

June 29, 2012

Mr. Tony Dean
OMERS Governance Reviewer
c/o Ministry of Municipal Affairs & Housing
Government of Ontario
17th Floor, 777 Bay Street
Toronto, ON M5G 2E5

Re: Ontario Municipal Employees Retirement System Review Act, 2006

Dear Mr. Dean,

Thank you for your invitation to meet on Friday, June 1st. It was a pleasure to meet with you and your team and to learn more about the process you intend to follow in your review of the OMERS governance structure.

As requested, we are enclosing the "OMERS Sponsors Corporation Governance and History". This document provides an overview of the OMERS Sponsors Corporation's (SC) activities since its establishment in 2006, as well as our current work in progress which we hope you will find useful.

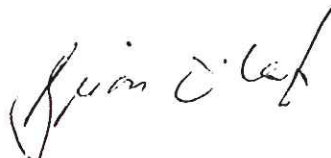
The SC has made tremendous progress in both governance and plan design in just a few short years. We continue to evolve and enhance our infrastructure, processes and relationship with the OMERS Administration Corporation. The SC has played a pivotal role in the OMERS bicameral model which is crucial to the delivery of a sustainable pension plan.

We look forward to ongoing engagement in the review process. If there is any further information or support we can provide to assist you in your review, please do not hesitate to contact us or our CEO, Deb Preston, at 416-814-6575.

Yours truly,



Marianne Love
Co-Chair



Brian O'Keefe
Co-Chair

Enclosure (1)

cc: Rick Miller, Chair, OMERS Administration Corporation Board



OMERS Sponsors Corporation
Governance and History

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Summary and Overview

The OMERS Sponsors Corporation (SC) has built a solid foundation to ensure appropriate and ongoing governance of the OMERS Plans. As the Corporation has matured, focus has moved from operational issues to issues of strategic importance to the health and long-term viability of the OMERS pension plans.

The *OMERS Act, 2006* (the “Act”) created a unique governance structure for which few precedents exist, at either a national or international level.

To ensure the continuing success of the OMERS pension plans, representatives of both the OMERS Administration Corporation (OAC) and SC met over a period of time to discuss, clarify and agree upon detailed roles and responsibilities as they each carried out their obligations as set out under the Act. Ultimately, these discussions were formalized in the Framework Agreement which was established and approved in 2009 and led to the creation of the Joint Council (where representatives from both Boards meet to discuss issues of common interest).

Since the SC was established in 2006, many difficult decisions have been made and the supplementary decision making processes was only used in one instance. As a result, there have been no funding levies required. Where necessary, the Board has used mediators to assist in resolving difficult or complex issues. Significant milestones include:

- Determined OAC and SC Board composition and compensation
- Developed voting protocols
- Established a sustainable funding model to support the SC
- Established a process for plan design changes
- Created a strategic statement to guide and determine future contributions and plan design of the Primary Plan and Retirement Compensation Arrangement (RCA)

Recognizing that openness and transparency are key to its success, the SC has continually reviewed and updated its policies and practices to ensure all stakeholders are kept informed and have timely access to information and decisions. Communication with stakeholders takes many forms (e.g. Annual Report, Spring and Fall Information Meetings, meetings with individual stakeholder groups, regular updates on the SC web site, etc.) and opportunities for interaction have increased significantly over time.

As part of good governance, in 2010 the SC retained an independent advisor to review and provide recommendations on its governance practices. The report indicated that, “overall, OMERS SC and its Board have made considerable progress in the past three years in terms of achieving some notable results to ensure that the pension promise will be kept”. It further indicated that the “review shows that the OMERS SC Board has relatively clear terms of reference, excellent access to information, education, resources and professional advice – **everything that it needs to succeed.**” It concluded that, “a lot can be achieved with a small number of course corrections.” The SC committed to implementing many of the changes recommended in the report.

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In preparation for the 2012 review under the OMERS Review Act, the SC and OAC engaged an independent advisor to undertake an internal review spanning both organizations. The advisor indicated that the governance model at OMERS is generally efficient and effective given the statutory framework in place, and that, on balance, the bicameral model has contributed to OMERS success. The external advisor has also made recommendations to the SC and OAC to improve and streamline OMERS governance practices. The two boards are currently studying these recommendations and working together to develop a plan to address the recommendations, including Board composition and strategy.

