



2018

ANNUAL REPORT

INVESTMENT MANAGEMENT CORPORATION OF ONTARIO

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ABOUT IMCO

Vision

As the investment partner of choice for Ontario's public-sector funds, we will be among the world's leading public-sector asset managers.

Mission

We will provide our clients with best-in-class portfolio advice, investment products and reporting.

Values

Our values inform how we work together as an organization and with our clients to fulfill our mission and vision.

INTEGRITY

We hold ourselves to the highest professional standards.

PUBLIC PURPOSE

We put our clients first and we are proud of our public purpose.

RESPECT

We treat each other, our partners and our clients with respect.

INNOVATION AND CONTINUOUS IMPROVEMENT

We strive to adopt practices that reflect global leadership and thinking.

COLLABORATION

We work as a single and unified team to achieve our common objectives.

Our Story

The Investment Management Corporation of Ontario (IMCO) was created in July 2016 through the *Investment Management Corporation of Ontario Act, 2015* (the IMCO Act) to manage assets on behalf of Ontario public-sector funds on a not-for-profit basis. Operating independently of government, our mandate is to achieve the long-term investment objectives of our clients.

IMCO has no other lines of business. Our objective is to provide public-sector clients with investment management services including strong portfolio management, improved access to investments and superior risk management capabilities.

We may manage the assets of pension plans or investment funds on behalf of the following:

- Ontario government agencies;
- Corporations, with or without share capital, that are not Ontario Government agencies but are owned, operated, or controlled by the Ontario Government;
- A board, commission, authority or unincorporated body of the Ontario Government;
- A university in Ontario, including its affiliated and federated colleges, that receives operating grants from the Government of Ontario;
- A municipality in Ontario;
- Any other entity prescribed by legislation.

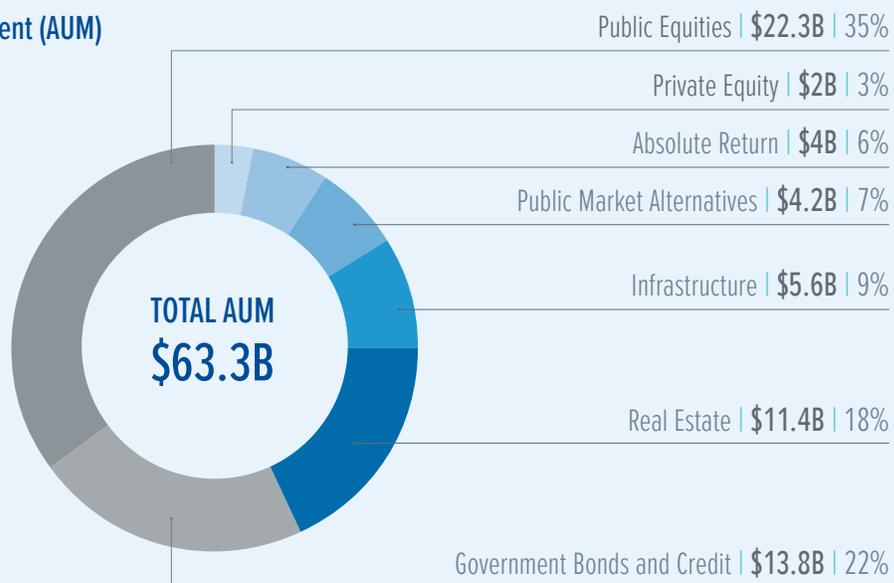
IMCO is modelled after similar organizations in Quebec, Alberta and British Columbia. There are no financial transactions between the government and IMCO. The organization does not receive any government financing and it does not remit any revenues to the government. The corporation finances itself through cost-recovery fees charged to its members and operates on a not-for-profit basis.

In July 2017, we began to manage funds on behalf of two clients: the Ontario Pension Board and the Workplace Safety and Insurance Board.

2018 Portfolio Highlights

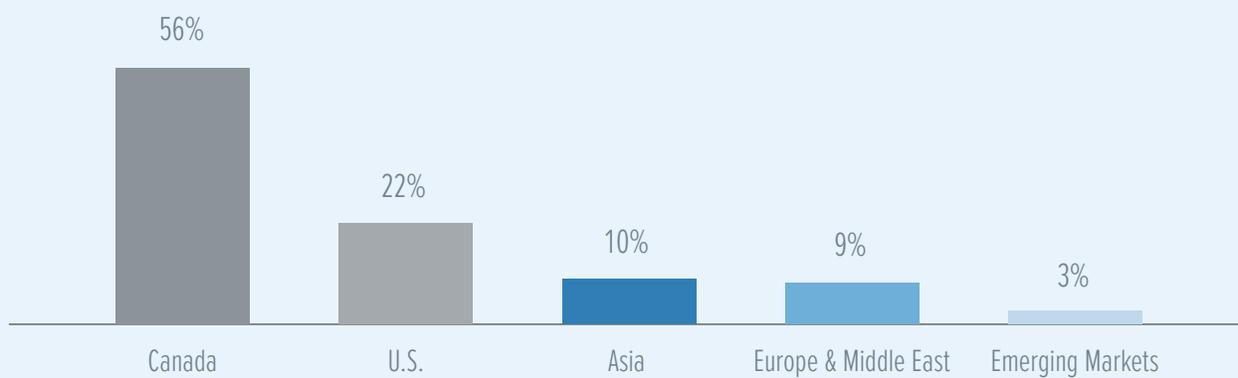
Assets under management (AUM) by asset class

as of Dec. 31, 2018



Regional Allocation of AUM

as of Dec. 31, 2018



Report from the Chair



David Leith

IMCO's primary objective is to achieve investment results that will enable public-sector clients to meet their financial obligations. When IMCO first launched in 2017, many building blocks had to be set in place in order to take on this exciting mandate. I am happy to report that IMCO is well on its way.

The theory behind IMCO is that professional management of pooled public-sector assets, employing the independent governance model used across Canada, will enable greater scale and more diverse portfolios at lower cost. This would ultimately lead to improved long-term returns and more sustainable pension and investment funds.

Led by President and CEO Bert Clark, IMCO began managing funds in July 2017. Throughout 2018 it changed and grew tremendously with the addition of experienced people, modern systems and efficient processes. It is on a path toward becoming the sophisticated, multi-client asset manager that was envisioned, through managing assets under common investment strategies and the pooling of assets. This vision will also deliver economies of scale, leading to reduced duplication and lower costs. Wider access to additional asset classes and better risk management practices are also key benefits.

My fellow directors and I are pleased by IMCO's growth and progress. We have confidence that management has established ambitious but achievable goals in its five-year business plan. During 2018, client assets continued to be managed on a segregated basis. A significant milestone will occur in 2019-20, when client assets begin to transition to IMCO investment strategies, policies and pooled funds. This is when the full benefits of IMCO will be realized by our clients.

ROLE OF THE BOARD

When IMCO's seven initial board members, including myself, were appointed in July 2016, there was little more than legislation outlining the role of IMCO and a vision to improve investment management and advisory services for the broader public sector in Ontario.

As set out in the IMCO Act, each member of the IMCO Board holds office as an independent director. Independence is an important tenet of good governance and is a feature of the so-called "Canadian model" of pension investment management that is esteemed and emulated around the world. When reviewing IMCO's strategy, budget, business plan, financial statements, and CEO performance, our decisions are made with only the best interests of IMCO clients in mind.

The Board also has meaningful oversight of the investments and investment process at IMCO and is responsible for approving individual investments over a certain threshold, and for establishing various IMCO investment policies.

With the extensive accomplishments of 2018, and a five-year plan for growth and strengthening of our technological, risk management, and investment capabilities, I am confident that IMCO is on track to have a major impact on public fund management in Ontario.

David Leith

Chair, IMCO Board of Directors

Report from the CEO



Bert Clark

When IMCO began to manage client assets in 2017, we lacked the organizational structure and the systems that would be expected of a multi-client asset manager.

Today we are an integrated organization and we have put in place the core capabilities required to begin taking on new clients. In short, 2018 was a transformational year for us.

Here are just a few highlights:

- Our portfolio construction team enhanced our ability to provide clients with strong portfolio construction advice;
- The investment team developed a full suite of investment strategies that we expect will provide our existing and new clients with better access to investments;
- We established a single risk management system that can analyse and monitor client portfolios, and the risk management team now plays an active role in new investments, client management and board reporting;
- Our client service team began to develop standardized client, senior management and Board reporting, and to formalize our client communications; and
- The finance team selected our pooling custodian and accounting book of record provider, which are critical foundations for managing pooled assets and for enhancing investment decision-making, as well as risk and performance reporting.

FIVE-YEAR PLAN

There is still a significant amount of work to do to become the asset manager of choice for public funds in Ontario. In 2018, our five-year business plan was approved by the Board of Directors and it prioritizes the many initiatives we will need to implement over the coming years.

While the scope of work is extensive, there are many advantages of being a new organization.

For instance, when it comes to IT, we are not burdened by legacy systems, complicated customizations or large teams. We can launch with modern IT systems that take advantage of the many technological developments of the last decade. We will rely in significant ways on the cloud and a select group of strategic third-party service providers, rather than building costly hardware-intensive networks and large internal teams to support them.

When it comes to investing, we do not have internal structures or large teams supporting legacy investment strategies that may not be as powerful today as they once were. We will not be overly reliant on any single organization-wide investment approach. We can draw from the best in Canada and elsewhere. For instance, we will emulate core aspects of the ‘Canadian model’ of pension investing with its focus on private assets and reduced costs through internalization. We will borrow from successful public fund investors in Northern Europe with their focus on the total portfolio. And we will look to build a network of strategic relationships as many successful U.S. university endowments have done.

INVESTMENT APPROACH

Beginning in 2019, IMCO will pursue a distinctive approach to investing.

- We will focus on portfolio construction, because it is the most powerful determinant of overall investment results.
- We will focus on diversifying client exposures to the factors that drive overall portfolio investment results, such as inflation, real interest rates and equity and credit risk premiums, to build portfolios that perform under a range of macro-economic environments.
- We will ensure that our internal teams and external partners have the skills required to create value in private asset classes, which have become increasingly competitive.
- We know that costs matter, so we will use low-cost strategies where it makes sense and higher-conviction strategies where our research indicates the potential for strong performance.
- We will emphasize strong internal governance, including a prominent role for the risk group and engagement of our independent Board, because we believe this leads to better investment outcomes.

2018 REPORTING CYCLE

The portfolios of our current clients, Ontario Pension Board (OPB) and the Workplace Safety and Insurance Board (WSIB), were managed on a segregated basis in 2018. This approach was embedded in our business strategy from the beginning in order to give IMCO time to develop its investment strategies and to facilitate the development of pooled investment products.

Our clients will report their 2018 results independently of IMCO within their normal reporting cycles as mandated through their respective legislative guidelines.

We will start to provide our clients with more comprehensive portfolio construction advice and offer IMCO investment strategies in 2019. In 2020, we plan to migrate client segregated assets to pools that reflect IMCO investment strategies. We will begin to report investment class results once client portfolios reflect our strategies and we have a common set of benchmarks. Over time, I am confident that investment results will demonstrate IMCO’s ability to generate value for clients at the asset class and total portfolio level.

