

June 21, 2019

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General Government and Licensing Committee, Meeting 6, June 24, 2019

RE: OMERS Pension Plan Annual Update as it Relates to the City's Employer Contributions Board of Directors of the Sponsors Corporation - **AGENDA ITEM GL6.2**

Dear Councillor Ainslie and Committee Members:

COTAPSA commends Toronto City Council and the General Government and Licensing Committee for providing disclosure and education on OMERS issues that impact our City's employee retirement income. Thank you also for helping ensure transparency and accountability from Council's appointees to the Board of Directors of the Sponsors and Administration Corporations. The opportunity for Council to hear directly from your appointed OMERS Directors should be preserved by your committee.

We wish to point out that there are omissions in the list of City of Toronto agencies and corporations included in Attachment 4, page 8 of the report. The source of the information is also not clear as the attachment identifies both the City of Toronto and OMERS as the source of information. For instance, CNE Association, CreateTO, Civic Theatres Toronto, Enwave and George Hull Centre are not on the current list.

In addition, COTAPSA's serious concern is the cost that was required to operate the entire OMERS pension plan in 2018, (see attached) - namely, the expenses and their respective key drivers – administrative, compensation/incentive payments and investment management costs. Equally, an impartial view of the expense information contained in consecutive OMERS annual reports for its administration of the 29 Directors of the Sponsors and Administration Corporation Boards makes it clear that individual sponsors and their appointees are unable or unwilling to address these increasingly excessive and unjustified costs.

Also attached is our recent Bulletin, entitled, ***“Our OMERS Pension Plan: What COTAPSA wants and how we are trying to get it.”*** We remain concerned that OMERS contributor's best interests are not being met under the current OMERS

governance model and that the two Boards struggle in fulfilling their mandate of effective and efficient joint governance of the OMERS pension plan.

We appreciate the opportunity to comment on this important City of Toronto matter.

Sincerely,

A handwritten signature in black ink that reads "M. MAJOR". The letters are bold and slightly slanted, with a cursive-like flow.

Mike Major
President
COTAPSA

May 8, 2019

Mike Major
President
City of Toronto Administrative, Professional, Supervisory Association
77 Elizabeth Street, 3rd Floor
Toronto ON M5G 1P4

Dear Mike:

Re: Your letter dated April 17, 2019

I am writing in response to your letter dated April 17, 2019, received by us on the eve of the OMERS annual meeting. I believe that many of your questions were answered at the annual meeting and so I do not propose to repeat those answers below. Also, some of your questions were rhetorical in nature and I will not respond to them.

Many of your questions centred around the issue of investment management expenses. The Board of Directors pays careful attention to these expenses. As you know, OMERS generally employs a “direct-drive” strategy for investing, particularly within our private markets asset classes. We believe in building a diversified portfolio of high-quality investments, which requires highly-skilled talent with knowledge and experience to deliver strong long-term returns. We believe that in-house management will generate better returns for our Plan at lower cost and lower risk.

Over the last several years, we have increased our global diversification of the portfolio, including expanded asset allocation into private assets. The objective of these decisions is to optimize investment returns. In doing so, we accept the related costs, which will vary depending on many factors, including actual performance results and asset mix. As you are aware from the Annual Report and the annual meeting, our private markets investment teams have performed very well.

As you know, we have been working on modernizing our pension administration platform to ensure future flexibility, reliability and scalability. We are now taking a phased approach, taking advantage of the work done already (incremental, rather than a “big bang”). We are reviewing what gets rolled out and in what order.

OMERS has approximately 3000 employees across the organization, which includes OMERS Administration Corporation and its investment business units, including Oxford.



OMERS typically appoints its investment employees to sit on portfolio company boards, based on their experience with the asset, the industry or sector. Our employees are subject to the OMERS Code of Conduct and other policies and guidelines. In cases where we have multiple appointment rights, we may appoint an external person who has particular experience or expertise in the industry or sector that we feel would add value to the board. We are confident that we have strong representation on our portfolio company boards.

We are comfortable that Michael Latimer's appointment to the Choice REIT Board of Trustees is consistent with his employment arrangements with OMERS and well within standard practice for Chief Executive Officers. We have absolutely no doubt that Michael is committed and focused on his duties as CEO of OMERS.

