

2019

ANNUAL REPORT

INVESTMENT MANAGEMENT CORPORATION OF ONTARIO



ABOUT IMCO

- 2 Our Story
- 8 Report from the Chair
- 10 Report from the CEO

MANAGEMENT DISCUSSION & ANALYSIS

- 14 Investment Approach
- 16 Driving Client Value
- 18 2019 Accomplishments
- 20 Cost Management
- 23 Asset Pooling

INVESTMENT COMMENTARY

- 26 Investment Strategies
- 27 Markets Overview
- 28 Asset Class Breakdown
- 36 Responsible Investing
- 38 Risk Management

CORPORATE GOVERNANCE

- 44 The Role of Governance
- 48 Board of Directors
- 54 Compensation Discussion & Analysis

FINANCIAL STATEMENTS

- 58 Independent Auditor's Report

A NOTE ON OUR 2019 ANNUAL REPORT

Our annual report reflects commentary on IMCO's activities, and the conditions that affected the organization, up to December 31, 2019. This report does not provide analysis on the impact of the COVID-19 Pandemic, which emerged in the first quarter of 2020.

We acknowledge that the outlook for investors is currently challenging as the world's economies and markets have been severely disrupted. At the time of publication, we were engaged with doing our part in the worldwide effort against the spread of COVID-19 and preserving the safety of our employees, as well as our clients and business partners.

ABOUT IMCO



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’s 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.



We provide public-sector clients with investment management services including strong portfolio management, improved access to investments and superior risk management capabilities. These services are provided in a cost-effective way.

In July 2017, we began to manage funds on behalf of two clients. We can manage the assets of pension plans or investment funds on behalf of the following:

- An Ontario government agency;
- A corporation, with or without share capital, that is 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 Ontario government;
- A municipality in Ontario; and
- Any other entity prescribed by legislation.

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.

2019 HIGHLIGHTS

Assets under management grew to
\$70.3 BILLION
at Dec. 31, 2019.

\$6.8 BILLION in global
equities migrated to lower-cost
factor/index-based portfolios.

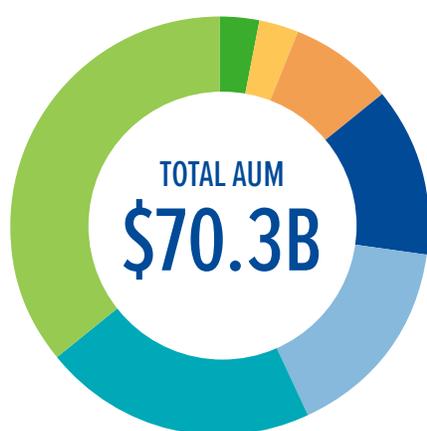
\$14 MILLION of net
cost savings in 2019, ahead
of business plan target.

Overall external manager
count reduced by **25%**.

IMCO AT-A-GLANCE

ASSETS UNDER MANAGEMENT BY ASSET CLASS

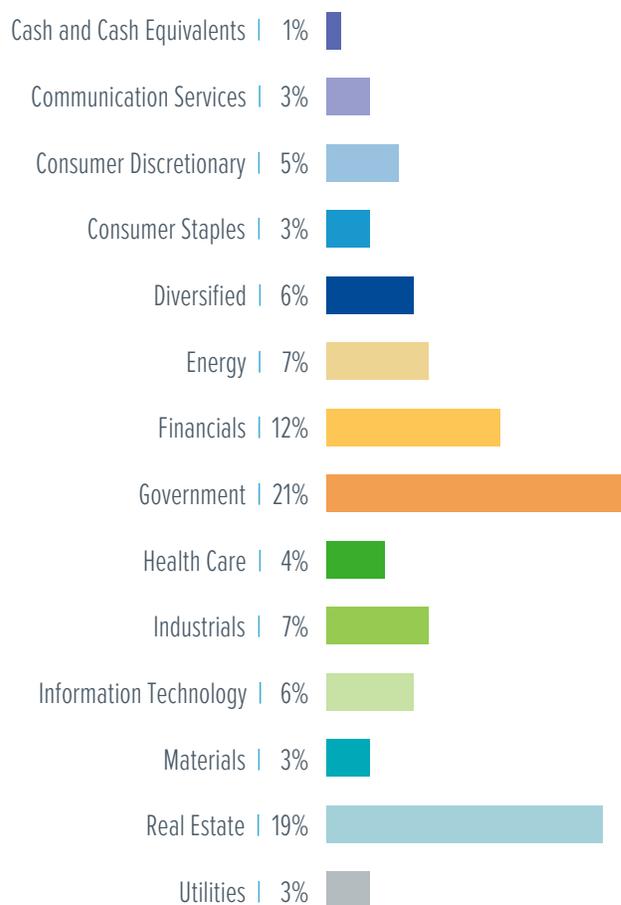
(as of Dec. 31, 2019)



Public Equities		\$25.6B		36%	■
Fixed Income/Government Bonds		\$14.6B		21%	■
Real Estate		\$11.6B		16%	■
Public Market Alternatives		\$8.9B		13%	■
Infrastructure		\$5.7B		8%	■
Global Credit		\$2.0B		3%	■
Private Equity		\$1.9B		3%	■

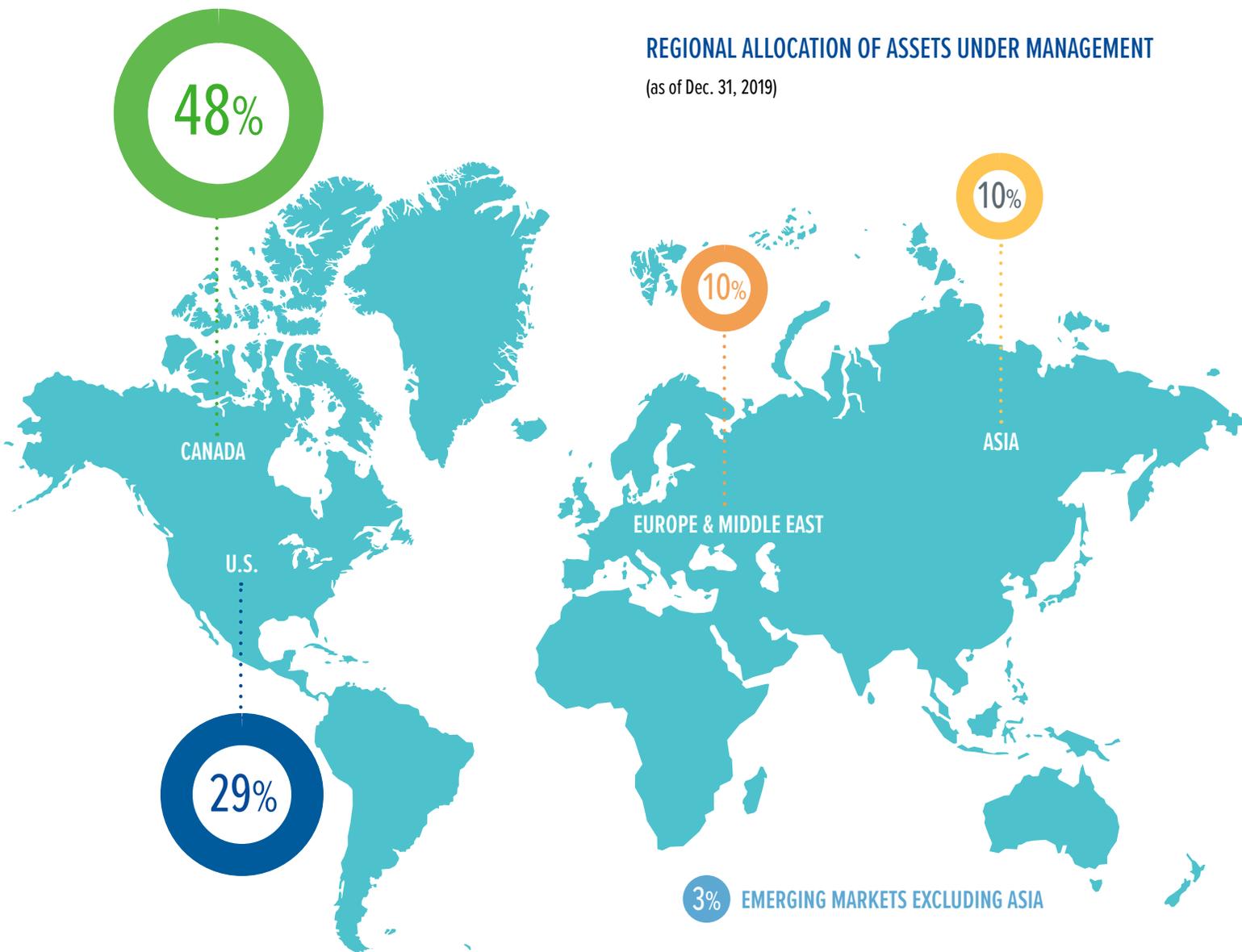
PORTFOLIO BREAKDOWN BY SECTOR

(as of Dec. 31, 2019)



REGIONAL ALLOCATION OF ASSETS UNDER MANAGEMENT

(as of Dec. 31, 2019)



REPORT FROM THE CHAIR

It is with pleasure that I deliver my first report as Chair of the IMCO Board of Directors.

IMCO is well down the path of establishing itself as an organization that will provide public-sector entities with strong portfolio construction advice and management, improved access to investments and outstanding risk management capabilities.

The independent nature of our Board and the professional backgrounds of our directors are key to our success. The Board is responsible for business strategy and for overseeing the principal risks of IMCO's business. Operating independently of government, we have only our clients' long-term objectives at heart. Our investment and financial expertise enable us to design unique, low-cost investment solutions for each client.



In 2019, the Nominating & Governance Committee oversaw the re-election of six board members. In addition, three new board members were appointed by the province.

I am proud to be part of this distinguished group. Every board member is committed to rigorous governance standards. Robust governance gives clients and stakeholders the confidence that IMCO is effectively and independently managing assets and investment risk.

In 2019, the Board approved IMCO's 2020 business plan. It is an ambitious yet realistic blueprint and builds on the progress made to date. It lays out IMCO's investment approach to transforming all asset classes, as well as the organization's goal of adding new public-sector clients.

The Board also approved IMCO's new Investment Policy Statements (IPs) and governing policies, which transform IMCO's inherited model of two separately managed investment

regimes into a singular strategic approach. The IPSs set forth investment objectives, strategies, permitted investments and benchmarks for various public and private market assets. As of January 1, 2020, client assets are being managed according to the new IPSs.

Since IMCO's launch, management has made consistent progress in building the systems and personnel required by a multi-asset, multi-client investment manager. In 2019, IMCO achieved its first major milestone: It became capable of engaging and serving new, smaller clients. It is also providing current clients with improved service and access to cost-effective and enhanced investment capabilities.

2020 brings another substantial milestone for IMCO as it begins to pool assets. Investment pools will enable new investments to be made efficiently on behalf of multiple clients, who will realize the full benefits of our scale.

