

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	
		cents per \$100 assets		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
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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