

Provincial Pension Initiative

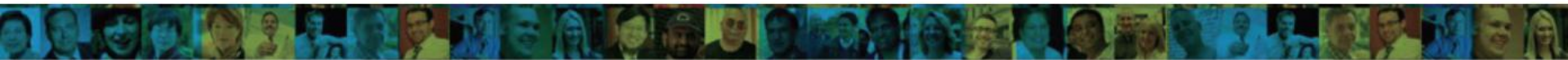
Open Pension Committee Meeting
December 5, 2012

**“Facilitating Pooled Asset Management for
Ontario’s Public Sector Institutions”
Morneau Report
November 2012**



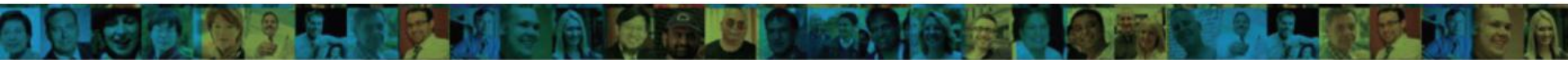
Provincial Pension Initiative

- **Spring 2012 Ontario Budget** – Pension Plan initiatives announced
- May 2012 - Appointment of **Bill Morneau**, Pension Investment Advisor to MoF
 - Mandate – Assist government to determine the **advantages of pooled asset management** for public sector pension plans
- Summer/Fall 2012 – **Feedback process**; met with labour, management, investment management professionals, retirees, industry associations.



Highlights of Morneau Report

- Posted on Ministry of Finance (MoF) website on November 16, 2012
- Report recommends a pooling framework for public sector pension funds
- Potential annual savings of \$75M to \$100M once fully implemented



What assets are consolidated?

➤ **Mandatory participation** for:

1. Ontario public sector pension funds (for DB plans)
2. Investment funds for Workplace Safety Insurance Board, Ontario Nuclear Fund, Agricorp Production Insurance Funds

➤ Voluntary participation for **Endowment Funds & DC Plans** (subsequent to full implementation & capacity)

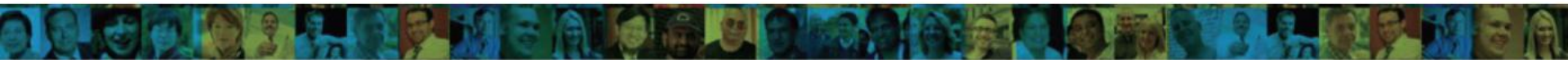
➤ **Excludes** Teachers, OMERS and HOOPP which are already sufficiently large enough to achieve benefits of scale

*Note: Approximately \$100B potential fund
(require \$50B+ to be fully effective in achieving benefits of scale)*



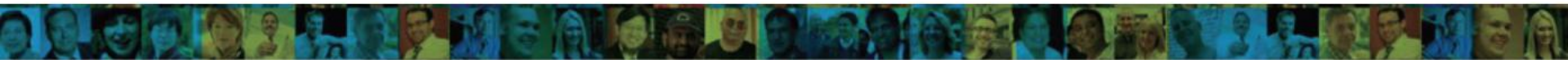
How will plans benefit from pooled assets?

- ✓ **Better returns** through diversification and access to different asset classes available due to scale
- ✓ Better returns through ability to **attract world-class talent**
- ✓ Lower investment management costs through **reduced duplication of administrative functions**
- ✓ **Better risk management** – concentrate expertise within pooled fund manager rather than fragmented across multiple institutions and their advisors.



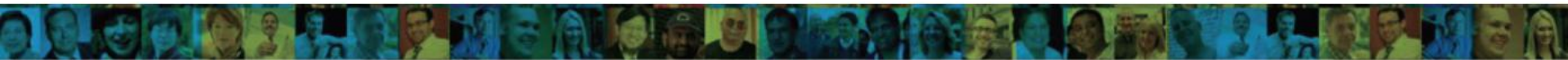
How does this impact current pension plans?

- Individual institutions/plan members **retain ownership** of investment assets which would be held in unitized pooled funds
- Employees remain **members of existing pension plans**
- Pension **plans remain unchanged** by this initiative
- Does not preclude **other pension initiatives** from being pursued such as Jointly Sponsored Pension Plans (JSPPs)



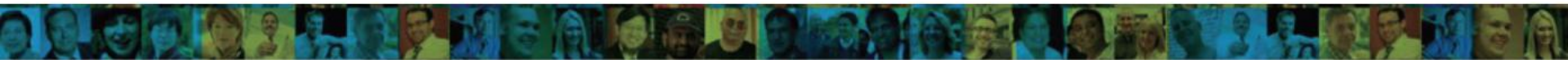
World Class Governance model is key

- **New corporation** to be set up for the Pooled Investment Manager
 - Corporation operates **arms' length** from government
- Institutions/plan members retain **fiduciary responsibility**
- Institutions/plan members retain control over **asset allocation decisions**
- Propose a **Board of Directors** with 11 members:
 - 3 appointed by the clients (plan sponsors, investment funds)
 - 2 appointed by plan members (labour officials)
 - 6 including chair selected on the basis of their professional qualifications



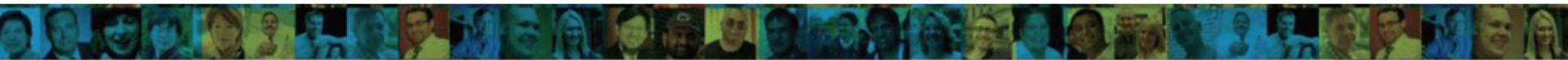
Options Available

- Institutions **can join** one of the existing large asset management entities in Ontario (Teachers, OMERS, HOOPP)
- **Can withdraw** from new framework after seven years. Seven years is defined as the “cooling-off period” which allows for the Corporation to establish itself and provide a period with which to assess performance.



How will this plan be implemented?

- Government loan to **fund start-up and transition costs**, estimated to be \$50 million.
 - Loan to be repaid over time through realized cost savings
- For first three years, no institution would incur increases in their total investment management costs (assuming no change to asset allocation mix)



What is the timeframe for this new model?

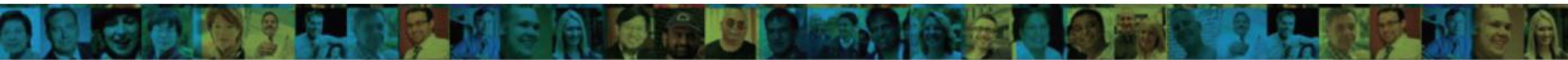
Step # 1 – Planning now to Jan 1, 2014

- Pass legislation
- Appoint Board Chair, Board, hire CEO

Step # 2 - Launch and transition phase

January 1, 2014 to December 31, 2017

Goal - Fully operational by January 1, 2018



Next Steps

- Minister of Finance invites individual plans, affected stakeholders, and others to provide feedback on the report's recommendations
- COU preparing a response to the Morneau report
- Continue to participate in COU Working Group on Pensions