LOOKING AHEAD

Over the course of 2019 we will continue to build the remaining capabilities to bring new clients on board and provide our existing clients with improved investment capabilities. We are entering a new phase, in which we expect to realize the benefits that people had in mind when IMCO was conceived. We will offer a range of investments and value-added services that our clients cannot efficiently access on their own.

I would like to thank all IMCO employees for their efforts in 2018, our Board of Directors for its ongoing support and guidance, and our clients for being strong proponents of IMCO.

Bert Clark

President & CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

Investment Approach

We believe that being reliant on a single fund-wide investment strategy is not appropriate for a diversified multi-client investment management organization. IMCO will take a pragmatic approach and use a variety of investment strategies to meet our clients' needs.

We emphasize portfolio construction, because it is the most powerful determinant of overall investment results. We focus on the factors that drive overall portfolio investment results such as inflation, real interest rates and equity and credit risk premiums. We generally don't recommend outsized commitments to any asset classes because, in our view, long-term forecasts are not sufficiently accurate to warrant concentrated exposures and we are strong believers in diversification.

We emphasize strong internal governance because we believe this leads to better investment outcomes. This includes integrating our risk group into our investment decision-making process. We also benefit from the oversight provided by our professional and independent Board of Directors.

IMCO offers investment strategies that provide diversification across asset classes, securities, holdings, investment managers and investment styles. We use external investment managers when we believe that doing so is the most effective and efficient way to access certain types of investments. But we also invest directly and alongside our external partners.

Our clients were historically reliant on outsourced third-party investment managers. In 2018, we spent significant time and effort building our organizational capabilities, which included enhancing our internal investment capabilities so that we can provide our clients with more direct and lower-cost access to a differentiated range of investments.

OUR INVESTMENT BELIEFS

We make important investment decisions on behalf of our clients every day. Our Investment Beliefs anchor our approach to investing and directly align our actions with our corporate values.

- Asset allocation is among the most important determinants of investment returns and risk.
- Understanding and managing risk is at the core of investing.
- Costs matter.
- Good governance improves investment performance.
- Incorporating environmental, social and governance (ESG) factors in the investment process helps to better manage risk and contribute to long-term performance.
- We are prudent investors.
- Our people are our most valuable assets.

Visit www.imcoinvest.com to learn more about these core beliefs.

Focus on Client Solutions

IMCO was established to provide portfolio construction and investment management services while enabling our clients to access global investment opportunities, all with a critical focus on risk management.

Our current and potential clients share many common needs: the investment management industry continues to evolve rapidly, with a proliferation of complex investment strategies; the scope and scale of both investment and operational risk has increased; and there are increasingly complicated regulations around risk management.

Maintaining the necessary talent, systems, processes, governance and operational capability to manage assets has become increasingly difficult for public-sector funds. IMCO was designed to provide scalable and cost-effective solutions to address these challenges.

Current Clients

Ontario Pension Board administers Public Service Pension Plan	Workplace Safety and Insurance Board administers insurance, pension plan, other retirement funds
\$26 billion in net assets	\$34 billion in net assets
\$1.2 billion in benefits paid annually	\$2.4 billion in benefits paid annually
OPB serves over 43,000 members and 37,000 retired members	WSIB covers more than 5 million people in more than 300,000 workplaces

As of Dec. 31, 2017

2018 Accomplishments

In 2018, IMCO put in place many of the foundational capabilities required for a multi-client investment manager. Our objectives were focused on investment results, operations, client readiness and other strategic initiatives.

IMCO SCORECARD PERFORMANCE

OBJECTIVE	2018 INITIATIVE	RESULT
Investment Results	Meet clients' overall investment performance objectives.	Portfolios were managed in accordance with client investment policies and strategic asset allocations. Our clients will report their results independently, within their normal reporting cycles.
Integrate and Enhance Operations	Provide consistent client support and advice.	New client service model, team and regular check points in place.
	Integrate investment management and investment operations teams.	Operational capabilities aligned with investment teams for streamlined decision-making.
	Enhance risk management and reporting.	New risk system installed, and risk management staff hired; reporting improvements continue.
	Institute compliance regime.	Formal compliance function established.
	Develop management financials.	Financial reporting developed to provide view of total assets and enhance cost management.
	Implement new compensation structure and performance management system.	Legacy compensation program phased out; new, integrated program and performance management system implemented.
	Implement corporate IT support services.	Independent IMCO IT services established.
	Enhance research and portfolio construction capabilities.	New system installed and team being built.
	Improve reporting to Board on risk management and returns.	Reporting improvements continue to evolve to support risk and investment management.
	Select a single custodian for initial asset pools.	Single custodian selected to support asset pooling.
Readiness for Clients in 2019	Operate within 2018 budget.	Achieved initiatives within budget targets.
	Identify near-term potential clients and client development strategy.	Roster of potential clients and development strategy created.
	Build out client relationship and service function to provide effective support to clients.	Client service model in place and critical team members hired, including VP of Client Services.
	Develop a plan that enables new clients to transition smoothly to IMCO's investment management service model.	Transition plan developed for new clients.
Strategic Initiatives	Begin discussions with near-term potential clients.	Discussions ongoing with potential clients.
	Create Five-year business plan.	Five-year business plan created and approved by Board of Directors.
	Develop IT plan to support five-year business plan.	IT plan in place to support business objectives.
	Identify initial asset pools and prepare associated investment policies, strategies and structures.	Initial asset pools identified, and investment policies, strategies and structures advanced with existing clients.
	Identify long-term plan for risk management framework.	Risk management framework and risk management function established.

2019 Objectives

IMCO's five-year business plan prioritizes the many initiatives we need to implement to become the asset manager of choice for public funds in Ontario. We have established five core objectives for 2019, with specific initiatives and deliverables attached to each one.

1. Maintain focus on delivering sustained investment results.
2. Enhance investment capabilities.
3. Enrich existing client service and engage potential new clients.
4. Develop IMCO's investment strategies, products and policies (including an approach to pooling assets in 2020).
5. Enhance operations and risk management capabilities.

Cost Management

IMCO operates on a cost-recovery basis and is financially prudent in managing its investment and operating costs. Cost advantage, arising from economies of scale, was a key rationale for pooling public-sector assets under a single manager.

IMCO's size gives us the opportunity to enter into strategic partnerships, co-invest and access investments directly in a manner that would be difficult for smaller funds. As a result, we anticipate that we will be able to reduce overall costs associated with alternative investments for our clients. In public markets, we will use low-cost strategies where it makes sense and higher conviction strategies where our research indicates the potential for strong performance.

Creating a leading investment management organization requires a near-term investment in our foundational capabilities to provide better investment opportunities to existing clients and build a scalable platform to help attract new ones. We therefore expect operating costs to increase in absolute terms in the near term, but the addition of new clients should reduce total costs per dollar invested.

We expect to provide our clients with access to a sophisticated investment platform at a lower cost than a client would spend to develop similar stand-alone capabilities.

2018 COST PERFORMANCE

In 2018, IMCO effectively managed its costs while making some of the necessary investments in people and systems that will save clients money, mitigate risk and deliver returns over the long term.

- IMCO's total costs in 2018 were \$270.7 million, or 42 cents per \$100 of assets under management. (This is exclusive of fees deducted directly at source for private asset funds, which are netted from investment returns by the external managers.)
- Total costs were below original budgeted operating costs for the year, and are also lower than similar-sized peers, based on industry research.
- Investment management costs, mainly external management fees, were 77 percent of total costs and operating expenses were 23 percent of total costs.

The largest component of our costs is external asset management fees, with 70 percent of assets under management (AUM) being managed externally. We see significant opportunities for further cost savings by continuing to reduce external management fees, where appropriate.

2018 Costs

Cost Items	Notes	\$ thousands	% of Total Costs	basis points (Note 3)
Investment Management Expenses:				
External Management Fees	1	192,633	71%	30.2
Custodial Fees		9,830	4%	1.5
All Other Investment Management Costs	2	5,695	2%	0.9
Total Investment Management Costs		208,158	77%	32.6
Operating Expenses:				
People Costs		35,679	13%	5.6
Information Technology Costs		6,004	2%	0.9
Consulting Costs		8,392	3%	1.3
Other Supporting Costs		12,472	5%	2.0
Total Operating Expenses		62,547	23%	9.8
Total Costs (Note 4)		270,705	100%	42.4

Note 1: External Management Fees include all fees that are invoiced and settled on behalf of IMCO's clients.

Note 2: All Other Investment Management Costs include professional, legal and other pursuit costs directly related to investment activities.

Note 3: Costs in basis points are calculated based on average monthly assets under management of \$63.9 billion, gross of client's debt financing.

Note 4: Total Costs is exclusive of fees deducted directly at source for private asset funds, which are netted from investment returns by the external managers.

Asset Pooling

IMCO was created to manage assets for clients on a pooled basis. In order to achieve this, new systems, teams, strategies, policies and products to effectively manage funds for multiple clients must be established (while at the same time, managing segregated assets for current clients under their legacy investment strategies and policies.)

Pooling assets of existing and new clients is a complex endeavour that requires significant operational and technological planning and implementation, including work to develop standard data and performance platforms.

The transition from client legacy investment strategies and policies to the launch of pools will be multi-phased.

ASSET POOLING TIMELINE

2017:

Client assets managed on a segregated basis under client legacy investment strategies and policies.

2018:

Single asset pooling custodian selected to provide custody services for safekeeping of pooled assets. Custodian will also provide IMCO's accounting book-of-record.

2019:

Begin transition of client assets to IMCO investment strategies.

2020:

Begin managing segregated client assets under common IMCO investment strategies and policies.

Begin transition to managing client assets on a pooled basis under common IMCO investment strategies and policies.

Investment Commentary

Client portfolios were managed on a segregated basis in 2018 under client legacy investment strategies and asset allocations. This approach was embedded in our business strategy when we became operational in mid-2017 to give IMCO time to develop its investing strategies and to facilitate the creation of pooled products.

Consequently, the asset allocation and investment strategies used in 2018 were legacy in nature and client portfolios did not have common asset class benchmarks or composite portfolio benchmarks.

For these reasons, we are not publishing consolidated investment results in this annual report. (Our clients will report their 2018 results independently within their normal reporting cycles.)

We will start to provide our clients with portfolio construction advice and begin to implement our investment approach in 2019. In 2020, we will migrate segregated assets to pools that reflect IMCO investment strategies. We will begin to report investment results once client portfolios reflect our strategies and we have a common set of benchmarks.

READING OUR 2018 INVESTMENT COMMENTARY

In the absence of consolidated results and benchmarks, our Investment Commentary is presented in two parts:

Markets Overview: The first section provides a general overview on global market activity and some of the key factors that created volatile investment conditions in 2018.

Asset Class Breakdown: The second section provides a summary of our managed assets, including our strategic view on each asset class, key drivers that influenced overall performance, and specific examples of our investing activities in 2018 (where applicable). In addition, we have chosen general indexes to accompany certain asset classes for context. These indexes are provided purely for illustrative purposes to highlight factors that affected global markets in 2018.

