TEACHERS' PENSION PLAN ONTARIO

2009 REPORT TO MEMBERS

TAKING CARE OF BUSINESS – FORTIFYING YOUR PENSION

2009 highlights

- Achieved a 13.0% investment return as markets recovered
- Net assets grew to $96.4 billion, from $87.4 billion in 2008
- Members ranked plan's service quality 9.1 out of 10
- OTF and Ontario government resolved preliminary $2.5 billion funding shortfall reported last year
- Preliminary 2010 funding valuation shows projected $17.1 billion funding shortfall
- OTF and Ontario government, with pension plan management, studying options to keep plan financially healthy
- Detailed information available at www.otpp.com

Jim Leech
President and CEO

Message from the CEO

2009 was a solid and productive year, with positive investment returns, improved market performance and excellent service provided to members. However, the pension plan continues to face funding challenges, as I'll explain.

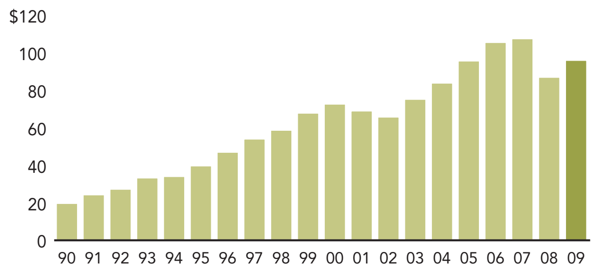
The investment portfolio generated income of $10.9 billion during the year, a significant improvement over the loss reported in 2008. At December 31, 2009, the plan's net assets totalled $96.4 billion, up from $87.4 billion. The overall 13.0 % return exceeded our composite fund benchmark by 4.2 percentage points. Our benchmark is neither a target nor a random number – it's an aggregate measure of the performance of key markets in which we invest.

Chief Investment Officer Neil Petroff and his team deserve credit for the extent of the fund's recovery. They sought markets and investments that they believed would rebound quickly and worked every day to build the fund and minimize investment risks.

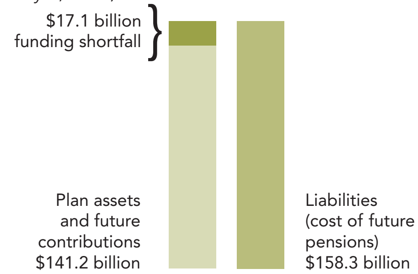
You may recall that we took decisive action in 2008 during the financial crisis – we changed our fixed income strategy, reduced risk in other areas and examined every investment to ensure it still offered value, given the changed economic conditions. At no time were we forced to sell high-quality assets at a discount to raise cash, which meant that these assets remained in the fund – and their value rebounded in 2009.

This report describes our 2009 investment and service performance and explains the plan's funding position at January 1, 2010.

NET ASSETS
(for the year ended December 31) ($ billions)



PRELIMINARY FUNDING VALUATION
(as at January 1, 2010)



Assets partially rebounded from the 2008 loss, but as anticipated, the plan has another preliminary funding shortfall.

Our Member Services division, which is committed to continuous improvement, made progress in 2009 with plan members once again rating service quality at the top of the class: 9.1 out of 10. The division also introduced seven key performance indicators that are tracked daily to help improve the quality and timeliness of service to members, and facilitated changes that will simplify the process for buying back pension credit.

Pension funding

A balanced funding valuation was filed with the pension regulator in 2009. However, as anticipated, even with strong investment results last year, the plan again has a preliminary funding shortfall because projected plan costs are growing faster than assets. The preliminary shortfall is $17.1 billion as at January 1, 2010. There are two main reasons for this shortfall: low real interest rates (interest rates after inflation) and the impact of the 2008 investment loss, which is being absorbed over five years.

To address recurring funding deficits, Teachers' executive management and representatives from the two plan sponsors – the Ontario Teachers' Federation (OTF) and the Ontario government – formed a Sustainability Working Group in September. We are working together to deliver an action plan by the middle of this year. We're encouraged by the level of engagement at the table. (You can read more about plan funding on pages 4–5 of this report, or on our website, www.otpp.com/funding.)