Plan design oversight has been a significant activity for the SC since it was established in 2006. No less than 56 proposed plan changes have been considered by the SC over the past 6 years. Additional pension policies governing plan participation and withdrawal have been considered and approved. Working with the OAC, changes to the Act to expand membership and allow third party asset management have been approved. The SC has a thoughtful and considered approach to all such changes, ensuring the impact on different stakeholders is thoroughly reviewed, all risks identified and addressed, and ensuring that the plan is not assuming any undue risk.

The SC has made tremendous strides in establishing a fully functioning organization to carry out the Plan Sponsor role as set out in the Act. While the organization will continue to evolve and mature, it has already demonstrated that it can, and will continue to, effectively represent the sponsors of the OMERS pension plans.

Yearly Achievements

June 30, 2006: The OMERS Act, 2006 – A new governance model

Following many years of consultation and debate, a new governance model for the OMERS Plans was established through the *OMERS Act, 2006* (the “Act”), effective June 30, 2006. The new model reflected the Province’s desire to devolve responsibility to plan participants and the desire of stakeholders to control their own pension plan.

At the time, OMERS recommended six principles to guide the future governance of OMERS and the Act reinforced these principles:

- Alignment of ownership and control;
- Clear separation of sponsor and fiduciary functions;
- Balance between employer and employee interests;
- Accountability to members and employers;
- Exclusivity; and
- Best governance practice.

The Province adopted the bi-cameral model of governance after considering a number of alternatives, and taking into account the preferences of stakeholders. The OMERS Sponsors Corporation (SC) was established as a statutory corporation responsible for the terms and conditions of the pension plans including determining plan design, benefits, contributions and reserves.

The former OMERS Board was continued as the OMERS Administration Corporation (OAC) to oversee plan administration, plan valuations and investment of fund assets.

To ensure an orderly transition, the Act established an interim structure and protocols for the SC and the OAC, with sunset clauses. The government also provided start up funding for the SC. The intent was to ensure the newly established SC had sufficient time and financial resources to consider and establish its own governance structure and protocols.

The SC is responsible for plan design, which includes the critical areas of benefits, contributions and reserves for new and existing plans. Other key SC responsibilities include:

- Determining the composition of the SC and OAC and the method of choosing their members;
- Determining the term of office of SC and OAC Members;
- Establishing the remuneration and expense policies for SC and OAC Members;
- Establishing supplementary mechanisms for making decisions about matters that are considered during its meetings;
- Appointing an auditor and preparing an Annual Report for plan members;
- Determining appropriate methods for funding SC activities (may require OAC to

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reimburse it for costs that may lawfully be paid out of the Fund, may require employers and members to pay a levy to fund SC costs that cannot be paid out of the Fund);

- Establishing the terms and conditions of employer participation in the OMERS pension plans;
- Authorizing contracts to administer third party plans and assets; and
- Appointing Members to two advisory Committees established under the Act.

**June
2006 -**

Creating the Foundation - Transition to a permanent structure

Dec 2007: Significant progress was made during the first 18 months following proclamation of the Act. Expert advisors and legal counsel were retained to assist the SC with developing its ongoing governance structure and establishing a permanent funding arrangement. Key activities and accomplishments included:

- Approval of by-laws which constituted the Corporation and addressed the business of the Corporation, meeting protocols, dispute resolution, voting, indemnity and banking authority.
- Approval of the composition of the SC, terms of office and the method of choosing its Members is based on five principles intended to achieve fairness and stability:
 - The two largest groups (AMO and CUPE) have representation in proportion to the number of plan members represented/employed by each.
 - The remaining sponsors, except for retirees, were ranked based on the number of plan members represented or employed.
 - The SC has a fiduciary duty to represent the best interests of all the sponsors, not just those who appoint. Since not all sponsors can have direct representation, a communications policy was established to help ensure all sponsor groups are fully informed of critical issues.
 - Retirees are represented by many different groups. As such, the retirees were asked to select their representative and establish a process to select successor representatives.
 - There is a regular review of the relevant provisions of the composition by-law, with the first review occurring before January 31, 2009 and then every 5 years thereafter to ensure that the SC is representative and that the principles of fairness and stability are adhered to.
- Established an Audit Committee and the two advisory Committees, including mandates and process for appointing Committee Members.
- Determined, with input from the OAC, the compensation and expense reimbursement policies for OAC and SC Members as well as the appropriate training and education courses.
- Ongoing meetings were held with the OAC to discuss technical and administrative support (including office space) as well as development of a series of protocols setting out respective roles and responsibilities.
- To establish a permanent funding structure, the SC and OAC commenced a court

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application for directions and approval of a Joint Protocol for SC Costs and Reimbursement from the pension fund.

