COTAPSA
Our CITY, Our PEOPLE

February 14, 2019

Mark White
CEO
Financial Services Regulatory Authority of Ontario (FSRA)
130 Adelaide Street West, Suite 800
Toronto ON M5H 3P5

Dear Mr. White,

Re: Proposed 2019-20 Priorities and Budget – Pension Sector

> *"Thirty years ago, when all investments were in Canada by those pension plans, they didn't need to structure things through the Bahamas," "We can go back to that, and the pensioners will get half their pension."* **- Jim Leech, former CEO of the Ontario Teachers' Pension Plan – as quoted in a December 2017 CBC News story about Canadian pension funds widespread use of offshore investment structures to legally minimize taxes on their private transactions.**

COTAPSA (the City of Toronto Administrative, Professional Supervisory Association) is the largest and oldest municipal association in Canada and represents the over 4,000 nonunion/management employees working at the City of Toronto. We are responding to the Financial Services Regulatory Authority of Ontario's (FSRA) request for comment on its proposed 2019-20 Priorities and Budget – Pension Sector.

Our intention in opening this letter with a particular quote is not to draw attention to some very sobering implications for Ontario's public pension investment realities but rather as to how we as pension beneficiaries increasingly receive news about our plans' investment strategies, policies and transactions and tax structures. Most contributors are reasonable and understand that investing successfully requires the use of every available legal means to maximize returns and savings. However, it seems increasingly evident that our pension plan directors and trustees have grown used to little or no scrutiny around their governance, investing, operating efficiency/costs and disclosure. There is too much at stake for beneficiaries and taxpayers to allow this fiduciary neglect to continue, without greater regulatory oversight and scrutiny.

While your pension priorities are broad and vague, we appreciate that FSRA and its Board is "committed to principles-based decision making…and will be an effective steward of resources". Of particular interest is your proposed priority for a "relationship model" for larger pension plans. COTAPSA wants to ensure that your activities in implementing and maintaining this stakeholder relations objective are transparent and remain accessible to pension beneficiaries and the public. Aside from a very narrow range of commercially sensitive issues, any discussions between FSRA staff (or members of its Board) and Jointly Sponsored Pension Plan (JSPP) management executives or their respective Board trustees/directors should be done transparently. This would also apply to lobbyists for JSPPs.

With respect to your priority for "burden reduction" in the Pension Sector we suggest that you, at least initially, question all assumptions made about so-called regulatory "burdens" in the pension sector, invite quantification of said burdens and verify all declarations.

"Sector-specific [Pensions]: Targeted High-impact Priorities…Review Prudential Framework"

Current reporting and filing standards for Ontario public pension plans have not kept pace with the increased complexity of investment/risk management, institutional governance, transaction structuring, valuation methodologies and risk taking involved in our pension plans. Properly gauging both the financial health of the sector, as well as the effectiveness and efficiency of plan's individual governance, investment and pension administrative activities requires objective and actionable benchmarking information. We attach letters sent to and received by OMERS in 2018 regarding COTAPSA's concerns with their 2017 annual report and other communications/disclosure-related matters.

The additional costs and efforts to implement annual reporting enhancements, many of which have been commonplace in US federal and state regulated pension plans for decades, are miniscule. We are confident that increased transparency will give FSRA greater clarity of the aggregate cost/benefit of the pension sector and, in time, more efficient and effective outcomes for pension beneficiaries.

With respect to asset allocation matters, increased allocations to real estate, private equity, and infrastructure assets raise concerns about the use of financial leverage and increased sectoral risk in order to drive investment returns. There is also corresponding potential for abuse surrounding the valuations of private assets. In a similar vein, we believe that our pension plans should be encouraged to invest in Ontario when appropriate. However, a host of governance and related party risks rise in concert with our pension plans involvement in infrastructure or real estate P3s will increasingly require careful oversight of potential conflicts of interest.

We hope that as the depth of your JSPP expertise grows you will begin to focus on broader, sectoral accountability metrics such as better access to timely and accurate information. No more reality distorting annual reports full of unnecessary pictures and information that obscures the true quality of plan balance sheets. Greater transparency around Board/governance costs; and legal, compliance, and transaction costs is needed urgently. We also hope you and your staff look beyond official correspondence and visit each pension plan; probe for access to management information; get the specifics of their functional and management structure; and the organization of their investment management, pension administration and corporate functions. We believe these efforts will help in your review of data collection and filing requirements.

