Responsibilities of Management, Actuary and Independent Auditors

The consolidated financial statements of OAC have been prepared by OAC Management (Management) and approved by the Board of OAC (OAC Board). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for pension plans.

Management is responsible for designing, implementing and maintaining an adequate system of internal control over financial reporting to enable the preparation and fair presentation of the consolidated financial statements, including amounts based on estimates and judgment. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information. In addition, our internal audit team reviews OAC's systems of internal controls over financial reporting and disclosure to determine whether these controls are appropriate and operating effectively.

The OAC Board is responsible for approving the annual consolidated financial statements. The Audit & Actuarial Committee, which is comprised of directors who are not officers or employees of OAC, assists the OAC Board in executing this responsibility. The Audit & Actuarial Committee meets regularly with Management, the internal audit team and independent 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 & Actuarial Committee reviews the annual consolidated financial statements and recommends them to the OAC Board for approval.

The external actuary is appointed by the OAC Board. It is the external 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 results of the external actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the external 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, deferred and retired members.

The independent external 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, 2018 and 2017 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, 2018 and 2017 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 external auditors have full and unrestricted access to Management and the Audit & Actuarial 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 Latimer Chief Executive Officer	Jonathan Simmons, FCPA, FCA Chief Financial Officer

Toronto, Ontario
February 22, 2019

Actuarial Opinion

We conducted actuarial valuations as at December 31, 2018 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 purpose of the valuations is to fairly present the actuarial funded status of the Primary Plan and the RCA as at December 31, 2018, 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 $100,081 million in respect of benefits accrued for service to December 31, 2018 (comprising $99,058 million with respect to the defined benefit component and $1,023 million with respect to the AVC component). The actuarial assets at that date were $95,890 million (comprising $94,867 million with respect to the defined benefit component and $1,023 million with respect to the AVC component), indicating a going concern actuarial deficit of $4,191 million.

The RCA is not fully pre-funded. The actuarial liability in respect of RCA benefits accrued for service to December 31, 2018, net of the RCA assets, was $703 million. 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, 2018 were conducted using the Projected Benefit Method Prorated on Services, and membership data as at November 3, 2018 and financial information as at December 31, 2018 supplied by the OAC.

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 and RCA's funding policies 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

Philip Morse

Ian Markham Fellow, Canadian Institute of Actuaries	Philip A. Morse Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 22, 2019

Independent Auditor's Report

To the Board of OMERS Administration Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of OMERS Administration Corporation and its subsidiaries (together, OAC) as at December 31, 2018 and 2017, 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.

What we have audited

OAC's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of changes in net assets available for benefits for the years then ended;
- the consolidated statements of changes in pension obligations for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of OAC in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing OAC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate OAC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing OAC's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 OAC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on OAC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause OAC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within OAC to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
February 22, 2019

Consolidated Statement of Financial Position

As at December 31, (in millions of Canadian dollars)	**2018**	2017
Net Assets Available for Benefits		
Assets		
Investments (note 3)	**$ 108,424**	$ 101,152
Investment related assets (note 3)	**2,780**	3,978
Contributions receivable		
Employers	**182**	159
Members	**182**	159
Other assets	**294**	274
Total Assets	**111,862**	105,722
Liabilities		
Investment related liabilities (notes 3 and 4)	**10,923**	7,175
Amounts payable under contractual agreements (note 5)	**3,247**	3,138
Other liabilities	**253**	211
Total Liabilities	**14,423**	10,524
Net Assets Available for Benefits	**$ 97,439**	$ 95,198
Accrued Pension Obligation and Surplus/(Deficit)		
Primary Plan (note 6)		
Defined benefit component		
Accrued pension obligation	**$ 99,058**	$ 93,614
Surplus/(Deficit)		
Funding surplus/(deficit)	**(4,191)**	(5,403)
Actuarial value adjustment to net assets available for benefits	**1,401**	6,008
	(2,790)	605
Additional Voluntary Contributions component pension obligation	**1,023**	817
Accrued Pension Obligation and Surplus/(Deficit) - Primary Plan	**97,291**	95,036
Retirement Compensation Arrangement (note 7)		
Accrued pension obligation	**851**	813
Surplus/(Deficit)	**(703)**	(651)
Accrued Pension Obligation and Surplus/(Deficit) - Retirement Compensation Arrangement	**148**	162
Accrued Pension Obligation and Surplus/(Deficit)	**$ 97,439**	$ 95,198

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

These financial statements were approved by the Board of Directors on February 22, 2019.

Signed on behalf of the Board of OMERS Administration Corporation

George L Cooke

William Butt

George Cooke,
OAC Board Chair

William Butt,
Chair, Audit & Actuarial Committee

Consolidated Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, (in millions of Canadian dollars)	2018	2017
Changes Due to Investment Activities		
Net investment income (note 8)	**$ 2,205**	$ 9,735
Total Changes Due to Investment Activities	**2,205**	9,735
Changes Due to Pension Activities		
Total contributions received (note 10)	**4,406**	4,193
Total benefits paid (note 11)	**(4,277)**	(4,005)
Pension administrative expenses (note 12)	**(93)**	(85)
Total Changes Due to Pension Activities	**36**	103
Total Increase	**2,241**	9,838
Net Assets Available for Benefits, Beginning of Year	**95,198**	85,360
Net Assets Available for Benefits, End of Year	**$ 97,439**	$ 95,198

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

Consolidated Statement of Changes in Pension Obligations

For the year ended December 31, (in millions of Canadian dollars)	2018	2017
OMERS Primary Pension Plan (note 6)		
Defined Benefit Component		
Accrued pension obligation, beginning of year	**$ 93,614**	$ 86,959
Interest accrued on benefits	**5,592**	5,367
Benefits accrued	**3,410**	3,154
Benefits paid	**(4,225)**	(3,969)
Experience (gains)/losses	**272**	(561)
Changes in actuarial assumptions and methods	**395**	—
Change to strategic margin	**—**	2,664
Accrued Pension Obligation, End of Year	**99,058**	93,614
Additional Voluntary Contributions Component		
Additional Voluntary Contributions obligation, beginning of year	**817**	595
Contributions	**207**	162
Withdrawals	**(22)**	(17)
Attributed net investment income	**21**	77
Additional Voluntary Contributions Obligation, End of Year	**1,023**	817
Retirement Compensation Arrangement (note 7)		
Accrued pension obligation, beginning of year	**$ 813**	$ 739
Interest accrued on benefits	**26**	23
Benefits accrued	**27**	25
Benefits paid	**(30)**	(19)
Experience (gains)/losses	**34**	45
Changes in actuarial assumptions and methods	**(19)**	—
Accrued Pension Obligation, End of Year	**$ 851**	$ 813

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

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 (OMERS Act). OAC is the administrator of the OMERS pension plans (OMERS Pension Plans) as defined in the OMERS Act and is trustee of the pension funds. The OMERS Pension Plans include the OMERS Primary Pension Plan (Primary Plan), the Retirement Compensation Arrangement for the OMERS Primary Pension Plan (RCA) and the OMERS Supplemental Pension Plan for Police, Firefighters and Paramedics (Supplemental Plan). As trustee of the Primary Plan's fund, OAC holds legal title to the pension fund assets and the trust beneficiaries are primarily Primary Plan members. OAC is responsible for administering the OMERS Pension Plans in accordance, as applicable, with the Pension Benefits Act (Ontario) (PBA), the Income Tax Act (Canada) (ITA), and the OMERS Act. Under the OMERS Act, the OMERS Sponsors Corporation (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.