The completion of major systems projects and other initiatives will be critical to this endeavour.

IMCO's early success gives me assurance that it will become the investment partner of choice for Ontario's public-sector funds. I congratulate CEO Bert Clark, his management team and IMCO employees for already delivering value to clients. I would also like to thank my predecessor, David Leith, for his key contributions and guidance while serving a three-year term as inaugural Chair of the IMCO Board.

Brian Gibson

Chair, IMCO Board of Directors

REPORT FROM THE CEO

IMCO made substantial progress in 2019 towards becoming the asset manager of choice for public funds in Ontario. Our assets grew to \$70.3 billion at December 31, 2019, up from \$63.3 billion a year earlier.

We provided our clients with greater portfolio construction advice and investment capabilities and completed the foundation to welcome new clients. To reach this point, we improved client service, implemented cost savings, attracted strong talent and completed a number of large, complex projects. I would like to touch on some of these key developments.

INVESTMENT AND RISK MANAGEMENT FOUNDATIONS

In 2019 we began the process of overhauling every asset class we manage.

IMCO's Chief Investment Officer, Jean Michel, and his team deserve credit for collaborating with numerous internal IMCO teams, as well as our current clients, to develop new strategies for each asset class. As a result, we will be much more cost-effective. We also started to eliminate managers of managers and funds of funds in favour of lower-cost options. Our external manager roster will eventually be composed of a smaller number of strategic partners and we plan to invest directly in more asset classes.



We continued to develop our risk management function and systems in 2019 to support the organization's planned growth, as well as the increasing complexity of our investment strategies and risk exposures.

It's important to mention that the portfolios of current clients were managed on a segregated basis in 2019. This approach was embedded in our business strategy from the beginning in order to give IMCO time to develop investment strategies and to facilitate the development of investment pools. Therefore, our clients will report their 2019 results independently of IMCO. We have started to provide our clients with more comprehensive portfolio construction advice and in 2020, we will shift client assets to align with IMCO investment strategies.

IMPROVED CLIENT SERVICE

Our Client Service team enhanced their offering throughout the year. We provided one of our clients with comprehensive asset mix advice, which led to their adopting a new strategic asset allocation. And we developed standardized reports that are provided through a dedicated online client portal.

During the year, we met with a number of potential new clients to discuss our value proposition – an end-to-end, high-quality and cost-effective investment solution – and let them know that we are “open for business”, ready to advise and invest on their behalf. IMCO has more than 100 potential clients in Ontario with combined assets of approximately \$90 billion,

including municipalities, government-owned corporations and agencies. We expect to bring additional public sector funds on board in 2020.

DELIVERING COST EFFICIENCY

I'm proud to report that our costs are less than the costs that either of our clients would have incurred to manage their current asset mix before IMCO was created. We measure this through "reference fees", which are metrics based on clients' costs (before IMCO's inception in 2016). To date, the improvements we have implemented have been effectively cost-neutral to our clients, when adjusted for asset mix. This supports the original concept of IMCO: eliminating redundancies and taking advantage of greater scale. Our clients have access to better investment management than they could individually replicate at the same cost.

ATTRACTING STRONG TALENT

We successfully brought key investment talent onboard and expanded our operational expertise in 2019. IMCO filled key senior roles within Investments; welcomed a new Chief Financial Officer; and filled positions in operations and risk management. With these new recruits, we were able to develop plans to fundamentally change our approach to all asset classes and provide excellent portfolio construction advice.

ADVANCED KEY PROJECTS

We aspire to be a world-class, multi-client asset manager. As part of our evolution, we made critical operational infrastructure enhancements in 2019. These included new or improved human resource, risk management and data systems.

OUTLOOK

The outlook for investors is particularly challenging at this time. At the time of publication of this report, the world's economies and markets were severely disrupted by the COVID-19 Pandemic. A comprehensive, cost-effective investment solution is more suitable than ever for smaller, less sophisticated public funds. Almost all assets are expensive by historical standards, which suggests lower returns going forward.

We help our clients build well-diversified portfolios and access a full range of return-enhancing strategies to navigate the currents we see affecting all investors. These include low interest rates, high asset valuations, the rise of China in the capital markets, environmental, social and governance (ESG) factors, shifts in global trade and disruptive technologies, and sudden market shocks such as the one COVID-19 presents.

I will conclude by noting that January 1, 2020 marked a major turning point for us. We no longer manage client assets according to their legacy strategies. We have laid the foundation to provide current and new clients with insightful portfolio advice and IMCO investment strategies, all on a cost-recovery basis. When combined with oversight from our independent board of directors, IMCO is ready to take on new clients.

I extend my thanks to my colleagues at IMCO, and to our independent board members, for the hard work they have put in to bring IMCO to this exciting stage.

Bert Clark

President & CEO

MANAGEMENT DISCUSSION & ANALYSIS

INVESTMENT APPROACH

IMCO is building a multi-client asset manager where innovative ideas can flourish, and where we take a disciplined approach to creating long-term value for our clients.

We attract top talent from global investment organizations. Our investment leaders bring unique perspectives to a sophisticated and experienced team, that remains small enough to be nimble, flexible and highly responsive to promising investment opportunities.

Being focused on a single fund-wide strategy is not appropriate for a diversified investment management organization. IMCO takes a pragmatic approach and uses a variety of investment strategies to meet our clients' needs. We offer diversification across all asset classes, investment styles and investment partners. We also collaborate across asset class teams because we believe that creativity produces better outcomes.

We use external managers when we believe that it is the most effective and efficient way to access an investment. Because we are new, with a fast-growing pool of assets to manage, we are highly motivated to establish strong partnerships with high-performing external managers, like-minded peers and institutional investors. Over time, we expect to shift more of our activities into internal management and direct investments.

We focus on portfolio construction, because it is the most powerful determinant of overall investment results. We build client portfolios around long-term asset class forecasts, which are much more reliable than short-term market predictions. We focus on the factors that drive overall portfolio investment results such as inflation, real interest rates and equity and credit risk premiums. We are strong believers in diversification, so we will not recommend outsized commitments to asset classes.

We maintain a keen focus on costs because they are a major ingredient in investing success, and costs are within our control.

We emphasize strong internal governance, including a collaborative yet independent role for the risk group at our management investment committee, and engagement of our professional and independent Board, because good governance contributes to better investment performance.

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.

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

- 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.
-



DRIVING CLIENT VALUE

IMCO provides a wide-ranging service offering to clients, from strategic advisory and portfolio construction/asset allocation services, to investment management, risk management, operational execution and oversight.

These services are delivered by various IMCO teams. In 2019, we developed a client service delivery and reporting framework to ensure our clients receive the communications and transparency needed to meet their fiduciary obligations.

In this section, we note our progress in the areas of client reporting, portfolio construction, research, and client relations.

REPORTING

Public sector organizations face a heightened demand for transparency. Recognizing the need for complete, accurate and timely information on portfolios and performance, IMCO provides a suite of regular reports and updates to clients that includes the interpretation of client-specific performance, as well as economic and investment strategy research, and other tailored analysis and commentary.

Some of the reports that we routinely provide to clients include:

- Quarterly Economic and Market Overviews and Outlooks
- Monthly and Quarterly Performance Reports
- Annual Report of Investment Operations
- Annual Report of Responsible Investment Activities
- Investment Strategy Reviews

SECURE CLIENT SITE

IMCO launched a client portal in 2019 to improve and simplify the client reporting experience. Clients can use this secure platform to access and retrieve critical investment information, including Quarterly Performance Reports. A centralized hub provides efficient access and secure storage of key client deliverables and relevant publications.

PORTFOLIO CONSTRUCTION

We collaborate with clients and their boards to understand the unique characteristics of future liabilities and financial objectives. We consider asset classes and risk factors to construct durable portfolios that are well balanced to navigate potential long-term trends and market fluctuations.

As part of our standard service delivery, IMCO prepares asset-liability management (ALM) studies for our clients. These studies are the cornerstone of our advice to clients on their strategic asset mix.

We conduct risk analyses within the portfolio construction process, and monitor portfolios daily. This ensures that a client's portfolio remains consistent with the desired asset allocation and risk tolerance.

RESEARCH

IMCO has broad research capabilities, including personnel, systems and tools that support ALM studies, portfolio construction, investment and risk management and the implementation of new investment strategies. Our investment and financial experts on various teams:

- prepare long-term capital market and economic assumptions for input into ALM studies and economic reports;
- refine portfolio construction methodologies and develop valuation scenarios;
- pursue research on securities, strategies and external fund managers to help enhance risk-adjusted, value-added returns for clients.

IMCO also launched a Research Committee composed of members from across the organization. This committee identifies high-priority research projects that will yield valuable insight for our clients and internal investment teams.

CLIENT RELATIONS

IMCO is committed to maintaining a small ratio of clients to each dedicated client relationship manager, reflecting our client-centric focus and commitment to proactive services. Each client has unique needs and objectives, so the nature and frequency of interaction with our team is flexible. Quarterly reports and meetings, as well as frequent contact with a dedicated relationship manager, ensure that clients are kept up to date on issues and trends in investments and related topics.

SERVING ONTARIO

Our clients are public-sector entities delivering a wide range of benefits to people and businesses across Ontario.

Our investment services help to ensure that insurance benefits are available to **5.6 million Ontario workers** and **319,000 businesses** covered by the Workplace Insurance and Safety Board.*

Our services also support the pension security of over **90,000 members** of the Public Service Pension Plan, which is administered by the Ontario Pension Board.

IMCO's clients made total benefit payments of more than **\$4 billion** in **2019**, including pension benefit payments and payments for lost earnings, health care, workers' pensions and survivor benefits.

We are authorized and able to manage pension and investment funds on behalf of Ontario government agencies, corporations, boards, commissions and authorities; universities that receive operating grants from the Ontario government; and municipalities in Ontario. These are often smaller funds facing growing investment and operational risk as markets, investment strategies and regulatory requirements have become more complex.

IMCO has the necessary talent, systems, processes, governance and operational capability to manage challenges on behalf of larger and smaller public-sector funds in Ontario. As we attract new clients in the coming years, we expect to improve our already-comprehensive service offering.

* WSIB figures are from 2018.

2019 ACCOMPLISHMENTS

IMCO's inaugural business plan, developed in 2018, set out our strategy and key milestones for the five-year period to the end of 2023.

By the end of 2019, the business plan milestone was for IMCO to be 'open for business', meaning we had built out sufficient core capabilities and would be ready to engage with and bring new clients on board. We made progress over the course of 2019 in all areas, as discussed below.

Of note, we developed IMCO investment strategies and associated investment governance policies, built our internal teams across client services, investments, risk, legal and others; continued implementation of critical operational infrastructure enhancements (HR, risk management and data systems); and made progress on establishing our own custodian (including an IMCO accounting book of record) and actively engaging with clients interested in IMCO's asset management services.

