TEACHERS' PENSION PLAN
ONTARIO

2010 Annual Report

Member since 1956

Member since 2008

Member starting 2039

INFORMED DECISIONS & LONG-TERM THINKING

for service, investments & funding

2010 HIGHLIGHTS

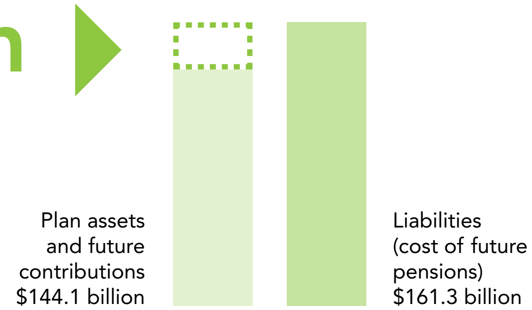
State of the Plan

We measure our assets against our liabilities looking out more than 70 years to factor in the effects of interest rates and the increasing maturity of the plan. Strong recent asset performance has not overcome the funding shortfall. Current discussions are guiding the plan's sponsors as they decide whether to file a funding valuation in 2011.

$17.2 billion

Preliminary funding shortfall

PRELIMINARY FUNDING VALUATION
(as at January 1, 2011)



$25.0 billion

Impact on funding valuation from a 1% change in real interest rate assumption

$1.8 billion

Amount by which annual benefit payments exceed contributions

1.1% Real interest rate for 2010; the 10-year average is 2.2%

30 2010 retirees' average number of expected years on pension

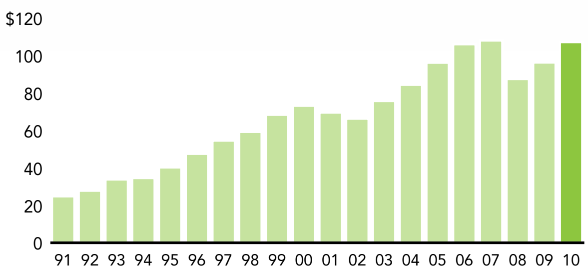
26 2010 retirees' average number of working years

CONTENTS

Investments

Despite lingering market uncertainty in 2010, our investment performance exceeded expectations, returning $13.3 billion in investment income. Our ongoing focus on risk management directly supports members' long-term retirement security.

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



$107.5 billion
Net assets at the end of 2010

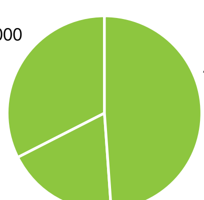
$4.0 billion
Value-added above benchmark

14.3% Rate of return for the year

Member Services

We continued to focus on our long-term strategy in 2010: delivering excellent service and continually enhancing the client experience.

MEMBER PROFILE
(as at December 31, 2010)



382,000 Total number of member interactions

9/10 Quality service index score from members

27 Number of seconds to respond to member telephone inquiries

REPORT FROM THE CHAIR

Understanding the issue of funding sustainability and what it costs to ensure this pension plan remains healthy over the long term.

Board members, the plan sponsors and plan management spent much of 2010 studying risk management, and how that affects pension funding and sustainability issues. The focus of our combined efforts was to ensure the long-term viability and affordability of the Ontario Teachers' Pension Plan in the context of managing risk.

The board also oversaw management's progress in refining the pension plan's long-term investment strategy, providing a high standard of cost-effective service to plan members, and replacing legacy systems to better manage the complexity of today's investment products. We are pleased that the management of the plan continues to perform at a high level and that day-to-day operations are positioned to respond to future requirements.

Strong investment returns in the second year of recovery

The plan's investment results were very strong in 2010, surpassing expectations by earning a 14.3% rate of return. These results are substantial, especially against a backdrop of continued global economic uncertainty. We applaud the efforts of management and staff, as their performance significantly surpassed benchmarks and added to their reputation for delivering value-added returns.

Despite these positive results, funding challenges remain. Using the assumptions provided for in the Funding Management Policy adopted in 2003 by the Government of Ontario and the Ontario Teachers' Federation (OTF) (the plan sponsors), the preliminary funding valuation for 2011 shows a $17.2 billion shortfall of assets compared to estimated future pension costs for all current members. Let me stress that this is a preliminary valuation – in previous years filed valuations have been based on revised assumptions that reflected the sponsors' risk mitigating actions. The combination of low real interest rates and the continuing impact of gradually absorbing the 2008 loss places stress on funding that is expected to continue into next year and beyond.

Eileen Mercier, **MA, MBA, FICB, F.ICD**
Chair

A valuation filing is required in 2012 at the latest. 2011 is the last full year available to the plan sponsors to study the available options for balancing the fund's assets and liabilities and reducing risk. The sponsors and the plan are assessing whether a 2011 filing is advantageous to members.

The sponsors and the plan are not concerned about whether there is enough money in the plan today or in the next few years to pay pensions. What they are concerned about is whether or not there will be enough money in the plan 70 years from now when some current plan members will still be drawing benefits from the fund. And because pension regulations require all plans in Ontario to demonstrate their funding balance at least every three years, we have to be concerned about plan finances in periods during which investment markets do not generate the required returns.

Given the size of the shortfall today and the fundamental funding challenges ahead, adjustments will have to occur to close the funding gap, particularly if real interest rates remain low. We must all continue to help members fully understand the state of the plan and their options.

Demographic trends increasing pension costs

Pension plans must remain balanced over the long term. For several years now, we have explained how demographics, low real interest rates and other factors are contributing to funding challenges. Even before the financial crisis of 2008, we recognized that the issue of sustainability was moving steadily to the forefront.

Pension plans in Ontario and around the world, especially defined benefit pension plans such as ours, are all dealing with the question of how to fund retirement obligations as the population ages. When the pillars of Canada's retirement system were designed 50 years ago, life expectancy was shorter. On average, people were in retirement for only a few years – maybe a decade. Contribution rates were based on yesterday's reality. Today, it is not uncommon in our plan for people to be retired longer than they have worked.

In examining plan sustainability, the plan must also consider some particular, long-term issues such as longevity trends, plan maturity and generational equity (the principle that members of each generation should contribute the right amount to pay for the benefits they receive), all of which add complexity. For example:

- the number of retirees grows every year;
- on average, retirees are living longer and drawing pension benefits for more years than they worked; and
- the ratio of working-to-retired members has been declining steadily.

It is wonderful to enjoy a long and healthy retirement; however, we must look realistically at what it costs to meet tomorrow's pension promise in today's world.

The issue of funding sustainability

The board members and plan sponsors, along with plan management, have been working hard to keep pace with these issues. Following up on the Expert Panel convened in 2007, we initiated a joint, in-depth study of the plan's finances so as to better understand the bigger issue of funding sustainability. To improve the financial base of the plan, contribution rates have been increased. To increase the plan's financial flexibility, and to provide for a fairer sharing of the impact of funding shortfalls, the sponsors agreed to make 50% of the plan's inflation protection conditional on the plan's financial health (this provision has not yet been invoked). In addition, to mitigate the effect of fluctuations in asset values and interest rates, the plan now smooths both over a three-year period as you will see in the Management's Discussion & Analysis.

As we reported last year, our approach included the creation of a Sustainability Working Group, comprising representatives from each affiliate (Elementary Teachers' Federation of Ontario, Association des enseignantes et des enseignants franco-ontariens, Ontario English Catholic Teachers Association, and Ontario Secondary School Teachers' Federation), the OTF, the government and plan management. Over an 18-month period, the Working Group considered a wide range of possible changes to the plan in order to safeguard its long-term viability and affordability. The results of the Working Group's deliberations were reported last September. The report proposed important improvements to the process for the plan's funding valuations, as well as a review of the ways to equip the OTF and the government with the information they need, when they need it, to make the best funding decisions for the plan.

Plan members need to understand the issue of funding sustainability and what it costs to ensure that their pension plan remains healthy over the long term. To help plan members better understand funding challenges, the Working Group's efforts have been supported by an education program, which includes a dedicated website (FundingYourPension.com), presentations and webcasts. I encourage plan members to make use of these resources.

Since the Working Group reported its results, the staff of the pension plan has continued to assess the identified options to safeguard the plan's viability and affordability. The sponsors have narrowed the options down to various scenarios representing different combinations of contribution and benefit changes.

I emphasize that this analysis and assessment of options does not mean that decisions have been made. Rather, it acknowledges that plan funding decisions are complex and must be informed and fact based. As the deadline for the next funding valuation approaches, it is reassuring to know that the OTF and the government will have well-researched options before them to enable careful and thoughtful deliberation.

Generational equity

As I noted earlier, generational equity is the principle that members of each generation contribute the right amount to pay for the benefits they receive. As we look back, however, given the increase in longevity over the past 25 years, this is a balance that has become impossible to achieve. We can't go back to those who have already contributed and ask them to pay more now for what their benefits actually cost.

And so the concept has evolved to one of intergenerational fairness and affordability. In eliminating yet another shortfall, an important question emerges: How much should members be asked to contribute in order to fund their own future benefits and to close the current gap? If the guiding principle is for each generation to contribute the right amount to pay for the benefits they receive, then we have to ask – and answer – the question: Can this and each succeeding generation continue to pay more? No one could have foreseen our current demographics in 1990. But now that we know the facts, we must act on them.

Under the current Funding Management Policy, the sponsors could agree to increase members' contribution rates to a maximum of 15% of their salary, matched by the government, and they could also invoke conditional inflation protection. These two provisions, or others of equal value, would give the sponsors the tools to eliminate the current shortfall. Risk reduction was factored into the plan's assumptions when the conditional inflation provision was adopted in 2008, and contribution rate increases will not remove any risk from the fund. Neither of these actions addresses the root causes of the problem: the growth in the number of teachers has slowed in pace with population growth; and people are receiving pensions for longer than they paid into the fund and so have not paid an amount sufficient to fund their benefits. Because there is a limit to how much members and taxpayers can be expected to contribute, other solutions must be found.

The plan is now working hard with the sponsors, giving them the information and guidance they need to make difficult, but important, decisions that are fair to current and future generations alike.

In closing

The plan has more than $107 billion in net assets. However, notwithstanding our strong returns over the past 20 years, we must not assume that we can earn our way out of the funding challenge.

Pension plans were never designed to support pensioners for longer than they worked. Active plan members will have to either save more toward their longer retirement or work longer, or do a combination of the two. Funding decisions are never easy, but ultimately, the sponsors are charged with taking action to safeguard the pension security of all plan members.

On behalf of the board, I would like to thank everyone involved in the Sustainability Working Group for their tremendous efforts, particularly Dr. Harry Arthurs, who so capably facilitated the discussions.

I also extend our thanks to Jill Denham, who stepped down from the board in November, for her contributions since 2006. We welcome to the board Daniel Sullivan, the former Consul General for the Canadian government in New York, who has extensive international financial experience in investment banking and capital markets. Board members are committed to ensuring effective governance, and I want to thank them for their knowledge, dedication and experience in guiding and overseeing your pension plan.

Eileen Mercier
Chair

REPORT FROM THE CEO

Our team delivered record returns in 2010, but the plan continues to show a significant funding shortfall. We are committed to working with the plan's sponsors to seek a fair and equitable funding solution.

The past year saw significant activity and progress on three main fronts: strong results in our investment portfolio, the successful implementation of key member programs and systems, and our ongoing efforts to develop information and options to achieve funding sustainability.

Investment climate

2010 was a difficult time to hold firm convictions about the state of the markets. Capital markets were driven by two anxieties: the fear of being in the market, and the fear of not being in the market. Unable to forget 2008's pain and 2009's gain, investors around the globe were scared away by bad economic news one day, only to rush back the next in the hope of a quick recovery.

With market uncertainties running high, we concentrated on applying our long-term investment strategy. Investment fund performance exceeded expectations in 2010, earning an impressive 14.3% rate of return. Investment income totalled $13.3 billion and net assets rose to $107.5 billion.

Our rate of return beat the fund's composite benchmark of 9.8%, providing extra returns above market performance (which are what we call value-added returns). At $4.0 billion, this value-added is the highest dollar total in fund history. The benchmark reflects the performance of the markets in which we invest, based on our asset mix. These extra returns exceeded the annual contributions by members and the Ontario government combined.

I congratulate our investment team for staying true to investment fundamentals and successfully pursuing our long-term strategy. They continue to take appropriate risks to earn returns while seeking the best diversification to meet the plan's long-term needs. They keep their eyes open to new investment opportunities, understand the risks thoroughly and then select the assets that best match our risk profile.

Meeting members' service needs

The Member Services Division delivered equally good results. Plan members continued to rate our services at an extremely high level, with our Quality Service Index (QSI) score at 9.0 out of 10 in 2010. The closer you get to the top of the scale, the tougher it is to make cost-effective improvements. To maintain high member satisfaction, the team took on challenging projects. They introduced a simpler web-based process for buybacks in response to member feedback, and implemented changes to the plan's working-after-retirement rules. We appreciate the

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

time and effort that the Ontario Teachers' Federation (OTF) and the Ontario government (the plan sponsors) devoted to considering and approving these plan changes to help us deliver better overall service.

Funding challenges continue

As explained in the Report from the Chair, the recent period of low real interest rates, early retirement and longer life expectancy are the primary drivers of the increased total cost of future pensions. The investment program is under increasing pressure to earn sufficient returns to cover pensions over a longer period of time than the plan was designed to do.

The plan's assets have performed well. However, the most recent preliminary funding valuation based on the assumptions outlined in the Funding Management Policy shows a significant funding shortfall of $17.2 billion. The preliminary valuation shortfall serves as the starting point for discussions among the sponsors and the plan to develop a combination of risk mitigating plan changes and corresponding funding assumptions that bring the plan into balance. It also puts a spotlight on the funding challenges this plan faces. The sponsors and plan management are currently engaged in active discussions regarding whether it is advantageous to file a fully funded valuation in 2011, ahead of the final 2012 deadline.

It is too early to predict the outcome of those discussions. The plan sponsors have a few broad options available to resolve shortfalls – increasing contributions from members, the government and designated employers (which match teachers' contributions); invoking conditional inflation protection for pension service earned after 2009; or changing other future benefits. However, even if there is agreement on a 2011 filing, it is unrealistic to expect the plan's funding challenges to disappear unless there are significant risk mitigating steps taken.

As the Sustainability Working Group completed its examination of the plan's persistent funding challenges over the last decade, a general agreement emerged that change will be required to keep the plan viable and affordable for the long term.

We are committed to working with the plan's sponsors to seek a fair and equitable solution that can be agreed upon and introduced over time. Many plans in other jurisdictions around the world have not been as diligent, and have put off the tough decisions as long as they can. Time has now slammed the door on their opportunity to introduce gradual change; harsh solutions are being imposed upon their plan members arbitrarily. By making well-researched, well-informed decisions now, our sponsors are protecting members from such angst.

Doing everything we can to operate efficiently

Many factors that impact the plan's funding status are beyond our immediate control, such as demographics, market performance and real interest rates. But that does not relieve us of our responsibility to do everything we can to operate efficiently and achieve the plan's goals.

We focus on the things we can control: how well we manage assets, how much risk we take and how efficiently we operate. In 2010, we advanced a number of initiatives to support the drive for operational excellence and funding sustainability.

Long-term investment strategy: During the past few years, we refined our long-term investment strategy to better meet the plan's needs as it continues to mature. Implementation of this strategy commenced in 2010. As a result, we changed our asset mix and further increased collaboration across investment portfolios to ensure that we are selecting the best possible assets to maximize returns.

System improvements: We completed a major system renewal, replacing a 20-year-old portfolio accounting system with a system that is ready for International Financial Reporting Standards (IFRS) and better able to efficiently process complex products to strengthen our risk measurement and data management capabilities and help us make better investment decisions. We expect further system renewals and upgrades to continue over the next three years.

People management: The implementation of a new employee compensation program supports our long-term business objectives by providing market-competitive compensation that allows us to attract and retain exceptional talent while ensuring alignment with our pay-for-performance philosophy. We also ratified a new four-year collective agreement with the Ontario Public Service Employees Union (OPSEU), which represents our 329 bargaining unit employees.

Risk consciousness: We take a broad approach to risk management and have begun several major initiatives to mitigate a number of enterprise-wide risks. Most notable is our multi-year Operational Excellence program, which will reduce risk by creating a more coordinated and effective operating model for the Investment Division and its support groups, primarily by improving the management of complex, cross-departmental initiatives. We established an enterprise Project Management Office to oversee Teachers' project management practices and improve project competencies.

Plan changes and streamlined processes: We worked with the plan sponsors on complex plan changes related to buybacks and re-employment (working after retirement) that will improve efficiency and service and allow us to administer the plan rules more consistently.

You can read more about these activities in the pages ahead.

In closing

I thank all employees for their commitment to continuous improvement, to risk consciousness and to being leaders in the pension industry. I also commend the plan sponsors for their attentiveness to funding sustainability issues, and their commitment to helping members understand the plan's funding challenges. Finally, I thank the board members for supporting, challenging and encouraging us to improve on all aspects of our business each year.

Jim Leech
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

Our objective is to present readers with a view of the pension plan through the eyes of management by interpreting the material trends and uncertainties affecting the results and financial condition of the plan.

In addition to historical information, this Management's Discussion & Analysis (MD&A) contains forward-looking statements regarding management's objectives, outlook and expectations. These statements involve risks and uncertainties and, as such, the plan's actual results will likely differ from those anticipated. Key elements of the plan's consolidated financial statements are explained and should be read in conjunction with the MD&A.

Overview

The Ontario Teachers' Pension Plan (Teachers') is Canada's largest single-profession pension plan. It administers the pension benefits of Ontario's 178,000 elementary and secondary school teachers and 117,000 pensioners. Created in 1917, it was administered by the Teachers' Superannuation Commission of Ontario until 1990, when the Ontario government established the Ontario Teachers' Pension Plan Board as an independent organization. At that time, the pension fund was almost entirely invested in non-marketable Province of Ontario debentures.

The pension plan employs 813 people in Toronto, Ontario, and six in London, England. Another 1,520 are employed by real estate subsidiary The Cadillac Fairview Corporation Limited (Cadillac Fairview).

The organization's Mission Statement is "Outstanding service and retirement security for our members – today and tomorrow."

Plan description

The pension plan is a defined benefit arrangement. This means that the plan pays pensions based on a formula – 2% per year of service multiplied by the average salary of the member's best five years, partially integrated with the Canada Pension Plan (CPP). Pensions also include survivor benefits, inflation protection and other benefits.

The plan is sponsored by the Ontario government and the Ontario Teachers' Federation (OTF). They jointly decide:

- the benefits the plan will provide;
- the contribution rate paid by working teachers, which is matched by the government and designated employers; and
- how any funding shortfall is addressed and any surplus is used.

The Ontario Teachers' Pension Plan Board and management have three key responsibilities:

- invest the plan's assets to fund the plan's liabilities;
- administer the pension plan and pay benefits to members and their survivors; and
- report and advise on the plan's funding status and filings with regulators.

A nine-member board, appointed by the OTF and the government, oversees the administration of the pension plan and reports on its funding status. The plan's governance structure and decisions are largely governed by two Ontario statutes – the Teachers' Pension Act (TPA) and the Pension Benefits Act (PBA) – and by the federal Income Tax Act (ITA).

> See the plan's governance chart on page 55 and in the Corporate Info section of otpp.com for more information about board members.

Pensions are financed with investment income generated by the pension fund, plus contributions from working teachers, the provincial government and designated employers. Contributions in 2010 consisted of approximately $1.3 billion from working teachers, $1.3 billion from the Ontario government and $36 million from designated employers and transfers from other pension plans. (Contributions are detailed in Note 12 to the consolidated financial statements.) Benefit payments totalled $4.5 billion in 2010, resulting in one of the largest payrolls in Canada. At the end of 2010, Teachers' managed $107.5 billion in net assets.

State of the Plan

The pension plan continues to face funding challenges. Plan liabilities have grown faster than plan assets. This has resulted in recurring funding shortfalls.

$3.7 billion
Total investment losses being recognized in 2010 and 2011

1.1%
Real interest rate for 2010; the 10-year average is 2.2%

$1.8 billion
Amount by which annual benefit payments exceed contributions

1.5:1
2010 ratio of working-to-retired members, compared to 10:1 in 1970

4
Number of years the typical pension exceeds number of years worked

45%
Percentage of assets in equities in 2010, compared to 61% in 1994

David McGraw, CA, MBA, ICD.D
Senior Vice-President and Chief Financial Officer

Barbara Zvan, M.Math, FSA, FCIA
Senior Vice-President, Asset Mix and Risk and Chief Investment Risk Officer

Plan funding approach

The plan's funding approach is designed to provide pension security for all generations of plan members. The goal is to pay benefits while keeping contribution rates affordable. According to the principle of generational equity, the plan aims to have members pay more or less the same contribution rate for more or less the same pension benefits through all generations. Achieving this goal requires ongoing effort and a spirit of cooperation and consensus among the two plan sponsors, who are responsible for all funding decisions and determining the plan's contribution rates and benefits.

Balanced funding valuations must be filed with the pension regulator at least once every three years. The OTF and the Ontario government jointly decide whether to file the plan's funding valuations before the three-year timeframe. The last funding valuation was filed in 2009 and the next is due in 2012, although the plan sponsors can file sooner and have initiated deliberations to determine if a 2011 filing would be advantageous.

Funding management policy

In 2003, the plan sponsors adopted a Funding Management Policy. Under the current Funding Management Policy, the plan is considered fully funded when plan assets are equal to, or up to 10% greater than, the cost of future benefits. When assets exceed future benefits by more than 10%, the surplus can be used to lower contribution rates, improve benefits, or a combination of the two. When the cost of future benefits is greater than plan assets, the plan has a funding shortfall. To address a shortfall and rebalance the plan, the sponsors can:

1. increase contribution rates;
2. invoke conditional inflation protection;
3. reduce other future benefits; or
4. use a combination of these measures.

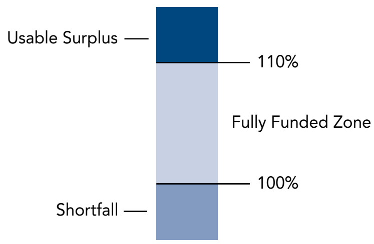
The current maximum contribution rate in the Funding Management Policy is 15% of members' base earnings above the CPP limit, which is $48,300 in 2011. Contributions are matched by the government and designated employers.

The Funding Management Policy provides guidance to the board on the minimum real rate of return assumption (also known as the discount rate) used for funding valuations, but the final decision rests with the board. Each year the preliminary funding valuation presented in the annual report employs the assumptions outlined in the Funding Management Policy. The assumption is based on the real interest rate plus a premium of either 0.5% or 1.4%, depending on the plan's financial health. The 0.5% premium is used when the plan is in a strong financial position. This helps to build up an asset cushion in good times. The 1.4% premium is used when the plan has a shortfall. This helps the plan absorb short-term changes in the market returns. The assumption reflects the expected after-inflation growth in the plan's assets. In the past, in conjunction with regulatory filings, the sponsors have determined to adopt additional risk mitigating measures (e.g., Expert Panel in 2007, introduction of Conditional Inflation Protection provisions in 2008, Sustainability Working Group in 2009), which allowed the board to adjust the rate of return assumption accordingly.

The real rate of return assumption must be realistic so as not to mask funding deficiencies. If the assumption is too high and investments earn less than expected in the future, a funding shortfall would result, impacting younger and future plan members with higher contributions, lower future benefits or both. If the assumption is too low, current members would pay more than necessary for their pensions. In 2010, we introduced smoothing of the real rate of return assumption over three years in order to reduce the impact of volatile real interest rates.

> See page 18 for more information on asset and liability smoothing.

FUNDING MANAGEMENT POLICY



The plan is fully funded when projected plan assets are equal to, or up to 10% greater than, the cost of future benefits. The plan had a preliminary funding shortfall at the beginning of 2011.

Conditional inflation protection

Conditional inflation protection provides the plan sponsors with a tool to help manage funding shortfalls when they arise. If the sponsors were to invoke conditional inflation protection in a valuation filing, annual cost-of-living increases for anyone who retired before January 1, 2010, would not be affected. Annual cost-of-living increases for other retirees would be determined as follows:

- The portion of a member's credited service earned until the end of 2009 would still be 100% protected against changes in the cost of living.
- The portion of a member's credited service earned after 2009 would be protected against increases of 50% to 100% in the cost of living. The amount of inflation protection provided would depend on the plan's funding status.

Any reduction in the indexation percentage (below 100%) would remain in effect until a subsequent funding valuation filing shows that there are sufficient funds to provide 100% inflation protection again. If there are enough funds, inflation protection of up to 100% could be restored on a go-forward basis to reflect previously unrecognized inflation.

