

April 5, 2018

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

Attention: Ms. Pat Nolan

Dear OAC Board of Directors:

RE: 2017 Annual Report and Various Governance and Communications Issues

First of all, congratulations on improving the retirement security of OMERS members by prudently investing and managing OMERS assets and delivering retiree benefits in 2017. We would like to comment on how some matters in the Annual Report are portrayed, as well as offer our perspective and concerns on several governance and communications matters we believe should be shared.

In our opinion the Annual Report is the best opportunity for the OMERS Boards and their respective management teams to highlight the plan's successes and challenges, candidly and transparently. Addressing all the great things that happened without acknowledging the challenges is a missed opportunity. We believe the first 23 pages of the Annual Report, "*Progress on the 2020 Strategy*" and "*Looking Ahead*" could have been better focused on traditional annual report metrics, with fewer pictures, less editorializing, and more straight-up reporting on the news for the past year.

OMERS finished 2017 with a reported net value of \$95 billion, an increase of \$9.7 billion after \$4.193 billion in member and employer contributions and \$4.005 billion in benefit payouts. The fund delivered a net return of 11.5% on a reported total gross of 12.05%. However, we want to highlight the following expenses:

- **Investment management expenses** were \$409 million in 2017, and \$427 million in 2016.
- **Pension administrative expenses** were \$85 million in 2017 and \$80 million in 2016.
- **Travel and communications** costs for management were \$22 million in 2017, \$28 million 2016, [2016 report shows \$28 million (21+7)] for a **5-year reported total of \$122 million.**
- **"Other"** operating costs in 2017 - \$8 million and \$12 million in 2016
- **OAC Board of Director'** remuneration and expenses were **\$1.4 million**
- **Sponsors Corporation Board of Director'** remuneration and expenses were \$882,000 and the Sponsors Corporation operating expenses in 2017 were **\$2,373,444.**
- **2017 operating expenses for two OMERS boards – Total \$3.8 million dollars.**

POINTS OF CONCERN

An Annual Report letter from the OAC Board's independent Board Chair

The absence of a letter in the 2017 Annual Report from the OAC's independent Board Chair is of concern. At a minimum this letter provides members with an independent, transparent, high-level perspective on the Chair's thinking and represents good corporate governance.

We would like a letter from the independent Board Chair in the next Annual Report, in his own words, about the previous year's accomplishments and priorities for the upcoming year. We firmly believe contributors and beneficiaries of OMERS are entitled to have a report on the work of OAC Board over the past year, on our behalf. The OAC Board is supposed to maintain the important lines of responsibility and the independent Chair should demonstrate his independence from management and the Sponsors Corporation that appointed him. Likewise, for the OAC President and CEO. We want and expect to hear from the person at the helm, in a traditional CEO Annual Report letter.

Conflicting Commitments

At \$170,000 per year, the OAC Independent Board Chair (IBC), Mr. George Cooke, is competitively compensated for his responsibilities and time commitment and is expected to be engaged on OMERS matters beyond preparing for, and participating in, Board and Committee meetings. Public records indicate that Mr. Cooke is also an appointee of the Ontario government to the Hydro One Board of Directors and the Chair of the Ontario Lottery and Gaming Corporation. His reported annual compensation for these two appointments is approximately \$160k and \$170K respectively – which is to say that he is also competitively compensated for those roles. Mr. Cooke is chairing the boards of two multi-billion-dollar organizations in addition to his director duties on the Hydro One Board, another large, complex organization. Objectively, the combined level of expected involvement with these two additional professional organizations raises questions about his capacity to properly meet his OMERS Chair responsibilities.

Reporting individual director education, travel, meal and hospitality expenses

Will the OAC Board post individual and itemized Director -- education, conferences, travel, meal and hospitality expenses, effective January 1, 2018? We would like more detail on the expenses of each Director: the names and locations of conferences and courses, and the educational rationale for attending. Only then can members be confident that there is value in those expenditures.