- An independent actuary and auditor were retained to provide support as needed.
- Finally, the infrastructure for payroll, budgeting and office management was established.

At the same time, the SC recognized the need to establish a structure and process to deliver on one of its key responsibilities – plan design. Of primary importance was establishing a process with a high level of transparency and accessibility. In these first 18 months, key activities and accomplishments with regard to plan design oversight included:

- The SC received its first valuation of the Primary Pension Plan.
- A protocol for proposing “specified plan changes” (that is, changes which will change benefits, contributions, or affect a reserve to stabilize contribution rates) was established.
- Agreement was also reached on a process for bringing forward technical (or “non-specified plan changes”) plan changes.
- Six plan changes were brought forward by the OAC. Following receipt of additional information on the original proposals and due consideration of the issues, the SC approved 4 of those proposals.
- The SC established a working group to consider the issues under review by the Expert Commission on Pensions and develop a joint submission with the OAC.
- The SC and OAC co-hosted a number of meetings with plan members and stakeholders to communicate activity and decisions of the SC as well as investment activity of the OAC. Joint meetings with plan members and/or stakeholders continue to be held each year.
- An independent SC web site was also launched in the spring of 2007 to provide an ongoing communications vehicle with stakeholders.

Jan – Dec 2008: Developing the Supporting Infrastructure

During 2008, the SC continued to focus on completing its governance structure and implementing a supporting infrastructure to allow it to function effectively and efficiently in fulfilling its responsibilities.

- Three new standing Committees (Corporate Governance, Human Resources and Compensation, and Plan Design Information) were established to assist the SC and distribute responsibilities and time commitments.
- An Executive Director was retained to assist in the implementation of the permanent governance structure and ensure an effective relationship with the OAC and OAC management.
- A permanent funding model was finalized:
 - The court approved the Joint Protocol for SC Costs and Reimbursement and processes and procedures were codified to ensure compliance and transparency;
 - A process was established for levying a fee on Plan members and employers to pay expenses not covered under the Joint Protocol; and

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- An extension to the government funding agreement was granted, deferring the need to levy fees on Plan members for SC costs.
- The first Annual Report, covering the period to December 31, 2007, was distributed in early 2008.
- A Confidentiality Policy was developed to reflect the SC's commitment that stakeholders have access to all but the most confidential information.
- Regular joint education sessions for both Boards were held throughout the year to develop and enhance the relationship between the two organizations and this practice continues today.
- With regard to plan design:
 - Six proposals for plan changes were considered. Following careful review and due diligence of all required information, one change was approved.
 - Based on 2007 and 2008 experience, the SC reviewed and updated the Plan change process to improve openness and transparency. The new process also resulted in plan changes being considered and approved in a more predictable, efficient and effective manner.

Jan – Dec 2009: Commitment to Health and Long-Term Viability of the OMERS Plans

Having established the foundation and infrastructure, the SC turned its focus to issues regarding the composition, compensation and interaction of the SC and OAC.

- Following a significant amount of work in 2008 and early 2009, the SC approved the OAC composition, terms and method of choosing its Members. The composition closely mirrored the SC composition but ensured the continuity and retention of experienced and knowledgeable OAC Board Members with only four new Members appointed. All appointments were confirmed by July 1, 2009.
- As required and communicated to stakeholders, the SC reviewed its own composition in January and, based on the most recent statistics, representation on the SC Board was reaffirmed to provide appropriate representation to the various sponsor groups.
- An extensive compensation review for the SC and OAC was undertaken by the HRCC, utilizing external compensation advisors, a market analysis of relevant pension plan peer groups and reviewing information and experience of both the SC and OAC Boards. Effective July 1st, a new compensation policy combining an annual flat fee and meeting fees to a prescribed maximum was implemented.
- The SC and OAC signed a Framework Agreement, detailing 26 touch points where the two Boards work together, and how this work should be done. A Joint Council, with representatives from both Boards, was established to meet on an ongoing basis to discuss issues of significance and governance to both Boards.
- A small permanent staffing structure, with pension expertise, was established to support and assist the Board and liaise with the OAC staff and government. Three permanent positions were approved and filled this year with a fourth approved in early 2010. Staff HR policies and compensation programs were developed and approved.

