

# Valuation of Investments Policy

FINANCE



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## OVERALL PRINCIPLES

OMERS investments are valued at fair value as required under the *Pension Benefits Act* and CPA Canada Handbook Section 4600, *Pension Plans* (“HB Section 4600”).

OMERS determines the fair value of its investments on a reasonable and prudent basis consistent with the requirements above.

This Policy provides the OMERS approach for the valuation of investments.

**For the purpose of this Policy, OMERS refers to OMERS Administration Corporation (“OAC”) and its Business Units.**

Next scheduled date for review:	November, 2019
Frequency of review:	Every 3 years

## Valuation of Investments

OMERS values all assets and liabilities at fair value consistent with accounting standards. In accordance with HB Section 4600.19, fair value is determined through Part 1 of the Handbook (IFRS 13) and 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 (IFRS 13.09).”*

The most reliable evidence of fair value is a quoted market price in an active market. Quoted market prices must be used for the valuation of investments wherever such quoted prices are readily available. IFRS 13 defines an active market as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Investments where a market price is readily available or observable are defined as public investments and include the following:

- publicly-traded investments, including securities that settle at depositories and are referred to as “depository eligible” or securities that settled at a derivative clearing house; and
- over-the-counter investments, including derivative contracts that are customized by financial institutions for their clients.

For investments where a market price is not readily available a determination of fair value will be the responsibility of OMERS Finance. This includes private investments (private equity, infrastructure and real estate) which are investments that are not generally quoted or traded in an active market, defined as a private investments.

OMERS valuation practices are performed by Asset Class, as defined in the *Statement of Investment Policies and Procedures* (“SIP&P”).

## Valuation Principles for Private Investments

All valuations of investments must be prepared in accordance with generally accepted valuation practices and procedures and applied on a consistent basis.

### Internal Valuations:

- valuations must be prepared by OMERS personnel or a delegate thereof with appropriate knowledge and experience in conducting valuations;
- valuations must be prepared or reviewed by OMERS Finance personnel that are independent of the transaction team responsible for management of the investment;
- where OMERS Finance delegates the preparation of a valuation to a third-party, OMERS Finance must review and assess the reasonableness of the valuation; and
- where there is an independent offer to purchase the investment during the year, the offer must be considered in forming a view of the value.

### External Valuations:

Qualified independent external valuation experts are to be engaged to perform a review of OMERS valuations for Significant Private Investments. For the purpose of this policy Significant Private Investments are individual investments with a Canadian dollar equivalent fair value at the immediately preceding year-end in excess of \$100 million.

Significant Private Investments must be externally and independently valued at least once every three years.

For each Asset Class the minimum annual external valuation coverage as a percentage of total portfolio investment value that must be reviewed is as follows:

Asset Class	Minimum Coverage Percentage of Investment Value Reviewed by an External Valuator
Credit Investments	50%
Private Equity	50%
Infrastructure	50%
Real Estate	30%

The applicable Business Unit will, on a periodic basis, recommend the External Valuator to the CFO to approve. The appointment must be reviewed for competence and independence at least every 3 years.

An external independent valuation review of private investments may be sought at any time for any investment. The decision to obtain an independent review should be made using a risk-based approach.

In determining which private investment valuations are subject to annual external independent review, the most senior finance leader, or a delegate thereof, of the applicable Business Unit will make a recommendation to the CFO using a risk-based approach. The risk-based approach will consider factors such as the following, as appropriate, and on a collective basis:

- date of most recent external independent valuation review or a fair value determination based on a "Level 1" or "Level 2" input, under IFRS 13;
- percentage value change (in local currency) of the investment, after capital transactions, in any one year;
- annual return of the investment as compared to its historical and expected annual returns;
- size of the investment relative to the investment value of the given asset class (private equity, infrastructure or real estate);
- change in applicable investment metrics (e.g., market multiples, discount rates, market cost of capital, etc.);
- change in the economic, market, financial, political, social, legal, environment or other factors that could impact the private investment (e.g. change in long-term inflation, interest rates, GDP growth, regulatory framework, etc.);
- whether internal valuation expertise is available or not (e.g., valuation of oil & gas reserves, machinery, equipment, etc.); and
- other factors deemed relevant in the circumstances.