As Board Chair, I have a great deal of confidence in the integrity of my fellow board members and our senior executive team led by Michael Latimer. Unfortunately, you make statements in your letter which impugn the conduct of both the board members and Mr. Latimer. Both the board and executive of OMERS attempt at all times to engage in constructive dialogue with members and seek to act solely in the best interest of plan members. Please ask as many questions as you feel you should, but I do ask you to try to be constructive and to refrain from making unnecessary and inaccurate derogatory statements that impugn character.

If you would like to discuss any of these issues, as always we would be pleased to meet with you.

Yours truly,

A handwritten signature in blue ink that reads "George L. Cooke". The signature is written in a cursive, flowing style.

George Cooke
Chair, OAC Board

April 17, 2019

OMERS Administration Corporation Board of Directors
900-100 Adelaide Street West
Toronto, Ontario, M5H 0E2

Dear OAC Board of Directors:

We are writing to raise questions & concerns about the OMERS 2018 Annual Report.

We need more transparency regarding the operating and compensation costs of our Plan. It is no longer acceptable to gloss over important cost issues with our members and employers. The money you are spending belongs to the membership (and Ontario taxpayers) and you have a fiduciary responsibility to spend it wisely.

Many of the concerns we expressed about disclosure and communications in last year's annual reporting have remained unaddressed and shrouded in needless secrecy.

Our ongoing objective is to be assured that our pension plan assets are safeguarded and that our highly compensated OMERS officials perform well and that our 29 Directors properly discharge their accountability and oversight responsibilities. Unfortunately, it is increasingly clear to us that the OAC Board may not have a firm grasp of what it is supposed to be doing with its oversight role.

2018 EXPENSES -- FACTS AND FIGURES

Gross Expenses have surpassed \$1 BILLION and are 29% higher than 2017

| \$million | 2018 | 2017 | Var % | Page |
|-------------------------|--------------|------------|------------|------|
| Investment Management | 540 | 409 | 32% | 80 |
| Pension Administration | 93 | 85 | 9% | 80 |
| Transaction and Pursuit | 269 | 199 | 35% | 78 |
| Manager performance | 99 | 83 | 19% | 78 |
| | 1,001 | 776 | 29% | |

Last year you told us in your response to COTAPSA that you have a robust process for your review of budget expenses.

1. Did the Board approve a 32% increase in Investment Management costs when approving the 2018 Budget? What justification supported this increase?
2. How is the Board's budget exercise, arguably one of your most important tasks, meaningful if expenses are allowed to grow without apparent boundaries?
3. With your often-stated objective of reducing costs to below 50 basis points how does OMERS plan to control these inflated operating and compensation costs?

Investment Management expenses are 32% higher than in 2017 and include a 41% increase in investment salaries:

| \$million | 2018 | 2017 | Var % | Page |
|---|------------|------------|------------|------|
| Salaries and Benefits | 405 | 287 | 41% | 80 |
| System development | 28 | 28 | 0% | 80 |
| Premises | 21 | 23 | -9% | 80 |
| Professional services | 35 | 24 | 46% | 80 |
| Travel and Communications | 17 | 14 | 21% | 80 |
| Investment management | 25 | 25 | 0% | 80 |
| Other | 9 | 8 | 13% | 80 |
| Total Investment Management Expenses | 540 | 409 | 32% | |

4. How do Salaries and Benefits increase \$118 million (41%) in one year, particularly when overall and private investment returns dropped significantly?

5. How many employees were compensated under this category?

Page 36 states that increased investment expenses were mainly driven by expanded asset allocation to, and performance in private assets, particularly in private equity, resulting in higher pay-for-performance costs.

6. How much of the \$118 million of investment Salaries is attributable to your private equity carried interest program that is buried within the MER and downplayed in your HR committee's compensation analysis?

7. Would OMERS Board of Directors be confident if the Fraser Institute was to do a study of your expenses similar to the recent review of CPPIB?

Since 2015 investment expenses have increased 54% and investment salaries are up an astronomical 78%! OMERS cost ratios are considerably higher compared to Teachers', who have twice the assets under management compared to OMERS! The following breakdown aligns with Teachers' reporting on page 23 of their recent annual report:

| \$million | OTPP | | OMERS | |
|--|--------------|------------------------|------------|------------------------|
| | OTPP | cents per \$100 assets | OMERS | cents per \$100 assets |
| Administration expenses | 555 | 30 | 540 | 56 |
| Management performance | 405 | 21 | 99 | 10 |
| Transaction costs | 301 | 16 | 269 | 28 |
| Total Investment Administration | 1,261 | 67 | 908 | 94 |

| | | |
|--|---------|--------|
| Estimated average assets in \$billions | 188,000 | 96,800 |
|--|---------|--------|

The run rate for OMERS Investment Administration at \$540 million is about the same as Teachers' at \$555 million, but OMERS has half the assets. OMERS executive compensation does not align with its peers. Compared to Teachers' the OMERS CFO and CIO have been

compensated 33% more and OMERS CEO 9% more than on average over the past three years.

