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1344/21
Nov 15, 2021
CII

Dear Township of Brock Council:

On behalf of CUPE Ontario's nearly 125,000 active members of the Ontario Municipal Employees Retirement System (OMERS), I am writing today to express our serious concerns with OMERS' investment performance.

In 2020, OMERS posted a net loss 2.7%, representing three billion dollars in losses. This was during a year that comparable defined benefit pension plans and funds in Canada posted substantial investment gains. CUPE Ontario investigated further and tracked investment returns at OMERS for ten years. We found that OMERS has underperformed relative to other large pension plans and funds, as well as relative to its own benchmarks. We also found that OMERS no longer shares this critical information in their annual reporting, making it difficult for plan members to hold their investment managers accountable.

Attached you will find a report detailing OMERS investment underperformance. Also attached, you will find the analysis of a third-party actuary (PBI Actuarial consultants) who confirmed that our reasoning and conclusions were sound.

CUPE Ontario believes plan members and employers have the right to know why OMERS' investments have, over a ten-year period, underperformed other large defined benefit pension plans and funds. If OMERS had performed in line with the average large Canadian public pension plan, it would have a substantial, multi-billion-dollar surplus, versus the deficit it currently faces.

Considering the significant impact such underperformance could have on plan members and on all sponsors who hold the liabilities of the plan, **we are calling on OMERS to cooperate fully with an independent and transparent third-party review of its investment performance** transparent and accountable to plan members, sponsors like CUPE Ontario, other unions, and employers like the Township of Brock.

We are hoping that the Township of Brock Council will join our call for an independent expert review of OMERS. **We are asking you, and other municipal councils across the province, to debate the following motion or to pass a similar motion calling for a third-party expert review of OMERS.** The terms of such a review would need to be agreed upon by sponsors and they could explore whether reasonable costs could be funded from the plan.

Fred Hahn
President

PUBLIC SERVICES SAVE LIVES

Candace Rennick
Secretary-Treasurer

We simply cannot afford another decade of investment returns so far below other pension plans and funds. We know that ensuring strong investment returns is a goal shared by employers like the Township of Brock and by unions like CUPE.

CUPE Ontario staff person Liam Bedard is available to answer any questions you may have. He can be reached at lbedard@cupe.on.ca.

All materials are available in French at cupe.on.ca/francaisomers.

It's time for all of us to work together to #FixOMERS.

Thank you,



Fred Hahn
President of CUPE Ontario

Proposed Motion – Independent Review of OMERS’ Investment Performance

1. The Township of Brock Council is calling for an immediate, comprehensive and independent third-party expert review of OMERS’ investment performance and practices over the past ten years, conducted by the OMERS Pension Plan’s sponsors and stakeholders.

2. Such a review would, at a minimum:
 - a. Compare OMERS plan-level, and asset class-level performance to other comparable defined benefit pension plans and funds, OMERS internal benchmarks, and market-based benchmarks.
 - b. Examine OMERS decision-making processes around the timing of various investment decisions.
 - c. Assess the risk management policies and protocols that were in place and determine if they were followed and/or if they were sufficient to protect the plan from undue risk.
 - d. Assess whether the disclosures provided to the OMERS Administrative and Sponsorship Boards were sufficient evidence to allow the Boards to respond appropriately and in a timely manner.
 - e. Examine executive compensation, investment fees and investment costs at OMERS in comparison to other major defined benefit pension plans and funds.
 - f. Examine other relevant issues identified by the third-party expert review.
 - g. Make recommendations for changes at OMERS to ensure stronger returns moving forward.
 - h. Issue their final report and recommendations in a timely manner.
 - i. Publicly release its full report and recommendations to ensure that it is available to OMERS sponsors, stakeholders, and plan members.

3. The Township of Brock Council further calls on the OMERS Administrative Corporation to:
 - a. Provide all requested data, documentation and information required of the review panel to fulfill its mandate.
 - b. Establish a step-by-step plan, with OMERS sponsors and stakeholders, to implement any recommendations set out in the review report.



PBI Actuarial Consultants Ltd.

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April 27, 2021

To: Fred Hahn, President CUPE Ontario
CUPE Ontario

From: Bradley Hough

Subject: **OMERS Performance Review**

Scope of review

CUPE has asked PBI to review “CUPE Ontario Concerns With OMERS Investment Returns”. PBI has reviewed the performance data, methods, and comparisons of OMERS with peer pension plans and funds in CUPE’s report.

The intention of our review is to determine:

- a) if comparisons made between the pension plans and funds and their respective benchmarks are reasonable; and
- b) if the analysis completed by CUPE supports the conclusions of their report.

We have reviewed the performance comparisons in CUPE’s report by reviewing public information provided by the plans and funds referenced. Statements of investment policies and procedures, actuarial valuation reports, annual reports and other governance documents were reviewed to add as much context around plan performance as possible with the public information available.

Summary

We conclude that the comparisons made by CUPE are reasonable and show that there is a significant gap in performance between OMERS and other comparable public pension plans and funds. In our opinion, public information is unable to fully explain the performance gap. More information is required to truly understand why performance is so different between OMERS and comparable public pension plans and funds.

In our opinion, the comparisons and analysis in the report support CUPE’s request for further review of performance.

Review

Is the choice of peer universe reasonable?

CUPE has chosen a universe of large public sector defined benefit plans (“plans”), or public sector investment managers managing assets (“funds”) including, but not exclusively, defined benefit pension plans. Scale gives public plans and funds a different opportunity set versus smaller private sector plans as a result of the size of assets and also investment opportunities. We therefore believe that CUPE’s approach of focusing on a limited universe of public sector peers rather than a broader pension plan universe is reasonable and fair.

Of the universe supplied, HOOPP, OTPP, BCMPP and LAPP are easier to directly compare given they are pension plans rather than funds; however, the public sector investment managers referenced by CUPE are still useful



points of reference when looking at comparable performance. Performance of funds such as PSP, CDPQ, BCI and AIMCO suggests that client defined benefit plans are likely to have higher absolute returns than OMERS for 2020.

LAPP and AIMCO have not published full performance information for 2020.

Would conclusions change if the universe of plans was expanded?

Defined benefit plans have different benefits, contributions, funding policies, and member demographics. Making comparisons across universes of defined benefit plans requires caution and it is difficult to draw firm conclusions. However, it is worth noting that OMERS performance is significantly below not only public peers, but wider universes of defined benefit plans.