Experts say that good pension regulation will strike a balance between protecting beneficiaries while not unfairly burdening investment and pension administrators. COTAPSA supports necessary efforts for growth of assets under management but with the careful oversight of a regulator with more tools and resources to improve reporting and disclosure standards. In the spirit of dialogue and addressing your stated objectives for Ontario's public pensions, we look forward to better sectoral supervision when FSRA fully assumes its legislated mandate later this year. The several million DB members that Ontario regulates will thank you.

Regards,

M. MAJOR

Mike Major
President
COTAPSA

Response from OAC Board to April 17, 2018 Letter from COTAPSA - 2017 Annual Report

Response from COTAPSA to April 13, 2018 letter from OAC Board - 2017 Annual Report and Various Governance and Communications Issues

Response from OAC Board to April 5, 2018 letter from COTAPSA - 2017 Annual Report and Various Governance and Communications Issues

April 5, 2018 - Letter to OAC Board - 2017 Annual Report and Various Governance and Communications Issues

OMERS

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April 19, 2018

Delivered via E-mail to cotapsa@toronto.ca

COTAPSA
Mike Major, President
77 Elizabeth Street, 33rd Floor
Toronto, Ontario
M5G 1P4

Dear Mike:

RE: Your letter dated April 17, 2018

I acknowledge receipt of your letter dated April 17, 2018.

Please note that the video of the OMERS Annual Meeting posted on the OMERS website has not been edited.

This reply and all our various exchanges of emails and letters have been provided to the OAC Board so that all the Directors are fully informed.

Yours truly,

George L Cooke

George Cooke
Chair, OAC Board

cc: Board of Directors, OMERS Administration Corporation
M. Latimer, CEO, OMERS Administration Corporation
B. Hutcheson, President and Chief Pension Officer, OMERS Administration Corporation
M. Kelly, Executive Vice President and General Counsel, OMERS Administration Corporation
M. Love, Co-Chair, OMERS Sponsors Corporation
F. Ramagnano, Co-Chair, OMERS Sponsors Corporation
P. Harrietha, CEO, OMERS Sponsors Corporation
B. Mills, CEO and Superintendent, Financial Services Commission of Ontario

COTAPSA
Our CITY, Our PEOPLE

April 17, 2018

Mr. George Cooke, Chair
OMERS Administration Corporation (OAC) Board of Directors
900-100 Adelaide Street West
Toronto, Ontario, M5H 0E2

Dear Mr. Cooke:

RE: 2017 Annual Report and Various Governance and Communications Issues

Thank you for responding on behalf of the OAC Board to our April 5th letter.

We are encouraged with a number of your responses, while also disappointed with your reactions to some of our issues. Beyond this, we are concerned that, perfunctory gestures aside, our feedback has been glossed over.

COTAPSA invested a good deal of time and resources to lay out our issues and feedback in a straightforward manner. Your letter responded to approximately half of our questions - not necessarily to our liking - but clear all the same. The reordering of our other questions and feedback compromises the effectiveness of your communication. Nonetheless, the issues are now out in the open and I will attempt to respond to what I believe are the salient points in the OAC Board of Directors' response.

I watched the edited video from the OMERS Annual Meeting of April 9th and find, despite your insistence, few of our issues were actually addressed - at least not in the way that an outsider or ordinary member would understand.

Even if our specific points were not addressed at the AGM, perhaps some of the issues you refer to were discussed at the private Sponsor meeting, apparently held after the official AGM. Unfortunately, no summary of that meeting has been made available by the SC Co-Chairs, or anyone else representing the SC.

While I appreciate your offers to meet one to one, and fully recognize your professionalism, one-on-one meetings are not the appropriate forum to advance COTAPSA's Board of Directors and members' objectives. Likewise, the many OMERS consultative initiatives "seeking input" have served only to provide COTAPSA with a deep, skeptical perspective about OMERS governance decision-making. Our current preferred channels of communications are participation where possible, and written correspondence, letting as many people as possible know our central concern: that poorly structured and expensive governance is weakening accountability and disclosure at OMERS, and the remedying of this situation must be a top priority, either by the Sponsors or the Ontario government.

I regret to say that some aspects of the recent OMERS AGM have provided us reason to believe that this stream of correspondence is probably our best and only option for getting these concerns addressed.

I noticed how some remarks given during the AGM sounded like subtle attempts to re-write recent OMERS history. For example, it was odd to hear the current OMERS CEO imply that OMERS efforts to communicate with a wider array of stakeholders dates back to his promotion to the role of CEO in April 2014, and that these efforts were somehow *his* idea. It is well known, that those efforts were prompted by the groundswell of responses to the *Dean Review*, which Senator Dean later crystallized into a specific recommendation in his final report in early 2013.