OBJECTIVE	2019 INITIATIVE	RESULT
Investment Results	Meet client overall investment performance objectives, subject to Strategic Asset Allocation (SAA) and Investment Policy constraints.	Accomplished.
	Discuss any recommended revisions to SAAs with clients.	Completed.
Enhance Investment Capabilities	Design IMCO investment strategies and begin to manage client assets in alignment with strategies.	Transitioned from client investment strategies to IMCO investment strategies.
	Begin to transition public equities portfolios to mix of factor-based and high-conviction strategies.	Transition started with shift to factor-based investing in public equities portfolio and termination of some external mandates and manager of managers.
	Begin to eliminate hedge funds of funds, as well as funds that are not on risk system.	Hedge funds of funds reduction and risk management activities underway. Implemented managed account platform.
	Begin to build internal infrastructure team.	Hired managing director, restructured team and began recruiting additional team members.
	Begin to build internal global credit team.	Hired senior managing director and finalized team structure.
	Develop approach to strategic relationships and identify initial potential strategic relationships.	Completed.
	Develop plan to dispose of real estate properties that are not consistent with long-term strategy.	Completed. Plan in place with execution based on market conditions.
	Review and implement new streamlined IMCO investment decision-making process.	Completed. New IMCO investment approval policy and management investment committee mandate in place.
Enrich Client Service and Prepare for New Clients	Develop and introduce new/improved investment reporting format for clients.	Implemented quarterly performance reporting.
	Transition existing clients to new/improved investment reporting format and begin to eliminate legacy reporting.	Strategic planning in progress.
	Establish client teams and implement client engagement protocol and performance indicators.	Completed. Client team expanded, reporting and performance indicators under development.
	Initiate client development plan and build new client pipeline.	Completed. Teams engaged in client prospecting throughout the year.

OBJECTIVE	2019 INITIATIVE	RESULT
Develop Investment Policies and Products	Approve new IMCO investment policies and work with clients to align with IMCO investment policies .	Completed. New IMCO investment policies approved and transition plan for client accounts developed.
	Revisit each client's approach to foreign exchange hedging.	Research completed. Implementation to begin in 2020.
	Work with clients to develop approach to pooling assets in 2020 (legal structures, asset and manager transition plan).	Advanced the pooling mandate, including development of legal structures, alignment on investment strategies and policies.
Enhance Operations and Risk Management Capabilities	Initiate, develop and begin to implement IMCO talent management strategy.	Articulated strategy. Implementation underway.
	Analyze employee engagement results and develop a plan to address any opportunities identified.	Completed.
	Continue to build internal investment risk and enterprise risk management (ERM) teams.	Completed. Hired senior vice president of Investment Risk and additional team members.
	Engage new IMCO custodian and commence transition for existing clients.	Completed. Implementation in progress.
	Implement Workday, IMCO's human resources information system.	Completed.
	Implement upgrade to data and performance management systems and establish a common platform.	Upgrade completed. Migration of client data is underway.
	Continue to implement risk management systems.	Smaller improvements complete and future enhancements possible.
	Select and begin to implement private markets administration solution.	Planning underway to determine implementation approach with potential external partner.
	Enhance cash, treasury and liquidity management capabilities.	Completed. Various cash management enhancements were implemented throughout the year.
	Implement asset liability management solution and develop economic assumptions.	Completed. IMCO capital market assumptions were developed and asset/liability study completed for a client.
	Embed enterprise risk management methodologies in IMCO's business processes and build non-investment risk reporting.	Completed. IMCO risk taxonomy, ERM framework guideline and third-party risk management framework developed.
	Implement IMCO's business continuity program approach.	Completed. Hired key resources, completed departmental training and tested recovery location.
	Enhance compliance regime.	Completed. Compliance enhancements included personal trading pre-clearance tools and features.
	Build an Internal Audit function.	Established. Implementation in progress.
	Evolve Board of Directors reporting package on risk and returns.	Completed.
Operate within 2019 operating expense budget and begin to implement expected cost savings initiatives.	Completed. \$14 million in cost savings realized.	

COST MANAGEMENT

IMCO operates on a cost-recovery basis and seeks to be 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.

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 dollars in the near term, consistent with the growth in the investment portfolio and the development of superior capabilities to operate as a truly global investment organization. These capabilities include world-class investment skills, expertise in critical corporate functions, sophisticated systems, and robust risk management and reporting tools. We expect such capabilities and our scale to enable wider access to asset classes, such as private-market assets, which our clients are seeking.

In addition to operating costs, IMCO incurs significant investment management fees paid to external fund managers who manage a majority of our client assets. We are expecting the investment management fees for private assets to increase in absolute terms as the asset mix shifts, as planned, to a higher proportion of private assets.

In the near-term, we will use lower-cost strategies in the public markets portfolio that will partially offset the increase

in operating costs. As IMCO develops its internal investment capabilities, the management and performance fees charged by our external fund managers will go down. In the longer term, for private assets, we expect to reduce the external investment management fees by entering into strategic partnerships, increasing co-investments, and accessing investments directly. In addition, bringing new clients on board will reduce operating costs for all our clients.

We also assess our cost-effectiveness through participation in external benchmarking studies. Results from the 2018 benchmarking study completed by CEM Benchmarking, an independent provider of objective benchmarking information for large pools of capital, indicate that IMCO staffing levels for investment departments are aligned with the benchmark. In addition, IMCO's total costs are within the range of our peer comparator benchmark developed by CEM.

COST GOVERNANCE FRAMEWORK

Our cost governance framework includes expense-management policies and authorities. It also includes monthly expense reporting to senior management, and quarterly reporting to the Finance and Audit Committee, as well as our clients. This helps ensure that we pursue growth in a responsible and cost-effective manner that is consistent with the Board-approved business plan and operating budget. Yearly cost savings targets are included in the business plan. In addition, our employee travel and expense policy helps ensure that the expenses incurred by employees are reasonable and appropriate to the needs of our business.

THE COST OF INVESTING

The types of assets under management, client-driven changes to asset mix, and our investment strategy affect costs and client fees.

TYPES OF COSTS	DESCRIPTION	PURPOSE
External Management Fees	Payments to external fund managers, which are based on commitments and invested assets.	External managers are used, rather than in-house teams, when they can provide more effective and efficient ways to access investments.
Custodial Fees and All Other Investment Management Costs	Costs incurred for investment-related legal, due diligence and custody-related activities.	Pursuing complex, large investment opportunities requires IMCO to conduct prudent due diligence, including compliance with international regulatory and tax regimes.
Operating Expenses	Expenses incurred to maintain business operations and implement strategic projects.	Perform investment, portfolio and risk management services, create superior investment capabilities and provide oversight over assets under management.

2019 COST PERFORMANCE

In 2019, IMCO effectively managed its costs while making some of the necessary investments in people and systems that will save money for clients, mitigate risk and deliver returns over the long term. IMCO's total costs in 2019 were **\$371.6 MILLION**, or **55 CENTS PER \$100** of assets under management, an increase of 0.3 cents compared to last year.

Investment management costs were **\$285.4 MILLION**, or **42 CENTS PER \$100** of assets under management, a reduction of 2.5 cents compared to last year. The reduction primarily related to cost savings of \$14 million from lower external management fees due to the move to lower-cost strategies in the public markets' portfolio. The cost savings were more than offset by higher external investment management fees due to an increase in average assets under management of \$3.9 billion, resulting in an overall year-over-year increase of \$0.3 million in investment management costs.

Operating expenses were **\$86.2 MILLION**, or **13 CENTS PER \$100** of assets under management, an increase of 2.8 cents. The year-over-year increase of **\$22.5 MILLION** in total operating expenses is largely due to higher personnel costs. This reflects the continued build-out of IMCO teams and an increase in contractual staff to develop IMCO's investment and operational capabilities.

Our total costs for clients in 2019 were below our clients' "reference fees." These fees are measures that were developed with our clients when IMCO was created to monitor IMCO's actual costs over time. Reference fees are based on the 2016 costs of each client and keep pace with the annual growth and mix of IMCO's assets under management. To date, our costs have trended reasonably close to or lower than the reference fees, meaning the improvements implemented at IMCO since inception have been effectively cost-neutral to our clients, when adjusted for asset mix.

TOTAL COSTS

Average AUM (in billions)	2019 AVERAGE 67.6		2018 AVERAGE 63.7		CHANGE	
	2019 TOTAL COSTS		2018 TOTAL COSTS ⁴			
Cost Items	\$ thousands	basis points ³	\$ thousands	basis points ³	\$ thousands	basis points
Investment Management Expenses:						
External Management Fees ^{1,5}	272,028	40.3	271,270	42.6	758	(2.3)
Custodial Fees	9,717	1.4	9,332	1.4	385	–
All Other Investment Management Costs ²	3,687	0.5	4,572	0.7	(885)	(0.2)
Total Investment Management Costs	285,432	42.2	285,174	44.7	258	(2.5)
Operating Expenses:						
Salaries and Employee Benefits	63,852	9.5	44,087	6.9	19,765	2.5
IT and Data Costs	8,478	1.3	8,633	1.4	(155)	(0.1)
Pension	4,372	0.6	3,145	0.5	1,227	0.1
Professional Fees	4,396	0.7	2,993	0.5	1,403	0.2
Interest Income on Deposits	(646)	(0.1)	(379)	(0.1)	(267)	–
Other Supporting Costs	5,731	0.8	5,191	0.8	540	–
Total Operating Expenses	86,183	12.8	63,670	10.0	22,513	2.8
Total Costs	371,615	55.0	348,844	54.7	22,771	0.3

Note 1: External Management Fees includes all fees that are charged by external investment managers for managing both public and private assets including estimated fees charged by second layer managers in fund-of-fund structures. External Management Fees exclude performance fees. Performance fees are a form of profit-sharing that may be paid to encourage performance above a predefined level and to align interests with IMCO.

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 gross of client's debt financing.

Note 4: Changes have been made to the comparative information to conform with the current year disclosure. Current year disclosures have been enhanced to include external manager fees incurred that are deducted at source by the managers.

Note 5: External Management Fees in the table above include the expenses incurred during the period from external investment managers that invoice their fees separately, as well as external investment managers that deduct fees directly at source. IMCO's financial statement note disclosures only include the cash payments during the period for invoiced amounts that were made by IMCO as an agent on behalf of its clients.

ASSET POOLING

IMCO was created to manage assets for clients on a pooled basis. IMCO has taken advantage of its investment management platform to pool investment opportunities on behalf of its clients, take advantage of economies of scale and implement cost savings for its clients.

IMCO INVESTMENT STRATEGIES

In 2019, IMCO took another significant step toward asset pooling, as we completed the work to manage client assets in 2020 under an integrated and unified set of IMCO investment strategies. This involved working closely with clients and their governing bodies to approve the shift from managing client assets under their legacy investment strategies to managing their assets under new IMCO investment strategies. The new strategies are principally set out in IMCO Investment Policy Statements (IPSs) and IMCO Investment Governing Policies.

This marked a major milestone for IMCO. It enhances our ability to pool client capital for more common investments and better leverage IMCO's scale. We will continue to build pooling investment structures to further expand on the pooling initiative. It is intended that IMCO pooling structures will generally hold most client assets that are governed by an IMCO IPS.

