



March 16, 2022

Premier Doug Ford
Legislative Building
Queen's Park
Toronto, ON M7A 1A1

Dear Premier Ford:

On previous occasions, we have written to your government about OMERS funding problems and its chronically inefficient and costly governance since the OMERS Act of 2006 became law. Our purpose in writing to you now is to draw your attention to OMERS Administration Corporation Board of Directors' refusal to discuss an independent review of its investment performance.

OMERS' two boards of directors and management and OMERS sponsors have been drawn into a bizarre civil war-like standoff with CUPE Ontario over CUPE's insistence on reviewing investment operations. Both sides have valid points but have dug into black-and-white thinking and positions. After one year, neither side is moving, and the dispute is damaging OMERS reputation and its members' confidence in plan administration and governance - not to mention causing alarm with current and potential investment partners.

COTAPSA supports CUPE's call to review OMERS investment management governance structure and its efficiency and effectiveness in ensuring maximum investment performance. OMERS is in an era of heightened scrutiny, and disclosure demands by members and employers due to increasing operating costs, investment risks, and governance complexity are growing louder.

CUPE is correct and well within its obligations to its OMERS-based locals to call out OMERS investment performance. As our plan's largest employee sponsor, the union leadership has made the right judgment call to break with OMERS board solidarity and draw public attention to lagging investment performance and OMERS organizational unwillingness to confront the issue reasonably.

However, we disagreed with CUPE's initial proposed structure for reviewing investment operations last year. OMERS sponsors have no expertise or skills for organizing and conducting a review of this sort. Instead, OMERS professional management and the AC Board of Directors are needed to participate and provide access to materials and information as the basis of a credible assessment and continued accountability to

contributors - **they need only have the will and maturity to move past the current governance impasse.**

Despite its current governance, disclosure, and reputational challenges, OMERS is a globally recognized organization that fulfills its mandate under Ontario and federal laws. A poorly executed review would cause further harm to OMERS business reputation and member, employer, and employee morale without any improved understanding of its business, strategies, or priorities.

COTAPSA and CUPE are not alone with their concern about OMERS. In 2021, the City of Toronto Council passed a motion calling for improved reporting and added disclosure measures for OMERS governance and financial management. Toronto's Motion requested OMERS to:

"implement improved disclosure of investment performance and management measures to ensure the sustainability of the OMERS pension plans and that these measures include specific information on how each OMERS division is effectively fulfilling core functions, achieving performance measures, and verifiable annual plans to improve continuously."

COTAPSA requested that the AC Board of Directors consider conducting a special examination of OMERS investment governance and decision making over the previous ten-year reporting period on behalf of OMERS members and employers. The independent professional external examiners would possess sufficient authority and access to conduct an extensive review and assessment of OMERS policies and procedures to determine whether its investment activities (governance, compensation, organizational practices, performance, expenses, disclosures, etc.) are fit for purpose. The findings and recommendations, inclusive of the AC Board's responses, would be disclosed to all OMERS members, employers, and retirees at the same time as OMERS directors and sponsors to avoid interference or selective editing by OMERS management, its two boards or sponsors.

A well-structured investment governance review should determine whether OMERS current structure enhances or inhibits investment performance. Publishing the study results, and identifying any enhancements to the governance framework, including an action plan for implementation, would help alleviate growing anxieties amongst members and employers related to OMERS investment management performance and governance.

The OMERS AC board and management hold all the investment information, and the SC board, as the legal representative for all members and employers, prefers minimal

disclosure to members and employers. Moreover, OMERS is exempt from salary disclosure and FIPPA access, meaning it has the control and discretion to withhold information from OMERS employers and members. Members and employers have lost considerable access to important information about the governance of their pension plans. So, as news of sub-optimal long-term investment performance and actuarial realities emerge from OMERS leading employee sponsor, it is understandable that members might generally support CUPE's blunt instrument because it offers hope that disclosure and communications will improve the efficiency and cost savings of our pension plan.

COTAPSA is perplexed why OMERS' two boards and sponsors would not welcome a verifiable review for member and employer contributors, demonstrating that OMERS is open about its investment management challenges but can effectively fulfill its mandates.

OMERS' two boards and management must stop resisting talking with members and pretending that they have all the bases covered – it is a mistake. We need your government's help to put the focus of our pension plan back on contributors' interests, not the interests of OMERS Sponsors and their board members.

The published mandate of the AC Board now explicitly requires it to establish annual Work Plans to "satisfy the responsibilities" of its accountability and oversight mandate. OMERS contributors would benefit from seeing the AC Board Work Plan for its investment, human resources, governance & risk, and audit & actuarial committees, as well as the internal audit plan regularly. But, instead of contributors' interests, OMERS' two board's playbooks seem focused more on managing the inherent tensions and complexities of the 29 personalities selected by its sponsors.

Given the immense funding risks and investment uncertainty that OMERS has repeatedly stated in recent annual reports, we think that a special, independent examination of our public pension plan is an excellent tool to ensure operations and expenses are as efficient and effective as possible.