Senator Dean may find this revisionist history merely amusing, and we wonder what he would think. It is a needless distortion of basic fact, uttered by an executive with a two-decade history with the OMERS organization and who should know better.

OMERS Governance

We know the "bicameral structure" is one of a kind. Our concern is precisely that two boards have been expending tens of millions of dollars of member resources for over 11 years, "to [uncritically] make this legislated structure work." It's disingenuous of the OAC Board to imply, as your letter does, that OMERS Sponsors and their board appointees had no choice but to "make it work". COTAPSA met Senator Dean during his review. The current sponsors, to my knowledge, all told him to maintain status quo for the governance model. There is no evidence that we've seen to suggest any one of the Sponsors expressed any concerns about the outrageous governance costs, inefficiency, ineffectiveness or the overall unfairness of the model for employers and members.

It's considerate of the OAC Board to mention the SC in relation to the *Dean Review* and our efforts to obtain sponsor status for management, non-union members on both OMERS boards. I have no recollection of any invitation to COTAPSA from the SC for "constructive input", or Senator Dean even mentioning the phrase in his report. Despite assurances that the OAC Board did everything "within [OAC's] control," we all know that important elements of Dean's "Recommendation 4" remain untouched by the SC. Our concern is that the OAC Board seems content to look the other way and hopes that no one calls them out on it.

The mentioning of the *Competency Framework* for the OAC Board is welcome. The OAC Board is fortunate to have some very highly skilled Directors, from both employee and employer sponsor organizations. However, the letter neglects to mention other aspects of OAC Board capacity, and ignores the manifestly evident fact that multiple sponsors virtually ignore the OAC Board's skills matrix and appoint Directors to the OAC Board – and, apparently neither the SC or OAC boards has done anything to curtail this practice. Senator Dean acknowledged the "representative" dilemma in building a strong OMERS board. It follows that not all OAC Board members may be as "effective" as your letter would like us to believe.

Your "over-boarded" comments are not what we were expecting. Notwithstanding your good attendance record, our comment was addressed to the OAC Board. We did not ask for a response, and only hope that we are now receiving the view of the OAC Board. Perhaps the Board voted on the matter or obtained an expert third party opinion supporting your contention that you could effectively manage your time and responsibilities for each company and none are being shortchanged. After all, OLG and Hydro One are also public-facing organizations.

Transparency and Disclosure

Your letter indicates that the OAC Board will consider our specific feedback and suggestions, without saying which ones and when. The letter then backtracks with a number of qualifying statements and conditions tempering your consideration. If the OAC Board has a coherent view on any or all of our issues, then it should say so without equivocation. You followed this same style in the appendix of your letter. To minimally own up to some of the minor deficiencies pointed out and our modest communications requests shows poor judgment and confuses us about the nature of the interface between the OAC Board and Management.

Expense Management and Value Added

Did the OAC Board take a vote on its position against further disclosure of Board travel and conference expenses, believing these disclosures to be, as your letter suggests, irrelevant and meaningless? Or is this your view as the independent Chair? Regardless, your response, that, "the review of these items is well in hand through our Governance Committee," is unsatisfactory. We are asking that members, employers and the public see for themselves that their money is used prudently and responsibly, in support of the stated objectives of both OMERS Boards. If, as you state, the committee with oversight of these expenses is doing its job, then surely it can withstand the scrutiny of members.

While there are few adequate responses in this section of the letter, it seems that the OAC Board is trying to justify its actions and policies, rather than providing sufficient rationale or answers in response to our questions.

Next Steps

This is not the final word on your letter and we may seek clarification on a number of your responses. We wish to remind you that we are interested in the Board's domain, and its decision-making, not management's and we stress the importance placed in these communications in obtaining meaningful and useful disclosure about OMERS governance decision-making.

Sincerely,

M. MAJOR

Mike Major
President
COTAPSA

OMERS

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April 13, 2018

Delivered via E-mail to cotapsa@toronto.ca

COTAPSA
Mike Major, President
77 Elizabeth Street, 33rd Floor
Toronto, Ontario
M5G 1P4

Dear Mike:

RE: Annual Report and Various Governance and Communications Issues

I am writing in response to your letter to the OMERS Administration Corporation Board of Directors (OAC Board) dated April 5, 2018. As noted in my prior email correspondence with you, I would be pleased to meet with you in person to discuss these issues or any other concerns that you may have about OMERS. It was unfortunate that you were unable to attend our Annual General Meeting on April 9th where many of these matters were discussed. I invite you to go to our website to view the video of our meeting.

