



“The fund achieved an 18% return in 2003, yet the plan has a funding shortfall. Let me explain.”

CLAUDE LAMOUREUX,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

## THIRD BEST RETURN IN FUND'S HISTORY

2003 was a good year for investments. In fact, it was the third best rate of return in the fund's history, and the strong rebound in equity markets helped restore the asset side of the plan's balance sheet.

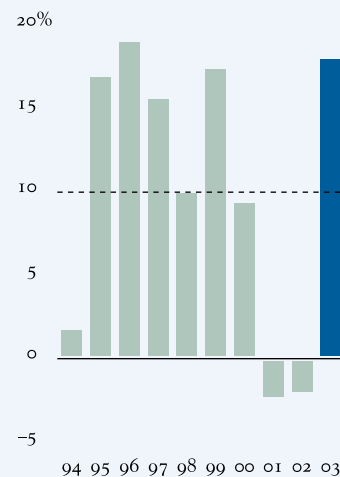
- Net assets grew to \$75.7 billion.
- Rate of return was 18% compared to 13.5% for the fund's benchmark.
- Investment managers added \$2.7 billion in value above market benchmarks.
- Fund earned \$11.4 billion in investment income.

## FIRST SHORTFALL FOR PLAN SINCE 1990

Assets and benefits must balance for the pension plan to remain healthy over the long term. The responsibility for ensuring the plan is fully funded lies with the Ontario Teachers' Federation (OTF) and the Ontario government.

An actuarial valuation showed the plan had a shortfall of \$6.2 billion on January 1, 2004. This is the first time the plan has experienced a shortfall since the pension board was created in 1990.

RATES of RETURN  
for the year ended December 31 (percent)

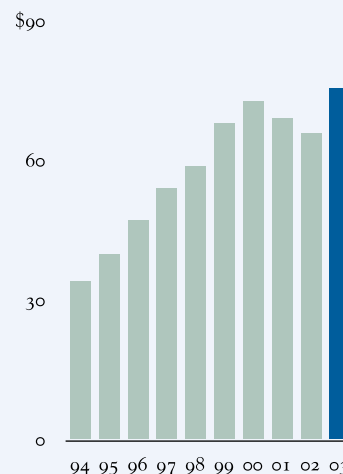


**10%**

10-YEAR AVERAGE

Long-term performance counts for pension plans.

NET ASSETS  
as at December 31 (\$ billions)



**\$75.7  
BILLION**

NET ASSETS

## WHAT'S INSIDE

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## HOW DID THIS SHORTFALL HAPPEN?

The fund's investment performance alone does not determine the plan's well-being. While net assets increased to \$75.7 billion, future pension costs grew faster due to factors beyond our control.

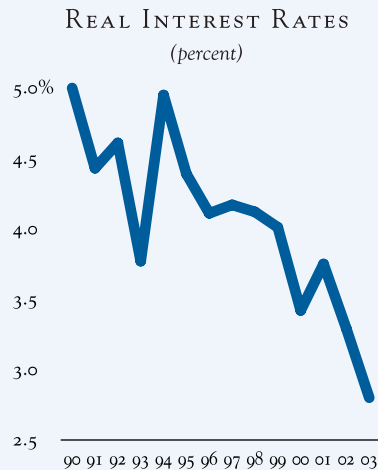
Why? A combination of factors created a 'perfect storm' for most defined benefit pension plans.

1. **Dropping real interest rates** pushed future pension costs significantly higher. The independent actuary uses real interest rates (after inflation) to estimate how much the plan needs to pay all future promised pensions.
2. **Equity markets dropped** sharply producing negative returns for the plan in 2001 and 2002, although the fund's investments performed better than the markets during this downturn.
3. **Surpluses were used** to eliminate the government's special payments and to improve benefits, such as the 85 factor and improved pensions after age 65.

The net result is a plan shortfall. This is a serious shift from surpluses in recent years. However, the news is not surprising: we warned of a possible shortfall in last year's *Report to Members*.