OPERATIONAL AND TECHNOLOGY CONSIDERATIONS

Pooling multiple assets under legal IMCO pooling structures is a complex endeavour that requires significant operational and technological planning and implementation. This work includes new systems and the roll out of a common custodian and accounting book of record platform (ABOR), along with record keeping and fund administration services. Work on these matters advanced in 2019 and will continue into 2020.

OUTLOOK

During 2020, we plan to begin to launch IMCO pools that are able to hold multiple assets and begin to transition client assets into these new pools. This launch will continue to require a significant amount of legal, accounting, tax, custodial and commercial collaboration among many groups within IMCO and with our clients.

INVESTMENT COMMENTARY

INVESTMENT STRATEGIES

We developed IMCO investment strategies and formalized investment policy statements in 2019 and started to provide our clients with portfolio construction advice. In 2020, we will begin to 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.

IMCO has started to build an internal private markets program with a growing emphasis on direct investments. Not only do we have a growing pool of assets and a willingness to consider a broad set of opportunities and deal sizes, we have experienced leadership with transaction expertise across private markets.

We are committed to the infrastructure asset class, which has been a strong performer for IMCO. We will continue seeking both direct and fund investments in the coming years as we expand our team and our capabilities to become a leading infrastructure asset manager.

Private equity has been a top-performing asset class for IMCO, traditionally split between funds and direct investments. In the coming years, we intend to pursue a global private equity program with more emphasis on direct investment to earn greater risk-adjusted returns. We plan to diversify across strategies and geographic regions and will select strategic partners and build internal teams with in-house capabilities.

We continue to invest in real estate assets directly with partners and through investment funds. Our real estate portfolio is diversified across office, retail, multi-residential and industrial properties in Canada, the United States and internationally.



MARKETS OVERVIEW

GLOBAL MACRO AND MARKET DEVELOPMENTS IN 2019

Investors entered 2019 facing a synchronized deceleration in world trade and manufacturing activity. Equity markets recovered from their late-2018 selloff in the first half of the year, as major central banks became more dovish and lowered policy interest rates. Robust growth in monetary liquidity and credit helped to offset the impact of heightened geopolitical uncertainties.

Global financial market conditions were volatile, with sell offs in May and again in late July and August, as concerns about a U.S.-China trade war intensified, fears grew about the risk

of a disorderly British exit from the European Union, and economic growth weakened further. Heightened uncertainty drove long-term interest rates to record lows while equity markets lost over six percent from their peak to trough in July-August (in U.S. dollars). The yield on the 30-year U.S. Treasury bond reached a record low of 1.95 percent and more than US\$17 trillion of fixed income securities, representing roughly a third of all investment-grade bonds, had negative yields. The German Bund yield curve was negative out to 30 years.

In the final quarter, world equity markets rallied and interest rates rebounded from the low points in August. The worst fears of an intensifying trade war and a “Hard Brexit” subsided, while economic data suggested the pace of economic deceleration may have stalled, setting the stage for higher equity prices as central bank liquidity dwarfed concerns about rich equity valuations and mediocre global growth.



READING OUR 2019 INVESTMENT COMMENTARY

Client portfolios were managed on a segregated basis in 2019 under client legacy investment strategies and asset allocations. This approach was an intentional part of our business strategy when we became operational in 2017 to allow IMCO time to develop its investing strategies and to facilitate the creation of pooled products.

Consequently, many asset allocation and investment strategies used in 2019 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 2019 results independently within their normal reporting cycles.

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 influenced market participants throughout the year.

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 2019 (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.

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 rates 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, 2019, the market value of the public equities managed by IMCO was \$25.6 billion, compared to \$22.3 billion at the end of 2018.

Throughout 2019, IMCO took steps to begin shifting client portfolios towards new public equity strategies and targets. These initiatives included:

- The identification of qualified external managers and indices to implement lower-cost, factor-optimized equity portfolios (Canadian, Global, Emerging Markets), with completion of related portfolio transitions expected in 2020.

- The assessment of external managers to identify candidates to manage concentrated, high-conviction portfolios to complement the low-cost factor portfolios. Bringing new equities managers on board will take place in 2020.
- Certain higher-cost managers, manager of managers and fund-of-funds structures were terminated, and assets transitioned to broad market exposures via index futures, exchanged traded funds and other index-based securities.

Drivers

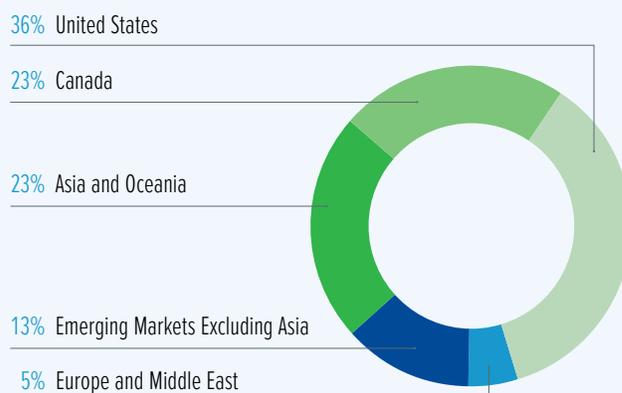
Global equity markets recovered in 2019 after a volatile end to 2018, despite China and U.S. trade tensions as both countries exchanged tariff increases on hundreds of billions of dollars worth of goods. The retaliatory rhetoric had knock-on effects around the world, as major trading partners with both countries were affected by the fallout. The Brexit stalemate added to concerns for European equities, as economic growth began to soften and the European Central Bank took steps to restart quantitative easing, signalling supportive measures into 2020.

The U.S. Federal Reserve took a dovish stance to begin the year. With low unemployment and rising wages, the U.S. economy remained resilient. Progress on U.S.-China trade disputes towards the end of 2019 pushed global equities to new heights. The Bank of Canada did not follow the Fed's dovish tone, choosing to keep rates steady in 2019, strengthening the Canadian dollar. Nonetheless, Canadian equities also hit record highs on strong performance from the information technology, utilities, and real estate sectors.

Emerging markets underperformed developed markets as they struggled under the weight of the tariff disputes between U.S. and China. The resulting slowdown in the Chinese economy, political crisis and street violence in Hong Kong, and deteriorating exports from South Korea pressured the emerging Asian countries. Meanwhile, a slowdown in Eurozone growth and continued Brexit uncertainty served as headwinds to emerging European countries.

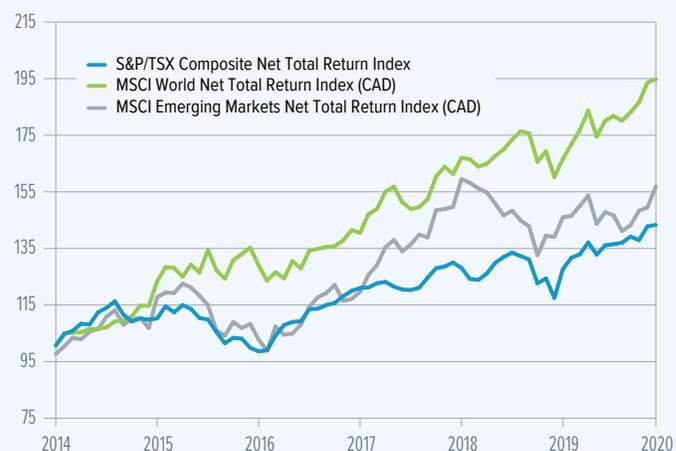
Public Equities Distribution by Region

as of December 31, 2019



Public Equities Indexes

Rebased (2014 = 100)



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FIXED INCOME / GOVERNMENT BONDS

Government bonds and inflation-linked bonds 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, gives clients ready access to liquidity. We manage government bonds and money market exposure using index-replication strategies.

As of December 31, 2019, the market value of the government bonds and money market securities managed by IMCO was \$14.6 billion.

Drivers

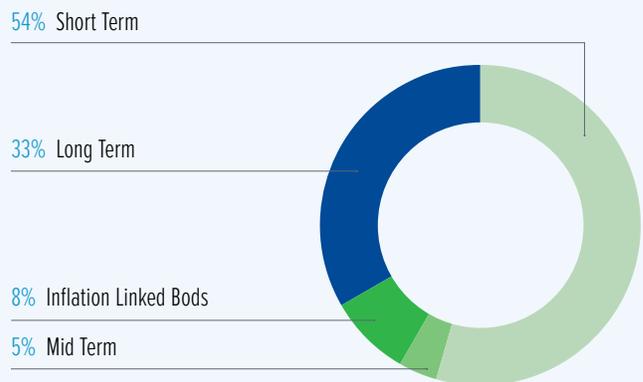
Government bonds provided solid risk adjusted returns for 2019. Fears of a global economic slowdown, trade tensions and lower inflation rates contributed to a rally in Canadian and global sovereign bonds.

The yield curve flattened, with longer-dated securities seeing their yields fall more than shorter-maturity securities. The yield curve in Canada was flat or inverted between the overnight and 30-year bonds.

Canada government bonds lagged their global counterparts as the Bank of Canada did not adjust its official overnight rate for 2019. This contrasted with the U.S. Federal Reserve Board, which lowered the federal funds overnight rate by 75 basis points during the year. In addition, the Fed stopped quantitative tightening (reducing its balance sheet), which helped U.S. Treasury bonds to outperform Canadian government bonds.

Fixed Income Breakdown by Portfolio Mandate

as of December 31, 2019



FTSE Canada Universe Bond Index



Source: © Copyright FTSE Russell 2020

PUBLIC MARKET ALTERNATIVES

Public Market Alternatives consist of strategies designed to deliver risk-adjusted returns that are higher than traditional asset classes and have low correlation to equity markets. Their objective is to enhance overall returns while diversifying risk.

The portfolio invests in actively managed strategies through two main approaches: 1) strategies that target absolute returns through external managers and internally developed mandates; and 2) diversified exposures across broad asset classes.

For the externally managed portion of this portfolio, we expect to shift away from funds of funds in favour of direct hedge fund investments in 2020. Our external managers are selected on the basis of a proven and sustainable edge (specific abilities, technology or another advantage).

As of December 31, 2019, the market value of the public market alternative strategies managed by IMCO was \$8.9 billion.

Absolute return strategy

This targets absolute investment returns with low correlation to equity markets. The portfolio provides a diversified exposure to investment alpha and alternative risk premiums through external managers and internally developed strategies.

We harvest alternative risk premiums using a variety of styles. These can include global macro, equity market neutral, event driven, relative value, volatility arbitrage and distinctive alternatives such as insurance-linked securities.

Drivers

The absolute return portfolio earned modest positive returns that were broadly based, with long/short equity mandates being the top contributor. Macro strategies also fared well, driven by relative value and directional positioning in rates. Negative contributors were largely concentrated in an equity-focused risk premium strategy and exposures through an emerging market focused manager.