OMERS Primary Pension Plan

The Primary 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 Primary Plan is governed by the OMERS Act, the PBA, the ITA and other applicable legislation. The benefit provisions and other terms of the Primary Plan are set out in the Primary Plan text. The Primary Plan consists of both the defined benefit component and the Additional Voluntary Contribution (AVC) component.

The Primary 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:

- 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 Primary Plan assets. OAC determines the regulatory minimum funding requirements in accordance with the ITA and PBA. The SC sets the actual contribution rates.
- Pensions – The normal retirement age (NRA) is 65 years for all Primary Plan members, except police officers and firefighters, who generally have a normal retirement age of 60 years. The Primary Plan is designed to provide defined benefit pensions. These pensions are calculated as a percentage of the member’s earnings averaged over the highest 60 consecutive months, multiplied by years of credited service.
- 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.
- Escalation of Pensions – Pensions 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.
- Disability Pensions – A disability pension is available at any age to an active member who becomes totally disabled as defined by the Primary 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.
- Income Taxes – The Primary 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 Primary Plan enables members to make additional voluntary contributions on which the member receives the net investment return of the Primary Plan. For the AVC component of the Primary Plan, the only liability of the Primary Plan is members' AVC contributions plus/minus the net investment rate of return of the defined benefit component of the Primary Plan.

Retirement Compensation Arrangement for the OMERS Primary Pension Plan

The RCA is an arrangement that provides pension benefits for Primary Plan members 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 and expenses 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 Primary Plan and the Supplemental Plan, and the accrued pension obligation of the RCA is valued separately from the Primary Plan and Supplemental Plan accrued pension obligations. Expenses of the RCA are paid from the cash flows of the RCA fund.

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 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.

Until March 31, 2024, 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 startup grant from the Province of Ontario.

Participation in the Supplemental Plan is effective only upon agreement between employee groups and their employer. As at December 31, 2018 and December 31, 2017, no such agreement existed and hence the Supplemental Plan had no assets and no members.

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 (IFRS).

The financial statements also provide disclosures required by regulation 909 of the PBA.

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.

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 including valuation of real estate, infrastructure, private equity and private debt investments, certain fund investments and the determination of the accrued pension obligation.

Investments

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. Detailed discussion on valuation methodology is presented in Note 3 – Investments.

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 the 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.

Derivative Financial Instruments

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

Derivative financial instruments are used, when appropriate, to manage the OMERS Pension Plans' 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. The fair value of the derivative contracts 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 contracts. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as derivative asset in the investment related assets and contracts with a negative fair value are recorded as derivative liability in the investment related liabilities.

Net 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 8 – Net Investment Income/(Loss).

Investment income is recognized as interest and real estate rental income is earned, as dividends or distributions are declared, as investments are disposed of 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 included 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, and other debt obligations recourse to OAC and incurred to acquire an investment. Investment liabilities also include the amounts payable in respect of securities sold under agreements to repurchase ("Repo Agreements"). Investment liabilities are 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.

Pending Trades

Pending trades include accrued receivables/payables from unsettled transactions.

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 8 – 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 date is also recognized in Net Gain/(Loss) on Investment Assets, Liabilities, and Derivatives in Note 8 – Net Investment Income/(Loss).

Accrued Pension Obligation

The value of the accrued pension obligation of the Primary 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 Primary Plan. The actuarial valuation included in the Consolidated Financial Statements is consistent with the valuation used for funding purposes.

The AVC pension obligation represents the Primary Plan's liability in respect of the AVC component of the Primary Plan and includes members' AVC contributions plus/minus the net investment rate of return of the defined benefit component of the Primary 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 Primary Plan’s defined benefit component. The accrued pension obligation of the RCA and the AVC pension obligation are separate from the accrued pension obligation of the Primary Plan’s defined benefit component.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets for the Primary Plan is used in assessing the funded position of the Primary 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 discount rate 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 Primary Plan is based on the difference between the fair value of the Primary Plan's net assets available for benefits and the Primary Plan's accrued pension obligation. For funding purposes, the Primary Plan's surplus/deficit is based on the difference between the Primary Plan's actuarial value of net assets and the Primary 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 become due, at the first day 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 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.

Future Changes in Accounting Policies

The relevant new guidance issued by the International Accounting Standards Board not yet adopted by OAC includes:

IFRS 16 Leases

IFRS 16 Leases, which replaces IAS 17 Leases, and related interpretations, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors including landlord lease accounting. For lessees, IFRS 16 removes the classification of leases as either operating or financing and requires that all leases be recognized on the statement of financial position, with certain exemptions allowed by this new standard. The standard is effective January 1, 2019 to be applied retrospectively, or on a modified retrospective basis. OAC will be adopting IFRS 16 on a modified retrospective basis. The adoption of the new standard is not material to the OAC financial statements.

NOTE 3

A. Investments

Investments by Fair Value and Cost

Investments and investment related assets and liabilities are as follows:

		2018		2017
	Fair Value	**Cost**	Fair Value	Cost
Fixed Income				
Inflation-Linked Bonds	**$ 3,884**	**$ 3,608**	$ 3,824	$ 3,608
Canadian nominal bonds and debentures	**1,153**	**1,171**	1,988	1,975
Non-Canadian nominal bonds and debentures	**3,658**	**3,617**	4,896	5,138
Private debt and mortgages	**7,588**	**7,425**	5,849	5,946
	16,283	**15,821**	16,557	16,667
Equities				
Public Equity (ii) (vi)				
Canadian public equities	**6,668**	**7,020**	8,733	7,790
Non-Canadian public equities	**13,115**	**11,782**	13,316	12,168
	19,783	**18,802**	22,049	19,958
Private Equity (v) (vi)				
Canadian private equities (iii) (iv)	**1,742**	**2,589**	2,923	2,697
Non-Canadian private equities	**17,215**	**12,943**	11,526	9,566
	18,957	**15,532**	14,449	12,263
	38,740	**34,334**	36,498	32,221
Real Assets				
Infrastructure Investments	**20,796**	**18,981**	18,053	16,909
Real Estate Investments	**22,256**	**18,006**	15,470	11,812
	43,052	**36,987**	33,523	28,721
Short Term Instruments				
Cash and short-term deposits (i)	**10,349**	**10,348**	14,574	14,574
Total Investments	**108,424**	**97,490**	101,152	92,183
Investment Related Assets				
Investment receivables	**325**	**325**	294	294
Deferred assets, prepaid and other	**49**	**81**	44	44
Derivatives	**2,212**	**64**	3,590	100
Pending trades	**194**	**194**	50	50
	2,780	**664**	3,978	488
Investment Related Liabilities				
Investment liabilities (note 4)	**(6,260)**	**(6,161)**	(4,054)	(3,829)
Derivatives	**(4,463)**	**(20)**	(3,097)	(5)
Pending trades	**(200)**	**(200)**	(24)	(24)
	(10,923)	**(6,381)**	(7,175)	(3,858)
Net Investment Assets	**$ 100,281**	**$ 91,773**	$ 97,955	$ 88,813

(i) Includes restricted cash of $91 (December 31, 2017: $227).
(ii) Includes externally managed investments of $2,495 (December 31, 2017: $2,214).
(iii) Includes resource properties with a total fair value of $135 (December 31, 2017: $135).
(iv) Includes venture capital investments of $644 (December 31, 2017: $460).
(v) Includes funds of $3,748(December 31, 2017: $2,093) where the underlying assets are credit investments.
(vi) The 2017 previously reported amounts for investments with a fair value and cost of $3,690 and $3,178, respectively, were reclassified from Public Equity to Private Equity.

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 or contractual terms. 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 investment at least once every three years or where required using a risk-based approach. 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) Nominal bonds and debentures, inflation-linked 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 fixed income and inflation-linked bonds are based on quotes from industry standard sources. For investments, such as 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 OMERS Pension Plans are valued based on values provided by the fund manager.

