March 21, 2025

Mr. Robert Poirier,
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College Park, 17th Floor,
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Sent via E-Mail: MFPB@ontario.ca

RE: Ontario Municipal Employees Retirement System – Senior Executive Compensation

Mr. Poirier:

I write to you on behalf of the more than 6,300 members and board of directors of the City of Toronto Administrative, Professional, Supervisory Association (COTAPSA). COTAPSA's members belong to and steadily make financial contributions to OMERS by virtue of statutory requirements. COTAPSA has been in existence since 1967 and is the oldest and largest Municipal Management Association in Canada.

Further to our earlier letter, we are engaging with you today regarding an issue we have been monitoring for some time, because we think it touches directly upon the matters up for discussion through the OMERS Governance Review.

I refer here to what COTAPSA believes to be deeply concerning transparency and accountability issues related to recent changes to the overall compensation paid by the OMERS Administration Corporation to its senior-most executives. These issues lie at the heart of the mandate that the Province has given the OMERS Governance Review, including as they relate to *"how plan assets are managed and how investment decisions are made by the Administration Corporation."*

As background: In the 2023 OMERS Annual Report[1], you will find on pg. 126 reference to what were apparently two new forms of executive compensation instituted by the pension plan that year. These were: "Fund Return Units" (FRUs) and "Performance Share Units" (PSUs), as presented in the Report of the OMERS Administration Corporation's Human Resources Committee and Compensation Discussion & Analysis.

PSUs are defined in the annual report on pg. 126 as having the following objective:

"Aims to align and reward high-potential investment talent for achieving long-term Business Unit investment returns. PSUs are granted as a dollar target and are deferred and paid out 26 months after the end of the year in which they are awarded. Payment related to a PSU is determined based on the participant's three- year forward-looking Business Unit net absolute returns compared against various Business Unit Performance Hurdles, resulting in a multiplier ranging from 0% to 200% of the PSU grant value. If the minimum Performance Hurdle is not

[1] Link: https://assets.ctfassets.net/iifcbkds7nke/61nAzhRFwfyAlyRNLZY63p/88b260a1d339173cfdf6bff58da62d85/OMERS-2023-Annual-Report_FINAL-ua.pdf

met, payout is nil. If the maximum Performance Hurdle is met, payment is capped at 200% of the PSU grant value."

FRUs are defined in the annual report as intended to

"align and reward the OMERS CEO for achieving long-term OMERS Primary Plan returns. FRU awards are deferred and paid out 50 months after the end of the year in which they are awarded. Payment related to an FRU award is determined based on the 5-year compounded annual investment return on a notional investment in the OMERS Primary Plan (mirroring the investment return the participant would have earned had they held such a notional investment), conditional on the achievement of a pre-determined Performance Hurdle. If the Performance Hurdle is not met, payout is nil. The fair value at grant is determined using a valuation methodology that considers the time horizon, the risk-free rate of return, volatility, and the Performance Hurdles."

We note with interest that, according to the latest OMERS annual report (2024[2]), OMERS current CEO apparently holds CAD$800,000 in FRUs (note that the notional value of these FRUs is much higher than $800,000). That is on top of his total compensation having grown from $5.15M in 2022 to $5.91M in 2024. We also note that OMERS CIO is owed one million British pounds in PSUs.

The OMERS AC Human Resources Committee and Compensation Discussion & Analysis section of the annual OMERS report is notorious among our members for its often sloppy and even pompous language, particularly when it comes to explaining why some senior OMERS executive's overall pay packet has been increased.

What frustrates us further is that the only explanation of this largesse that we as OMERS members are annually provided with is frequently so vague as to be useless. This section is littered with bromides such as: "outstanding strategic contribution," "extraordinary personal contributions," and "extraordinary individual performance." Other compensation decisions are explained as recognizing "expanded leadership responsibilities" or a "high-potential investment leader."[3]

To our ears, these phrases are meaningless. Members are entitled to plainly-worded, objectively-reasoned explanations of why OMERS executives should be paid more.