Diversified markets strategy

This strategy is designed to deliver a risk-controlled diversified exposure across multiple liquid asset classes such as global equities, nominal and inflation-linked bonds, credit, commodities and real estate investment trusts. The strategy is risk-balanced across various economic environments so that it does not rely on the performance of a single asset class.

Drivers

The diversified markets strategy delivered strong returns in 2019. Fixed income investments were the dominant contributors to performance this year, led by nominal bonds and inflation-linked bonds, as yields significantly declined across the major economies. Global equities contributed positively as well, making solid gains early in the year and then staying range-bound on signs of economic weakness and shifting expectations around U.S.-China trade.

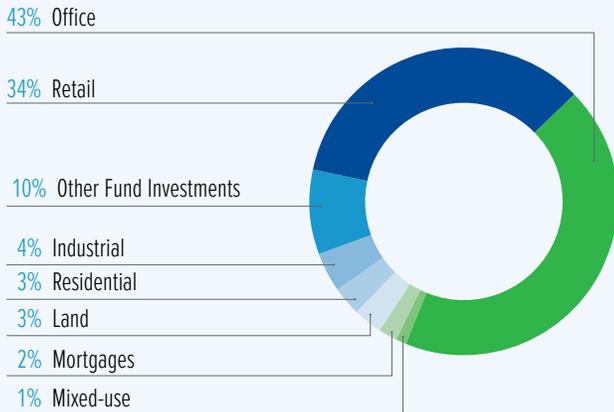
REAL ESTATE

Real estate investments are a good match for our clients' liabilities because they typically 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.

Directly held properties within the portfolio include TD Centre in Toronto and Vancouver Pacific Centre in Vancouver. Our strategic partners include Cadillac Fairview, RXR Realty and KingSett Capital.

Real Estate Distribution by Property Type

as of December 31, 2019



MSCI/REALPAC Canada Annual Property Index



Source: © 2020 MSCI Inc. All Rights Reserved.

As of December 31, 2019, the market value of the real estate investments managed by IMCO was \$11.6 billion, compared to \$11.4 billion at the end of 2018.

Drivers

Valuation gains were realized on downtown Toronto and Vancouver office properties, fueled by continued real rental growth, on office development projects in Toronto and on industrial properties in Vancouver and Montreal. Record low vacancy rates in downtown cores continued in the Toronto and Vancouver office markets (3.0% and 2.6% respectively). Industrial properties are performing well across Canada. Valuation decreases occurred in suburban office properties, as businesses concentrate their growth in urban centres close to where young workers want to live, and in enclosed shopping centre retail properties.

Select 2019 Transactions

U.S. MULTI-RESIDENTIAL VENTURE

Together with Lincoln Property Company's residential division ("Lincoln Residential") and its partner, Cadillac Fairview, as co-sponsor, IMCO announced the close of a US multifamily fund. With US\$800 million in equity commitments from Lincoln Residential, Cadillac Fairview and IMCO, the fund will focus on the development and acquisition of high-quality multifamily assets in top US markets. (IMCO's commitment is CAN\$500 million.)

Residential development in the U.S. market offers good diversification and provides a strong source of high quality, inflation sensitive properties. We believe this "build to core" strategy will enhance returns as well as provide a steady pipeline of new assets.

TISHMAN SPEYER SEGREGATED ACCOUNT

IMCO continued to increase its exposure outside Canada through a venture with New York-based real estate firm Tishman Speyer, which will invest in a portfolio of new developments and repositioned multi-residential and office development projects in major U.S. markets.

With IMCO's initial commitment of US\$500 million, and additional co-investment opportunities of US\$250 million, IMCO and Tishman Speyer will jointly acquire and develop property in major supply-constrained U.S. markets. This includes New York, Washington, Boston, Los Angeles, San Francisco, Chicago and Seattle. Investments will target new development opportunities and well-located office and multi-residential assets in need of renovation.

DISPOSITIONS

IMCO disposed of CAN\$258 million of non-strategic properties as part of an ongoing program to reduce exposure to retail, Alberta and suburban office holdings.

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 seek to earn absolute returns by investing in private global infrastructure directly, as investors alongside funds or strategic partners, and through external fund relationships. The infrastructure program gives IMCO and its clients global exposure and the portfolio is diversified by geography, sector, development stage and contractual frameworks, which mitigates our risk to any single market or regulatory event.

We have assets primarily in Europe and North America, with significant expertise in domestic infrastructure. In Ontario alone, IMCO has close to \$1 billion invested primarily on a direct basis in roads, hydroelectric generating stations, hospitals and other health care services.

As of December 31, 2019, the estimated fair value of the infrastructure investments managed by IMCO was \$5.7 billion, compared to \$5.6 billion at the end of 2018. This reflects our investing activities over the course of 2019, which included fund commitments, direct investments and proceeds from divestitures as well gross mark-to-market adjustments.

Drivers

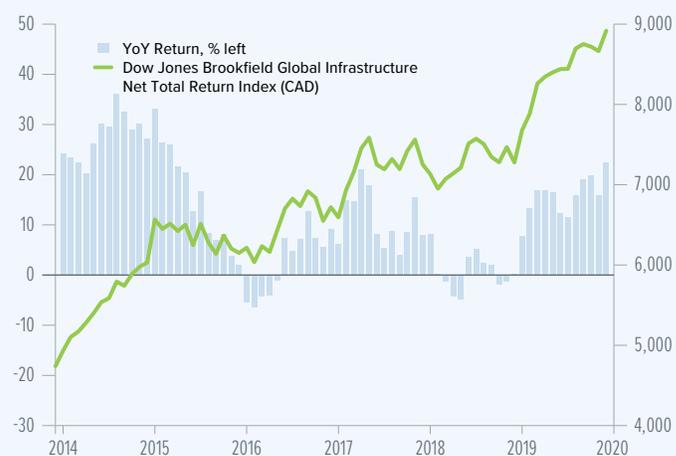
Returns were driven by significant active asset management focusing on key value creation initiatives across the portfolio. Other key contributors included the continued strength of global transportation asset performance, as well as telecommunication assets that generally have performed above expectations. Highlights included the performance of a world-class North American transport infrastructure asset in which we invested further capital in 2019.

Infrastructure Distribution by Geography

as of December 31, 2019



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



Source: Copyright © 2020 S&P Dow Jones Indices LLC. All rights reserved.

PRIVATE EQUITY

We invest in a portfolio of primarily private operating companies, directly or indirectly, where there is a strong opportunity for value creation through strategic, operational and financial improvements.

Whether investing through co-investments or funds, we primarily target the industrial, consumer, technology/media/telecom and healthcare sectors. IMCO takes 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, 2019, the market value of the private equity investments managed by IMCO was \$1.9 billion, compared to \$2 billion at the end of 2018.

In the coming years, IMCO intends to pursue a global private equity program with more emphasis on direct investment to earn greater risk-adjusted returns. We plan to diversify across strategies and geographic regions and will select strategic partners and build internal teams with in-house value-add capabilities.

Drivers

Returns were driven by strong performance in healthcare, technology and consumer sectors, across both the fund and direct investment programs.

Specific highlights include the performance and full realization of IMCO's direct investment in Caprion Biosciences, a specialised laboratory service business, and the partial realization of a direct investment in Corsair Components Inc., a manufacturer of PC gaming components and peripherals.

IMCO also undertook a secondary sale of a number of fund commitments to realign the portfolio for its next phase of growth.

Select 2019 Transactions

CAPRION BIOSCIENCES

IMCO is a limited partner in GHO Capital Fund I, managed by GHO Capital Partners LLP, a European specialist investor in healthcare. In July 2019, GHO announced the sale of a portfolio company, Caprion Biosciences, in which IMCO had a direct investment. The sale delivered significant proceeds to investors.

Caprion is a Montreal-based specialised laboratory service business serving pharma and biotech companies. The company grew organically and through acquisitions, expanding its geographic footprint and capacity and ultimately becoming a leader in outsourced lab services for cancer immunotherapy drug trials.

Private Equity Distribution by Region

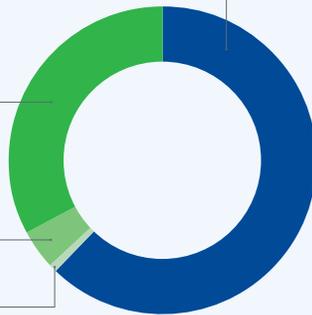
as of December 31, 2019

62% United States

33% Europe and Middle East

4% Canada

1% Asia and Oceania



MSCI World Small Cap Net Total Return Index (CAD)



Source: © 2020 MSCI Inc. All Rights Reserved.

GLOBAL CREDIT

In 2019, IMCO established a new actively managed strategy to invest in a globally diversified portfolio of public and private credit securities to diversify risk and exposures and to generate risk-adjusted returns. We will begin implementing the strategy in 2020 by building a well-diversified global portfolio of credit investments.

We have the flexibility to invest where the best opportunities exist. This may include corporate bonds and loans, real estate debt, infrastructure debt, off-balance sheet financing loans, sovereign and quasi-sovereign emerging markets debt, high yield bonds and leveraged loans.

Investments will be made through a combination of segregated accounts, funds, co-investments and direct investments in both private and public securities, with an increasing emphasis on co-investments and direct investments over time as a means to decrease overall costs.

As of December 31, 2019, the market value of the corporate bonds and private debt managed by IMCO was \$2 billion.

The private debt portfolio is diversified across fund and direct investments, with the majority of the portfolio invested in funds. Funds are predominantly North American, with pan-European exposure accounting for the balance. Private debt fund investments focus primarily on various niche areas of the credit market and are mainly non-investment grade in nature.

Private debt direct investments are all Canadian investment-grade loans to infrastructure or project-related strategies, with stable cash flows.

Our public debt portfolio consists primarily of North American investment grade corporate bonds, with some exposure to emerging markets.

Drivers

After a volatile end of 2018 led to a spike in credit spreads, corporate bonds recovered in 2019 as spreads compressed and interest rates declined. Central banks around the world cut interest rates to support economic growth, and while this benefitted the bond market overall, normalizing credit spreads and higher coupons led corporate bonds to outperform government bonds. In 2019, IMCO prepared to initiate the global credit strategy by terminating a smaller Canadian core corporate bond mandate.

Primary drivers of the private debt portfolio in 2019 included strong fund performance from European and U.S.-based managers, and stable cash yields from the direct loans.

Primary drivers of the private debt portfolio in 2019 included strong fund performance from European and U.S.-based managers, and stable cash yields from the direct loans. Other macro drivers throughout 2019 included a compression of credit spreads which was the primary driver of performance in the public debt portfolio in 2019.

ICE B of A Global Corporate Index (USD) and ICE B of A High Yield Index (USD)

Rebased (2014 = 100)



Source: The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third-party suppliers and has been licensed for use by IMCO. ICE Data and its third-party suppliers accept no liability in connection with its use.

OUR VIEW ON CLIMATE CHANGE

We consider climate change in our investments because we seek to create long-term value for our clients. It is particularly critical for IMCO to understand the climate implications for assets that we intend to hold for a decade or more, such as real estate and infrastructure.