If the sponsors were to invoke conditional inflation protection, the Ontario government and designated employers participating in the plan would continue to share pension costs by making extra non-refundable contributions that are equal to any cost-of-living increases that members do not receive. Even though conditional inflation protection has not yet been applied to pension payments, the post-2009 portion of commuted value payments made to members are calculated to recognize the expectation that they would not be fully inflated throughout the member's life. The amount by which these payments are lower than they would have been with 100% inflation protection being assumed will be an additional contribution by the Ontario government and designated employers.

> See page 19 for more information on how conditional inflation protection is estimated for the funding and financial valuations.

Funding challenges

The pension plan continues to face funding challenges. Plan liabilities (the projected cost of future pensions) have grown faster than plan assets. This has resulted in recurring funding shortfalls since 2003.

The board and management expect funding challenges to continue due to a combination of factors. Together, the following six factors contribute to recurring funding shortfalls and concerns about the plan's long-term viability and affordability.

1. Low real interest rates – Long-term real interest rates (after inflation) are used to estimate the cost of providing teachers' pensions. When interest rates drop, pension costs rise because the plan needs to set more money aside to earn the amount required to pay for future pensions. A 1% change in the real interest rate assumption has about a $25 billion impact on the plan's funding valuation.

The yield on Government of Canada 30-year Real-Return Bonds (RRB) is the basis for the real rate of return assumption. This rate declined to 1.1% during 2010 from 1.5% at the start of the year. In order to reduce the impact of volatile real interest rates, beginning January 1, 2011, the rate of return assumption will be based on the trailing 36-month average of this real interest rate.

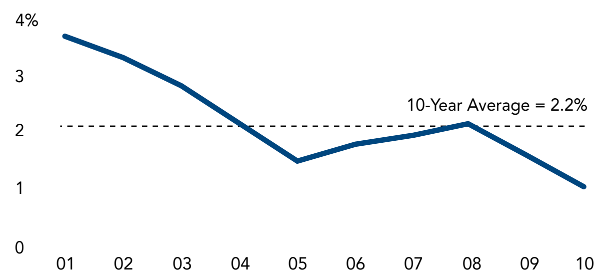
ASSETS REQUIRED FOR A TYPICAL $40,000 PENSION

Real Interest Rate	*Amount Required*[1]
1.0%	$970,000
1.5%	$900,000
2.0%	$840,000
3.0%	$735,000
4.0%	$650,000
5.0%	$580,000

[1] For retirement at age 59.

Securing a typical $40,000 pension requires 22% more money when real interest rates are at 1.5% than when they are at 3%. The 1.1% real interest rate for long-term bonds at year-end 2010 is historically low.

REAL INTEREST RATES



While declining real interest rates increase the value of portfolio assets, such as bonds, real estate, infrastructure and timberland, this growth is outweighed by a rise in the present value of liabilities.

2. 2008 investment loss – For funding valuation purposes, the plan will continue to absorb its 2008 investment loss until the end of 2012 due to the effect of smoothing these losses over five years. Amortization of gains and losses arising prior to 2010 will continue over their existing five-year schedules. Gains or losses arising in 2010 or later will be amortized over three years. This year, we recognized $1.2 billion in net losses and are expected to recognize another $2.5 billion net loss in 2011, which will negatively impact the plan's funding status. These losses have been partially offset by good investment returns in 2009 and 2010, which are also smoothed over five years and three years, respectively.

3. Higher life expectancy and longer retirements – Teachers now typically work for 26 years and are expected to collect a pension for 30 years, and a pension may be paid to a survivor. This means that a typical teacher can expect to collect a pension for more years than she or he contributed to the plan, aside from any survivor benefits. The investment program is under increasing pressure to earn sufficient returns to cover longer pensions, and questions about funding sustainability have grown as the plan experienced recurring funding shortfalls over the last decade.

THEN AND NOW

	1970	2010
Average retirement age	61	59
Expected years on pension	20	30

Teachers are retiring earlier and living longer than they did in the past and we now have the means to measure these rates more accurately. These factors increase the total cost of pension benefits for current and future retirees.

4. Lower risk tolerance and difficulty absorbing funding shortfalls – The plan continues to mature each year. This means that the proportion of working members is declining relative to the growing number of pensioners. As the plan matures, the fund's investment managers must carefully weigh the amount of risk that is taken to generate returns. Exposure to riskier asset classes, like equities, must be limited in favour of less risky asset classes, such as bonds, which typically have lower returns.

The smaller proportion of active members to retirees means that overcoming funding shortfalls with contribution rate increases alone is more difficult, especially if markets fall or the plan's investments underperform. For example, compensating for a 10% decline in plan assets would currently require a contribution rate increase of about 4% of salary to close the gap. In 1970, the same decline would have required an increase of only about 0.5% of salary.

DECLINING RATIO OF WORKING-TO-RETIRED MEMBERS

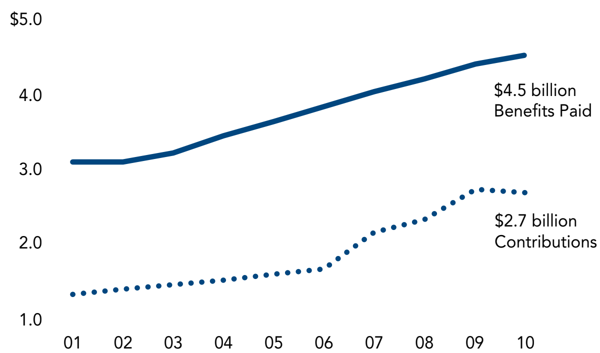
	1970	1990	2010
Ratio of working-to-retired members	10:1	4:1	1.5:1
Present value of contributions as a percentage of net assets[1]	93%	42%	26%
Increase in contribution rate for 10% decline in asset values	0.56%	1.9%	3.9%

[1]Assuming the plan is fully funded and current contribution rates.

Currently, there are 1.5 active teachers per retiree. We expect the ratio to further decline to 1.3:1 by 2020. When there is a low ratio of working-to-retired teachers, the impact on each contributing teacher to cover a shortfall or investment loss is greater, making it more difficult to overcome funding shortfalls with contributions alone.

5. Current benefits paid exceed annual contributions – Another sign of plan maturity is that the plan pays out approximately $1.8 billion more in total benefits each year than it receives in contributions from plan members, the Ontario government and designated employers. This long-term trend is expected to continue, therefore the plan will continue to have fewer contributing members among whom to share risk, which must be managed accordingly.

CONTRIBUTIONS RECEIVED VS. PENSIONS PAID
(for the year ended December 31) ($ billions)



Benefits paid exceeded contributions from members, the government and designated employers by $1.8 billion in 2010.

6. Investment returns expected to lag pension cost growth – Due to the plan's lower risk tolerance, as well as unpredictable markets, plan management expects to achieve modest long-term investment returns. Reducing risk implies lower investment returns and higher contribution costs. The plan's mature demographics dictate a lower-risk asset mix than many large pension plans with more favourable demographics which will result in more modest investment returns.

> Based on current projections, it would not be prudent to assume that investments can earn enough to ensure the plan's long-term sustainability at current benefit and contribution levels.

Addressing the funding challenge

The plan sponsors, together with plan management, created a tripartite Sustainability Working Group to consider all of the possible ways to deal with the plan's persistent funding challenges.

The Working Group's report, issued in September 2010, recognized that plan changes will be needed in the future if funding shortfalls persist. Plan management has agreed to monitor the potential options that the sponsors could adopt to reduce pension liabilities. The Working Group also established new processes associated with the funding valuation.

> Presentations and webcasts on the plan's funding challenges and the full report of the Sustainability Working Group can be accessed at FundingYourPension.com.

Measuring the state of the plan annually

Use of estimates: For the purpose of the financial statement valuation, Canadian Generally Accepted Accounting Principles (GAAP) require plan management to make estimates when accounting for and reporting assets, liabilities, investment income and expenses, and to disclose contingent assets and liabilities in the plan's financial statements. Management is also required to periodically re-evaluate the estimates.

Plan management reviewed the development and selection of critical accounting estimates with the Audit & Actuarial Committee of the board. Actuarial assumptions used in determining accrued pension benefits reflect best estimates of future economic and non-economic factors proposed by management and approved by board members. The primary economic assumptions include the discount rate, salary escalation rate and inflation rate. The non-economic assumptions include plan member mortality, withdrawal and retirement rates. The plan's actual experience may differ from these estimates, and the differences are recognized as gains or losses in future years.

Investments and investment-related liabilities are stated at fair market value. Further information on valuation techniques is provided in Note 1d to the consolidated financial statements on page 81.

> Use of estimates is further discussed in Note 1d and i and Note 5 to the consolidated financial statements.

Comparing the funding and financial valuations: Achieving balance between plan assets and the cost of future benefits is an ongoing job for the OTF and the Ontario government. Plan management assesses the funding position of the plan each January and offers the plan sponsors advice and analytical support on plan funding issues throughout the year.

The pension plan commissions two annual valuations of the plan. The financial statement valuation compares plan assets to the value of benefits earned to date by members. The funding valuation estimates assets, the value of future contributions and the cost of future pensions more than 70 years into the future.

- Financial statement valuation: This valuation is prepared by an independent actuary based on the best estimates provided by management and approved by board members. It takes into account pension credit accrued to date by current retirees and inactive and active members, and contributions already received by the plan. This method is prescribed by the Canadian Institute of Chartered Accountants (CICA) and is designed to facilitate comparisons between different organizations' plans.
- Actuarial valuation for funding purposes: Also called the funding valuation, this too is prepared by an independent actuary using assumptions approved by the plan's board members as guided by the Funding Management Policy. It determines the long-term financial health of the plan at current contribution rates by calculating benefits earned to date, plus projected future benefit costs and contributions.

  The actuary projects the plan's benefit costs and compares them to current plan assets. The actuary then adds in future contributions from current teachers, the government and other designated employers. The projection includes the future cost of pensions for current members, but does not include the cost of benefits for teachers who are expected to be hired in the future. This valuation is required to be balanced when filed with the pension regulator at least every three years. It is used by the sponsors to establish benefit and contribution rates.

> A history of funding valuations and related funding decisions made by the plan sponsors is found on page 117.

COMPARING THE FUNDING AND FINANCIAL VALUATIONS[1]

($ billions)	Funding at Jan. 1, 2011	Financial at Dec. 31, 2010
Net assets	$ 107.5	$ 107.5
Smoothing adjustment[1]	3.3	6.7
Future basic contributions	28.0	–
Future special contributions	5.3	–
Actuarial assets	144.1	114.2
Cost of future pensions[2]	(161.3)	(146.9)
Deficit	$ (17.2)	$ (32.7)

[1]Revised smoothing method used for 2011 funding valuation.

[2]Financial statement value at December 31, 2010, assumes 50% conditional indexing for post-2009 service starting January 1, 2013. Funding value at January 1, 2011, assumes 100% conditional indexing for post-2009 service. See Note 1f of the consolidated financial statements.

Asset smoothing: Asset smoothing (or the actuarial asset value adjustment) evens out the impact of short-term fluctuations in investment returns on the plan's funding position. An accepted practice for pension plans, it mitigates the need to change contribution rates and benefit levels frequently to keep the plan in balance.

The asset smoothing methodology for the funding valuation changed in 2010. Asset smoothing for the financial statement valuation did not change in 2010, but it will be eliminated entirely for 2011, as required under the new CICA Handbook Section 4600, which is effective January 1, 2011. As a result, we are reporting two different figures for the smoothing adjustment in 2010.

Changes to the funding valuation asset smoothing methodology and the introduction of a smoothing methodology for determining the funding valuation interest rate are as follows:

Asset smoothing

- The gains and losses that are above or below the actual dollar return compared to the expected benchmark dollar return from all assets are smoothed. The expected benchmark return is now based on the nominal funding valuation interest rate from the last filed valuation. Previously, the gains and losses were based on non-fixed income assets only, and the expected benchmark return was based on the consumer price index (CPI) plus 6%.
- Gains and losses experienced after January 1, 2010, will be recognized uniformly over three years instead of five. As a transition measure, the gains and losses earned before 2010 will continue to be recognized in accordance with the five-year amortization schedule.

Smoothing of funding valuation interest rate and inflation rate assumptions

- In response to sponsors' concerns about using an interest rate as at December 31 each year, the interest rate and inflation assumptions now used to value the funding liabilities will be based on the trailing 36-month nominal and real yields plus a spread of 0.5% to 1.4%. Previously, the interest rate and inflation assumptions were based on the nominal and real yields effective at the valuation date plus a spread of 0.5% to 1.4%. The new smoothed assumption reduced the current preliminary shortfall by $18.1 billion.

The averaging of real interest rates will soften the impact of declining real interest rates, but will create a drag on the assumption should interest rates recover to higher levels. Using a 36-month average real interest rate improved the plan's funding status for the funding valuation on January 1, 2011, because the real interest rate was higher in 2008. That year of higher rates will drop out of the January 1, 2012, calculation.

SMOOTHING FOR FUNDING VALUATION

- Change effective as at January 1, 2010
- All asset class gains and losses earned after January 1, 2010, are smoothed over three years instead of five
- Gains and losses prior to January 1, 2010, will continue to be amortized over five years
- Trailing 36-month average real interest rate is used as the basis for real rate of return assumption, instead of the rate on December 31 of each year

SMOOTHING FOR FINANCIAL STATEMENT VALUATION

- No change for the period ended December 31, 2010
- Effective January 1, 2011, smoothing is eliminated as required under CICA Handbook Section 4600
- Any unamortized amounts as of December 31, 2010, will be retroactively recognized
- Real interest rate assumption will continue to use the December 31 value

> The smoothing calculation for the financial statement valuation is detailed in Note 4 to the consolidated financial statements on page 101.

Conditional inflation protection: In 2009, the OTF and the Ontario government introduced conditional inflation protection for pension credit earned after 2009. The change was designed to help them manage funding shortfalls in the future.

For the financial statement valuation, the accrued pension benefits include the minimum inflation protection benefits. The impact of having fully indexed benefits is disclosed on page 102 of the consolidated financial statements. For the funding valuation, the actuary projects pension costs, including the cost of the level of inflation protection that the plan can afford to provide for pension credit earned after 2009. The plan will always provide full inflation protection if there is sufficient funding to allow it. If the plan sponsors invoke conditional inflation protection to resolve a shortfall, the lower indexation level will remain in effect at least until the subsequent funding valuation filing.

> Accounting methods for conditional inflation protection for financial statement valuations are further explained in Note 1f to the consolidated financial statements on page 84.

Financial statement valuation as at December 31, 2010

The plan ended 2010 with a financial statement deficit of $32.7 billion. This compares to a deficit of $22.8 billion for 2009. The discount rate used in the financial statement valuation was 4.05% (4.60% in 2009), which is equal to the yield of long-term Government of Canada bonds, plus 0.5% (see Note 5a to the consolidated financial statements on page 101). The financial position of the plan is summarized in three accompanying tables on pages 20 and 21.

As **Table 1** shows, net assets available for benefits totalled $107.5 billion, up $11.1 billion from 2009. After allowing for the smoothing adjustment discussed on page 18, actuarially adjusted net assets totalled $114.2 billion, compared to $109.1 billion in 2009. The accrued pension benefits on a financial statement basis were $146.9 billion ($131.9 billion in 2009). The actuarial assumptions used to determine the cost of future benefits payable in the future in respect of past service include management's best estimates of teachers' future salaries and age demographic factors.

The $32.7 billion deficit represents the difference between the cost of pensions earned to date and actuarially adjusted net assets.

TABLE 1: YEAR-END FINANCIAL POSITION

(as at December 31) ($ billions)	***2010***	*2009*
Net assets available for benefits		
Net investments	**$ 104.7**	$ 93.5
Contributions receivable from Province of Ontario	**2.6**	2.5
Other net assets	**0.2**	0.4
Net assets	**107.5**	96.4
Financial status		
Net assets	**107.5**	96.4
Smoothing adjustment	**6.7**	12.7
Actuarially adjusted net assets	**114.2**	109.1
Accrued pension benefits	**(146.9)**	(131.9)
Deficit	**$ (32.7)**	$ (22.8)

Table 2 notes that investment returns in 2010 amounted to $13.3 billion, compared to a $10.9 billion return in 2009. Contributions received totalled $2.7 billion, while $4.5 billion was paid out in benefits. This compares to contributions of $2.7 billion and benefit payments of $4.4 billion in 2009.

The contribution rate for teachers in 2010 was 10.4% of earnings up to the CPP limit of $47,200 and 12.0% of earnings above that. This rate is unchanged for 2011, but the 10.4% increment will apply to the first $48,300, reflecting an increase in the CPP limit. These contributions are matched by the government and designated employers.

TABLE 2: CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(for the year ended December 31) ($ billions)	*2010*	*2009*
Income		
Investment income	**$13.3**	$10.9
Contributions	**2.7**	2.7
	16.0	13.6
Expenditures		
Benefits	**4.5**	4.4
Operating expenses	**0.4**	0.2
	4.9	4.6
Increase in net assets available for benefits	**$11.1**	$ 9.0

The benefits paid (shown in **Table 3**) include the addition of 4,300 retirement and disability pensions and 800 survivor pensions during 2010, as well as a 0.5% cost-of-living increase, effective January 1, 2010. The annual cost-of-living adjustment, effective January 1, 2011, was 1.4%.

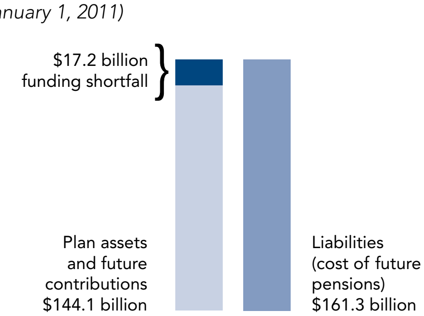
TABLE 3: ACCRUED PENSION BENEFITS

(for the year ended December 31) ($ billions)	*2010*	*2009*
Accrued pension benefits, beginning of year	**$131.9**	$118.1
Interest on accrued pension benefits	**6.1**	4.7
Benefits earned	**3.3**	3.6
Benefits paid	**(4.5)**	(4.4)
	136.8	122.0
Changes in actuarial assumptions	**10.4**	10.0
Experience gains	**(0.3)**	(0.1)
Accrued pension benefits, end of year	**$146.9**	$131.9

Preliminary funding valuation as at January 1, 2011

As at January 1, 2011, the plan showed a preliminary funding shortfall of $17.2 billion. The cost of future benefits at January 1, 2011, is estimated at $161.3 billion, while assets (actuarial) are estimated at $144.1 billion.

PRELIMINARY FUNDING VALUATION
(as at January 1, 2011)



The accompanying table shows the assumptions used in this valuation. (Assumptions used for valuations filed previously with the pension regulator are found on page 117.) Consistent with the sponsors' Funding Management Policy for the plan, the board has chosen a real rate of return assumption for the preliminary funding valuation of 3.15%, which is derived from the average yields on long-term Government of Canada nominal bonds and RRB for the trailing 36 months ended December 31, 2010, plus 1.4%. This rate of return is higher than the discount rate used in the financial statement valuation, as it takes into account the expected rates of return for the fund's asset mix, and the required risk balance needed to manage the growing maturity of the plan.

FUNDING VALUATION ASSUMPTIONS

(percent)	*2011*[1, 2]
Rate of return	5.30
Inflation	2.15
Real rate of return	3.15
Salary escalation	3.15

[1]This preliminary funding valuation is based on assumptions outlined in the Funding Management Policy. The valuation filed with the regulator may use different assumptions, as has been the case in the past.

[2]Based on revised smoothing method.

Valuation assumptions change over time. While actual experience mirrors some assumptions closely, annual market returns typically fluctuate much more significantly compared to the assumption and so are smoothed over a period of three years.

PRELIMINARY FUNDING VALUATION COMPARISON[1]

(as at January 1) ($ billions)	*2011*	*2010*
Net assets	**$ 107.5**	$ 96.4
Smoothing adjustment[1]	**3.3**	12.7
Future basic contributions	**28.0**	26.7
Future special contributions	**5.3**	5.4
Actuarial assets	**144.1**	141.2
Cost of future pensions	**(161.3)**	(158.3)
Deficit	**$ (17.2)**	$ (17.1)

[1]Revised smoothing method used for 2011 funding valuation.

> Do you have questions about funding valuations? Go to otpp.com > Plan Funding > Funding 101, or FundingYourPension.com

Investments

Our goal is to meet the plan's obligations by maximizing returns at an appropriate level of risk, while taking into account the pension liabilities and challenges presented by the plan's mature membership profile.

$23.2 billion
Investment income above benchmark since fund's inception in 1990

80%
Percentage of equities in companies outside Canada

4.5%
Total plan return above the 9.8% benchmark in 2010

93%
Retail occupancy rate for real estate subsidiary Cadillac Fairview

7,592
Proxies voted in 2010 for 974 companies worldwide

$800 million
Dividends earned by public equities portfolio

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

Goals

The investment program exists to help the plan meet its long-term funding needs. The goal is to achieve pension security, contribution rate stability and long-term sustainability of the pension plan. We aim to do this by investing in assets that provide strong returns, which are required to pay future benefits and minimize plan funding risk.

Contribution rate stability is best achieved by minimizing the difference between asset values and pension obligations. Contribution affordability is linked to two factors – the level of benefits (set by the plan sponsors) and the extent to which investment income plus contributions can reasonably be expected to cover pension costs.

Our goal is to meet the plan's obligations by maximizing returns at an appropriate level of risk, while taking into account the pension liabilities and challenges presented by the plan's mature membership profile. The membership profile has matured as the ratio of working-to-retired members has declined (see page 15). We expect this trend to continue. The mature status of the plan means that our investment managers are limited in terms of how much risk they can take to generate returns. Conditional inflation protection for benefits earned after 2009 will increase the plan's tolerance for risk, but only over time.

OUR STRATEGY HAS FOUR COMPONENTS:

To determine a level of investment risk that is appropriate for the plan's membership profile, and to implement strong risk management practices.

To select the most appropriate asset mix to earn returns that will enable us to pay pensions and minimize the plan's funding risks and challenges.

To use active management, collaboration and innovative thinking to add value above the returns available through passive investing.

To ensure an adequate level of liquidity in the fund.

Several performance drivers support our investment strategy. We have a duty to consider all investments that are appropriate for the pension plan. We advocate proper corporate governance standards and practices to enhance long-term returns. We undertake efforts to attract, develop and retain the best talent in the industry. Finally, we champion accountability and risk consciousness across our investment team and support groups to create a culture that is conducive to implementing this strategy.

Managing investments

Our responsibility is to manage the investment portfolio for the benefit of present and future plan members and their survivors. In 2010, we refined our long-term investment strategy to better meet the plan's future needs. We adjusted our asset-mix policy and increased collaborative decision-making across investment portfolios. We strive to make optimal asset-mix decisions for the plan while considering the constraints imposed by the plan's liabilities, and reducing long-term plan funding risk.

The value and characteristics of the plan's future pension obligations form the basis of our investment strategy. We consider future pension costs, how long they are to be paid and how they might change in the future. We then invest in assets that match these characteristics as much as possible. We invest with a long-term focus because the pension plan will be paying benefits to some of today's young teachers 70 years or more from now.

To implement our strategy, we embrace a total-fund perspective that fully integrates the individual portfolios. This way, we are able to take advantage of our expertise across the Investment Division and its support groups and to diversify the risks that the fund takes across many asset classes. Effective communication allows us to maximize the use of risk and capital across the total fund, as we select diversified assets that have the best chance of providing the investment returns needed to meet the plan's long-term needs. We also align our compensation practices with our long-term view. We believe that our collaborative approach leads to better investment decisions and the most efficient use of the plan's resources.

Risk-conscious culture

Managing funding and investment risks carefully is critically important to our investment strategy. As the plan has matured, its risk tolerance has decreased. To put it simply, our investment managers must be as concerned about the potential for loss from an investment as they are about how much might be earned. Consequently, we have deliberately cultivated a risk-conscious culture. We spend considerable resources determining the ideal level of risk and ensuring that the types of risk we take are appropriate and properly diversified.

Our risk management activities are focused on the ultimate risk facing the plan – the risk that the plan's assets will fall short of its liabilities (the future benefits owed to members). We recognize that funding risk can come from assets or liabilities. The asset risk is obvious; investments can, and do, decline in value periodically. The biggest risk to plan assets is a decline in equity markets.

Take for example, our approach to climate change. We believe that an integrated approach to climate change risk will help investment managers in all asset classes to identify potential risks and opportunities and thus improve long-term performance.

Investments are not to be selected or rejected solely on the basis of climate change risk factors. Rather, climate change risk factors are taken into consideration to the extent that they have a material impact on the financial return of an investment.

For example, in conducting due diligence on a potential acquisition, we would consider the fact that well-managed companies may have a process in place to identify and analyze future challenges and opportunities associated with climate change if it is deemed to be a material investment risk. A clear and straightforward statement regarding the implications for competitiveness that addresses issues such as access to resources, the timeframe that applies to the risk, and the company's plan for meeting any strategic challenges posed by climate risk is encouraged. The policies and strategies may include:

- a statement of the company's position on climate change, and the responsibility to address climate change; and
- the process by which risks and opportunities are identified and analyzed.