While the letter raised several specific points of comment or concern for COTAPSA including how certain expenses are itemized in OMERS financial statements, it seems to focus on three broad areas: (i) governance; (ii) communications and disclosure; and (iii) costs incurred by Management and the Boards and the associated value generated for members. These are important matters on which the OAC Board and Management spend considerable time and energy. In an attempt to respond appropriately to your concerns, we will address each of these in turn.

OMERS Governance

OMERS operates on the premise that effective and transparent governance is fundamental in fulfilling the pension promise, and we are committed to achieving high standards in governance. We acknowledge that the bicameral structure of our Boards is unique, but we have worked hard in cooperation with the Sponsors Corporation (SC) to make this legislated structure work for the benefit of 482,000 Plan members.

Your letter challenges the adequacy of OMERS governance on numerous fronts. Governance has been a large focus for the OAC Board and Management, particularly since the Tony Dean review in 2012 which offered helpful observations on the OMERS governance structure as well as actionable recommendations. We have diligently tracked our progress against these recommendations and are proud that we have been able to implement the recommendations that are within our control. We acknowledge that you have lingering concerns over representation on the SC Board, but also acknowledge the effort made by the SC through regular meetings with the unaffiliated groups to improve communication and invite constructive input.

Over the last five years, we have made numerous governance improvements including strengthening the OAC Board with skills-based appointees, the addition of an Independent Board Chair, and the development, with the SC, of a joint Strategic Plan for OMERS.

In 2017, an updated Competency Framework for the OAC Board and an associated Skills Matrix, mapping individual skill sets against this Framework, were developed to assist the SC in the recruitment of new OAC Directors. This Framework supports the continued development of a high-capacity OAC Board where directors have demonstrable skills and experience in areas that are critical to the business and success of OMERS. The Competency Framework is published on our website. We are proud of the changes we have made in this area which represent best practices in Canada. I focus on this as a number of your comments relate to oversight of matters such as strategy, compensation and transparency, where members must necessarily rely on their Board to bring necessary skills to bear in carrying out its fiduciary obligations.

I would also point out that the Competency Framework specifies that "each Director must be able and willing to devote the time and effort necessary to be an effective Board member". The implication of your letter is that I am "over-boarded". My attendance record is set out in the Annual Report, and I have been both able and willing to devote the necessary time to fulfill my obligations as OAC Board Chair.

The Competency Framework and Skills Matrix also assist me in populating the Board Committees with appropriate expertise. The OAC Board currently has six Standing Committees: Appeals; Audit & Actuarial; Governance; Human Resources; Investment; and Technology. The OAC Board is also supported by a new ad hoc Risk Oversight Committee as well as the Joint Council, which includes members of both the OAC and SC Boards and serves as a vehicle in which to surface and address matters of importance to both Boards.

Each Committee has a Board-approved mandate, develops an annual work plan to guide its efforts, and has oversight and approval authority for policies related to its mandate. Of particular relevance to your stated concerns, I would like to call out the roles of the Audit & Actuarial and the Governance Committees.

Audit & Actuarial Committee: Responsibilities include, among other things, oversight for the integrity of the financial reporting process and financial statements; system of internal control and disclosures; external audit of the financial statements; and the organization's processes for monitoring compliance with policies, laws and regulations and the Code of Conduct and Ethics.

Governance Committee: Responsibilities include, among other things, approving and implementing regular performance assessments of the OAC Board, its Committees and individual Directors; recommending changes to the OAC Board's processes to address effectiveness issues arising out of the assessments; assessing the competency requirements of the OAC Board and recommending skills and experience needs for the Board and confirming the specific competencies of individual Directors.

For more detailed information regarding our governance model, we would encourage you to refer to our Governance Manual which can be found online at: https://www.omers.com/About-OMERS/OMERS_Governance/Administration_Corporation/Governance-Manual-Policies-Guidelines. I would note that we are one of the few institutions that actually posts its Board-approved policies on its website.

Overall, we are confident that the OAC Board's governance framework, inclusive of our Committee structure, policies and procedures, is robust and exceeds industry standards for good governance.

Transparency and Disclosure

In our annual reporting and website disclosure, OMERS objective is to provide members with meaningful and relevant information to promote an understanding of our pension plan and its health, as well as an understanding of how we manage the Plan on their behalf. We consider materiality, relevance and utility, as well as cost of our disclosure to members.

