Policy Sponsor: CFO and Enterprise Risk Management

Summary: This Policy sets out a general framework of roles and responsibilities of the Board and the Senior Executive Team ("SET") for the measurement and management of key risks across the enterprise. **This policy must be approved biennially by the OAC Board.**

Contents

1. VISION

The vision for Enterprise Risk Management ("ERM") at OMERS Administration Corporation ("OAC") is to achieve the embedding of risk management into all activities as an integral part of the business of the enterprise and to have comprehensive internal control and assurance processes linked to key risks which are reported to the Board quarterly.

2. INTRODUCTION

The Enterprise Risk Management Policy ("the Policy") establishes the criteria within which enterprise risk management is managed at the OMERS Enterprise level. The intent of this Policy is to ensure the effective communication and management of risk across all risk categories including at an aggregated level. The Policy is also intended to ensure that OMERS Enterprise maintains an effective distinction between those who establish risk policy, processes (i.e., assessment) and methodologies (i.e., monitoring and reporting); those involved in taking and managing risk; and those who provide assurance that all significant risks are appropriately identified, assessed, managed, monitored and reported.

The scope of the Policy is enterprise-wide and is applicable to Board, Management and employees of the OAC Enterprise.

3. DEFINITION OF ENTERPRISE RISK MANAGEMENT

Enterprise risk management is a process, applied by our organization in a strategic setting, which enables management to (i) identify potential risk events that may affect the entity; and (ii) provides a framework to manage risk within the organization's risk appetite in order to provide reasonable assurance regarding the achievement of the organization's objectives. Risk has been defined as anything that hinders the sustainable achievement of enterprise objectives and results, including failure to maximize opportunities.[1]

4. PURPOSE AND APPROACH

The Policy is intended to articulate the OMERS Enterprise's understanding and approach to the management of risk throughout the enterprise. The components of the OMERS Enterprise's risk management program include:

- The key driver of risk management;
- Principles of risk management;
- Risk appetite;
- Identification, measurement and assessment of risk;
- Roles and responsibilities for the management of risk;
- Mechanisms by which the enterprise determines its risk appetite; and
- Reporting requirements for risk assessments and actions including escalation to appropriate levels within the enterprise.

4.1 Key Driver of risk management

The key strategic objective of the OMERS Enterprise is to administer and fully fund the Primary Plan, defined as the Primary Plan Fund being equal to or exceeding the going-concern actuarial liabilities of the Plan. Funding is a key driver of the OMERS Enterprise risk management program.

4.2 Principles of risk management

The ERM process is guided by the following key principles:

- **Philosophy** – The enterprise will take on a level of risk in line with its appetite for risk. Since a proactive and systematic approach to managing risk can result in benefits to the enterprise (i.e., enhanced investment performance and brand/reputation), the aim is to manage and control risk appropriately rather than avoid or eliminate it. Strong ERM practices allow for more informed risk-taking and decision-making.
- **Culture** – The OMERS Enterprise fosters a corporate culture which accepts informed risk-taking within a pre-determined range as fundamental to its business provided that risk identification, mitigation and monitoring processes are established to ensure the continuing strength of the organization.
- **Education** – The OMERS Enterprise promotes training and risk awareness among its Board members and its employees.
- **Learning** – The OMERS Enterprise promotes the review of past risk events to capture learning from this past experience.
- **Standards** – A common approach to risk management and reporting is in place to promote consistency and best practices in the managing, monitoring and reporting of risk including a "common language" used by the organization in discussing risk.
- **Risk ownership** – Responsibility for the design of the risk management framework (the "Framework") lies with the SET. To support this responsibility, the enterprise will identify functions with roles in the management, monitoring and reporting of risk exposure.
- **Independent assurance** – The enterprise will obtain periodic independent assurance (i.e., Audit Services and/or external audit) that systems of risk management and internal control are operating efficiently and effectively.

[1] Drawn from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM Definition.

- **Integration** – The OMERS Enterprise promotes the integration of risk management into everything that is done including planning, budgeting, compensation, acquisitions, dispositions, etc.

4.3 Risk Appetite

A certain level of risk is inherent in the business activities of the enterprise. The level of acceptable risk constitutes the OMERS Enterprise's risk appetite. The OAC Board and the SET are responsible for determining the acceptable level of risk based on the trade off of assumed risk vs. the expected value of the opportunity.

Risk appetite is articulated by the OAC Board. The SET operationalizes the appetite statement and designs the Framework. The Framework sets the acceptable level of risk which is the basis of the decision-making of Management and the Board. The risk appetite is reviewed as appropriate to adjust the desired level of risk exposure.

4.4 Identification, Measurement and Assessment of Risk

- Management's responsibility, as delegated by the Board, is to operationalize the ERM Program and ensure that formal procedures are in place to identify and define risk with input from representatives across the enterprise.
- Measurement of risk is completed considering both quantitative and qualitative means using the Likelihood and Impact Criteria as developed by Management and as reviewed by the Board.