The liability risk is less obvious but has a significant impact on the plan's funding status. A 1% shift in the real interest rate assumption impacts projected liabilities by approximately $25 billion on a funding basis. Finally, increased life expectancy also augments pension costs.

> A 1% change in the real interest rate assumption has a $25 billion approximate impact on the plan's funding status.

Falling real interest rates have a positive effect on some assets, but a negative and more significant impact on our estimate of the current value of future liabilities. This imbalance can negatively impact the plan, even in years in which our investments perform well. Two such years were 2009 and 2010, when, despite strong investment performance, the plan still experienced a funding shortfall. Managing such risks requires collaboration across portfolios, aided by risk measurement systems that provide consolidated, coordinated views of the entire fund and its components.

Managing risk

We recognize that risk cannot be managed in isolation. This was one of the important lessons of the 2008 financial crisis. At that time, many institutional investors were forced to sell high-quality public equities and incurred large realized losses because they needed cash and the market for illiquid assets was depressed.

Our investment discipline ensured that we did not have to sell good assets at a loss during the financial crisis. We continually refine our capital and liquidity risk strategy. We focus on risk diversification across the total fund, taking care not to duplicate risks across portfolios.

The shaded section that follows is a discussion of risk management policies and procedures relating to credit, market and liquidity risks, as required under CICA Handbook Section 3862, Financial Instruments – Disclosures. It forms an integral part of the audited consolidated financial statements for the year ended December 31, 2010.

Our goal is always to maintain market and credit risks at both the overall fund and department levels within the allowable ranges set by members of our board for the total fund, and by senior management for individual portfolios.

We manage investment risk on a daily basis in accordance with our investment objectives and policies. The Investment Committee of the board, which comprises all board members and meets a minimum of 10 times a year, monitors overall investment risk exposure. The board members review and approve risk management policies that affect the total portfolio, and new investment programs that introduce incremental risk to the plan.

Over the past 15 years, we have developed a robust risk system that provides the investment managers with the flexibility to examine and compare a wide range of strategies and different asset classes, and to calculate the benefits of diversification across strategies, asset classes, departments and portfolios. To understand the long-term dynamics of the total risk in the plan, we also review the different asset classes and maintain a comprehensive asset-liability model.

Through our risk system, we measure potential loss in several ways: within each portfolio, series of portfolios, across departments, across asset classes and at the total-fund level. Risk calculations are also measured against the plan's liabilities and benchmarks. We monitor and report the observed risk values against those budgeted. In recent years, we have updated our data and processing systems to improve reporting accuracy and develop a more holistic approach to data governance. New, integrated systems are being implemented to better manage data, more fully report total-fund risk, strengthen risk modelling and provide investment managers with more useful reports to aid them in their decision-making. We are enhancing the capture of the terms and conditions relating to the complex financial products in which we invest, making this information readily accessible to analysts and portfolio managers.

We created a Data and Process Council in 2009, which recommended these data and system improvements. This permanent body, comprising senior investment, finance and information technology managers, oversees efforts to continually improve and maintain the integrity of our data and processing systems.

We use risk budgeting to spread risk across the fund's asset classes. The risk budget is presented annually to board members for review and approval. The data in our risk system is updated continuously and includes the 2008–2009 market experience. As a result, the market events reflected in the system are now more extreme than they were prior to the financial crisis.

The fund's current liquidity position is governed by the plan's liquidity policy and reported regularly to the board's Investment Committee. We held $2.1 billion in treasury bills and $18.5 billion in unencumbered government bonds at year end to meet the plan's short-term liquidity needs. Sufficient liquidity is necessary to enable us to meet short-term, mark-to-market payments embedded in the plan's derivative exposure, and to allow the plan to adjust the asset mix in response to market movements. The fund's liquidity position is analyzed daily and periodically tested through simulations of major events such as significant movements in the markets.

We also improved counterparty risk management, which is monitored across the entire fund by an Investment Division Counterparty Credit Committee created in 2009. It reports to the Investment Risk Committee, which also reports to board members on a regular basis.

More information on our investment risk management activities is provided on our website and in Note 2 to the consolidated financial statements. Please see page 58 for more information on Enterprise Risk Management (ERM).

Setting asset-mix targets

Asset-mix selection is the primary driver of the plan's long-term investment performance. Broad diversification is our most important risk management tool. The plan's board members approve the asset-mix policy at least annually, making modifications when required (see Note 2d to the consolidated financial statements). They give management the discretion to adjust the weighting in either direction, within board-approved limits, to take advantage of investment opportunities as they arise.

The asset-mix policy calls for a diversified portfolio, including equities, fixed income, real estate, infrastructure, timberland and commodities. In addition, the board gives management the discretion to use absolute return strategies (noted in the Net Investments by Asset Class table on page 29) to enhance overall fund returns.

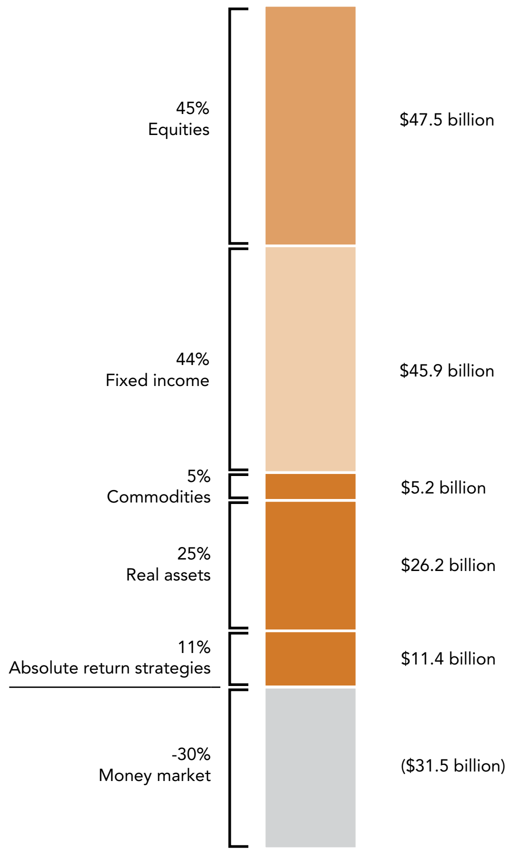
During the year, we reviewed and clarified our asset-mix policy by reclassifying some assets and adjusting certain target allocations. These changes were undertaken to enable us to make better asset-mix decisions for the pension fund and to improve our reporting. For example, absolute return strategies and money-market securities were previously reported in the fixed income asset class. These assets and the performance associated with absolute return strategies are now reported separately. The fixed income asset class now holds primarily nominal bonds and RRBs. This allows us to more clearly report assets and performance.

Absolute return strategies and money market: We employ absolute return strategies in a number of departments to enhance the fund's overall returns in an effort to meet the plan's long-term needs and minimize funding shortfalls. The goal of these absolute return strategies is to generate positive returns that are uncorrelated to our other asset classes.

Absolute return strategies (which are managed internally) generally look to capitalize on market inefficiencies and also include external hedge fund assets that are managed to earn consistent, market-neutral returns while diversifying risk across multiple managers, strategies and styles.

Assets employed in absolute return strategies and external hedge funds totalled $11.4 billion at year end compared to $11.7 billion at December 31, 2009. The change in the value of our hedge fund investments at year end resulted from reducing our exposure to some of these investments, as well as the impact of the rising Canadian dollar, which affected valuations for U.S.-denominated hedge funds.

ACTUAL PORTFOLIO
(as at December 31, 2010)



The money market asset class provides funding for investments in other asset classes, which is comparable to a treasury department in a corporation. Derivative contracts and bond repurchase agreements have played a large part in our investment program since the early 1990s. For efficiency reasons, we often use derivatives to gain passive exposure to global equity and commodity indices in lieu of buying the actual securities. We also use bond repurchase agreements to fund investments in other asset classes because it is cost effective and allows us to retain our economic exposure to government bonds.

> The new asset-mix policy enables us to make better asset-mix decisions and improves our reporting.

NET INVESTMENTS BY ASSET CLASS

(for the year ended December 31) ($ billions)	*2010*	*2009*
Canadian equities	$ 9.3	$ 8.4
Non-Canadian equities	38.2	32.8
Bonds	22.7	15.4
Real-rate products	23.2	19.9
Commodities	5.2	1.9
Real estate	16.9	14.2
Infrastructure	7.1	5.6
Timberland	2.2	2.3
Absolute return strategies	11.4	11.7
Money market	(31.5)	(18.7)
	$104.7	$ 93.5

Based on benchmark changes in 2010, certain comparative figures have been reclassified to conform with the current year's presentation. Net investments plus contributions and other net assets (liabilities) equalled net assets available for benefits of $107.5 billion at year-end 2010. Net investments are defined as investments ($155.4 billion) minus investment-related liabilities ($50.7 billion), as noted in the consolidated statement of net assets available for benefits and accrued pension benefits and deficit (page 76).

Approach to long-term value creation

Several strategies are used to maximize returns and outperform the markets in which we invest. We use a total-fund management style to encourage the sharing of information and movement of capital among managers of the different asset classes and portfolios in order to optimize risk-adjusted returns. We reward portfolio managers for maximizing value-added returns within the risk limit on total assets, not just on their own portfolios.

Management does not believe that passive investing through conventional public equity and fixed income market indices can generate the risk-adjusted returns that the plan requires. Active management is instrumental to the ongoing success of the plan. It involves selecting investments that we believe to be undervalued and employing both fundamental and qualitative-based strategies. The objective is to exceed the returns available from passively investing in benchmark indices at asset-mix policy weights.

Risk is spread across our well-diversified portfolio to generate superior returns on a risk-adjusted basis. The largest active risk budgets are currently in public equities, private equity and real estate. These assets have earned significant returns above their benchmarks over time. We are able to allocate risk to illiquid assets (such as real estate and private equity) because of our liquidity management and long-term investment horizon.

During the past year, we took steps to reinforce and enhance the total-fund management approach. We divided the former Investment Planning and Risk Committee into two separate committees – the Investment Risk Committee (which includes investment, economics, finance and legal professionals) and the Investment Committee (comprising senior investment staff only). This structure creates an ongoing forum to understand investment and plan funding risks. It also offers a separate investment decision forum, for the heads of the investment departments, to discuss and agree upon risk and capital-spending decisions with the best likelihood of meeting the plan's long-term objectives.

We believe that this approach also allows for better portfolio construction in order to effectively diversify risk across asset classes. Value-added decisions are coordinated at the total-fund level. This facilitates the monitoring of the level of investment risk across the fund, ongoing management of fund-wide liquidity, and the assessment of asset-mix decisions to enhance our long-term investment success. Broader committees maintain a fund-wide view of risk exposure categories. For example, one committee monitors credit exposures and counterparty risks across all asset classes, while another monitors all emerging-market exposures.

Corporate governance

We also seek to create long-term value by championing sound corporate governance standards and practices with market regulators and companies.

Our guiding principle is simple: Good governance is good business. We believe that there is a relationship between adherence to proper governance standards and the creation of long-term value for shareholders and direct owners.

In our governance advocacy, we communicate regularly with the boards of directors of our investee companies. We also participate in international governance-related organizations and comment on governance issues when appropriate. We review and publish our recommended Corporate Governance Policies and Proxy Voting Guidelines on our website each year. As well, all proxy voting decisions are posted on our website in advance of shareholder meetings. We are also active at the board level in companies in which we have significant or controlling interests. We insist on adherence to proper governance standards and practices at these companies in order to ensure that our long-term direct investments are effectively managed.

Our active approach to championing sound governance standards has earned Teachers' a solid international reputation as a corporate governance leader among institutional investors around the world. In consideration of evolving governance standards and practices, we updated our Corporate Governance Policies and Proxy Voting Guidelines in 2010. This included revisions to five voting guidelines related to:

- director independence and the adoption of shareholder proposals;
- directors who fail to receive majority support;
- the use of binding arbitration to limit an audit firm's liability;
- a three-year approach to say-on-pay; and
- transactions to collapse dual-class share structures.

> Download Corporate Governance Policies and Proxy Voting Guidelines: Good Governance Is Good Business at otpp.com > Responsible Investing > Governance.

In 2010, Teachers' voted on 7,592 proposals presented at shareholder meetings for 974 companies – a 67% increase over 2009, as the fund increased its direct holdings of equity securities in its indexed portfolios. Of these companies, 134 were in Canada, 545 were in the United States and 295 were elsewhere. We publish our voting decisions in advance of shareholder meetings, and a record of our votes (by company) is available on our website.

> otpp.com > Responsible Investing > Governance > Proxy Votes

Teachers' is active in the Canadian Coalition for Good Governance (CCGG), the International Corporate Governance Network (ICGN), the U.S. Council of Institutional Investors (CII), the Asia Corporate Governance Association (ACGA), the Institute of Corporate Directors (ICD) and the corporate governance subcommittee of the Pension Investment Association of Canada (PIAC).

Notable activities in 2010 were as follows:

- We opposed a transaction proposed by Magna International to collapse its dual-class share structure with a significant and unprecedented wealth transfer from shareholders to the Stronach Trust. The transaction was proposed without a fairness opinion or a recommendation by the company's board. We communicated our views along with a detailed analysis of the transaction, and worked with like-minded Canadian institutional investors to challenge the fairness of the transaction. The Ontario Securities Commission stepped in, requiring improved disclosure to shareholders before the deal could proceed to a vote. The transaction was ultimately approved by the court.
- We co-hosted the ICGN annual conference in Toronto in June 2010, helping to bring this international corporate governance conference to Canada for the first time. It attracted the world's foremost governance experts and institutional investors and a large number of Canadian attendees. As a long-standing member of this organization, we were pleased to assist the ICGN in raising awareness of its international work among Canadian policy-makers and corporate governance advocates.
- While we generally do not support shareholder proposals that we believe impinge on the responsibilities of the board (for example, say-on-pay), we supported a number of shareholder proposals that sought to enhance shareholder democracy and rights. These included shareholder proposals related to majority voting, the separation of the chair and CEO roles, the right to call a Special Meeting, and declassifying boards, as well as some proposals related to executive compensation and aimed at establishing the pay-for-performance principle at companies where it is not evident. We believe that boards that include qualified, independent members and are built on strong governance principles should consider compensation matters as a normal part of fulfilling their responsibilities. Supporting the types of shareholder proposals outlined above focuses our corporate governance efforts on achieving the right board structure.

Responsible investing

Teachers' investment program exists to earn the returns required to help the plan meet its funding commitments. With nearly 300,000 teachers and retirees in the plan, it is inevitable that certain investments that we hold will raise concerns among some plan members. Under the Ontario PBA, we are required to manage the fund to maximize returns for all plan members. We have a fiduciary duty, which means that we must take the utmost care in our investment decisions because we are dealing with other people's money. We do not select or exclude investments solely on the basis of social or environmental factors or any other non-financial criteria.

We search the world for the best investment opportunities that are appropriate for a mature pension plan like Teachers'. We recognize that environmental, social and governance (ESG) matters are potential risk factors that can affect a company's performance. We believe that profitable companies that are well run, respect the environment and respect human and labour rights are good candidates for long-term investments.

We are signatories to the U.K.-based Carbon Disclosure Project, including its recent Water Disclosure Initiative, and the Extractive Industries Transparency Initiative. We are monitoring United Nations-backed Principles for Responsible Investment (UNPRI) in 2011 to determine if they would have any impact on our investment process. We support these initiatives because of their focus on enhanced disclosure for investors. Enhanced disclosure helps us to understand the risks that could impact the value of the fund's investments, and enables us to make the best possible investment decisions. To ensure that we are aware of emerging issues and how corporations are responding, we subscribe to several social investment monitoring services that cover Canadian, U.S. and international companies.

We list the plan's significant investments (greater than $100 million) in this report. We also publish this information on our website to ensure that stakeholders are informed about the plan's major investments. More in-depth information on responsible investing is available on our website.

> otpp.com > Responsible Investing

Investment talent and innovation

Managing the pension fund is a complicated task. The most important factor in our success is our ability to attract, develop and retain innovative and disciplined investment professionals. Teachers' has been a leader in developing in-house pension investment management, which costs substantially less than relying solely on external management. Also important to our success are the business leaders and professionals who serve as Teachers' board members. They offer a wealth of experience in investment, finance, business management, accounting, economics and actuarial science.

Over the years, our focus on in-house management has enabled Teachers' to develop the intellectual capital that has made us a global pioneer in pension investment management. We are continually building our in-house asset management expertise to increase fund returns. By reducing external investment management, our internally generated returns after costs will match or exceed those of external advisors over time. Nevertheless, there are markets in which it is more advantageous for us to invest through externally managed funds. We use external management to target investments that require local or specialized expertise.

As one of Canada's largest pension funds, we provide our people with the resources, training and advancement opportunities needed to meet the highest professional standards. These are important factors in our ability to attract and retain leading investment professionals. Last year, Jane Rowe joined us as Senior Vice-President responsible for Teachers' Private Capital, following a distinguished 20-year career in banking. And when Peter Sharpe, former President and Chief Executive Officer of Cadillac Fairview, retired after leading our real estate subsidiary with skill and vision for the past 10 years, John Sullivan succeeded him after serving as Executive Vice-President, Development since 1998.

Investment performance

GOAL
Produce value-added returns above the policy asset-mix benchmark within our total-fund risk limits and minimize the plan's funding risks.

HOW WE MANAGE
Define the asset-mix policy and investment plan for the year and manage within market conditions.

HOW WE PERFORMED
Significantly outperformed the fund's composite benchmark on a one-year basis and matched the composite benchmark on a four-year basis.

Market overview

Markets faced unusually high levels of uncertainty throughout 2010. This was due in part to the plodding nature of the economic recovery – particularly in the U.S. and other developed markets – and uncertainty over how policy-makers would respond to the disappointing pace of growth. Clarity on the policy front has improved since the fall, when growth – rather than future inflation and/or fiscal concerns – was shown to be the priority. This clarity came by way of a new round of stimulative efforts from the U.S. Federal Reserve Board in early November, and was then followed up a month later by fiscal stimulus in the form of President Obama's tax-cut extensions.

Helped by stimulative policies, bond and stock markets, though volatile, performed well during the year. Building on a sharp rebound in late 2009, equity markets continued to make gains, albeit at a more moderate pace than in the prior year. Commodity markets were also healthy. Pro-growth policies and improved economic data flow provided stock markets with a late-year boost that saw it reach new heights not seen since the bankruptcy failure of Lehman Brothers in the fall of 2008. Bonds also enjoyed a strong year, but did not close out as strongly as stocks. Overall, strong gains from equity markets were offset by lower real interest rates, which reduced real bond yields and increased the value of projected pension liabilities.

Economic growth varied widely around the world. While many large, industrialized economies staggered and stalled under heavy debt loads and high unemployment, developing economies raced ahead. Several factors contributed to the slower economic growth in advanced economies, including private sector deleveraging and still-fragile banking systems. Concerns over European sovereign debt also surfaced during the year, causing considerable market upheaval and casting fresh doubts on the pace of economic recovery, not just in Europe, but worldwide. Even though the European Union and the International Monetary Fund (IMF) moved to ease concerns with the creation of a €750 billion support package, sovereign debt concerns continued to cast a shadow over markets for the remainder of the year. This dual-track global growth pattern was reflected in policy actions, as central banks in many developed markets struggled to come up with effective growth-inducing policies in a near-zero-interest-rate environment. In contrast, several of their emerging-market counterparts embarked on tightening campaigns in response to rapid growth.

In Canada, more sound banking practices and a stronger real estate market meant that Canada's economy was more stable than many other advanced economies. In contrast to the U.S., Canada enjoyed very strong employment growth in the first half of the year while real estate markets remained robust, bolstering consumer confidence and spending. Furthermore, the negative impact on exporters of the Canadian dollar's appreciation was offset by high prices and the demand for Canadian raw materials from developing economies. Not surprisingly, the materials sector led the growth on the S&P/TSX Composite Index. Despite these strong indicators, Canada's long-term economic fortunes remain closely linked to the state of the U.S. economy, which struggled for most of the year.

Many equity markets produced strong gains in 2010 as developed-market central banks worked to keep interest rates low in the hope that this would lead to an economic recovery. Strong economic data, particularly in the U.S., emerged with greater consistency late in the year, providing stocks with additional tailwinds. The S&P/TSX Composite Index posted a 17.6% gain for the year, outperforming the S&P 500 Composite Index (S&P 500) for the seventh straight year. The S&P 500 rose a total of 15.1% for the year (measured in U.S. dollars), rising almost 6.7% in December alone – the biggest December rally since 1991. Yet gains in major capital markets lagged those in emerging markets where economic growth was stronger. Not unexpectedly, some European equity markets significantly underperformed in relation to North American markets due to the debt crisis. The related depreciation of the euro also weighed on returns measured in Canadian dollars.

Canada's bond market performed well, achieving its best performance in five years. Canada's DEX Universe Bond Index gained 6.7%, and the Bank of America Merrill Lynch Canada Broad Market Index, which tracks 1,150 federal, provincial and corporate bonds with a par value of $1.08 trillion, returned 6.9%. The Bank of America Merrill Lynch Global Broad Market Index gained 0.10%. Canadian bonds attracted foreign investors as domestic commodity prices rose and the Canadian dollar strengthened. Conversely, European debt markets suffered as the perceived risk of credit defaults increased.

Commodities rose in 2010, buoyed by stronger demand from emerging and developing markets. The S&P Goldman Sachs Commodities Total Return Index increased 9.0% (measured in U.S. dollars). Emerging markets are increasingly influencing commodity markets, with urbanization and rising incomes supporting energy, metals and commodity prices. This support is expected to keep a floor under commodity prices over the long term, even as developed-country demand ebbs and flows with the business cycle.

As previously noted, the Canadian dollar performed well, appreciating 5.2% against the U.S. dollar and ending the year slightly above par. Because fund performance is measured in Canadian dollars, the domestic currency appreciation dampened returns on U.S. and other foreign investments.

Inflation measures dropped to 50-year lows, with core prices now rising by less than 1% per year. As inflation is a key component in estimating the plan's liabilities, the real returns of stocks and bonds must be compared in order to determine the impact on the plan's liabilities. Looking ahead 10 years, we expect central banks to remain faithful to their inflation targets of 2%, plus or minus one percentage point, despite inflation being lower in advanced economies in the short to medium term. We expect actual inflation to be roughly aligned to this target. However, there is a risk that a period of inflation or deflation could occur if policy interventions have unintended consequences over the longer term. In an environment of low and stable inflation, we expect low or moderate nominal equity and bond returns over the long term.

Consolidated returns

We are a long-term investor. We measure our investment performance against one- and four-year benchmarks for each asset class and the total fund. Performance is measured in Canadian dollars. The rising Canadian dollar against most foreign currencies lowered returns on foreign assets when expressed in our home currency. For example, the U.S. S&P 500 gained 15.1% in 2010, but only 9.1% when expressed in Canadian dollars.

INVESTMENT PERFORMANCE

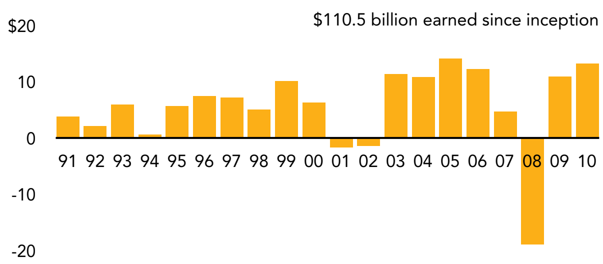
(percent)	***2010***	*2009*	*4-Year*	*10-Year*	*Since 1990*
Rate of return	**14.3**	13.0	2.6	6.6	10.0
Benchmark	**9.8**	8.8	2.5	4.4	7.7
Return above benchmark (*$ billions*)	**$4.0**	$3.4	$0.5	$17.2	$23.2

The fund posted a 14.3% return, generating $13.3 billion in investment income in 2010. Investment gains were produced in all asset classes, except timberland. Net assets rose to $107.5 billion from $96.4 billion at the end of 2009.

As detailed in the accompanying table, the total fund return exceeded the composite fund benchmark return of 9.8% by 4.5 percentage points. This added $4.0 billion in value above market benchmarks – the highest dollar value-added returns in the fund's history. Value-added returns primarily resulted from equities, fixed income and real assets outperforming their benchmarks, and from absolute return strategies. The total fund has averaged annual growth of 2.6% over the past four years, outperforming the composite benchmark by 0.1 percentage points.