(iii) Investments in private equity, infrastructure and real estate assets, held either directly or as a limited partner, generally do not have a publicly available market price. For such 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 private investments of OMERS Pension Plans 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; and
  - 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.
- Where the investment asset is hedged against foreign currency gains and losses, the impact of the hedging activity is included in the valuation.

(iv) Fair value of derivatives, including swaps, 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 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,				**2018**
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	**$ —**	**$ 8,695**	**$ 7,588**	**$ 16,283**
Public Equity	**18,640**	**1,143**		**19,783**
Private Equity	**39**		**18,918**	**18,957**
Infrastructure			**20,796**	**20,796**
Real Estate			**22,256**	**22,256**
Short Term Instruments	**3,025**	**7,324**		**10,349**
Investment Related Assets	**65**	**2,715**	**—**	**2,780**
Investment Related Liabilities	**(100)**	**(10,823)**	**—**	**(10,923)**
Net Investment Assets	**$ 21,669**	**$ 9,054**	**$ 69,558**	**$ 100,281**

As at December 31,				2017
	Level 1	Level 2	Level 3	Total
Fixed Income	$ —	$ 10,857	$ 5,700	$ 16,557
Public Equity (i)	21,143	906		22,049
Private Equity (i)	110	289	14,050	14,449
Infrastructure			18,053	18,053
Real Estate			15,470	15,470
Short Term Instruments	693	13,881		14,574
Investment Related Assets	20	3,958		3,978
Investment Related Liabilities	(218)	(6,957)		(7,175)
Net Investment Assets	$ 21,748	$ 22,934	$ 53,273	$ 97,955

(i) The 2017 previously reported amounts for Level 3 investments of $3,690 were reclassified from Public Equity to Private Equity.

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, 2018:

	Fair Value Dec 31, 2017	Total Gain (Loss) Included in Net Income (i)	Transfers In (Out) (ii)	Purchases	Sales (iii)	Fair Value Dec 31, 2018	Unrealized Gains (Losses) Attributable to Investments Held at Dec. 31, 2018(iv)
Fixed Income	**$ 5,700**	**$ 434**	**$ 116**	**$ 2,271**	**$ (933)**	**$ 7,588**	**$ 265**
Private Equity	**14,050**	**2,953**	**(8)**	**5,408**	**(3,485)**	**18,918**	**1,745**
Infrastructure	**18,053**	**2,494**	**—**	**2,768**	**(2,519)**	**20,796**	**171**
Real Estate	**15,470**	**1,109**		**6,815**	**(1,138)**	**22,256**	**750**
Total	**$ 53,273**	**$ 6,990**	**$ 108**	**$ 17,262**	**$ (8,075)**	**$ 69,558**	**$ 2,931**

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, 2017:

	Fair Value Dec 31, 2016	Total Gain (Loss) Included in Net Income (i)	Transfers In (Out) (ii)	Purchases	Sales (iii)	Fair Value Dec 31, 2017	Unrealized Gains (Losses) Attributable to Investments Held at Dec. 31, 2017 (iv)
Fixed Income	$ 3,670	$ (256)	$ 10	$ 3,239	$ (963)	$ 5,700	$ (105)
Private Equity	13,516	837		3,410	(3,713)	14,050	1,088
Infrastructure	17,443	1,896		1,665	(2,951)	18,053	(92)
Real Estate	15,084	607		2,087	(2,308)	15,470	666
Total	$ 49,713	$ 3,084	$ 10	$ 10,401	$ (9,935)	$ 53,273	$ 1,557

(i) The unrealized foreign exchange gains and losses are recorded during the year exclude the related impact of hedging activities.
(ii) Represents amounts transferred in(out) of Level 3, the net amount for the year ended December 31, 2018 was $108 (December 31, 2017: $10). This represents reclassification of debt and private investments that became publicly traded.
(iii) Includes return of realized foreign exchange gains and losses.
(iv) 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 generated 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. The risk premium is estimated from, where available, implied values of similar publicly traded entities or sales of similar entities (similar properties, in the case of real estate investments). If such information is not available, risk premium is estimated at a level that compensates for the incremental amount 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.

The following 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. These sensitivities are hypothetical and should be used with caution. 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, 2018	**Increase/Decrease in Discount Rate (basis points)**		**Decrease/Increase in Net Investment Assets**
Private credit	**20**	**$**	**38**
Private equity-direct investments	**70**		**996**
Infrastructure investments	**20**		**440**
Real estate investments	**25**		**770**
Total Impact on Net Investment Assets		**$**	**2,244**

As at December 31, 2017	Increase/Decrease in Discount Rate (basis points)		Decrease/Increase in Net Investment Assets
Private credit	20	$	31
Private equity-direct investments	70		726
Infrastructure investments	20		400
Real estate investments	25		550
Total Impact on Net Investment Assets		$	1,707

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 OMERS Pension Plans 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:

			2018			2017
	Number of Investments	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Public Investments	**1**	**$ 1,049**	**$ 1,013**	1	$ 1,070	$ 1,013
Private Investments	**16**	**23,176**	**18,167**	13	16,705	12,455
Total	**17**	**$ 24,225**	**$ 19,180**	14	$ 17,775	$ 13,468

Public 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 investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include ownership interests in Bruce Power, Caliber, Associated British Ports, Teranet, Scotia Gas Networks, Oncor, DTI Global, National Veterinary Associates, Ellevio, Kenan, Thames Water, LifeLabs, and London City Airport; and real estate ownership interests in IDI Logistics, Yorkdale Shopping Centre, and Investa Office Fund.

The effective date of the most recent valuation for the above listed investments was December 31, 2018.

Investment Risk

OAC's primary long-term investment risk is that the value of OAC's assets and its capacity to generate cash is insufficient to meet pension obligations. OAC's future obligation is used to establish the long-term investment objectives combined with an assessment of associated risks.

The OAC Board of Directors, through its Investment Committee, determines the acceptable level of investment risk to be taken. This Committee reviews and recommends the long-term asset mix to the Board for approval. Primary accountability for managing risk, within the Board authorized parameters, is delegated by the Board to the CEO, who further delegates the responsibility to business leaders. The Chief Risk Officer (CRO) is responsible for implementing the Board-approved risk management mandate, including the development of associated policies and limits, and providing independent enterprise-wide oversight of business activities.

OAC's investments are diversified among major asset classes such as fixed income, public equity, private equity, infrastructure and real estate investments. Investment teams within OAC execute specific strategies that are designed to achieve return objectives that reflect both the opportunity and the risk associated with those asset classes. The methods and factors used in the measurement or assessment of investment risk are reviewed on an ongoing basis. The businesses are responsible for measuring, assessing and evaluating their investment risk.

There are three major categories of investment risks that are managed by each business unit and at the OAC level. They are: Market risk, Credit risk and Liquidity risk. A description of each investment risk category and how OAC manages the risk is provided below.

a) Market Risk

Market risk is the risk that the fair value of an investment is impacted by changes in market prices such as foreign exchange rates, interest rates, and equity and commodity prices. For derivative instruments, 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, commodity and bond prices and their implied volatilities. To address market risk, investment teams execute various tactical actions and strategies designed to measure, manage and monitor the risks being assumed and to ensure the risks taken are commensurate with their expected returns. An explanation of the nature of each of these sources of market risk appears below.

Foreign Exchange Rates

OAC pays pensions in Canadian dollars and manages a highly diversified portfolio of long-term investments, some of which are denominated in foreign currencies. Over time, the values of these investments expressed in Canadian dollars are impacted by changes in foreign exchange rates. These changes can be either positive or negative and over time can be significant given the volatility of foreign exchange rates. OAC manages the exposures associated with our foreign currency-denominated investments using various tools such as forward contracts and futures. This approach reduces an investment's exposure to foreign exchange rate volatility over time. As illustrated in the table below, OAC employs forward contracts and futures to hedge its exposure to foreign currency volatility for the majority of its non-Canadian dollar investments.