All jointly sponsored pension plans in Ontario would benefit from standardized external examinations of their pension administration and investment operations every 36 to 60 months.

We are not experts in investment management and offer no comment on investment tactics or activities that are the domain of OMERS professionals. However, COTAPSA members want transparency, sound governance, and solid investment performance to meet OMERS long-term expected rate of return. So instead of hearing OMERS board representatives talking about its unique governance characteristics and complexities, let's

see an approach to investment management governance and cost management supported by a well-documented, independently-reviewed process for reporting on general operations, asset management, transactions and pursuits. For instance, COTAPSA has been waiting over four years for OMERS to disclose 20 years of annual reports to match 20-year investment return history reporting.

OMERS adequately carries out its mandate, but investment performance lags behind peers, and governance, investment management, and compensation expenses are unacceptably high. Typically hefty compensation is followed by significant investment gains. But in OMERS' case, our AC Board is incentivizing mediocre returns rather than outsized ones. As a result, younger pension members are concerned that their contributions are simply paying retirees' pensions, and their retirement benefits soon will be smaller and costlier. Thus, a review represents an opportunity for OMERS to reassure members and educate beneficiaries as to the critical priorities of our pension plan.

OMERS Administration Corporation Board officials like to proclaim it is an independent, skills-based board of directors. However, the collective depth and breadth of the director's skills are more ambiguous than OMERS would like people to believe. Given the menu of OMERS director education programs, it's clear that some directors lack even basic pension administration or investment analytical skills to know whether the management team is doing well or not. Furthermore, some directors and sponsors are closer to management than others, raising professional and objectivity concerns, especially in the current context of the AC Board's unwillingness to discuss an independent review. When board members and sponsors are too close to management, they may ignore what we believe to be red governance flags and prevent the board, and OMERS beneficiaries, from fully understanding whether our investment managers are maintaining an effective investment governance and cost structures or not.

This too-close-to-management concern extends to the AC board turning a blind eye to some of management's tactics for validating the board's opposition to a review and attempts to prevent or discourage any further discussion of CUPE's concerns. A red flag for us is if senior OMERS executives may be spending Plan resources to diminish CUPE's credibility and motives for speaking out.

Jointly sponsored pension plan directors and managers are obliged to behave in a balanced and responsible manner towards employer and employee beneficiaries. Therefore, when the board and management's actions seek to stop discussions on topics they deem undesirable and attempt to silence critics, one of which represents 43% of members, they should have valid and specific reasons for doing so. Not surprisingly, "because we said so" is not a good reason. To be clear, while all employee and employer sponsors sit at the same OMERS Sponsor's table as equals, some sponsors are more

equal than others. For example, CUPE represents over **43%** of contributing members, while four of the five other employee sponsors combined only represent **23%**. (Police 9.2%, OSSTF 5.2%, OPSEU 4.6% and OPFFA 4.0%) Management non-union members make up **21.2%** of contributors but were denied sponsor status by the current sponsors. As a result, their views have not been sought in the current investment review dilemma.

We sincerely believe that OMERS currently lacks appropriate commitment to inform contributors and beneficiaries about managing their money. The organization seems unable or unwilling to present investment information clearly, comprehensively and understandable. OMERS mandate is to invest the fund's assets to deliver a maximum rate of return without undue risk of loss. But it must also help its members better understand what drives the performance and sustainability of our fund. Its approach to communicating its investment activities must now be about exceeding, not merely meeting its minimal statutory disclosure obligations.

OMERS must commit to reviewing its communications policies and practices to keep pace with the evolution of investment and compensation complexity and the information needs of its beneficiaries.

On behalf of the City of Toronto Administrative, Professional, Supervisory Association (COTAPSA) and the over 4,800 management non-union employees of the City of Toronto, I thank you for considering this matter. All OMERS sponsors, directors and managers are responsible to beneficiaries whose money they manage and invest. Therefore, they must start acting professionally to resolve this dispute as soon as possible.

Please request the OMERS' two boards to commit to resolving this dispute and direct your Ministers of Finance and Municipal Affairs and the Financial Services Regulatory Authority to ensure OMERS moves beyond this regrettable governance impasse as soon as possible.

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
Executive Director

CC:

The Association of Municipalities of Ontario
CUPE 416, CUPE 79 and CUPE Ontario
Electricity Distributors Association
The Ontario Association of Children's Aid Societies
Ontario Association of Police Services Boards
Ontario Catholic School Trustees' Association
Ontario Professional Fire Fighters Association
Ontario Public School Boards' Association
Ontario Public Service Employees Union
Ontario Secondary School Teachers' Federation
The Police Association of Ontario
The Retiree Group
The City of Toronto
OMERS Administration Corporation Board of Directors
OMERS Sponsors Corporation Board of Directors
Minister of Municipal Affairs and Housing
Minister of Finance
Financial Services Regulatory Authority of Ontario