Much of the remainder of 2009 was focused on the plan funding - reviewing the impact

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of the 2008 global economic downturn, considering new initiatives to strengthen the Plan and responding to pension reform consultations.

- Plan Design Oversight
 - At three different times throughout the year, plan changes were considered.
 - Six proposals were put forward by the OAC, of which four were approved.
 - Seven plan changes were proposed by SC Members, of which two were approved.
 - Following discussion and research, the SC also established the terms and conditions of employer participation in the OMERS pension plans, as authorized under the Act.
 - The OAC and SC worked together to obtain amendments to the Act that would expand OMERS ability to provide pension administration and asset management services to eligible clients. This change allows OMERS to expand its assets under management and access larger investment deals.
 - Discussions with the OAC on new initiatives, intended to grow the OMERS fund and respond to member requests, were held throughout the year with approval in principle for the introduction of a new benefit provision to allow members to make additional voluntary contributions (AVCs) to the Plan.
 - The SC successfully defended, before the Financial Services Tribunal, its 2008 plan change to the inflation methodology.
- Two additional governance policies were established in 2009 as follows:
 - A Code of Conduct Policy was passed to set ethical standards for SC Members, employees and consultants who conduct business for or on behalf of the SC; and
 - A Service Provider Review Policy was approved to ensure appropriate oversight and review of the Corporation's service providers. The policy requires an annual review of each service provider and a schedule for conducting a market review, thereby ensuring the SC continues to receive appropriate advice at competitive rates.

With the governance foundation solidly in place, the SC adopted a strategic “guiding principles” statement:

The best interests of the OMERS Sponsors Corporation includes governance and decision-making practices which support the health and long-term viability of the jointly-sponsored OMERS Pension Plans and give due consideration to the interests of the stakeholders and other relevant circumstances.

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2010:

Building on its commitment to the health and long-term viability of the OMERS pension plans, the SC took steps to develop a short and long-term funding strategy to address existing and future funding requirements for the OMERS Primary Plan. Measured and gradual plan changes were made to address the funding deficit and a statement, setting out the long-term strategy to guide future funding decisions, was approved. Keeping its eyes on the future, the SC also worked closely with the OAC to ensure OMERS voice was heard in the pension reform initiatives.

- Following a significant and detailed review of the funding status of the Primary Plan, the SC decided to address the growing deficit now, rather than later. Ten proposals were considered and, in June, the SC approved a multi-year approach to increasing contributions and reducing benefits on a temporary basis.
 - In addition, the SC developed a long-term strategy to guide future funding decisions. In December, following months of discussions and negotiation, the SC approved, in principle, a Statement of Plan Design Objectives and Strategy which was formally approved in January 2011.
 - Following a review of recommendations from the OAC, the SC approved two further technical plan changes.
 - There was significant activity by both provincial and federal governments on the issue of pension reform. Working closely together, the SC and OAC developed four separate responses to proposed legislation or consultation papers. In addition, the two Corporations appeared before the Standing Committees to ensure OMERS voice and the needs of plan participants were considered as these reforms move forward.
 - As part of its ongoing consideration of governance issues, the SC retained the services of a governance review advisor to review and provide recommendations on SC governance practices. Overall, the report was positive, indicating that the SC has everything it needs to succeed and recommending a small number of changes, most of which have been implemented.
 - To enhance and improve communications with stakeholders, the Communications Policy was updated. Plan change proposals are now posted on the SC web site in advance of SC approval to ensure stakeholders are informed prior to a final decision being made.
 - The SC completed a review of its existing by-laws, conducted an interim review of the OAC Chair and Co-Chairs compensation (no changes recommended) and reviewed the performance of its service providers (reconfirming all for 2011).
 - To date, the SC has had limited Board Member turnover, providing stability and continuity during its initial period. However, in 2010, three new Board Members were appointed. Orientation and training programs were reviewed and updated to assist these new Members in assuming their positions on both the Board and at various Committees.
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- As part of the ongoing initiative to expand the OMERS fund and to assist with

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ensuring continuity of membership for OMERS employees who transfer between investment entities, the SC and OAC requested an amendment to the OMERS Act to allow other employers to join the plan. In December, the government amended the Act to allow OMERS investment entities to join the plan, subject to conditions set by the SC.