The OMERS Pension Plans' net investment assets by currency before and after the impact of currency hedging and trading activities are as follows:

As at December 31,	**2018**				2017			
	Fair Value By Currency				Fair Value By Currency			
	Gross Exposure	**Impact of Derivatives**	**Net Exposure**	**% of Total**	Gross Exposure	Impact of Derivatives	Net Exposure	% of Total
Canada	**$ 37,268**	**$ 58,089**	**$ 95,357**	**95%**	$ 44,758	$ 48,633	$ 93,391	95%
United States	**42,460**	**(41,726)**	**734**	**1**	36,951	(34,309)	2,642	3
United Kingdom	**9,375**	**(8,546)**	**829**	**1**	7,977	(6,737)	1,240	1
Euro Countries	**5,080**	**(4,918)**	**162**	**—**	4,156	(4,418)	(262)	—
Australia	**2,926**	**(2,750)**	**176**	**—**	831	(780)	51	—
Other Europe	**1,996**	**(1,300)**	**696**	**1**	2,259	(2,558)	(299)	—
India	**306**	**571**	**877**	**1**	320	361	681	1
Hong Kong	**288**	**185**	**473**	**—**	46	177	223	—
Other Asia-Pacific	**531**	**332**	**863**	**1**	637	(493)	144	—
Other	**51**	**63**	**114**	**—**	20	124	144	—
Total	**$ 100,281**	**$ —**	**$ 100,281**	**100%**	$ 97,955	$ —	$ 97,955	100%

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 $247 (December 31, 2017: $284) decrease/increase in OAC's net assets as shown below:

As at December 31,		**2018**			2017		
Currency	**Change in value of Canadian Dollar**	**Unrealized gain/loss**			Unrealized gain/loss		
United States	**+/- 5%**	**-/+**	**$**	**37**	-/+		132
United Kingdom	**+/- 5%**	**-/+**		**41**	-/+		62
Euro Countries	**+/- 5%**	**-/+**		**8**	-/+		13
Australia	**+/- 5%**	**-/+**		**9**	-/+		3
Other Europe	**+/- 5%**	**-/+**		**35**	-/+		15
India	**+/- 5%**	**-/+**		**44**	-/+		34
Hong Kong	**+/- 5%**	**-/+**		**24**	-/+		11
Other Asia-Pacific	**+/- 5%**	**-/+**		**43**	-/+		7
Other	**+/- 5%**	**-/+**		**6**	-/+		7
Total		**-/+**	**$**	**247**	-/+	$	284

Interest Rate Risk

From an investment perspective, primary exposure to interest rates is a function of the capital deployed in fixed income products and investments both in public and private market asset classes. For investments with fixed rates of interest, the exposure is to rising rates over time (i.e. rising interest rates decreases the market value of investments that have a fixed rate of interest). Interest rate risks include exposure to bonds and debentures, private debt and mortgages. The most significant interest bearing investments that have a fixed rate of interest are the shorter-dated nominal bond futures and long-dated inflation-linked bonds in the public investments portfolio. The exposure to nominal bonds is $11,961 (December 31, 2017: $15,364) with net fair value of the derivative positions totaling negative $1,799 (December 31, 2017: $356). In addition to these investments, OAC holds a variety of other interest bearing investments in private portfolios that also have an exposure to rising interest rates. Lastly, OAC also invests in short-term interest rate related securities primarily for the purpose of maintaining its ability to meet liquidity needs. The following tables illustrate how capital is allocated amongst the various types of interest bearing investments based upon the contractual maturity of the securities:

As at December 31,				**2018**	
	Term to Maturity				
	Within 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**	**Average Effective Yield (i)**
Cash and short-term deposits	**$ 10,349**			**$ 10,349**	**2.1%**
Nominal bonds and debentures	**—**	**3,782**	**1,029**	**4,811**	**4.3**
Inflation-Linked bonds (ii)	**—**	**231**	**3,653**	**3,884**	**0.9**
Mortgages and private debt	**545**	**3,308**	**3,735**	**7,588**	**5.1**
Total	**$ 10,894**	**$ 7,321**	**$ 8,417**	**$ 26,632**	**3.2%**

As at December 31,				2017	
	Term to Maturity				
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield (i)
Cash and short-term deposits	$ 14,574	$ —	$ —	$ 14,574	1.4%
Nominal bonds and debentures	60	3,075	3,749	6,884	3.3
Inflation-Linked bonds (ii)	—	—	3,824	3,824	0.5
Mortgages and private debt	150	2,878	2,822	5,850	6.7
Total	$ 14,784	$ 5,953	$ 10,395	$ 31,132	2.7%

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

Sensitivity to changes in interest rates

OAC takes actions to reduce or mitigate its exposure to rising interest rates to address both the strategic and tactical objectives of the OMERS Pension Plans. OAC's sensitivity to changes in interest rates is significant in light of the allocation of capital to interest rate sensitive investments that are required to maintain OAC's liquidity and ability to make significant investments in large scale private assets with relatively short notice.

After giving effect to derivative contracts (note 3B), debt liabilities, securities sold short and securities sold under repurchase agreements (note 4), 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 fixed income investments and an unrealized (loss)/gain of $397 (December 31, 2017: $516). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of inflation-linked bonds and an unrealized (loss)/gain of $340 (December 31, 2017: $369).

Equities

OAC makes investments in both public (i.e. publicly traded) and private companies. Investments in publicly traded equities are managed to achieve income through dividends or capital gains or both over time. These investments are exposed to volatility due to changes in market sentiment. The investments in publicly traded equities are actively managed with due regard for risk and return objectives.

In addition to the above, OAC also invests directly in the equity of private companies. These "private equity" investments generate capital gain opportunities that are realized after a particular investment is sold. One of the key risks relating to private equity investments is valuation. OAC employs a comprehensive process to estimate the value of these investments on a regular basis. It should be noted that the risks and the returns associated with private equity are generally higher than publicly traded equities.

Commodities

OAC has invested in commodity futures. The exposure to commodity derivatives is $2,138 (December 31, 2017: $1,884) with net fair value totaling negative $6 (December 31, 2017: $4) which is included in public equities.

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 investments are also subject to price risk as they are impacted by many general and specific market variables.

A 10% increase/decrease in the value of all public equity and private investments would result in an approximate increase/decrease in the value of public and private market exposure and an unrealized gain/loss of $8,179 (December 31, 2017: $7,002).

b) Credit Risk

Credit risk is defined as the financial loss that results from the failure of a counterparty (including counterparties to derivative financial instruments) to honour its contractual obligations to OAC. To manage this risk, OAC regularly performs financial analysis of counterparties and issuers it transacts with in addition to using external sources (e.g. credit rating agencies) to assess credit risk exposure. Where appropriate, OAC requires collateral from its counterparties to help offset the perceived risk of an investment transaction. The majority of counterparty related credit risk assumed by OAC is with highly rated global financial institutions with which OAC executes bi-lateral transactions. Based on the financial analysis process referred to above, specific limits are put into place in order to limit how much exposure OAC has with any one counterparty and are also tiered according to the ratings issued by credit rating agencies. 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. OAC's most significant credit risk exposure arises from its fixed income investments.

The credit ratings of securities issued or guaranteed by governments are obtained from recognized credit rating agencies. For Corporate sector securities where no rating is available from the credit rating agencies, ratings are determined using an internal rating process that monitors changes in the credit cycle annually when the necessary information is available. Unrated securities comprise of mortgages which were issued with a Loan-to-Value ratio no greater than 70%.