The pension plan's management team is doing what it can in the areas we control: adapting our investment approach, managing our costs, attracting and retaining the best talent, and providing the OTF and the provincial government with the best possible advice on plan funding issues.

Our people

I give much credit to our employees for their composure during the economic and financial mayhem of 2008 and 2009. They continued to provide the investment expertise and outstanding service that our members deserve. They remained focused on the long term, which is the proper perspective for a pension plan.

I would like to thank the board members for their diligence and support in trying times. From the start of the economic meltdown in 2008, calm heads prevailed in the boardroom. They asked the right questions when needed and they backed several new investment ideas that have already started to pay off.

In conclusion, we remain mindful of the many economic and demographic factors facing the plan. I look forward to reporting next year on our progress in addressing them. As always, we are committed to the goals of pension security, long-term performance and first-class service to members.

Jim Leech, MBA, ICD.D
President and Chief Executive Officer

Member Services performance

Rosemarie McClean,
MBA, ICD.D, CMA
Senior Vice-President,
Member Services

Members again gave us an "A" for service in 2009. We measure satisfaction based on quarterly surveys with members conducted by a third party. Members are asked to rate us on a scale of zero to 10. Our overall Quality Service Index (QSI) score in 2009 was 9.1 – our highest standing since 2005. We were pleased to receive a score of 9.0 or higher in all four quarters of the year.

We examined the factors that influence the QSI score, and began tracking seven key performance indicators in 2009 to monitor service quality and improvement. For example, we completed 63% of member requests on the same day, a performance standard that was adopted during the year. We are committed to improving these key performance indicators.

9.1 out of 10

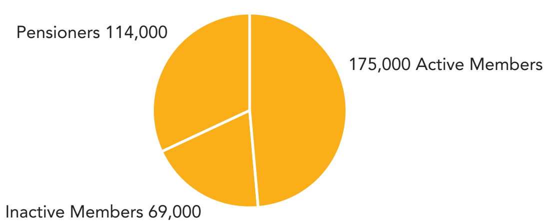
Our service level ranks well ahead of other international pension plans, according to surveys done by CEM Benchmarking, an independent research company. Our annual service cost is above the median of the pension plans in these surveys, primarily because we provide full services directly to our members, unlike many other plans.

With members spread throughout Ontario's vast geographic expanse, we emphasize cost- and time-efficient use of online and telephone communications. The cost per member served, which has ranged from $118 to $139 in the past decade, was $130 in 2009.

Membership fast facts

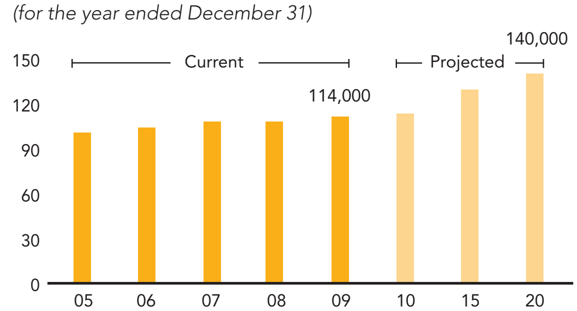
- The average age for pensioners was 68 and for teachers was 42 at year end.
- The average starting pension for teachers retiring at the 85 factor was $42,900.
- The average teacher retiring in 2009 was 58 years old.
- The plan has 93 members age 100 or older.
- We expect more than 50,000 teachers to retire over the next 11 years.

MEMBER PROFILE
(as at December 31, 2009)



The total number of pensioners grew by 3,000 in 2009. Active members (working teachers) increased by 2,000.

NUMBER OF PENSIONERS
(for the year ended December 31)



Pensioners will continue to grow in number and as a percentage of total membership.

Preliminary 2010 funding shortfall

The Teachers' pension plan commissions a funding valuation every year, which estimates whether the plan will have enough money to pay future pensions to all current members. A preliminary funding valuation as at January 1, 2010, shows the plan has a shortfall of $17.1 billion. The pension plan is 89% funded, meaning it has 89% of the assets needed to meet its projected long-term pension obligations.

We expect ongoing funding shortfalls due to factors such as low interest rates and projected modest investment returns. In a nutshell, the plan's liabilities (the cost of future pensions) are growing faster than plan assets.