- SC Members were provided with electronic access to Board, Committee and corporate documents through a dedicated board portal resulting in cost savings and more efficient, secure access to relevant documents.

Jan – Dec 2011: Reflection and Refinement

During 2011, the SC continued to monitor and make decisions regarding the funding of the Primary Plan and RCA. The three year strategy approved in 2010 to address the deficit continued to be implemented with contribution rates established for 2011 and a commitment to conduct a further review to assist in the establishment of principles to guide future contribution rate allocations. Enhanced stability was provided through the filing of the 2010 actuarial valuations. Activity on the plan design front, included:

- Consideration of 7 specified plan changes before ultimately making the decisions noted above.
- The contribution rates for the Supplemental Plan were reviewed and updated based on consideration of additional actuarial information.
- Plan changes were made to inject a degree of flexibility into the RCA funding and balances sustainability of the RCA with the tax inefficiency created under the Income Tax Act.
- A comprehensive review of the RCA continued throughout the year to assist in the future development of a Statement of Plan Design Objectives and Strategy for the RCA by the end of June 2012.
- The impact of pension reform, particularly Bill 133 (Marriage Breakdown) was considered and addressed.
- The plan texts for the Primary Plan and Supplemental Plan were amended and restated to include amendments approved prior to January 1, 2011 as well as incorporating 8 additional housekeeping and clarification changes. These amendments help maintain the integrity of the Primary Plan and reflect compliance with the applicable governing legislation.

Building on the governance work already completed, the SC also undertook a number of reviews of its internal structures, processes and relationships to assist in preparing for the OMERS governance review as required under the OMERS Review Act, 2006.

- The SC reviewed its current Board and Committee structure, confirming the existing Co-Chair structure and amending the appointment process for Committee Chairs to help ensure appropriate balance and succession for the SC Committees.
- The New Member Orientation program was further revised and updated to ensure new Members receive immediate training and information as they assume their position on the Board. The ongoing training and education program for Board Members was also reviewed and updated to provide a robust, cost effective program for all Members.
- An “SC Governance, Mandates and Responsibilities” document was developed

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which provides an overview of the SC governance structure, outlines the mandates and responsibilities of the SC Board and its Committees, as well as responsibilities of Board Members, Co-Chairs, Committee Chairs and the CEO.

- The OAC and SC periodically conduct their own internal governance review to identify strengths and opportunities for improvement. This year, the OAC and SC Boards engaged in a joint internal evaluation of OMERS decision-making processes and retained an advisor to assist with this review. The results of this review were considered throughout 2012.

Additional activity in 2011 included the following:

- Completion of a review of the compensation structure for Members of the OAC and SC Boards, as required under SC by-laws. An external consultant provided an overview of market and industry trends and, following significant discussion and consideration of various elements, a decision was made to maintain the current compensation levels and structure.
- At its planning session in September, the OAC provided a detailed presentation of its strategic plan. In addition to gaining a better understanding of the strategic plan, key areas requiring SC involvement and support were identified. The SC and OAC agreed to participate in further meetings to ensure alignment and understanding of key initiatives.
- A review of the SC and OAC Board composition and appointment process is required in 2012 and this process was initiated in 2011 with plan sponsors being advised of the pending review. In addition, a notice was placed on the SC website to allow all stakeholders the opportunity to provide input and ensuring an open and transparent process.
- Two OAC Board Members were reappointed and two new Members were appointed to the OAC Board, replacing two outgoing Board Members.
- Both the SC and the OAC Boards met on a number of occasions throughout the year to discuss issues of joint interest.
- The SC continued to improve its communication with stakeholders, particularly through the website which was redeveloped in 2011 to improve navigation and make it easier for all visitors to use. The website was regularly updated, providing information on decision and activities of the SC. Many groups and individuals have responded and provided input on SC activities.