The credit quality of fixed income and short term instruments, net of cash and demand deposits of $3,034 (December 31, 2017: $693) is set out in the table below:

As at December 31,					**2018**
Credit Quality	**Sovereign Governments**	**Provincial Governments**	**Corporate**	**Total**	**% of Total**
AAA	**$ 4,175**	**$ —**	**$ 7**	**$ 4,182**	**18%**
AA+	**719**	**—**	**6,519**	**7,238**	**31**
AA	**—**	**—**	**—**	**—**	**—**
AA-	**—**	**337**	**7**	**344**	**1**
A+	**—**	**209**	**222**	**431**	**2**
A	**—**	**—**	**50**	**50**	**—**
A-	**—**	**—**	**342**	**342**	**2**
BBB+	**—**	**—**	**1,027**	**1,027**	**4**
BBB	**—**	**—**	**1,886**	**1,886**	**8**
BBB-	**—**	**—**	**763**	**763**	**3**
BB+ and lower	**305**	**—**	**4,951**	**5,256**	**22**
Unrated	**—**	**—**	**2,079**	**2,079**	**9**
Total	**$ 5,199**	**$ 546**	**$ 17,853**	**$ 23,598**	**100%**

As at December 31,					2017
Credit Quality	Sovereign Governments	Provincial Governments	Corporate	Total	% of Total
AAA	$ 5,804		$ 31	$ 5,835	19%
AA+			13,086	13,086	43
AA			—	—	—
AA-		343	239	582	2
A+		213	27	240	1
A			173	173	1
A-			443	443	2
BBB+			1,286	1,286	4
BBB			1,662	1,662	5
BBB-			700	700	2
BB+ and lower	306		4,599	4,905	16
Unrated			1,526	1,526	5
Total	$ 6,110	$ 556	$ 23,772	$ 30,438	100%

Securities Lending

OAC engages in securities lending of its own securities to third parties in order to facilitate collateral transformation and to support its securities borrowing activities. OAC lends securities to third parties and receives cash as collateral, which mitigates the credit risk. As at December 31, 2018 securities with an estimated fair value of $30 (December 31, 2017: $127) were loaned out in exchange for collateral of $31 (December 31, 2017: $124).

Right of Netting, Offset and Margin

During the normal course of business, OAC is a counterparty to financial instruments that are subject to netting, offset and margin arrangements. In the case of over-the-counter ("OTC") derivatives, with the majority of all counterparties collateral is collected from and pledged to counterparties according to the Credit Support Annex ("CSA") which forms part of International Swaps and Derivatives Association ("ISDA") master agreements. In the case of prime brokerage and other securities borrowing, collateral is provided to the full extent of the liability to the counterparty. In the case of repurchase transactions, under Global Master Repurchase Agreements ("GMRA"), OAC (where selling the security) receives margin in return for securities sold, with an obligation to buy-back equivalent securities in the future. Following an event of default, bankruptcy or other early termination event in respect of the counterparty, OAC is entitled to liquidate transactions under each of the above arrangements, to net all transactions, to liquidate the assets held as margin (where held by OAC) and to offset against obligations to the same counterparty. OAC may not be permitted to net and set-off upon the default of a clearer in respect of exchange traded derivatives and cleared OTC derivatives.

OAC does not offset the financial instruments in its Consolidated Statement of Financial Position, as its rights of offset are conditional. The net amount in the following table represents the effect of the amounts that do not qualify for offsetting but are subject to conditional netting arrangements or similar arrangements. Similar arrangements include GMRAs, security lending agreements and any related rights to financial collateral.

Information for OAC related to these arrangements as at December 31, 2018

As at December 31,					2018
	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 to repurchase	Net amount
Financial Assets					
Derivative assets	$ 284	$ (283)	$ —		$ 1
Securities lending	—	—	—		—
Total Financial Assets	$ 284	$ (283)	$ —		$ 1
Financial Liabilities					
Derivative Liabilities	$ (2,676)	$ 283			$ (2,393)
Securities Borrowing	(92)	—	92		—
Repurchase agreements	(137)	—	—	137	—
Total Financial Liabilities	$ (2,905)	$ 283	$ 92	$ 137	$ (2,393)

As at December 31,					2017
	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 to repurchase	Net amount
Financial Assets					
Derivative assets	$ 784	$ (342)	$ —		$ 442
Securities lending					—
Total Financial Assets	$ 784	$ (342)	$ —		$ 442
Financial Liabilities					
Derivative Liabilities	$ (357)	$ 342	$ (164)		$ (179)
Securities Borrowing	(241)		241		—
Repurchase agreements	(962)			962	—
Total Financial liabilities	$ (1,560)	$ 342	$ 77	$ 962	$ (179)

c) Liquidity Risk

Liquidity risk is the risk that OAC will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. OAC has developed forward looking liquidity risk and cash-flow models which are used on a periodic basis to assess the impact of cash requirements and obligations on the liquidity of the OMERS Pension Plans. OAC maintains a portfolio of highly marketable assets that can be sold or funded on a secured basis as protection against any unforeseen cash-flow needs such as to meet capital calls to fund investment commitments and ensuring that sufficient liquid assets are available to fund margin calls in the event of future losses.

In the normal course of business, OAC incurs various financial obligations. OAC's liabilities include the following:

- investment liabilities including debt and securities sold short (note 4)
- amounts payable under contractual agreements (note 5)
- accrued pension obligation of the Primary Plan (note 6) and the RCA (note 7)
- contracts that give rise to commitments for future payments (note 15)

Another liquidity risk is the ability of OMERS Finance Trust ("OFT") to cover its commercial paper issuance. OFT is authorised to issue a maximum of $5,000 (December 31, 2017: $3,100) in commercial paper of which $4,098 (December 31, 2017: $1,375) was drawn as at December 31, 2018. The commercial paper is highly rated and further supported by an undrawn $3,750 (December 31,2017: $2,325) revolving credit facility with a syndicate of well capitalized banks to backstop the commercial paper program.

B. Derivative Financial Instruments

The following summarizes the OMERS Pension Plans' derivative portfolio and related credit exposure:

As at December 31,	**2018**			2017		
		Fair Value			Fair Value	
	Notional Value (i)	**Assets (ii)**	**Liabilities**	Notional Value (i)	Assets (ii)	Liabilities
Fixed Income						
Interest Rate Contracts						
Interest rate swap contracts - long positions	**$ 595**	**$ 1**	**$ —**	$ 163	$ 1	$ —
Interest rate swap contracts - short positions	**964**	**—**	**—**	952	—	—
Bond index swap contracts - long positions	**—**		**—**	—		—
Bond index swap contracts - short positions	**649**	**10**	**(19)**	1,081	120	(110)
Inflation swaps - long positions	**204**	**221**	**(220)**	281	302	(299)
Inflation swaps - short positions	**—**	**—**		—	—	
Interest rate swaption	**—**	**—**	**—**	3,007	7	(3)
Bond futures - long positions	**5,439**	**12**	**—**	5,187	8	—
Bond futures - short positions	**1,170**	**—**	**—**	807	—	—
		244	**(239)**		438	(412)
Credit Default Contracts						
Credit default swaps - long positions	**1,007**	**1,328**	**—**	413	748	—
Credit default swaps - short positions	**8,786**	**—**	**(1,323)**	8,619	—	(706)
Credit default swaptions	**1,571**	**—**	**(2)**	501	—	—
		1,328	**(1,325)**		748	(706)
Foreign Exchange Contracts						
Currency options	**8,704**	**28**	**—**	2,324	5	(5)
Foreign exchange forward contracts	**68,821**	**270**	**(2,105)**	50,704	2,114	(1,826)
		298	**(2,105)**		2,119	(1,831)
		1,870	**(3,669)**		3,305	(2,949)
Equities						
Equity Contracts						
Equity index futures contracts - long positions	**9,701**	**49**	**—**	10,048	7	—
Equity index futures contracts - short positions	**484**	**—**	**(4)**	735	—	(17)
Equity index swap contracts - long positions	**—**		**—**	—		—
Equity index swap contracts - short positions	**2,233**	**73**	**(177)**	348	19	(16)
Equity swap contracts - long positions	**—**		**—**	—		—
Equity swap contracts - short positions	**4,915**	**56**	**(177)**	2,003	26	(13)
Equity options	**5,767**	**107**	**(59)**	5,471	99	(10)
		285	**(417)**		151	(56)
Commodity Contracts						
Commodity futures contracts - long positions	**2,138**	**4**	**(10)**	1,884	5	(1)
Commodity futures contracts - short positions	**—**	**—**		—	—	
		4	**(10)**		5	(1)
Foreign Exchange Contracts						
Foreign exchange forward contracts	**13,506**	**53**	**(367)**	15,716	129	(91)
		53	**(367)**		129	(91)
		342	**(794)**		285	(148)
Total		**$ 2,212**	**$ (4,463)**		$ 3,590	$ (3,097)