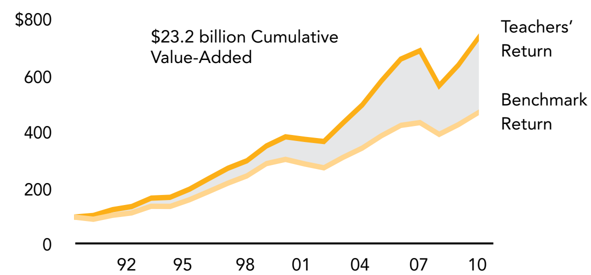
INVESTMENT INCOME EARNED

(as at December 31) ($ billions)



INVESTMENT GROWTH

($100 invested in 1990)



Our diversified investment program has earned a total of $110.5 billion since inception in 1990. The value-added above the benchmark return is $23.2 billion of the total investment income.

RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	*1-Year Return*	*1-Year Benchmark*	*4-Year Return*	*4-Year Benchmark*
Equities	**10.4**	**7.5**	**(0.3)**	**(2.6)**
Canadian equities	14.6	13.8	2.2	3.2
Non-Canadian equities	9.4	5.9	(1.3)	(4.4)
Fixed income	**9.9**	**9.5**	**7.3**	**6.3**
Real Return Bonds	8.7	8.7	4.7	3.7
Bonds	11.3	10.7	9.1	7.6
Commodities	**3.2**	**3.3**	**(7.0)**	**(7.0)**
Real assets	**13.9**	**5.5**	**6.3**	**5.3**
Real estate	16.9	7.7	8.2	7.0
Infrastructure	13.0	4.0	2.8	2.8
Timberland	(3.1)	(0.2)	2.1	2.0
Total plan[1]	**14.3**	**9.8**	**2.6**	**2.5**

[1] Returns generated by absolute return strategies ($0.8 billion) and money market, previously included in fixed income, are included in the total plan return and not attributed to an asset class.

BENCHMARKS USED TO MEASURE PLAN PERFORMANCE

Canadian equities	S&P/TSX 60 Total Return Index
	Custom Long Term Canadian Equity Total Return Index
Non-Canadian equities	S&P 500 Total Return Index
	MSCI Europe, Asia, Far East and Emerging Market Total Return Index
	MSCI All Country World ex Canada Total Return Index
	MSCI Emerging Markets Total Return Index
	Custom Non-Canadian National Total Return Index
	Custom Global Private Capital Benchmark Total Return Index
	Custom Long Term Non-Canadian Equity Total Return Index
Fixed income	Custom Canada Bond Universe Total Return Index
	Custom Canada Long Bond Universe Total Return Index
	Custom Ontario Debentures Total Return Index
	Custom Canada Real Return Bond Total Return Index
	Custom US Treasury Inflation Protected Securities Index
Commodities	S&P Goldman Sachs Commodities Total Return Index
Real assets	CPI plus 5.75% (Real Estate)
	Local CPI plus 4% plus country risk premium (Infrastructure and Timberland)
Total Plan	Custom Canadian CDOR Index
	Custom U.S. LIBOR Index

Performance by asset class

Equities

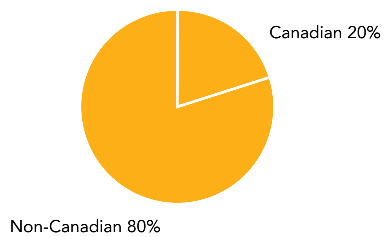
Equities (both public and private) totalled $47.5 billion at year end compared to $41.2 billion at December 31, 2009. They returned 10.4% compared to a benchmark return of 7.5%, or $1.0 billion above the benchmark in 2010. On a four-year basis, equities generated a -0.3% compound annual return, outperforming this category's four-year benchmark by 2.3 percentage points. In addition to public equities, this asset class includes private equity investments made by Teachers' Private Capital, which are discussed below.

A moderate increase to the policy allocation for equities was implemented during 2010, accounting for part of the increase in the portfolio's size. In 2010, the private equity portfolio generated the majority of the value-added performance in this asset class. In addition, active management decisions across the public equities portfolio and our investment in Brazilian energy company OGX contributed to a smaller extent to above-benchmark returns. The asset-class benchmark is a composite of Canadian and international indices, including European markets that significantly underperformed North American markets, and global private equity benchmarks.

While direct holdings increased in 2010, much of our exposure to global public equity markets is through derivatives. This is a cost-effective way to achieve broad market exposure and it allows us to focus on a smaller universe of stocks for our more concentrated active and Relationship Investing portfolios.

> Our equity portfolio earned $0.8 billion in dividends last year. This investment income helps to cover the annual $1.8 billion gap between pension benefits payouts and incoming contributions.

EQUITIES
(as at December 31, 2010) (percent)



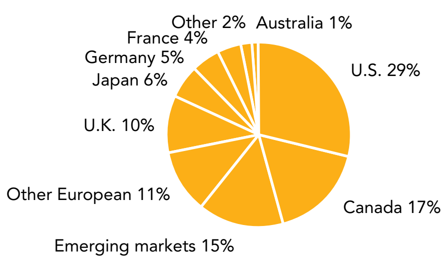
Canada is a relatively small segment of the global economy. We invest outside Canada to properly diversify our equity holdings.

Canadian equities
Canadian equities (both public and private) totalled $9.3 billion at year end compared to $8.4 billion at December 31, 2009. They returned 14.6% compared to a benchmark return of 13.8%. On a four-year basis, these equities generated a 2.2% compound annual return, underperforming this category's four-year benchmark by 1.0 percentage point.

Non-Canadian equities
Non-Canadian equities (both public and private) totalled $38.2 billion at year end compared to $32.8 billion at December 31, 2009. They returned 9.4% compared to a benchmark return of 5.9%, or $1.0 billion above the benchmark in 2010. On a four-year basis, these equities generated a -1.3% compound annual return, outperforming this category's four-year benchmark by 3.1 percentage points.

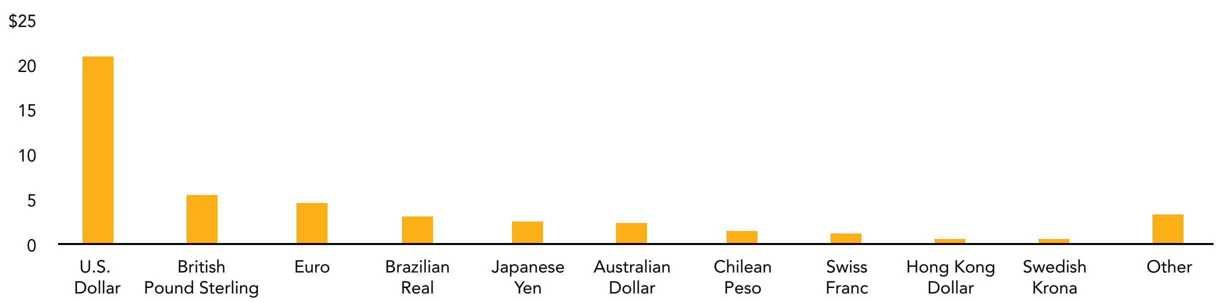
Non-Canadian equities are overseen by both internal and external managers using a combination of active strategies and index funds. Our largest emerging-market exposure is to Brazil. After extensive due diligence, we began acquiring Brazilian resource equities, real estate and bonds in 2005. A boom that began in 2005 has propelled millions of Brazilians into the middle class, and the country is now the world's eighth-largest economy.

STOCKS BY GEOGRAPHIC REGION
(as at December 31, 2010)



Global diversification provides us with more opportunities to manage risk and add value. This chart includes the shares we directly own in companies and excludes the impact of derivatives.

NET CURRENCY EXPOSURE
(for the year ended December 31, 2010) ($ billions)

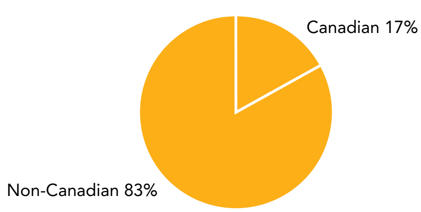


Our most significant currency exposures are to the world's largest economies plus the countries of Brazil, Japan, Chile and Australia, where we also have sizeable investments. Exposures to foreign currencies are actively managed.

Teachers' Private Capital
Private equity investments (included in the above totals for Canadian and non-Canadian equities) totalled $12.0 billion at year end compared to $10.0 billion at December 31, 2009. Teachers' Private Capital returned 19.0% compared to a benchmark return of 7.1%, or $1.1 billion above the benchmark. On a four-year basis, these assets generated a 2.6% compound annual return, outperforming this category's four-year benchmark of -1.2%.

Strong above-benchmark performance was driven by improving company earnings and higher enterprise values for several portfolio companies. We took advantage of opportunities in the recovering private equity market to make nine new direct investments and exit certain investments with attractive returns. New acquisitions accounted for $919 million of the change in the portfolio's size in 2010.

PRIVATE EQUITY
(as at December 31, 2010)



Our $12-billion private equity portfolio includes direct private equity investments, as well as investments in leading private equity funds around the world.

Fixed income

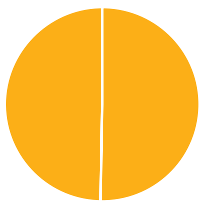
Fixed income assets totalled $45.9 billion at year end compared to $35.3 billion at December 31, 2009. They returned 9.9% compared to a benchmark return of 9.5%, or $0.1 billion above the benchmark for this asset category. On a four-year basis, these assets generated a 7.3% compound annual return, outperforming this category's benchmark by 1.0%.

We manage our fixed income assets in core portfolios of Government of Canada bonds, Ontario debentures, provincial bonds, RRBs and inflation-linked bonds. These assets provide investment security and steady income. RRBs provide returns that are indexed to inflation, as measured by the CPI. Our holdings include RRBs issued by the Ontario, Quebec, Canadian and U.S. governments, and the manager of Highway 407 in Ontario.

The fund's policy allocation to fixed income increased in 2010. RRBs were previously reported in another asset class. Holdings of government bonds – both nominal and RRBs – were increased by $14.9 billion at attractive prices. Nominal bonds went on to perform well as interest rates fell during the year. RRBs performed very well, which partially offset the impact of declining real interest rates on the plan's pension liabilities.

We have returned to reporting only traditional fixed income investments in this asset class. For clarity, we are now reporting absolute return strategies under a separate category.

FIXED INCOME
(as at December 31, 2010) ($ billions)



Commodities

We invest in commodities, which typically mirror short-term changes in inflation, as a hedge against the cost of paying inflation-protected pensions. Investments in commodities totalled $5.2 billion at year end compared to $1.9 billion at December 31, 2009. The increase in the portfolio was due to a decision to raise the asset-mix target for commodities from 2% to 5% in 2010. The portfolio returned 3.2% compared to a benchmark return of 3.3%. The one-year benchmark reflects the impact of the stronger Canadian dollar. On a four-year basis, these assets generated a -7.0% compound annual return, matching this category's four-year benchmark.

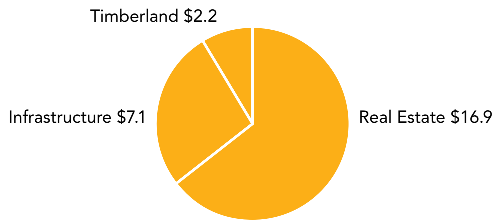
Real assets

Investments in this category – real estate, infrastructure and timberland – are good long-term investments for the pension plan because they provide returns that are linked to changes in inflation and act as a hedge against the cost of paying inflation-protected pensions. Over the past 10 years, these investments have played an increasingly important role in helping us to meet our performance objectives and minimize risk.

Prior to 2010, these assets were held in our former inflation-sensitive category along with RRBs and commodities. RRBs are now included in the fixed income asset class and commodities were established as a separate asset class. Infrastructure and timberland, previously one portfolio, are now reported as separate portfolios. Accordingly, the assets and performance of each are reported separately.

Real assets totalled $26.2 billion at year end. These assets returned 13.9% compared to the benchmark return of 5.5%, or $1.8 billion above the benchmark. On a four-year basis, real assets generated a 6.3% compound annual return, outperforming this category's four-year benchmark by 1.0 percentage point.

REAL ASSETS
(as at December 31, 2010) ($ billions)



These investments play an important role in decreasing risk and meeting our long-term pension obligations.

Real estate

Real estate delivered strong performance on both an absolute and value-added basis. The net value of the real estate portfolio totalled $16.9 billion at year end compared to $14.2 billion at December 31, 2009. It returned 16.9% compared to a benchmark return of 7.7%, or $1.3 billion above the benchmark for this category. On a four-year basis, the real estate portfolio generated an 8.2% compound annual return, outperforming this category's four-year benchmark by 1.2 percentage points.

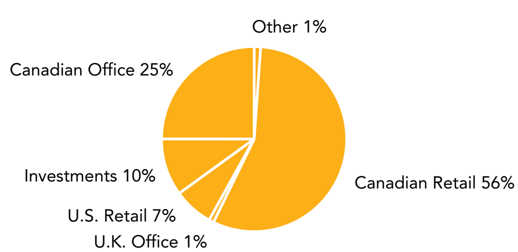
Real estate is considered a good fit for the pension plan because it provides strong, predictable income. This portfolio is managed by our wholly owned subsidiary, Cadillac Fairview. Cadillac Fairview maintains a well-balanced portfolio of retail and office properties designed to provide dependable cash flows.

Strong investor demand for real estate increased property values, particularly for high-quality retail and office properties. Cadillac Fairview enhanced the portfolio by acquiring the remaining ownership interest in Rideau Centre in Ottawa and completing a major expansion of Chinook Centre in Calgary. In addition, a number of significant development projects were undertaken, including the start of the revitalization of the Toronto-Dominion Centre office complex and renovation of Toronto Eaton Centre, along with the completion of mixed-use projects at Maple Leaf Square and Ritz-Carlton Hotel and Residences.

Debentures issued in 2001 and 2003 by Ontrea, a real estate subsidiary of Teachers', were redeemed in 2010. A new financing vehicle, Cadillac Fairview Finance Trust, was established and in early 2011 issued $2 billion in new AAA-rated debt guaranteed by Teachers'. This financing activity will lower borrowing costs for Cadillac Fairview.

The real estate portfolio earned operating income of $1.0 billion in 2010, primarily from retail and office properties. At year end, the retail occupancy rate was 93% (93% in 2009), while the office occupancy rate was 91% (89% in 2009).

REAL ESTATE PORTFOLIO
(as at December 31, 2010) (based on total assets)



Our real estate net asset portfolio was valued at $16.9 billion at year end. It is managed by our subsidiary company, Cadillac Fairview, which is one of North America's largest managers of commercial property.

Infrastructure

Infrastructure investments totalled $7.1 billion at year end compared to $5.6 billion at December 31, 2009. Infrastructure assets returned 13.0% compared to a benchmark return of 4.0%, or $0.6 billion above the benchmark. On a four-year basis, these assets generated a 2.8% compound annual return, matching this category's four-year benchmark.

We seek long-term investments in high-quality infrastructure assets around the world. These assets are expected to provide consistent returns and performed well in 2010. The portfolio significantly outperformed its benchmark as enterprise values for several major investments increased due to the strengthening global economy and several other factors. Because the majority of these assets are located outside Canada, currency fluctuations have a greater effect in this portfolio than in others, such as real estate, that have significant Canadian holdings. In 2010, the rising Canadian dollar against certain foreign currencies dampened both returns and the asset class benchmark that are reported in Canadian dollars.

Infrastructure assets generally offer stable long-term cash flows linked to inflation. We began investing directly in infrastructure in 2001. This portfolio now includes investments in airports, electrical power generation, water and natural gas distribution systems, ports, pipelines and a high-speed rail link. Teachers' is regarded as a "first mover" into this sector among pension funds worldwide.

Timberland

Timberland investments totalled $2.2 billion at year end compared to $2.3 billion at December 31, 2009. These holdings returned -3.1% compared to a benchmark return of -0.2%, or $0.1 billion below the benchmark. Performance was affected by decreased U.S. demand stemming from the housing market slowdown. On a four-year basis, these assets generated a 2.1% compound annual return, consistent with this category's four-year benchmark.

Timberland assets correspond to, and are compatible with, the pension plan's lengthy investment horizon. We invest solely in managed plantations.

Investment costs

Total investment costs were $290 million, compared to $214 million in 2009. This is equivalent to 30 cents per $100 of average net assets, compared to 24 cents in 2009, and reflects increased investment in risk and accounting systems and accruals for incentive plans based on strong 2010 performance.

Priorities for 2011

The Investment Division has established the following priorities for 2011:

- Earn value-added returns above the policy asset-mix benchmark with reasonable risk to help ensure retirement security for members.
- Foster good communication with partners, board members and employees to promote an understanding of, and commitment to, the investment program on the part of decision makers and to promote enhanced employee engagement.
- Continue building a collaborative planning process and improving coordination amongst investment departments in order to optimize the total fund portfolio.
- Develop enhanced risk-management tools and processes to support continued innovation and a risk-conscious culture.
- Mitigate operational risks related to managing complex cross-departmental projects and improve cost effectiveness.

Member Services

Our overall objective is to provide outstanding, personalized service to pension plan members at a reasonable cost.

9/10
Quality service index score from members

59
Average age of new 2010 retirees

2
Service ranking against 15 peer pension plans worldwide

$46,000
Average annual pension for members retiring in 2010 with unreduced pension

178,000
Active members

12%
Percentage of 117,000 pensioners aged 80 years or more as at December 31, 2010

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

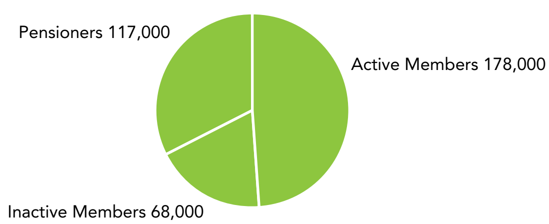
Overview

The Member Services Division interacts with our clients – pensioners, working and inactive members, school boards and designated employers. This team is an information powerhouse, taking in and processing billions of dollars of contributions and millions of pieces of personal information every year while administering one of Canada's largest payrolls and managing the timely payment of pensions to 117,000 retirees and their survivors.

Serving more members every year

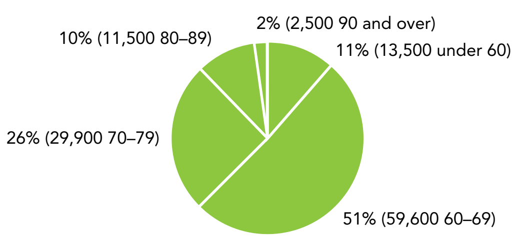
With pensioners living longer, pensions are being paid over a longer period of time than before, and the total number of plan members increases every year. In 2010, the average age of new retirees was 59. On average, we expect retirees to receive a pension for 30 years, and a survivor pension may be paid after that. Currently, there are approximately 11,500 pensioners in their eighties, 2,400 pensioners in their nineties, and 95 pensioners are age 100 or older.

MEMBER PROFILE
(as at December 31, 2010)

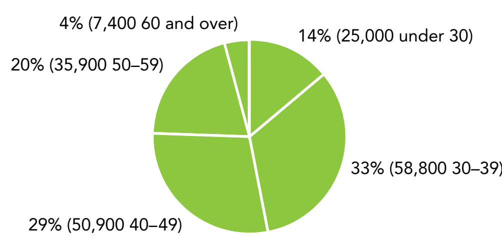


The total number of pensioners grew by 3,000 in 2010. The number of active members increased by 3,000.

PENSIONERS BY AGE
(as at December 31, 2010)



TEACHERS BY AGE
(as at December 31, 2010)



The average age for pensioners is 69. For teachers it is 42.

Plan membership totalled 363,000 at year end, including 178,000 working teachers, 117,000 pensioners and 68,000 inactive members (former teachers who still have an entitlement in the pension plan). This past year, 8,000 teachers either entered or returned to the profession.

The number of pensioners has grown every year since 1917, when this plan was first created. Retirement rates were lower than expected in 2010, as 4,300 new retirees started collecting retirement or disability pensions. The average pension for a teacher retiring with an unreduced pension in 2010 was $46,000.

We expect more than 45,000 teachers to retire over the next 10 years. This means that the number of pensioners will continue to grow, both in absolute terms and as a percentage of total plan membership. We expect the ratio of working-to-retired members to be approximately 1.3:1 later this decade.

Working with employers to better serve members

We deal with 180 school boards and designated employers whose administrative systems vary widely in practice and sophistication. Our primary focus has been on improving the quality of the data received from the employers, as we use it to calculate the benefits we pay to members. Over the years, this has allowed us to complete requests from members more quickly, without the need to request or verify current employment data.

Last year, we worked with employers to establish a higher data standard that will enable us to better anticipate members' pension-related needs. Partly to satisfy the new buyback rules for purchases of pension credit for leaves of absence approved by the plan sponsors, we asked employers to provide more complete employment data in order to give our staff a better picture of members' employment status. Previously, employers provided additional information (beyond basic payroll data) only when we requested it to complete member inquiries. More complete information up front will enable us to anticipate members' needs and then reach out to them to ensure that they are fully informed about all the decisions that may affect their pensions.

We offer employers hands-on assistance in understanding the pension reporting requirements and the online technology we provide. Each employer has a designated contact on our Employer Information Services Team, who develops a detailed understanding of the employer's payroll system and practices and also serves as a conduit for feedback. We conducted 11 workshops (including one in French) throughout Ontario last year, attended by more than 200 pension reporting staff members from school boards and designated employers.

Annually, we ask school board finance officers to certify that the contributions and information delivered to us are correct in terms of the timely remittance and application of the plan's rules. This has proven invaluable in promoting reporting compliance and fostering accountability.

Goals

Our overall objective is to provide outstanding, personalized service to pension plan members at a reasonable cost. Our long-term strategy, called e=mc^3, is to deliver excellent service and continually enhance the client experience by focusing on the following:

- more customization;
- more choice; and
- more counselling.

Customization: We seek to provide services that are tailored to our clients' individual needs. We aim to provide the information that members need as they progress through their careers, and we understand that the service needs of new teachers differ greatly from those of teachers who are close to retirement. We use database technology and employment data to better target our services and communication, and to provide useful counselling, both proactively and on request.

Choice: This reflects our commitment to properly serve members through their preferred media. While many members prefer the convenience of online services, other members prefer to be served over the telephone or by mail. We offer services in a variety of ways and can note such preferences on each member's file.

Counselling: Here, we combine the expertise of our front-line pension benefit specialists with our evolving technology capabilities to better help members make informed decisions. The decision to provide guidance, rather than just information, allows us to meet a demand that members have long expressed. The benefits and rules of the pension plan are complex, and decisions made by individuals can have ramifications, not only for their lifetime but for their survivors as well.

We are committed to expanding the scope of counselling over time. As explained on page 45, we worked with employers last year to establish a shared principle – having more complete employment data up front in order to provide more complete services to members. As we integrate broader employment data into our systems, new ways to counsel members will emerge – often before members realize that a decision is required. This will lead to members making consistent and optimal choices about a variety of pension-related matters. In the future, we expect to increase our proactive outreach to members.

To underscore our commitment to service quality, our internal experts will periodically conduct a review after a plan member and one of Teachers' front-line agents have interacted. An independent survey company will also interview a sample of members within 24 hours of completed service. The front-line agent will receive feedback the next day.

Linking priorities to strategy

Each year, we set specific priorities to enhance our services and we report on our progress against them (see page 49). We gauge our success in terms of the service satisfaction ratings we receive from plan members (through the QSI) and a third-party evaluation of our international peer group. Internally, we focus on daily key performance indicators to help us manage high-quality service delivery (see page 51).

In 2010, we measured our performance against four major goals detailed in the Performance discussion below and focused on the following priorities as we managed service delivery:

- Better understand members' changing service expectations.
- Establish higher data standard with employers (with more upfront employment data enabling more complete service to members).
- Implement plan changes for buybacks, which would simplify the process and improve member satisfaction.
- Improve "right the first time" performance for complex, manual calculations and transactions.
- Assess system requirements for employer reporting of re-employment service.
- Identify unreported pensioner deaths through the Ontario death registry.
- Comply with plan changes and new pension regulations.
- Train staff on plan and system changes.

Managing service complexities

Our operating environment is continually changing. Plan membership is dynamic, and new pension regulations and plan changes are regularly introduced.

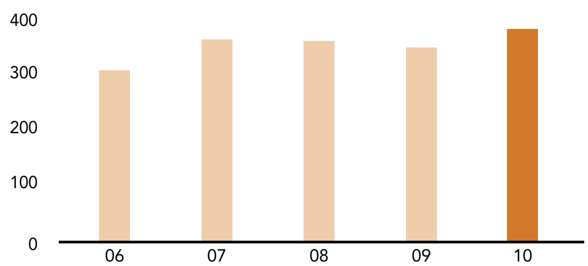
We provide services to a broad spectrum of plan members. To meet their varied expectations, we began expanding our service platforms several years ago. We serve members in person, over the telephone, by e-mail and mail and through *i*Access™ Web – our secure website that allows members to use their personal pension data for pension estimates, calculations, retirement applications and other transactions.