Your letter expresses some concerns about the level of disclosure in our reporting and provides some suggestions on how disclosure can be improved. We thank you for your suggestions and will take them into consideration as we continually look to improve reporting. Of course, it is not possible or practical to satisfy every particular request for disclosure; some constituents are focused on certain items that may or may not be material to plan members as a whole. The Board and Management need to make determinations of materiality in presenting information to members that is meaningful, concise and understandable.

In providing disclosure we comply with all applicable laws including the *Pension Benefits Act* and with financial reporting standards including the Chartered Professional Accountants of Canada Section 4600 – Pension Plans, which is the basis for Canadian accounting standards for pension plans. For accounting policies that do not relate to OMERS investment portfolio or pension obligations, we adhere to the requirements of International Financial Reporting Standards.

Although we are not a public company subject to the disclosure requirements of listed companies under Ontario securities laws, we voluntarily adopt many of the public company disclosure practices in an effort to enhance the quality of disclosure to our members. In addition, we perform annual benchmarking and believe that our disclosures are generally consistent with our peers.

In summary, we are confident that our disclosure practices are appropriate; however, we will consider your specific feedback and suggestions as we continue to evolve our reporting and our website interaction with members.

Expense Management & Value Added

Your letter suggests that we lack appropriate policies and processes related to expense management, and that certain expenses are excessive. With respect, we disagree with this assessment.

The OAC Board and Management believe that prudent expense management is imperative; expenses are reviewed annually with the Board and Management as part of our Operating Plan approval process. This process begins with a bottom-up build of expense and investment return estimates by Pension Services, Corporate Functions, and the Investment Businesses. These expense and return estimates are then subject to review and robust challenge by the Senior Executive Team and relevant OAC Board Committees, and are ultimately reviewed and approved by the OAC Board.

Once the expense budget has been set, we have numerous policies in place to guide expense management at OMERS. These policies are posted on our website and include: Board Education & Expense; Director Remuneration; Financial Disclosure; and Sponsors Corporation Support and Reimbursement.

Your letter specifically focuses on OAC Board expenses such as conferences and travel. I can confirm that during my tenure, Board expenses have decreased materially. When I assumed the Chair in October 2013, I conducted a review of Board expenses. They have come down from $529,138 in 2013 to $200,406 in 2017. Board consultant expenses (e.g. executive compensation, which is disclosed in the Annual Report) have also decreased materially during that time. In my view, this has occurred hand-in-hand with the development of a high-capacity Board, which has been a key evolution in the maturity of the OMERS governance framework as discussed above. With respect, we do not believe that listing out every conference or travel expense of each director is meaningful and relevant disclosure, and I can confirm that the review of these items is well in hand through our Governance Committee. The Annual Report does include total expenses for each director.

Your letter also expresses concerns around compensation programs for investment employees, costs for professional services, and travel and communication costs for employees. I can assure you that the Board and its Committees spend much time on these matters, whether through its HR, Investment or Audit & Actuarial Committees. With respect to investment employee compensation plans, we do have short-term and long-term incentive programs for our employees, in line with our pay-for-performance HR

Strategy. Our HR Committee also retains the services of Hugessen Consulting, a respected executive compensation consulting firm, to advise it on OMERS compensation plans including providing benchmarking advice, and we are comfortable that our compensation plans are fair and competitive.

Investment expenses are expressed as a Management and Expense Ratio (MER) which is disclosed in the Annual Report and was 55 basis points (bps) in 2017, compared to 61bps in 2016 and on trend towards our long-term target of 50bps. Management is working diligently to bring the expense ratio down including through some innovative third-party capital initiatives which would allow us to leverage the skills we have developed in our infrastructure and real estate platforms to manage third-party capital alongside OMERS capital for a fee, which would benefit OMERS members by reducing their MER.

Of course, management costs and MERs should be viewed not only in their absolute dollar terms but through the lens of value added. For example, over the last four years during the current CEO's tenure, net investment assets have grown by $30 billion, from $65 billion to $95 billion. During that same period, our net investment income has increased from $3.6 billion to $9.7 billion, while our investment management expenses have increased from $266 million to $409 million. In other words, we have incurred $143 million of incremental investment expenses to generate $6.1 billion of incremental net income. We believe this is indicative of positive operating leverage in OMERS model, and the considerable value that Management and the OAC Board have delivered to our members through this period.