Markets Overview

Financial market volatility returned in 2018 as major central banks raised interest rates and concerns mounted about fading economic momentum and ongoing trade conflicts.

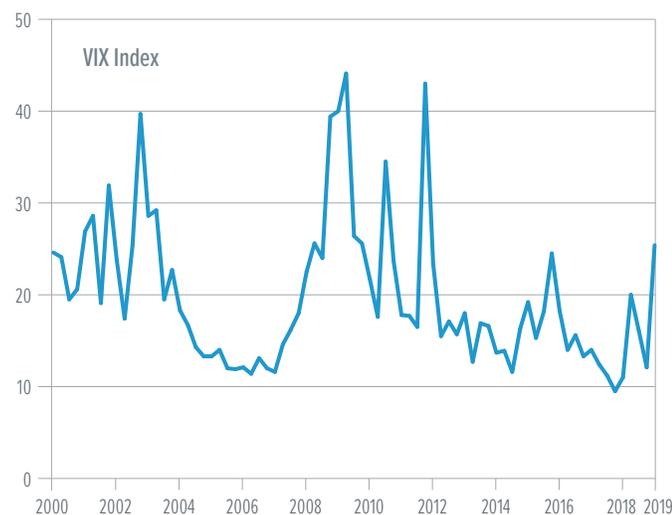
ECONOMIC GROWTH DIVERGES GLOBALLY

Economic and financial market performance was marked by greater divergence across major regions in 2018, ending the synchronized global upswing that began in mid-2016.

While economic conditions were cyclically strong in North America, supported by the U.S. fiscal stimulus, momentum faded in Europe, Japan and major emerging markets, including China. Nevertheless, global growth held firm at its 2017 level and deflation fears dissipated as labour markets remained tight.

In this context, the Bank of Canada boosted its policy interest rate in October 2018 for a fifth time since July 2017, to 1.75 percent. The U.S. Federal Reserve hiked rates four times to a target range of 2.25 to 2.50 percent. The Canadian dollar weakened against the U.S. dollar, as Canadian benchmark oil prices dropped sharply compared to international oil prices while trade concerns intensified.

Cboe Volatility Index (VIX)



Volatility returned to markets in 2018 after an unusually subdued 2017.
Provided as a courtesy by Cboe Exchange, Inc. (Cboe). VIX® is a registered trademark of Cboe.

Market Volatility Spikes

Increased financial market turbulence in 2018 mirrored the increasingly uncertain global economic environment. After dropping to a 25-year low in 2017, U.S. stock market volatility resurfaced early in 2018, and then again late in the year. Real and nominal interest rates rose, while concerns grew over corporate earnings growth and credit conditions. U.S. Treasury 10-year nominal and real yields rose on the back of tighter liquidity conditions, a large increase in bond issuance to fund the U.S. budget deficit, and firming inflation expectations.

Globally diversified portfolios provided less diversification than in recent years as both “risk assets” and defensive fixed-income assets were pressured by these developments. For example:

- The MSCI World and All Country equity indexes fell by about 0.5 percent and 2 percent, respectively, in Canadian dollar (CAD) terms.
- Emerging markets equities faced a perfect storm, declining by about 6.9 percent in CAD terms, due to tighter financial conditions, a reversal in capital flows as the U.S. dollar strengthened sharply, and growing threats to world trade.
- In corporate credit, U.S. high-yield bond spreads widened by about 180 basis points.
- The U.S. dollar dominated global currency markets and weighed on the currencies of emerging-market countries with large dollar-denominated debts and reliance on foreign funding.

Despite the recent pullback in equity and credit markets over recent months, asset prices remain high relative to fundamentals in many areas and geographies, suggesting a subdued outlook for long-term capital market returns.

Asset Class Breakdown

IMCO manages a range of asset classes, each with a specific risk-return profile, to achieve sustained long-term results for clients in order to meet their required rate of return.

PUBLIC EQUITIES

Publicly traded company shares are an important source of long-term investment returns that help our clients meet their long-term obligations. Public equities provide diverse exposure to listed companies in a variety of geographic regions, including Canada, the United States, other developed countries and emerging markets. There is also diversification across the market capitalization spectrum and business sectors.

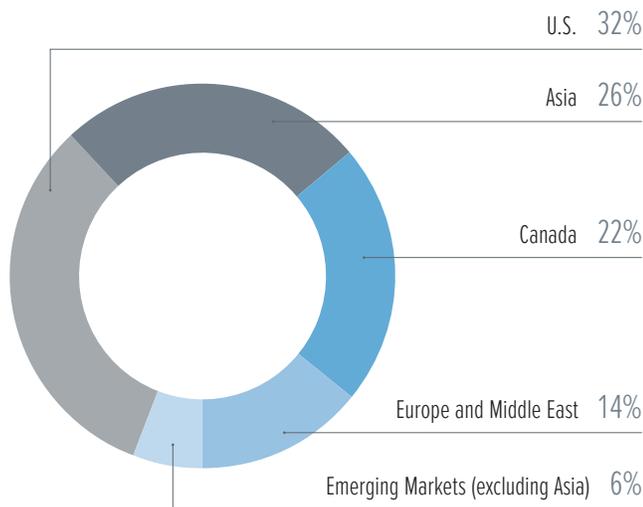
As of December 31, 2018, the market value of the public equities managed by IMCO was \$22.3 billion.

Drivers

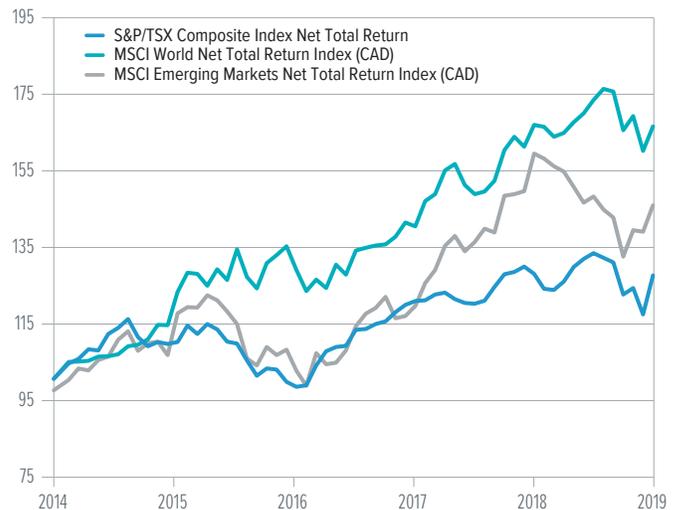
During the year, global equities were driven by movements in the U.S. equity markets and the strength of the U.S. dollar. U.S. equities performance in the fourth quarter reversed gains made throughout the earlier part of the year. Most equity markets outside of the United States were negatively affected by risk aversion, as investors worried about the fragility of global growth amid trade disagreements and the threat of escalation. Emerging market equities were impacted by tighter financial conditions, a reversal in capital flows as the U.S. Federal Reserve raised rates, and threats to world trade growth.

In global equities markets, the MSCI World and All Country indexes fell by 0.5 percent and 2 percent, respectively, in Canadian dollar (CAD) terms. Canadian equities, as measured by the S&P/TSX Composite Index, dropped 11.6 percent in 2018, while the S&P/TSX Total Return Index (which includes dividends paid) lost 8.9 percent. Emerging market equities declined by 6.9 percent in CAD terms.

Public Equities Distribution by Region



Public Equities Indexes



The synchronized global upswing in the global economy produced generally strong equity markets from mid-2016 to the end of 2017. As earnings slowed, economic momentum faded in spring 2018.

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GOVERNMENT BONDS AND CREDIT

Government bonds and other fixed income securities offer a stable source of income for our clients. They also serve to preserve capital, diversify risk from public equities and moderate the impact of interest rate changes on client liabilities.

A highly liquid and low-risk portfolio of money market securities, predominantly Canadian government T-bills and short-term credit securities, generally gives clients ready access to liquidity. We manage fixed income and money market exposure using a combination of active and index-replication strategies.

IMCO also manages private debt assets that consist of high-quality, investment and non-investment-grade, income-bearing products of various maturities that are unavailable in the public market. These strategies enable IMCO to capitalize on market opportunities while maintaining a focus on capital preservation and current cash yield. Our access to investment-grade private debt is primarily via private placements. We maintain relationships with highly experienced partners across North America and Europe to access non-investment-grade opportunities.

As of December 31, 2018, the market value of the government bonds and credit managed by IMCO was \$13.8 billion.

Drivers

In 2018, bond yields rose across terms, with shorter-duration yields rising more than longer-duration bonds. In private debt, IMCO focused on positioning the portfolio for the end of a protracted credit cycle, with exposures to increasing interest rates mitigated by floating interest rates and shorter duration in the non-investment grade portion of the portfolio. The investment-grade portion of the portfolio is underpinned by highly rated counterparties.

PUBLIC MARKET ALTERNATIVES

This strategy provides a risk-controlled source of broad market returns across multiple asset classes. It aims to deliver a well-diversified return stream that is resilient under various economic environments and does not rely on any single asset class. Investments include direct and derivative holdings of global equities, nominal and real return bonds, credit and commodities.

As of December 31, 2018, the market value of the public market alternatives managed by IMCO was \$4.2 billion.

Drivers

Most asset classes had a negative effect on returns. The performance of nominal bonds also detracted overall as yields rose substantially across major economies and across the term structures. Holdings in metals (industrial and precious) and agriculture sectors saw price declines due to fundamental supply and demand issues, as well as fallout from global trade tensions, especially between the United States and China.

ABSOLUTE RETURN

A combination of internal and external absolute return strategies is used to earn investment returns with low correlation to the performance of traditional assets (including equities and bonds) or to other client strategies. The benefit of holding assets that behave differently is lower overall portfolio volatility over the long term.

As of December 31, 2018, the market value of the absolute return investments managed by IMCO was \$4 billion.

Drivers

Both hedge fund and active currency strategies' performance lagged in 2018. Credit-related strategies, especially fixed income relative value funds, performed well as they were less sensitive to the volatility in equities markets. Global foreign exchange strategies performed well, as did North American bond futures for most of 2018, while market neutral strategies struggled, especially in the third quarter.

REAL ESTATE

Real estate investments are a good match for our clients' liabilities because they generate stable income and steady returns, and generally keep pace with inflation. We invest in real estate properties directly with partners and through investment funds. Assets are diversified across office, retail, multi-residential and industrial properties in Canada, the United States and internationally.

As of December 31, 2018, the market value of the real estate investments managed by IMCO was \$11.4 billion.

Drivers

Valuation gains were realized on downtown Toronto and Vancouver office properties, where rental growth was strong, and on industrial properties in Vancouver and Montreal. Tight vacancy rates continued in the Toronto and Vancouver office markets. Industrial properties were leading performers across Canada. Valuation decreases occurred in suburban office properties and retail properties. The costly redevelopment of shopping centres, resulting from certain retail anchor movements, was also a factor.

