



Municipal Retirees Organization Ontario

The Honourable Dwight Duncan
Minister of Finance
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Toronto, Ontario
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December 1, 2012

Honourable Sir:

SUBJECT:

Response to the Report of the Pension Investment Advisor,
“Facilitating Pooled Asset Management for Ontario’s Public-Sector
Institutions”

SUMMARY:

1. The Municipal Retirees Organization Ontario applauds the attention paid to this opportunity and the process followed by the Government and by Mr. Morneau, the Pension Investment Advisor
2. We reject the proposal in the Report (Recommendation 3.1) to establish a new Ontario Investment Management Corporation. It is neither efficient nor necessary for Government to do so.
3. We endorse the four key principles that the Report propounds for an effective pooled investment management framework for smaller broader public sector pension funds and similar investment funds (pp 5-6, Recommendation 2.1,

4. We fully accept the Report's claim and supporting evidence that pooled asset management can reduce costs and offer opportunities for higher, more stable long-term returns (pp 8-14 and throughout)
5. We support recommendation 3.2, that the Government legislate the participation of smaller funds in pooled asset management.
6. However, we do not support Recommendation 3.4 insofar as it would direct assets of the smaller funds to the new Corporation proposed by the Report
7. Recommendation 3.8 is incomplete. The assets of the smaller BPS funds would be pooled **by mandate** with one or more of the **larger existing** Ontario pension funds (OMERS, HOOPP, Teachers")
8. At a minimum, the assets of smaller **municipally-related** pension funds should be pooled with the OMERS fund.

The Process

Municipal Retirees Organization Ontario applauds the Government for identifying the opportunity to safeguard pension benefits and to reduce costs both to taxpayers and contributors by means of pooling the assets of pension funds in the broader public sector. In our view, this "win-win" approach again reflects this Government's commitment to the preservation of good sustainable defined-benefit pension plans in Ontario.

We also appreciate:

- o The appointment of the special advisor as a means of investigating this opportunity and obtaining input from interested parties
- o The opportunity afforded to us by the special advisor to meet with him and express our views
- o This opportunity to provide our feedback to you

The Opportunity

Early in his report, the advisor summarizes the opportunity:

"I am pleased to report there is a significant opportunity for pension funds to realize benefits from the economies of scale and other advantages that a pooling framework would generate. More specifically, implementation of such a framework would reduce duplication and costs, broaden access to additional asset classes and enhance risk management practices. To the extent that these

advantages support more diversified portfolios among participating institutions, pooled asset management may also help realize improved investment returns over the long term.”

The evidence adduced in his Report can leave no reasonable doubt that the Government is justified in acting on this opportunity and will deserve the gratitude of present and future pensioners for doing so.

The Report sets out a further opportunity, one which we believe to have been under-emphasized:

As reported in The Economist, Canada has an enviable record for establishing and managing large, successful pension funds....

Teachers’, OMERS and HOOPP are each of sufficient scale to achieve cost savings for the sectors they serve as well as to act as potential platforms to support investment pooling in Ontario. In addition, plans wishing to have their investments managed by these funds have a history and track record to assess their performance. While both Teachers’ and OMERS currently have the authority to offer investment management services, only the latter has a structure in place to manage third-party assets.

With respect to OMERS, we know these comments to be accurate. We endorse its superior governance, expertise, investment mix, reporting and commitment to the well-being of pensioners. We know too that, even at OMERS’ size, its flexibility and ultimately investment returns can benefit from access to a larger pool of capital.

Our advice to Mr. Morneau was simple: require that the smaller BPS pension funds pool their assets with one or more of the **large existing** Ontario pension funds (OMERS, Teachers’, HOOPP). Furthermore, give all of these large plans the opportunity to invest some of the smaller plans’ assets (rather than picking a single large plan).

Why Not a new Ontario Investment Management Corporation?

We remain unconvinced that a new corporation is necessary. The essential justification given in the Report appears to be that the governors of some small pension plans would resent being forced to place their investments with one or other of the existing large plans. Clearly, however, an element of

coercion, justified by the broader public interest, was inherent in your Government's budget statement, in Mr. Morneau's mandate, and in his report Recommendations 3.2 and 3.4.

OMERS, HOOPP and Teachers' have investment arms around the world and a sterling record of long-term returns, low costs, and professional investment strategy. They meet all four key principles set out in the Report. There is NO Need and NO advantage to re-invent the wheel.

Pooling the assets of smaller funds via a new corporation would be a "win-win" for taxpayers and smaller pension plan members. However, it misses the opportunity to create a "win-win-win" for taxpayers, smaller pension plan members, **and large pension plan members.**

Furthermore, creating a brand new corporation would be unworthy of your Government's commitment to efficiency. The report wisely devotes seven pages to a cursory outline of the costs, risks, transitional details, and delayed pay-off involved in establishing a new corporation. We see no justification for these costs, simply duplication.

While we don't wish to underestimate the complexities, we strongly suspect that OMERS could have an effective and accountable pooled asset management framework operating and showing results much faster and at a cost much less than \$50 million.

Our initial advice to Mr. Morneau was that a smaller fund should be directed all-in to one of OMERS, Teachers, or HOOPP. However, the report is quite lucid in its reasoning for pooling via a "unitization" of each large fund's investments in each asset class. Most importantly, this element of choice respects the fiduciary duty of the smaller funds' governors. Furthermore, it allows the larger funds to compete for the opportunity to manage smaller funds' assets.

Again, we have every confidence that, despite the undoubted complexities, OMERS could develop a way to offer "investment units" more quickly and at less start-up cost than a new corporation. The same may be true for HOOPP and Teachers'.

Finally, we see no issue whatsoever with regard to governance as it might affect the large plans. Particularly if the smaller fund governors are selecting "investment units" of the large

funds, there is no more of a governance issue than when the small funds buy mutual fund units, as most now do.

Municipal Legacy Funds

We were disappointed that the Report did not recommend that the legacy municipal pension plans from Ottawa, Toronto and Hamilton, as well as the Toronto Transit Commission Benefit Fund, not be simply consolidated with the OMERS Fund. We have no doubt that these “stranded” pensioners would be more secure if their pensions were based on OMERS’ stability and rates of return.

If this consolidation of funds were mandated (as opposed to voluntary or based on “investment unit” purchases), a possible issue of representation on the OMERS Boards could arise. However, we note that the total amount in these legacy funds is very small and that pensioners are already represented on both OMERS Boards. Therefore, we see no issue.

Thank you again, Minister, for this opportunity. We will also be seeking an opportunity to elaborate in person.

Sincerely,

William Harford,
President, Municipal Retirees Organization Ontario

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