**Jan –
May
2012:**

Ongoing Development and Refinement

During 2012, the SC continues its review to establish principles to guide future contribution rate allocations, and specifically contemplates the contribution rates for 2013. Consideration will be made as to whether to enhance stability by filing the 2011 actuarial valuations. Activities on the plan design front, include:

- On-going consideration of 11 specified plan changes
- A Statement of Plan Design Objectives and Strategy was adopted for the RCA as was done for the Primary Plan, but which reflects the unique reality of the RCA.

In preparing for the OMERS governance review as required under the OMERS Review Act, 2006, the SC continued its work reviewing internal structures, processes and

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relationships.

- The OAC and SC Boards engaged in a joint internal evaluation of OMERS decision-making processes with the assistance of an advisor who provided his report at the end of 2011. The results reaffirmed the current OAC and SC model and the other comments and recommendations are under consideration by both the OAC and SC Boards.
- A review of the SC and OAC Board composition and appointment process is underway and includes consideration of the insights of the external advisor, plan sponsor and other stakeholder input which was received by the SC.

Additional activity in 2012 includes the following:

- The SC is participating in a consultation process with government as the government develops the public sector pension reforms it announced in its 2012 budget.
- Various corporate by-laws were, or are being further refined and enhanced to reflect best practice and the evolution of the SC.
- The SC continues to consider the OAC strategic plan with a focus on the elements where the SC has a role to play based on its areas of responsibility. The SC and OAC will be participating in further meetings to ensure alignment and understanding of key initiatives. A joint strategic planning session is scheduled for September 2012.
- The SC retained the services of an outside advisor to facilitate formalizing its risk appetite as plan sponsor and to develop a related dialogue with the OAC.
- The SC continues to communicate with stakeholders by various means, including through the SC website and at information meetings held twice each year.

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Work in Progress

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| Representation | The SC is thoroughly reviewing By-Laws #4 and #13 which relate to the composition of the two OMERS boards. Of particular importance in the review is the issue of member representation on the boards. The review will consider feedback the SC solicited from sponsors and other stakeholders, as well as the recommendations of the independent advisor hired by the SC and OAC to conduct an internal governance review. |
| Board Compensation | The SC is currently laying the groundwork for a review of board member compensation which will occur in 2013 and the recommendations of the independent advisor will be considered. |
| Working Together Effectively | The SC and OAC are enhancing their collaboration by establishing joint meetings of the SC and OAC governance committees as well as the SC's Plan Design Information Committee and the OAC's Members Services Committee. These joint meetings are intended to enhance information sharing between the boards and ensure effective and efficient use of staff at both the SC and OAC. |
| Growth | The SC has held a number of meetings to develop a position on the growth initiatives identified in the OAC strategic plan which relate to the responsibilities of the SC. The SC has prepared a document to articulate its position, and to move forward the on-going dialogue with OAC on these issues. This will be discussed by the two Boards at a Strategic Planning session in September. |
| Risk Appetite | The SC engaged an independent advisor to develop a position on the SC's risk appetite to be articulated to the OAC, as they requested. The SC's risk appetite will help guide the OAC's decisions related to setting actuarial assumptions and investment policy, and equally, the dialogue and sharing of information will enable the SC to leverage the OAC's analysis and ensure that the risks taken are consistent with the SC's appetite for risk. |
| Joint Strategic Planning | The SC and OAC will meet at an offsite strategic session in September. The SC positions on growth and risk appetite will inform the discussions and enhance the strategic discussions. This is the first step in joint strategic planning and the development of a common set of principles to guide each organization to ensure that as the SC and OAC carry out their respective responsibilities their efforts are coordinated and advance the best interests of plan members. |
| Allocation of Contribution Rates | The SC is in the process of determining the allocation of contribution rates amongst plan members. The recommendations and report of an advisor are being considered in the creation of a Specified Plan Change which would establish the methodology for allocating contributions, and which would direct future contribution allocation exercises. |
| 2012 Review | The OMERS Review Act, 2006 imposes a requirement to review the efficiency and effectiveness of the OMERS governance structure. The SC and OAC will be actively engaged in the review during 2012. Upon completion of the review, the SC and OAC will consider any recommendations that follow. |