RBC’s universe of pension plans shows a median return of 9.2% for 2020¹. PBI has access to the Northern Trust universe of Canadian defined benefit pension plans² and note that the median return is similar to RBC (full year 2020 median return is 9.9%). The lowest return in the Northern Trust Universe is 5% for 2020. We are not aware of an absolute return for PBI clients below 5%.

Could ‘context’ such as different asset mixes driven by Plan demographics or situation explain OMERS performance?

a. Asset Mix

We compared asset mixes with HOOPP, BCMPP and OTPP. HOOPP has a liability driven investment strategy and has a higher fixed income allocation. BCMPP and OTPP are return focused like OMERS. OMERS has a higher proportion in real assets and credit than these plans and lower fixed income assets. OTPP has a specific inflation management strategy. However, at a high level, asset allocations between OMERS, BCMPP and OTPP make use of similar asset classes and are comparable.

Asset Class	OMERS	BCMPP	OTPP	HOOPP
Public Equity	31%	33%	19%	23%
Fixed Income	6%	21%	16%	86%
Private Equity	14%	10%	19%	13%
Real Assets	34%	27%	21%	15%
Credit/Mortgages	17%	6%	8%	0%
Inflation Sensitive	0%	0%	17%	0%
Innovation	0%	0%	2%	0%
Absolute Return Strategies	0%	0%	6%	0%
Money Market	-2%	2%	-8%	-37%

Source: annual reports as of December 31, 2020, except for BCMPP, which is as of December 31, 2019.

¹ The RBC pension plan universe is published by RBC Investor and Treasury Services. “All Plan Universe” currently tracks the performance and asset allocation of a cross-section of assets under management across Canadian defined benefit pension plans.

² The Northern Trust universe of defined benefit plans is provided to PBI by Northern Trust. It consists of 34 defined benefit plans ranging from \$16.4M to \$8.7B in size. Average plan assets are \$1.9B, median plan assets are \$627M as of December 31, 2020.



As the differences in performance are so large between OMERS and two plans with comparable asset mixes (albeit with some differences), more information on specific strategies within each asset class, such as style of equity manager, exposure to office, retail, and industrial real estate within real assets, use of leverage/overlay strategies and derivatives, currency hedging, and approach to liquidity management would be required to explain differences in performance.

We note that on page 43 of the OMERS 2020 Annual Report, losses were incurred on foreign currency hedging positions due to actions taken to protect liquidity. This contributed \$2.2B to the overall loss. Again, this indicates that a review, significantly beyond simple asset mix comparisons, is required to truly understand performance differentials.

Finally, understanding the role of the 'Total Portfolio Management' approach in determining asset allocations and strategies would be helpful to putting context around the asset mix choices and investment strategies.

b. Membership Demographics

We note that BCMPP and HOOPP have broadly similar membership demographics to OMERS. OTPP is more mature with a greater proportion of retirees. PBI does not believe plan demographics are different enough to render comparisons between the plans invalid.

Comments on CUPE's five principal findings:

- 1) **OMERS 10-year annualized performance was below peer group as of December 31, 2019.** PBI believes the comparisons made are reasonable and agree with the conclusion.
- 2) **OMERS performance in 2020 was significantly below peers.** PBI agrees with this conclusion and notes that expanding the peer group adds weight to this conclusion.
- 3) **OMERS does not report comparisons of its annualized long-term returns to its own benchmarks**
Page 143 of the 2020 report has a comparison of calendar year returns vs benchmarks to 2011. We could not find a comparison of annualized long term performance vs benchmarks for OMERS.

We understand benchmarks are set annually by OMERS and approved by the Administration Corporation Board. From the information made public by OMERS, we would need more detail on the methodology used to derive the absolute return benchmark to interpret performance.

- 4) **5 to 10-year returns versus 5 to 10-year benchmarks.**

PBI verified the calendar year returns shown by CUPE. We were unable independently to verify the 5 and 10-year performance versus the benchmark as this was provided verbally to CUPE by OMERS and is not published. The peer group of public plans and funds all take different approaches to benchmarking. Some use composites of public market indices/asset class benchmarks according to their target allocations. PSP uses a reference portfolio approach and HOOPP may use a liability focused benchmark. We note that comparisons of relative performance vs stated benchmarks across peer group plans are challenging because of the differences in methodology.

However, in our opinion the analysis is sufficient to show that OMERS is the only Plan underperforming their internal benchmark over a 10-year horizon. Understanding why requires a deeper understanding



of performance and benchmarking methodology beyond the information made public. In our opinion this adds weight to CUPE's request for a review of performance.

- 5) **OMERS 20-year return is not above its 20-year benchmark.** We were unable to independently verify this point as the performance versus the benchmark was provided verbally to CUPE by OMERS and is not publicly available.

Conclusions

The comparisons made by CUPE are high level and broad by the nature of information made public. However, we believe the comparisons are reasonable and that CUPE has chosen similar public plans and funds as practically possible. Overall, we believe the analysis is sufficient to conclude that OMERS investment performance in 2020 and longer term is significantly lower than other comparable plans.

PBI would require considerably more information than made public on OMERS' total portfolio management approach, investment strategies, third party managers, asset mix policies, liquidity management approach and derivative positions to interpret performance.

In our opinion, the comparisons made demonstrate that the longer-term performance gap between comparable peers is significant and supports CUPE's request for a further, more detailed review of performance beyond the information made public.

A handwritten signature in black ink, appearing to read "Bradley Hough".

Bradley Hough, FIA, ACIA, CAIA

BH:jh

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NOT JUST ONE "TOUGH YEAR": THE NEED FOR A REVIEW OF OMERS INVESTMENT PERFORMANCE

May 2021



Executive Summary

CUPE Ontario represents nearly half of the 289,000 active members of the Ontario Municipal Employees Retirement System (OMERS) – the province’s Defined Benefit (DB) pension plan for municipal, school board and certain other public sector workers.

While most pension plans had strong returns in 2020, OMERS recently reported billions of dollars of losses over the year. This has prompted CUPE Ontario to examine how OMERS investments have performed compared to other large pension plans and funds. We have also looked at how OMERS has performed against its own internal benchmarks.