Our strategy is to continue to develop a global investment business and we have been completely transparent about that. Global growth will involve increased travel and communications costs, and large multi-jurisdictional transactions for best-in-class assets will incur significant professional and consulting fees. Management is vigilant and prudent in managing these fees, whether alone or with our investment partners on transactions, which often include our large Canadian pension plan peers. In fact, we are typically able to achieve discounts to market rates because of our size and the nature of the transactions in which we are involved.

I hope you are more assured through this exchange of letters as to how we approach governance and disclosure matters at OMERS and the seriousness with which we approach our duties and our commitment to Plan members. In addition, we have included in an Appendix specific answers to certain questions you have raised in your letter that may not have been addressed above.

Yours truly,

George L Cooke

George Cooke
Chair, OAC Board

cc: Board of Directors, OMERS Administration Corporation
M. Latimer, CEO, OMERS Administration Corporation
B. Hutcheson, President and Chief Pension Officer, OMERS Administration Corporation
M. Kelly, Executive Vice President and General Counsel, OMERS Administration Corporation
M. Love, Co-Chair, OMERS Sponsors Corporation
F. Ramagnano, Co-Chair, OMERS Sponsors Corporation
P. Harrietha, CEO, OMERS Sponsors Corporation
B. Mills, CEO and Superintendent, Financial Services Commission of Ontario

APPENDIX

Responses to Specific Questions:

#1) *Request to see individual letters from the Independent Board Chair and the President & CEO.*

You have requested individual letters from the Independent Board Chair and the President & CEO that speak to prior year accomplishments and priorities for the upcoming year. OMERS has a joint strategy that is shared and approved by both Boards and executed by Management. In other words, the Boards and Management are working collaboratively towards a common goal – to deliver on the pension promise. We believe that providing members and stakeholders with a unified view on our progress in the Annual Report is appropriate. It is important to recognize that the Independent Board Chair and the CEO, together with the SC Co-Chairs and the SC CEO, review the Annual Report to ensure it reflects their views before it is submitted to their respective Boards. This approach has been in place since I have been OAC Board Chair.

#2) *How does 3 years of "strategic planning" for a 10-year joint board strategy, commencing in 2020, benefit members and employers?*

As a pension plan OMERS has obligations that stretch decades into the future, and we believe it is critical that we also think long-term. Many of the decisions a pension plan makes, for example in Plan Design and Plan Funding, take many years to see the results, but they are nevertheless crucial and necessary in order to ensure the Plan remains on solid footing for years to come. The 2030 strategy is intended to focus on those long-term and far-reaching decisions to set OMERS on the right course. Our teams regularly engage with peers, and we can confirm that many of them follow a similar long-term oriented approach.

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

As noted in the letter, we have short-term and long-term incentive programs for our employees. While not pure "carried interest" programs that you would see in the private equity world, we offer a modified version of such programs to our private equity employees that rewards performance based on returns. The dollar value of this program is captured with the MER.

#4) *Confirm the existence of an actual defined HR/talent strategy.*

We can confirm that we have an HR Strategy, along with an annual operating plan, which are reviewed by the HR Committee of the Board.

#5) *Concern regarding preferential hiring practices of family and friends.*

We undertake market standard hiring procedures that are role-appropriate and make use of an online job posting system that is open to all interested applicants. Only individuals that are competent for the roles are hired into positions. Our Code of Conduct and Ethics has procedures in place to properly manage any potential conflict situations.

#6) *Pension Administration System*

We commenced the pension administration update project ("LEAP") with Accenture in May 2015. Consistent with its commitment to achieving leading governance standards, the OAC Board felt that it was important to provide focused oversight of the LEAP Program and established the ad hoc LEAP Program Committee. Subsequently, it became apparent that a broader Board-level oversight commitment was desirable for key technology initiatives at OMERS, and the Technology Committee was formed. The mandate of the Technology Committee includes oversight of the LEAP Program. The Technology Committee is comprised of OAC Board members primarily chosen for their experience relating to pension management systems generally and the implementation of new technology systems.

The LEAP Program is complex, but we are confident that it is in hand. We are sensitive to the value of the pension contributions of our members and take our fiduciary obligations very seriously. You can be assured that we will continue to act in the best interests of our plan members and focus on delivering a high quality system.

COTAPSA
Our CITY, Our PEOPLE

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.

- Reinstate 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.
- Reinstate sponsor information on individual appointees to both the SC and the OAC
- Reinstate 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.
- Reinstate 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,

M. Major

Mike Major
President
COTAPSA