation. The deficit of net assets over accrued pension obligation as at December 31 is as follows:

As at December 31,	**2013**	2012
Fair value of net assets at end of year	**$ 101**	$ 78
Accrued pension obligation at end of year	**(614)**	(555)
Deficit of fair value of net assets over accrued pension obligation	**$ (513)**	$ (477)

NOTE 10

Net Investment Income/(Loss)

The Funds' investments consist of the following major asset classes: public markets (which includes public equities and interest bearing investments such as treasury bills, bonds, mortgages and private debt), private equity, infrastructure and real estate.

The Funds' investment income/(loss) by asset classes is as follows:

For the year ended December 31,					2013
	Investment Income (i) (ii)	**Net Gain/(Loss) on Investment Assets, Liabilities and Derivatives** (iii)	**Total Investment Income/ (Loss)**	**Investment Management Expenses** (note 14(b))	**Net Investment Income/(Loss)**
Public Market Investments					
Interest Bearing Investments					
Short-term deposits	$ 93	$ 6	$ 99		
Bonds and debentures	82	187	269		
Mortgages and private debt	85	5	90		
	260	198	458		
Real return bonds	155	(1,435)	(1,280)		
Public Equity					
Canadian public equities	15	(111)	(96)		
Non-Canadian public equities	99	989	1,088		
	114	878	992		
Total Public Market Investments	529	(359)	170	(107)	63
Private Equity					
Canadian private equities	129	750	879		
Non-Canadian private equities	105	603	708		
Total Private Equity Investments	234	1,353	1,587	(81)	1,506
Infrastructure Investments	920	131	1,051	(67)	984
Real Estate Investments (iv)	542	650	1,192	(11)	1,181
	$ 2,225	$ 1,775	$ 4,000	$ (266)	3,734
(Income)/loss credited under contractual agreements					(97)
Net Investment Income/(Loss)					$ 3,637

For the year ended December 31,					2012
	Investment Income (i) (ii)	Net Gain/(Loss) on Investment Assets, Liabilities and Derivatives(iii)	Total Investment Income/(Loss)	Investment Management Expenses (note 14(b))	Net Investment Income/(Loss)
Public Market Investments					
Interest Bearing Investments					
Short-term deposits	$ 52	$ (5)	$ 47		
Bonds and debentures	375	148	523		
Mortgages and private debt	119	(30)	89		
	546	113	659		
Real return bonds	36	(14)	22		
Public Equity					
Canadian public equities	47	(31)	16		
Non-Canadian public equities	263	1,424	1,687		
	310	1,393	1,703		
Total Public Market Investments	892	1,492	2,384	(107)	2,277
Private Equity					
Canadian private equities	182	94	276		
Non-Canadian private equities	63	489	552		
Total Private Equity Investments	245	583	828	(90)	738
Infrastructure Investments	578	492	1,070	(61)	1,009
Real Estate Investments (iv)	637	625	1,262	(7)	1,255
	$ 2,352	$ 3,192	$ 5,544	$ (265)	5,279
(Income)/loss credited under contractual agreements					(79)
Net Investment Income/(Loss)					$ 5,200

(i) Investment income includes interest, dividends and real estate operating income accrued or received net of interest expense on liabilities incurred in investment related activities. Investment income is net of external manager performance and pooled fund fees of $60 million (December 31, 2012 –$34 million).

(ii) Interest on investment related activities includes interest expense on real estate investment liabilities of $229 million (December 31, 2012 – $234 million) and interest on infrastructure investment liabilities of $43 million (December 31, 2012 – $49 million).

(iii) Includes net realized gain of $2,205 million (December 31, 2012 – $2,155 million) and is net of transaction costs of $102 million (December 31, 2012 – $109 million).

(iv) Real estate investment income includes Oxford Properties Group's operating expenses (net of property management income) of $35 million (December 31, 2012 – $33 million) which includes audit costs of $2.6 million (December 31, 2012 – $3.1 million).

The Funds' net investment income/(loss) by Investment Entity is as follows:

For the year ended December 31,						**2013**
	OMERS Capital Markets	**OMERS Private Equity**	**Borealis Infrastructure**	**Oxford Properties Group**	**OMERS Strategic Investments**	**Total**
Public market investments	**$ 7**	**$ —**	**$ —**	**$ 56**	**$ —**	**$ 63**
Private equity investments	**—**	**1,328**	**—**	**—**	**178**	**1,506**
Infrastructure investments	**—**	**—**	**1,004**	**—**	**(20)**	**984**
Real estate investments	**—**	**—**	**—**	**1,181**	**—**	**1,181**
Net Investment Income (i)	**$ 7**	**$ 1,328**	**$ 1,004**	**$ 1,237**	**$ 158**	**$ 3,734**

For the year ended December 31,						2012
	OMERS Capital Markets	OMERS Private Equity	Borealis Infrastructure	Oxford Properties Group	OMERS Strategic Investments	Total
Public market investments	$ 2,253	$ —	$ —	$ 24	$ —	$ 2,277
Private equity investments	—	962	—	—	(224)	738
Infrastructure investments	—	—	986	—	23	1,009
Real estate investments	—	—	—	1,255	—	1,255
Net Investment Income (i)	$ 2,253	$ 962	$ 986	$ 1,279	$ (201)	$ 5,279

(i) Before income/(loss) credited under contractual agreements.

NOTE 11

Investment Returns

OAC investment returns are calculated using a time-weighted rate of return formula in accordance with the industry standard methods, based upon the following principles:

a) Investment Entity returns are calculated as the percentage of Investment Entity income to the weighted average fair value of the Investment Entity net assets during the period.

b) Fair value is determined as described in notes 2, 3 and 4.

c) Income is determined as described in notes 2 and 10.

d) The OMERS Primary Pension Plan return includes all Investment Entity returns.

The percentage returns for the years ended December 31 are as follows:

For the year ended December 31,	**2013**	2012
OMERS Primary Pension Plan Gross Returns by Entity (i)		
OMERS Capital Markets	**0.47%**	7.50%
OMERS Private Equity	**23.55%**	19.17%
Borealis Infrastructure	**12.44%**	12.68%
Oxford Properties	**14.33%**	16.91%
OMERS Strategic Investments	**9.14%**	-10.13%
Total OMERS Primary Pension Plan	**6.53%**	10.03%
Retirement Compensation Arrangement Gross Returns		
RCA Investment Fund (ii)	**29.11%**	11.84%

The above gross returns are before the impact of base and performance fees paid to external fund managers and investment management expenses. The Plan net return after all investment costs for the year ended December 31, 2013 was 6.00 per cent (December 31, 2012 – 9.50 per cent).

(i) Investment Entity returns and total Plan returns reflect the results of the Plan's currency hedging related activities with external counterparties.

(ii) Excludes the RCA refundable tax balance with CRA. Including the refundable tax balance, the RCA December 31, 2013 rate of return was 13.94 per cent (December 31, 2012 – 5.47 per cent).

NOTE 12

Contributions

For the year ended December 31,		2013		2012
Current service required contributions (i)	**$**	**3,434**	$	3,026
Transfers from other pension plans		**31**		40
Past service contributions from members (ii)		**70**		67
Past service contributions from employers (ii)		**9**		10
AVC contributions		**100**		67
Total Contributions Received (iii)	**$**	**3,644**	$	3,210

(i) Current service contributions are funded equally by employers and members. For NRA 65 members, the 2013 contribution rate was 9.0 per cent (2012 – 8.3 per cent) of earnings up to $51,100 (2012 – $50,100) and 14.6 per cent (2012 – 12.8 per cent) of earnings above that level. For NRA 60 members, the 2013 contribution rate was 9.3 per cent (2012 – 9.4 per cent) of earnings up to $51,100 (2012 – $50,100) and 15.9 per cent (2012 – 13.9 per cent) of earnings above that level.
(ii) Past service contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

Contributions by plan are as follows:

For the year ended December 31,		2013		2012
Primary Plan *(note 8)*				
Defined benefit component	**$**	**3,523**	$	3,124
AVC component		**100**		67
		3,623		3,191
RCA *(note 9)*		**21**		19
Total Contributions Received (iii)	**$**	**3,644**	$	3,210

(iii) OMERS, with 982 employers, has an appropriate reconciliation process which reconciles contributions for each employer on a member by member basis. This detailed process ensures that contributions are consistent with member information supplied by the employers.