We find that OMERS underperformance is not a new or a short-term problem. Specifically, we find that:

- 1) OMERS longer-term performance has significantly lagged behind other large pension funds and plans, in periods both before and after 2020 results were in.
- 2) OMERS has now fallen behind even some of its own internal longer-term return benchmarks – a troubling fact that, contrary to industry standards, is not disclosed in OMERS Annual Report.

Since investment returns fund the vast majority of pensions paid from the plan, returns are incredibly important to DB plan members. Lower investment returns may lead to members being asked to pay more into the plan, or could result in additional pressure for more benefit cuts.

Despite requests, OMERS has not committed to an independent, transparent review of its investment decisions.

CUPE Ontario feels these issues are so serious that a fully transparent expert review of OMERS investment strategies, returns, and internal performance assessment is urgently needed. This review should be conducted by the plan sponsors and stakeholders themselves (the risk-bearing parties to OMERS) and should be fully independent of OMERS staff, who have a clear conflict of interest in conducting a review of their own performance. We invite the other sponsors of OMERS, including our employer counterparts and the broader community of the plan’s organizational stakeholders, to support this proposal and to work with us to conduct this review.



Introduction

CUPE Ontario represents 125,000 plan members of the Ontario Municipal Employees Retirement System (OMERS). We are the largest sponsor in this defined benefit (DB) pension plan that is – at least in theory – jointly-controlled by plan sponsors like CUPE Ontario and other unions and employers.



**WE CONTINUE
TO STRONGLY
BELIEVE THAT
DB PLANS ARE
A MODEL WORTH
NOT ONLY
DEFENDING,
BUT EXTENDING
TO ALL WORKERS.**

CUPE Ontario strongly believes that DB pension plans are the best way to provide a decent and secure retirement for our hard-working members. Large public sector DB plans like OMERS allow for an efficient pooling and sharing of costs and risks between employers and plan members. DB plans allow members to know what their pensions will be in retirement. This security is incredibly important for plan members. However, it is not only retirees who benefit from good, secure pension benefits. DB pension plans have been shown to have positive macroeconomic effects on the economy as a whole.¹ The concerns we raise in this report are not concerns with the DB model itself; we continue to strongly believe that DB plans are a model worth not only defending, but extending to all workers.

For a number of years, we have been concerned with the lower level of OMERS pension fund investment returns in comparison to those of other similar plans. OMERS recently reported that the plan had a very bad year in 2020. This has led CUPE Ontario to perform a more in-depth examination of publicly-available annual reporting documents to determine how, in our view, OMERS is performing compared to the seven other large (\$50 billion+) pension plans and funds in Canada.² OMERS themselves refer to this club of large plans and funds as the “eight leading Canadian pension plan investment managers,” and occasionally takes coordinated activity with them.³

¹ Conference Board of Canada, “Economic Impact of British Columbia’s Public Sector Pension Plans,” October 2013; Boston Consulting Group, “Measuring Impact of Canadian Pension Funds,” October 2015; Ontario Teachers Pension Plan News Release, “New analysis confirms that defined benefit pensions provide significant benefits to Canadian economy,” October 22, 2013.

² Unless otherwise specified, the data in this document has been compiled from publicly-available annual reporting of the respective plans. With the exception of CDPQ, returns are as reported in these documents, and are net. CDPQ results were reported gross of some expenses, and have been reduced by 0.2% to best approximate a net return. Longer-term periods are annualized, and are as reported by the respective plans.

³ OMERS News Release, “CEOs of Eight Leading Canadian Pension Plan Investment Managers Call on Companies and Investors to Help Drive Sustainable and Inclusive Economic Growth,” November 25, 2020.



**AS BAD AS
OMERS
PERFORMANCE
WAS IN 2020,
THIS IS NOT A
NEW OR A SHORT-
TERM PROBLEM**

Due to their scale, these large pension plans and funds are able to invest in asset classes that are typically not available to smaller investors or individuals. At the same time, we acknowledge that these eight plans are not completely similar: they have their own governance structures, asset mixes, risk appetites, and reporting periods, all of which are described in the public documents of the respective plans. However, we also acknowledge that many of these differences are the result of specific investment decisions made by the respective plans and funds. We therefore believe that there is value in comparing the performance of this small set of large funds, particularly over longer-term periods.

Acronym	Name	Assets Under Management (\$ Billion)	Funded Status in Most Recent Annual Report	Most Recent Annual Reporting Date
CPPIB	Canada Pension Plan Investment Board	410	N/A	March 31, 2020
CDPQ	Caisse de dépôt et placement du Québec	366	108% (RREGOP)	Dec 31, 2020
OTPP	Ontario Teachers Pension Plan	221	103%	Dec 31, 2020
PSP	Public Sector Pension Investment Board	170	111% (Public Service Plan)	March 31, 2020
OMERS	Ontario Municipal Employees Retirement System	105	97%	Dec 31, 2020
HOOPP	Healthcare of Ontario Pension Plan	104	119%	Dec 31, 2020
BC MPP	BC Municipal Pension Plan (investments managed by BCI, the BC Investment Management Corporation)	59 (MPP) 171 (BCI)	105%	Dec 31, 2019 (MPP) March 31, 2020 (BCI)
LAPP	Alberta Local Authorities Pension Plan (investments managed by Alberta Investment Management Corporation)	50 (LAPP) 119 (AIMCO)	119%	Dec 31, 2019

In some cases, the pension funds above manage the investments of several pension plans (CDPQ, PSP, BCI, AIMCO are all such cases). In those cases, we look most closely at the returns at an individual plan level for the respective client plan that most closely compares to OMERS.

We have also looked at how OMERS has performed against its own internal benchmarks.

This review has resulted in some very troubling findings which suggest that, as bad as OMERS performance was in 2020, this is not a new or a short-term problem. We found evidence that OMERS longer-term return performance has significantly lagged behind



HIGHER INVESTMENT RETURNS WOULD HAVE BEEN BETTER FOR OMERS PLAN MEMBERS, AND FOR OMERS EMPLOYERS.

other large pension funds and plans. We also found that OMERS has now fallen behind even some of its own internal longer-term return benchmarks – a troubling fact that, contrary to industry standards, is not disclosed in OMERS Annual Report.