We recognize that expectations change over time and that different services provide different member experiences. For example, there is less tolerance for delay in the era of instantaneous electronic communication, and talking to a pension benefit specialist offers an experience that is different than using a website. We continually work to modify our services and how they are measured in order to keep abreast of changing expectations. Last year, we conducted a series of roundtable forums, which brought together our staff and members, to talk about evolving service expectations. Through this, we gained a common understanding of what our members value and we are now able to apply this knowledge to our initiatives and plans.

Today, members are using our services more than ever, and particularly those available online. For example, more pensioners are applying for their pensions electronically and taking advantage of online services after they retire. Our systems and personnel now handle more than 1,000 personal and online member interactions a day, 365 days a year. Before the introduction of online services for members, our contact centre could not have handled this volume of interaction. Enabling members to update personal information and analyze their retirement situation online allows staff to be deployed for service expansion elsewhere (e.g., counselling). As our members' expectations expand, so too does our requirement to develop enhanced services. We are conscious that service expansion, even when managed cost effectively, has added new costs. We believe the return on investment behind these expenditures creates long-term value for our members.

> We handle more than 1,000 member interactions a day, 365 days a year.

MEMBER INTERACTIONS
(for the year ended December 31) (in thousands)



Total member interactions (personal and electronic) over the last five years have trended upward, which explains growing costs.

> 92% of new retirees applied for their pensions online last year.

Integrating plan rule and pension legislation changes

We must comply with pension regulations and communicate any plan changes to members. These changes, which also require system updates and staff training, add one-time and ongoing costs. Significant time and effort are invested in major projects and process updates to ensure that we are prepared for these changes.

Last year, we implemented new buyback and working-after-retirement rules that were approved by the plan sponsors. Additional changes to working-after-retirement rules, including a new requirement to track all re-employment service by pensioners as reported by employers, will take effect in 2012. Should the plan sponsors invoke conditional inflation protection to deal with a future funding shortfall, our people and systems are ready. Members will be able to see the portion of their pension that is 100% inflation protected, and the portion that is conditional (50% to 100% inflation protected, depending on the plan's funding status) on *i*Access™ Web.

Performance

GOAL	MANAGING SERVICE DELIVERY	PERFORMANCE
Enhance member service through personalization.	Better understand members' changing service expectations.	Created a segmentation strategy in order to deliver customized member information to unique demographic targets.
	Establish higher data standard with employers (with more upfront employment data enabling more complete service to members).	Held workshops with employers to introduce new reporting expectations; employers are now sending more complete data.
Optimize business processes to reduce complexity and improve immediate service.	Implement simplified buyback rules and develop streamlined processes.	Communicated simpler rules to active members. Released a new online buyback transaction, fully integrated with members' current employer data to allow purchases to be completed online.
	Improve "right the first time" performance for complex, non-automated calculations and transactions.	Improved "right the first time" performance by 4%.
Improve internal controls and processes.	Implement data assessment project (enhancing the initial quality of reported employment information).	Initiated significant system changes, training and communication with employers.
	Identify unreported pensioner deaths through the Ontario death registry.	Identified 63 unreported pensioner deaths and recovered $215,000.
	Comply with plan changes and new pension regulations.	Completed system update for conditional inflation protection. Deployed communication concerning other plan changes.
Enhance staff development.	Train staff on plan and system changes.	Trained staff on new plan rules for buybacks and re-employment, and new system for employment data assessment. Averaged 4.5 days of staff development and training per full-time employee.

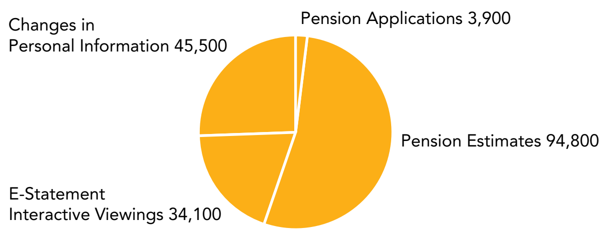
We completed 177,000 personal member interactions, compared to 171,000 in 2009. We completed 65% of member requests on the same day (63% in 2009) and increased our "right the first time" performance for complex, non-automated transactions by 4%. The proportion of total services provided to members through our secure *i*Access™ Web facility continues to grow. There were 205,000 web sessions (174,000 in 2009). Pension estimates and updates to personal information were the most frequently accessed online services.

> Our contact centre answers calls within an average of 27 seconds.

Ninety-two percent of retirement applications were completed online. All June retirement applications were processed and paid on time. Member support of online applications is important because approximately 75% of retiring teachers do so in June. This used to create an enormous workload when staff had to transfer and validate the data from paper applications. In addition to saving time and effort, applying electronically increases accuracy and spares the plan the cost of producing and mailing application kits. Retiring teachers who did not apply online called our front-line specialists, who entered their data into the online system. Application by telephone was introduced as an option in 2009.

> 100% of June retirement applications were paid on time in 2010.

SELF-SERVICE ACTIVITIES ON *i*Access™ Web
(for the year ended December 31, 2010)



Our secure member website *i*Access™ Web allows members to obtain pension estimates, view documentation and update personal information at their convenience.

Quality Service Index (QSI)

We regularly ask members to rate our services through a third-party survey. We engage an independent company to survey a statistically valid membership sample in order to gauge the quality of our service and communications several times each year. The survey protocol was developed by Teachers' in the early 1990s and is continually reviewed and refined to reflect the current services and communications.

All employees – from new recruits to executives – receive a variable component of compensation based on the levels of satisfaction expressed in these QSI measurements. Compensation also reflects the success achieved in meeting organizational goals that are set annually to drive continuous improvement.

The overall QSI score was 9.0 on a 10-point scale, and 51% of respondents awarded us 10 out of 10. As shown in the accompanying table, members rate us in terms of direct service and communications, with direct service representing 85% of the overall score.

We have maintained a high QSI score over the last four years, even as contributions increased and other measures were introduced to deal with funding shortfalls. We acknowledge that it is difficult to improve on these already high ratings and expect that we may not see a QSI score increase in the coming years.

QUALITY SERVICE INDEX *(on a scale of 0 to 10)*	*2010*	*2009*
Total QSI	**9.0**	9.1
Service QSI (85%)	**9.0**	9.2
Communications QSI (15%)	**8.8**	8.8

The QSI is a measurement of service satisfaction. Our 9.0 rating is based on surveys of members conducted by a third party using a scale of zero to 10.

Key performance drivers

We have identified key performance indicators that influence our QSI score from plan members. Monitoring performance on a daily basis helps us to align our efforts and service standards with members' high expectations and to ensure service quality and improvement.

KEY PERFORMANCE INDICATOR	SCORE
Same-Day Service The percentage of requests that are completed within one day.	65%
Right the First Time How often we accurately process "high-risk" non-automated service requests the first time. These are complex matters that often involve multiple departments and manual calculations.	88%
Backlog Service Lead Time The estimated time required to complete outstanding service requests at December 31, 2010. It is an important factor in influencing customer satisfaction and also helps us identify spikes in service demand.	19 days
Staff Development and Training Days The average number of development and training days for each full-time employee.	4.5 days
Straight-Up Service How often we can provide service to members without assistance from the Employer Information Services Team, which interacts with school boards and designated employers.	86%
Key Systems Availability The percentage of time that key systems are fully operational and available to handle service requests.	97%

Last year, we specifically focused on getting difficult transactions "right the first time" (increasing our performance in this area by 4%) and on staff training and development, which needed to keep up with system and plan changes. Both were accomplished. Same-day service also improved significantly.

Performance indicators are dynamic and reflect our changing service delivery. We removed the Employer Workload indicator this year as a result of the data assessment project, which aims to enhance the quality of the employment data we receive from employers. Similarly, the Same-Day Service indicator will likely become less important in the future as the use of online services increases. We expect that other key performance indicators will be replaced in the future as our services and members' expectations change.

Cost Effectiveness Measurement (CEM)

We measure our services against those of the leading pension plans worldwide by participating in surveys conducted by CEM Benchmarking Inc., which carries out independent evaluations of the costs and services of 59 major pension plans.

For 2009, we ranked second out of 15 peer pension plans and placed fourth overall for service. Our 2010 ranking will be released in 2011. We have consistently placed among the industry leaders in recent years.

CEM BENCHMARKING RESULTS – SERVICE LEVEL SCORE COMPARISON

	2009	*2008*	*2007*	*2006*
Ontario Teachers' Pension Plan	86	85	87	85
CEM world average	76	74	72	71
Peer group average	78	77	75	73
Canadian participants – average	70	70	68	68

Sources: CEM Benchmarking Reports, CEM Benchmarking Inc.

Our service level ranks well ahead of the CEM world average and above that of 14 of the 15 similar plans in our peer group.

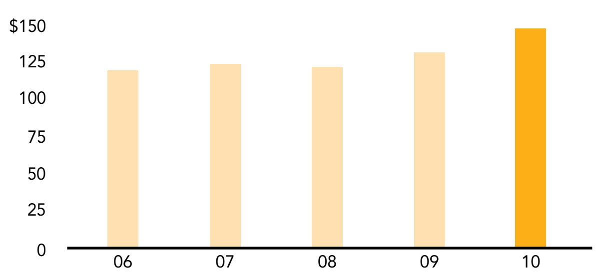
Expense management

The cost per member served in 2010 was $146 compared to $130 in 2009. Our costs for member services and pension administration have increased due to several factors, including:

- the increasing number of plan members;
- the expansion of services;
- increasing salary costs;
- the need for more highly skilled IT staff;
- the introduction of regulatory and plan changes that affect systems, which require one-time communication with members and staff training; and
- the operation and replacement costs of legacy systems.

We maintained costs within our allocated budget in 2010, while investing in the technology and people required to build and maintain the increasingly automated environment needed to evolve our service model.

COST PER MEMBER SERVED
(for the year ended December 31)



Unlike many other plans, we provide full services directly to our members.

Our annual service cost per member is above the median of the pension plans in the CEM survey mentioned above. This is primarily because we provide full administrative services directly to members. Services provided by many other plans in the study are wholly or partially administered by employers, which reduces those plans' in-house costs.

Priorities for 2011

In order to maintain high customer-satisfaction rates, we will continue to evolve the member experience in 2011. By continuously improving our processes, we can ensure that members receive efficient and personalized service. We will also dedicate significant resources in order to ensure compliance with proposed legislation and plan amendments, which include the following:

- The new buyback rules introduced in 2010 have created multiple opportunities. Enhancements will focus on establishing counselling interactions and delivering proactive member service.
- The Family Statute Law Amendment Act, 2009 will change the valuation and division of pensions upon the termination of a marriage or common-law relationship. Plan administrators will be responsible for calculating the spouse's share and for implementing the division methods, as prescribed by regulation. This will be a sizeable undertaking.
- Changes to the plan's re-employment provisions were announced by the OTF and the Ontario government in 2010. These changes include new limits on the number of days members may work after retirement without affecting their pension, and a requirement for employers to report re-employment service. Processes and support systems will be developed in 2011 to administer these changes.

PLAN GOVERNANCE

As an investor, we believe that good governance is good business because it helps companies deliver long-term shareholder value.

As a plan administrator, we measure ourselves against standards for governance, internal controls and Enterprise Risk Management that reflect corporate best practices and high standards of stewardship.

The plan's governance structure assigns clear roles to the plan sponsors and the independent board members who are appointed by the sponsors to oversee management's decisions and actions.

Governance involves a system of checks and balances to help ensure that an organization pursues its mission in a legal, responsible and effective manner. It links decision-making authority with accountability, and ensures that those managing the organization are capable and fairly compensated and that management interests are properly aligned with the interests of those they serve. Governance also ensures that the organization identifies and addresses the myriad risks it might face.

Plan governance approach

At Teachers', we seek to employ the best stewardship practices in every area of plan governance. Teachers' is governed by a nine-member board. Four board members are appointed by each of the plan's two sponsors – the Ontario government and the OTF. Both sponsors jointly appoint the board's chair. No members of plan management serve on the board. Board members are appointed for staggered two-year terms and can serve up to a maximum of four consecutive terms. This process ensures that the plan sponsors consider the qualifications and effectiveness of individual board members on an ongoing basis.

The board has five committees: Investment, Human Resources & Compensation, Governance, Benefits Adjudication, and Audit & Actuarial. All board members serve on the Investment Committee.

The plan sponsors also provide input and feedback to the board concerning the plan's funding status and valuations, and the factors that may affect them.

The plan's approach to its governance is discussed in more detail on our website (otpp.com).

Plan sponsors | **Ontario Teachers' Pension Plan**

- The plan sponsors are responsible for ensuring the plan remains fully funded over the long term, sharing responsibility for surplus and shortfalls.
- They determine contribution rates and benefit levels.
- Each sponsor appoints four members to the plan's board for staggered two-year terms and they mutually select the board chair.

- Teachers' is an independent organization, established by Ontario law.
- Board members are required to act independently of both the plan sponsors and the plan's management to make decisions in the best interests of plan members and their beneficiaries. Board members are responsible for determining the actuarial valuation assumptions.
- Management and staff administer the pension plan, invest the pension fund and pay members and their survivors the benefits promised to them.

Board members

Board and committee attendance was 97% in 2010. Individual attendance is reported below. For more information on board members and board committees, please see our website (otpp.com).

Jill Denham, who served on the board since 2006 and chaired the Human Resources & Compensation Committee, stepped down in 2010. Daniel Sullivan was appointed to the board in November 2010. Some committee responsibilities were re-assigned as a result of this change.

Eileen Mercier

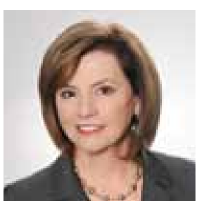
Board member, several public companies; Fellow, Institute of Canadian Bankers and the Institute of Corporate Directors
Chair of the Board

Appointed 2005; Chair since 2007
Attendance 100%

Rod Albert

Former President, Ontario Teachers' Federation
Human Resources & Compensation and Governance Committees

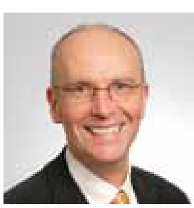
Appointed 2010
Attendance 100%



Helen Kearns

President & CEO, Bell Kearns & Associates Ltd.; Former President, NASDAQ Canada; Former director, Toronto Stock Exchange; ICD.D
*Benefits Adjudication**, Audit & Actuarial and Governance Committees*

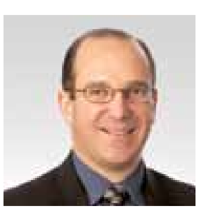
Appointed 2005
Attendance 91%



Hugh Mackenzie

Principal, Hugh Mackenzie and Associates; Former member, Actuarial Standards Oversight Committee of the Canadian Institute of Actuaries
Benefits Adjudication, Audit & Actuarial and Governance Committees*

Appointed 2007
Attendance 100%



Louis Martel

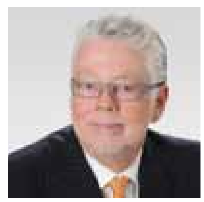
Managing Director and Chief Client Strategist, Greystone Managed Investments, Inc.; Fellow, Society of Actuaries and the Canadian Institute of Actuaries; Chartered Financial Analyst; ICD.D
Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2007
Attendance 96%

Sharon Sallows

Partner, Ryegate Capital Corp.; Former Senior Vice-President, Bank of Montreal; Board member, Chartwell Seniors Housing REIT; ICD.D
Human Resources & Compensation and Governance Committees*

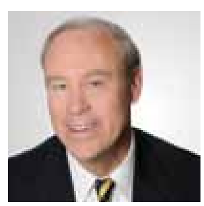
Appointed 2007
Attendance 100%



David Smith

Former Chair and Senior Partner, PricewaterhouseCoopers; Former President and CEO, Canadian Institute of Chartered Accountants; Chair, Government of Canada's Audit Committee; FCA, ICD.D
Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2009
Attendance 89%



Daniel Sullivan

Former Consul General of Canada in New York; Former Deputy Chairman, Scotia Capital; Former Chairman and Director, Toronto Stock Exchange
Human Resources & Compensation and Governance Committees

Appointed November 2010
Attendance n/a

Jean Turmel

President, Perseus Capital Inc.; Board member, TMX Group Inc.; Former President, Financial Markets, Treasury and Investment Bank, National Bank of Canada
Investment, Audit & Actuarial and Human Resources & Compensation Committees*

Appointed 2007
Attendance 96%

*Committee Chair **Committee Vice-Chair

Board membership

Teachers' strong governance structure plays a crucial role in the organization's success. Since its inception in 1990, Teachers' has had an independent board of professionals who have demonstrated a commitment to best practices in governance, leading-edge investment principles and innovative corporate strategy.

Board members are drawn from the fields of business management, finance and investment management, actuarial science, economics, education and accounting. They possess solid experience in a wide range of the disciplines necessary to oversee a complex pension plan. Teachers' is a founding sponsor and strong supporter of the Directors Education Program, which was jointly developed by the Institute of Corporate Directors (ICD) and the Rotman School of Management, University of Toronto, to help board members fully exercise their leadership potential. Enrolment is offered to plan board members as part of their education program. Board Chair Eileen Mercier is one of the leaders in Canada's corporate governance community and is a Fellow of the Institute of Corporate Directors. The ICD annually confers Fellowship Awards on individuals who bring exceptional corporate governance leadership to boardrooms throughout the country.

The board's mandate, committee structure and terms of reference, and Teachers' three Codes of Business Conduct are available on the website. Board member remuneration is discussed on page 70.

> otpp.com > Corporate Info > Plan Governance

Board member responsibilities

Board members are required to act independently of the plan sponsors and management, and to make decisions in the best interests of all beneficiaries of the plan. The structure of the board, and the process for appointing its members, ensures that board members are able to operate independently of management. For example, the roles of the chair and the CEO are separated and no member of management can be a board member. The board meets regularly without management present and, when needed, obtains advice from external advisors in order to foster independent views on key board decisions. The board is required to retain external actuarial and audit experts.

Board members are responsible for overseeing the management of the pension plan. They delegate the day-to-day investment of the plan's assets to the Chief Executive Officer, who has the authority to sub-delegate. The board members and plan management are responsible for investment decision making. The plan's sponsors are not involved in investment decisions.

Board members are responsible for approving strategic plans and budgets, investment policies, risk appetite and asset mix, benchmarks, performance and compensation, succession planning, and for monitoring enterprise-wide risks. In addition, they oversee annual performance objectives for the investment portfolio and review transactions that exceed limits set by the board for management. The collective wisdom of a group that is expert in financial matters, and yet removed from the day-to-day clamour of the markets, is an invaluable resource in the decision-making and approval process for strategic recommendations and significant investments.

Finally, the board conducts regular funding valuations for the pension plan, sets key actuarial assumptions for valuations (with input from the plan sponsors) and considers the Funding Management Policy. The board is responsible for reporting the plan's funding status to the plan sponsors with audited financial statements. The board reviews the Management's Discussion & Analysis in the annual report and approves the audited financial statements.

Board activities

Board members met 13 times in 2010 for board and Investment Committee meetings. Nine of the 13 board meetings included sessions without management present. In addition, the Governance Committee met formally one time and led major discussions on governance activities at two full board meetings to ensure all board members were apprised of and engaged in these matters; the Human Resources & Compensation Committee met seven times; the Audit & Actuarial Committee met seven times; and the Benefits Adjudication Committee held two general meetings.

Board members completed a rigorous self-assessment in 2010 as part of their commitment to board effectiveness. This involved 360-degree assessments by fellow board members and members of senior management. Each member was rated on a series of behaviours, such as accountability, ethics, trust, due diligence, reasonable care and respect. Once the ratings were in, an independent consultant then met with each member to discuss his or her individual assessment and also provide an analysis of broader governance themes. The Governance Committee is currently reviewing this analysis and has implemented some procedural changes to improve governance.

Effective oversight and controls

Management is responsible for establishing corporate strategy, objectives and an annual financial plan. Board members review progress against management's stated objectives and confirm that management's strategies and decisions are in the best interests of all pension beneficiaries. They also help ensure that management can attract and retain the best available staff. The more senior the management position, the more directly involved the board members are. Board members must ensure that the organization's standards are respected and that its policies and procedures are appropriate and complied with. Supporting these responsibilities is an internal audit function that reports directly to the Audit & Actuarial Committee. The plan's Enterprise Risk Management framework and internal controls are also important elements of its governance structure.

Enterprise Risk Management (ERM)

The pension plan is exposed to a number of risks that have the potential to cause losses or other undesirable outcomes. The purpose of ERM is to ensure that risks are managed as effectively as possible. It provides a framework to identify and assess risks (investment and non-investment) facing the organization and to employ risk mitigating strategies, when appropriate, to address them.

The importance of risk awareness is embedded in Teachers' Mission, Vision and Values statement, which highlights "accountability and risk consciousness" as one of six core values for all employees. Teachers' has an ERM Policy that recognizes that risk is present in all of our activities and states our commitment to ensure that risk management is a core focus across the organization. The policy establishes a process through which employees identify, manage, measure and report risks, and it serves as the decisive governance document for all at-risk activities.

The ERM framework is implemented by an executive-level committee that is chaired by the CEO and made up of the heads of all divisions and corporate support departments. A cross-organizational working committee supports the ERM Committee by implementing, documenting and communicating Teachers' ERM activities in a consistent manner throughout the organization.

A formal annual risk assessment and mid-year report on the organization's top risks are delivered to board members. The mid-year report includes details of actions taken and planned by management to reduce risks to acceptable levels. Top risks are also reported internally to all employees through Teachers' intranet in order to increase risk awareness and encourage employees to think actively about the potential risks that could emerge in their departments.

Over the past year, ERM was enhanced through a number of initiatives. The working committee was expanded to represent more departments and increase the awareness of risk management across the organization. The list of significant risk events was streamlined to enable more precise risk event definitions. Our risk assessment scale and methodology tools were improved to specify tolerance levels for escalating issues for the ERM Committee and board members.

Our recent Risk Culture Survey, conducted by external experts, analyzed our current environment by exploring 11 dimensions of risk. The survey identified some gaps in risk consciousness. An enterprise-wide action plan has been developed to close the gaps.

Another ERM initiative in 2010 established the Operational Excellence program – a multi-year strategy designed to create a more coordinated, effective way for the Investment Division, Investment Finance and Investment IT to work together to mitigate operational risks related to managing complex, cross-departmental activities.

A recommendation from the leaders of the Operational Excellence program led directly to the creation of the enterprise Project Management Office (ePMO). The ePMO, whose head reports to the CEO, will work to standardize Teachers' project management practices and oversee project planning, implementation and governance.

Disclosure controls and procedures and internal control over financial reporting

The plan is not legally required to comply with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, issued by the Canadian Securities Administrators, but we have voluntarily chosen to meet these standards as part of our emphasis on good governance practices.

The President and Chief Executive Officer (CEO), and the Senior Vice-President and Chief Financial Officer (CFO), are responsible for establishing and maintaining disclosure controls and procedures, and internal control over financial reporting for Teachers'. Management, under the supervision and participation of the CEO and the CFO, conducted a comprehensive evaluation to assess the design and effectiveness of the disclosure controls and procedures, and internal control over financial reporting. The evaluation is based on the criteria established in the Integrated Framework issued by the Treadway Commission's Committee of Sponsoring Organizations.

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the plan, including Teachers' consolidated subsidiaries, is gathered and reported to management in order to allow timely decisions regarding public disclosure. We evaluated the effectiveness of our disclosure controls and procedures as of the end of the period, and the CEO and CFO have concluded, based on the evaluation, that the disclosure controls and procedures are effective.

We have also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

We evaluated the effectiveness of Teachers' internal controls and procedures over financial reporting as of the end of the period, and the CEO and CFO have concluded, based on the evaluation, that the internal controls and procedures are effective. Teachers' streamlined the evaluation process in 2010 to improve efficiency in internal control testing. No changes were made in Teachers' internal control over financial reporting during the year ended December 31, 2010, that materially affected, or are reasonably likely to materially affect, Teachers' internal control over financial reporting.

Protecting audit integrity

Teachers' and other corporate governance advocates have expressed concern over the years about accounting firms that audit public companies and also earn substantial revenue from those companies for non-audit consulting services. We believe that such consulting fees can compromise the integrity of the audit function.

We strive to minimize our own use of consulting services involving the plan's auditors, and we always disclose the total amount paid for such services.

In 2010, fees paid to Deloitte & Touche LLP, the plan's auditors, totalled $7.2 million ($4.3 million in 2009), of which $4.5 million was for audit activities and $2.7 was for non-audit services. Of the $2.7 million, $60,000 related to the plan, and the balance was for certain of the plan's subsidiaries. Approximately $2.3 million of the $2.7 million of non-audit subsidiary fees related to legacy contracts for one 2010 acquisition and of that, $1.7 million pre-dated the acquisition by the plan.