NOTE 13

Benefits

For the year ended December 31,		2013		2012
Retirement benefits	$	**2,410**	$	2,229
Disability benefits		**27**		27
Transfers to other registered plans		**207**		185
Death Benefits		**114**		79
Commuted value payments and members' contributions plus interest refunded		**146**		146
AVC benefits		**6**		4
Total Benefits Paid	**$**	**2,910**	$	2,670

Benefits by plan are as follows:

For the year ended December 31,		2013		2012
Primary Plan *(note 8)*				
Defined benefit component	$	**2,895**	$	2,654
AVC component		**6**		4
		2,901		2,658
RCA *(note 9)*		**9**		12
Total Benefits Paid	**$**	**2,910**	$	2,670

NOTE 14

Pension Administrative and Investment Management Expenses

(a) Pension administrative expenses (i)

For the year ended December 31,		2013		2012
Salaries and benefits	**$**	**37**	$	36
System development and other purchased services		**3**		7
Premises and equipment		**3**		4
Professional services (ii)		**8**		5
Travel and communication		**6**		4
Total Pension Administrative Expenses	**$**	**57**	$	56

(b) Investment management expenses (i)

For the year ended December 31,		2013		2012
Salaries and benefits	**$**	**171**	$	172
System development and other purchased services		**19**		15
Premises and equipment		**12**		5
Professional services (ii)		**24**		20
Travel and communication		**17**		14
Investment management services (iii)		**23**		39
Total Investment Management Expenses	**$**	**266**	$	265

(i) Includes allocation of corporate expenses.

(ii) Total professional services expenses include independent actuarial costs of $0.8 million (December 31, 2012 – $1.0 million) and external audit costs of $1.2 million (December 31, 2012 – $1.0 million).

(iii) Includes external management and custody fees and is net of private equity management fees earned from portfolio investments of $15 million (December 31, 2012 – $14 million).

NOTE 15

Related Party Disclosures

OAC manages its real estate, infrastructure and private equity businesses through OAC Investment Entities as discussed in Note 1 and holds investments through a network of investment structures or subsidiary companies established in compliance with the OMERS Act, the PBA, the ITA and other statutory, regulatory and tax legislation governing OAC.

OAC's related parties include 982 employers whose employees are members of the Plan, the SC, members of the OAC Board, key management personnel (defined below) and investments where OAC has a controlling interest. Transactions with related parties include the following:

- OAC, in the normal course of business, purchased bonds at the prevailing market prices that were issued by a municipal employer. The fair market value of the bonds outstanding at December 31, 2013 was $nil (December 31, 2012 - $22 million).
- OAC through its Oxford Properties Group paid property taxes to municipal employers of $150 million (December 31, 2012 - $226 million) and utility payments to utilitiy employers of $34 million (December 31, 2012 - $30 million) for the year end ended December 31, 2013. The amounts of property taxes paid were based on normal levies by the individual municipal employers and were consistent with those that would be paid by a non-related party. The utility payments made to utility companies which are OAC employer entities were based on normal usage and rates that would be paid by a non-related party.

Key Management Personnel Compensation

Key management personnel consist of members of the OAC's Board of Directors and the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Pension Officer and the chief executive officers of OMERS Capital Markets, Oxford Properties Group, Borealis Infrastructure and OMERS Private Equity. The aggregate key management personnel compensation is shown below:

(millions) For the year ended December 31,		**2013**		2012
Salaries and short-term employee benefits	**$**	**13**	$	16
Post-employment benefits		**1**		1
Other long-term benefits		**6**		6
	$	**20**	$	23

Other than the above, OAC had no other transactions with key management personnel during the year.

NOTE 16

Capital

OAC defines its capital as the funded status (surplus/(deficit)) of each of the OMERS Pension Plans, as determined annually based on the fair value of the net assets of the OMERS Pension Plans, the actuarial value adjustment of the Plan net assets and the going concern actuarial valuation prepared by OAC's independent actuary. The funded status of the Plan is discussed in note 8 and the funded status of the RCA is discussed in note 9.

OAC's objective is to ensure that the Plan's defined benefit component is fully funded over the long-term through the management of investments, contribution rates and benefits. Investments (note 3), the use of derivatives (note 4) and leverage (note 6) are based on asset mix and risk management policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's Statement of Investment Policies and Procedures (the "SIP&P") as approved by the OAC Board. As the Plan's administrator, OAC has adopted a SIP&P for the Plan which sets investment objectives, guidelines and benchmarks used in investing the Plan's assets, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was originally established in 1989 and was last amended on December 13, 2013. The changes included in the last amendment are not considered significant.

The minimum annual inflation-adjusted investment return required to fund the present value of all accrued benefits promised to plan members (based on the going-concern valuation discount rate) is 4.25 per cent ("Minimum Required Real Return"), based upon a 20-year time horizon. OAC expects the current long-term strategic asset allocation to enable the Primary Plan to earn an average annual real rate of return in excess of the Minimum Required Real Return. The Plan's annualized five-year average rate of investment return (net of investment management expenses) as of December 31, 2013 was 7.85 per cent (December 31, 2012 – 3.02 per cent).

OAC uses six strategic asset classes (fixed income, public equities, real return bonds, private equity, infrastructure and real estate) as part of its long-term strategic asset allocation. The Primary Plan is invested directly and indirectly in the six 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. Furthermore, the categories of investments are guidelines and may include other asset classes which share similar risk/return characteristics.

The SIP&P establishes asset mix ranges and targets. The target mix is 53 per cent for Public Investments and 47 per cent for Non-Public Investments. The actual asset mix at December 31, 2013 was 57.4 per cent for Public Investments and 42.6 per cent for Non-Public Investments which fell within the asset mix ranges at year end.

The Plan's investment positions expose it to a variety of financial risks which are discussed in Note 3 – Investments and Note 4 – Derivative Financial Instruments. The allocation of assets among various asset categories is monitored by OAC on a quarterly basis. A review of investment performance in conducted by the OAC Board on a bi-monthly basis.

The Plan's AVC component accrued pension obligation is based on AVC contributions net of withdrawals and administration fee plus net investment income or loss of the defined benefit component of the Plan and as such does not have a surplus/(deficit) position. The Supplemental Plan has no members, net assets or accrued pension obligations. The Supplemental Plan SIP&P was last amended on December 13, 2013. The changes included in the last amendment are not considered significant.

The RCA is funded on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to all retirement compensation arrangements. The RCA investments are based on an asset mix and SIP&P separate from those of the Plan. The RCA SIP&P was originally established in 2007 and was last amended on December 13, 2013. The changes included in the last amendment are not considered significant.

The funded status of each OMERS Pension Plan and the related cash flows are also impacted by the level of contributions (note 12) and benefits (note 13). The SC is responsible for setting contribution rates at or above the minimum required to fund the Plan, subject to compliance with legislation, and determining benefits for the OMERS Pension Plans.

The Plan and Supplemental Plan are subject to the PBA regulations which require the Plan to file an actuarial valuation report for a funding valuation at least once every three years. At that time, the Plan must take measures to eliminate any going concern funding deficits over a period not to exceed 15 years.

Where the funded status of the Plan is filed with a surplus position greater than ten per cent of the accrued pension obligation, the ITA requires contributions be reduced with the amount of the reduction increasing as the percentage surplus increases. Once the filed surplus reaches twenty-five per cent of the accrued pension obligation, regular contributions must be eliminated. The SC is responsible for determining the contributions above the level required to fully fund the Plan and for determining when an actuarial valuation of the Plan and Supplemental Plan should be filed, subject to the requirements under the PBA regulations. There are no similar filing requirements for the RCA.

NOTE 17

Guarantees, Commitments and Contingencies

As part of normal business operations, OAC enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include, but may not be limited to, investments in infrastructure, real estate and private equity direct investments and limited partnership agreements. The future commitments are generally payable on demand based on the capital needs of the investment. As at December 31, 2013, these future commitments totaled $5.1 billion (December 31, 2012 – $3.9 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was $1,183 million as at December 31, 2013 (December 31, 2012 – $955 million). Guarantees and commitments are often provided as part of developing or holding an investment and as such often have no fixed expiration date.