Investment results are incredibly important to DB plan members because compounded returns typically fund the vast majority of the pensions that are eventually paid. OMERS indicates that investment returns are expected to fund approximately 70% of the pensions paid by the plan.⁴ When investment returns are insufficient, it can put upward pressure on required contribution rates for both members and employers. Most other plans have now returned to pension surpluses since the global financial crisis more than a decade ago, but OMERS continues its long climb out of deficit. Contribution levels were a central talking point from OMERS when plan decision-makers removed guaranteed indexation in 2020. And we expect that, in the months to come, OMERS will once again be looking to plan members to bear the burden of plan funding issues that are, in part, a result of these investment returns. Meanwhile other pension plans, who have had better returns, are currently holding significant surpluses, many have lower contribution rates and some are even improving pension benefits.⁵ Higher investment returns would have been better for OMERS plan members, and for OMERS employers.

Despite requests⁶, OMERS has not committed to an independent, transparent review of its investment decisions. Any reviews that have taken place have been behind closed doors at OMERS and have not been shared with sponsors or described in any detail. While OMERS has outlined several investment policy changes it plans to make, its overriding message remains: “the fundamentals of our long-term strategy remain sound, and we will continue to advance that strategy.”⁷



A FULLY TRANSPARENT EXPERT REVIEW OF OMERS INVESTMENT STRATEGIES, RETURNS, AND INTERNAL PERFORMANCE ASSESSMENT IS URGENTLY NEEDED.

CUPE Ontario feels these issues are so serious that a fully transparent expert review of OMERS investment strategies, returns, and internal performance assessment is urgently needed. This review should be conducted by the plan sponsors and stakeholders themselves (the risk-bearing parties to OMERS) and should be fully independent of OMERS staff, who have a clear conflict of interest in conducting a review of their own performance. We invite the other sponsors of OMERS, including our employer counterparts and the broader community of the plan’s organizational stakeholders, to support this proposal and to work with us to conduct this review.

⁴ OMERS 2020 Annual Report, p. 2.

⁵ HOOPP News Release, “HOOPP posts 11.42% return in 2020, surpasses \$100 billion in assets,” March 31, 2021.

⁶ CUPE Ontario Press Release, “We won’t pay for the mistakes of OMERS executives,” February 25, 2021.

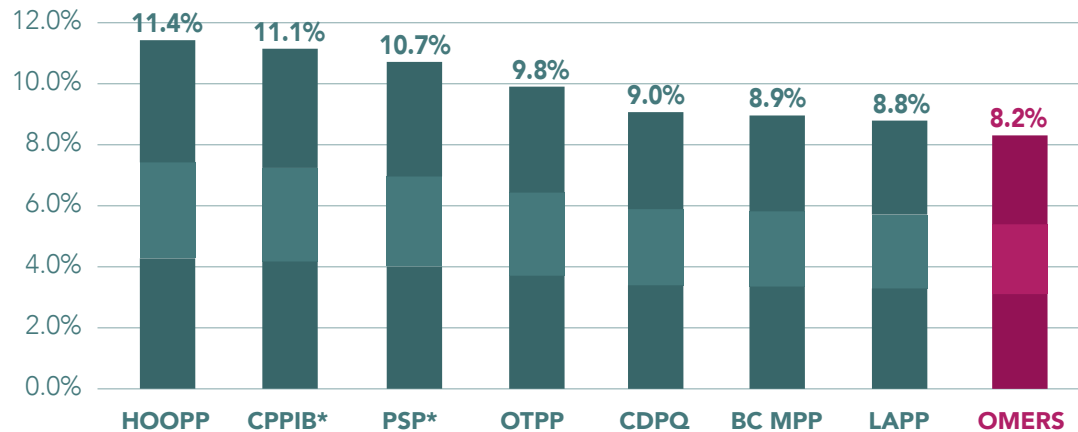
⁷ OMERS 2020 Annual Report, p. 23.



Our five principal findings are as follows:

- CUPE Ontario’s concerns go beyond one “difficult” year in 2020. OMERS 10-year annualized returns trailed those of the other major funds and plans before the COVID crisis hit.**

10-Year Annualized Returns at 2019



*To March 31, 2019, otherwise to Dec 31, 2019
Source: Respective Annual Reports



**THIS WAS
A HISTORIC
ANNUAL
UNDER-
PERFORMANCE
COMPARED TO
BENCHMARKS.**

- OMERS 2020 investment performance was especially poor**

OMERS 2020 annual return (-2.7%) fell far short of the plan’s own benchmark for the year of +6.9%. This was a historic annual underperformance compared to benchmarks.

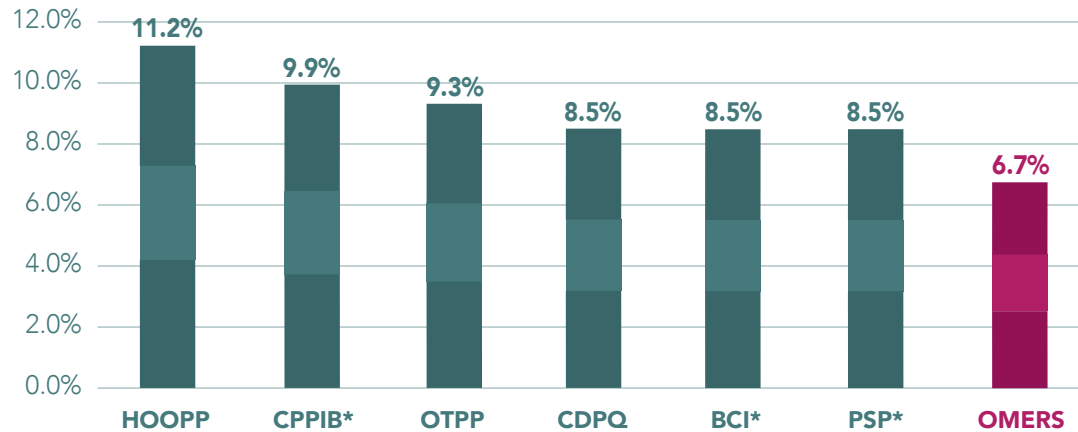
Other plans, however, have reported very strong annual returns for calendar year 2020:

2020 ANNUAL RETURNS	
HOOPP	+ 11.4%
RBC Pension Plan Universe ⁸	+ 9.2%
OTPP	+ 8.6%
CDPQ	+ 7.5%
OMERS	- 2.7%

⁸ RBC Investor & Treasury Services, “Canadian DB pensions post near-double-digit returns despite historic, turbulent year,” January 29, 2021.