8. Given Teachers' asset base and similar Plan complexity how does OMERS justify this higher compensation?

| \$million | 2018 | 2017 | 2016 | Average | % |
|------------------------|------|------|------|---------|------|
| OTPP President and CEO | 4.9 | 4.6 | 4.1 | 4.5 | |
| OMERS CEO | 4.1 | 5.3 | 5.2 | 4.9 | +9% |
| OTPP CFO | 1.6 | 1.6 | 1.4 | 1.5 | |
| OMERS CFO | 1.9 | 2.1 | 2.1 | 2.0 | +33% |
| OTPP CIO | 3.4 | 2.5 | 2.3 | 2.7 | |
| OMERS CIO | 3.5 | 3.8 | 3.4 | 3.6 | +33% |

OMERS split the President and CEO role in April of 2018 and its President and Chief Pension Officer was compensated \$3.9 million in 2018. Assuming the compensation for a Chief Pension Officer role is equivalent to \$.9 million (a generous valuation), OMERS paid over \$7.2 million to receive the services of a President and a CEO.

ADDITIONAL COMMENTS /QUESTIONS

9. OMERS combined pension and investment Travel and Communications expenses were 26 million dollars in comparison to only 21 million dollars Teachers', with twice the assets under management. The lack of context, justification, breakdown or budgeting information for these costs should be a concern to all contributors. Will OMERS report Travel and Communications expenses on separate lines in annual reports so that each of these costs be broken down into more meaningful descriptions for proper expense management?

OMERS "LEAP" – "PSS2" – "Pension administration platform redevelopment"

10. We are concerned that OMERS may have spent an estimated \$150 million dollars on its failed attempt to redevelop OMERS pension admin platform, only to close unfinished operations down in recent months, terminate the lead contractor and return to OMERS old pension administration system. But not before terminating many of the people that built and managed the old system over the past 20 years or more. The truth of this project and whether it has been ineffectively managed or represents a serious operational failure must come out! Will the OMERS Board of Directors be candid with members and employers about their role in what went wrong with the project?

11. Why won't OMERS follow the example of Teachers' and fully and clearly disclose the total amount paid for auditing and non-auditing services by the major accounting firms?

12. OMERS has invested heavily in OMERS Ventures and in the venture capital ecosystems in Toronto and many other cities. Why then is this activity ignored in your annual report? What is wrong with disclosing to members OMERS specific ambitions in this sector and how you are measuring success?

13. When will OMERS start reporting again how many employees it has? Oxford Properties Group states on its website that it has over 1900 fulltime employees. We know that OMERS President and Chief Pension Officer claimed in his recent meetings with members that OMERS has 3200 employees. Does this mean that OMERS Administration Corporation has a total workforce of 1300 employees? Even a diagram of OMERS organizational structure would be helpful - corporate, pension administration, private equity, infrastructure and real estate. Surely this is not commercially sensitive information. Every Ontario Government department maintains an up to date organizational structure chart and the names and phone numbers of all employees on their website.

14. Why is OMERS reluctant to talk about its many satellite offices? Why so little information on the offices and the potential they bring for our members? For instance, how are employees chosen to work in the offices and are professionals rotated in and out with the Toronto office in order to gain experience? Who leads each office? How many employees does OMERS have in each office? What relationships have been built, how many outreach meetings are held and how many opportunities are sourced by Private Equity, Real Estate and Infrastructure? Surely this information is not a state secret!

15. Are there any actual policies, procedures or training that an OMERS employee representing OMERS on one of OMERS portfolio company Boards must comply with or undertake?

16. In terms of OMERS CEO Michael Latimer recently accepting an appointment with Choice Properties REIT Board of Trustees, a Weston company, was there a determination by the OMERS Board of Directors that his appointment was acceptable? Was there any discussion about how poorly this move reflects on OMERS reputation allowing our highly compensated CEO to take this personal appointment amidst the worst financial results in a decade? That Mr. Latimer would even broach the matter indicates that his mind is focused more on his personal interests than on OMERS. That the OMERS Board of Directors would allow this appointment to proceed shows how out of touch it is. The CEO's position should be a fulltime job!