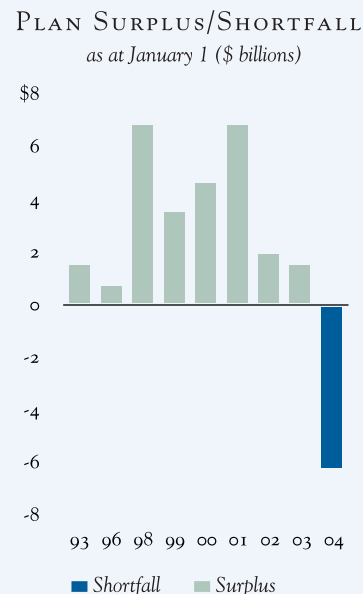
The funding valuation, conducted by an independent actuary, measures the plan's ability to pay pensions over the next 70 years. It takes into account investment performance and the cost of future pensions as well as two factors outside our control: the levels of benefits and contributions. We cannot change the contribution rate or pension benefits. These are set by the OTF and the Ontario government, the plan's co-sponsors.

**“Assets and benefits must balance for the pension plan to remain healthy.”**



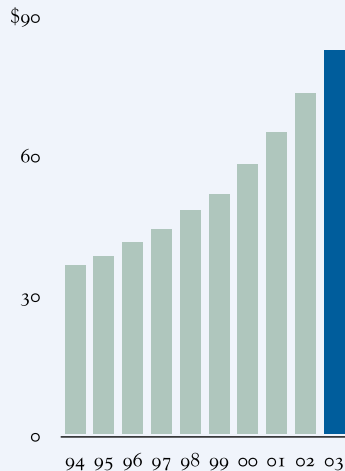
*When rates drop, pension costs increase substantially because the plan needs more money today to pay promised pensions in the future.*

**“If rates today were approximately 4% as they were in 1998, the cost of future pensions would be \$15 billion less.”**



*Surplus created in the 1990s was used to improve benefits and eliminate the government's special contributions.*

**COST of FUTURE PENSION BENEFITS**  
as at December 31 (\$ billions)



*The cost of future benefits has increased faster than net assets, creating a funding shortfall.*

**HOW WILL THIS AFFECT YOU?**

The OTF and the Ontario government will decide how to respond to the current shortfall. As they deal with this challenge, it is important to remember your pension is secure and protected by Ontario law.

If the shortfall persists, there must be a plan to eliminate it by the end of 2005. The plan's January 1, 2006 valuation must be filed with the regulators.

**IN CLOSING**

2003 brought new challenges for the pension plan. As always, we are fully committed to finding new ways to maximize returns to offset the impacts of difficult pension and investment realities.

CLAUDE LAMOUREUX,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

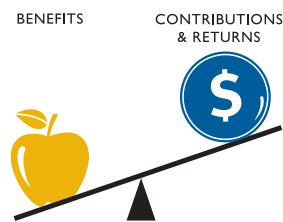
**FOCUS ON FUNDING**

**The important balance between benefits and assets**

The plan must maintain a balance over time between benefits and assets (contributions and investment returns). It must be healthy not just in 2004 and 2005 but 50, 60 and 70 years from now when it's paying benefits to new teachers who won't retire until well into the future.

That's why the plan's co-sponsors, the OTF and Ontario government, pay close attention to the long-term cost of benefits and the long-term value of contributions and investment returns, not just the immediate cost.

The funding valuation provides a snapshot of the future – the plan's bottom line. It tells us whether, at a particular point in time, the plan is fully funded and has enough money to cover the cost of future benefits promised to all current plan members.



*Currently, the cost of future benefits outweighs estimated contributions and returns creating an imbalance in the pension plan.*

For more information, look for *Focus on Funding* under Publications at [www.otpp.com](http://www.otpp.com).

Presentation of the 2003 Results will be webcast live at 5 pm, Thursday, April 1, 2004.

[www.otpp.com](http://www.otpp.com)

# Investment Highlights

The fund's 18% rate of return was the best ever one-year return compared to benchmark – and the third best overall performance in the fund's history.

By outperforming the benchmark's 13.5% rate of return, we generated \$2.7 billion in value above market performance.