(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) The fair value of derivative contracts recorded as an asset represents the credit risk replacement cost or the loss to which the OMERS Pension Plans 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,	2018				2017			
	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	**$ 7,492**	**$ 1,260**	**$ 268**	**$ 9,020**	$ 10,276	$ 1,167	$ 34	$ 11,477
Credit Default Contracts	**2,173**	**9,177**	**14**	**11,364**	576	8,838	119	9,533
Equity Contracts	**20,150**	**2,950**		**23,100**	16,602	2,003		18,605
Commodity Contracts	**2,138**			**2,138**	1,884			1,884
Foreign Exchange Contracts	**91,031**			**91,031**	68,745			68,745
Total	**$ 122,984**	**$ 13,387**	**$ 282**	**$ 136,653**	$ 98,083	$ 12,008	$ 153	$ 110,244

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

As at December 31,	2018				2017			
	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	**$ 4**	**$ 1**		**$ 5**	$ 22	$ 3	$ 1	$ 26
Credit Default Contracts	**1**	**3**	**(1)**	**3**	2	39	1	42
Equity Contracts	**(46)**	**(85)**		**(131)**	82	13		95
Commodity Contracts	**(6)**			**(6)**	4			4
Foreign Exchange Contracts	**(2,122)**			**(2,122)**	326			326
Total	**$ (2,169)**	**$ (81)**	**$ (1)**	**$ (2,251)**	$ 436	$ 55	$ 2	$ 493

NOTE 4

Investment Liabilities

The investment liabilities are as follows:

As at December 31,	2018	2017
Debt	**$ 5,345**	$ 2,334
Securities sold short	**86**	199
Securities sold under repurchase agreements	**137**	961
Payables and other liabilities	**692**	560
Total	**$ 6,260**	$ 4,054

The debt included in the table above is comprised of the following:

As at December 31,	2018			2017		
	Fair Value	**Cost**	**Weighted Average Interest Rate**	Fair Value	Cost	Weighted Average Interest Rate
Real Estate						
Credit facilities and debentures	**$ 1,247**	**$ 1,247**	**2.27%**	$ 802	$ 799	1.76%
Infrastructure						
Secured debt	**—**	**—**	**—**	157	123	2.63
OMERS Finance Trust						
Commercial paper [(i)]	**4,098**	**4,098**	**2.38**	1,375	1,375	1.26
Total	**$ 5,345**	**$ 5,345**	**2.35%**	$ 2,334	$ 2,297	1.52%

(i) Commercial paper outstanding has maturities from January 4, 2019 to March 21, 2019 with interest rates ranging from 1.72% to 2.87%.

Scheduled undiscounted principal and interest repayments on Credit facilities and debentures for the five subsequent years and thereafter are as follows:

As at December 31,		2018
2019	$	**471**
2020		**816**
2021		
2022		
2023		
Thereafter		
	$	**1,287**

As at December 31,		2017
2018	$	999
2019		175
2020		597
2021		
2022		
Thereafter		
	$	1,771

NOTE 5

Amounts Payable Under Contractual Agreements

Under contractual agreements, OAC invests funds on behalf of The Board of Trustees of Ryerson University 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 Primary Plan.

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 part of the Primary Plan return.

Amounts payable under contractual agreements are comprised of the following:

As at December 31,		2018		2017
Administered Funds	**$**	**1,410**	$	1,374
OMERS Return Agreements		**1,837**		1,764
Amounts payable under contractual agreements	**$**	**3,247**	$	3,138

NOTE 6

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,		**2018**		2017
Net Assets Available for Benefits	**$**	**97,291**	$	95,036
Accrued Pension Obligation and Surplus/(Deficit)				
Defined benefit component				
Accrued pension obligation	**$**	**99,058**	$	93,614
Surplus/(Deficit)				
Funding surplus/(deficit)		**(4,191)**		(5,403)
Actuarial value adjustment of net assets		**1,401**		6,008
		(2,790)		605
Additional Voluntary Contributions component pension obligation		**1,023**		817
Total Primary Plan Accrued Pension Obligation and Surplus/(Deficit)	**$**	**97,291**	$	95,036

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31,		**2018**		2017
Statement of Changes in Net Assets				
Net investment income	**$**	**2,206**	$	9,723
Contributions		**4,388**		4,170
Benefits		**(4,247)**		(3,986)
Pension administrative expenses		**(92)**		(84)
Total Increase		**2,255**		9,823
Net Assets Available for Benefits, Beginning of Year		**95,036**		85,213
Net Assets Available for Benefits, End of Year	**$**	**97,291**	$	95,036

Accrued Pension Obligation of the Defined Benefit Component

The accrued pension obligation is the actuarial present value of pension obligations of the Primary 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 Primary Plan's minimum funding requirements as set out under the PBA. As the experience of the Primary 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.

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

Actuarial Assumptions	**2018**	2017
Assumed rate of inflation	**2.00%**	2.00%
Real rate of return assumed on Primary Plan assets	**4.00**	4.00
Discount rate	**6.00%**	6.00%

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 Primary Plan and on the expectations for future trends. The OAC external actuaries have provided their opinion that assumptions adopted are appropriate for valuing the Primary Plan's accrued pension obligation.

The retirement assumption continues to be an age-based scale and reflects a possibility of retirement after normal retirement age. The mortality assumption continues to be based on Primary Plan experience and includes a projection for longevity improvements in the future.

The assumed increases in the real rate of pensionable earnings (i.e., increase in excess of the assumed inflation rate) were last updated in 2018 to reflect recent experience of the Plan and current expectations for future years and are as follows:

	2018				2017			
	NRA60 (i)		**NRA65 (i)**		NRA60 (i)		NRA65 (i)	
	Before 2023	**After 2022**	**Before 2023**	**After 2022**	Before 2019	After 2018	Before 2019	After 2018
Assumed real rate of pensionable earnings increases (weighted average of a table of age-related increases)	**1.8%**	**1.9%**	**1.1%**	**1.2%**	1.4%	1.8%	0.8%	1.2%
Rate of pensionable earnings increases (assumed rate of inflation plus real rate of pensionable earnings increases)	**3.8%**	**3.9%**	**3.1%**	**3.2%**	3.4%	3.8%	2.8%	3.2%

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

The accrued pension obligation as at December 31, 2018 takes account of known changes in the Primary Plan membership up to November 3, 2018, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2019, and estimated pensionable earnings and credited service accruals in 2018.