Risks to companies and investors include regulatory changes, physical impacts including extreme weather events (fires, drought, flooding, hurricanes) and rising sea levels. Opportunities include developing cleaner energy sources, energy efficiency and adaptation measures.

As a long-term investor, IMCO wants to see predictable global regulations to address climate change and more extensive climate-related disclosures from companies. Clear regulations and relevant company disclosures help us to assess the risks and opportunities in the transition to a lower-carbon economy.

In 2018, we signed the Global Investor Statement to Governments on Climate Change, which called on world governments to: achieve the Paris Agreement's goals; accelerate private sector investment into the low carbon transition; and commit to improve climate-related financial reporting.

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. ESG factors must be considered across asset classes where relevant, and we support ESG initiatives that seek improved corporate disclosure because this empowers long-term investors to make more effective evaluations of risk and return.

Examples of ESG risks and opportunities include climate change, health and safety issues, board diversity and executive compensation.

In 2019, IMCO implemented a Responsible Investing Policy to guide the activities of its investment teams and became a signatory to the UN-supported Principles for Responsible Investment (PRI). Both measures are part of IMCO's maturing approach to managing ESG factors within the investment decision-making process. We are committed to implementing best practices over time, as the organization grows and IMCO evolves to make more direct investments.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

IMCO became a signatory to the Principles for Responsible Investment (PRI) in June 2019, joining 2,450 signatories from around the world representing more than \$80 trillion in assets under management. The PRI is an independent organization that encourages investors to understand the investment implications of ESG factors.

As a PRI signatory, IMCO became part of a global organization that works to understand the investment implications of ESG factors and supports investor signatories in incorporating these factors into their investment and ownership decisions. The PRI's resources help IMCO to stay abreast of developments in this changing field and collaborate with peers to influence the markets and companies in which we invest.

The PRI requires signatories to report annually on their responsible investing activities, which creates a meaningful accountability mechanism.

RESPONSIBLE INVESTING POLICY AND PROXY VOTING

IMCO's Responsible Investing Policy was approved by the Board of Directors and describes the general principles guiding investment analysis and engagement. We consider ESG matters when conducting due diligence, we include ESG sections in all private market investment recommendations and discuss ESG practices with current and potential external fund managers.

As part of our policy, we adopted a common IMCO proxy voting approach for all clients in 2019, based on the ISS Sustainability Proxy Voting Guidelines, which seek to support sustainable business practices, including environmental stewardship, fair labour practices and the protection of human rights. We also actively monitor our holdings and may vote differently than the recommendations provided by ISS. Having a common IMCO approach to proxy voting enables us to better align proxy voting with investment strategy. In addition, a common voting approach is efficient and cost-effective.

ENGAGEMENT

Collectively and individually, large investors like IMCO have the power to influence the companies in which we invest, and the investment environment and capital market structures in which we operate, by engaging with regulators and policy makers. IMCO works with peer organizations to influence change.

Canadian Coalition for Good Governance (CCGG)

Through our CCGG membership, we promote 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.

30% Club

Through the 30% Club Canada, we encourage greater representation of women on corporate boards of directors.

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.

IMCO'S RISK MANAGEMENT FRAMEWORK

IMCO's risk management framework has six pillars. Each comprises various processes, methodologies, tools and enablers that help us to adopt practical and effective risk management practices.

1. Risk Governance

IMCO has governing rules, committees, structures and processes to effectively manage risk. These include board and management committees where risks are formally reviewed and discussed; our Risk Management and Internal Audit functions; and policies, protocols and guidelines.

2. Risk Strategy and Risk Appetite

IMCO's 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 then risk tolerances, limits and monitoring indicators are used to manage activities within the risk appetite parameters.

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 and non-market specific 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.
- Operational Risk:** These risks may arise as a result of inadequate or failed internal processes, people and systems or from external events. They encompass human resources, compliance, data management, fiduciary, execution, delivery and process management, bringing new clients on board, cybersecurity, and information technology.
- Strategic Risk:** These risks may arise as a 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, including results for clients. Any one event can influence reputation and have a detrimental impact on our organizational profile and perception.

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. Generally, two distinct processes and related technology applications are used: First, governance and oversight of enterprise-level risks and controls; and second, risk modelling and measurement.

6. People and Culture

We work to embed risk management across the organization, with a focus on learning, 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.

INVESTMENT RISK MANAGEMENT

We aim to provide insight in optimizing return on risk, prevent undue concentrations of risk, and deliver quality and meaningful risk analysis and discussions to inform decision making and ensure compliance with client mandates.

We assess investment risk from several perspectives, including liquidity risk; counterparty credit risk, concentration risk; and stress scenario risk.

As IMCO's portfolio grows in size and scope, we aspire to develop insights about investment risks and opportunities using an array of risk management methods, such as scenario analysis, sensitivities, stress tests and other views of risk, to help construct resilient portfolios for clients.

Our risk function acts independently in order to optimize risk-adjusted investment performance.

Roles and Responsibilities

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 and thought leadership across the organization.

We continued to develop our capabilities in 2019 to support the organization's planned growth, as well as the growing complexity of our investment strategies and risk exposures. Some key accomplishments are described below.

1. INVESTMENT RISK SUPPORT: We took the first steps toward building out the risk support function in 2019. This function has the unique role of acting as a liaison between the IMCO internal investment teams and the investment risk research function. Risk Support facilitates transaction reviews from a risk perspective, performs limit monitoring and helps with asset class modeling, working very closely with the investment teams while still maintaining independence as a risk function. Throughout 2019, the team independently reviewed deal decisions and conducted due diligence, providing independent insight on portfolio and concentration impacts, and reviewing new products and markets.

2. INVESTMENT RISK RESEARCH: This team conducts research in the areas of robust risk methods, systems, data and quality; portfolio risk measurement methodology; and policies, frameworks, governing principles and procedures in areas such as benchmarks, performance, investment risk monitoring and measurement, attribution, and risk budgeting. It also provides portfolio construction risk support and model validation, as well as client reporting on investment risks.

Investment Risk Research led a number of important initiatives in 2019, including:

- The integration of all client positions into a single risk system, which allows for aggregate risk measures, absolute risk and relative risk measures, and stress testing;
- The design and roll out of a liquidity risk framework, which ensures sufficient high-quality liquid assets are available to cover short but intense stressful periods, as well as longer 1-in-20-year events;
- The design of a counterparty credit risk framework; and
- Modeling enhancements, which provide for increased transparency in hedge fund positions, and improved modeling of risks in private assets and credit products.

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 managed appropriately.

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 engages all areas and levels of the organization through a 'top-down' (i.e., Board, executive team) and 'bottom-up' (i.e., departmental) approach.

In 2019, we developed a third-party risk assessment process within our procurement process. We developed a risk taxonomy (a comprehensive and common list of potential risks to consider) that helps with internal awareness and culture, enables conversations and facilitates reporting. We aim to continuously improve our risk reporting and made progress in 2019 by enhancing Board and management-level non-investment risk reporting.

IMCO has a Business Continuity Management (BCM) 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. We expanded our BCM team in 2019, strengthened our methodology to enhance our business continuity and crisis plans, and established a worksite recovery location to ensure IMCO can continue to function in an emergency situation or crisis.

ERM plays a leading role in fostering a risk-aware culture, through risk training and role modelling, participating in formal risk discussions and processes at all levels, and helping articulate and develop risk-related policies, procedures, and reporting. In 2019 we contributed to the development of IMCO's operational due diligence guideline for external fund managers; offered feedback and recommendations on the development of various IMCO policies, guidelines and processes, helping to shape governance and culture; and partnered with Corporate Finance to help select IMCO's internal audit partners and shape the three-year internal audit plan.

MANAGING CYBER RISK

IMCO's business is dependent on information technology systems. Disruptions due to cyber security incidents could adversely affect our business and operations. Therefore, we are investing in cyber security protection. In 2019, IMCO's cyber security program continued to evolve. A business-driven risk mitigation focus was established to increase capabilities around monitoring and identification of threats to IMCO's IT systems. The technology team also focused on training and leveraging leading cloud-based technologies and service providers to ensure that solutions for business continuity were prioritized and monitored.

CORPORATE GOVERNANCE

THE ROLE OF GOVERNANCE

A strong governance structure and an independent board are critical in ensuring that investment decisions are prudent and in the best interests of our clients. 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.

BOARD OF DIRECTORS

When IMCO was formed, independence was a fundamental principle to which all parties agreed. This included an arm's-length relationship with government.

Mandate

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. The Board 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.

Board Composition

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

The Board must consist of at least seven and not more than eleven directors. At least one and not more than three directors are to be appointed by the Minister of Finance. 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.

IMCO's initial Board was established on July 1, 2016 and consisted of seven directors, who took on three-year terms that expired on July 1, 2019.

In June 2019, the Minister of Finance appointed three members to the Board, and David Leith, the inaugural Board Chair, resigned. In addition, IMCO's members elected six board members in June 2019 (all of whom had served on IMCO's initial Board), bringing the size of the Board to nine members in total. In August 2019, the Minister of Finance appointed Brian Gibson as Chair.

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, as described below.

The **Finance & Audit Committee** is responsible for:

- (a) overseeing IMCO's financial statements and financial disclosures, internal controls and controls over IT and 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;

(d) reviewing IMCO's annual budget, including the budget for capital expenditures and staffing, and IMCO's annual business plan, with IMCO management; and (e) reviewing and discussing with management and the external auditors IMCO's policies and procedures with respect to risk management, including in relation to IMCO's major financial risk exposures.

Colleen McMorrow is Chair of the committee. Other members include Hugh Mackenzie, Robert Bertram, Rajendra Kothari and Brian Gibson (*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 the Board and director assessment process 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; and (e) overseeing the orientation and continuing education of board members.

Vincenza Sera is Chair of the committee. Other members include Robert Bertram, Eric Tripp, Geoffrey Belsher and Brian Gibson (*ex-officio*).

The **Human Resources & Compensation Committee** is responsible for (a) overseeing IMCO's human resources and compensation matters, including annually reviewing the talent management strategy, organizational structure and the corporate goals and objectives of the CEO and other executive officers; (b) monitoring the principal risks of IMCO's business related to human resources and compensation matters, overseeing the implementation of appropriate systems to manage these risks, and discussing IMCO's key HR risk exposures with management; and (c) overseeing IMCO's compliance with applicable laws and regulations and its compliance with all significant Board-approved policies and procedures related to human resources and compensation matters.

Jacqueline Moss is Chair of the committee. Other members include Hugh Mackenzie, Eric Tripp, Geoffrey Belsher and Brian Gibson (*ex-officio*).

Requirements and Core Competencies

IMCO 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.

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 and core competencies that each individual director must possess, and that the board as a whole must possess. They must demonstrate the following:

- ▮ a high standard of personal values and ethics, including integrity, accountability, commitment and courage;
- ▮ excellent business and professional judgment;
- ▮ the ability to think strategically and problem solve;
- ▮ demonstrated mature and cooperative leadership;
- ▮ a 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.