OAC, in the normal course of business, indemnifies its directors, officers, employees, its Investment Entities and certain others in connection with proceedings against them to the extent that these individuals are not covered under another arrangement. In addition, OAC may in certain circumstances in the course of investment activities agree to indemnify a counterparty. Under the terms of such arrangements, OAC may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations or legal claims. The contingent nature of the liabilities in such agreements and the range of indemnification prevent OAC from making a reasonable estimate of the maximum amount that would be required to pay such indemnifications.

As at December 31, 2013, OAC was involved in certain litigation and claims. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of Management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of OAC.

Ten-Year Financial Review

($ Millions)	**2013**	2012	2011	2010 [ii]	2009	2008	2007	2006	2005	2004
Net Assets Available for Benefits										
as at December 31										
Public markets	**41,709**	37,472	32,154	34,123	31,336	28,763	43,291	43,533	39,338	30,283
Private equity	**9,208**	7,465	7,753	6,633	5,048	4,162	3,608	2,951	2,391	1,460
Infrastructure	**13,533**	11,572	9,635	9,593	12,195	12,140	8,412	5,585	3,719	2,314
Real estate	**17,603**	15,846	14,516	12,599	11,975	12,037	10,904	8,541	6,180	6,898
	82,053	72,355	64,058	62,948	60,554	57,102	66,215	60,610	51,628	40,955
Other investment assets	**744**	853	707	645	1,173	1,366	1,001	699	765	494
Investment liabilities	**(16,463)**	(11,741)	(9,063)	(9,628)	(13,338)	(14,474)	(15,029)	(13,088)	(10,772)	(5,267)
Net investment assets	**66,334**	61,467	55,702	53,965	48,389	43,994	52,187	48,221	41,621	36,182
Non investment assets/(liabilities)										
Amounts payable under contractual agreements	**(1,524)**	(905)	(828)	(809)	(734)	(672)	(800)	(741)	(639)	(553)
Other assets/(liabilities)	**271**	205	209	193	177	155	129	125	83	26
Net asset available for benefits	**65,081**	60,767	55,083	53,349	47,832	43,477	51,516	47,605	41,065	35,655
Accrued Benefit Obligation and Surplus/(Deficit)										
as at December 31										
OMERS Primary Pension Plan										
Defined Benefit Component										
Accrued benefit obligation	**73,004**	69,122	64,548	60,035	54,253	50,080	46,830	44,167	41,123	37,774
Funding Surplus/(Deficit)	**(8,641)**	(9,924)	(7,290)	(4,467)	(1,519)	(279)	82	(2,382)	(2,784)	(963)
Actuarial value adjustment of net assets	**341**	1,321	(2,337)	(2,278)	(4,950)	(6,363)	4,567	5,791	2,707	(1,168)
	(8,300)	(8,603)	(9,627)	(6,745)	(6,469)	(6,642)	4,649	3,409	(77)	(2,131)
	64,704	60,519	54,921	53,290	47,784	43,438	51,479	47,576	41,046	35,643
Additional Voluntary Contributions Component										
Pension obligation	**276**	170	94	—	—	—	—	—	—	—
Net assets available for benefits	**64,980**	60,689	55,015	53,290	47,784	43,438	51,479	47,576	41,046	35,643
RCA										
Accrued pension obligation	**614**	555	504	468	486	285	236	172	157	149
(Deficit)	**(513)**	(477)	(436)	(409)	(438)	(246)	(199)	(143)	(138)	(137)
Net assets available for benefits	**101**	78	68	59	48	39	37	29	19	12
Total Accrued Pension Obligation and Deficit	**65,081**	60,767	55,083	53,349	47,832	43,477	51,516	47,605	41,065	35,655

($ Millions)	**2013**	2012	2011	2010 [ii]	2009	2008	2007	2006	2005	2004
Changes in Net Assets Available for Benefits										
for the year ended December 31										
Net assets, beginning of the year	**60,767**	55,083	53,349	47,832	43,477	51,516	47,568 [iii]	41,065	35,655	32,093
Changes due to Investment Activities										
Total investment income [i]	**4,000**	5,544	1,648	5,735	4,623	(7,910)	4,200	6,803	5,767	3,907
Investment management expenses [i]	**(266)**	(265)	(264)	(268)	(246)	(227)	(201)	(169)	(160)	(147)
	3,734	5,279	1,384	5,467	4,377	(8,137)	3,999	6,634	5,607	3,760
(Income)/Loss credited under contractual agreements	**(97)**	(79)	(21)	(83)	(67)	124	(61)	(104)	(92)	(66)
Net investment income/(loss)	**3,637**	5,200	1,363	5,384	4,310	(8,013)	3,938	6,530	5,515	3,694
Changes due to Pension Activities										
Contributions										
Current Service	**3,434**	3,026	2,618	2,227	2,077	1,975	1,840	1,739	1,498	1,363
Other contributions	**210**	184	195	86	66	73	46	53	36	46
	3,644	3,210	2,813	2,313	2,143	2,048	1,886	1,792	1,534	1,409
Benefits										
Pensions paid	**(2,437)**	(2,256)	(2,047)	(1,890)	(1,781)	(1,656)	(1,554)	(1,492)	(1,410)	(1,353)
Commuted value and other payments	**(473)**	(414)	(336)	(236)	(269)	(371)	(279)	(252)	(193)	(145)
	(2,910)	(2,670)	(2,383)	(2,126)	(2,050)	(2,027)	(1,833)	(1,744)	(1,603)	(1,498)
Pension administrative expenses	**(57)**	(56)	(59)	(54)	(48)	(47)	(43)	(38)	(36)	(43)
Net assets available for benefits, end of year	**65,081**	60,767	55,083	53,349	47,832	43,477	51,516	47,605	41,065	35,655
Total Annual Rate of Return										
for year ended December 31										
OMERS Primary Pension Plan										
Defined Benefit Component										
Time weighted return on market value	**6.53%**	10.03%	3.17 %	12.01%	10.6%	(15.3)%	8.7%	16.4%	16%	12.1%
Benchmark	**10.16%**	9.75%	2.52 %	11.47%	12.1%	(13.2)%	5.6%	13.7%	13.2%	9.9%
Additional Voluntary Contribution Component										
Time weighted return on market value	**6.00%**	9.50%	2.59 %	—	—	—	—	—	—	—
RCA Investment Fund [iv]										
Time weighted return on market value	**29.11%**	11.84%	(2.42)%	7.99%	11.3%	(26.1)%	8.7%	16.4%	16%	12.1%
Benchmark	**30.20%**	12.21%	(2.43)%	10.09%	16.6%	(27.3)%	5.6%	13.7%	13.2%	9.9%

(i) In preparing financial statements in 2012, OAC has reclassified pursuit costs from investment management expenses to total investment income. 2011 balances were adjusted to reflect this reclassification.

(ii) In preparing financial statements in accordance with CPA Canada Handbook Section 4600-Pension Plans and IFRS starting in 2011, OAC has adjusted amounts for 2010 (were previously reported in accordance with CICA Handbook Section 4100) for comparative purposes.

(iii) 2007 beginning of the year net assets were decreased by $37 million to reflect a change in accounting policy for transaction costs.

(iv) Excludes the RCA refundable tax balance with the Canada Revenue Agency.

Glossary

Absolute Return Strategies
Strategies expected to generate positive returns regardless of the movements of the financial markets due to their low correlation to broad financial markets. Absolute return strategies may be used with the objective of increasing the overall investment portfolio risk-adjusted return while contributing to the stability of the overall investment portfolio returns.

Accrued Pension Obligation
The actuarial present value of future pension benefits earned to date.

Actuarial Smoothing
A common practice accepted in the actuarial profession and by pension regulators to reduce the effect of short-term market fluctuations on pension plan funding by deferring and recognizing changes in net assets above or below the long-term funding objective over five years.

Actuarial Valuation Report
A report issued by the OAC's actuary on the funded status of the OMERS Pension Plans. The actuarial valuation is based on a set of demographic and economic assumptions approved by the OAC Board.

