Spring Information Meeting, April 17, 2012

Rick Miller, Chair, OAC

Good morning everyone and welcome to OMERS 2012 Spring Information Meeting.

My name is Rick Miller and I am the Chair of the Board of the OMERS Administration Corporation, or the OMERS AC.

As many of you know, John Sabo – who is with us today – was Chair of the Board for the past four years leading up to 2012, and for those years John stood where I am standing today.

On behalf of our Board, I'd like to formally thank John for his tenure as Board Chair since 2008. I have big shoes to fill, but I'm convinced that with the support of John and my Board colleagues – we'll be able to maintain the high standards and continue the momentum throughout 2012.

It is shaping up to be a busy year and I'll talk a bit more about that in a few minutes.

But first, let me tell you a bit about my background. I am a Captain in the Windsor Fire and Rescue Services, and a member of the Ontario Professional Fire Fighters Association.

I have a long association with OMERS at the Board level, having been first appointed in 1997. I've served on several Board Committees – including Chair of the Investment Committee in 2004 and 2005 – and as Board Chair in 2002.

But enough about me… let me tell you a bit about what we have planned for today.

Following my remarks, you will hear from OMERS AC management including Michael Nobrega, our President and CEO, and Patrick Crowley, OMERS Chief Financial Officer.

We will then turn it over to representatives of our Sponsors Corporation, or the SC. The Co-Chairs of the SC – Marianne Love and Brian O'Keefe – will be providing information on SC activities.

Finally, before we close the meeting, we've asked Michael Nobrega to field a Q&A session which will include questions from the floor, as well as questions we receive from our online attendees.

Following the meeting we invite you to join us for lunch just outside the doors.

I would like to take a moment to introduce you to the OMERS AC Board, and I'll ask those members of the AC Board present to stand at this time.

These Board members are wearing name tags and I encourage you to interact with them.

I would like to highlight that we have two new Board members who have joined the board recently:

- Monty Baker, who is the new OAPSB representative on our Board, and
- Fred Biro, who was the former Chair of the Board in 2004-2005, and he has now returned as one of two AMO representatives on our Board.

John Goodwin left the Board at the end of last year and we thank him for his contributions to the Board.

On a very sad note, Michael Power – a Board member for AMO since 2004 – passed away in January of this year following an illness suffered a few months before. Michael was a dedicated and passionate member of the Board and was an avid pursuer of OMERS best interests. He is greatly missed.

Today's meeting is a chance for all of us – representing both the OMERS AC and SC – to present information outlining the results of our efforts and activities in 2011. We will also provide some details of our plans for the future.

We appreciate your interest in OMERS activities and, as always, we welcome your feedback at these meetings. We would also like to welcome those from across the province who are unable to attend in person, but are following the proceedings, thanks to the live audio web-cast of this meeting.

Our objective is to be open and transparent. We have done our best to ensure open and on-time access to our latest information for 2011, through our online Annual Report which was posted on March 31 on omers.com.

Also, *OMERS In Focus*, our 2011 Report to Members – which was mailed to every member in early March with our member newsletter – is intended to provide a "short form" summary of the 2011 results and activities, which is also available on the website.

We know transparency and timely access to information is important to our members and stakeholders and we make efforts to improve every year.

This year, for instance, you will note a significant increase in detail related to OMERS compensation and methodology. You raised the issue in previous Information Meetings… we heard you and we have responded.

Moving right along, I would now like to provide a brief update from the perspective of the AC Board.

Patrick Crowley, our CFO, will be providing a detailed breakdown of the 2011 financial results in his presentation, but let me provide these brief remarks.

In 2011, we generated returns of 3.17 per cent exceeding our benchmark of 2.52 per cent.

Returns in our private market portfolio were well over 8 per cent, which provides some evidence that our strategy to move a greater portion of our assets to private markets is sound and the right strategic direction for the fund.

We had losses in our public market investments, specifically in public equities.

Our long-term average return target is 7 to 11 per cent. Although this year was below that, our targets are long-term targets. As Patrick will point out – even when you include the losses of 2008 – our long-term average returns are within that range using most measures.

We are focused on the long term… and we have responsibilities to pay pensions far into the future. And there are certainly long-term pressures.