As of January 1, plan liabilities are estimated at $158.3 billion while plan assets and future contributions are estimated at $141.2 billion, producing a gap of $17.1 billion. This shortfall is mainly a result of low interest rates (see next page) and the effect of "smoothing" or spreading out the 2008 investment loss. The plan will absorb portions of the 2008 loss until 2012.

Fund assets such as stocks, bonds and real estate are also growing. But unlike the 1990s, future investment returns are expected to be modest. In addition, our assets must be invested more conservatively than before because of plan maturity.

Plan maturity means we have a low proportion of working teachers to pensioners (1.5 to 1) and this ratio will continue to decline. If the fund loses money, it will be difficult to make up any shortfall with contribution increases alone. We also pay out more in annual benefits than we receive each year in total contributions. These demographic trends mean that our investment managers must be even more risk-conscious.

Dealing with a funding shortfall

The Ontario Teachers' Federation (OTF), Ontario government and pension plan management created a funding Sustainability Working Group in September 2009 to address recurring funding issues. This group will develop an action plan by mid-2010 to keep the Teachers' pension plan affordable and secure for generations to come.

To deal with a shortfall, the OTF and the government, the two plan sponsors, can:

- increase contribution rates;*
- reduce pension benefits members will earn in the future;
- invoke conditional inflation protection for pension credit earned after 2009; or
- adopt a combination of these options.

No contribution or benefit changes are needed unless a shortfall still exists when the next valuation is filed with the Ontario pension regulator. The next valuation is due in 2012, although it could be filed earlier.

The value of pension benefits that working and retired members have already earned is protected under current Ontario law. Only contribution rates and pension benefits to be earned in future years can be adjusted in response to funding shortfalls or surpluses.

2009

OTF and Ontario government file 2009 funding valuation with regulator. Filing resolves preliminary $2.5 billion shortfall with no changes to contribution rates or benefit levels. Next balanced valuation must be filed with regulator in 2012, but plan sponsors could choose to file earlier.

2010

January 1 preliminary funding valuation shows a projected $17.1 billion shortfall. No action is required to deal with the shortfall at this time. Sustainability Working Group comprising the OTF, Ontario government and pension plan management to develop plan by mid-year to address persistent funding shortfalls.

* The plan sponsors' Funding Management Policy includes a current contribution rate cap of 15% of members' base earnings above the CPP limit, which is $47,200 for 2010.

Why real interest rates are important

Low real interest rates (interest rates after inflation) are a big issue for pension plans, because interest rates are used to project future pension costs.

The plan's liabilities are growing faster than plan assets.

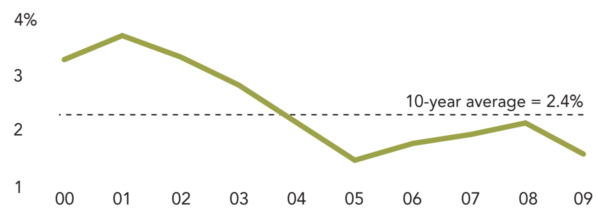
Imagine you are saving money to buy a house or car in three years' time. If your savings earn less because interest rates are low, you will have to put aside more money to reach your goal on time. It's the same with pension funding. As this table shows, when real interest rates drop, the Teachers' plan needs to have more money today to reach its goal. Real interest rates (rates after inflation) fell to 1.5% at the end of 2009.

ASSETS REQUIRED FOR A TYPICAL $40,000 PENSION

Real Interest Rate	*Amount Required*[1]
1.0%	$995,000
2.0%	$855,000
3.0%	$745,000
4.0%	$660,000
5.0%	$585,000

[1]For retirement at age 58.

REAL INTEREST RATES



The drop in real interest rates in 2009 increased projected pension plan costs by $15.2 billion, accounting for most of the preliminary $17.1 billion shortfall. Absorbing part of the 2008 investment loss also contributed to the shortfall.

More about funding valuations

A funding valuation is based on current contribution and benefit levels. Each valuation looks ahead more than 70 years – that's how long the pension plan needs to be funded to pay benefits to all current members and their survivors.

