OMERS

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Council

April 21, 2006

Dear Clerk:

I am pleased to enclose a copy of OMERS *2005 Annual Report*.

OMERS posted a total fund return of 16.0 per cent for 2005 - a top quartile performance that exceeded its benchmark return of 13.2 per cent. The Fund earned net investment income of $5.5 billion, and fair market value of net assets increased 15.2 per cent to total $41.1 billion as at December 31, 2005.

However, OMERS, like other pension plans, has been impacted by a number of factors that have resulted in a deficit. These include the downturn in public markets in 2001 and 2002, pension benefit improvements such as 100 per cent inflation protection, and a federally mandated contribution holiday from 1998 to 2003.

Although investment returns have exceeded the funding requirement again this year, the actuarial deficit in the Basic Plan, as projected, has increased to total $2.8 billion by year end.

This increase is due to the actuarial smoothing of investment returns, which means that a portion of the losses incurred in 2001 and 2002 are recognized in the 2005 actuarial assets and a significant portion of the gains of the past three years are deferred to the future. In addition, wage adjustments, demographic factors and the annual inflation increase for pensioners all contributed to a higher than anticipated liability. However, excluding the actuarial smoothing of investment returns, the market value of the assets approximates the liabilities for the first time since 2001.

I am confident that our investment strategy and the new contribution rates implemented in January 2006, coupled with the dedicated and innovative efforts of OMERS professionals, will reduce the actuarial deficit and return the Plan to fully funded status.

Additional copies of OMERS *2005 Annual Report* are available on request, in English and in French, from Angela Haynes at (416) 369-2395 or you may view them on our website at www.omers.com.

Yours truly,

David Kingston
Chair, OMERS Board

Enclosure