In assessing the risks required to grow and sustain the business, OAC considers the following:

- Strategic goals and objectives:
  - a) the OMERS Enterprise understands and manages risks that support businesses which are central to the enterprise strategy;
  - b) the OMERS Enterprise pursues a reasonable level of risk to achieve target risk-adjusted returns;
  - c) the OMERS Enterprise makes investments and acquires businesses which adopt best-in-class business, investment and management practices;
  - d) the OMERS Enterprise completes a risk assessment of new products and proposals in a manner consistent with the enterprise strategy; and
  - e) based on the risk assessments, the OMERS Enterprise will reduce or avoid risks that are not central to the achievement of the enterprise strategy.
- Mitigation of exposure to significant loss from businesses, products, processes or other events:
  - a) the OMERS Enterprise follows a rigorous due diligence process for transactions;
  - b) investments are diversified;
  - c) the investment and actuarial valuation processes are robust;
  - d) experience studies are completed periodically to ensure actuarial assumptions are appropriate; and
  - e) funding projections are performed at least annually and stress-tested to minimize funding surprises.
- Reputational considerations:
  - a) all OMERS brands are extremely valuable and the OMERS Enterprise protects its value and reputation by operating with excellence and applying a disciplined approach to risk management, governance and internal control, including compliance with all governing legislation;
  - b) OMERS Enterprise strives to do the right thing in the right way for its business activities and in its communication with, and service levels to, plan members and stakeholders; and

c) OMERS Enterprise strives to maintain the highest level of integrity through a network of compliance and code of conduct policies which promote the highest levels of ethical behaviour and reputational standards.

4.5 Roles and Responsibilities for the Management of Risk

The OMERS Enterprise has established a framework of responsibilities which is consistent with the following generally recognized basic principles of sound risk management practice:

- the development of risk management processes that provide for risk and exposure monitoring;
- the embedding or integration of risk management into all activities as an integral part of the enterprise's business activities; and
- the development of comprehensive internal control and assurance processes linked to key risks.

4.5.1 Oversight by the OAC Board

The OAC Board will undertake oversight of the program, including:

- the oversight of both risk and the implementation of sound risk management systems to safeguard OAC assets, including the OMERS brand;
- responsibility for approving the Policy, reviewing the effectiveness of the risk management processes and articulating the risk appetite of the OMERS Enterprise;
- responsibility for approving policies on governance, risk and compliance and seeking regular assurance from Management, Audit Services and/or the External Auditors that enables the Board to ensure the system of internal control is operating effectively; and
- delegating responsibility to the SET for the management of the program.

4.5.2 Roles and Responsibilities of the SET

The roles and responsibilities of the SET include:

- risk management planning and oversight under the leadership of the CEO;
- ensuring sound risk management systems and practices are established and maintained to give effect to this Policy and the risk appetite statements approved by the OAC Board;
- ensuring the accurate, timely and consistent flow of risk management information to the Board;
- designing and implementing appropriate risk management processes and controls, some of which will be enterprise-wide and some of which will be IE/FA-specific; and
- establishing a sound risk aware culture throughout the enterprise.

4.6 Mechanism to Determine Risk Appetite

The development of risk appetite statements is guided by the following principles:

- alignment with the Board ERM policy;
- comprehensive and strategic view of risk across the enterprise;
- inclusion of risks that may not be easily quantifiable;
- practical implementation and integration into strategic planning; and
- reinforcement of the the OMERS Enterprise risk culture.

The process to be used to develop a draft risk appetite statement prior to Board approval is:

- define the risk appetite criteria – The OMERS Enterprise will have well-defined risk appetite assessment criteria reflecting both quantitative and qualitative aspects of risk;

- link each key risk to the current Strategic Plan – specifically, link to the strategic initiative(s) impacted by the risk and understand the impact of risk mitigation activities; and
- document the risk appetite.

4.7 Reporting Requirements

The OMERS Enterprise reporting process will evolve as requirements and risk management leading practice evolve. Annual content will include a risk profile setting out the most significant risks faced by the enterprise, and for each risk will:

- describe the risk;
- document the key activities and controls to mitigate/manage the risk;
- identify the residual risk;
- refer to action plans taken to address any weaknesses; and
- draft a risk appetite statement for each key strategic risk.

Further, on a quarterly basis, updated information materially affecting the OMERS risk profile (e.g. market developments) will be provided which will enable the Board to understand the likely future risk profile of the OMERS Enterprise. These will be reported to the Board by the SET as soon as practicable and at least quarterly.

HISTORY

Effective Date:	February 21, 2013
Approval Dates:	February 22, 2012; February 21, 2013
Next Scheduled Date for Review:	February 2015

APPENDIX A: GLOSSARY OF TERMS

Enterprise – OAC and Investment Entities

ERM – Enterprise Risk Management

SET – Senior Executive Team **–** the SET, the CEO, CFO, CA, COO, CSO, CCAO, CEO of OCM, CIO Real Estate and Strategic Investments, CIO Private Markets, and Global Head, Investment Partners & Partnership

IE – each of Borealis, OCM, OPE, OSI and Oxford

FA – OAC functional areas

OAC – OMERS Administration Corporation

Risk Appetite Criteria – a document which has been approved by the Board. This document provides the qualitative and quantitative criteria for likelihood and impact, which is used for the assessment of, and appetite for, risk.