Summary of the Primary Plan's financial position is as follows:

As of December 31,	**2018**	2017
Primary Plan fair value of net assets available for benefits	**$ 97,291**	$ 95,036
Less Additional Voluntary Contribution net assets	**1,023**	817
Defined benefit net assets available for benefits	**96,268**	94,219
Actuarial value adjustment	**(1,401)**	(6,008)
Actuarial value of net assets available for benefits	**94,867**	88,211
Less Defined Benefit accrued pension obligation	**99,058**	93,614
Funding surplus/(deficit) of actuarial value of net assets available for benefits over accrued pension obligation	**(4,191)**	(5,403)
Reversal of actuarial value adjustment	**1,401**	6,008
Surplus/(Deficit) of net assets available for benefits over accrued pension obligation	**$ (2,790)**	$ 605

Actuarial Value of Net Assets of the Defined Benefit Component

The actuarial valuation of the Primary Plan was performed by Towers Watson Canada Inc. Under the PBA, an actuarial valuation report prepared by an independent external actuarial firm must be filed with FSCO at least once every three years. The Primary Plan valuation report was last filed for the December 31, 2017 year-end.

The change in the actuarial value adjustment is as follows:

For the year ended December 31,		2018	2017
Expected interest on beginning actuarial value adjustment (i)	$	**359**	$ 210
Current year returns in excess of/(below) the funding rate (i)		**(2,771)**	3,522
Prior years' returns (above)/below the funding rate recognized in the year		**(2,195)**	(1,103)
Increase/(Decrease) in actuarial value adjustment		**(4,607)**	2,629
Actuarial value adjustment, beginning of year		**6,008**	3,379
Actuarial value adjustment, end of year	$	**1,401**	$ 6,008

(i) Based on the funding rate in effect during the year, 2018: 6.00% (2017: 6.20%).

The present value of unrecognized net investment returns by initial year they were established and the amounts to be recognized from 2019 through 2022, after application of the long-term rate of return assumption, are as follows:

Initial Year Earned		**Actuarial Value Adjustment as at Dec. 31, 2018(i)**	Unrecognized Investment Returns to be Recognized in 2019	2020	2021	2022	Actuarial Value Adjustment as at Dec. 31, 2017(i)
2014							$ 533
2015		**21**	22				40
2016		**1,352**	717	760			1,913
2017		**2,799**	989	1,048	1,112		3,522
2018		**(2,771)**	(734)	(779)	(826)	(875)	
	$	**1,401**	$ 994	$ 1,029	$ 286	$ (875)	$ 6,008

(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.

The following table provides the potential sensitivity of the accrued pension obligation to changes in the assumed real rate of pensionable earnings increases and the assumed real rate of return on Primary Plan assets. 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 Change		**Approximate Effect on Accrued Pension Obligation**	
As at December 31,		**2018**	2017
Real rate of pensionable earnings increases			
Decrease in assumption	$	**(1,700)**	$ (1,700)
Increase in assumption		**1,800**	1,800
Real return on Primary Plan assets and discount rate			
Decrease in assumption		**7,600**	7,200
Increase in assumption	$	**(6,800)**	$ (6,400)

NOTE 7

Retirement Compensation Arrangement

As the RCA is not a Registered Pension Plan, a 50 per cent refundable tax is levied on all contributions made to the RCA as well as on net investment income received and net realized investment gains. The refundable tax 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 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 Primary

Plan contribution rates applied to contributory earnings over a defined earnings threshold, which was $175,223 for 2018 (2017: $170,797). The defined earnings threshold is actively managed and monitored in such a way that current and 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 and expenses over the 20-year period following each annual valuation date. Benefits in excess of the maximum amounts payable from the Primary 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,		**2018**		2017
Net Assets Available for Benefits	**$**	**148**	$	162
Accrued Pension Obligation and Surplus/(Deficit)				
Accrued pension obligation	**$**	**851**	$	813
Surplus/(Deficit)		**(703)**		(651)
Accrued Pension Obligation and Surplus/(Deficit)	**$**	**148**	$	162

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31,		**2018**		2017
Net investment income/(loss)	**$**	**(1)**	$	12
Contributions		**18**		23
Benefits		**(30)**		(19)
Administrative expenses		**(1)**		(1)
Total Increase		**(14)**		15
Net assets available for benefits, beginning of year		**162**		147
Net assets available for benefits, end of year	**$**	**148**	$	162

The actuarial assumptions used for the RCA are consistent with those used for the Primary Plan except that the RCA discount rate as at December 31, 2018 is 3.15% (2017: 3.15%), which reflects the long-term asset mix of the RCA including the effect of the 50 per cent refundable tax. A 50 basis point change in the assumed rate (with no change in other assumptions) before reflecting the 50 per cent refundable tax would have the following approximate effect on the accrued pension obligation:

50 Basis Point Change	**Approximate Effect on Accrued Pension Obligation**	
As at December 31,	**2018**	2017
Assumed discount rate		
Decrease in assumption	37	36
Increase in assumption	(35)	(34)

NOTE 8

Net Investment Income/(Loss)

The OMERS Pension Plans' investment income/(loss) by asset classes is as follows:

For the year ended December 31,					2018
	Investment Income (ii)	Net Gain/(Loss) on Investment Assets, Liabilities (iii)	Total Investment Income/(Loss) (i)	Investment Management Expenses (note 12)	Net Investment Income /(Loss)
Fixed Income					
Inflation-linked bonds	$ 87	$ (94)	$ (7)	$ (6)	$ (13)
Nominal bonds and debentures	252	(1,319)	(1,067)	(15)	(1,082)
Private debt and mortgages	445	291	736	(52)	684
	784	(1,122)	(338)	(73)	(411)
Equities					
Canadian public equities	390	(1,414)	(1,024)		
Non-Canadian public equities	501	(1,816)	(1,315)		
	891	(3,230)	(2,339)	(89)	(2,428)
Canadian private equities (iv)	3	124	127		
Non-Canadian private equities (iv)	223	1,951	2,174		
	226	2,075	2,301	(273)	2,028
	1,117	(1,155)	(38)	(362)	(400)
Real Assets					
Infrastructure	1,438	445	1,883	(89)	1,794
Real estate (v)	696	603	1,299	(11)	1,288
	2,134	1,048	3,182	(100)	3,082
Short-term Instruments					
Cash and short-term deposits	184	(33)	151	(5)	146
Total Investment Income	$ 4,219	$ (1,262)	$ 2,957	$ (540)	$ 2,417
Income credited under contractual agreements					(212)
Net Investment Income/(Loss)					$ 2,205

For the year ended December 31,	Investment Income (ii)	Net Gain/(Loss) on Investment Assets, Liabilities (iii)	Total Investment Income/(Loss) (i)	Investment Management Expenses (note 12)	Net Investment Income /(Loss) 2017
Fixed Income					
Inflation-linked bonds	$ 88	$ 3	$ 91	$ (6)	$ 85
Nominal bonds and debentures	239	896	1,135	(39)	1,096
Private debt and mortgages	309	(149)	160	(26)	134
	636	750	1,386	(71)	1,315
Equities					
Canadian public equities	270	643	913		
Non-Canadian public equities (vi)	327	2,693	3,020		
	597	3,336	3,933	(81)	3,852
Canadian private equities (iv)	(18)	834	816		
Non-Canadian private equities (iv) (vi)	220	410	630		
	202	1,244	1,446	(166)	1,280
	799	4,580	5,379	(247)	5,132
Real Assets					
Infrastructure	1,470	523	1,993	(76)	1,917
Real estate (v)	705	760	1,465	(10)	1,455
	2,175	1,283	3,458	(86)	3,372
Short-term Instruments					
Cash and short-term deposits	152	102	254	(5)	249
Total Investment Income	$ 3,762	$ 6,715	$ 10,477	$ (409)	$ 10,068
Income credited under contractual agreements					(333)
Net Investment Income/(Loss)					$ 9,735

(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 $99 (December 31, 2017: $83).