## INVESTMENT PERFORMANCE as at December 31

| Rate of return on investments (%) | 2003  | 2002  |
|-----------------------------------|-------|-------|
| Annual                            | 18.0% | -2.0% |
| Composite benchmark               | 13.5  | -4.8  |

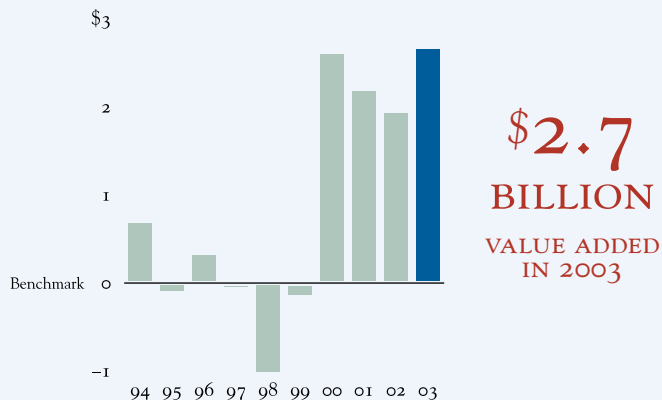
| Average annual compound rates of return (%) | 1 yr | 4 yr | 5 yr | 10 yr | Since 1990 |
|---|------|------|------|-------|------------|
| Our return                                  | 18.0 | 5.4  | 7.7  | 10.0  | 11.1       |
| Benchmark                                   | 13.5 | 1.9  | 4.8  | 8.5   | 8.5        |

“We reduced risk to the fund in 2003 while increasing returns through value-added activities.”

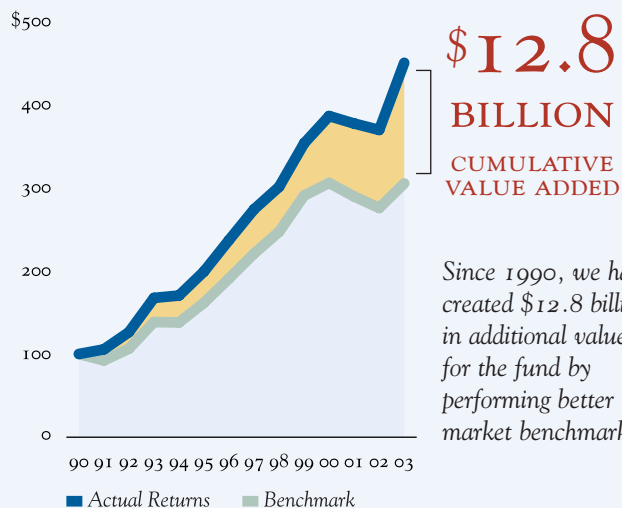


BOB BERTRAM,  
EXECUTIVE VICE-PRESIDENT,  
INVESTMENTS

## VALUE ADDED above BENCHMARKS for the year ended December 31 (\$ billions)



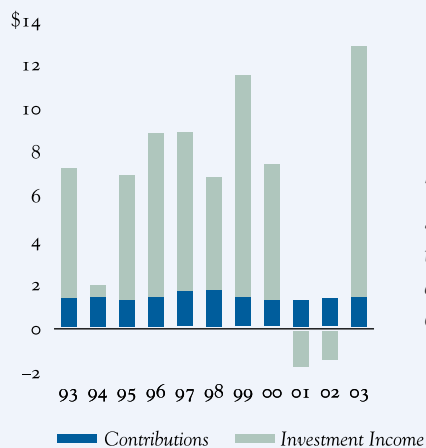
## INVESTMENT GROWTH (\$100 invested in 1990)



Since 1990, we have created \$12.8 billion in additional value for the fund by performing better than market benchmarks.

## INCOME

for the year ended December 31 (\$ billions)

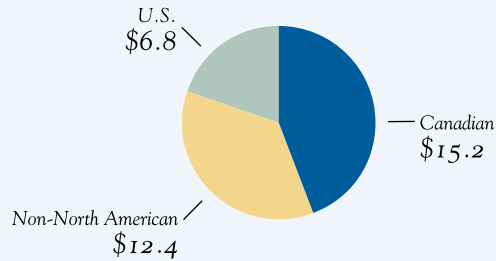


The fund gained \$11.4 billion in investment income and \$1.4 billion in contributions in 2003.