And then there are the larger questions that go unanswered by the OMERS Administration Corporation's Board in the HR Committee section of the 2023 and 2024 annual reports:

[2] Link: https://downloads.ctfassets.net/iifcbkds7nke/7JGc4EqMTETFjogEHHKDoa/26a9e5130b88aced1e069bf6d1e50403/OMERS_2024_Annual_Report.pdf

[3] This last one is particularly laughable. Our own view is that OMERS members should not be paying extra for "high potential" individuals but rather for individuals of "demonstrated ability," expressed through concretely-explained objectives those individuals have attained on behalf of the plan's members.

- What detailed discussions promoted OMERS consideration of introducing of the FRUs and PSUs, and when did these talks take place? Can we obtain minutes of those meetings (assuming such minutes exist)?
- What consultant reports were commissioned in favour of these new forms of compensation? How much did these reports cost the plan?
- Were these executive compensation plan changes the work of Hugessen Consulting? If so, how much in total during the years of Hugessen's engagement with the AC has that firm been paid for its apparently valuable perspective on executive compensation? What qualifies Hugessen as the ideal expert for OMERS specific needs?
- What arguments did those reports present in favour of FRUs and PSUs? Why did the AC Board find them so persuasive?
- What was said when the matter came up before the entire board for consideration? Were there any dissident voices that spoke up? What was the response to those counter-arguments?
- What are the formal criteria used to assign these financial awards? Who updates the criteria? Who is allowed to weigh in on updates/amendments? How often are the criteria reviewed? Can we see the text of the agreement governing the FRUs and PSUs?
- What is the projected long-term cost to the plan, in Canadian dollars, associated with the FRUs and PSUs?
- How much did it cost OMERS to create an updated compensation plan for the CEO, CIO and other executives covered by these FRUs and PSUs? Who monitors and measures their performance? How much is all this extra monitoring of performance costing the plan?
- Under what situations could executives be stripped of these FRU and PSU units – or could executives lose their rights to the units? E.g., if their employment with OMERS ceases because of termination for cause? Resignation to take another role? Early retirement?
- What are the tax advantages of being paid FRUs and PSUs versus regular salary? Compared to STIP (short term incentive plan)/LTIP (long term incentive plan)? Was this a consideration in the decision to embrace FRUs and PSUs?

Mr. Poirier, you are no doubt aware of the litigation against OMERS involving a number of former OMERS Private Equity (OPE) team members, alleging that OMERS unilaterally made unfair amendments to a bespoke pay plan tied to OPE performance.

Nothing changes at OMERS, it seems. There has been very little transparency about this OPE litigation or the changes to the old pay plan alleged by the OPE litigants that sparked this legal fight. Similarly, we have no transparency about these PSUs or FRUs.

All we know is this – that some already very well-compensated individuals are now even better compensated, with little formal explanation as to why. This is even more egregious, given how OMERS continues to be the only large public sector defined benefit pension plan that remains in deficit since the financial turbulence of 2008.

The implications of the above for your work, I hope, is clear. For OMERS to maintain the long-term trust and credibility of its members and employers (and the wider Ontario tax-paying public), it needs to provide stakeholders with a basic minimum of transparency and openness - including when it comes to senior executive compensation.

You have it in your power to recommend the plan increase its overall transparency, and to especially hold itself to a higher standard of transparency on these compensation matters. We hope you will exercise this power.

Sincerely,

M. MAJOR

Mike Major
Executive Director

Andrew Waters
President

PS: We understand that the Association of Municipalities of Ontario (AMO) has in the last few weeks contacted Premier Ford's office, asking that the Province of Ontario "reconsider the value and necessity of [an OMERS] governance review at this time."

What exactly is AMO afraid of, we wonder – what's wrong with a detailed review of OMERS governance and related goings-on?

Mr. Poirier, please know that we at COTAPSA completely reject that point of view. Your work on the review is vital and must be completed.

CC:

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