This negative result led OMERS 10-year annualized return to fall from 8.2% to 6.7%.

10-Year Annualized Returns at 2020



*To March 31, 2020 otherwise to Dec 31, 2020

The chart above reports the most recent available return information for the respective funds and plans as disclosed in their annual reports. LAPP and BC MPP have yet to report their December 31, 2020 results. AIMCO has also not fully reported its 2020 results. However, BCI (the investment agent for BC MPP and other BC public sector plans) has reported its March 31, 2020 results and has been included here. The chart can be updated as more plans report their 2020 investment returns.



OMERS DOES NOT REPORT CLEAR COMPARISONS OF THE PLAN'S LONG-TERM ANNUALIZED RETURNS TO ITS CORRESPONDING LONG-TERM BENCHMARKS.

3. OMERS does not report comparisons of its annualized long-term returns to its own benchmarks.

Benchmarking is a common practice where an investment *standard or goal* is set, against which *actual plan returns* are compared for ongoing assessment of investment performance. OMERS itself describes a benchmark as “a point of reference against which the performance of an investment is measured.”⁹ Comparisons of returns vs. benchmarks are typically done on a 1-year basis, but it is very common for long-term annualized comparisons to also be disclosed. Reporting these benchmarks is standard practice for pension plans and third-party investment managers. Even individual investment vehicles like mutual funds and ETFs typically provide details on how their performance compares to both annual and long-term benchmarks.

The OMERS Administration Corporation (AC) sets OMERS benchmarks each year, as described in the “Performance Management” section of the OMERS investment policy document.¹⁰ OMERS Annual Reports describe how these benchmarks are constructed for each asset class. For many years, these reports stated that “Our goal is to earn stable returns that meet or exceed our benchmarks.” OMERS Annual Reports compare OMERS single-year returns to the plan’s single-year benchmarks. However, in sections describing investment performance, **OMERS does not report clear comparisons of the plan’s long-term annualized returns to its corresponding long-term benchmarks.** While the Annual Report does compare performance to the plan’s discount rate and a long-term return expectation set by the AC Board, it omits comparisons of the plan’s long-term performance against their own long-term benchmarks.

⁹ OMERS 2015 Annual Report, p. 131.

¹⁰ OMERS “Statement of Investment Policies and Procedures – Primary Plan,” January 1, 2021.



IN THE ABSENCE OF LONGER-TERM COMPARATIVE DATA, STAKEHOLDERS FACE SERIOUS OBSTACLES IN EVALUATING PERFORMANCE

OMERS believes that “paying pensions over decades means a long-term approach.”¹¹ But in the absence of longer-term comparative data, stakeholders face serious obstacles in evaluating performance. A review of historical Annual Reports shows that OMERS had a longstanding practice of reporting these long-term comparisons, but OMERS stopped this reporting, without explanation, in 2013. **This is dramatically out of step with other pension plans and is, in our view, a serious lack of transparency from OMERS.**

	HOOPP	CPPIB	PSP	OTPP	CDPQ	BC MPP	LAPP	OMERS
Does annual report compare annualized longer-term returns to corresponding benchmarks?	YES	YES	YES	YES	YES	YES	YES	NO

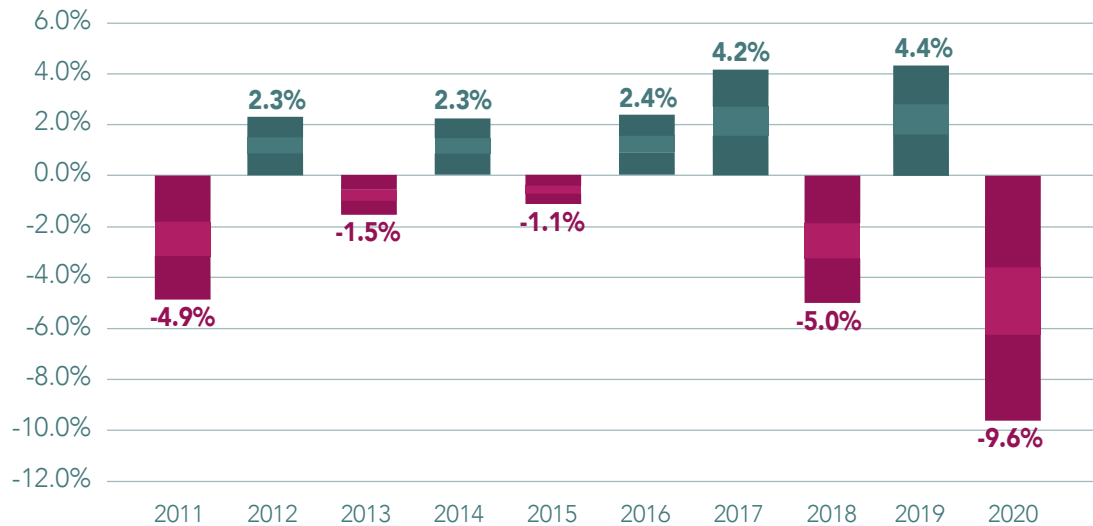


THIS IS DRAMATICALLY OUT OF STEP WITH OTHER PENSION PLANS AND IS, IN OUR VIEW, A SERIOUS LACK OF TRANSPARENCY FROM OMERS.

The OMERS Statement of Investment Policies and Procedures states that “performance reporting is consistent with industry recognized practices.”¹² The OMERS Statement of Investment Beliefs says that “articulating our investment goals and performance measures helps ensure clear accountability.”¹³ We do not believe OMERS is meeting these standards of reporting and accountability on this point.

4. OMERS 5 and 10-Year Returns are now below OMERS own benchmarks for these periods.

OMERS Annual Returns vs OMERS Annual Benchmark



Source: OMERS 2020 Annual Report, Ten-Year Financial Review, p. 142.

¹¹ OMERS News Release, “OMERS Reports 2020 Financial Results: paying pensions over decades means a long-term approach,” February 25, 2021.

¹² OMERS “Statement of Investment Policies and Procedures,” January 1, 2021. www.omers.com/governance-manual-policies-and-guidelines

¹³ OMERS “Statement of Investment Beliefs,” January 1, 2020. www.omers.com/governance-manual-policies-and-guidelines

	OMERS Return	OMERS Benchmark	Difference
5-Year Annualized	6.5%	7.4%	-0.9%
10-Year Annualized	6.7%	7.3%	-0.6%

Source: Returns from OMERS 2020 Annual Report
 Annualized Long-Term benchmarks not referenced in Annual Report and were reported verbally to CUPE by OMERS on our request.