As the Plan matures, our financial obligations at current benefit levels will grow. OMERS retirees are living longer, and their number is projected to grow substantially with the baby boomer generation retiring.

As expected, our deficit will soon peak at the end of 2012 – due to the 2008 market returns – before it begins to drop. There are challenges ahead and the AC and SC each have a role to play in helping to manage the deficit and return the Plan to full funding.

We know from the news media that many large defined benefit pension plans like OMERS are currently in a deficit cycle. For plans whose members work in the public sector, there is criticism about the impact of these deficits on government purse strings.

Critics tend to look only at the costs. What gets lost in the discussion are the benefits of these pension plans. By that I don't just mean the benefits to plan members.

For instance, a few facts:

- Well over 10,000 Canadians work in companies owned or controlled by OMERS, all paying provincial and federal taxes.
- OMERS has about $37 billion invested in Canada – either through our privately owned or publicly traded investments – and every dollar is supporting the Canadian economy.
- One in every 20 people employed in the province of Ontario (that includes part-time, full-time, public sector and private sector) is an OMERS member.

That is a significant portion of the population of Ontario set up to live in retirement, in a manner that will ensure they are less likely to require government assistance in their later years.

That is just OMERS!

The contributions made by the big public sector pension plans to the health of the economy has to be a part of these discussions when these plans are being analyzed by their critics.

At this time I would like to turn briefly to touch on governance at OMERS. As many of you know, the province is scheduled to undertake a review of OMERS governance at some point in 2012 – as required by the OMERS Review Act.

Both the AC and SC are engaged in preparing for this process. It has not yet been made clear how the government plans to proceed, but we have taken steps to make ourselves ready.

Strong and effective governance has always been our objective, which is accomplished in both sides of our house, through a strong committee process.

The AC/SC Framework Agreement was jointly established in 2009. It continues to act as a valuable tool to support the OMERS governance model set out in the OMERS Act.

On the AC side, the Board fulfills its governance role on several fronts, with oversight of the investment, audit, HR, governance and member services committees. Our oversight responsibilities are the foundation of the Board's role… we take them seriously, and we are structured accordingly.

The Board is also focused on a well-established succession plan for the organization. We recently extended the employment agreement with Michael Nobrega to provide strong, competent leadership through the implementation of key initiatives in our strategic plan and we must be ready for a smooth transition when Michael is ready to go.

One of Michael's many achievements up to this point has been his focus on leading a fully engaged workforce – committed to the organization's goals and objectives.

This commitment extends beyond business, and into the community. I understand that employees of the OMERS enterprise broke the million dollar barrier by raising $1.2 million for charity in 2011 and they are to be congratulated for it.

I am proud to say that under Michael's leadership, the UK-based *World Finance Magazine* announced OMERS as the winner of the Global Pension Fund Awards as *Pension Fund of the Year, Canada* for 2012 – the third consecutive year.

OMERS was up against Canada's largest pension plans, and won this recognition based on criteria, including the following:

- The financial stability of the organization
- The approach to risk and managing risk
- Investment performance
- Corporate governance, and
- The development of its employees.

Finally, in 2011, OMERS was named one of Canada's Top 50 Employers for the fourth consecutive year! Once again, OMERS was the only pension plan on this prestigious list.

All of this external recognition is a clear testament to the fact that OMERS is in the right hands from a management perspective.

And on that note, I would now like to welcome OMERS President and CEO Michael Nobrega.

Michael Nobrega, President and CEO

Thank you, Rick. Good morning everyone.

Welcome to the 2012 Spring Information Session, where we report on 2011 activities.

I do not need to remind you that the 2011 year was a reminder that no institution is immune to the continuing turbulence in the global credit and equity markets.

Many sovereign governments and major financial institutions in the developed world were penalized for fiscal mismanagement and excessive debt, through credit downgrades and higher borrowing costs.

OMERS was one of the fortunate institutions to navigate the global market turbulence. OMERS retained its triple "A" credit rating and posted positive returns of 3.2 per cent for 2011.

We acknowledge that some pension plans have reported much higher investment returns in 2011 and this may be uppermost on some people's minds.

One-year returns, however, tell an incomplete story.