(ii) Interest on investment related activities includes interest expense on real estate investment liabilities of $436 (December 31, 2017: $360) and interest on infrastructure investment liabilities of $17 (December 31, 2017: $15).

(iii) Includes net realized loss of $628 (December 31, 2017: gain of $8,139) and is net of transaction and pursuit costs of $269 (December 31, 2017: $199).

(iv) Includes income from funds of $424 (December 31, 2017: $48) where the underlying assets are credit investments.

(v) Real estate investment income includes Oxford Properties Group's operating expenses (net of property management income) of $46 (December 31, 2017: $32). The total audit costs are $3 (December 31, 2017: $3).

(vi) Total investment income previously classified from Non-Canadian public equities of $85, was reclassified to Non-Canadian private equities.

NOTE 9

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. Returns are calculated as the percentage of business unit income to the weighted average fair value of the business unit net assets during the period.
b. Fair value is determined as described in notes 2 and 3.
c. Income is determined as described in notes 2 and 8.
d. The OMERS Primary Pension Plan return includes all business unit returns.

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

For the year ended December 31,	**2018**	2017
OMERS Primary Pension Plan (i)		
Total Gross Return	**3.00%**	12.05%
Gross Returns applicable to OMERS Return Agreements(i)		
OMERS Infrastructure	**11.11%**	12.76%
Oxford Properties	**9.68%**	11.50%

The above gross returns are before the impact of base and performance fees paid to external fund managers and investment management expenses. The Primary Plan net return after all investment costs for the year ended December 31, 2018 was 2.3% (December 31, 2017: 11.5%).

(i) Returns reflect the results of the Primary Plan's currency hedging related activities with external counterparties.

NOTE 10

Contributions

For the year ended December 31,	**2018**	2017
Current year required contributions (i)		
Employers	**$ 1,994**	$ 1,929
Members	**1,994**	1,929
	3,988	3,858
Transfers from other pension plans	**106**	51
Past service contributions from members	**93**	107
Past service contributions from employers	**12**	15
Defined benefit contributions received	**4,199**	4,031
AVC contributions received	**207**	162
Total Contributions Received (ii)	**$ 4,406**	$ 4,193

(i) Current year service contributions are funded equally by employers and members. For NRA 65 members, the 2018 contribution rate was 9.0% (2017: 9.0%) of earnings up to $55,900 (2017: $55,300) and 14.6% (2017: 14.6%) of earnings above that level. For NRA 60 members, the 2018 contribution rate was 9.2% (2017: 9.2%) of earnings up to $55,900 (2017: $55,300) and 15.8% (2017: 15.8%) of earnings above that level.
(ii) OMERS, with 1,000 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 11

Benefits

For the year ended December 31,		2018		2017
Retirement benefits	$	**3,546**	$	3,265
Disability benefits		**28**		28
Transfers to other registered plans		**310**		307
Death benefits		**131**		124
Commuted value payments and members' contribution plus interest refunded		**240**		264
Defined benefits paid		**4,255**		3,988
AVC benefits paid		**22**		17
Total Benefits Paid	$	**4,277**	$	4,005

NOTE 12

Pension Administrative and Investment Management Expenses

(a) Pension administrative expenses

For the year ended December 31,		2018		2017
Salaries and benefits	$	**53**	$	46
System development and other purchased services		**18**		16
Premises and equipment		**4**		6
Professional services (i)		**9**		9
Travel and communication		**9**		8
Total Pension Administrative Expenses	$	**93**	$	85

(b) Investment management expenses

For the year ended December 31,		2018		2017
Salaries and benefits (ii)	$	**405**	$	287
System development and other purchased services		**28**		28
Premises and equipment		**21**		23
Professional services (i)		**35**		24
Travel and communication		**17**		14
Investment management services		**25**		25
Other		**9**		8
Total Investment Management Expenses	$	**540**	$	409

(i) Total professional services expenses include independent actuarial costs of $0.9 (December 31, 2017: $0.6) and external audit costs of $2.4 (December 31, 2017: $1.8).
(ii) Net of management fees earned from portfolio investments of $36.1 (December 31, 2017: $29.9).

NOTE 13

Related Party Disclosures

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

- OAC through Oxford Properties Group paid property taxes to municipal employers of $158 (December 31, 2017: $153) and utility payments to utility employers of $33 (December 31, 2017: $30). 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.
- OAC through Oxford Properties Group earned rental revenue from investee entities of $18 (December 31, 2017: $6) and purchased services from investee entities of $nil (December 31, 2017: $nil). The amounts of rental revenue earned and services purchased were based on normal levies by the individual entities and were consistent with those 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 those senior executives responsible for planning and directing the activities of the OAC.

For the year ended December 31,		2018		2017
Salaries, short-term employee benefits & termination benefits	**$**	**18**	$	15
Post-employment benefits		**1**		1
Other long-term benefits		**7**		8
Total	**$**	**26**	$	24

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

NOTE 14

Capital

OAC defines its capital as the funded status (surplus/(deficit)) of each of the OMERS Pension Plans. The funded status of the OMERS Pension Plans is discussed in note 6 and note 7.

OAC's objective is to ensure that the Primary 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 3 B) and leverage (note 4) are based on asset mix and risk management policies and procedures. In 2018, a revised risk framework was approved by the Board of Directors, that describes overall risk-management governance and details the structure for categorizing risks to which the organization is exposed. This complements policies such as Statement of Investment Beliefs, Statement of Investment Authorities and Statement of Investment Policies & Procedures (SIP&P). As the Primary Plan's administrator, OAC has adopted a SIP&P for the Primary Plan which sets investment objectives, guidelines and benchmarks used in investing the Primary Plan's assets, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was originally established in 1989 and is reviewed annually by the OAC Board. The SIP&P effective for the year ending December 31, 2018 was amended on August 16, 2018.

The SIP&P establishes long-term strategic asset mix ranges and targets by asset class. The actual asset mix at December 31, 2018 was within the long-term asset mix ranges.

The RCA investments are based on an asset mix and SIP&P separate from those of the Primary Plan. The RCA SIP&P was originally established in 2007 and is reviewed annually by the OAC Board. The SIP&P effective for the year ending December 31, 2018 was last amended on December 15, 2017. The changes included in this amendment are not considered significant.

The Primary Plan's AVC component accrued pension obligation is based on AVC contributions net of withdrawals and administration fee plus net investment rate of return of the defined benefit component of the Primary 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 August 16, 2018. The changes included in this amendment are not considered significant.

NOTE 15

Guarantees, Commitments and Contingencies

As part of normal business operations, OAC enters into guarantees, commitments and contingencies.

Guarantees are provided to third parties with respect to certain investments. The maximum amount payable under guarantees, standby letters of credit and contingent amounts payable provided as part of investment transactions was $2.2 billion as at December 31, 2018 (December 31, 2017: $2.0 billion).

Future commitments and contingencies include those relating to the acquisition of investments which are expected to close in 2019 of $4.1 billion (December 31, 2017: $1.0 billion), and long term commitments related to funds managed by third parties, the development of real estate projects, and the refurbishment of a major infrastructure asset of $16.8 billion (December 31, 2017: $15.0 billion).

OAC, in the normal course of business, indemnifies its directors, officers, employees, its business units 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, 2018, 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 material adverse effect on the consolidated financial statements of OAC.