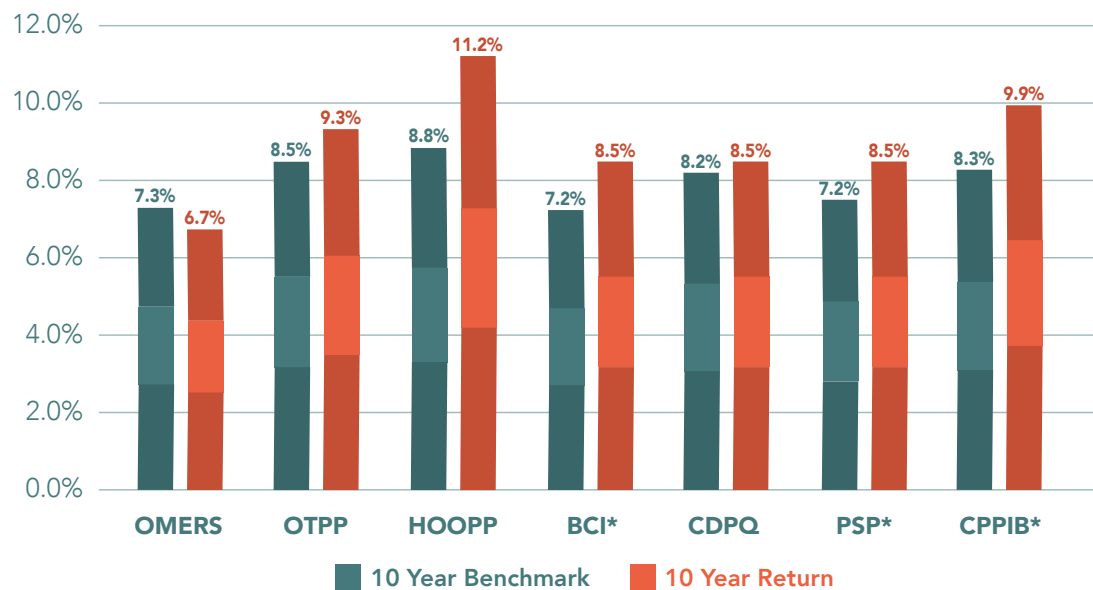
The 5 and 10-year annualized benchmark figures above were not disclosed in the OMERS 2020 Annual Report. OMERS provided these numbers verbally to CUPE Ontario upon our request. Previous OMERS Annual Reports normally included a statement that “Our goal is to earn stable returns that meet or exceed our benchmarks.”¹⁴ This statement appears to have been struck from the 2020 Annual Report.

We also note that, OMERS benchmarks are comparatively low over this period when examined alongside other plans. We believe this is due to a different benchmarking methodology for certain investments at OMERS compared to industry standards. The other major plans and funds that have reported 2020 results, however, are all ahead of their 10-year benchmarks as of their most recent annual reports.



THE OTHER MAJOR PLANS AND FUNDS THAT HAVE REPORTED 2020 RESULTS, HOWEVER, ARE ALL AHEAD OF THEIR 10-YEAR BENCHMARKS AS OF THEIR MOST RECENT ANNUAL REPORTS.

10-Year Returns vs 10 Year Benchmarks to 2020



*To March 31, 2020 otherwise to Dec 31, 2020

¹⁴ 2010 Annual Report p. 27; 2011 Annual Report p. 25; 2012 Annual Report p. 23; 2013 Annual Report p. 22; 2014 Annual Report p. 12; 2015 Annual Report p. 9; 2016 Annual Report p. 33; 2017 Annual Report p. 33; 2018 Annual Report p. 33; 2019 Annual Report p. 42; 2020 Annual Report N/A.



**HAD OMERS
ACHIEVED
THESE BETTER
RESULTS,
THE PLAN
WOULD NOW
HOLD A VERY
SUBSTANTIAL
SURPLUS.**

The impact on OMERS of these longer-term below-benchmark returns has been significant. The difference of 0.6% between OMERS actual annualized 10-year investment returns of 6.7% and its benchmark of 7.3% has meant an absolute return outcome that would have been roughly 6% higher after these 10 years (all other factors being equal). Even achieving just this benchmark return on an annualized 10 year basis would have resulted in an asset base of roughly \$6 billion higher current plan assets.¹⁵ This better result would have brought OMERS reported funding level into surplus.

This difference is even greater if we were to compare the impact of OMERS investment performance to that of any of these other large plans. For example, had OMERS achieved the actual 10-year annualized returns of the OTPP of 9.3% (just below the average of the other six plans listed above), the OMERS asset base would now be (all other factors being equal) approximately 27% higher than OMERS actual asset level. In dollar-value terms, this difference represents roughly \$28 billion more in assets after the 10-year period from 2011 to 2020. Had OMERS achieved these better results, the plan would now hold a very substantial surplus.

5. OMERS 20-year return is not above its 20-year benchmark.

Upon request from CUPE Ontario, OMERS also verbally disclosed that its 20-year return is equal to its 20-year benchmark of 6%. In our view, it is troubling that the plan has not outperformed its benchmark over this long period, and that this comparison is also not disclosed in OMERS annual reporting.

¹⁵ The alternative scenarios for investment performance results outlined in this section are necessarily approximate as they are based on data that is made publicly available by OMERS, and were generated using the reported OMERS asset base as at December 31, 2010 of \$53.3 billion.



Conclusion

CUPE Ontario has serious concerns with OMERS investment performance, and with what we believe is a troubling lack of transparency about these issues. In our view, these issues cannot be dismissed as a one-year problem.



THESE ISSUES CANNOT BE DISMISSED AS A ONE-YEAR PROBLEM.

We anticipate that these long-term, below-benchmark investment returns are very likely to lead directly to yet another round of proposals to reduce pension benefits payable to current actives and future retirees. OMERS has already eliminated the guarantee of indexation of pension benefits for service after 2022, and OMERS management has indicated it will be examining further changes in plan design. OMERS has recently stated in writing to CUPE that “the OMERS pension plan has been facing sustainability issues for some time now and the investment results of 2020 have amplified the need to address those issues.” At the recent 2021 OMERS AGM, OMERS Sponsors Corporation CEO Michael Rolland stated that “There are no guarantees as to what decisions we will have to make based on our performance...it’s a long term performance we need to look at...the results of 2020 did have an impact...and that’s why we’re taking a look at it.”



