



February 11, 2013

Marcelle Crouse
Director, BPS Pensions Secretariat
Ministry of Finance
Frost Building S., 1st Floor
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Dear Ms. Crouse:

Re: Facilitating Pooled Asset Management for Ontario's Public-Sector Institutions: Report from the Pension Investment Advisor to the Deputy Premier and Minister of Finance dated October 2012 (the "Morneau Report")

As you are aware, the Ontario Government released the Morneau Report on November 16, 2012, and invited affected stakeholders to provide their feedback on the recommendations in that report. The Association of Canadian Pension Management (ACPM) provided written submissions to Ontario's Pension Investment Advisor (Mr. Morneau) prior to his preparation of the Report and met with him in person to discuss the ACPM's position on pooled asset management in the Ontario broader public sector. A copy of our initial submission to Mr. Morneau is attached (for ease of reference).

The ACPM welcomes the opportunity to provide our comments to the Ontario Ministry of Finance with respect to the recommendations in the Morneau Report.

About the ACPM

The Association of Canadian Pension Management is the informed voice of Canadian retirement income plan sponsors, administrators and their allied service providers. We are a non-profit organization and our objective is to advocate for an effective and sustainable Canadian retirement income system. Our membership represents over 400 retirement income plans consisting of more than 3 million plan members, with assets under management in excess of \$330 billion.

ACPM promotes its vision for the development of a world-leading retirement income system in Canada by championing the following Guiding Principles:

- Clarity in legislation, regulations and retirement income arrangements;
- Balanced consideration of other stakeholders' interests; and
- Excellence in governance and administration

ACPM Response to the Morneau Report

The ACPM generally supports the concept of pooling the investments of smaller broader public sector (BPS) pension plans in such a way as to make pension investment management more efficient and improve returns.

However, we are writing to express our concerns regarding two recommendations in the Morneau Report in particular: (1) that participation be mandatory for certain BPS pension plans; and (2) that pooled asset management should only be undertaken if it achieves sufficient scale – identified in the Morneau Report as \$50 billion or more.

In addition to these concerns, we also wish to re-emphasize the complexity of the proposed investment consolidation being contemplated. In this regard, we note that the Morneau Report sets out a high-level illustration of the anticipated evolution of the investment management entity and estimates certain start-up costs. Given the magnitude of the proposed undertaking, the Ontario Government and BPS pension plan participants should be prepared for the possibility that the Morneau Report may have seriously underestimated both the time and transition costs that will be required (particularly if a mandatory participation model is adopted).

Voluntary Versus Mandatory Participation

ACPM does not support the recommendation that a mandatory model of participation is to be preferred in respect of certain BPS pension plans. As we had highlighted in our initial Submission to the Pension Investment Advisor, not all monies under management by BPS pension plans are “government monies”. In light of the fiduciary duties to which pension plan administrators are subject, a voluntary model of participation would be preferable as it would allow pension plan administrators to assess the adequacy of the model for their particular pension plan and place their plan assets with the investment management entity only where there is a strong business case to do so. In addition, a voluntary model would also eliminate some of the risk associated with having a “captive” client base. In our experience, the more successful existing models of public sector pooled investments were all founded on the voluntary participation model.

\$50 Billion Threshold

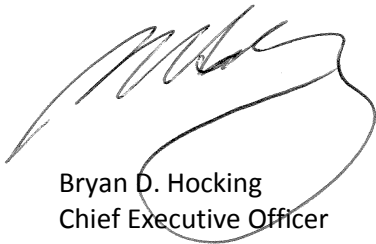
The Morneau Report provides that pooled asset management should only be undertaken if it achieves sufficient scale to support the development of cost-effective internal investment management teams and to attract and retain world-class leadership. The Morneau Report estimates that the threshold to achieve economies of scale is at least \$50 billion.

From the outset, we have concerns that the Morneau Report does not clearly identify why a threshold of \$50 billion would be necessary to achieve economies of scale, particularly in light of comments by Mr. Morneau that “[m]y research suggests the threshold to achieve economies of scale ranges from about \$5 billion to \$90 billion in assets under management”. We can find no evidence to support such a contention and, in the experience of our members, efficiencies can be obtained with significantly less than \$50 billion in assets.

In addition, we reiterate our comments in our initial Submission that a “bigger is better” approach should not result in a one size-fits-all model that does not carefully consider key issues such as plan governance, plan design and risk and liability management. In addition, certain advantages of small and mid-sized funds should not entirely be discounted. Finally, there is a risk that “mega-fund” size could lead to more competition for a limited number of opportunities in the large fund space and create diseconomies of scale or greater systemic risks. For the foregoing reasons, we would encourage the Ontario government to strongly consider whether the optimal fund size identified in the Morneau Report would justify the imposition of a mandatory participation model.

We appreciate this opportunity to submit our comments regarding the Morneau Report and would be pleased to meet with you to discuss our response.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bryan D. Hocking', is written over a circular stamp or seal.

Bryan D. Hocking
Chief Executive Officer

cc. Leah Myers, ADM Finance