Select 2018 Transactions

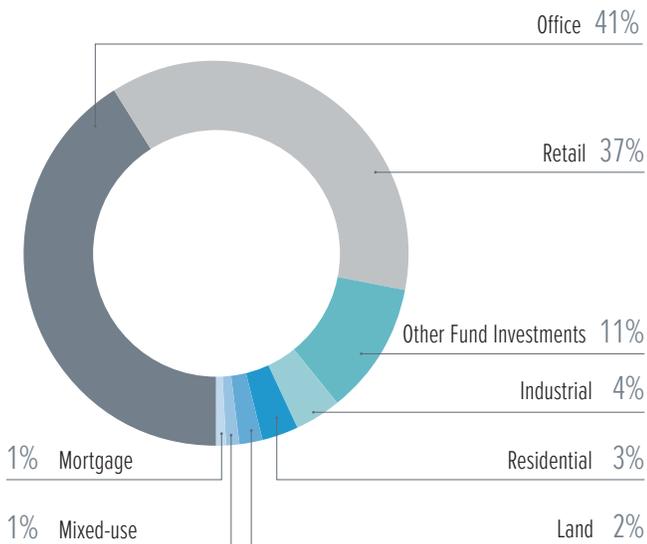
160 Front Street West, Toronto

Together with its Canadian real estate partner Cadillac Fairview, IMCO announced the construction of a new 46-storey office tower at 160 Front Street West in downtown Toronto. The tower is expected to be complete in late 2022 and will be anchored by the Ontario Teacher's Pension Plan.

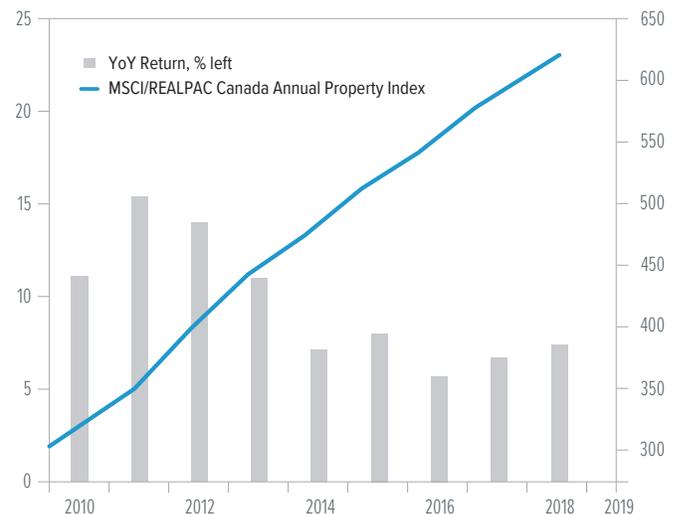
Bell Flatirons, Denver

IMCO continued to increase its exposure to various types of real estate outside of Canada, with the acquisition of an interest in Bell Flatirons, a newly renovated 1,209-unit multi-residential community in Denver, Colorado.

Real Estate Distribution by Property Type



MSCI/REALPAC Canada Annual Property Index



Real estate returns were generally stable in 2018, benefiting from periodic valuations that lead to smoother performance over time.

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INFRASTRUCTURE

Infrastructure assets are attractive because they generally produce stable income and inflation protection over the long term. These characteristics are a good match for our clients' liabilities and help manage overall portfolio volatility.

We invest in global infrastructure directly, as co-investors alongside strategic partners, and through external fund relationships. Our portfolio is diversified by geography, sector, development stage and contractual frameworks, which reduces our exposure to any single market or regulatory regime.

As of December 31, 2018, the market value of the infrastructure investments managed by IMCO was \$5.6 billion.

Drivers

The transportation and energy sectors performed well in 2018, driven by low oil prices and access to attractive financing. The infrastructure assets managed by IMCO benefited largely from improved operating performance, as well as from some strategic dispositions and gains in externally managed funds.

IMCO continued to monitor emerging risks related to new technology, mobility disruption and tightening emissions regulations imposed across multiple industries.

Select 2018 Transactions

Bioenergy Infrastructure Group

Through a co-investment with a U.K.-based infrastructure manager, IMCO acquired an interest in Bioenergy Infrastructure Group, a U.K.-based energy-from-waste aggregation platform.

euNetworks

Through a co-investment with a U.S.-based infrastructure manager, IMCO acquired an interest in euNetworks, a leading pan-European fibre network provider.

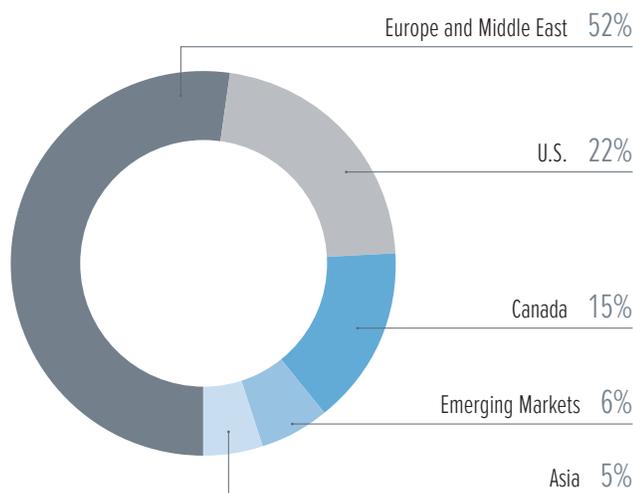
Canadian Hydroelectric Portfolio

IMCO led a consortium of buyers that acquired a 25-percent stake in a 413-megawatt Canadian hydroelectric portfolio from Brookfield Renewable Partners.

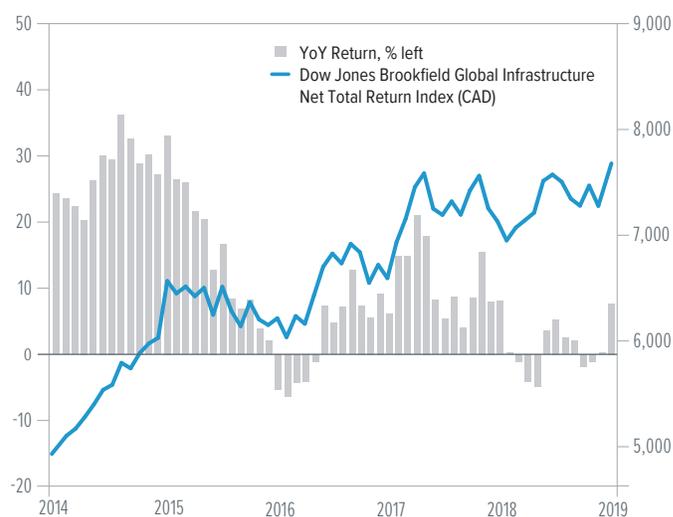
CLH Group

IMCO increased its stake in Spanish refined oil logistics operator CLH Group through a follow-on investment alongside another large European institutional investor.

Infrastructure Distribution by Region



Dow Jones Brookfield Global Infrastructure Net Total Return Index (CAD)



Public infrastructure firms broadly reflected the conditions in global equity markets. Copyright © 2019 S&P Dow Jones Indices LLC. All rights reserved.

PRIVATE EQUITY

The private equity market has experienced strong returns since the 2008 global financial crisis, as activity and company valuations have climbed. As private market returns have been consistently superior to public equities, investor interest in private companies has grown. IMCO seeks to provide clients with long-term capital appreciation through its private equity investments. We aim to generate higher risk-adjusted returns than we could obtain for clients in the public markets.

We invest in private companies through co-investments and funds, primarily targeting the industrial, consumer, technology/ media/telecom and healthcare sectors. The strategy uses a dynamic approach that could increase concentration to sectors, geographies or strategies in some periods, or limit our allocation to private equity in periods when opportunities are less rewarding.

As of December 31, 2018, the market value of the private equity investments managed by IMCO was \$2 billion.

Drivers

Valuation increases in almost all holdings, coupled with several strategic dispositions, had a positive impact on private equity investments in 2018. Investments in consumer products, healthcare and industrials performed well, as did the co-investment program.

Select 2018 Transactions

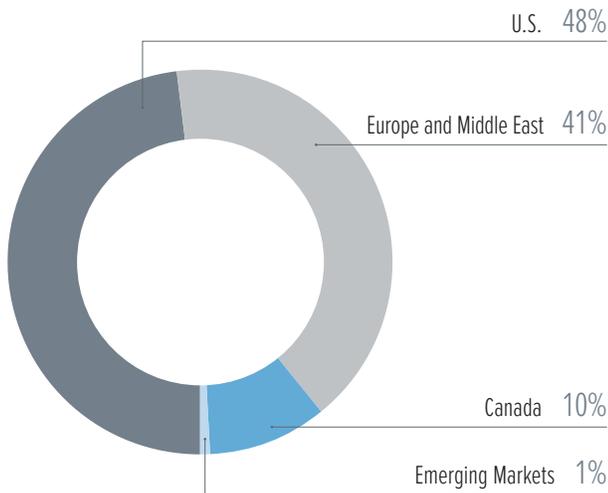
Pacifico Aquaculture

IMCO acquired a stake in a sustainable marine aquaculture operation through its relationship with a U.S.-based private equity firm. This includes the world's first and only ocean-raised striped bass farm, based in Mexico.

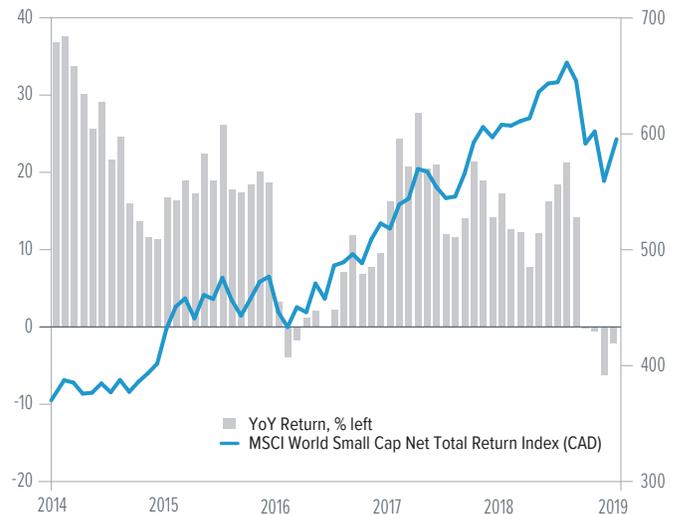
Paris Presents

IMCO sold its stake in a high-growth consumer products company. During the period of ownership, Paris Presents expanded its sales and global distribution network.

Private Equity Distribution by Region



MSCI World Small Cap Net Total Return Index (CAD)



Small cap public equities have similar exposures as private equity and can provide indicators of how underlying risk factors drive performance in private assets. In 2018, small cap firms generally tracked to moves in the broader equity market.

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Responsible Investing

At IMCO we believe that incorporating environmental, social and governance (ESG) factors in the investment process helps to better manage risk and contribute to long-term performance. Our view is that ESG factors must be considered across asset classes where relevant. We support ESG initiatives that seek improved corporate disclosure, which in turn empowers long-term investors to make more effective evaluations of risk and return.

Why are ESG factors important?