By law, a funding valuation must be filed with the Ontario pension regulator at least once every three years. A filed valuation must show the plan will have enough assets to meet its projected pension obligations – a filed valuation can't have a shortfall. The 2009 valuation was filed earlier than required, giving the plan sponsors additional time to consider the best options for ensuring the plan remains affordable and healthy over the long term.

Myths vs. facts

These are all myths. Do you know why?
Get the facts at www.otpp.com/funding

Myth: A shortfall cannot happen when the pension plan is making money.

Myth: Your pension won't be there for you in retirement.

Myth: Retirees' pensions will be reduced to deal with the shortfall.

Myth: Teachers should delay retirement until the plan's financial position improves.

2011

January 1 preliminary funding valuation to be released as usual in April, along with annual financial results. No action required on valuation results unless sponsors choose to file a valuation with regulator.

2012

January 1 funding valuation must be filed with regulator, but plan sponsors could choose to file earlier. A valuation must be filed with plan assets and liabilities in balance. If a shortfall exists, sponsors must address it.

Investment performance

Neil Petroff, MBA
Executive Vice-President, Investments and Chief Investment Officer

The fund's net assets rose to $96.4 billion at December 31, 2009, from $87.4 billion a year earlier due to the strong performance of our equities and some investments in our fixed income asset class. Overall, we earned a 13.0% rate of return.

Our public equities and fixed income teams beat their benchmarks by the highest levels ever. (Benchmarks measure the performance of key markets in which we invest and are generally market indexes, such as the S&P/TSX 60 Total Return Index for Canadian stocks or the S&P 500 Total Return Index for U.S. stocks.)

The rebound in global equities markets last year was almost as extraordinary as the 2008 decline. Equities in emerging markets, such as Brazil, did particularly well. However, we do not expect stock markets to continue growing at this pace.

INVESTMENT PERFORMANCE

	2009	*2008*	*Since 1990*
Rate of return	**13.0%**	-18.0%	9.7%
Benchmark	**8.8%**	-9.6%	7.6%
Return versus benchmark *($ billions)*	**$3.4**	-$9.2	$19.2

Since 1990, we have earned $19.2 billion more than if fund assets had been invested passively in market indexes.

HOLDINGS/RETURNS BY ASSET CLASS

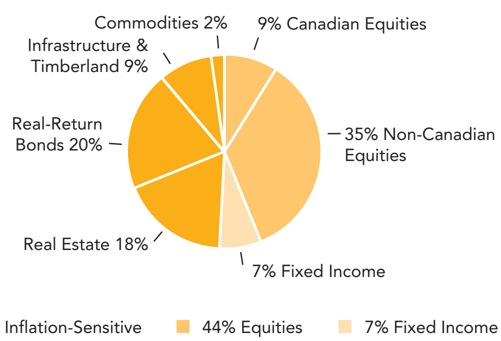
(as at December 31, 2009)

($ billions)	*2009*	*2008*	*2009 rate of return*
Equities[1]	**$41.2**	$34.9	21.4%
Fixed income	**$ 6.4**	$ 5.3	23.6%
Inflation sensitive	**$45.9**	$44.9	4.0%
Overall return			**13.0%**

[1] Public and private.

ACTUAL ASSET MIX

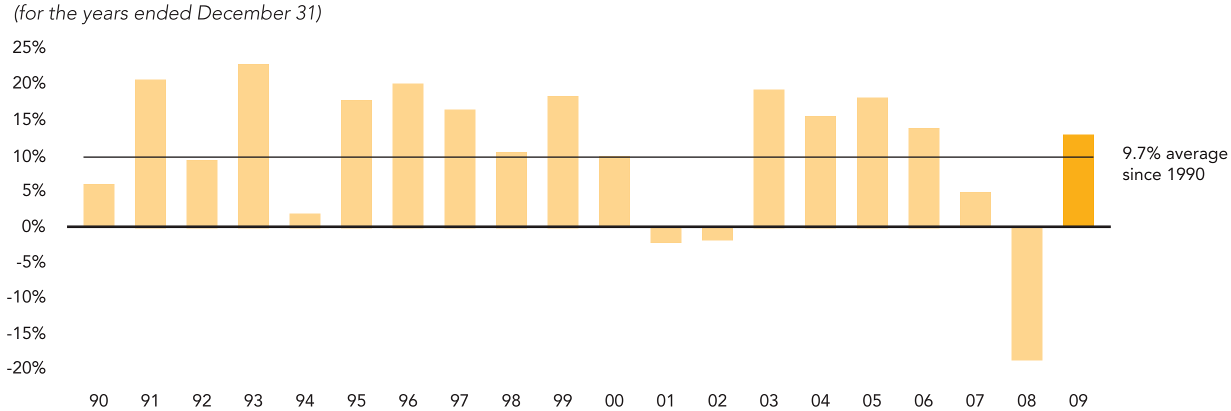
(as at December 31, 2009)