The financial contract with Plan members is to deliver pension benefits over their retirement years and not over one year. Our goal is to stabilize investment performance over the long term at a level that fully funds the pension promise.

To do so, we began to shift capital from public to private markets in 2004. In 2004, 82 per cent of our total assets were invested in stocks, bonds and related securities with the rest in privately owned assets.

By 2011, the Plan was much better balanced with 58 per cent invested in public markets and 42 per cent in private market assets.

This capital shift to private markets is designed to reduce exposure to volatile stock markets by acquiring private investments that generate reliable and rising cash flows to pay pensions.

The private markets generated 8.2 per cent return in 2011 and have generated $3.1 billion of additional value since the shift began.

Turning to the public markets…

Sudden and sharp declines in global equities in the second half of 2011 reminded us once again that stock markets can be fickle. There are many reasons why equity returns weakened:

- The sovereign debt crisis emanating from Europe and the U.S.;
- A slowdown in growth in many Asian economies;
- Softer demand for commodities; and
- The threat of global recession.

While our public markets had double digit returns in 2009 and 2010, we ended up with a small negative return in 2011. Such volatility clearly illustrates the fickleness of public equities.

Developing a successful strategy to manage long-term volatility in global equity markets continues to be our top priority in 2012.

Our challenge is to address the Plan's funding deficit. We are still paying the price of the damage caused by the 2008 global credit crisis and stock market meltdown. As investment gains and losses above and below the funding requirement are recognized over five years, the Plan continues to recognize losses from 2008.

This contributed to the Primary Plan funding deficit increasing in 2011 to $7.3 billion from $4.5 billion in 2010. We expect that it will further grow by the end of 2012, at which point all losses suffered in 2008 would have been recognized.

Temporary contribution rate increases and net investment returns of 6.5 per cent should eliminate the deficit over the long term. Our goal is to get back to a positive funded status sooner by achieving net returns in the 7 to 11 per cent range.

Since 2004, the fund has achieved a net return of over 7 per cent, including the impact of the 2008 credit crisis.

So, why the existing and growing deficit until 2012? Frankly, the gains from 2004 on were used to cover the capital market losses of the dot-com era.

Also the deficit takes into account liability growth in benefit obligations resulting from early retirement and other plan experience.

We managed to return to surplus at the end of 2007 despite:

- The dot-com era losses;
- Increased benefit obligations; and
- A five-year contribution holiday while the dot-com boom was just about to burst.

Our five year rolling Strategic Plan – launched in 2008 – was initiated to meet the pension promise as defined in the Plan text in the surplus days of the late 1990s. And we have had some success.

We have successfully launched our global footprint with offices in London and New York.

We have introduced OMERS to institutional investors around the world as a potential co-investment partner through a unique programmed co-investment initiative.

We have persuaded governments to remove unnecessary regulatory barriers for which compliance is expensive and which inhibit investment choices.

And by increasing the internal investment management – rather than paying third party fund managers – we have begun to save significant costs to the fund.

Let me reassure you that we take the pension promise seriously and responsibly. We are confident that the strategic initiatives and innovations described in the strategic plan will enable OMERS to successfully underpin the security of the pension promise.

On our Pension Services side, we continue to score well with employers and Plan members in the quality of Plan administration and product innovation.

One innovation of note is the Additional Voluntary Contributions program. This innovation enables Plan members to contribute or transfer funds from their registered savings plans and receive the OMERS net return on investments.

The program was first offered beginning in January 2011. Approximately 5,100 Plan members joined the program that year. I am pleased to disclose that I was among them. I transferred my RRSP savings to OMERS care. Why? Because I believe in the soundness of our long-term investment strategy.

Still on the Pension Services side, we have also identified – and are working on – a number of growth options for the Plan which we expect to intersect very favourably with government policies and goals.

Let me conclude by assuring you – our Plan members – that the Board and management operate as a team.

We debate and resolve strategic direction and major decisions that impact OMERS.

Our executives also understand that they are accountable for the success of the entire organization and not just their own area of responsibility.

Governance at the Board level is also clear, with Board committee mandates to ensure effective governance.

Board and management fully recognize that only by working together – in a transparent, innovative and productive manner – can the pension promise be achieved.

Thank you.