## RATES OF RETURN COMPARED TO BENCHMARKS

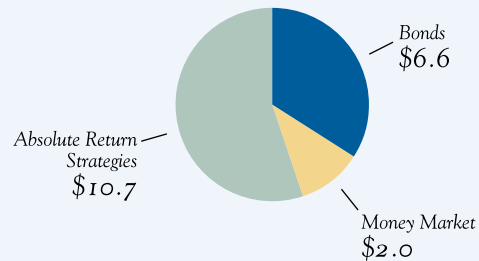
|   | Investment returns | Benchmark | Composite Benchmark  |
|---|--------------------|-----------|--|
| Fixed income and Absolute return strategies | 18.8%              | 10.8%     | Scotia Capital Treasury Bills (91 days)<br>Custom Canada Bond Universe<br>Custom Net Ontario Debenture                             |
| Canadian equity                             | 31.5               | 26.7      | S&P/TSX Composite  |
| U.S. equity                                 | 6.3                | 5.3       | S&P 500  |
| Non-North American equity                   | 15.2               | 14.5      | Morgan Stanley EAFE & Emerging Markets<br>Custom NONA National Index   |
| Inflation-sensitive investments             | 9.8                | 6.6       | Scotia Capital Real-Return Bond<br>Custom U.S. Treasury Inflation-Protected Securities<br>Goldman Sachs Commodities<br>CPI plus 4% |
| Total Fund                                  | 18.0%              | 13.5%     | Benchmark weighted by the policy asset mix   |

**EQUITIES**  
as at December 31, 2003 (\$ billions)



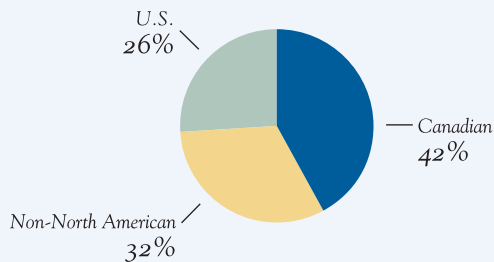
We have reduced exposure to equities to 46% of the fund and are actively seeking alternatives to public equity markets in infrastructure investments (electrical utilities, airports, highways, timberlands), fixed income and private equity.

**FIXED INCOME**  
as at December 31, 2003 (\$ billions)



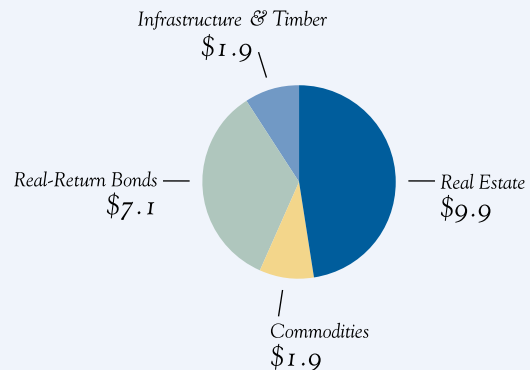
Fixed income accounted for 26% of the fund at year end. Excellent performances were delivered using absolute return strategies and hedge funds, as well as bonds and money markets.

**TEACHERS' MERCHANT BANK PORTFOLIO**  
as at December 31, 2003



Teachers' Merchant Bank, the private equity arm of the fund, delivered a 40.6% one-year rate of return – outperforming its benchmark for \$390 million in value added.

**INFLATION-SENSITIVE INVESTMENTS**  
as at December 31, 2003 (\$ billions)



These investments, 28% of the fund, generally rise with inflation making them a good match for paying pensions.