WE ANTICIPATE THAT THESE LONG-TERM, BELOW-BENCHMARK INVESTMENT RETURNS ARE VERY LIKELY TO LEAD DIRECTLY TO YET ANOTHER ROUND OF PROPOSALS TO REDUCE PENSION BENEFITS PAYABLE TO CURRENT ACTIVES AND FUTURE RETIREES.

CUPE Ontario is the largest sponsor representing plan members in OMERS, with over 125,000 active members in the plan. It is true that CUPE Ontario appoints representatives to both the OMERS Administrative Corporation and the OMERS Sponsors Corporation. However, because of restrictive confidentiality rules at both boards, our representatives are unable to keep CUPE Ontario fully-informed about what is really happening at OMERS governing boards, and the decisions that are being made about our members’ hard-earned retirement savings. We do not believe this is how well-governed jointly-sponsored pension plans are supposed to function. The result is that we feel that we are a plan sponsor in name only. Our members are not being well-served by a structure that effectively cuts them out of playing the oversight function they should over their pension plan.



WE ARE NOT CONFIDENT THAT OMERS MANAGEMENT ITSELF HAS TAKEN, OR IS PLANNING TO TAKE, SUFFICIENT STEPS TO CRITICALLY EXAMINE ITS OWN PERFORMANCE.

These barriers will not stop CUPE Ontario from doing everything we can to ensure these concerns about OMERS investment performance are addressed. Based on their public comments to date, we are not confident that OMERS management itself has taken, or is planning to take, sufficient steps to critically examine its own performance, nor are we confident that plan members or sponsors and organizational stakeholders will receive a transparent reporting of any such review.

Therefore, CUPE Ontario is calling on other plan sponsors from both sides of the table to work with us to commission a fully transparent and independent expert review of the investment program at OMERS. This review should be conducted in the open by the sponsors and stakeholders themselves, and not behind closed doors at OMERS. Ensuring our pension returns are as strong as they can be is not a partisan issue, nor is it an issue that the member and employer side of the table should have a difference of opinion on. We want to work with other OMERS sponsors and stakeholders to address these issues for the good of all OMERS members.



ENSURING OUR PENSION RETURNS ARE AS STRONG AS THEY CAN BE IS NOT A PARTISAN ISSUE, NOR IS IT AN ISSUE THAT THE MEMBER AND EMPLOYER SIDE OF THE TABLE SHOULD HAVE A DIFFERENCE OF OPINION ON. WE WANT TO WORK WITH OTHER OMERS SPONSORS AND STAKEHOLDERS TO ADDRESS THESE ISSUES FOR THE GOOD OF ALL OMERS MEMBERS.



OMERS Bulletin

November 15, 2021

This bulletin includes important information in response to letters that have been sent to municipal Councils by CUPE Ontario regarding OMERS investment performance

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There is nothing more important to OMERS than our commitment to members and employers. We recognize the significance that having a lifelong, secure and reliable stream of pension income has on members when they retire. Canada's jointly sponsored public sector pension plans, including OMERS, are leaders in governance, plan design and investment expertise. We have positive and far-reaching impacts on society, beyond the members we serve.

OMERS Economic Impact

OMERS helps generate significant economic activity in Ontario – through OMERS retirees' spending and through our operations and the investments we make in local communities across Ontario. This includes approximately \$5 billion in pension payments made annually to over 180,000 retirees. Throughout OMERS almost 60-year history, we have consistently paid pensions on time, and as promised.

OMERS activities support one of every 64 jobs across Ontario, including 118,000 jobs across all rural regions, and lead to \$12 billion in gross domestic product.

We have partnered with the Canadian Centre for Economic Analysis (CANCEA) to measure OMERS economic impact, and we will be sharing some additional findings from a new report through our Q4 newsletters to members, employers and stakeholders.

We know that OMERS activities support one of every **64 jobs** across Ontario, including **118,000 jobs** across all rural regions, and lead to **\$12 billion** in gross domestic product.

OMERS is proud to be amongst the Canadian public sector pension plans that are held in high esteem around the world, far beyond this country's borders. As a 2017 World Bank Group study notes, "Canada is home to some of the world's most admired and successful public pension organizations...Over the past three decades, a 'Canadian model' of public pension has emerged that combines independent governance, professional in-house investment management, scale, and extensive geographic and asset-class diversification."

OMERS Credit Ratings

Our credit ratings were affirmed by four rating agencies earlier this year, with Fitch Canada including in their credit report that OMERS AAA rating reflects our "solid long-term investment track record... [and] strong corporate governance", among other qualities.

AAA	AAA	Aa1	AA+
DBRS	Fitch	Moody's	S&P

Comparison of OMERS Results Against Other Pension Plans

OMERS investment strategy is designed to earn stable long-term returns, to meet our specific pension liabilities, while operating within a professional risk appetite that will meet the needs of our pension plan. Other pension plans have their own plan demographics, design features, risk appetite, liabilities and funded status – and some of these differ significantly from OMERS. As a result, comparing OMERS results against those of other pension plans is not the right focus because it necessitates taking information out of context and does not present a complete and fair comparison.

In the municipal context, an analogy would be comparing property taxes across municipalities: they all have a different set of circumstances. While it's important to be aware of other property tax rates across Ontario, municipalities will set their property taxes based on their own set of circumstances – their own needs to finance the delivery of public services to their residents.

We believe that our performance should be assessed against our own benchmarks, which are set annually by the Administration Corporation (AC) Board, and consider our specific pension liabilities, risk appetite, and the trade-offs between risks and returns. We align these benchmarks with OMERS objective of providing sustainable, affordable and meaningful pensions over the long term.

These benchmarks form the basis of our disclosures in our publicly available [Annual Report](#).

Investment Results

Over the 10-year period leading up to 2020, OMERS investment portfolio averaged an annual return of 8.2%, and 8.5% for the five- and three-year period. In 2019, OMERS delivered an 11.9% return.