Additional Voluntary Contributions (AVCs)
A retirement savings program for members of the OMERS Primary Pension Plan, effective January 1, 2011. AVCs enable members and retirees (to age 70) to take advantage of OMERS investment returns by making additional contributions. Such contributions can include ongoing withdrawals from a bank account (for active members) as well as lump sum transfers from other registered retirement vehicles (for active, retired and deferred members).

Alpha Portfolio
An alpha portfolio uses active management strategies to find and exploit market opportunities in any market in the world, earn absolute returns and expand overall return potential.

Basis Point
One basis point equals 1/100th of one percentage point.

Benchmark
A benchmark is a standard or point of reference against which performance of an investment is measured. It is generally a passive external index (e.g., the S&P/TSX Composite Index) or, for the OAC's infrastructure and real estate investments, a predetermined absolute return based on operating plans approved by the OAC Board.

Benefit Accrual
The accumulation of pension benefits based on a formula using years of credited service, pensionable earnings and an accrual rate. This is expressed in the form of an annual benefit to begin payment at normal retirement age.

Beta Portfolio
A beta portfolio captures market returns, invests in a wide selection of market opportunities and has less equity concentration with modest economic leverage with the intent to enhance returns over time.

Bridge Benefit
A temporary benefit provided to employees who retire prior to age 65. The bridge benefit supplements the pension income until age 65. The bridge benefit is not necessarily equivilent to the size of prospective government benefits.

Commercial Paper
Short-term, unsecured debt instruments issued by companies, typically, to meet short-term financing needs.

Commuted Value
The lump sum payment made in lieu of a member's future pension amount, based on the member's service and earnings to date. The commuted value fluctuates with changes in factors such as the member's age, current inflation and interest rates.

Currency Hedging
A technique used to offset the risks associated with the changing value of currency.

Custom Benchmark
A benchmark calculated based on the weighted average allocation to two or more underlying benchmarks (e.g., Blended DEX 30 day Treasury Bill Index and DEX Universe).

Debentures
Bonds that are not secured by specific assets of a firm.

Defined Benefit Plan
In a defined benefit plan, members' benefits are determined by a formula usually based on years of service and earnings, rather than by the investment returns made on their pension contributions.

Derivative/Derivative Financial Instrument
A financial contract that derives its value from changes in underlying assets or indices. Derivative transactions can be conducted on public exchanges or in the over-the-counter market using investment dealers. Derivative contracts include forwards, futures, swaps and options and are discussed in more detail in note 4 of the OAC Consolidated Financial Statements.

Direct Drive Active Management
Direct drive active management is where we have involvement in ongoing decisions within the businesses we invest in with respect to strategy, major investment decisions, annual financial target setting and the monitoring of performance against these targets, risk management and governance oversight.

Discount Rate
A discount rate is the interest rate used to compute the present value of anticipated future benefit payments.

Economic Leverage
The difference between fair value of net investment assets and exposure primarily represents economic leverage.

Enterprise-wide
This refers to OAC, including OMERS Pension Group, OMERS Capital Markets, Borealis Infrastructure, OMERS Private Equity, Oxford Properties Group, OMERS Strategic Investments and corporate functions.

Global Strategic Investment Alliance (GSIA)
The investment entity created to enable OMERS to leverage its capital alongside like-minded, long-term institutional investors.

International Financial Reporting Standards (IFRS)
IFRS are a set of principles-based accounting standards developed by the International Accounting Standards Board that are becoming the global standard for the preparation of public company financial statements.

Infrastructure
Infrastructure investing involves direct investments in inflation-sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both.

Modified Pay-As-You-Go Funding Policy
Promised retirement benefits are not fully pre-funded; instead contributions are paid to ensure that they are sufficient to fund current benefits. This variation of the funding method is used by OAC for the RCA in order to minimize the 50 per cent refundable tax applicable to RCA plans.

Nominal Bonds
Bonds that pay interest and principal without contractual adjustments for inflation.

OAC
OMERS Administration Corporation.

OAC Board
The Board of Directors of the OMERS Administration Corporation.

OMERS Governance Review 2012
The OMERS Review Act, 2006 required that OMERS governance model, established by the OMERS Act, 2006, be reviewed by Ontario's Ministry of Municipal Affairs and Housing by 2012.

OMERS Investment Management (OIM)
The investment entity that provides third-party investment opportunities and services to eligible clients.

OMERS Pension Plan or Plans
Collectively, the OMERS Primary Pension Plan, the Retirement Compensation Arrangement for the OMERS Primary Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics.

OMERS Primary Pension Plan or the Plan
The primary registered pension plan administered by OAC under the OMERS Act, 2006. This includes the defined benefit component and the AVC component.

Passive Management
Investing in a manner that replicates the performance of a market index (e.g., S&P/TSX Composite Index).

Plan Sponsor
The organization or body which has the final authority to create a pension plan and/or make revisions to an existing pension plan. Usually the plan sponsor is an employer, but it can also be a union, an association, the government, or a mixture. For the OMERS Pension Plans, the Sponsors Corporation is made up of employer and member representatives and acts as the sponsor.

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

Proxy Voting
Proxy voting is the process by which shareholders express their views on proposed corporate actions by submitting their vote at a company's annual meeting.

Public Market Investments
Investments in interest bearing (i.e., bonds, debentures and treasury bills) and equity securities (i.e., stocks, trust units, warrants and mutual fund units) traded on recognized public exchanges.

Real Rate of Return
Nominal return adjusted to exclude the impact of inflation.

Real Return Bonds
Interest bearing marketable bonds that pay a semi-annual coupon rate calculated based upon the sum of the principal amount and an inflation compensation component that adjusts for inflation.

Retirement Compensation Arrangement or RCA
The plan for Plan members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*.

SC
The OMERS Sponsors Corporation.

Secured Debt
Debt backed or secured by collateral to reduce the risk associated with lending for creditors given that, if the debtor defaults, the creditor may seize the collateral as repayment of the debt.

Supplemental Plan

The OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics is a stand-alone registered pension plan which offers benefits not available in the OMERS Primary Pension Plan and which is not funded from the OMERS Primary Pension Plan.

Unsecured Debt

Debt which is not backed or secured by collateral property.

Year's maximum pensionable earnings (YMPE)

The maximum amount of earnings used to calculate contributions and pensions under the Canada Pension Plan (CPP). Also called the Canada Pension Plan (CPP) earnings limit.

OMERS
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t. 416.369.2444 1.800.387.0813 | w. omers.com

Going the distance

OMERS SPONSORS CORPORATION

2013

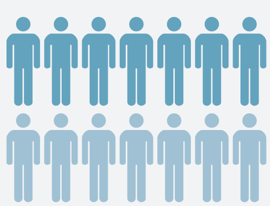
OMERS Sponsors Corporation

Table of Contents

OMERS Sponsors Corporation (SC)

has responsibility for plan design, which includes benefit changes, and contribution rate adjustments. The SC is also charged with setting compensation levels and the composition of the SC and the OMERS Administration Corporation (OAC) Boards.

SC Board consists of:



seven plan member representatives

seven employer representatives

Letter from the CEO

Deb Preston

Chief Executive Officer
OMERS Sponsors Corporation

2013 was a successful and productive year for the OMERS Sponsors Corporation (SC) as we made significant improvements in the areas of governance, strategic planning and communications and engagement.

In January 2013 the Minister of Municipal Affairs and Housing released the 2012 OMERS Governance Review (the Review) which evaluated effectiveness and fairness of the OMERS governance structure established by statute in 2006. The report reinforced the OMERS success story and recommended further enhancements to OMERS governance. The report was embraced by both OMERS Boards and addressing the recommendations was given high priority.

A year later, we have substantially delivered on the key recommendations. In terms of governance, the SC:

- Reviewed the composition of the OMERS plan membership and the representational nature of the OMERS Boards, taking into account stakeholder input and the Review. Ultimately, it was decided to amend the process for nominations and appointments to the OMERS Administration Corporation (OAC) Board and enhance stakeholder communication and engagement to ensure all stakeholders had opportunities to provide input on key issues before both Boards.
- Created a fifteenth seat on the OAC Board for an independent chair and, working with the OAC Board, recruited and appointed George Cooke to the position.