OMERS 2030 Strategy

Page 21 of the 2017 Annual Report states that the SC and AC Boards commenced joint planning in 2017 for the development of "OMERS 2030 Strategy". The OAC Board reportedly assessed the CEO's 2017 performance and \$5.3 million compensation

against 7 key objectives, (Page 95) – one of which was: “Engage the OAC Board and senior leaders on key elements of the next generation 2030 strategy”. We question how three years of “strategic planning” for a 10-year joint board strategy, commencing in 2020, benefits members and employers? We understand that strategic planning is important, especially for management, but public pension funds today develop three-year strategies, not even the more traditional five-year strategic plan. The themes chosen for this 13-year initiative – plan maturity, longevity, workforce trends and economic factors - have been part of pension plan governance framework for decades.

Note 12 Pension Administrative and Investment Management Expenses -Page 80

Investment Salaries and Benefits - In 2010, this category was \$125 million and in 2017, \$287 million. What are the reasons for the increase? What has been the growth in headcount over this 7-year period? What portion of the 2017 amount is salary, benefits, Short-Term Incentive Pay, and Long-Term Incentive Pay respectively?

Note ii - Page 80, indicates that the salary and benefits figure also “includes external management and custody fees and is net of management fees earned from portfolio investments of \$29.9 million”. Why have the external management fees been lumped in with internal management expenses?

What amounts were paid for both management and performance fees to external managers for investing and managing capital committed by OMERS to private and public markets?

Does the OAC Board have a carried interest program for private assets? If so, what is the dollar value?

Why aren't transaction and pursuit costs listed on a separate line?

Professional Services – Individual transaction costs for due diligence services, legal and tax advisory fees to support acquisitions and dispositions of private assets and commissions for trading securities are easily identified. Given the nature of these costs, which, as the fund grows, are expected to increase, particularly in the emerging markets, is it not prudent for the Board and beneficiaries to see these figures annually?

We are requesting that Professional Services be reported in categories: Consulting services, Legal services, tax advisory, external audit, and audit-related services as appropriate. Please record costs that are directly attributable to the acquisition or disposal of an investment as “Transactions”.

Travel and Communication - Is the Audit & Actuarial Committee comfortable with the lack of context and perspective for \$122 million in reported costs in five years?

When the Board reviews management's annual plans are these Travel and Communications costs budgeted for each pension and investment group?

How does the Audit & Actuarial Committee assess what amounts of management's annual expenses related to travel, accommodation, communications and hospitality are being designated to the financial statements of OMERS portfolio companies?

We are requesting that Travel and Communications be given separate lines in the annual operating expense reports for pension administration and investment management; travel costs be renamed Travel, Hospitality and Accommodation; and investment Travel, Hospitality and Accommodation costs be categorized as General Operations, Asset Management, Transactions and Pursuits.

Investment "Other" - What are the items that add up to \$8 million and \$12 million dollars in this catch-all category - write offs, errors and omissions, recruitment? \$20 million is a lot of money and we believe should be defined in greater detail in an Annual Report, regardless of the sum in relation to the size of the plan.

Pension Administration - Member Services

It's been called "our systems renewal initiative, PSS2" and several other acronyms in the five years since it was first reported in OMERS 2013 Annual Report. This initiative appears to be at the core of dramatically increased operating expenses for pension administration. Using numbers in five Annual Reports, OMERS has spent at least \$65 million dollars and it appears from your own reports there is no clear end in sight.

The initiative has been referenced no less than 27 times in five annual reports, each time with a different message, and never explained properly. Many pension administration systems globally are in some stage of modernization. What is making this modernization project difficult, it seems, is a lack of transparency and the reluctance of the OAC Board to take responsibility for its many assurances and promises in successive annual reports. We think it is time for the OAC Board to provide members and employers with a candid, transparent and thorough overview of this project.

Leadership Training

Much has been reported in OMERS Annual Reports on recruiting, retaining, training and compensating employees. There have been many references to "programs", training and investments for key or emerging leaders in successive annual reports. What we never see or hear about is reporting on the specifics of these development and training programs. That is: "What-Who-When-Costs-Results." We do not doubt the commitment to professionalism, but we need basic and relevant information (annual costs-results-quality-time) that will allow us to determine whether any recruitment, retention or training of the "A Team" actually leads to better candidates and productivity improvements.