We have previously shared that we were not pleased with our 2020 investment results. The effects of the global COVID-19 pandemic negatively impacted our portfolio in 2020, contributing to an investment return net of expenses of -2.7%. The factors contributing to these results are outlined in our [Annual Report](#) and include the following:

- widespread lockdowns which severely affected the business- and consumer-facing investments;
- the loss in value of OMERS portfolio of high-quality public equities in early 2020, which did not fully recover during the market rally in the latter part of 2020; and
- the actions we took proactively to enhance and protect the Plan's liquidity from further possible adverse market events achieved their objectives but resulted in currency losses.

In addition to these three factors, long-term bond yields fell steeply in March and April, leading to strong returns for those assets. OMERS prioritizes short-dated, higher-yielding credit investments, with only a small allocation to long-term bonds, whose fair values can be volatile and whose low (or even negative) cash yield is not enough to meet our long-term investing hurdle rate. Accordingly, our 2020 returns did not materially benefit from these types of gains.

As published in our mid-year financial results, this situation has reversed and we earned \$9.2 billion of net investment income in the first six months of 2021.

Mid-Year Financial Results as of June 30, 2021

In August 2021, we released our mid-year investment update for the first time, which is available at [omers.com](https://www.omers.com). For the first six months of the year, we earned a net return of 8.8%, and net assets grew by \$9 billion to \$114 billion. Further, over the **12 months** ended June 30, 2021, the Plan earned a net investment return of **18.2%**.

We expect the positive results to date in 2021 will continue for the remainder of the year, provided equity markets remain stable. The AC Board and the OMERS leadership team strongly believe we have the investment expertise and strategy in place to continue to achieve long-term returns consistent with our objectives.

For the first six months of the year, we earned a net return of 8.8%, and net assets grew by \$9 billion to \$114 billion. Further, over the **12 months** ended June 30, 2021, the Plan earned a net investment return of **18.2%**.

OMERS Governance Model

It is important for you to know that in 2012, pursuant to the *Ontario Municipal Employees Retirement System Review Act, 2006*, an independent reviewer (“Reviewer”) was appointed by the Minister of Municipal Affairs and Housing to conduct a review of the operation of OMERS governance structure. The Reviewer confirmed the importance of having an independent, professional OMERS AC Board to oversee the investment performance of the Plan, among other matters.

Role of the Independent, Professional OMERS AC Board of Directors

OMERS investment strategy and execution is governed by the independent AC Board of Directors, whose professional members are nominated by OMERS sponsors, including two representatives nominated by CUPE. It is the AC Board’s responsibility to govern OMERS investment program, and it takes this duty very seriously.

AC Board of Directors Review of the 2020 Financial Results and Consideration of the Third-Party Review

Following the 2020 results, the AC Board undertook a thorough and extensive review of OMERS investment strategy and past decisions. George Cooke, the independent AC Board Chair, made the following comments on the matter earlier this year:

“OMERS investment program is governed by an independent expert board, whose members have been nominated by our sponsors. The board continually and thoroughly reviews investment performance, independent of management, utilizing external experts where appropriate. Following the 2020 results specifically, we undertook a thoughtful look at our investment strategy and past decisions with an open mind. We are confident in our strong new leadership team and have concluded that our current investment strategy is appropriate. An additional third-party independent review is not warranted.”

The Association of Municipalities of Ontario and Consideration of the Third-Party Review

OMERS leadership and OMERS AC and Sponsors Corporation (SC) Board appointees work closely with the Municipal Employer Pension Centre of Ontario (MEPCO) Board and AMO staff to ensure their issues and concerns are fully considered by the AC and SC Boards, and by OMERS leadership. We particularly focused on this positive working relationship during 2021 and had frank and constructive discussions about OMERS investment performance.

As a Plan Sponsor representing municipalities across Ontario, AMO has two qualified, professional representatives on the OMERS AC Board, overseeing the investment performance of the Plan. The City of Toronto, as OMERS largest employer, has a separate seat on the AC Board, also filled by a qualified professional.

More information is available in [MEPCO's August newsletter](#) and [MEPCO's November newsletter](#) in which AMO and MEPCO expressed confidence in OMERS Plan governance and administration.

In addition to AMO, other sponsors, including the Police Association of Ontario (PAO), Ontario Professional Fire Fighters' Association (OPFFA), Ontario Secondary School Teachers' Federation (OSSTF) and OPSEU, have also written to the OMERS AC Board Chair confirming their support for the independent AC Board of Directors to oversee OMERS investment performance. Following are excerpts from a letter sent by these sponsors to OMERS:

"...in our view, the ultimate responsibility for the performance of OMERS' investments lies with the Administration Corporation Board of Directors [the "AC Board"]. The AC Board is responsible for placing individuals in leadership roles at OMERS, evaluating their performance, assessing risk, and making key decisions with regard to the investment fund and its administration."

"We therefore would not support any position that would substitute the view of a single sponsor organization or a group of sponsor organizations for the view of the AC Board. This would undermine the independent nature of the AC Board and reduce their ability to properly hold OMERS staff to account."

OMERS has also provided information to the Ontario Municipal Administrators Association (OMAA), in response to questions they posed, which will be made available on their website.

Continuing Oversight and Governance of OMERS

To ensure the effective oversight and governance, and the proper functioning of the AC Board, it is critical that sponsor organizations continue to nominate directors with the expertise to independently evaluate and approve strategic investment choices and assess investment manager skill. AC directors are nominated by OMERS sponsors and appointed by the SC Board.

OMERS management and the AC Board will continue to review, refine and improve our disclosures as we gather feedback from stakeholders and as the reporting environment continues to evolve.

Conclusion

The role of governance and oversight of OMERS investment strategy resides in the hands of the independent AC Board. The AC Board has considered the request by CUPE Ontario for a third-party review of OMERS investment results and has determined that it is not warranted.

OMERS 2021 annual results will be released during the first quarter of 2022, and we welcome the opportunity to discuss our performance with employers, sponsors and stakeholders following this release.

At the same time, the Sponsors Corporation is undertaking the important work of reviewing the Plan against a shifting membership demographic to ensure that we are set up to deliver sustainable, affordable and meaningful pensions for generations to come.

We look forward to 2022 with humble confidence, as we celebrate OMERS 60th year of proudly serving members across Ontario.

If you would like to further discuss our investment results, our governance structure or require any additional information, please contact our Stakeholder Relations team at StakeholderRelations@omers.com.

We look forward to 2022 with humble confidence, as we celebrate OMERS 60th year of proudly serving members across Ontario.