# Major Investments

As at December 31, 2003

REAL ESTATE MANAGED BY SUBSIDIARY (\$ billions)  
Cadillac Fairview \$9.9

BONDS AND REAL-RETURN INVESTMENTS (\$ billions)

|   |        |
|---|--------|
| Province of Ontario and provincial bonds      | \$13.0 |
| Government of Canada bonds                    | 9.4    |
| Real-return bonds and inflation indexed notes | 7.0    |
| Canadian and international corporate bonds    | 3.9    |
| Canadian treasury bills                       | 2.3    |
| Commercial paper                              | 0.8    |
| U.S. Government agency and treasury bonds     | 0.6    |
| Index-linked mortgages                        | 0.3    |
| Discount and interest-bearing notes           | 0.2    |

LARGEST PRIVATE EQUITY INVESTMENTS

|  |
|--|
| Absolute Return Fund, Limited          |
| Baillie Gifford Emerging Market Fund   |
| BC European Capital VII                |
| Friedrich Grohe AG                     |
| Hancock Natural Resources Group Inc.   |
| Luscar Energy Partnership              |
| MidOcean Partnership                   |
| Maple Leaf Sports & Entertainment Ltd. |
| Relational Investors LLC               |
| Western Sydney Orbital Funding Trust   |

CORPORATE SHARES AND INCOME TRUST UNITS

| (millions)                                    | Shares | Fair Value |
|---|--------|------------|
| SECURITY NAME                                 |        |            |
| Nexen Inc.                                    | 19.5   | \$ 918.5   |
| Fording Canadian Coal Trust                   | 13.0   | 609.8      |
| Shoppers Drug Mart Corporation                | 17.5   | 525.5      |
| Maple Leaf Foods Inc.                         | 42.7   | 448.6      |
| Capital International Emerging Countries Fund | 9.6    | 444.5      |
| YPG LP <sup>1</sup>                           | 35.3   | 409.9      |
| Macquarie Infrastructure Group                | 120.4  | 402.8      |
| WestJet Airlines Ltd.                         | 12.5   | 354.4      |
| BCE Inc.                                      | 10.4   | 305.0      |
| Royal Bank of Canada                          | 4.8    | 296.4      |
| Bank of Nova Scotia                           | 4.3    | 284.9      |
| Bank of Montreal                              | 5.0    | 269.7      |
| Alcan Inc.                                    | 3.8    | 232.5      |
| Toronto-Dominion Bank, The                    | 5.0    | 216.4      |
| Transurban Group                              | 48.2   | 209.0      |
| Canadian Imperial Bank of Commerce            | 3.0    | 192.5      |
| Macdonald, Dettwiler and Associates Ltd.      | 8.1    | 191.7      |
| Sun Life Financial Inc.                       | 5.4    | 174.0      |
| Sobeys Inc.                                   | 5.1    | 168.8      |
| Nortel Networks Corporation                   | 30.7   | 168.4      |
| Manulife Financial Corporation                | 4.0    | 166.7      |
| EnCana Corp                                   | 3.0    | 152.3      |
| Barrick Gold Corporation                      | 5.1    | 150.1      |
| Canadian National Railway Company             | 1.6    | 128.8      |
| Suncor Energy, Inc.                           | 3.5    | 114.7      |
| Nestlé SA                                     | 0.4    | 113.2      |
| Placer Dome Inc.                              | 4.9    | 112.6      |
| TransCanada Corporation                       | 4.0    | 111.9      |
| Petro-Canada                                  | 1.7    | 109.8      |
| Southern Cross FLIERS Trust                   | 1.0    | 109.2      |

<sup>1</sup> Exchangeable for Yellow Pages Income fund units.

# Outstanding Service to Members

*We strive to serve each member's individual needs with personal, immediate service every time out.*

## QUALITY SERVICE INDEX

We define outstanding service as the ability to provide accurate, timely, personal and attentive service in a cost-effective way. In 2003, members gave our services a 9.0 rating on a 10-point scale.

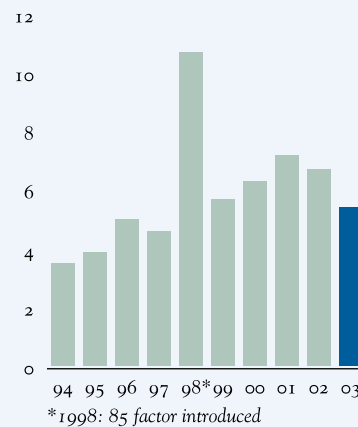
9 out of 10

## DOING MORE ONLINE

We've enhanced *iAccess*, our secure member Web site, adding a pension calculator, e-mail communications, educational presentations, and access to benefit statements. Once you're registered, it's easy to get personal information about your pension benefits whenever you need it.