- Climate change: severe physical risks to business, such as extreme weather, as well as regulatory risks and uncertainty, can disrupt operations and impact financial returns.
- Health and safety: the health and well-being of a company's employees and customers can impact financial returns and reputation.
- Board diversity: the composition of directors on company boards, including diversity of skills, backgrounds and gender, can improve or negatively impact governance.
- Executive compensation: planned compensation and rewards for corporate leaders reflects governance practices and affects performance.

IMCO made progress on various responsible investing priorities in 2018. A Responsible Investing Policy was approved by the Board of Directors in December 2018. The policy defines key commitments and guidelines that enable IMCO to effectively incorporate ESG factors into investment management.

We are also taking steps to implement a new IMCO proxy voting approach, based on the *ISS Sustainability Proxy Voting Guidelines*, starting in 2019. Having a common IMCO approach to proxy voting will enable us to better align proxy voting with investment strategy.

Additional responsible investing initiatives included the following:

- IMCO signed the *2018 Global Investor Statement to Governments on Climate Change* sent to G7 leaders ahead of their Summit in June. We supported the statement because of the importance to IMCO as a long-term investor to have a predictable long-term global regulatory framework to address climate change.
- IMCO hosted a Principles for Responsible Investment (PRI) Infrastructure Forum in Toronto in June 2018 with speakers from Canadian and international investment managers. We support collaboration and knowledge-sharing among PRI signatories, which number more than 1,400 global investors in total.
- IMCO became a member of the Canadian Coalition for Good Governance (CCGG), which promotes good governance practices at Canadian public companies and an improved regulatory environment to better align the interests of boards and management with those of their shareholders. We support CCGG's direct engagement with Canadian public companies and CCGG's public policy submissions, guidance and research.
- IMCO's Chair, David Leith, and CEO, Bert Clark, are members of the 30% Club Canada and IMCO supports greater representation of women on corporate boards of directors. IMCO signed the *30% Club Investor Group Statement of Intent* published in September 2017, in which Canada's largest institutional investors called for 30% representation of women on boards and executive management teams of S&P/TSX composite index companies by 2022. In 2018, the group reiterated its call to action and urged decision-makers in Canada's boardrooms to intensify their efforts to improve female representation at the board and senior management levels.

Risk Management

IMCO recognizes the need for superior capabilities in the governance, identification, assessment, prioritization, management, reporting and monitoring of risk, both at the enterprise level and in clients' investment portfolios.

We embed risk management practices within the strategic, operational and financial planning processes, and seek to focus discussion on what matters most: risks that may impede business priorities. Regular risk discussions take place across all levels and departments, and risks are proactively identified and managed.

IMCO's Risk Management function is led by the Chief Risk Officer and organized into three streams:

- Enterprise Risk Management (ERM);
- Investment Risk Management; and
- Responsible Investing

IMCO's Risk Management Framework

IMCO has established a Risk Management Framework comprising six main pillars. Within each of these pillars are various risk processes, methodologies, tools and enablers that inform and guide us in the adoption of practical, sound and effective risk management practices.

1. Risk Governance

IMCO has established governing rules, committees, structures and processes to effectively manage risk. These include board and management committees where risks are formally reviewed and discussed; a Risk Management function in development; and policies, protocols and guidelines.

2. Risk Strategy and Risk Appetite

IMCO's strategy and approach to managing material risks is shaped by the priorities of the organization, and risk appetite will dictate how much risk IMCO is willing to accept in the pursuit of these priorities. Risk appetite statements provide clarity on the type and level of risk IMCO is willing to accept, and risk appetite is then put into practice through setting risk tolerances and limits and monitoring indicators.

3. Identification and Assessment

We apply several methodologies, tools and processes to identify and assess inherent and emerging risks in various categories: investment risk, operational risk, strategic risk and reputational risk.

- **Investment Risk:** A variety of risk factors influence the value of investment assets, including market risks (such as real rates, inflation, credit spreads, currency, equity returns, and commodity prices), non-market specific risks, portfolio construction, counterparty risk, concentration risk, liquidity risk, and environmental, social and governance (ESG) risks. Since our clients have long-term liabilities, it is also important to understand and be vigilant about the risks associated with a mismatch between assets and liabilities (i.e. surplus risk).
- **Operational Risk:** Operational risks may arise as result of inadequate or failed internal processes, people and systems or from external events. Such risks can be further divided into sub-categories such as: modeling, human resources, compliance, data management, fiduciary, execution, delivery and process management, client onboarding and integration, cybersecurity, and information technology.
- **Strategic Risk:** IMCO manages strategic risks that may arise as result of ineffective development and implementation of corporate strategies, substandard business decisions, inadequate resource allocation or changes in the external business environment.
- **Reputational Risk:** Developing and maintaining a strong reputation is a key ingredient in achieving our business objectives and ultimately delivering sustained returns for our clients. Any one event can influence reputation and have a detrimental impact on organizational profile and perception. IMCO will establish robust and effective controls and protocols to help manage and preserve reputational integrity.

4. Monitoring

Perspectives across all levels in IMCO are integrated to obtain a holistic understanding and prioritization of risks, to determine risk responses, and to monitor and report on risk management activities.

5. Risk Systems and Risk Data

IMCO ensures that it has appropriate and integrated applications, systems, tools and technology in place, and that the appropriate amount and type of risk data is captured to help drive risk-informed decision making. Distinct processes and related technology applications are used including governance and oversight of enterprise-level risks and controls; and risk modelling and measurement.

Timely access to high-quality data is crucial, especially for the frequent and detailed analysis, monitoring and reporting needed to manage investment risk. Risk management tools such as indicators and simulations have little meaning if the integrity of the underlying data is compromised.

6. People and Culture

We are working to embed risk management across the organization, with a focus on learning and awareness, and continuous improvement. IMCO's various risk management teams seek to build strong collaborative relationships and provide a supportive yet independent challenge function to decision making.

Enterprise Risk Management

Enterprise Risk Management (ERM) aims to provide an aggregated and integrated view of all the risks that IMCO is exposed to, allowing management and the Board to ensure that the total level of risk IMCO is exposed to is within risk appetite, and that each risk category or type is within limits.

The ERM team seeks practical and effective ways to help the organization identify, understand, assess, prioritize, manage, govern, monitor and report risks that may impede the achievement of IMCO's strategy and business objectives.

To formulate a meaningful and aggregate perspective of IMCO's risk profile, ERM activities are integrated into the strategic planning process and engage all areas and levels of the organization through a 'top-down' (i.e., Board, executive team) and 'bottom-up' (i.e., departmental) approach.

IMCO also has a Business Continuity Management program to ensure operational resiliency in the event of unplanned events, and a Corporate Insurance program to protect itself from events that may lead to potential losses.

ERM plays a leading role in fostering a risk-aware culture, through risk training and role modelling, facilitating / participating in formal risk discussions and processes at all levels of the organization, helping articulate and monitor adherence to risk appetite, and developing risk policies, procedures, key risk indicators, and risk reporting.

Investment Risk Management

We seek to optimize risk-adjusted returns, prevent concentrations of risk that exceed pre-established risk limits, and deliver quality and meaningful risk analysis and discussions to inform decision making and ensure compliance with client mandates.

IMCO assesses investment risk from several perspectives, including funded status; liquidity risk; concentration risk; and stress scenario risk. IMCO's investment risk management group has two distinct roles: one is to support the investment team by providing an independent risk review of each asset class and monitor compliance, and the other is to provide investment risk research.

1. Asset Class Risk Support:

In 2019, IMCO will develop an asset class risk support team, responsible for supporting investment team decision-making through independent risk review. This team will identify, assess and measure risks (such as idiosyncratic risk, market risk, credit risk, liquidity risk, concentration risk) per asset class. It will also focus on risk-adjusted performance monitoring and reporting, liquidity impacts and mandate/trade compliance relevant to the asset class, and scenario and stress testing.

The team will independently review deal decisions and due diligence, provide independent insight on portfolio and concentration impacts, and independently review new strategies, products and markets.

2. Investment Risk Research:

The investment risk research team conducts research and offers thought leadership to colleagues in the following areas:

- Robust risk methods, systems, data and quality;
- Portfolio risk measurement methodology, including scenarios under normal and stressed conditions (stress testing);
- Policies, frameworks, governing principles and procedures in areas such as benchmarks, risk-adjusted performance, investment risk monitoring and measurement, investment risk attribution, and risk budgeting;
- Unbiased portfolio construction risk support and model validation;
- Client reporting on investment risks.

This team is adopting several common risk applications to identify, measure and monitor client portfolio risks and enable standard client reporting.

CORPORATE GOVERNANCE

The Role of Governance

IMCO seeks to ensure that its investment decisions are prudent and in the best interests of our clients. A strong governance structure is critical to these goals. Sound governance helps us effectively invest, manage risk, and maintain overall confidence among clients and other key stakeholders. Our investment and operational activities are led by an experienced executive team and overseen by a highly qualified, professional Board of Directors.

When IMCO was being formed, independence was a fundamental principle to which all parties agreed. This includes an arm's-length relationship with government. Our professional and independent Board of Directors (the Board) is committed to high governance standards in the oversight of IMCO's investment and operational activities.

BOARD OF DIRECTORS

Mandate

Our Board of Directors is responsible for the stewardship of IMCO and is required to manage or supervise the activities and affairs of IMCO in accordance with the IMCO Act, as well as the IMCO By-Law. Board members are generally subject to and oversee a number of policies. Those policies include:

- Anti-Terrorist Financing, Anti-Money Laundering, Economic Sanctions & Anti-Corruption
- Business Continuity Management
- Code of Conduct
- Conflicts of Interest
- Enterprise Risk Management
- Fair Allocation of Investment Opportunities
- Investment Approvals Policy
- Personal Trading
- Related Party Transactions
- Whistleblower Policy
- Workplace Violence, Discrimination and Harassment Policy

Board Composition

IMCO's initial Board of Directors was established on July 1, 2016, and consists of seven members:

- three directors appointed by the Minister of Finance (the "Minister"),

- two directors appointed by OPB, and
- two directors appointed by WSIB.

The Board has expertise in investment management, risk management, finance, corporate governance, accounting, law and other professional areas. No IMCO officer or employee sits on the Board.

Once the initial Board is dissolved, which will be the earlier of July 1, 2019, and the day the subsequent Board is constituted, that subsequent Board must consist of at least 7 and not more than 11 directors. For the subsequent Board, at least one and not more than three directors are to be appointed by the Minister. The remaining Board members are elected pursuant to section 13 of the IMCO Act, which provides that a nominating committee of the Board will propose candidates who may be elected to the Board by a majority of the votes cast by the Members, pursuant to a process set out in the IMCO by-laws.

Oversight and Committees

The Board has generally delegated to management the responsibility for IMCO's day-to-day operations with appropriate oversight from the Board and/or Board committees.

To assist the Board in fulfilling its mandate, it delegates certain matters to three committees: Finance & Audit, Nominating & Governance, and Human Resources & Compensation.