## Consistency of Application of Valuation Principles

The following valuation practices must be applied to the valuation of all private investments, except where results of the application are shown as unreasonable or inappropriate:

- for private investments acquired in the current year, the fair value may be supported either by the valuation performed on acquisition or by reference to a third-party transaction that occurred either during or subsequent to the period;
- the selection of the point in a range of valuation which best represents the fair value of each private investment (generally the mid-point) will be made consistently each year;
- the fair value of a non-operating investment or an investment in "start-up mode" (e.g. an investment under construction or in the development phase)

- may be held at cost until such time as the fair value is reliably measurable or there is external evidence to support a change in valuation;
- a directly held private investment is carried at cost if information to carry a valuation is restricted or insufficient; and
- a fund investment is carried at the most recent fair value provided by the fund's general partner if information is restricted or insufficient.

**Frequency and Timing of Valuations**

- On a quarterly basis, the fair value of private investments must be reviewed and may be adjusted for significant changes since the previous year-end or quarterly valuation.
- Where fair value can be reliably measured, OMERS assets are to be valued at fair value on a quarterly basis.
- All private investments will be subject to an internal valuation process for year-end valuation purposes.
- A valuation may be conducted at any time during the year. For valuations not conducted at year-end, significant inputs to the valuation must be confirmed or adjusted to remain valid as at December 31.

**Valuation Working Group**

The Valuation Working Group is a valuation forum enabling collaboration, education and alignment on valuation matters and is comprised, at a minimum, of the finance and valuation leads across OMERS.

The purpose of the Valuation Working Group is to:

- ensure consistency of valuation practices across the enterprise;
- help ensure that industry leading valuation practices are maintained across OMERS;
- periodically review the valuation policies, procedures and guidelines;

- review and communicate changes in relevant accounting and valuation standards, approaches and techniques;
- identify opportunities to leverage resources, develop best practices and provide training;
- evaluate any specific valuation technical matters which are referred to the Valuation Working Group by a Business Unit; and
- address requests from the OAC Board or its Committees.

The Valuation Working Group will be chaired by the Policy Monitor.

**Exceptions**

The Policy Sponsor may grant exceptions to this Policy and shall report such exceptions to the Audit & Actuarial Committee (“AAC”) in writing.

**Responding to Incidents of Non-Compliance**

The Policy Manager is responsible for identifying incidents of potential non-compliance under this Policy based on the established procedures and for reporting such incidents to the Policy Sponsor.

**Monitoring and Reporting**

Annual valuations will be reviewed and approved by the CFO and CEO, and the CRO acting as the observer, prior to presentation to the AAC. The valuation process and the results of the annual valuation will be provided by the Policy Manager and reviewed by the AAC.

The Policy Manager is responsible for the administration of the Policy and has delegated the day-to-day responsibility for implementing procedures to enable compliance, monitoring, investigation, escalation and reporting, as well as coordinating training as required to the Policy Monitors.

**ROLES & RESPONSIBILITIES**

Policy Approver	Audit & Actuarial Committee of the OAC Board	Responsible for approving this Policy
Policy Sponsor	Chief Financial Officer	Ultimately accountable for this Policy, including its development, implementation and administration
Policy Manager	SVP, Financial Services	Responsible for the design and operational effectiveness of the day-to-day administration of the Policy
Policy Monitors	OPM – EVP, Finance Oxford & OPI – EVP, Finance OAC – VP, Financial Operations & Reporting OCM and IOA – SVP, Investment Reporting, Operations & Applications	Responsible for the monitoring, compliance and reporting functions of the Policy