Inflation-sensitive investments such as real estate and real-return bonds are steady earners. Their returns keep pace with inflation, making them a good hedge against the cost of paying pensions.

FUND RATES OF RETURN

(for the years ended December 31)



Major investments

(as at December 31, 2009)

Bonds and real-return investments

($ billions)

Canadian inflation-sensitive bonds, notes and mortgages	$13.0
Government of Canada bonds	10.8
International government and real-return bonds and debt	6.5
Canadian and international corporate bonds	4.7
Province of Ontario debentures and provincial bonds	2.5
Canadian treasury bills	2.0
Bank notes	0.4

Real estate managed by subsidiary

($ billions)

The Cadillac Fairview Corporation Limited	$17.2

Top 10 real estate holdings

Chinook Centre, Calgary
Le Carrefour Laval, Montreal
Les Promenades St. Bruno, Montreal
Lime Ridge Mall, Hamilton
Pacific Centre, Vancouver
Polo Park Mall, Winnipeg
RBC Centre, Toronto
Sherway Gardens, Toronto
Toronto-Dominion Centre, Toronto
Toronto Eaton Centre, Toronto

Top 10 private companies and partnerships

Birmingham International Airport
GCT Global Container Terminals Inc.
GNC Corporation, Inc.
Hancock Timber Resource Group
InterGen N.V.
Maple Leaf Sports & Entertainment Ltd.
Orbis SICAV Global Equity Fund
Resource Management Service Inc.
Scotia Gas Networks PLC
Southern Cross Airports Corporation Holdings Inc.

Investment income in 2009

▲ $7.2 billion
in equities

▲ $1.8 billion
in fixed income

▲ $1.9 billion
in inflation-sensitive investments

▲ $10.9 billion

Corporate shares/units

(millions)	*Shares*	*Fair Value*
OGX Petróleo e Gás Participações S.A.	283.4	$2,913.6
Multiplan Empreendimentos Imobiliários S.A.	52.1	1,018.0
Transurban Group	180.3	962.0
LLX Logistica S.A.	124.1	747.3
Deutsche Telekom AG	45.2	699.9
Northumbrian Water Group plc	138.6	644.5
Hammerson plc	82.2	590.0
Maple Leaf Foods Inc.*	50.4	569.0
Vodafone Group Plc	226.9	556.6
Eni S.p.A.	15.0	401.2
Akzo Nobel N.V.	4.7	329.4
UBS AG	16.9	274.8
MacDonald, Dettwiler and Associates Ltd.	6.1	258.0
Hitachi, Ltd.	74.0	236.7
Dell Inc.	13.6	205.3
Canon Inc.	4.1	183.4
Total SA*	2.9	182.4
NuVista Energy Ltd.	14.3	178.5
Cisco Systems, Inc.	6.9	173.4
The McGraw-Hill Companies, Inc.	4.7	164.1
Microsoft Corporation	4.8	154.9
HSBC Holdings plc	12.6	152.6
BRF – Brasil Foods S.A.*	5.6	152.5
JPMorgan Chase & Co.*	3.4	146.8
The Walt Disney Company	4.2	144.5
CRH plc	4.9	140.2
Pfizer Inc.	7.2	136.8
Mitsubishi UFJ Financial Group, Inc.	25.9	131.7
Unilever N.V.	3.8	131.2
3M Company	1.5	128.9
Safeway Inc.	5.7	127.4
DaimlerChrysler AG	2.3	126.6
Goldcorp Inc.	3.0	125.5
DIRECTV	3.5	123.1
XTO Energy Inc.	2.5	120.7
Union Pacific Corporation	1.7	115.2
Hewlett-Packard Company	2.1	114.4
Nippon Telegraph and Telephone Corporation	2.8	113.5
Norfolk Southern Corporation	2.1	113.3
MMX Mineracao e Metalicos SA	15.2	112.8
Intel Corporation	5.1	108.9
Comcast Corporation	6.0	106.4
Henkel AG & Co. KGaA	1.9	105.8
Starwood Hotels & Resorts Worldwide, Inc.	2.6	101.5