The **Finance & Audit Committee** is responsible for: (a) overseeing IMCO's financial statements and financial disclosures, internal controls (including reviewing IMCO's fraud prevention and detection policies and procedures and overseeing IMCO's information technology systems) and controls over management information systems; (b) monitoring the principal risks of IMCO's business related to finance and audit matters and overseeing the implementation of appropriate systems to manage these risks, including overseeing the appointment of an external auditor and an internal auditor;

(c) overseeing IMCO's compliance with applicable laws and regulations and its compliance with all significant policies and procedures approved by the Board in relation to finance and audit matters; and (d) reviewing IMCO's annual budget, including the budget for capital expenditures and staffing, and IMCO's annual business plan, with IMCO's management.

Colleen McMorow is Chair of the committee. Other members include Hugh Mackenzie, Robert Bertram and David Leith (*ex-officio*).

The **Nominating & Governance Committee** is responsible for: (a) the Board nomination process and succession planning, including reviewing the Board skills/needs matrix; (b) overseeing the effectiveness of IMCO's corporate governance, including administering and reviewing the results of the Board effectiveness assessment and the director self-assessment and reviewing committee membership; (c) monitoring the principal risks of IMCO's business related to corporate governance matters and overseeing the implementation of appropriate systems to manage these risks; (d) overseeing IMCO's compliance with applicable laws and regulations and its compliance with all significant policies and procedures approved by the Board in relation to governance matters, including reviewing the quarterly compliance certificate given to IMCO's clients; and (e) overseeing the orientation and continuing education of the Board.

Vincenza Sera is Chair of the committee. Other members include Robert Bertram, Eric Tripp and David Leith (*ex-officio*).

The **Human Resources & Compensation Committee** is responsible for (a) overseeing IMCO's human resources and compensation matters, including annually reviewing IMCO's overall talent management strategy and the organizational structure of IMCO's management, and annually reviewing the corporate goals and objectives that IMCO's CEO and other executive officers are responsible for meeting; (b) monitoring the principal risks of IMCO's business related to human resources and compensation matters and overseeing the implementation of appropriate systems to manage these risks, including annually reviewing IMCO's overall compensation philosophy; (c) reviewing and discussing IMCO's major human resources risk exposures (including in relation to health and safety) with IMCO's management; and (d) overseeing IMCO's compliance with applicable laws and regulations and its compliance with all significant policies and procedures approved by the Board from time to time, each in relation to human resources and compensation matters.

Jacqueline Moss is Chair of the committee. Other members include Hugh Mackenzie, Eric Tripp and David Leith (*ex-officio*).

Requirements and Core Competencies

IMCO's board members are expected to meet certain requirements and possess a set of personal attributes that enable them to effectively fulfill their duties. The expectation is that the majority will have investment management experience and expertise as part of their core skills.

IMCO directors are required to:

- comply with the IMCO Act, its regulations and by-laws;
- exercise the care, diligence and skill in the investment of client assets that a person of ordinary prudence would exercise in dealing with the property of another person; and
- use in the investment of client assets all relevant knowledge and skill that they possess or, by reason of their profession, business or calling, ought to possess.

In addition, the IMCO By-Law stipulates certain attributes/core competencies that each individual director must possess, and that the board as a whole must possess. Pursuant to the IMCO By-Law, each director must demonstrate the following personal attributes and core competencies:

- a high standard of personal values and ethics, including integrity, accountability, commitment and courage;
- excellent business and professional judgment;
- ability to think strategically and problem solve;
- demonstrated mature and cooperative leadership;
- strong understanding of fiduciary duty;
- support for defined benefit plans;
- strong communication skills, including the ability to listen and speak his/her mind independently and respectfully;
- willingness and ability to commit the required time to the role and actively participate in meetings;
- commitment to ongoing training and education for board skills and duties; and
- financial and investment competency/literacy.

As a whole, the Board is required to demonstrate the following core and ancillary skills. The matrix below details which director(s) satisfy each item.

EXPERIENCE AND EXPERTISE		David Leith (Chair)	Robert Bertram	Hugh Mackenzie	Colleen McMorrow	Jacqueline Moss	Vincenza Sera	Eric Tripp
Investment Management	Public Markets, including derivatives	•	•					•
	Private Markets	•	•		•		•	
	Asset Allocation		•	•			•	•
	Investment Strategy	•	•	•				•
	Pension/Insurance Liability Management		•	•				
CORE SKILLS	Risk Management (including experience in investment and enterprise risk management)	•	•		•		•	•
	Finance/Accounting/Audit (including experience in the development of, and/or oversight over, internal controls)	•	•		•		•	•
	Public Sector Experience/Government Relations		•	•				
	Senior Leadership with a significant pension plan, insurance company, financial services institution or investment organization	•	•			•	•	•
	Human Resources/Compensation		•	•	•	•		•
	Corporate Governance	•	•	•	•	•	•	•
	Legal/Regulatory					•		
ANCILLARY SKILLS	Senior Business/Organizational Management Experience	•	•		•	•	•	•
	Strategic Planning	•	•	•	•	•	•	•
	Client Relations/Service Delivery	•			•			•

Gender Diversity

IMCO believes that embracing diversity and inclusion enhances corporate governance. This is reflected in the organization's Board and executive team structure. IMCO's current Board has three women (which is required by the IMCO by-laws) and 25 percent of our executive team composed of women.

Director Development

Continuing education for all directors is a key focus for the Board. IMCO's management provides, from time to time, presentations focused on the business. In addition, relevant education sessions with external providers are held.

In 2018, education sessions covered the following topics: client portfolios, corporate strategic matters, investment results and risks, development of IMCO investment strategies, IMCO operational matters, and public equity strategies.

Board Evaluation

The Board has established an annual process for evaluating its performance through the Nominating and Governance Committee. This process includes evaluating the performance of the Chair, board committees, and the contributions of individual directors. Assessments are conducted through surveys, and director interviews done by the Chair of the Board and the Chair of the Nominating and Governance Committee. A final report is provided to the Board by the Chair of the Nominating and Governance Committee.

2018 Activities

The Board meets on a regular basis, not less than once each quarter. There were seven Board meetings 2018. In addition, there were four Finance and Audit Committee meetings, four Human Resources and Compensation Committee meetings, and three Nominating and Governance Committee meetings.

The following highlights the key actions and decisions of IMCO's Board in 2018:

- Approved IMCO's 2017 audited financial statements.
- Reviewed current client asset class strategies.
- Approved IMCO's strategic framework.
- Approved lease for new corporate space.
- Reviewed and approved amendments to various IMCO corporate policies.
- Approved the Enterprise Risk Management Policy and the Business Continuity Management Policy.
- Reviewed and provided guidance on portfolio construction and research enhancements.
- Reviewed and provided guidance on IMCO's investment pool strategy.
- Reviewed and provided guidance on IMCO's draft five-year strategic plan and 2019 corporate objectives.
- Discussed IMCO's client development strategy, including process for new client on-boarding.
- Approved IMCO's five-year strategic plan and 2019 corporate objectives.
- Approved select investment transactions.
- Approved the selection of a new custodian for IMCO.
- Approved the appointment of IMCO's external auditors, Ernst & Young.

Board of Directors



David Leith

Mr. Leith spent over 25 years with CIBC World Markets, based in both Toronto and London, England and has extensive experience in debt and equity markets, corporate banking, government finance and mergers and acquisitions. Until February 2009, he was Deputy Chairman and Managing Director and head of CIBC World Markets' Investment, Corporate and Merchant Banking activities. Mr. Leith serves as Lead Director of Hudson's Bay Company, and served as a director of Yellow Pages Limited, from 2012 to 2018. From 2010 to 2017, he was the Chair of the Board of Directors of Manitoba Telecom Services Inc. He served as Special Advisor to the Federal Minister of Natural Resources on the restructuring of Atomic Energy of Canada Limited (AECL) from 2009 to 2011.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Chair, IMCO Board of Directors	7 of 7 meetings	
	Member, Finance and Audit Committee (<i>ex-officio</i>)	4 of 4 meetings	
	Member, Human Resources and Compensation Committee (<i>ex-officio</i>)	4 of 4 meetings	
	Member, Nominating and Governance Committee (<i>ex-officio</i>)	3 of 3 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$150,000 plus expenses	–	–



Robert Bertram, ICD.D

Mr. Bertram is the retired Executive Vice President, Investments of the Ontario Teachers' Pension Plan Board, a position he held from 1990 to December 2008. He led Ontario Teachers' investment program and had oversight of the pension fund's growth to \$108 billion from \$19 billion when it was established in 1990. Mr. Bertram is also a Fellow of the Institute of Corporate Directors and an Officer of the Order of Canada. He is a member of the Independent Review Committee for Strathbridge Capital funds, a director of the Strathbridge closed-end funds and a member of the Alaris Royalty Corp. Board of Directors. He is also a director of several not-for-profit boards and societies.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Director, IMCO Board of Directors	7 of 7 meetings	
	Member, Finance and Audit Committee	4 of 4 meetings	
	Member, Nominating and Governance Committee	3 of 3 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	–



Hugh Mackenzie, ICD.D

Mr. Mackenzie is principal in his own economic consulting business and a Research Associate of the Canadian Centre for Policy Alternatives. He has worked for over 40 years in the trade union and non-profit sectors, as well as in all three levels of government. He is past Chair of the Atkinson Charitable Foundation and was a member of the Ontario Teachers' Pension Plan Board from 2007 to 2014. Mr. Mackenzie is a member of the Institute of Corporate Directors. Mr. Mackenzie served on Ontario Pension Board's Board of Directors for almost 14 years and during that time served as Chair of its Pensions Committee as well as a member of its Investments Committee.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Director, IMCO Board of Directors	7 of 7 meetings	
	Member, Finance and Audit Committee	4 of 4 meetings	
	Member, Human Resources and Compensation Committee	4 of 4 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	–



Colleen McMorrow, FCPA, FCA

Ms. McMorrow retired as a senior Assurance Partner at Ernst & Young (EY) in 2016, following a 38-year career where she also served as Canadian leader of EY's Strategic Growth Markets and National Director, Entrepreneur of the Year Awards. Ms. McMorrow is an experienced director with a diverse portfolio of corporate public, private and not-for-profit boards where she serves as an independent director including Exco Technologies, Ether Capital, and Plan International Canada. In 2015, she was recognized by WXN as one of Canada's Most Powerful Top 100 Women as a Trailblazer and Trendsetter.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Director, IMCO Board of Directors	7 of 7 meetings	
	Chair, Finance and Audit Committee	4 of 4 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	\$10,000



Jacqueline Moss

Ms. Moss is a senior executive with over 20 years of business experience leading legal, human resources, and strategy and corporate development functions within a global publicly traded company. She has expertise in strategy development, executive compensation, talent management and succession planning, CEO performance measurement, and leading large, complex corporate legal transactions. She has strong knowledge of corporate governance, as a board member and as an executive presenting and reporting to a board. She has been a partner at a major Canadian law firm, and an executive vice president of CIBC. Ms. Moss is a member of the board for Minto Apartment REIT, where she is the chair of that board's nominating and governance committee. She was also recently appointed as a director for Ontario Health.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Director, IMCO Board of Directors	7 of 7 meetings	
	Chair, Human Resources and Compensation Committee	4 of 4 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	\$10,000



Vincenza Sera, ICD.D

Ms. Sera is an experienced corporate director who served on the board of the Ontario Pension Board (OPB) for 12 years, nine as Chair of the Board and Chair of OPB's Investments Committee (2007 – 2016). She is currently Chair of the Board of Dream Industrial REIT and a member of the boards of Equitable Bank, Dream Unlimited Corp and the Ontario Financing Authority. A former investment banker with more than 25 years' expertise in debt and equity markets, corporate finance, mergers and acquisitions and corporate governance, Ms. Sera's career has included senior positions with National Bank Financial, First Marathon Securities and CIBC.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Director, IMCO Board of Directors	6 of 7 meetings	
	Chair, Nominating and Governance Committee	3 of 3 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	\$10,000



Eric Tripp

Mr. Tripp was a capital markets and financial services executive with experience building and leading global investment and corporate banking, trading products and treasury operations businesses. From 2008 to 2014, he was the President of BMO Capital Markets. He served as a member of BMO Financial Group's Management Committee with responsibility for the bank's dealings with corporate, institutional and government clients. Mr. Tripp is an experienced director with a diverse governance profile, highlighted by current and past memberships on both corporate and not-for-profit boards including TSX Group and Michael Garron Hospital.