- Reviewed and considered the skills and capacity requirements for the OAC Board and created new capacity requirements and established term limits. We met with sponsor organizations to support their efforts to recruit individuals that would meet the new capacity requirements resulting in the appointment of seven OAC Board members. Many of the remaining sponsor organizations will go through this process in 2014 and the SC and OAC will again provide ongoing support throughout the process.

These changes represent significant steps forward, fully address several fundamental recommendations of the Review and are key to ensuring governance practices will help drive OMERS success in the future.

The SC also invested considerable effort into improving OMERS communications and engagement program in 2013. In collaboration with OAC, we surveyed OMERS stakeholders, conducted feedback sessions, hosted information meetings and initiated a new electronic newsletter for stakeholders. The feedback was used to develop an initial framework for a communications and engagement plan which will evolve as we receive more feedback and input. Going forward, we are committed to ensuring our stakeholders are well informed and are consulted on the decisions that affect them.

Defined benefit pension plans have been on the receiving end of a great deal of public scrutiny and criticism in recent years. It is our firm belief that eliminating or weakening defined benefit plans will have severe economic consequences and we support the strengthening of retirement savings programs so that all working Canadians have access to a fair and affordable retirement.

2013 saw the debate around expanding the Canada Pension Plan (CPP) mature to the degree that there was general support across the provinces. Although the Federal Government expressed opposition to expanding the CPP at this time, the Ontario Government committed to developing a "made in Ontario" solution. Given that OMERS benefits are integrated with those of the CPP, there could be implications for OMERS members depending on how such an arrangement is designed and implemented. We will continue to monitor and participate in pension reform discussions to ensure OMERS is well represented.

Plan Sustainability

While our funding strategy met the challenges presented by the 2008 market downturn, OMERS continues to face volatile markets and a difficult economic environment.

As projected, our funding deficit has begun to decrease thanks in part to our multi-year plan to address the deficit. Contributions were increased by an average of 2.9 per cent for both employers and members over a three-year period, with the last increase effective January 1, 2013. The strategy also included benefit changes for some members effective January 1, 2013.

As of December 31, 2013, OMERS Primary Pension Plan (the Plan) has $64.4 billion in net assets available for benefits and its current funding deficit on a smoothed basis stands at $8.6 billion. Based on the year-end actuarial value of net assets, the Primary Plan is approximately 88 per cent funded – that is, it has $88 in assets for every $100 of long-term pension obligations.

While this represents an improvement of $1.3 billion from December 31, 2012 and demonstrates the multi-year plan is working, the SC must assess whether more actions are needed in light of persistent volatility, economic headwinds and increasing longevity.

A recently released mortality study conducted by the Canadian Institute of Actuaries shows increasing longevity and suggests the trend will continue into the future. Working with the OAC, we are diligent in monitoring OMERS member experience and are confident that we are accurately reflecting today's mortality in our valuations and projections. However, we will not know the extent to which our assumptions for future longevity improvements need to be revised until we conduct further analysis. Any such changes could potentially increase costs which may have to be addressed through contribution and/or benefit changes.

Summary

The Plan's funded position is starting to recover. With our 2010 strategy of contribution and benefit changes fully implemented, and the OAC investment strategy, we remain hopeful that the Plan will return to a fully funded position by 2025.

We recognize that contribution rates are at an unprecedented high and will remain vigilant in monitoring the funded status of the OMERS Pension Plans. OMERS will review the Plans' mortality expectations in light of the report from the Canadian Institute of Actuaries which may present an additional challenge to our recovery. We will be ready to respond should further intervention be required.

Finally, I would like to thank our employees for the tremendous work they do, as well as the SC Co-Chairs and Board members for their ongoing support. It is an honour to be part of the SC leadership team and I look forward to working together with the SC and OAC to meet the challenges and opportunities that will come our way.

Deb Preston

Deb Preston
March 18, 2014

SC Management Team

The SC is supported by a small team of professionals dedicated to serving the Board and to ensuring that stakeholders are kept informed.

Chris Vanden Haak
Director, Pension Policy & Communications

Susan Porter
Board Secretary

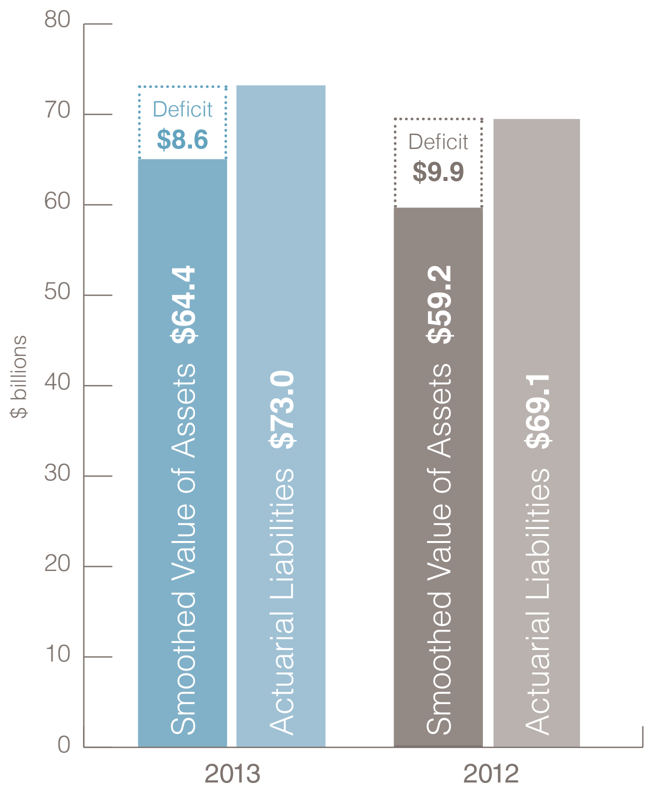
Deb Preston
CEO, SC

Plan Funding - Current

as at December 31, 2013

Funded Status*

As at December 31,



* excludes AVC

Plan contribution rates in 2013

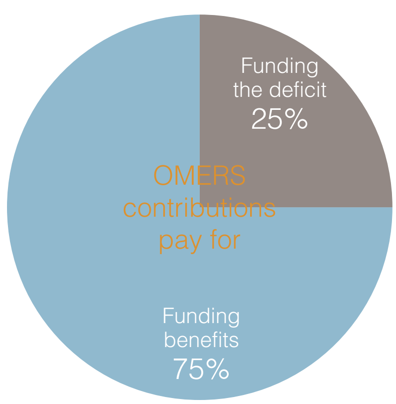
Normal retirement age 65	On earnings up to CPP earnings limit*	9.0%
	On earnings over CPP earnings limit*	14.6%
Normal retirement age 60	On earnings up to CPP earnings limit*	9.3%
	On earnings over CPP earnings limit*	15.9%

* $51,100 in 2013

Members and employers contribute **21.3%** of a member's contributory earnings, combined to fund the OMERS Pension Plans

A significant majority of OMERS benefit cost is paid for by investment income. However, when a funding deficit occurs, it must be covered by employer and employee contributions, unless the Plan has investment or actuarial gains.

75% of contributions go toward paying for benefits which are accruing to active Plan members



25% is earmarked to reduce the funding deficit

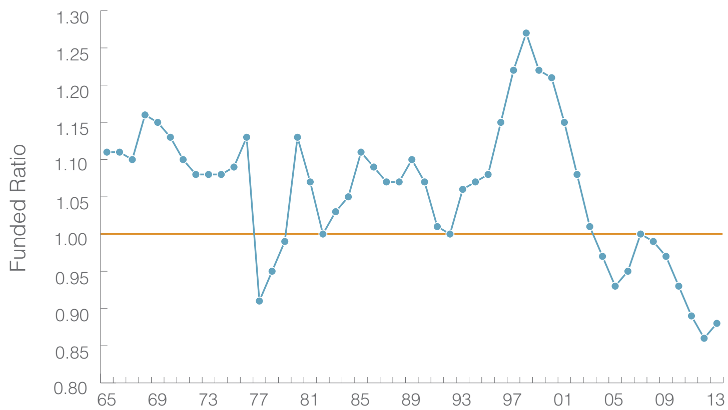
Plan Funding - History

The Plan's funded ratio has seen many fluctuations over the years but is currently close to its all-time low. The current funded ratio of 88% is an improvement relative to the all-time low of 86% at the end of 2012.