Transparent reporting

Teachers' board members receive regular reports from management on the financial and funding positions of the plan, performance results, regulatory compliance, risk levels, client satisfaction ratings and key Member Services statistics. They also receive annual reviews of each department and internal controls, semi-annual reports on enterprise risk and reports on all other significant events.

We also strive to keep stakeholders fully informed about the plan's services, investments, funding status and challenges by undertaking the following communication activities:

- In addition to publishing this annual report and an annual performance summary for plan members, Teachers' provides regular newsletters to active teachers and pensioners, which inform them of plan provisions and services, and update them on plan changes, funding challenges, investment news and other important information.
- Teachers' corporate website (otpp.com) details plan governance practices and facts about our investment strategy and major portfolios, as well as service initiatives and recent news. A separate website – FundingYourPension.com – was developed in partnership with the plan sponsors to explain the plan's funding challenges through a series of webcasts, presentations, fact sheets, reports and questions and answers.
- Each April, Teachers' holds an annual meeting that is open to the plan sponsors and all plan members. It will be held in Toronto on Thursday, April 7, 2011, at 5 p.m. A webcast will be available (live and archived for later viewing) for the convenience of members who live outside the Toronto area. Video highlights of the annual meeting and questions from plan members will be posted on otpp.com after the meeting.
- Twice annually, the board Chair addresses the OTF Board of Governors. Management has regular meetings with the Partners' Committee and the Partners' Consultative Committee, and takes part in discussions with the plan's actuary.
- In 2010, Teachers' executives also met regularly with representatives of both plan sponsors as part of the Sustainability Working Group, which has since been reconstituted into the Partners' Consultative Committee.

Future adoption of new Canadian Institute of Chartered Accountants (CICA) Handbook Section 4600 and certain International Financial Reporting Standards (IFRS)

In April 2010, the Accounting Standards Board of Canada (AcSB) issued a new accounting standard for pension plans – CICA Handbook Section 4600, Pension Plans – to replace CICA Handbook Section 4100, Pension Plans, for fiscal years beginning on or after January 1, 2011. CICA Handbook Section 4600 provides specific accounting guidance on pension obligations, fair value measurement of investments and risk management disclosure. When there is no specific guidance, a pension plan is required to elect consistently either IFRS or Canadian accounting standards for private enterprises. Teachers' elected to apply IFRS commencing on January 1, 2011. Further information is provided in Note 1c to the consolidated financial statements on page 81.

Compensation Discussion & Analysis

The Compensation Discussion & Analysis discusses Teachers' approach to compensation, the various elements of our pay programs and the remuneration paid to our named executive officers.

In fiscal 2010 our named executives were:

- Jim Leech, President and CEO;
- David McGraw, Senior Vice-President (SVP) and CFO;
- Neil Petroff, Executive Vice-President (EVP), Investments;
- Wayne Kozun, SVP, Public Equities; and
- Ron Mock, SVP, Fixed Income and Alternative Investments.

Changes to Teachers' compensation framework

Since the inception of Teachers' inaugural compensation framework in 1992, changes have been made to enhance and maintain our competitiveness, particularly as it pertains to attracting and retaining top talent. In 2009, we undertook a comprehensive review of our compensation programs to assess whether they continue to align with Teachers' strategic goals, are market competitive and drive the desired behavioural outcomes for Teachers' continued success. As a result of this review, a new design was recommended and approved by board members to be effective at the beginning of 2010.

Our compensation framework

Compensation philosophy and objectives

Teachers' compensation framework has been developed on a foundation of pay-for-performance. Our compensation programs consist of base salary, annual incentives, and long-term incentives and are structured to ensure that there is direct alignment between Teachers' total-fund net value-added (after expenses) and the compensation paid to senior management.

Our philosophy and pay practices are based upon the following key objectives:

- attracting and retaining high-calibre employees;
- motivating and rewarding top performance, encouraging teamwork, aligning personal and organizational objectives and rewarding successful performance over the long term;
- measuring and monitoring our investment incentive compensation framework relative to our risk budget – ensuring our compensation programs do not encourage excessive risk taking; and,
- targeting total direct compensation (base salary, annual incentive, and long-term incentive) at the median of our peers. Exceptional performance at the total-fund, asset-class, divisional and corporate level will result in top-quartile pay relative to our peers while performance below board approved financial and operational targets results in pay below median levels.

Benchmarking process

Given the varied employment opportunities at Teachers', executive and non-executive positions are compared against relevant job groups and incentive programs in like markets. Our objective is to be competitive with those organizations against which we compete directly for talent. These organizations include other major Canadian pension funds, banks, insurance companies, and investment managers. For certain positions, we also compare to the general financial industry in Canada as well as U.S. and U.K. investment management organizations.

As part of the review of our compensation programs in 2009, publicly disclosed compensation data from major Canadian pension plans and investment boards, insurance companies, banks, investment managers and general industry survey data were reviewed by the board's Human Resources & Compensation Committee and its independent advisors.

Design principles

The key design principle impacting at varying degrees for each employee's incentive pay is our risk budget. At the beginning of each year, board members approve the active risk allocations for the total-fund and each investment department, which in turn establish expected annual dollar value-added performance goals (i.e., dollars earned versus benchmark dollars earned) for the year. The greater the risk allocation for a department, the greater the value-added target to be achieved. Actual investment performance at the total-fund and departmental levels (measured in dollars of value-added after expenses) is compared against the target for adding value above the benchmark. The Annual Incentive Plan (AIP) is based upon this value-added performance measured over two consecutive years. The Long-term Incentive Plan (LTIP) measures the annual total-fund net value-added (after expenses), a percentage of which is allocated to reward employees over time. Additional measures used to monitor, assess and mitigate risk in our incentive programs include:

- setting an upper limit on annual incentive payments;
- modelling and testing our AIP and LTIP under multiple performance scenarios in order to ensure that the payouts align with expected performance outcomes;
- introducing comprehensive balanced scorecards that measure progress against strategic objectives across each division/department with an increased focus on risk management initiatives; and
- introducing clawback provisions such that employees committing willful acts of dishonesty, fraud or theft shall be required to pay back to Teachers' all amounts paid to the participant under the AIP or LTIP.

Independent advisors

In 2009, board members retained the services of McLagan, an independent compensation consultant and Ennis Knupp, an independent investment benchmark consultant, to review management's recommendations concerning planned changes to the compensation system for 2010.

Revised compensation program

In February 2010, the board members approved substantial revisions to our compensation program to align with our new philosophy and design principles. These revisions reflect the market within which we compete for talent, while increasing the alignment with Teachers' strategic initiatives and its financial and operational results. Revisions include:

- ensuring all employees have part of their incentive compensation aligned with Teachers' overall performance;
- rebalancing our mix of pay (salary/annual incentive/long-term incentive) to be more consistent with market and Teachers' strategic initiatives;
- reducing the AIP performance measurement period to two years from four years;
- calibrating our long-term incentive awards to correlate with set percentages of total-fund net value-added (after expenses);
- aligning base salaries with market ranges; and
- simplifying our salary grade structure.

Elements of our compensation program – Overview

The table below summarizes the elements of Teachers' compensation program[1].

Element	*Purpose*	*Primary Performance Drivers*	*Variability with Performance*	*Applicability*
Base Salary	Compensates employees commensurate with their demonstrated skills, knowledge and track record of performance	Position description Individual proficiency	Low	All employees
Annual Incentive	Rewards employees for their contribution to the achievement of Teachers' results, divisional results, and their individual level of performance	Teachers', divisional, and individual performance	Moderate	All employees
		Investment value-added performance	High	Investment employees
Long-term Incentive	Designed to reward participating employees for the delivery of total-fund net value-added (after expenses) and positive actual returns, net of costs, over the long term	Total-fund value-added and actual returns	High	Investment employees at the assistant portfolio manager level and above Corporate and Member Services employees at the director level and above

[1] Compensation structures for bargaining unit staff have been negotiated into the collective agreement. The four-year agreement runs through to December 31, 2013.

Mix of pay

Investment, Corporate, and Member Services employees have different percentages of their compensation tied to our variable pay programs. Recognizing their direct influence on investment results, investment professionals, including our CEO, have a greater percentage of their total direct compensation (base salary, annual incentive, and long-term incentive) tied to our variable pay programs. Detailed below is the target total direct compensation mix for our named executive officers. The actual pay mix realized may be different depending upon Teachers' corporate and investment performance and the named executive officers' individual performance.

		Variable		
Position	*Base Salary*	*Annual Incentive*	*Long-term Incentive*	*% of Target Total Compensation Which Is Variable*
President and CEO	25%	37.5%	37.5%	75%
SVP and CFO	45%	27.5%	27.5%	55%
EVP, Investments	25%	37.5%	37.5%	75%
SVP, Investments	27%	33%	40%	73%

Base salary

Base salaries compensate employees for fulfilling their day-to-day responsibilities. Each employee at Teachers' is assigned a job level with a corresponding salary grade that is designed to provide market competitive pay commensurate with the employee's position responsibilities, demonstrated skills, knowledge and track record of performance.

Base salaries are reviewed annually after the end of each year and salaries for vice-presidents and above are approved by the board members.

Annual Incentive Plan (AIP)

Our AIP rewards employees with cash awards based on business and individual performance results relative to pre-approved financial and non-financial measures. All non-union employees participate in the AIP. Weightings for each element vary for Investment, Corporate and Member Services employees. Detailed below are the components by which our named executive officers' performances are measured within the AIP:

Performance Measure	*President and CEO*	*SVP and CFO*	*EVP, Investments*	*SVP, Investments*
Teachers' Performance – Measured annually based on a company-wide scorecard that includes investment and non-investment measures	✓	✓	✓	✓
Division/Department Performance – Measured annually based on specific divisional scorecards		✓	✓	✓
Two-Year Total Fund Performance – Value-added performance (after expenses) measured over two full calendar years relative to return on risk targets	✓		✓	✓
Two-Year Investment Department Performance – Pool of incentive dollars determined by net value-added dollars (after expenses) earned relative to the return required on the two-year risk allocation for that department; discretionary allocation based on individual performance				✓
Individual Performance – Based on the employee's performance against specific objectives established at the beginning of the calendar year	✓	✓	✓	✓

Deferred Incentive Plan (DIP)

Employees can choose to allocate all or a portion of their AIP payment to either a Total-Fund Plan or a Private Capital Plan, or a combination of the two, for up to two years. The deferred amount will increase or decrease in value over the two-year deferral period based on actual rates of return of the respective plan.

Long-Term Incentive Plan (LTIP)

Our LTIP is designed to reward participating employees for delivering total-fund net value-added (after expenses) and positive returns, net of costs, over the long term. When total-fund net value-added (after expenses) is positive, participants share in the positive gains; conversely when total-fund net value-added (after expenses) is negative, participants share in the loss. Each year, a small percentage of the year's total-fund net value-added (after expenses) will fund an LTIP pool, which is allocated to participating employees' notional accounts. For these purposes, annual total-fund net value-added (after expenses) can be positive or negative. There is no upper or lower limit on total-fund net value-added (after expenses). In years when total-fund net value-added (after expenses) is negative, participating employee accounts will be reduced accordingly; individual employee accounts cannot be reduced below zero. Individual LTIP accounts are adjusted in December based on the total-fund actual rate of return. Each April, following the allocation related to the previous performance year, 25% of individual account balances are paid to eligible employees. For employees who participated in the previous LTIP, payments from that plan will be transferred into the new plan as they crystallize at the end of each performance cycle.

Benefits and other compensation

Teachers' provides a competitive benefit program that includes life insurance, disability, health and dental benefits, time-off policies, and an Employee Assistance Program. Teachers' retirement benefit for employees is a defined benefit pension plan described on page 68.

Executive employment contracts

There are no executive employment contracts or severance guarantees in place.

Compensation decisions made in 2011 reflecting 2010

How decisions are made

Each year, the Human Resources & Compensation Committee of the board reviews compensation policies, including incentive components linked to corporate, investment and total-fund performance. In addition, the committee:

- assesses the achievement of the performance measures for the President and Chief Executive Officer (CEO) and other senior officers;
- reviews the total direct compensation of the President and CEO and recommends to the board members for approval; and
- reviews and approves the President and CEO's recommendations regarding the total direct compensation of other senior officers.

The committee's review is supported by total direct compensation market data for similar investment and non-investment positions in our peer group. As previously noted, Teachers' board members approve at the beginning of each year the annual dollar value-added performance goals (i.e., dollars earned versus benchmark dollars earned) used to measure and determine investment incentive compensation for the year.

2010 performance results

Teachers' overall performance – Annual Incentive Plan

Each year, the executive team establishes enterprise and divisional objectives for the year. All employees are aligned with individual objectives to support the enterprise and/or divisional objectives. The enterprise objectives include a measure of the rate of return, dollars of value-added (i.e., dollars earned after costs versus benchmark dollars earned) and service quality in relation to expenses. Additional enterprise objectives include significant strategic initiatives.

Quarterly, performance against enterprise and divisional objectives is assessed and a scorecard is prepared. The scorecard provides a visual snapshot of the overall level of performance achieved.

As illustrated in the scorecard below, for 2010, we were able to meet or exceed target goals for each of the enterprise objectives. The result is above target performance with an incentive multiplier of 1.75 out of 2.

	Objective	*Measure*	*Actual*	*Goal*	*Achieved*
Customers	Provide outstanding service to our members	Quality Service Index	8.98	8.5–8.7	Above Target
	Ensure retirement security for our members	Value-added returns	$3.79 billion[1]	$1.47 billion[1]	Above Target
		Real returns	Rate of return less CPI = 12.26%	CPI + 5%	Above Target
Financial	Demonstrate a culture of cost consciousness by delivering services in a cost-effective manner	Cost per member	$145.8[2]	$152.3[2]	Above Target
		Cost per assets under management	23.1 basis points[3]	24.3 basis points[3]	Above Target
Internal Processes	Ensure our operations allow us to be the best at what we do	Progress on Investments Operational Excellence initiative			Above Target
		Progress on long-term investment strategy implementation			Above Target
		Portfolio accounting system implementation			Target

[1]Net of expenses.

[2]Net of adjustments for processing inactive members and long-term incentive payments.

[3]Excludes long-term incentive plan.

Two-year total-fund investment performance

The table below summarizes at the total-fund level, the net value-added (after expenses) performance for 2009 and 2010 relative to the return on risk targets less cost allowance. For 2009 and 2010, we outperformed our target total-fund net value-added (after expenses) of $1.46 billion by $5.51 billion resulting in the maximum performance multiplier of 2.0x target.

Year	*Total Fund Net Value-Added*	*Target*[1]	*Above Target*[2]	*Multiplier*
2009	$3.18 billion	$0.73 billion	$1.45 billion	4.39x
2010	$3.79 billion	$0.73 billion	$1.47 billion	5.16x
2009 and 2010	$6.97 billion	$1.46 billion	$2.92 billion	2.0x (maximum)

[1]Target total-fund investment performance is 7.5% return on risk less 0.5x cost allowance.

[2]Above target total-fund investment performance is 15% return on risk less a cost allowance of 34 basis points.

Two-year investment department performance

The table below summarizes performance in terms of net value-added dollars (after expenses) earned relative to the return required on the two-year risk allocation for each of the respective investment departments listed below:

Year	*Public Equities*	*Private Capital*	*Infrastructure*	*Fixed Income and Alternatives*	*Tactical Asset Allocation*
2009 and 2010	Significantly exceeded target	Above target	Above target	Significantly exceeded target	Significantly exceeded target

Investment performance – Long-Term Incentive Plan

In 2009, the total-fund net value-added performance (after expenses) of $3,183 million exceeded target levels and resulted in an aggregate LTIP pool for distribution of $66.9 million. Notional deposits were made to eligible participants effective January 1, 2010.

In 2010, the total-fund net value-added performance (after expenses) was equal to $3,786 million, resulting in an aggregate LTIP pool for distribution of $74.8 million. Notional deposits were made to eligible participants effective January 1, 2011.

Year	*Total Fund Net Value-Added*	*Performance*	*Aggregate LTIP Notional Deposits*
2009	$3,183 million	Significantly exceeded target	$66.9 million
2010	$3,786 million	Significantly exceeded target	$74.8 million

Executive compensation

The compensation table represents disclosure of base salary, annual incentive, long-term incentive and other compensation earned in 2008, 2009 and 2010 by the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	*Year*	*Base Salary*[1]	*Annual Incentive*[2]	*Long-term Incentive Plan*[3]	*Other Compensation*[4]	*Change in Pension Value*	*Total Compensation*[5]
Jim Leech	2010	$500,000	$1,400,000	$2,011,900	$10,440	$641,500	$3,922,340
President and CEO	2009	500,000	706,300	1,098,200	10,455		2,314,955
	2008	441,923	435,600	1,148,900	10,365		2,036,788
David McGraw	2010	300,058	285,000	394,700	7,075	176,600	986,833
SVP and CFO	2009	285,000	144,600	169,700	7,612		606,912
	2008	293,269	109,700	174,500	6,855		584,324
Neil Petroff[6]	2010	400,192	1,120,000	1,645,200	651	951,100	3,166,043
EVP, Investments	2009	350,000	581,000	751,200	592		1,682,792
	2008	310,906	568,100	848,600	538		1,728,144
Wayne Kozun	2010	300,216	729,200	1,296,700	480	983,400	2,326,596
SVP, Public Equities	2009	243,800	487,600	581,100	417		1,312,917
	2008	247,769	487,600	533,200	430		1,268,999
Ron Mock	2010	280,192	696,400	1,232,800	449	565,800	2,209,841
SVP, Fixed Income and	2009	230,000	460,000	537,300	9,239		1,236,539
Alternative Investments	2008	226,865	376,900	391,400	9,239		1,004,404

[1] Bi-weekly payroll resulted in 27 payments for 2008 versus 26 bi-weekly payments.

[2] 2008 annual incentive payments for Mr. Leech and Mr. Petroff were deferred until 2011.

[3] As part of the 2009 compensation review, a new LTIP program was developed. Amounts payable relating to the previous program will be transferred to the participant's notional account balance under the new program as they crystallize at the end of each performance cycle. Effective January 1, 2011, amounts payable for the performance cycle 2007–2010 were added to notional account balances for participating individuals. Each participant is eligible for a payment equal to 25% of his or her account under the new program in April 2011.

[4] Other compensation includes one or more of the following: group term life insurance, automobile allowance, unused vacation cashout.

[5] Change in pension value is not included in total compensation.

[6] Mr. Petroff was appointed Executive Vice-President, Investments on January 1, 2009.

Notional account balances

The table below outlines the notional account balances for each of our named executives (figures rounded to nearest $10,000).

Name and Principal Position	*Year of Allocation*	*Notional Allocation*	*Account Balance*	*2010 Return (%)*	*LTIP Payout*	*Account Balance*
Jim Leech	2010 – New	$2,800,000[1]	$2,800,000	14.3%		$3,200,000
President and CEO	2011 – Previous LTIP Cycle	1,350,000[2]	4,550,000			4,550,000
	2011 – New	3,500,000[3]	8,050,000		2,010,000[4]	6,040,000
David McGraw	2010 – New	580,000[1]	580,000	14.3%		660,000
SVP and CFO	2011 – Previous LTIP Cycle	250,000[2]	910,000			910,000
	2011 – New	670,000[3]	1,580,000		390,000[4]	1,180,000
Neil Petroff	2010 – New	2,400,000[1]	2,400,000	14.3%		2,740,000
EVP, Investments	2011 – Previous LTIP Cycle	840,000[2]	3,580,000			3,580,000
	2011 – New	3,000,000[3]	6,580,000		1,650,000[4]	4,940,000
Wayne Kozun	2010 – New	1,950,000[1]	1,950,000	14.3%		2,230,000
SVP, Public Equities	2011 – Previous LTIP Cycle	660,000[2]	2,890,000			2,890,000
	2011 – New	2,300,000[3]	5,190,000		1,300,000[4]	3,890,000
Ron Mock	2010 – New	1,750,000[1]	1,750,000	14.3%		2,000,000
SVP, Fixed Income and	2011 – Previous LTIP Cycle	530,000[2]	2,530,000			2,530,000
Alternative Investments	2011 – New	2,400,000[3]	4,930,000		1,230,000[4]	3,700,000

[1]Reflects deposit to notional account effective January 1, 2010.

[2]Crystallization of 2007–2010 LTIP from previous long-term investment program.

[3]Reflects deposit to notional account on January 1, 2011.

[4]Reflects a payment of 25% of notional account balance.

Retirement benefits

Teachers' employees participate in the Public Service Pension Plan (PSPP) and the Public Service Supplementary Plan (PSSP). Combined, these plans provide indexed pension benefits equal to 2% of the employee's best five-year average annual base salary for each year of service, less a CPP integration formula. Benefits under these combined plans are capped by the base salary reached at the maximum pension contribution permitted under ITA regulations.

Employees with 2010 pensionable earnings in excess of $186,928 also participate in a non-registered, unfunded Supplemental Employee Retirement Plan (SERP). This plan provides non-indexed retirement benefits equal to 2% of the employee's best three-year average pensionable earnings for each year of service, less the initial annual pension to which the employee is entitled under the PSPP and PSSP, combined.

For 2010:

- the President and CEO's pensionable earnings includes a percentage of annual incentive that builds by 10% per year to 50%;
- the Executive Vice-President, Investments' pensionable earnings includes a percentage of annual incentive that builds by 11.6% per year to 58%;
- executives at the Senior Vice-President, Investments level and Senior Vice-President, Member Services, having attained the age of 55, receive pensionable earnings that include a percentage of annual incentive that builds by 9% per year to 45%;
- executives at the Senior Vice-President level other than Investments, having attained the age of 55, receive pensionable earnings that include a percentage of annual incentive that builds by 6% per year to 30%;
- executives at the Vice-President, Investments level, having attained the age of 55, receive pensionable earnings that include a percentage of annual incentive that builds by 4.4% per year to 22%;
- executives at the Vice-President level other than Investments, having attained the age of 55, receive pensionable earnings that include a percentage of annual incentive that builds by 3% per year to 15%;
- all other employees receive pensionable earnings that are equal to annual base salary.

The total liability for the SERP increased by a net amount of $5.8 million in 2010 for a total accrued SERP liability of $23.9 million as at December 31, 2010.

The table below outlines the estimated present value of the total pension from all sources (PSPP, PSSP and SERP) and estimated annual pension benefits at age 65 for the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executives, excluding subsidiary companies.

Name and Principal Position	*Projected Years of Service at Age 65*	*Estimated Total Annual Pension Benefit at Age 65*	*Present Value of Total Pension at January 1, 2010*	*2010 Compensatory Annual Change in Pension Value*	*2010 Non-Compensatory Annual Change in Pension Value*[1]	*Present Value of Total Pension at December 31, 2010*
Jim Leech President and CEO	11	$282,500	$3,261,500	$238,000	$403,500	$3,903,000
David McGraw SVP and CFO	17	157,100	539,400	65,900	110,700	716,000
Neil Petroff EVP, Investments	32	781,100	3,372,000	318,500	632,600	4,323,100
Wayne Kozun SVP, Public Equities	36	627,800	1,388,500	593,700	389,700	2,371,900
Ron Mock SVP, Fixed Income and Alternative Investments	17	188,200	878,600	385,300	180,500	1,444,400

[1] Non-compensatory changes include interest on liabilities and impact of any assumption changes.

The values shown are estimated based on assumptions and represent entitlements that may change over time.

Board and committee member remuneration

Each board member receives an annual retainer of $12,000, plus $12,000 as a member of the Investment Committee. The Chair of the Board receives an additional retainer of $100,000 and the Chairs of the Investment, Governance, Human Resources & Compensation, and Audit & Actuarial Committees receive additional retainers of $5,000 each.

Fees for committee and other eligible meetings are $1,200. Board meeting fees are combined with Investment Committee fees at $1,500 per day. The Chair of the Benefits Adjudication Committee receives an additional fee of $1,000 for each Benefits Adjudication Committee meeting or hearing attended to a maximum of five per year.

Board members are reimbursed for normal expenses for travel, meals and accommodation, as required. For 2010, these expenses totalled $52,000.

Board Member		*Retainer and Chair Fee*	*Board Meetings*	*Committee Meetings*	*Meeting Fees*	*2010 Total Remuneration*
Eileen Mercier	Chair of the Board	$124,000	12	17	$38,400	$162,400
Rod Albert		$24,000	12	15	$36,000	$60,000
Jill Denham[1]	Chair, Human Resources & Compensation Committee	$24,167	10	9	$25,800	$49,967
Helen Kearns	Vice-Chair, Benefits Adjudication Committee	$24,000	11	14	$33,300	$57,300
Hugh Mackenzie	Chair, Benefits Adjudication Committee	$26,000	12	15	$36,000	$62,000
Louis Martel[1]	Chair, Human Resources & Compensation Committee	$24,584	12	14	$34,800	$59,384
Sharon Sallows	Chair, Governance Committee	$29,000	12	14	$34,800	$63,800
David Smith	Chair, Audit & Actuarial Committee	$29,000	11	16	$35,700	$64,700
Daniel Sullivan[2]		$4,000	0	0	$0	$4,000
Jean Turmel	Chair, Investment Committee	$29,000	12	15	$36,000	$65,000

[1] Jill Denham resigned in October 2010. Louis Martel was appointed chair of the Human Resources & Compensation Committee in November 2010.