IMCO Board and Committee Appointments		2018 Attendance	
Current term to July 2019	Director, IMCO Board of Directors	7 of 7 meetings	
	Member, Human Resources and Compensation Committee	4 of 4 meetings	
	Member, Nominating and Governance Committee	3 of 3 meetings	
2018 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	—

Compensation Discussion & Analysis

At IMCO we are committed to our people and strive to create a culture that attracts, retains and inspires a world class workforce. We believe that all employees have an important contribution to make, both individually and as a team. We are committed to providing an environment where all employees are encouraged to reach their highest potential.

IMCO offers total rewards (salary, incentive pay, benefits and a defined benefit pension plan) that are competitive with the market and intended to support the strategic objectives and public mandate of the organization.

The Human Resources & Compensation Committee (HRCC) of the Board is responsible for annually reviewing IMCO's overall compensation philosophy, including its compensation, pension and other benefit plans and programs, and makes recommendations on these matters to the Board. The HRCC is supported by an independent external advisor, Hugessen Consulting. The advisor provides independent advice on executive compensation, the compensation framework and any recommendations on compensation made by management.

COMPENSATION PHILOSOPHY

IMCO's total compensation program is designed to:

- Be competitive to attract, retain and engage qualified talent to effectively execute on our mandate;
- Align with IMCO's public purpose;
- Reinforce and reflect IMCO's values, ensuring employees act ethically, professionally, and with integrity;
- Be perceived as fair and reasonable by both internal and external stakeholders;
- Reward for achieving both annual objectives and long-term performance, which promotes sustained long-term success; and
- Align with client and stakeholder interests.

IMCO's incentive plan is designed to:

- Be aligned with the public purpose (based on limited tolerance for downside risk, stability of returns, cost sensitivity, and long-term time horizon focus);
- Be competitive, while recognizing the distinct differences of IMCO compared to peers;
- Be flexible and simple to understand;
- Enable differentiation by individual contribution and performance;
- Reward not only what is done, but how it is accomplished; and
- Allow for the application of informed judgement where needed.

COMPENSATION PROGRAM

IMCO's flexible and simple compensation program consists of two elements: Salary, and Total Incentive Pay.





Salary

An individual's salary is based on job level, skills and experience and is intended to compensate for the fulfillment of core job responsibilities. Formal salary reviews are carried out in line with our performance management process and are informed by a market review of relevant comparable organizations.

Total Incentive Target

At the beginning of the year, employees receive a Total Incentive Target, which is a percentage of salary. Total Incentives are designed to be consistent with investment management market practice, and reward participants for both past and future results, tied to the experience of our clients. The Total Incentive Amount is based on a performance score that takes into consideration both IMCO corporate and individual performance against predetermined criteria. The Total Incentive Amount may pay out in either an Annual Cash Award, or an Annual Cash Award plus a Deferred Cash Award, depending on eligible employee level.

The Annual Cash Award is paid out in cash after the end of the fiscal year. For select employees at mid- and senior levels, a portion of the Total Incentive Award is deferred over a period of three years (Deferred Cash Award). Employees receive one third of the award in the first, second and third years of the

grant date. During the deferral period, the value of the award will fluctuate with the value of IMCO's total fund performance. This structure is intended to promote longer-term alignment with the organization and support retention.

Performance Framework

IMCO has designed and implemented a performance framework that differentiates individual performance related to specific performance objectives, as well as consistent behaviours and values. It also recognizes overall corporate performance, both in terms of investment performance and corporate objectives. IMCO management determines the personal factor for staff below the executive level and the HRCC and Board determine the corporate factor as well as the personal factor for the executive team. The two factors are then multiplied to come up with the overall performance score for each person.

EXECUTIVE COMPENSATION

The HR & Compensation Committee reviewed the 2018 objectives, performance evaluation and total compensation for the President & CEO and recommended them to the Board for approval. The HRCC also reviewed compensation and performance evaluation for the executive team and key senior employees, including the named executives listed below.

Name and Position	Year	Base Salary	Annual Cash Incentive	Deferred Cash Incentive	Pension Contribution	All Other Compensation	Total Compensation
Bert Clark, President & CEO	2018	502,121.95	602,546.34	602,546.34	47,795.26	20,678.85	1,775,688.74
Jean Michel, Chief Investment Officer*	2018	258,726.95	455,230.07	455,230.07	24,972.97	10,071.26	1,204,231.32
Saskia Goedhart, Chief Risk Officer**	2018	402,368.29	775,000.00		38,499.84	14,529.99	1,230,398.12
Michel Paradis, Chief Financial Officer	2018	356,506.54	190,909.25	190,909.25	33,428.16	12,833.82	784,587.02
Kevin LeBlanc, Chief Operation Officer***	2018	70,862.41	36,139.83	36,139.83	6,746.33	5,347.77	155,236.17

* J. Michel joined IMCO in June, 2018.

** S. Goedhart joined IMCO in February, 2018. As a transitional provision, and in accordance with her employment contract, only an annual cash incentive was awarded. Ms. Goedhart will move to the compensation framework once contractual obligations are met.

*** K. LeBlanc joined IMCO in October, 2018.

FINANCIAL STATEMENTS

Independent auditor's report

To the Board of Directors of
Investment Management Corporation of Ontario

Opinion

We have audited the financial statements of **Investment Management Corporation of Ontario** ("IMCO" or the "Corporation"), which comprise the statement of financial position as at December 31, 2018, and the statement of net income, statement of changes in members' surplus, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation'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 the Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 the Corporation'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 the Corporation'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 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 the Corporation to cease to continue as a going concern.
- ▮ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 25, 2019

Statement of financial position

As at December 31

	2018 \$	2017 \$
Assets		
Cash (note 4)	13,646,744	9,938,498
Accounts receivable (note 4)	15,400,825	6,096,308
HST receivable	—	766,395
Prepaid expenses	711,770	487,304
Capital assets, net (note 8)	1,058,272	1,500,647
Total assets	30,817,611	18,789,152
Liabilities and members' surplus		
Accounts payable and accrued liabilities (note 4)	30,292,377	17,877,948
HST payable	525,234	526,410
Deferred income	—	384,794
Total liabilities	30,817,611	18,789,152
Commitments (note 6)		
Members' surplus	—	—
Total liabilities and members' surplus	30,817,611	18,789,152

See accompanying notes

On behalf of the Board:

(signed)

David G. Leith

Director

(signed)

Colleen McMorrow

Director

Statement of net income

For the years ended

	December 31, 2018 \$	December 31, 2017 \$
Operating expenses		
Salaries and employee benefits	44,153,034	19,111,955
Investment management costs	10,227,003	3,074,478
Administrative	3,430,089	336,222
Pension	3,106,792	1,088,930
Facilities	3,038,042	1,325,685
Professional fees	2,325,881	2,215,288
Travel and promotion	1,261,987	658,421
Amortization on capital assets <i>(note 8)</i>	569,992	221,438
Insurance	389,597	295,487
Foreign exchange loss	117,154	66,525
Other	2,007	40,975
	68,621,578	28,435,404
Recoveries and other income		
Recovery of operating costs from members	68,242,716	29,638,870
Interest income on deposits	378,862	17,383
	68,621,578	29,656,253
Net income for the year	—	1,220,849

See accompanying notes

Statement of changes in members' surplus

	OPB \$	WSIB \$	Total \$
For the year ended December 31, 2018			
Balance, beginning of year	—	—	—
Net income for the year	—	—	—
Balance, end of year	—	—	—
For the year ended December 31, 2017			
Balance, beginning of year	—	(1,220,849)	(1,220,849)
Net income for the year	—	1,220,849	1,220,849
Balance, end of year	—	—	—

See accompanying notes

Statement of cash flows

For the years ended

	December 31, 2018 \$	December 31, 2017 \$
Operating activities		
Net income for the year	—	1,220,849
Add (deduct) items not affecting cash		
Amortization on capital assets <i>(note 8)</i>	569,992	221,438
Net change in non-cash working capital balances related to operations		
Change in accounts receivable	(9,304,517)	(5,910,030)
Change in accounts payable and accrued liabilities	12,414,429	17,063,974
Change in other	155,959	(610,100)
Cash provided by operating activities	3,835,863	11,986,131
Investing activities		
Purchase of capital assets <i>(note 8)</i>	(127,617)	(1,722,085)
Cash used in investing activities	(127,617)	(1,722,085)
Financing activities		
Repayment of promissory notes <i>(note 5)</i>	—	(1,463,706)
Cash used in financing activities	—	(1,463,706)
Net increase in cash during the year	3,708,246	8,800,340
Cash, beginning of year	9,938,498	1,138,158
Cash, end of year	13,646,744	9,938,498

See accompanying notes

Notes to financial statements

DECEMBER 31, 2018

1. Nature of operations

Investment Management Corporation of Ontario (in French, Société ontarienne de gestion des placements) was incorporated as a not-for-profit corporation on July 1, 2016 by proclamation of the *Investment Management Corporation of Ontario Act, 2015*. IMCO was established as a non-share corporation to enable Ontario's Broader Public Sector ("BPS") organizations to lessen costs and increase returns by pooling their assets. Pooling of assets is expected to lower administrative costs, which will help improve return on investments. IMCO is headquartered in Toronto, Ontario, Canada.

The founding members and initial clients of IMCO are the Ontario Pension Board ("OPB") and the Workplace Safety and Insurance Board ("WSIB") (collectively, the "Founding Members" or "Clients"). OPB is the administrator of the Public Service Pension Plan ("PSPP" or the "Plan"), a major defined benefit pension plan sponsored by the Government of Ontario. PSPP membership is made up of employees of the provincial government and its agencies, boards, and commissions. WSIB is an independent agency, consisting of Insurance Fund, Employees' Pension Plan and Loss of Retirement Income Fund, that administers compensation and no-fault insurance for Ontario workplaces. IMCO commenced commercial operations in July 2017 and currently provides investment management and advisory services to the Clients on a full cost recovery basis, without profit.