BOARD SKILLS MATRIX

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		Brian Gibson (Chair)	Geoffrey Belsher	Robert Bertram	Rajendra Kothari	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	●	●	●		●	●	●		●	
	Information Technology						●				
	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. IMCO's Board at the end of 2019 had three women, and our executive team had two women.

We are a member of the 30% Club Canada, a group of business leaders committed to better gender balance through voluntary action. The organization's goal is for 30% of board seats and C-suite roles at Canadian companies to be held by women by 2022.

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 2019, education sessions covered asset class presentations, client portfolios, investment results and risks, IMCO investment strategies, operational matters, China's political and economic outlook, and the impact of populism on market conditions.

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.

2019 BOARD ACCOMPLISHMENTS

The Board meets on a regular basis, not less than once each quarter. There were five Board meetings in 2019. In addition, there were three Finance and Audit Committee meetings, three Human Resources and Compensation Committee meetings, and four Nominating and Governance Committee meetings.

Some of the key accomplishments of IMCO's Board in 2019 included:

- Approval of the Annual Business Plan and 2020-2022 Budget and Projections.
- Approval of IMCO's new Investment Policy Statements and new Investment Governing Policies.
- Approval of an allocation for non-discretionary, factor-based and index mandates.
- Approval of the selection of IMCO's managed account platform provider.
- Discussion of IMCO's client development strategy, including process for new client on-boarding.
- Approval of select investment transactions.
- Engagement in the Board renewal process.

BOARD OF DIRECTORS



Brian Gibson, CFA, ICD.D, Chair

Mr. Gibson has 40 years of investment experience, including as Senior Vice President at the Ontario Teachers' Pension Plan and Alberta Investment Management Corporation. During his career, he has built or restructured large investment operations and has managed large investment portfolios, including those of insurance companies, a chartered bank, pension and mutual funds, and endowments.

Mr. Gibson is a director of Precision Drilling Corporation and of Samuel, Sons & Company Ltd. He is an advisory board member of Kruger Inc. He is also the chair of the Corporate Disclosure Policy Committee of the CFA Institute.

IMCO Board and Committee Appointments

Appointed June 21, 2019
to June 20, 2022

Director, IMCO Board of Directors

Member (*ex-officio*), Finance & Audit Committee

Member (*ex-officio*), Nominating & Governance Committee

Member (*ex-officio*), Human Resources & Compensation Committee

2019 Attendance

3 of 3* meetings

1 of 2* meetings

2 of 2* meetings

2 of 2* meetings

2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$150,000 plus expenses	–	–

* Asterisk denotes number of meetings after date of director appointment.



Geoffrey Belsher

Mr. Belsher has over 30 years of experience as a senior business executive, investment banker and corporate lawyer. He served as the Group Co-Head of Wholesale Banking at CIBC until late 2015. Since retiring from CIBC, Mr. Belsher has focused on providing strategic advice to public and private clients. Prior to joining CIBC, Mr. Belsher had more than 12 years of investment banking experience with major Canadian and global investment banks and was a partner at a national law firm. In 2018, he joined the board of AGT Food and Ingredients Inc.

IMCO Board and Committee Appointments		2019 Attendance	
Appointed June 21, 2019 to June 20, 2022	Director, IMCO Board of Directors	3 of 3* meetings	
	Member, Nominating & Governance Committee	2 of 2* meetings	
	Member, Human Resources & Compensation Committee	2 of 2* meetings	
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	—

* Asterisk denotes number of meetings after date of director appointment.



Robert Bertram, CFA, ICD.D, F.ICD

Mr. Bertram is the retired Executive Vice President, Investments of the Ontario Teachers' Pension Plan. 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		2019 Attendance	
Current term to June 20, 2022	Director, IMCO Board of Directors	5 of 5 meetings	
	Member, Finance & Audit Committee	3 of 3 meetings	
	Member, Nominating & Governance Committee	4 of 4 meetings	
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	—



Rajendra Kothari, FCPA, FCA

Mr. Kothari is a chartered accountant and was formerly Vice Chair of PricewaterhouseCoopers LLP in Canada. He was also Managing Partner for the Greater Toronto area and National Practice Leader for the Asset & Wealth Management industry in Canada. His experience spans the areas of business assurance and advisory services, transaction support services, valuation and related services to clients in a variety of businesses. Mr. Kothari is currently the chair of the board of directors at the Toronto General & Western Hospital Foundation and also serves on the boards of Soul Pepper Theatre Company, The Aga Khan Museum, University Health Network and Ontario Arts Foundation.

IMCO Board and Committee Appointments		2019 Attendance	
Appointed September 30, 2019 to June 20, 2022	Director, IMCO Board of Directors	2 of 2* meetings	
	Member, Finance & Audit Committee	1 of 1* meeting	
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	–

* Asterisk denotes number of meetings after date of director appointment.



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 served on Ontario Pension Board's board of directors for almost 14 years and during that time served as chair of its pensions committee and a member of its investments committee. Mr. Mackenzie is a member of the Institute of Corporate Directors.

IMCO Board and Committee Appointments		2019 Attendance	
Current term to June 20, 2022	Director, IMCO Board of Directors	5 of 5 meetings	
	Member, Finance & Audit Committee	3 of 3 meetings	
	Member, Human Resources & Compensation Committee	3 of 3 meetings	
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	–



Colleen McMorrow, FCPA, FCA, ICD.D Chair, Finance & Audit Committee

Ms. McMorrow is a retired Assurance Partner at Ernst & Young where she served as Canadian leader of Ernst & Young's (EY) Strategic Growth Markets and National Director, Entrepreneur of the Year Awards. She was a senior partner in EY's Assurance practice until 2016 and held a number of senior leadership roles over her 38-year career at EY. Ms. McMorrow serves on the boards of public and private corporations and not-for-profit organizations including Exco Technologies Limited, Ether Capital and Plan International Canada. In 2015, she was recognized by WXN as one of Canada's Most Powerful Women Top 100 as a Trailblazer and Trendsetter.

IMCO Board and Committee Appointments		2019 Attendance	
Current term to June 20, 2022	Director, IMCO Board of Directors	5 of 5 meetings	
	Chair, Finance & Audit Committee	3 of 3 meetings	
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	\$10,000



Jacqueline Moss, ICD.D Chair, Compensation and Human Resources Committee

Ms. Moss is a senior executive with over 25 years of business experience leading legal, human resources, and strategy and corporate development functions. She has been a partner at a major Canadian law firm, and an executive vice president of CIBC. Ms. Moss is an experienced director with expertise in a wide range of corporate areas including human resources, legal, strategy and corporate governance. She is a member of the board for Minto Apartment REIT, where she is the chair of that board's compensation, governance and nominations committee, and is a director for Ontario Health. She has been recognized multiple times by WXN as one of Canada's Most Powerful Women Top 100.

IMCO Board and Committee Appointments		2019 Attendance	
Current term to June 20, 2022	Director, IMCO Board of Directors	5 of 5 meetings	
	Chair, Human Resources & Compensation Committee	3 of 3 meetings	
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	\$10,000

Vincenza Sera, ICD.D Chair, Nominating & Governance Committee



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 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			2019 Attendance
Current term to June 20, 2022	Director, IMCO Board of Directors		5 of 5 meetings
	Chair, Nominating & Governance Committee		4 of 4 meetings
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	\$10,000

Eric Tripp



Mr. Tripp is 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. He serves on the boards of Connor Clark and Lunn Financial Group and the Capital Markets Authority Implementation Organization and is chair of the Michael Garron Hospital Foundation board.

IMCO Board and Committee Appointments			2019 Attendance
Current term to June 20, 2022	Director, IMCO Board of Directors		5 of 5 meetings
	Member, Nominating & Governance Committee		4 of 4 meetings
	Member, Human Resources & Compensation Committee		3 of 3 meetings
2019 Remuneration	Annual Retainer	Meeting Fee	Committee Chair Fee
	\$50,000 plus expenses	\$1,500	–

OUR SENIOR EXECUTIVE TEAM



Bert Clark
President & Chief Executive Officer



Michael F. Campbell
Chief Client Officer & Interim Chief Risk Officer



Gayle Fisher
Chief Human Resources Officer & Head of Corporate Services



Allen Garson
General Counsel & Corporate Secretary



Kathy Jenkins
Chief Financial Officer



Kevin Leblanc
Chief Operating Officer



Jean Michel
Chief Investment Officer



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 rewards philosophy and compensation program is designed to:

- Be competitive to attract, retain and engage qualified talent to effectively execute on our mandate;
- Reinforce and reflect our values, ensuring employees act ethically, professionally, and with integrity;
- Reward for achieving both annual objectives and long-term performance, which promotes sustained long-term success;
- Align with client and stakeholder interests; and
- Link back to our public purpose.

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);
- 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.

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.

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 2019 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	2019	525,000.00	1,037,500.00	1,037,500.00	52,689.30	29,570.58	2,682,259.88
Jean Michel, Chief Investment Officer	2019	500,000.16	1,050,000.00	1,050,000.00	50,095.62	30,675.52	2,680,771.30
Kevin LeBlanc, Chief Operation Officer	2019	362,500.11	185,000.00	185,000.00	35,830.08	17,999.29	786,329.48
Kathy Jenkins, Chief Financial Officer*	2019	241,666.73	166,666.63	166,666.63	24,188.80	15,076.06	614,264.85
Allen Garson, General Counsel & Corporate Secretary	2019	375,000.00	282,500.00	282,500.00	37,126.80	88,139.00	1,065,265.80

* Chief Financial Officer (Kathy Jenkins): Start date was May 2019.
Chief Risk Officer: Role is vacant and under review. Currently being covered through an alternate structure.

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, 2019, 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, 2019, 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.

Other Information

Management is responsible for the other information. The other information comprises the Management Discussion & Analysis and the Annual Report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We obtained the Management Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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.