Note: 88% = $64.4 billion in smoothed assets / $73 billion in actuarial liabilities.

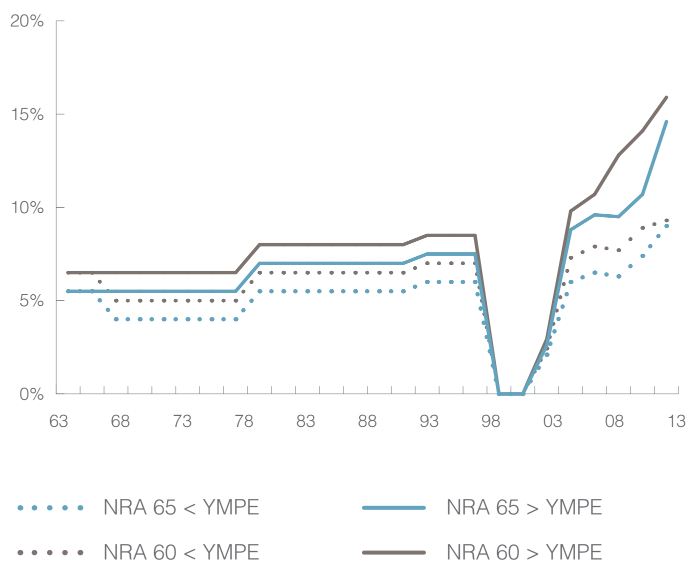
The Plan – Historical Funded Ratio

As at December 31,



OMERS Historical Contribution Rates

- Contribution rates are currently higher than at any time in the past.
- Historically, contribution rates were quite stable. In 1977 and 1992, contribution rates were increased due to benefit improvements.
- Contributions from employers and members were suspended entirely in 1998, in response to the limitations imposed by the *Income Tax Act* and the significant surplus that existed at the time (funded ratio of 127%).
- Contributions resumed in 2003 and have since increased significantly, primarily due to the impact of financial markets.



Note: NRA is the normal retirement age
YMPE is the Year's Maximum Pensionable Earnings

Contribution rates are currently scheduled to remain the same for the next **10 to 15 years***

*subject to the results of subsequent funding valuations

Delivering on the Pension Promise

The SC and OAC work together to manage the three key levers which are used to maintain the financial health of the Plans: benefit design, contribution rates and investments.

The SC was created by the Ontario Municipal Employees Retirement System Act, 2006 (the OMERS Act) and is responsible for the benefit design and contribution rates of the Plans. The SC has taken the following actions to address funding:

- implemented contribution rate increases between 2009 and 2013
- reduced benefits, effective January 1, 2013, for members who terminate prior to retirement
- implemented earnings caps on contributory earnings.

In 2013, the SC acknowledged that contribution rates are at an unprecedented high and its ability to further increase contribution rates is limited. It has begun exploring benefit reduction options and identifying events that would indicate when Plan changes are needed.

Governance: OMERS Sponsors Corporation

The best interests of the Sponsors Corporation include governance and decision-making practices which support the health and long-term viability of the jointly sponsored OMERS Pension Plans and give due consideration to the interests of the stakeholders and other relevant circumstances.

Governance Practices of the Board of Directors

This section sets out certain key governance practices of the SC Board of Directors. More extensive governance information can be found in the OMERS Act and at www.omerssc.com.

The OMERS Act created OMERS SC to fulfill the role of Plan sponsor, giving employees and employers more direct control over the Pension Plans. The SC has committed itself to upholding OMERS long history of exemplary corporate governance through maintaining high standards of integrity, education, transparency and communication in carrying out its responsibilities.

Commitment to Good Governance

The SC strives to follow best practice standards in corporate governance. To achieve this goal, the SC Board has developed policies and practices with input and advice from third-party advisors who are expert and experienced in the field. The governance structure includes:

- Corporate by-laws and policies that support the commitment to a best practice standard.
- An education program for SC Board directors which includes learning opportunities in the areas of governance, pension administration, benefits strategies and pension plan trustee development, as well as mandatory orientation to the OMERS Pension Plans (the Plans).
- A process for reviewing its governance policies and processes to ensure ongoing efficiency and effectiveness of its practices.
- Transparency and accountability to participants of the Plans. Through: regular meetings with members, employers and organizations representing them and other stakeholders, together with timely print and electronic communication carried out in cooperation with the OMERS Administration Corporation (OAC), as well as regular website updates and posting of by-laws, by-law amendments and information for submitting proposals for Plan design changes.

The document titled SC Governance, Mandates and Responsibilities consolidates and articulates the SC governance structure, as well as the mandates and responsibilities of the SC Board, its standing committees, individual SC Board directors, the co-chairs, committee chairs and the chief executive officer. The document can be found at www.omerssc.com/AboutUs/RolesResponsibilities.

Duties, Objectives and Mandates of the Board of Directors

The SC Board is responsible for the stewardship of the Sponsors Corporation including oversight of management.

Directors owe a fiduciary duty to and are required to act honestly and in good faith in the best interests of the SC and to exercise the care, diligence and skill that a reasonably prudent person would apply in similar situations.

Among other duties, the SC Board establishes and approves the strategic plan, appoints the chief executive officer and reviews her performance, sets compensation policy and approves management compensation.

In addition, the SC Board's responsibilities include:

- Making decisions about the design of the OMERS Pension Plans, including benefits to be provided and contributions to be made
- Deciding whether to establish a reserve to stabilize contribution rates
- Deciding whether to file a valuation more frequently than is required under the *Pension Benefits Act* (Ontario)
- Establishing the composition, remuneration and expense reimbursement policies for the Boards of the SC and OAC
- Appointing directors to the OAC Board
- Appointing the SC auditor, legal and actuarial advisors
- Approving the corporation's budget and audited financial statements.

Board Membership and Appointment Process

The basic composition of the SC Board is established under the OMERS Act with further composition and appointment details laid out in SC By-Law #4. SC Board composition is based on several principles reflecting plan membership which is reviewed periodically, most recently in 2013.

The SC has a representative Board with seven Plan member representatives and seven employer representatives. Directors are appointed by their sponsoring organizations for a three-year term with the potential to be reappointed, without limitation. Terms are staggered to ensure ongoing continuity and effectiveness of the SC Board.

Employer Representatives

- Association of Municipalities of Ontario – two directors
- City of Toronto – one director
- School Boards, rotating between Public and Catholic Boards – one director
- Ontario Association of Police Services Boards – one director
- Ontario Association of Children's Aid Societies – one director
- Electricity Distributors Association (Ontario) – one director

Plan Member Representatives

- Canadian Union of Public Employees (CUPE Ontario) – one director
- Canadian Union of Public Employees rotating between Locals 79 and 416 – one director
- Police Association of Ontario – one director
- Ontario Professional Fire Fighters Association – one director
- Ontario Secondary School Teachers' Federation – one director
- Ontario Public Service Employees Union – one director
- Retiree Group – appointed from among the Municipal Retirees Organization of Ontario, the Police Pensioners Association of Ontario, the Police Retirees of Ontario and the Retired Professional Fire Fighters of Ontario – one director

The SC Board has Co-Chairs, one appointed by the Plan member representatives and the other appointed by employer representatives. There are a total of 18 votes on the SC Board. The number of votes is equally split between employer and Plan member representatives and is further proportionately distributed using a weighted voting system.

Composition, Mandates and Activities of SC Board Committees

The SC Board has four standing committees to assist in discharging its responsibilities: Audit, Corporate Governance, Human Resources & Compensation and Plan Design Information. In addition, the SC and OAC have established a Joint Council to address matters of importance to both Boards.