[2] Daniel Sullivan was appointed in November 2010.

Legislation update

The pension plan was affected by plan amendments approved by the plan sponsors and some aspects of pension reform legislation proposed or passed in 2010.

As a leading Canadian pension plan, we also contribute to the debate on Canada's retirement system and the best ways to resolve two fundamental issues facing it: the adequacy of retirement income and the number of Canadians who are not covered by a workplace pension plan. Last year, we responded to the Ontario government's discussion paper ("Securing Our Retirement Future: Consulting with Ontarians on Canada's Retirement Income System"), which was released in October, as part of our continuing efforts to explain why defined benefit pension plans are the most efficient vehicles with which to provide retirement security, and to assist policy-makers in finding the right solutions. Our response, posted on our website, generally supports and considers the implications of expanding the CPP and establishing new multi-employer or jointly sponsored defined benefit pension plans for workers not currently covered by workplace plans. We also called for a National-Provincial Task Force to identify the best possible solution to Canada's pension coverage and costing challenges.

In 2010, we participated in, and contributed to, a number of initiatives across the investment and pension sectors. We also spent a significant amount of time monitoring new banking and securities regulations in Canada and internationally, which were developed in response to the financial crisis, in order to ensure that we thoroughly understand evolving regulations and compliance standards. Legislation, such as the U.S. Dodd-Frank Act, has introduced significant changes that have the potential to materially change how we do business.

Plan amendments

Schedule 1 of the Teachers' Pension Act (TPA) was amended in 2009 to simplify and streamline plan rules concerning buying back credit for leaves of absence. These changes took effect on September 1, 2010.

Schedule 1 was amended in 2010 to clarify the plan's re-employment rules (provisions for working after retirement). These amendments clarified the definition of a re-employed pensioner (effective September 1, 2010), changed the number of days that pensioners can work each school year without affecting their pensions to a new, 50-day limit (effective September 1, 2012) and introduced mandatory reporting by employers for re-employment service (effective September 1, 2012).

Pension reform

The Ontario government has adopted numerous recommendations made by the Ontario Expert Commission on Pensions, chaired by Dr. Harry Arthurs. The government proposed legislation that affects Ontario's Pension Benefit Act (PBA) in two phases.

Bill 236, which was passed in May 2010, primarily addressed general administrative issues for pension plans, including better disclosure to pensioners and the immediate vesting of benefit entitlements for plan members.

Bill 120, which was passed in December 2010, addressed additional recommendations made by the Arthurs Commission to strengthen pension funding rules and clarify rules for surpluses, contribution holidays and other funding-related issues. This bill affects the pension plan by providing an exemption from solvency funding requirements for jointly sponsored pension plans. The Arthurs Commission recommended that jointly sponsored pension plans be exempt from solvency funding rules because of their joint governance and risk-sharing characteristics. Solvency funding rules are used to assess a plan's funding status if it winds up immediately – an assessment that is more relevant to pension plans whose sponsors could face bankruptcy. For public sector plans, long-term funding rules and valuation projections provide a more comprehensive and realistic funding outlook compared to short-term solvency valuations that focus on the contingency of wind-up. We commend the Ontario government for adopting this recommendation and eliminating an unnecessary rule for jointly sponsored pension plans.

Once available, we will review the regulations for both Ontario bills, as well as pending regulations for Bill 133 (relating to pension division on marriage breakdown), which was passed in 2009, to determine the impact on the plan. We will also work with the plan sponsors to amend Schedule 1 in order to maintain compliance with the revised regulations as required.

The federal government removed certain investment restrictions for real estate and resource properties as part of its reform measures.

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgments. The accounting policies followed in the preparation of these consolidated financial statements conform to Canadian generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization.

Ultimate responsibility for the consolidated financial statements rests with the members of the Board. The Board is assisted in its responsibilities by the Audit & Actuarial Committee, consisting of six Board members who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the consolidated financial statements and recommends them for approval by the Board.

The Plan's external auditors, Deloitte & Touche LLP, are directly accountable to the Audit & Actuarial Committee and have full and unrestricted access to the committee. They discuss with the committee their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems. The Plan's external auditors have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator.

Jim Leech
President and Chief Executive Officer
March 4, 2011

David McGraw
Senior Vice-President and Chief Financial Officer

Auditors' Report to the Administrator

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of the Ontario Teachers' Pension Plan Board and its subsidiaries, which comprise the consolidated statement of net assets available for benefits and accrued pension benefits and deficit as at December 31, 2010, and the consolidated statements of changes in net assets available for benefits, changes in accrued pension benefits, and changes in deficit for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficit of the Ontario Teachers' Pension Plan Board and its subsidiaries as at December 31, 2010, and the changes in its net assets available for benefits, changes in accrued pension benefits and changes in deficit for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
March 11, 2011

Actuaries' Opinion

Mercer (Canada) Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 2010, for inclusion in the Plan's financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board as at December 31, 2009;
- methods prescribed by Section 4100 of the Canadian Institute of Chartered Accountants' Handbook for pension plan financial statements;
- real and nominal interest rates on long-term Canada bonds at the end of 2010;
- assumptions about future events (for example, future rates of inflation and future retirement rates) which have been communicated to us as the Board's best estimate of these events; and
- information obtained from the Ontario Ministry of Labour and other published data on negotiated wage settlements in the 2010/2011 and the 2011/2012 school years.

The objective of the financial statements is to fairly present the financial position of the Plan on December 31, 2010 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the Pension Benefits Act (Ontario)), which establishes a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events and market conditions at the end of 2010, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation are appropriate for the purposes of the valuation, and that the assumptions used in the valuation are in accordance with accepted actuarial practice. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice in Canada.

Scott Clausen, F.C.I.A.
March 4, 2011

Malcolm P. Hamilton, F.C.I.A.

Consolidated statement of net assets available for benefits and accrued pension benefits and deficit

as at December 31 ($ millions)	*2010*	*2009*
Net assets available for benefits		
Assets		
Investments (note 2)	**$155,360**	$123,900
Receivable from the Province of Ontario (note 3)	**2,627**	2,524
Receivable from brokers	**101**	93
Cash	**432**	493
Fixed assets	**41**	43
	158,561	127,053
Liabilities		
Investment-related liabilities (note 2)	**50,639**	30,391
Due to brokers	**137**	79
Accounts payable and accrued liabilities	**250**	181
	51,026	30,651
Net assets available for benefits	**107,535**	96,402
Actuarial asset value adjustment (note 4)	**6,655**	12,704
Actuarial value of net assets available for benefits	**$114,190**	$109,106
Accrued pension benefits and deficit		
Accrued pension benefits (note 5)	**$146,893**	$131,858
Deficit	**(32,703)**	(22,752)
Accrued pension benefits and deficit	**$114,190**	$109,106

On behalf of the Plan Administrator:

Chair

Board Member

Consolidated statement of changes in net assets available for benefits

for the year ended December 31 ($ millions)	*2010*	*2009*
Net assets available for benefits, beginning of year	$ 96,402	$87,433
Investment operations		
Income (note 9)	13,269	10,891
Administrative expenses (note 14a)	(290)	(214)
Net investment operations	12,979	10,677
Member service operations		
Contributions (note 12)	2,697	2,723
Benefits paid (note 13)	(4,500)	(4,393)
Administrative expenses (note 14b)	(43)	(38)
Net member service operations	(1,846)	(1,708)
Increase in net assets available for benefits	11,133	8,969
Net assets available for benefits, end of year	$107,535	$96,402

Consolidated statement of changes in accrued pension benefits

for the year ended December 31 ($ millions)	*2010*	*2009*
Accrued pension benefits, beginning of year	**$131,858**	$118,141
Increase in accrued pension benefits		
Interest on accrued pension benefits	**6,057**	4,709
Benefits accrued	**3,354**	3,571
Changes in actuarial assumptions (note 5a)	**10,440**	9,941
	19,851	18,221
Decrease in accrued pension benefits		
Benefits paid (note 13)	**4,500**	4,393
Experience gains (note 5c)	**316**	111
	4,816	4,504
Net increase in accrued pension benefits	**15,035**	13,717
Accrued pension benefits, end of year	**$146,893**	$131,858

Consolidated statement of changes in deficit

for the year ended December 31 ($ millions)	*2010*	*2009*
Deficit, beginning of year	**$(22,752)**	$(11,184)
Increase in net assets available for benefits	**11,133**	8,969
Change in actuarial asset value adjustment (note 4)	**(6,049)**	(6,820)
Increase in actuarial value of net assets available for benefits	**5,084**	2,149
Net increase in accrued pension benefits	**(15,035)**	(13,717)
Deficit, end of year	**$(32,703)**	$(22,752)

Notes to consolidated financial statements

for the year ended December 31, 2010

Description of Plan

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act (Ontario)* (the TPA) as amended.

(a) General

The Plan is governed by the TPA. It is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members, represented by the Ontario Teachers' Federation (the OTF) (the co-sponsors). The terms of the Plan are set out in the Partners' Agreement.

The Plan is registered with the Financial Services Commission of Ontario (FSCO) and under the *Income Tax Act* (*Canada*) (the ITA) (registration number 0345785) as a Registered Pension Plan which is not subject to income taxes.

The Plan is administered and the investments are managed by the Ontario Teachers' Pension Plan Board (the Board). Under the TPA, the Board is constituted as a corporation without share capital to which the *Corporations Act (Ontario)* does not apply.

(b) Funding

Plan benefits are funded by contributions and investment earnings. Contributions are made by active members of the Plan and are matched by either the Province or designated private schools and organizations. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations.

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, the average of the best five annual salaries and the age of the member at retirement. A member is eligible for a reduced retirement pension from age 50. An unreduced retirement pension is available at age 65 or if the sum of a member's age and qualifying service equals 85.

(d) Disability pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of qualifying service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits

Death benefits are available on the death of an active member and may be available on the death of a retired member. The benefit may take the form of a survivor pension, lump-sum payment or both.

(f) Escalation of benefits

Pension benefits are adjusted in January each year for inflation, subject to an upper limit of 8% and a lower limit of 0% in any one year with any excess above or below those limits carried forward. For credited service earned up to December 31, 2009, inflation protection is 100% of the change in the Consumer Price Index. Credited service earned after December 31, 2009 is subject to conditional inflation protection with a guaranteed level of inflation protection set at 50% of the change in the Consumer Price Index. Depending on the Plan's funded status, 100% inflation protection is possible and any years that did not receive full inflation protection can be restored to be fully indexed by the co-sponsors on a go-forward basis.

(g) **Retirement Compensation Arrangement**

Restrictions in the ITA and its regulations on the payment of certain benefits from the registered pension plan for periods of service after 1991 may impact some Plan members. To address affected members, the Retirement Compensation Arrangement (the RCA) was established by agreement between the co-sponsors as a supplementary plan to provide for these benefits. Examples of these benefits include: (1) members of the Plan who retired with average earnings above $134,811 (CPP-exempt members $124,722) in 2010 and $132,037 (CPP-exempt members $122,222) in 2009; and (2) members whose pensions would require a larger reduction for early retirement to comply with the ITA limitations than the Plan would impose. Because the RCA is a separate trust, the net assets available for benefits and accrued benefits and deficit of the RCA are not included in these consolidated financial statements.

NOTE 1.

Summary of significant accounting policies

(a) **Basis of presentation**

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The fair value of assets and liabilities and the results of operations of subsidiary companies and variable interest entities (VIEs) where the Plan is the primary beneficiary are consolidated as part of the Plan's financial statements.

A VIE is an entity which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or an entity in which the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary, which is the enterprise that absorbs the majority of the expected losses or is entitled to the majority of the expected residual returns, is required to consolidate the VIE in its financial statements.

VIEs in which the Plan is the primary beneficiary or in which it has a significant variable interest are primarily private equity and alternative investments limited partnerships.

The Plan's consolidated financial statements also include its proportionate share of the fair value of assets, liabilities and operations of investments in joint ventures.

Intercompany transactions and balances are eliminated in preparing these consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current year's presentation.

(b) **Changes in accounting policies**

In January 2009, the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) issued EIC 173 – Credit and the Fair Value of Financial Assets and Financial Liabilities. The EIC requires that the credit risk of the entity and its counterparty should be considered in determining the fair value of financial assets and financial liabilities. The implementation of this EIC had no material impact on the Plan's net assets or investment income.

(c) **Future changes in accounting policies**

In April 2010, the Accounting Standards Board (AcSB) issued a new accounting standard for Canadian pension plans: CICA Section 4600, *Pension Plans*, to replace CICA Section 4100, *Pension Plans*, for fiscal years beginning on or after January 1, 2011. The new standard provides specific accounting guidance on investments and pension obligations. Under Section 4600, a pension plan should:

- measure investment assets at fair value in accordance with the International Financial Reporting Standards (IFRS) guidance on fair value measurement in IAS 39 Financial Instruments: Recognition and Measurement;
- present investment assets on a non-consolidated basis;
- comply with the disclosure requirement under IFRS 7 Financial Instruments: Disclosures;
- determine the pension obligations in accordance with the guidance in CICA Section 3461, Employee Future Benefits, and IFRS guidance in IAS 19 Employee Benefits;
- present net assets available for benefits, pension obligations and the resulting surplus or deficit in the statement of financial position;
- exclude the actuarial asset value adjustment when determining the financial statement surplus or deficit (see note 4); and
- elect either IFRS or Canadian accounting standards for private enterprises for accounting policies that do not relate to investments or pension obligations. The Plan has elected to apply IFRS commencing on January 1, 2011.

Management completed an analysis on adopting CICA Section 4600. Significant impacts on financial statements are expected and include:

- the financial statement deficit will be affected by the exclusion of the actuarial asset value adjustment; and
- the investment assets and investment-related liabilities will be affected because of the eliminated requirement of consolidating the assets and liabilities of the subsidiaries, joint ventures and variable interest entities of which the Plan is the primary beneficiary. There is no impact expected on the net assets available for benefits or the net investment income.

(d) **Investments**

Valuation of investments

Investments and investment-related liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair values of investments are determined as follows:

a. Short-term money-market securities are valued using either closing mid-market prices or discounted cash flows based on current market yields, when closing mid-market prices are unavailable.

b. Bonds, including both nominal and real return, are valued on the basis of quoted closing mid-market prices. If quoted closing mid-market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

c. Securities sold under agreements to repurchase and securities purchased under agreements to resell are valued using discounted cash flows based on current market yields.

d. Public equities are valued at quoted market closing prices. When the market for a public equity is not active or when there are restrictions on the sale of all or part of a public equity imposed on the Plan by external parties, management estimates the fair value by using appropriate techniques including valuation models.

e. Real estate, private equities, infrastructure and timberland are valued based on estimated fair values determined by using appropriate techniques and best estimates by management, appraisers, or both. Where external appraisers are engaged to perform the valuation, management ensures the appraisers are independent and compares the assumptions used by the appraisers with management's expectations based on current market conditions and industry practice to ensure the valuation captures the business and economic conditions specific to the investment.

   At least 70% of the value of the rental property portfolio covering all product types and geographic regions is independently appraised annually. At a minimum, 90% of the real estate portfolio will be valued by independent appraisers at least every three years. The same appraisal firm is not permitted to value the same property more than three years in a row.

f. Derivative financial instruments are recorded at fair value using market prices where available. Where quoted market values are not readily available, appropriate alternative valuation techniques are used to determine fair value. In determining fair value, consideration is also given to the credit risk of the counterparty.

g. Alternative investments, comprised of hedge funds and managed futures accounts, are recorded at fair value based on net asset values obtained from each of the funds' administrators. These net asset values are reviewed by management.

The Plan uses a number of valuation techniques to determine the fair value of investments for which observable prices in active markets for identical investments are not available. These techniques include: valuation methodologies based on observable prices for similar investments; present value approaches where future cash flows generated by the investment are estimated and then discounted using a risk-adjusted interest rate; and option-pricing models. The principal inputs to these valuation techniques are listed below. Values between and beyond available data points may be obtained by interpolation and extrapolation.

- Bond prices – quoted prices are generally available for government bonds, certain corporate bonds and some other debt-related products.
- Credit spreads – where available, credit spreads are derived from prices of credit default swaps or other credit-based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates – principally derived from benchmark interest rates such as quoted interest rates from central banks and in swap, bond and futures markets. Benchmark interest rates are considered when determining discount rates used in the present-value approaches.
- Foreign currency exchange rates – there are observable markets, both spot and forward, and in futures in all major currencies.
- Public equity and equity index prices – quoted prices are generally readily available for equity shares listed on the stock exchanges and for indices on such shares.
- Commodity prices – many commodities are actively traded in spot, forward and futures on exchanges.
- Price volatilities and correlations – volatility is a measure of the tendency of a specific price to change over time. Correlation measures the degree to which two or more prices or other variables are observed to have moved together historically. Volatility is an input in valuing options and certain products such as derivatives with more than one underlying variable that is correlation-dependent. Volatility and correlation values are obtained from broker quotations, pricing services or derived from quoted option prices.
- Forecasts on operating cash flows of real estate, private equities, infrastructure and timberland – forecasts include assumptions on revenue, revenue growth, expenses, capital expenditure, and capital structure. They are generally provided by management of the companies in which the Plan invests or external managers. Additional assumptions from external parties, for example, external appraisers, may also be used in the forecast.

The Plan refines and modifies its valuation techniques as markets and products develop and the pricing for individual products becomes more transparent.

While the Plan believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions could result in different estimates of fair value at the balance sheet date. Management has assessed and determined that using possible alternative assumptions will not result in significantly different fair values.

Fair value hierarchy
Investment assets and investment-related liabilities are classified and disclosed in one of the following categories reflecting the significance of inputs used in making the fair value measurement:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

If different levels of inputs are used to measure the fair value of an investment, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

Trade-date reporting
Purchases and sales of investments and derivative contracts are recorded as of the trade date (the date upon which the substantial risks and rewards have been transferred).

Investment income
Dividend income is recognized based on the ex-dividend date, and interest income and real estate income are recognized on the accrual basis as earned. Investment income also includes both realized and unrealized gains and losses. Unrealized gains and losses are recognized only when the fair value of the investment is based on a quoted market price in an active market or a valuation using appropriate valuation techniques is performed and approved by management. Since real estate income is determined on a fair value basis, a charge for depreciation and amortization is excluded from the determination of real estate income.

Transaction costs
Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred are expensed and recorded as transaction costs. Any transaction amounts received by the Plan that are directly attributable to the acquisition of an investment are netted against transaction costs paid.

Management fees
Management and performance fees for private equity funds and hedge funds are expensed as incurred.

(e) Foreign currency translation
Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within net realized and unrealized gains on investments in investment income.

(f) **Accrued pension benefits**

The value of accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made as at the beginning of the year and then extrapolated to year end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation date, of various economic and non-economic assumptions.

As described in paragraph (f) of the Description of Plan note, the inflation protection benefits for credited service earned after December 31, 2009 will vary between 50% and 100% of the change in the Consumer Price Index. For the financial statement valuation, no indexation percentage within the range is a better estimate than another as future inflation protection benefits are indeterminable. As such, the Plan accrues the minimum inflation protection benefits and discloses the maximum amounts of inflation protection benefits at the 100% level (see note 5b) in accordance with the guidance of the CICA Handbook Section 3290, Contingencies.

(g) **Contributions**

Contributions from the members, the Province and designated private schools and organizations are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(h) **Benefits**

Benefit payments to members and others, commuted value payments and refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in accrued pension benefits.

(i) **Use of estimates**

In preparing these consolidated financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities, and related income and expenses. Significant estimates are used primarily in the determination of accrued pension benefits and the fair value of investments and investment-related receivables and liabilities. Note 5 explains how estimates are used in determining accrued pension benefits and note 1d explains how estimates are used to derive the fair value of investments and investment-related receivables and liabilities.

NOTE 2.

Investments

The Plan invests, directly or through derivatives, in fixed income, equities and real assets in accordance with the Board's policy of asset diversification.

(a) **Investments[1] before Allocating the Effect of Derivative Contracts**

The schedule below summarizes the Plan's investments and investment-related liabilities, including net accrued interest and dividends of $298 million (2009 – $263 million), before allocating the effect of derivative contracts, as at December 31:

		2010		2009
($ millions)	***Fair Value***	***Cost***	*Fair Value*	*Cost*
Fixed income				
Debentures	**$ 1,333**	**$ 1,223**	$ 2,499	$ 2,258
Bonds	**27,622**	**27,552**	18,089	19,547
Money-market securities	**4,735**	**4,835**	3,207	3,308
Alternative investments[2]	**6,339**	**6,111**	7,204	7,507
Canadian real-rate products[3]	**16,207**	**12,119**	13,031	10,159
Non-Canadian real-rate products[3]	**6,869**	**6,892**	6,518	6,621
	63,105	**58,732**	50,548	49,400
Equity				
Publicly traded				
Canadian	**5,411**	**4,831**	1,761	1,373
Non-Canadian	**25,947**	**24,873**	20,658	19,464
Non-publicly traded				
Canadian	**3,131**	**2,933**	2,611	2,707
Non-Canadian	**13,744**	**14,405**	8,931	10,282
	48,233	**47,042**	33,961	33,826
Real assets[3]				
Real estate (note 8)	**19,292**	**14,218**	17,772	13,924
Infrastructure	**17,456**	**16,905**	13,529	13,412
Timberland	**2,220**	**2,108**	2,339	2,116
	38,968	**33,231**	33,640	29,452
	150,306	**139,005**	118,149	112,678
Investment-related receivables				
Securities purchased under agreements to resell	**2,286**	**2,291**	2,453	2,455
Cash collateral deposited under securities borrowing arrangements	**249**	**249**	983	1,005
Derivative-related, net	**2,519**	**1,128**	2,315	1,208
	5,054	**3,668**	5,751	4,668
Investments	**$155,360**	**$142,673**	$123,900	$117,346

[1] For additional details, refer to the schedule of Investments over $100 million on pages 113–115.

[2] Comprised primarily of hedge funds and managed futures accounts.

[3] Beginning January 1, 2010, real-rate products, previously classified as real assets, are included in fixed income. 2009 comparative figures have been reclassified to reflect this change.

($ millions)	2010 Fair Value	2010 Cost	2009 Fair Value	2009 Cost
Investment-related liabilities				
Securities sold under agreements to repurchase	**$ (28,245)**	**$(28,741)**	$ (9,684)	$ (9,701)
Securities sold but not yet purchased				
Fixed income	**(898)**	**(901)**	(1,429)	(1,467)
Equities	**(249)**	**(212)**	(983)	(911)
Joint ventures (note 6)	**(8,010)**	**(8,591)**	(4,933)	(5,453)
Subsidiaries and VIEs (note 7)	**(8,725)**	**(9,616)**	(7,318)	(8,029)
Real estate (note 8)	**(2,431)**	**(2,320)**	(3,563)	(3,468)
Cash collateral received under credit support annexes	**(383)**	**(383)**	(268)	(268)
Derivative-related, net	**(1,698)**	**(915)**	(2,213)	(1,512)
	(50,639)	**(51,679)**	(30,391)	(30,809)
Net investments (note 2d)	**$104,721**	**$ 90,994**	$93,509	$86,537

(b) **Fair value hierarchy**

The schedule below presents the Plan's investments and investment-related liabilities within the fair value hierarchy:

($ millions) 2010	Level 1	Level 2	Level 3	Total
Fixed income	$46,817	$ 4,847	$11,441	**$ 63,105**
Equity	30,096	192	17,945	**48,233**
Real assets	1,730	40	37,198	**38,968**
Net investment-related liabilities	(1,233)	(25,014)	(19,338)	**(45,585)**
Net investments	$77,410	$(19,935)	$47,246	**$104,721**

($ millions) 2009	Level 1	Level 2	Level 3	Total
Fixed income[4]	$31,695	$ 5,426	$13,427	$50,548
Equity	20,893	351	12,717	33,961
Real assets[4]	1,639	71	31,930	33,640
Net investment-related liabilities	(1,617)	(8,048)	(14,975)	(24,640)
Net investments	$52,610	$(2,200)	$43,099	$93,509

[4] Beginning January 1, 2010, real-rate products, previously classified as real assets, are included in fixed income. 2009 comparative figures have been reclassified to reflect this change.

The schedule below presents a reconciliation of investments and investment-related liabilities measured at fair value using significant unobservable inputs (Level 3) during the year. Realized and unrealized gains (losses) are included in investment income.