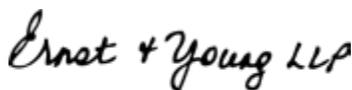
Auditor's Responsibilities for the Audit of the Financial Statements

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.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 3, 2020

STATEMENT OF FINANCIAL POSITION

As at December 31

	2019 \$	2018 \$
Assets		
Cash	23,728,647	13,646,744
Accounts receivable <i>(note 4)</i>	20,664,368	15,400,825
Prepaid expenses	783,793	711,770
Capital assets, net <i>(note 7)</i>	764,864	1,058,272
Total assets	45,941,672	30,817,611
Liabilities and members' surplus		
Accounts payable and accrued liabilities <i>(note 4)</i>	43,914,300	30,292,377
HST payable	1,750,787	525,234
Deferred income	276,585	—
Total liabilities	45,941,672	30,817,611
Commitments <i>(note 5)</i>		
Members' surplus	—	—
Total liabilities and members' surplus	45,941,672	30,817,611

See accompanying notes

On behalf of the Board:

(signed)

Brian Gibson

Director

(signed)

Colleen McMorrow

Director

STATEMENT OF NET INCOME

For the years ended

	2019 \$	2018 \$
Operating expenses		
Salaries and employee benefits	63,851,647	44,087,222
IT and data costs	8,477,572	8,632,903
Pension	4,372,310	3,145,108
Professional fees	4,395,717	2,993,269
Investment management costs	3,687,049	4,571,909
Rent	2,507,778	2,499,625
Travel and accommodation	1,486,843	1,289,481
Amortization on capital assets <i>(note 7)</i>	569,992	569,992
Office and administration	562,610	325,318
Insurance	378,879	389,597
Foreign exchange loss	225,952	117,154
	90,516,349	68,621,578
Recoveries and other income		
Recovery of operating costs from members	89,870,545	68,242,716
Interest income on deposits	645,804	378,862
	90,516,349	68,621,578
Net income for the period	—	—

See accompanying notes

STATEMENT OF CHANGES IN MEMBERS' SURPLUS

For the year ended

	December 31, 2019	December 31, 2018
	Total \$	Total \$
Balance, beginning of period	—	—
Net income for the period	—	—
Balance, end of period	—	—

See accompanying notes

STATEMENT OF CASH FLOWS

For the years ended

	2019 \$	2018 \$
Operating activities		
Net income for the period	—	—
Add (deduct) items not affecting cash		
Amortization on capital assets <i>(note 7)</i>	569,992	569,992
Net change in non-cash working capital balances related to operations		
Change in accounts receivable	(5,263,543)	(9,304,517)
Change in accounts payable and accrued liabilities	13,621,923	12,414,429
Change in deferred income	276,585	—
Change in other	1,153,531	155,959
Cash provided by operating activities	10,358,488	3,835,863
Investing activities		
Purchase of capital assets <i>(note 7)</i>	(276,585)	(127,617)
Cash provided by (used in) investing activities	(276,585)	(127,617)
Net increase in cash during the year	10,081,903	3,708,246
Cash, at beginning of period	13,646,744	9,938,498
Cash, at end of year	23,728,647	13,646,744

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

1. Nature of operations

Investment Management Corporation of Ontario (“IMCO” or the “Corporation”);(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 the “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 comprises 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 the 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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The financial statements were authorized for issuance by the Board of Directors on February 27, 2020.

The Corporation adopted IFRS 16, Leases effective January 1, 2019 on a modified retrospective basis. The related changes to significant accounting policies are described in Note 3(i).

(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. Actual results may differ from these amounts. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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. Except as detailed in Note 3(i), the significant accounting policies have been applied consistently to all periods presented in these financial statements.

(a) Consolidation

Subsidiaries are consolidated in the Corporation's financial statements from the date that control is obtained until the date that control ceases.

The Corporation consolidates entities when all three of the following characteristics are present:

- When the Corporation exerts power over the relevant activities of the entity. Power exists if the Corporation has decision making authority over those activities that significantly influence the entity's returns;
- Where the Corporation has exposure or rights to variability of returns of the entity. Exposure exists if the Corporation's returns vary as a result of the performance of the entity; and
- Where there exists a linkage between power and returns as described above. A linkage exists when the Corporation can use its power over the activities of the entity to generate returns for itself.

Generally, the Corporation utilizes investment vehicles to facilitate the management of investment assets. However, the Corporation has no exposure or rights to variability of returns through its role as an investment manager. Accordingly, these investment vehicles do not meet the criteria for control and are not consolidated.

(b) Financial instruments

Recognition and initial measurement

Accounts receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Corporation becomes a party to the contractual provisions of the instrument.

An financial assets (unless it is a accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item that is not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. An accounts receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

IMCO classifies its financial assets and financial liabilities, in accordance with IFRS 9, Financial Instruments. Financial instruments included in the Corporation's accounts have the following classifications:

All cash and accounts receivable are classified at amortized cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to collect the contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(c) Deferred income

The Corporation recovers its operating costs from its Clients. If an amount has been collected from the Clients in advance of the actual expense being incurred by the Corporation, the amounts are initially presented as deferred income, and subsequently recognized in the Statement of net income when the expense is incurred by the Corporation.

Amounts that are collected from the Clients to fund the acquisition of the Corporation's capital assets, including leasehold improvements, are initially presented as deferred income and subsequently amortized to the Statement of net income as the related capital assets are depreciated.

(d) Prepaid expenses

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

(e) 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

(f) 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 2020 are not available.

(ii) Supplementary income retirement plan

The Corporation provides supplemental pension benefits to certain eligible legacy WSIB employees who transferred to IMCO in 2017. The benefits are payable to the employees at the termination of employment, retirement or death. The supplemental pension benefits are provided to increase the WSIB pension benefits to those provided under IMCO's defined benefit plan for the entire duration of employees' employment at WSIB. WSIB will reimburse the Corporation for the costs incurred under this supplementary income retirement plan. The benefits obligation is calculated based on certain demographic and economic assumptions which represent IMCO's best estimate of future experience. This obligation is accrued as a liability with an equal amount recognized for the receivable from WSIB.

(iii) 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 accounted for as ‘other long-term employee benefits’ and is accrued on a graded vesting basis for eligible employees 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.

(g) 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.

(h) 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.

(i) 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.

Accounting Standards Adopted in the Current Fiscal Year**(j) Leases**

Effective January 1, 2019, IFRS 16 replaced IAS – 17 *Leases* and IFRIC 4 – *Determining Whether an Arrangement Contains a Lease*. IFRS 16 provides a single lessee accounting model, specifying how leases are recognized, measured, presented and disclosed. Under IFRS 16, IMCO capitalizes the right of use of all assets held under operating leases. IMCO has applied the modified retrospective transition method. Under this method, the comparative information is not restated, but the retrospective cumulative impact of IFRS 16 is recognized within the opening balance of member’s surplus as at January 1, 2019.

(i) Leases as a lessee

At inception of a contract, IMCO assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease. A right-of-use asset (lease asset) and a lease liability is recognized at the lease commencement date. The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. Any lease incentives received are deducted but initial direct costs incurred or an estimate of costs to restore the underlying asset are not included. The lease asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset, considered to be indicated by the lease term. The lease asset is periodically adjusted for certain remeasurements of the lease liability and impairment losses. The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, IMCO’s incremental borrowing rate. Generally, IMCO will use its incremental borrowing rate as the discount rate, which will be applied to all leases. The lease liability is measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in the incremental borrowing rate or if IMCO changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset and recognized in the Statement of net income.

IMCO has identified office space leases and IT equipment leases as the main types of leases.

(ii) Short-term leases and leases of low-value assets

IMCO has elected not to recognize lease assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets, including IT equipment. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(iii) Extension options

Lease term corresponds to the duration of the contracts signed except in cases where IMCO is reasonably certain that it will exercise contractual extension options. The exercise of extension options will result in a change in estimate of lease assets and lease liabilities. The assessment regarding exercise of extension options involves management judgment and estimate based on information at the time the assessments are made. Extension options are included in the lease term when IMCO has an economic incentive to exercise the option. Taken into consideration is the evidence available at the time of the assessment, including potential favourable terms upon extension, potential termination penalties, the relative costs associated with potential relocation or termination of the lease and the extent of leasehold improvements undertaken.

4. Related party transactions

As at December 31, 2019, included in cash and accounts payable and accrued liabilities is an amount of \$7,564,122 (2018: \$3,773,305) relating to agency fees collected from clients, but not yet billed by external vendors.

As at December 31, 2019, of the total accounts receivable balance, the amount pertaining to the recoverable operational expense totals \$18,990,017 (2018: \$13,371,431) and is due from or payable by the Clients for cost recoveries, including HST. Any remaining portion relates to amounts receivable for agency fees paid on behalf of the Clients and other balances.

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.

	2019 \$	2018 \$
Agency fees collected from members	217,688,609	207,169,327
Agency fees paid or payable on behalf of members		
Investment management fees	194,335,460	192,889,084
Custodial and other investment related fees	23,353,149	14,280,243
	217,688,609	207,169,327

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.

Certain legacy OPB and WSIB employees, who transferred to IMCO, were eligible for banked vacation by 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 to 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 key management personnel and directors is as follows:

	2019 \$	2018 \$
Key management personnel and directors	14,479,767	10,350,455

Note 5 describes additional related party transactions.

5. Lease Commitments

	2019 \$	2018 \$
Within one year	5,026,931	2,915,239
After one year but not more than five years	20,741,285	1,236,900
More than five years	26,744,094	—
	52,512,310	4,152,139

In 2019, IMCO signed a lease for office space in 16 York St., Toronto (“16 York”). This is a related party transaction as OPB has ownership interest in 16 York. The lease agreement was negotiated on an arm’s length basis. The lease commences on August 1, 2020 with a lease term of 10 years and contains an extension option. The total commitments for 16 York are \$49,645,930. A lease asset and lease liability will be setup upon commencement of the new lease.

Included in 2020 commitments is \$1,527,045 (2019: \$1,487,342) relating to the subleased office space from OPB.

6. 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. On July 22, 2019, the letter of credit was increased to \$1,500,000.

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. Both letters of credit were obtained for investment entities managed by IMCO on behalf of Clients. Both letters of credit were cancelled on May 3, 2019.

On May 2 and 3, 2019, and on November 20, 2019, three letters of credit were obtained from a financial institution with the ability to draw up to \$291,000, \$1,228,682, and \$103,138 respectively. All three 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 all letters of credit on the face amount payable monthly. The three letters of credit will expire on May 2 and 3, 2020, and on November 20, 2020 respectively.

As at December 31, 2019, there were no amounts drawn on any letters of credit.

7. 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, at December 31, 2018	491,793	1,357,909	1,849,702
Additions	—	276,585	276,585
Balance, December 31, 2019	491,793	1,634,494	2,126,287
Accumulated amortization			
Balance, at December 31, 2017	22,933	198,505	221,438
Amortization expense	49,179	520,813	569,992
Balance, at December 31, 2018	72,112	719,318	791,430
Amortization expense	49,179	520,813	569,992
Balance, December 31, 2019	121,291	1,240,131	1,361,422
Net book value			
As at December 31, 2018	419,681	638,591	1,058,272
As at December 31, 2019	370,502	394,362	764,864

The additions to Leasehold improvements all relate to 16 York and are not being amortized until the lease commences. Note 5 includes additional details on the 16 York lease.

8. Financial instruments and 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, and arises principally from the Corporation's accounts receivable and cash on deposit with banks.

The accounts receivables are all due to be recovered from the Clients. The Corporation is not exposed to significant credit risk as the Corporation acts as fund manager for Clients and recovers the outstanding amounts in accordance with the Implementation and Support Agreement.

The cash on deposit with banks is held with Canadian Schedule I banks that have high credit-ratings. The Corporation considers the cash on deposit to have a low credit risk as the cash is highly liquid and available on demand, and the banking counterparties have high credit-ratings.

No impairment allowance has been recognized on the Corporation's financial assets, and the Corporation does not hold any collateral as security. The maximum exposure of the Corporation to credit risk is the carrying amount of these financial assets.

(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.

9. Comparative information

Certain comparative information has been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

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