For a list of equity holdings greater than $50 million, please visit our website at www.otpp.com/investments

* Includes fair market value of warrants and subscription receipts.

Online resources at www.otpp.com:

- Listen to CEO's audio message
- Get the facts about plan funding
- Read Q&As on 2009 financial performance
- Log in to *i*Access™ Web for personal pension info
- Learn about our investment approach
- View the annual meeting webcast
- See the complete 2009 Annual Report

Annual meeting webcast – view it live at 5 p.m. EDT on April 9, 2010, or see the archive after the event.

Online resources for members at www.fundingyourpension.com:

- View funding education presentations
- Participate in education webcasts:
  – Saturday, April 17, 2010, 10 a.m. EDT (English)
  – Tuesday, April 20, 2010, 7 p.m. EDT (English)
  – Saturday, April 24, 2010, 10 a.m. EDT (French)

Contact us

We welcome your comments and suggestions on this Report to Members.

Please contact Carol Dunsmore at 416-730-5302 or 1-877-812-7989, or at communications@otpp.com.

Print copies of our 2009 Annual Report are available upon request.

Client services

Telephone: 416-226-2700 or 1-800-668-0105
Fax: 416-730-7807 or 1-800-949-8208
E-mail: inquiry@otpp.com
Website: www.otpp.com

Mailing address

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON
M2M 4H5

Ce bulletin est disponible en français. April 2010

TEACHERS' PENSION PLAN ONTARIO

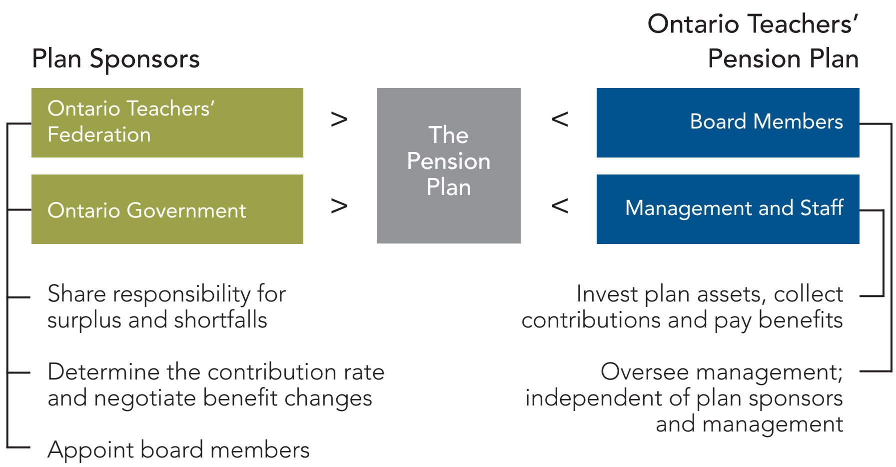
Corporate profile

The Ontario Teachers' Pension Plan is the largest single-profession pension plan in Canada. Its 800 employees are responsible for managing the plan's assets and administering pension benefits to plan members.

The plan has one of the largest payrolls in Canada. It paid out $4.4 billion in pension benefits in 2009.

The organization's mission:
Outstanding service and retirement security for our members – today and tomorrow.

The pension plan is sponsored by the Ontario Teachers' Federation (OTF) and the Ontario government. These sponsors jointly make decisions on plan benefits, contribution rates and funding shortfalls or surpluses.



For more information on board members, our executive team and their roles and responsibilities, please visit www.otpp.com > Corporate info

Return undeliverable Canadian addresses to: PM# 40062973

Ontario Teachers' Pension Plan
5650 Yonge Street
Toronto, ON M2M 4H5