Participation of BPS organizations to receive IMCO's services is voluntary and Clients of IMCO will retain responsibility for determining how their assets are invested via provision of individualized Strategic Asset Allocations (i.e. asset mix) and other specifications as outlined in their respective Investment Management Agreements.

The Clients agreed to a cost recovery methodology, which ensures the continuous operations of IMCO. Accordingly, these financial statements have been prepared based on accounting principles applicable to a going concern, which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. IMCO allocates to and recovers all its operational costs from the Clients based on the approved cost allocation principles outlined in the Implementation and Support Agreement.

2. Basis of presentation

(a) Statement of compliance

These financial statements of the Corporation have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issuance by the Board of Directors on February 25, 2019.

(b) Use of estimates and judgments

The preparation of the financial statements requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgments are made based on information available as of the date of issuance of the financial statements. Accordingly, although actual results may differ from these amounts, the differences are not expected to be material.

3. Summary of significant accounting policies

The following is a summary of the significant accounting policies followed by management of the Corporation in the preparation of these financial statements.

(a) Financial instruments

Effective January 1, 2018, the Corporation has adopted IFRS 9 – *Financial Instruments* (“IFRS 9”) replacing IAS 39 – *Financial Instruments*. IFRS 9 provides a new approach for the classification of financial assets, which shall be based on the cash flow characteristics of the asset and the business model of the portfolio in which the asset is held.

In accordance with IFRS 9, financial instruments may be designated as either held at fair value through profit or loss (“FVTPL”) or amortized cost. All financial instruments are initially measured at the transacted value. After initial recognition, financial instruments classified as FVTPL are measured at fair value. Changes in fair value of financial instruments are reflected in net income. All other financial instruments are measured at amortized cost.

Financial instruments included in the Corporation’s accounts have the following classifications:

- ▮ All receivables are classified at amortized cost.
- ▮ All payables, accrued liabilities and deferred income are classified at amortized cost.

(b) Prepaid expenses

Prepaid expenses primarily consist of prepaid insurance, travel and security deposits.

(c) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Furniture and fixtures	10 years
Leasehold improvements	Term of lease

(d) Employee benefits

(i) Defined benefit plan

The employees of the Corporation participate in the Plan, which is a multi-employer contributory defined benefit pension plan in accordance with the *Public Service Pension Act*, 1990. OPB administers the Plan, including payment of pension benefits to employees. The Province of Ontario is the sole sponsor (the “Sponsor”) of the Plan. This Plan is accounted for as a defined contribution plan because insufficient information is provided to the Corporation or otherwise available for the Corporation to apply defined benefit plan accounting to this pension plan.

The Plan Sponsor is responsible for ensuring that the pension plan is financially viable. Any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Corporation. The Corporation is not exposed to any liability to the Plan for other entities’ obligations under the terms and conditions of the Plan.

In addition, there is no agreed allocation of a deficit or surplus on wind-up or withdrawal by the Corporation from the Plan. Payments made to the Plan are recognized as an expense when employees have rendered the service entitling them to the contributions. Information on the level of participation of the Corporation in the Plan compared with other participating entities is not available. The Corporation’s contributions are disclosed in the Statement of net income under Pension expense. The expected contributions for the Plan for fiscal 2019 are not available.

(ii) Incentive cash award plan

The Corporation provides eligible employees with a cash award (Short-Term Incentive or “STI”). Certain employees are also eligible for a deferred cash award (Long-Term Incentive or “LTI”). The STI award is accrued on an annual basis and paid out in the subsequent year. LTI is accrued for eligible employees on a graded vesting basis in the year of performance and over the following three-year period. Each LTI award vests and is paid out in three equal installments over the subsequent three-year period.

(e) Functional currency

All figures presented in the financial statements and note disclosures to the financial statements are reflected in Canadian dollars, which is the functional currency of the Corporation.

(f) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the exchange rates prevailing at the dates of the transactions. The monetary assets and liabilities denominated in foreign currencies are translated at the rates in effect at year-end.

(g) Income taxes

IMCO is a not-for-profit corporation without share capital and, accordingly, no provision for income taxes has been recorded in these financial statements.

4. Related party transactions

As at December 31, 2018, included in Cash and Accounts payable and accrued liabilities is an amount of \$3,773,305 (2017 – \$4,168,031) relating to agency fees collected but not yet billed by external vendors.

As at December 31, 2018, of the total Accounts receivable balance, the amount pertaining to the recoverable operational expense totals \$13,371,431 (2017 – \$2,936,400) and is due from or payable by the Clients for cost recoveries, including HST. The remaining portion relates to amounts receivable for agency fees paid on behalf of the Clients.

As an agent, IMCO administers external management fees, custodian fees, and other investment related fees pertaining to the assets managed on behalf of the Clients. The contracts relating to these fees are with the Clients, and therefore not liabilities of the Corporation. These fees are collected from the Clients, and subsequently paid to external vendors upon receipt of billings.

	2018 \$	2017 \$
Agency fees collected from members	207,169,327	106,269,036
Agency fees paid or payable on behalf of members		
Investment management fees	192,889,084	95,365,364
Custodial and other investment related fees	14,280,243	10,903,672
	207,169,327	106,269,036

OPB administered payroll and benefits for IMCO employees during 2018 and did not charge IMCO for providing these services. Starting in 2019, OPB no longer administers payroll and benefits for IMCO employees.

OPB administers the PSPP, in which all IMCO employees participate. In relation to this service, IMCO remits to OPB the employee contributions and employer match portion. Work is underway between OPB, WSIB, IMCO, and the Financial Services Commission of Ontario (“FSCO”) to determine whether the legacy WSIB employees who joined IMCO in 2017 have the option of transferring their WSIB pension credits into the PSPP. As at December 31, 2018, FSCO had not approved the potential transfer of pension credits for the affected employees. After a decision is made by FSCO, IMCO will determine any impact regarding its pension obligation.

Certain legacy OPB and WSIB employees, who transferred to IMCO, were eligible for banked vacation at their previous employer. The legacy employees who joined IMCO in 2017 were given a six-month period, from their start date, to decide whether to receive the cash value of their banked vacation or carry it forward at IMCO. The six-month period expired in January 2018 and the obligation to employees who chose to carry forward their banked vacation was assumed by IMCO. This obligation was accrued as a liability with an offset to a fixed receivable from OPB and WSIB. The value of the liability may change due to changes in the base compensation of the associated employees. If the liability relating to an employee is greater than the receivable amount, the difference is recovered from the Clients through the cost recovery process. The liability is paid out when the employee leaves IMCO. As the liability is settled with employees over time, a recovery is made from the clients, thereby reducing the receivable balance.

Remuneration of senior management and directors is as follows:

	2018 \$	2017 \$
Key management personnel and directors	5,698,953	3,274,911

Notes 5 and 6 describe additional related party transactions.

5. Promissory notes with related parties

On July 27, 2016, IMCO entered into an agreement (“Funding Agreement”) with OPB and WSIB, which was amended on September 30, 2016, to fund IMCO’s operations during the start-up period. The Funding Agreement sets out the basis on which monies could be advanced from OPB and WSIB to IMCO on a loan basis through promissory notes during the start-up period. As at June 30, 2017, the OPB and WSIB promissory notes were closed out through set-off agreements. The Funding Agreement expired, and no new promissory notes were issued during the remainder of 2017 or thereafter as IMCO transitioned to a full cost recovery basis for sustaining operations.

6. Commitments

IMCO leases three office spaces, one of which is subleased from OPB and the other two are leased independently. All leases are classified as operating leases. Future payments associated with these lease commitments are as follows:

	Sublease from OPB \$	Operating leases \$	Total \$
2019	1,487,342	1,427,897	2,915,239
2020	—	1,236,900	1,236,900
	1,487,342	2,664,797	4,152,139

In 2018, IMCO entered into an arrangement to lease office space in 16 York. The lease commences in 2020.

7. Letter of credit

On July 19, 2017, a letter of credit was obtained from a financial institution with the ability to draw up to \$1,250,000 and is renewed automatically every six months. The letter of credit is used to guarantee the employee and employer contributions to the PSPP for six months. A fee of 0.475% per annum is charged on the face amount payable monthly. The current letter of credit expired on January 19, 2019 and was subsequently renewed for another six-month period with an expiry date of June 19, 2019.

On December 13, 2018, two letters of credit were obtained from a financial institution with the ability to draw up to \$436,500 and \$1,843,023, respectively. The two letters of credit were obtained for investment entities managed by IMCO on behalf of Clients. A fee of 0.475% per annum is charged for both letters of credit on the face amount payable monthly. The two letters of credit will expire on December 13, 2019.

As at December 31, 2018, there were no amounts drawn on any letters of credit.

8. Capital assets

Capital assets are comprised of the following:

	Furniture and fixtures \$	Leasehold improvements \$	Total \$
Cost			
Balance, at December 31, 2017	462,309	1,259,776	1,722,085
Additions	29,484	98,133	127,617
Balance, December 31, 2018	491,793	1,357,909	1,849,702
Accumulated amortization			
Balance, at December 31, 2017	22,933	198,505	221,438
Amortization expense	49,179	520,813	569,992
Balance, December 31, 2018	72,112	719,318	791,430
Net book value			
As at December 31, 2017	439,376	1,061,271	1,500,647
As at December 31, 2018	419,681	638,591	1,058,272

9. Financial risk management

The various risks that the Corporation is exposed to and the Corporation's policies and processes to measure and manage them are set out below:

(a) Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default of a counterparty on their obligation to the Corporation. The maximum exposure of the Corporation to credit risk is the carrying amount of the financial instruments.

(b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Corporation. The Corporation does not have significant exposure to interest rate risk.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation cannot meet a demand for cash or fund its obligations as they come due. The Corporation is entirely dependent upon support from its Clients to meet its obligations as they become due. The Corporation's management is responsible for ensuring adequate funds exist to support its various business functions. The Corporation manages its liquidity risk by forecasting cash flows and anticipated operating activities. Senior management is also actively involved in the review and approval of planned expenditures.

10. Future changes in accounting policies

(a) IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, which will replace the previous lease standard, IAS 17 – *Leases*, and related interpretations. The Corporation plans to adopt IFRS 16 using the modified retrospective approach with an initial application date of January 1, 2019. The new standard specifies a single accounting model for how leases are recognized, measured, presented and disclosed. Operating lease expenses will be replaced by a straight-line amortization expense on right of use assets recognized, and an interest expense based on the interest rate implicit in lease liabilities. Management has reviewed the impact of the new standard with respect to its existing operating leases and determined that it will not have a material impact in the year of transition. Adoption of the new standard may impact the disclosures regarding commitments in note 6.

Our Executive Management Team



Bert Clark
President & CEO



Michael F. Campbell
Executive Vice President,
Investments & Chief Strategic
Asset Allocation Officer



Gayle Fisher
Chief Human Resources Officer
& Head of Corporate Services



Allen Garson
General Counsel &
Corporate Secretary



Saskia Goedhart
Chief Risk Officer



Kevin Leblanc
Chief Operating Officer



Jean Michel
Chief Investment Officer



Michel J. Paradis
Chief Financial Officer

INVESTMENT MANAGEMENT CORPORATION OF ONTARIO

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