*“Innovation is aimed at giving members outstanding service in whatever manner or medium they choose – electronically, over the phone, or in person.”*

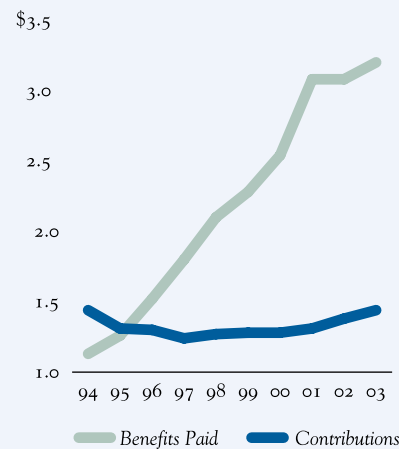
NUMBER of NEW RETIREMENT PENSIONS  
(thousands)



5,500 teachers retired in 2003.

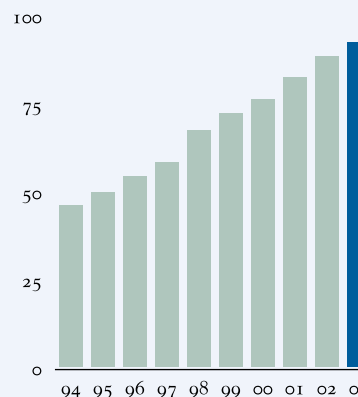
\*1998: 85 factor introduced

CONTRIBUTIONS vs. BENEFITS PAID  
for the year ended December 31 (\$ billions)



The plan pays out more than twice as much in benefits as it receives in contributions each year.

NUMBER of PENSIONERS  
(thousands)



The number of pensioners has doubled in the last 10 years.



ROSEMARIE McCLEAN,  
VICE-PRESIDENT, MEMBER SERVICES

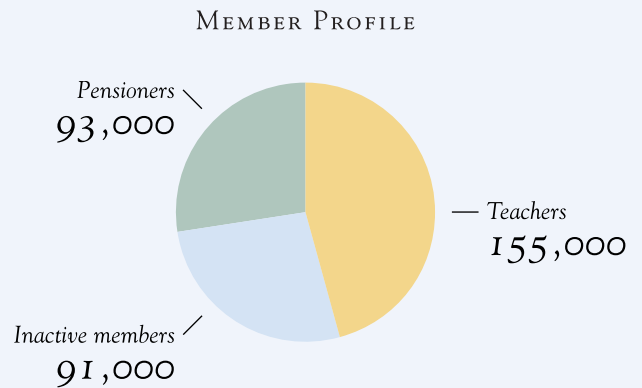
# Corporate Profile

There has been a pension plan for Ontario's teachers since 1917. In 1990, the province established an independent corporation to invest the plan's assets and administer the pensions of the province's current and retired teachers.

Today, the Ontario Teachers' Pension Plan is one of the largest pension plans in Canada with net assets of over \$75 billion at the end of 2003, up from \$17 billion at the beginning of 1990.

The Government of Ontario and the Ontario Teachers' Federation, the plan's co-sponsors, are responsible for ensuring the pension plan is fully funded and for setting plan benefit and contribution levels. The plan sponsors also appoint Teachers' board of directors, with equal representation.

Teachers' 500 employees and the 1,800 employees of our subsidiary, Cadillac Fairview, are responsible for setting and implementing investment strategies for the plan's assets and for delivering immediate, personalized services to members in keeping with the corporation's vision:



*There is now one pensioner for every 1.7 contributing teachers.*

**Outstanding service today, retirement security tomorrow.**

## CONTACT US

A full copy of the 2003 *Annual Report* is available on our Web site at [www.otpp.com](http://www.otpp.com). *Focus on Funding*, a brochure providing more information on the plan's funding status, is also available online. If you would like a copy of either, please contact us. We welcome your comments and suggestions for this *Report to Members* as well as other aspects of our communications program.

Communications Department  
Ontario Teachers' Pension Plan  
5650 Yonge Street, Toronto M2M 4H5  
Toll Free: 1-800-668-0105  
Local: 416-226-2700  
E-mail: [communications@otpp.com](mailto:communications@otpp.com)

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