The Audit Committee assists the directors in fulfilling their responsibilities of oversight and supervision of the:

- Quality and integrity of the financial statements
- Compliance with legal and regulatory requirements in respect of financial disclosure and reporting
- Adequacy of the internal accounting controls and procedures
- Qualifications, independence and performance of the independent auditor of the corporation

The Corporate Governance Committee assists the directors in fulfilling their responsibilities with respect to:

- Developing appropriate corporate governance practices, guidelines and benchmarks for the corporation
- Developing corporate by-laws
- Appointing OAC Board directors

The Human Resources and Compensation Committee's responsibilities relate to:

- Staff levels and succession planning
- Training, education and orientation programs for SC Board directors
- Compensation structure, including employee benefits
- Expense reimbursement policies for employees
- Compensation and expense reimbursement policies for Board members of the SC and OAC
- Evaluation of the chief executive officer's performance

The Plan Design Information Committee assists with responsibilities relating to design of the OMERS Pension Plans including:

- Coordinating and facilitating the process of gathering and considering information
- Arranging for the referral of questions to OAC staff and legal, actuarial and other professionals engaged by the SC
- Liaising with the OAC Member Services Committee on issues related to actuarial assumptions

The OAC/SC Joint Council is comprised of an equal number of directors from the SC and OAC Boards and is intended to discuss and address matters of importance to both Boards with respect to the oversight and governance of the OMERS Pension Plans.

Director Orientation and Education

The SC Board has a new director orientation process in place including a comprehensive discussion of the history and mandate of the corporation, its strategy, business planning process and current programs.

Directors also participate in various educational programs and industry conferences which are either approved or mandated by the organization.

In 2013, 11 SC Board directors attended from one to five industry-related conferences and seminars within North America, lasting from one to four days. (Directors are not compensated for related travel time.)

In addition, nine board directors attended a four-day board governance program at Queen's University and one director attended a five-day pension program at the Rotman School of Management, University of Toronto.

Director Compensation

SC Board compensation was reviewed in detail in 2013, resulting in the elimination of a $750 meeting per diem fee and an offsetting adjustment to the annual retainer. Previously, directors were compensated through a combination of annual retainer and meeting fees, to a maximum of 24 compensable meetings. In 2013, directors attended anywhere from 23 to 86 meetings, with the average being 47.

A director's compensation may be paid directly to the director or to the organization with which they are affiliated.

The revised compensation is as follows:

2013	Annual Retainer
Co-Chairs	$70,000
Committee Chair	$35,800
All Other Directors	$30,800

An increase in compensation of $5,000 per director was factored in for 2014 and thereafter, the first increase in compensation since 2009.

No other compensation is provided to SC directors.

Reimbursement of Expenses

SC Board directors are entitled to reimbursement for reasonable and necessary expenses incurred in connection with carrying out the business of the SC, subject to the necessary approvals under By-Law #6.

Directors are also reimbursed for travel, tuition and other expenses incurred in attending pension and governance conferences or other educational programs which are approved or mandated by the SC under By-Law #6. Travel time itself is not compensated.

Meeting Attendance

In 2013, SC Board and committee meeting attendance was 92 per cent.

There were 20 meetings of the SC Board, including 11 regular and 5 special meetings, 2 days of SC strategic planning and 2 days of strategic planning jointly with the OAC; 35 meetings of standing committees; and 6 Joint Council meetings.

Other Events and Meetings

In 2013, directors also attended anywhere from 3 to 26 other business events and meetings, including: half-day director information sessions in the spring and fall, in-house education programs on risk and growth, committee meetings of which they were not members and other business meetings as necessary. Numerous caucus group (employer and employee) and individual director meetings with their sponsor organizations are not tracked but may occur monthly for some members of the SC Board.

SC Board Remuneration and Expenses

	2013 Remuneration (i)	2013 Expenses (ii)	2012 Remuneration (i)	2012 Expenses (ii)
Marianne Love (Co-Chair)	**$ 70,000**	**$ 24,110**	$ 70,000	$ 16,475
Brian O'Keefe (Co-Chair)	**70,000**	**16,974**	70,000	6,596
Paul Bailey	**30,800**	**10,357**	30,800	11,739
Diana Clarke	**30,800**	**15,423**	30,800	7,298
Mark Ferguson	**30,800**	**450**	30,800	817
John Fleming (iii)	**35,800**	**17,778**	30,800	6,553
Jack Jones (iii)	**35,800**	**18,012**	35,800	22,967
Charlie Macaluso	**30,800**	**1,252**	30,800	3,155
Mary McConville (iv)	**30,800**	**6,001**	—	—
Wayne McNally (iii)	**35,800**	**6,764**	33,550	2,851
Bruce Miller (iii)	**35,800**	**22,389**	36,050	26,076
Garth Pierce	**30,800**	**14,023**	29,300	11,160
Frank Ramagnano	**30,800**	**11,453**	30,800	11,857
Bruce Stewart	**30,800**	**8,749**	30,050	7,172
Former Board Members	**—**	**—**	35,800	10,722
Other Expenses (v)	**25,235**	**45,886**	23,405	44,862
Total	**$ 554,835**	**$ 219,621**	$ 548,755	$ 190,300

(i) Remuneration is in accordance with By-Law #6.
(ii) Includes reimbursement for normal out-of-pocket business expenses including education, meeting and communication expenses incurred on behalf of the SC. These expenses are reviewed by the Audit Committee on a quarterly basis.
(iii) Committee Chairs
John Fleming - CGC - Corporate Governance Committee
Jack Jones - PDIC - Plan Design Information Committee
Wayne McNally - Audit Committee
Bruce Miller - HRCC - Human Resources and Compensation Committee
(iv) Term commenced January 1, 2013
(v) Other expenses include Board meeting expenses and benefits (CPP & EHT) not allocated by individual

2013 Board/Committee Meetings

Member	SC Board Meetings (20) [i]		Audit Committee (4)	CGC Meetings (13) [ii]	HRCC Meetings (8)	PDIC Meetings (10)	Joint Council Meetings (6)	Committees (Total)		Overall Attendance		Other [iii] Events and Meetings	All Events and Meetings	Education Days [iv]
	Attended	%	Attended	Attended	Attended	Attended	Attended	Attended/ Eligible	%	Attended/ Eligible	%			
Marianne Love (Co-Chair)[v]	20	100%	3	13	8	10	6	40/41	98%	60/61	98%	26	86	14
Brian O'Keefe (Co-Chair)[v]	20	100%	4	13	8	10	5	40/41	98%	60/61	98%	22	82	13
Paul Bailey [vi]	20	100%	4		8			12/12	100%	32/32	100%	9	41	4
Diana Clarke[vi]	19	95%		13				13/13	100%	32/33	97%	6	38	18
Mark Ferguson	10	50%		6		4		10/23	43%	20/43	47%	3	23	
John Fleming[vi]	20	100%		13			5	18/19	95%	38/39	97%	21	59	11
Jack Jones	19	95%		13		9		22/23	96%	41/43	95%	6	47	
Charlie Macaluso	16	80%		9		7		16/23	70%	32/43	74%	4	36	
Mary McConville	19	95%				9		9/10	90%	28/30	93%	4	32	4
Wayne McNally	20	100%	4		7			11/12	92%	31/32	97%	5	36	4
Bruce Miller [vi]	20	100%	4		8			12/12	100%	32/32	100%	25	57	9
Garth Pierce	20	100%	4		8			12/12	100%	32/32	100%	5	37	4
Frank Ramagnano	20	100%				10	6	16/16	100%	36/36	100%	4	40	6
Bruce Stewart [vi]	20	100%		13		10		23/23	100%	43/43	100%	3	46	3
Overall Attendance		**94%**	**96%**	**89%**	**98%**	**86%**	**92%**		**91%**		**92%**			

(i) Board meetings consisted of 11 regularly scheduled meetings, 5 special meetings and 4 strategic planning session/days, all of which SC Board Members were expected to attend.

(ii) CGC meetings included 4 interview sessions with nominees to the OAC Board and two joint meetings with the OAC Governance Committee.

(iii) Members attended from 3-26 additional 'Other' meetings and events, such as the Spring and Fall Information Meetings, joint education sessions with the OAC, new Board and committee member orientation sessions, in-house education sessions and ad hoc meetings of special committees (Independent Board Chair Working Group, Strategic Planning Working Group, etc.)

(iv) 'Education' refers to the actual number of days (rather than number of events) which Members attended education programs or conferences, ranging from 2-4 days, exclusive of travel time.

(v) In addition to chairing the SC Board meetings, Co-Chairs are ex-officio members of all committees; not all of their other obligations are tracked for attendance purposes.

(vi) Non-committee members are welcome to attend with permission or invitation of the committee chair; in 2013, Chairs of CGC and HRCC frequently attended each other's meetings. Paul Bailey, Diana Clarke and Bruce Stewart also attended 1 or 2 committee meetings of which they were not members; attendance for these is noted under 'Other'.