Sincerely,

A handwritten signature in black ink that reads "M. MAJOR". The letters are bold and slightly slanted, with a casual, personal feel.

Mike Major
President
COTAPSA

BULLETIN

Our OMERS Pension Plan: What COTAPSA wants and how we are trying to get it.

COTAPSA is Canada's oldest and largest municipal management nonunion association, representing over 4,800 nonunion employees across the City of Toronto. We represent nonunion employees in virtually every department and ABC of Toronto's government. This mission involves protecting the long-term interests of our active contributors to the OMERS pension plan. OMERS advocacy is an important facet of COTAPSA's mission.

Key OMERS Issues:

City of Toronto employees receive salaries, healthcare and OMERS pension benefits as basic components of their compensation. OMERS is a defined benefit plan that is funded by equal contributions from employees and employers and by OMERS investment earnings. The OMERS promise is to provide, within reason, guaranteed pension benefits for its contributing members.

All OMERS members work hard to earn their pensions and largely trust OMERS to deliver on its pension promise. But, to continue to keep that trust, COTAPSA believes that OMERS Boards must be open to fair comment and scrutiny through the good times and the bad.

Over the past decade a funding deficit, inadequate investment returns, shifting demographics and rising investment and pension administration costs have put our OMERS pension benefits and contribution rates under pressure. A number of Plan Change initiatives by OMERS would, if passed, diminish benefits for all future retirees and new OMERS members. This scenario matters as much or more to younger OMERS contributors as they stand to be paying higher contributions to pay for today's retirees while witnessing their pension promise potentially shrink. It's about fairness.

Public pension administration and investment management is hard work, involves risk and is not always profitable – contributors understand that. In good financial times OMERS pension benefits were expanded by previous employer and employee directors – contributors understand that. In these prolonged weak financial times, OMERS has to take measures to ensure the pension promise continues to be met – contributors understand that. **What we do not agree with is the unfairness to all OMERS active contributors who now must stand back while their pensions may be reduced, and all the while the OMERS boards and management continue to spend lavishly with minimal explanation or cost-benefit analysis for OMERS hugely increased operating costs.**

We have witnessed an erosion of accountability and trust in OMERS Board governance since the OMERS Act, 2006 was enacted 13 years ago. As concerned contributor advocates, we are increasingly forced to look beyond official information sources to confirm that we are indeed receiving good value from OMERS for our pension money. Until we became vocal in our advocacy in the past decade OMERS 29 Directors and their Sponsors assumed that OMERS enjoyed the support of happily indifferent contributors who believed their retirement money was in good hands.

Without pointed and persistent comment on these oversight and accountability issues, positive change will not occur. That is why we continue to pressure OMERS.

If regular, factual and comprehensive information was received, then contributors might be inclined to trust OMERS communications more and perhaps support the organization's sustainability efforts for beneficiaries. But, we believe both of the OMERS boards and their 29 Directors lack the desire to effectively respond to either the current or emerging information needs of its active contributors in these uncertain economic times.

Over recent years, COTAPSA has had a number of successes in protecting pension benefits for our members. The aim of our OMERS advocacy efforts is to increase governance efficiency and transparency at OMERS two Boards. We are demanding more disclosure from the OMERS Boards' as we discover more information about OMERS investment and pension administration activities that we believe must be disclosed or better reported. COTAPSA also continues to advocate for a more inclusive model of sponsor representation on the OMERS boards. We seek a sponsor governance model that is as efficient and effective as possible, with full transparency and decisions made collaboratively through a "committee" directly representative of employers and active contributors, including nonunion, as equals, with equal information access.

We encourage all nonunion employees to stay informed about OMERS by visiting www.omers.com, or attending any OMERS hosted meetings or member education sessions.

OMERS is located at 100 Adelaide Street West, only two blocks from City Hall and contributors should not hesitate calling (416) 369-2400 for an appointment to ask questions or flag concerns they have with their personal pensions. The more informed and involved OMERS members are, the stronger OMERS will be.

Please see link to various communications involving OMERS related matters in recent years. (<http://cotapsa.ca/inside-cotapsa/>) – *Advocacy (OMERS)*