Please confirm the existence of an actual defined HR/talent strategy. In the event the Board feels this information can't be disclosed, then at least confirm that there is an actual HR strategy and that the committee sees an annual operating plan, budget and expenses.

Website Update

In January, a redesigned website was launched. The new site is easy to navigate from a smartphone or tablet but not a desktop. Windows 10 and Edge users must view the site with an old browser.

Much of the featured performance information posted relates to 2016, not 2017. Indeed the Member Affiliation Summary, Employer Category Summary and Employer Listing are all from 2016 and also Annual Report information was purged. We are requesting that immediately all Annual Reports dating from 2006 onwards be reposted.

Additionally, we would like you to disclose the 20 years of Annual Reports to match the reporting of the 20-year return history. Members have paid for them and there is no cost for posting to the website. The Ontario Teachers' post their annual reports, financial statements and other reports back to 2000 and will print and mail copies as requested by members -- free of charge.

Code of Conduct

OMERS has experienced two very public and no doubt costly disputes in the past ten years or so. In both the MacKinnon lawsuit, and the Mississauga Inquiry, no wrong doing was found. For OMERS, a publicly accountable enterprise, its reputation was needlessly challenged. There are many comments on social media and stories about OMERS culture. Lots of praise about employee benefits, etc., but also negative commentary about high employee turnover, questionable hiring decisions and low morale. We are voicing our concern about stories implying preferential hiring of family and friends of OAC Board members and senior executives at OMERS and companies that do business with OMERS, both for full time jobs as well as summer placements. If true, these actions by a few bad actors reflect poorly on OMERS.

Proactive Disclosure

We are requesting regular and timely information be provided on the OMERS website regarding pension and investment activities – members should not have to read about changes in senior management in the Globe and Mail. With this we are requesting consideration of implementing several measures to enhance your commitment to transparency and oversight of OMERS resources. To this end, will OMERS publish on its website and Annual Reports the individual travel, accommodation and education/conference expenses for all board members, either paid for by OMERS, or for OMERS related activities; the promotion or hiring of staff positions, VP and above; and an updated disclosure policy that ensures the owners of the fund are promptly made aware of operational, investment and administrative activities, especially the sort of stories media report upon?

Finally, please consider the following additional inclusions and reinstatements in future OMERS annual reports:

- A list of all current participating employers and categories.

- Reinststate the Definitions section. These definitions give meaning to the terms used in reporting.
- Include a list of OMERS external managers, auditors, compensation consultants, consultants, legal, tax and financial, investment managers, all vendors, and all contracts over \$1,000,000.
- Reinststate sponsor information on individual appointees to both the SC and the OAC
- Reinststate the list of all OMERS investments in private and public companies and partnerships that exceed \$100 million.
- Include Annual Meeting information in Annual Reports.
- Include phone/address/email contact information for each and every OMERS office around the globe. Other plans do it as a gesture to analysts, regulators and prospective co-investors.
- Publish the names and titles of all OMERS and Oxford C-suite, EVPs, Senior Managing Directors, Managing Directors, SVPs and VPs.
- Reinststate the names of each sponsor organization with primary contact, address and email.

OMERS members work hard to earn their pensions and trust OMERS to deliver on its pension promise. To continue to earn that trust, COTAPSA believes that the OMERS Boards must be open to scrutiny through the good times and the bad. It is disheartening that both the 2017 Annual Report and the 2018 website refresh resulted in the purging of useful information.

We hope this letter and future correspondence will identify opportunities to improve disclosure and meaningful annual reporting and look forward to the OAC Board's answers to our comments, questions and requests.

In anticipation of a written response to our 20 or so questions, requests and comments, we will not be raising any of these concerns at the upcoming Annual Meeting on April 9th, 2018.

Sincerely,



Mike Major
President
COTAPSA