OMERS
Sponsors Corporation

SC Board Members

The SC is the sponsor of the Plans and consists of 14 members: seven Plan member representatives and seven employer representatives.

The SC is responsible for:

- determining the design of benefits to be provided by the OMERS Pension Plans
- setting contribution rates for members and participating employers
- establishing or changing a reserve to stabilize contribution rates
- setting compensation levels and appointment protocol of the SC and OAC Boards.

Marianne Love
Co-Chair

Employer Representative for Association of Municipalities of Ontario

Brian O'Keefe
Co-Chair

Plan Member Representative for CUPE Ontario

Charlie Macaluso

Employer Representative for Electricity Distributors Association

Mary McConville

Employer Representative for Ontario Association of Children's Aid Societies

Paul Bailey

Plan Member
Representative for
Retiree Group

Diana Clarke

Plan Member
Representative for
Ontario Public Service
Employees Union

Mark Ferguson

Plan Member
Representative for
CUPE Local 416

John Fleming

Employer
Representative
for City of Toronto

Jack Jones

Plan Member
Representative for
Ontario Secondary School
Teachers' Federation

Wayne McNally

Employer Representative
for Ontario Catholic
School Trustees'
Association

Bruce Miller

Plan Member
Representative for
Police Association
of Ontario

Garth Pierce

Employer Representative
for Ontario Association
of Police Services Boards

Frank Ramagnano

Plan Member
Representative for
Ontario Professional
Fire Fighters Association

Bruce Stewart

Employer Representative
for Association of
Municipalities of Ontario

Independent Auditors' Report

To the Board of OMERS Sponsors Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of OMERS Sponsors Corporation, which comprise the statement of financial position as at December 31, 2013 and the statements of operations and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of OMERS Sponsors Corporation as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Norton McMullen LLP

NORTON MCMULLEN LLP Chartered Accountants, Licensed Public Accountants

Markham, Ontario, Canada
March 5, 2014

Statement of Financial Position

As at December 31,		**2013**		2012
Assets				
Current				
Cash and cash equivalents (note 3)	**$**	**1,843,248**	$	1,981,356
OAC receivable		**778,916**		636,496
Prepaid expenses and other assets		**7,958**		9,918
	$	**2,630,122**	$	2,627,770
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**177,673**	$	171,357
Net Assets				
Excess/(deficit) of revenues over expenses from operations				
Balance at beginning of year		**2,456,413**		2,442,998
Current year		**(3,964)**		13,415
Balance at end of year		**2,452,449**		2,456,413
	$	**2,630,122**	$	2,627,770

The accompanying notes to the financial statements are an integral part of these financial statements.

Signed on Behalf of the Board of OMERS Sponsors Corporation

Marianne Love
Co-Chair

Brian O'Keefe
Co-Chair

Wayne McNally
Chair, Audit Committee

Statement of Operations

For the year ended December 31,		2013		2012
Revenues				
OAC expense reimbursement	**$**	**2,207,392**	$	1,978,920
Interest Income		**17,080**		14,949
		2,224,472		1,993,869
Expenses				
Contract and administrative salaries including payroll taxes and benefits		**779,497**		696,470
Legal		**79,728**		194,285
Audit		**6,215**		6,215
Actuarial		**13,662**		75,261
Professional advisors (note 4)		**424,926**		90,951
Other administrative		**72,314**		100,579
Insurance		**77,638**		77,638
Board remuneration including payroll taxes and benefits (note 5)		**554,835**		548,755
Board expenses (note 5)		**219,621**		190,300
		2,228,436		1,980,454
Excess/(deficit) of Revenues Over Expenses From Operations	**$**	**(3,964)**	$	13,415

The accompanying notes to the financial statements are an integral part of these financial statements.

Statement of Cash Flows

For the year ended December 31,	2013	2012
Cash and cash equivalents were provided by (used in):		
Operating Activities		
Excess/(deficit) of revenues over expenses	**$ (3,964)**	$ 13,415
Changes in non-cash working capital accounts		
OAC receivable	**(142,420)**	(41,758)
Prepaid expenses and other assets	**1,960**	(3,646)
Accounts payable and accrued liabilities	**6,316**	34,021
Increase / (Decrease) in cash	**$ (138,108)**	$ 2,032
Cash and Cash Equivalents (note 3) - Beginning of Year	**1,981,356**	1,979,324
Cash and Cash Equivalents (note 3) - End of Year	**$ 1,843,248**	$ 1,981,356

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2013

NOTE 1

Nature of Operations

The OMERS Sponsors Corporation (the "SC") is a corporation without share capital under the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"). The SC is the sponsor of the OMERS Pension Plans (the "OMERS Pension Plans") as defined in the OMERS Act. The OMERS Pension Plans are administered by OMERS Administration Corporation ("OAC") and include the OMERS Primary Pension Plan (the "Plan") and the Retirement Compensation Arrangement (the "RCA") associated with the Plan and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (the "Supplemental Plan"). The SC is responsible for making decisions about the design of the Plan, the RCA, and the Supplemental Plan, amendments to those plans, setting contribution rates, and the filing of the actuarial valuation as required under the *Pension Benefits Act* (Ontario) (the"PBA").

The SC is not subject to income taxes

NOTE 2

Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (the "ASNPO") and include the following significant accounting policies:

(a) Government Grant Revenue Recognition and Net Assets

In previous years the SC received grants for operations from the Ministry of Municipal Affairs and Housing of the Ontario Government (the "Ministry"). These amounts receivable were recognized as income once the amount to be received could be reasonably estimated and collection was reasonably assured. The initial funding agreement with the Ministry, which was put in place during 2007, stated that any part of the grant funds that have not been used or accounted for by the SC at the time the agreement was to expire, on March 31, 2009, would belong to the Ministry.

In July 2008, following the establishment of, and agreement to, a joint SC/OAC protocol for SC expenditure reimbursement from OAC and an Ontario Superior Court of Justice decision that confirmed that OAC may lawfully reimburse the SC in accordance with the categories outlined in the protocol, the Ministry agreed to amend their initial agreement with the SC. The amended agreement authorizes the SC to use the remaining provincial funding for a period of up to five years (to March 31, 2014), to pay for the SC costs that, under the protocol, cannot be reimbursed from OAC. OAC expense reimbursement is recorded as revenue after the expenses are incurred in accordance with the joint SC/OAC protocol. Net assets consist of government grant funds received, net of expenditures not reimbursed by OAC, plus interest earned. Interest income for operations is recognized as income in the year earned.

(b) Use of Estimates

The preparation of financial statements is in conformity with Canadian ASNPO which require management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, and related disclosures. Such estimates include the OAC receivable, and accounts payable and accrued liabilities. Actual results could differ from these estimates.

(c) Cash Equivalents

Cash equivalents are treasury bills which have been issued for terms not exceeding 365 days that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

NOTE 3

Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

As at December 31,		**2013**		2012
Cash on hand and balances with banks	**$**	**345,953**	$	498,130
Short-term investments		**1,497,295**		1,483,226
	$	**1,843,248**	$	1,981,356

NOTE 4

Professional Advisors Expenses

Professional advisor expenses consist primarily of consulting for governance issues and strategic planning.

NOTE 5

Board Remuneration and Expenses

Board remuneration and board expenses are in accordance with SC By-Law #6.

NOTE 6

Financial Instruments

Fair Value of Financial Instruments

Financial instruments of the Corporation consist of cash and cash equivalents, OAC receivable, and accounts payable and accrued liabilities. The carrying values of the above items approximate their fair value due to their short-term nature.

Credit Risk

The SC's cash is held at a major financial institution and cash equivalents are all Ontario treasury bills. The OAC receivable is due from an organization with a "AAA" rating and therefore there is virtually no credit risk.

NOTE 7

Contingent Liability

As described in Note 2(a), the SC could be required to repay unused funding received in 2007 and 2008 from the Ministry after March 31, 2014. An estimate cannot be made but it is expected that this amount would not exceed $2,500,000. Subsequent to December 31, 2013, an operating facility of up to $1,000,000 has been established in the event that the Ministry does request the funds.

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