2010

($ millions)	*Fixed Income*	*Equity*	*Real Assets*	*Net Investment-Related Receivables/ (Liabilities)*	***Total***
Balance, beginning of year	$13,427	$12,717	$31,930	$(14,975)	**$ 43,099**
Purchases	4,827	6,385	8,650	2,740	**22,602**
Sales	(7,062)	(2,550)	(5,029)	(7,524)	**(22,165)**
Transfers in[5]	–	–	–	5	**5**
Transfers out[5]	(87)	(69)	–	41	**(115)**
Gains/(losses) included in investment income (note 9)					
Realized	(601)	423	144	(92)	**(126)**
Unrealized	937	1,039	1,503	467	**3,946**
Balance, end of year	$11,441	$17,945	$37,198	$(19,338)	**$ 47,246**

[5] Transfers in and transfers out of level 3 are due to the change in the availability of inputs used for fair value measurement of investment assets or related liabilities. See note 1d Fair Value Hierarchy.

2009

($ millions)	*Fixed[6] Income*	*Equity*	*Real[6] Assets*	*Net Investment-Related Receivables/ (Liabilities)*	*Total*
Balance, beginning of year	$ 15,971	$14,235	$31,138	$(15,002)	$ 46,342
Purchases	10,677	2,490	7,388	16,701	37,256
Sales	(13,249)	(4,385)	(5,227)	(16,862)	(39,723)
Transfers in[7]	50	–	–	–	50
Transfers out[7]	(5)	–	–	(103)	(108)
Gains/(losses) included in investment income (note 9)					
Realized	(584)	(1,273)	(60)	145	(1,772)
Unrealized	567	1,650	(1,309)	146	1,054
Balance, end of year	$ 13,427	$12,717	$31,930	$(14,975)	$ 43,099

[6] Beginning January 1, 2010, real-rate products, previously classified as real assets, are included in fixed income. 2009 comparative figures have been reclassified to reflect this change.

[7] Transfers in and transfers out of level 3 are due to the change in the availability of inputs used for fair value measurement of investment assets or related liabilities. See note 1d Fair Value Hierarchy.

(c) Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, commodities, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges.

Notional amounts of derivative contracts represent the contractual amount to which a rate or price is applied for computing the cash to be paid or received. Notional amounts are the basis upon which the returns from, and the fair value of, the contracts are determined. They do not necessarily indicate the amounts of future cash flow involved or the current fair value of the derivative contracts and, therefore, do not indicate the Plan's exposure to credit or market risks. The derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

Derivative contracts, transacted either in the OTC market or on regulated exchanges, include:

Swaps

Swaps are OTC contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount. The various swap agreements that the Plan enters into are as follows:

Equity and commodity swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of an equity or commodity index, a basket of stocks or commodities, a single stock or commodity.

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount.

Currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency.

Forwards and futures

Futures are standardized contracts traded on regulated future exchanges, whereas forward contracts are negotiated agreements that are transacted between counterparties in the OTC market. Examples of futures and forwards are described below:

Equity and commodity futures are contractual obligations to buy or sell at a fixed value (the contracted price) of an equity or commodity index, a basket of stocks, a single stock or commodities at a predetermined future date.

Interest rate futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.

Currency forwards and futures are contractual obligations to exchange one currency for another at a specified price or settlement at a predetermined future date.

Options
Options may be acquired in standardized amounts on regulated exchanges or may be customized and acquired in the OTC market. They are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The various option agreements that the Plan enters into include equity and commodity options, interest rate options, and foreign currency options.

Credit derivatives
Credit derivatives are OTC contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Examples of credit derivatives include credit default swaps, equity default swaps, total return swaps, and loan participations.

Credit default swaps and equity default swaps provide protection against the decline in value of the referenced asset as a result of specified events such as payment default or insolvency. These swaps are similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap or an equity default swap in return for payment related to the deterioration in the value of the referenced asset. The referenced asset for credit default swaps is a debt instrument while the referenced asset for equity default swap is an equity instrument.

Total return swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of the referenced asset.

Loan participations are contracts in which one counterparty provides funding to the other party in exchange for participation interests in sharing the risks and profits of the loans originated by the other party.

Other derivative products
The Plan also transacts in other derivative products including statistic swaps and dividend swaps in the OTC market. An investor may trade the statistic swaps with the objective of adding value or hedging for risks associated with the magnitude of movement, i.e. volatility, variance, correlation, covariance of some underlying products, such as exchange rates, or stock indexes. Dividend swaps are an over-the-counter contract where an investor agrees to match all dividends paid out by an underlying stock or index over a specified time period. In return, the dividend payer receives a fixed amount at expiry called the dividend swap rate.

The following schedule summarizes the notional amounts and fair value of the Plan's derivative contracts held as at December 31:

	2010		2009	
($ millions)	Notional	Fair Value	Notional	Fair Value
Equity and commodity derivatives				
Swaps	$ 15,332	$ 884	$ 15,102	$ 977
Futures	5,494	(4)	6,920	3
Options: Listed – purchased	185	3	136	4
– written	278	(5)	213	(6)
OTC – purchased	5,492	337	4,563	324
– written	6,325	(294)	2,924	(216)
	33,106	921	29,858	1,086
Interest rate derivatives				
Swaps	19,347	16	5,146	7
Futures	28,479	–	29,669	(8)
Options: Listed – purchased	1,308	–	–	–
– written	1,463	(1)	73	(1)
OTC – purchased	5,382	28	5,739	37
– written	2,115	(26)	1,098	(20)
	58,094	17	41,725	15
Currency derivatives				
Swaps	44	4	44	2
Forwards[8]	35,548	200	31,004	138
Futures	16	–	16	–
Options: OTC – purchased	14,583	125	10,431	180
– written	12,300	(114)	8,877	(145)
	62,491	215	50,372	175
Credit derivatives				
Loan participations	35	–	189	101
Credit default swaps – purchased	8,043	82	10,825	209
– written	2,049	(267)	2,494	(567)
Total return swaps	–	–	37	(16)
	10,127	(185)	13,545	(273)
Other derivatives				
Statistic swaps	4,968	(76)	15,481	(246)
Dividend swaps	364	(24)	263	(28)
	5,332	(100)	15,744	(274)
	169,150	868	151,244	729
Net cash collateral received under derivative contracts	–	(47)	–	(627)
Notional and net fair value of derivative contracts	$169,150	$ 821	$151,244	$ 102

[8] Excludes currency forwards related to Real Estate assets as disclosed in note 8.

The net fair value of derivative contracts as at December 31 on the previous page is represented by:

($ millions)	*2010*	*2009*
Derivative-related receivables	$ 2,578	$ 3,004
Cash collateral paid under derivative contracts	113	132
Derivative-related liabilities	(1,710)	(2,275)
Cash collateral received under derivative contracts	(160)	(759)
	$ 821	$ 102

(d) **Investment asset mix**

The Plan had a policy asset mix of 45% equities, 43% fixed income, 5% commodities, 25% real assets and (18)% money market at December 31, 2010.

Direct investments, derivative contracts, and investment-related receivables and liabilities are classified by asset-mix category based on the intent of the investment strategies of the underlying portfolios of the Plan. The Plan's net investments as at December 31 are summarized below:

	2010		*2009*	
	Effective Net Investments at Fair Value ($ millions)	***Asset Mix %***	*Effective Net Investments at Fair Value ($ millions)*	*Asset Mix %*
Equity				
Canadian	**$ 9,286**	**9%**	$ 8,427	9%
Non-Canadian	**38,203**	**36**	32,755	35
	47,489	**45**	41,182	44
Fixed income				
Bonds	**22,728**	**22**	15,462	17
Real-rate products[9]	**23,245**	**22**	19,882	21
	45,973	**44**	35,344	38
Commodities[10]	**5,226**	**5**	1,939	2
Real assets				
Real estate (note 8)	**16,861**	**16**	14,209	15
Infrastructure	**7,070**	**7**	5,568	6
Timberland	**2,220**	**2**	2,338	3
	26,151	**25**	22,115	24
Absolute return strategies[11]				
Internal absolute return strategies	**6,845**	**7**	6,299	7
Alternative Investments	**4,531**	**4**	5,367	5
	11,376	**11**	11,666	12
Money market[11]	**(31,494)**	**(30)**	(18,737)	(20)
Net investments	**$104,721**	**100%**	$ 93,509	100%

[9] Beginning January 1, 2010, real-rate products are included in fixed income instead of real assets. 2009 comparative figures have been reclassified to reflect this change.

[10] Beginning January 1, 2010, commodities, previously included in real assets, are reported in a separate asset class. 2009 comparative figures have been reclassified to reflect this change.

[11] Beginning January 1, 2010, absolute return strategies and money market, previously included in fixed income, are each reported in a separate asset class. 2009 comparative figures have been reclassified to reflect this change.

(e) **Risk Management**

Objectives

The Plan's primary long-term risk is that the Plan's assets will fall short of its liabilities (i.e., benefits owed to members). Therefore, the objective of investment risk management is to achieve a diversifying of risks and returns in a fashion that minimizes the likelihood of an overall reduction in total fund value and maximizes the opportunity for gains over the entire portfolio. This is achieved through asset diversification so that the market and credit exposure to any single issuer and to any single component of the capital markets is reduced to an acceptable level.

The Plan also manages its liquidity risk so that there is sufficient liquidity to meet short-term marked-to-market payments resulting from the Plan's derivative exposure and to give the Plan the ability to adjust the asset mix in response to the changes in the market conditions.

Policies

The Plan does not manage market and credit risk separately. To apply risk management to investments in a consistent manner, the Plan has a number of policies and guidelines, for example:

- Statement of Investment Policies and Procedures – The statement addresses the manner in which the fund shall be invested. Investments shall be selected and held in accordance with the criteria and limitations set forth in the statement and in accordance with all relevant legislation. The Board approves the policies in the statement and reviews them at least annually.
- Total Fund Guidelines and Objectives – They are developed to apply to the total fund and aggregate asset classes. They address the risks that are relevant and material at the total fund level. It includes guidelines on asset mix and risk budget allocation. They list the investment constraints, for example, the maximum exposures permitted for a single issuer, the liquidity requirements, and currency management. The Board approves these guidelines and reviews them regularly.
- Portfolio guidelines for each investment department – They are developed to apply to the individual portfolios within each asset class managed by the Investment Division. All portfolio guidelines include the departments' investment strategies, operating procedures, trading limits and approval requirements, risk factors and a description of how the risks will be managed and reporting requirements for each portfolio manager, particularly relating to reporting deviations from the approved portfolio guideline. All portfolio guidelines are reviewed annually and approved by the Executive Vice-President of the Investment Division and the Vice-President or Senior Vice-President responsible for the department.
- Trade Authorization and Execution Operation Guidelines – They include guidelines on trading with authorized counterparties and the procedures for obtaining authorization to trade with a new counterparty.
- Pre-Trade Clearance Policy – It formalizes the procedures to ensure the data needed for trade capture, pricing, risk management, and accounting is accurate, complete, and can be entered into the Plan's systems of record on a timely basis prior to commencement of trading.

Processes

Each investment department is responsible for managing the investment risks associated with the investments they manage. Each department is subject to compliance with the Statement of Investment Policies and Procedures, the Total Fund Guidelines and Objectives (which includes the risk budget allocated to them), Trade Authorization and Execution Operation Guidelines, Pre-trade Clearance Policy and the applicable portfolio guidelines. In addition, the Fixed Income Department is responsible to maintain the liquidity positions in accordance with the Plan's guidelines on liquidity. The Finance Division independently measures the investment risk exposure and the liquidity position of the Plan and provides the information to the Investment Division and the Investment Committee of the Board.

Each investment department has an investment committee, or an equivalent, which meets regularly to assess the investment risks associated with the portfolios it manages and determines action plans, if required. Individual managers in each investment department receive limited authority to invest from the Board by sub-delegation from senior management. Trading limits and approval requirements are set out in the portfolio guidelines for the department. For investments not traded on exchanges, such as alternative investments and private equity investments, the investment departments conduct due diligence before acquisition and use it as a tool to monitor the investments after acquisition. The objective is to obtain as much transparency as possible for the departments to assess the risk exposure arising from these private and alternative investments.

The senior representatives from each investment department form the Investment Risk Committee (IRC) which focuses on managing investment risks at a total fund level. The Chief Financial Officer attends all meetings of the committee as an observer. This committee brings together the experience, investment and operational business judgment required for assessing and managing market, credit and liquidity risks on a regular basis. It monitors the currency positions, interest rate risk and liquidity risk at the total fund level. The committee meets every other week, or more frequently as required. Reporting to the IRC are the Investment Division Credit Committee and the Investment Division Liquidity Committee.

The Enterprise Risk Management Committee oversees and manages investment and non-investment risks faced by the Plan. The committee is chaired by the Chief Executive Officer and includes senior representatives from all divisions. The Enterprise Risk Management Committee meets regularly and reports to the Board semi-annually and more frequently as necessary.

The shaded section on pages 26 and 27 of the Management's Discussion and Analysis section provides further information on the risk budgeting process. The shaded section is an integral part of the Consolidated Financial Statements.

(f) Credit Risk

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent (credit risk). Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. A credit risk may arise directly from an obligor, an issuer of securities, or indirectly from a guarantor of a credit obligation.

Credit risk management

The Plan actively manages its credit exposures. When over exposures are detected – either in individual exposures or in groups of exposures – the Plan takes action to mitigate the risks. Such actions may include reducing the exposures and using credit derivatives.

Except for debt issued or guaranteed without significant conditions by the Government of Canada, by the government of a province or territory of Canada (with a minimum DBRS credit rating of "AA"), or by the Government of the United States of America, the Plan's total investment in securities of a single issuer across all asset classes shall not exceed 3% of the market value of the total fund without the approval of the Board. Further, not more than 20% of the market value of all bonds, debentures, real return debt products, mezzanine debt and other debt investments (excluding the market value of the non-marketable Ontario Debentures, debt owed by affiliated third parties in relation to real estate properties, and debt associated with an investment strategy approved by the Board) shall be made up of investments rated below a DBRS credit rating of "BBB" or its equivalent or that are unrated.

The Plan has a credit risk assessment process to determine authorized counterparties for repurchase agreements, reverse repurchase agreements, and derivative contracts. The Plan deals primarily with counterparties that have a credit rating of "A" or higher for derivative contracts. Guidelines are also in place to limit the maximum exposures to any individual counterparty for derivative contracts.

Collateral is an important mitigator of counterparty credit risk. The Plan routinely obtains collateral, such as in the case of reverse repurchase agreements and OTC derivative contracts. Note 2i provides further details on securities collateral.

The Plan enters into agreements with counterparties to limit its exposure to credit losses. An International Swaps and Derivatives Association (ISDA) Master Agreement is executed with all OTC derivative counterparties, which allows both parties to settle obligations on a net basis when termination or other pre-determined events occur. The Plan also negotiates a collateral agreement known as Credit Support Annex (CSA) with its key counterparties to further mitigate counterparty credit risk. A CSA gives the Plan the power to realize collateral posted by counterparties in the event of a default by such counterparties.

Maximum exposure to credit risk before collateral held

The following table presents the maximum exposure at December 31 to credit risk of balance sheet and off-balance sheet financial instruments before taking account of any collateral held. The analysis includes financial assets subject to credit risk only; other financial assets, mainly equity securities, as well as non-financial assets are excluded. For guarantees and loan commitments, the maximum exposure to credit risk is the maximum amount that the Plan would have to pay if the guarantees were to be called upon and the full amount of the loan commitments.

($ millions)	*2010*	*2009*
On balance sheet:		
Receivable from the Province of Ontario	**$ 2,627**	$ 2,524
Receivable from brokers	**101**	93
Cash	**432**	493
Fixed income		
Debentures	**1,333**	2,499
Bonds	**27,622**	18,089
Money-market securities	**4,735**	3,207
Canadian real-rate products	**16,207**	13,031
Non-Canadian real-rate products	**6,869**	6,518
Securities purchased under agreements to resell	**2,286**	2,453
Derivative-related receivables	**2,578**	3,004
Total on balance sheet	**$64,790**	$51,911
Off balance sheet:		
Guarantees	**$ 2,607**	$ 3,002
Loan commitments	**380**	611
Total off balance sheet	**2,987**	3,613
Total maximum exposure at December 31	**$67,777**	$55,524

While the Plan's maximum exposure to credit risk is the carrying value of the assets, or, in the case of off-balance sheet items, the amount guaranteed or committed, in most cases the likely exposure is far less due to collateral, credit enhancements (e.g., guarantees in favour of the Plan) and other actions taken to mitigate the Plan's exposure, as described previously.

Credit risk concentrations

As at December 31, 2010, the Plan has a significant concentration of credit risk with the Government of Canada, the Province of Ontario and the U.S. Treasury. This concentration relates primarily to the holding of $34.9 billion (2009 – $22.0 billion) of Government of Canada issued securities, $8.4 billion (2009 – $6.5 billion) of U.S. Treasury issued securities, $1.3 billion (2009 – $2.5 billion) of non-marketable Province of Ontario debentures, $1.4 billion (2009 – $0.8 billion) in Province of Ontario bonds, $2.6 billion (2009 – $2.5 billion) receivable from the Province (see note 3), and future provincial funding requirements of the Plan.

(g) Market risk

Market risk is the risk of loss that results from fluctuations in equity and commodity prices, interest and foreign exchange rates, and credit spreads. The Plan is exposed to market risk from its investing activities. The level of market risk to which the Plan is exposed varies depending on market conditions, expectations of future price and yield movements and the composition of the asset-mix.

Market risk management

The Plan manages market risk primarily through diversifying the investments across industry sectors, investment strategies and on a global basis. A variety of derivative contracts are also utilized to manage the Plan's market risk exposures.

Market and credit risk measurement

The Plan uses a statistical Value-at-Risk (VaR)-type approach, the expected tail loss (ETL) methodology, to measure investment risk comprising of market and credit risk over a one-year horizon at a 99% confidence level. The ETL methodology captures the effect of more extreme loss events than VaR for the same confidence level as it is the average of all the losses in the tail.

The Asset Class Risk Report, reviewed by the Investment Risk Committee, is prepared using the ETL methodology. The report captures the investment risk exposure by asset class reflecting the risk of potential losses in net assets due to both market and credit risk factors relative to the Plan's pension obligations. Statistically, the Plan would expect to see losses in excess of the risk exposure on the report only 1% of the time over a one year period, subject to certain assumptions and limitations discussed below.

The ETL methodology is a statistical approach that accounts for market volatility and credit risk as well as risk diversification achieved by investing in various products and markets. Risks are measured consistently across all markets and products and can be aggregated to arrive at a single risk number. The one-year 99% ETL number used by the Plan is generated using a historical simulation and bootstrap sampling approach that reflects the expected annual return on the portfolio in the worst 1% of the cases. The Plan currently uses the previous 24 years of market data. When sufficient historical data is not available, proxies and statistical methods are used to complete the data series.

There are limitations to the ETL methodology in use. For example, historical data may not provide the best estimate of future changes. It may fail to capture the correlation in asset returns in extreme adverse market movements which have not occurred in the historical window. The bootstrap sampling approach and long historical window, however, mitigate this limitation to some extent by enabling the generation of a set of scenarios that include extreme adverse events. Another limitation is that the Plan computes the risk relative to pension obligations at the close of the business day. Positions may change substantially during the course of a trading day. These limitations and the nature of the ETL measure mean that the Plan's losses may exceed the risk exposure amounts indicated in any risk reports.

The Plan continuously monitors and enhances the risk calculation methodology, striving for better estimation of risk exposure. The Plan also has a number of initiatives that are underway to enhance the process of collecting the risk system data, particularly for the complex financial instruments that the Plan trades. The new initiatives will focus on the accuracy and completeness of risk system data such as the relevant market information and the data related to the terms and conditions of the financial instruments.

The Plan's risk exposure by asset class as at December 31 is as follows:

($ billions)[12]	*2010*	*2009*
Equity		
Canadian	**$ 4.0**	$ 3.5
Non-Canadian	**15.5**	15.5
Fixed income		
Bonds	**4.0**	4.5
Real-rate products	**4.0**	3.5
Commodities	**3.0**	1.0
Real assets		
Real estate[13]	**5.0**	6.0
Debt on real estate properties[13]	**–**	1.0
Infrastructure[14]	**1.5**	2.5
Timberland[14]	**0.5**	–
Absolute return strategies	**3.0**	3.0
Money market	**8.0**	5.5
Total ETL Exposure[15]	**$25.5**	$29.0

(12)Rounded to the nearest $0.5 billion.

(13)For 2010, ETL exposure for debt on real estate properties, previously classified in fixed income, are included in real estate.

(14)2009 comparative figures for infrastructure represent the combined ETL exposure for both infrastructure and timberland.

(15)Total ETL Exposure does not equal the sum of ETL exposure for each asset class because diversification reduces total risk exposure.

Interest rate risk

Interest rate risk refers to the effect on the market value of the Plan's assets and liabilities due to fluctuations in interest rates. The value of the Plan's assets is affected by short-term changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates as well as expectations for salary escalation.

The Plan manages the interest rate risk by using interest rate derivatives as detailed in note 2c to the financial statements. After giving effect to the derivative contracts and investment-related receivables and liabilities discussed in note 2c, a 1% increase in nominal interest rates would result in a decline in the value of the Plan's investments in fixed-income securities of 6% (2009 – 6%). Similarly, a 1% increase in real interest rates would result in a decline in the value of the Plan's investments in real-rate products of 16% (2009 – 14%).

As at December 31, 2010, holding the inflation and salary escalation assumptions constant, a 1% decrease in the assumed long-term real rates of return would result in an increase in the pension liabilities of approximately 18% (2009 – 18%).

Foreign currency risk
Foreign currency exposure arises from the Plan's holdings of foreign currency-denominated investments and related derivative contracts.

As at December 31, the Plan had investments exposed to foreign currency. In Canadian dollars this exposure is as follows:

	2010	2009
Currency ($ millions)	**Net Exposure**	*Net Exposure*
United States Dollar	**$20,970**	$19,978
British Pound Sterling	**5,565**	4,673
Euro	**4,632**	5,358
Brazilian Real	**3,202**	4,237
Japanese Yen	**2,655**	2,155
Australian Dollar	**2,361**	1,935
Chilean Peso	**1,492**	1,279
Swiss Franc	**942**	842
Hong Kong Dollar	**690**	518
Swedish Krona	**678**	68
Other	**3,343**	2,337
	$46,530	$43,380

The impact of a change in the exchange rate between Canadian dollars and any of the major currencies would be:

- A higher or lower value of investments denominated in the foreign currency
- A higher or lower investment income, arising from changes in the exchange rates used to translate items in the consolidated financial statements

(h) Liquidity risk

Liquidity risk refers to the risk that the Plan does not have sufficient cash to meet its current payment liabilities and acquire investments in a timely and cost-effective manner. Liquidity risk is inherent in the Plan's operations and can be impacted by a range of situation specific and market-wide events including, but not limited to, credit events and significant movements in the market.

Liquidity risk management
The liquidity position of the Plan is analyzed daily to ensure the Plan maintains at least 1% of its assets in unencumbered Canadian treasury bills. The Plan also manages its liquidity by holding additional unencumbered Government of Canada securities (bonds, treasury bills and real-rate bonds) and U.S. Government securities that are available for repurchase agreements so that the Plan is able to withstand the liquidity effects of an equity market downturn that have 1-in-10 and 1-in-100 chance of occurring over a one-year time horizon. The Plan's liquidity position is periodically tested by simulations of major events such as significant movements in the market.

Liquid assets
The Plan maintains a portfolio of highly marketable assets including Canada and U.S. government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow. The fair value of the Canada and U.S. government bonds is $43,285 million as at December 31, 2010 (2009 – $28,495 million). The Plan also has publicly traded equities of $31,358 million (2009 – $22,419 million) which are listed on major recognized stock exchanges. These securities are readily realizable and convertible to cash.

Contractual maturity
The Plan does not manage its liquidity based on the contractual maturity of the investment-related liabilities, including derivatives. It may settle the investment-related liabilities, including derivatives, before contractual maturity at fair value. Therefore, all investments and investment-related liabilities (other than the consolidated liabilities from subsidiaries, VIEs and joint ventures) are considered to mature within one year. The Plan's other liabilities include due to brokers, accounts payable and accrued liabilities that are also due within one year.

The Plan also has consolidated liabilities from subsidiaries, VIEs and joint ventures as it consolidates subsidiaries and VIEs and proportionately consolidates joint ventures in accordance with Canadian Generally Accepted Accounting Principles. However, the Plan does not have any contractual obligation related to the consolidated liabilities to deliver cash or other financial assets to another party or to exchange any financial instruments with another party under conditions that are potentially unfavourable to the Plan. The Plan's investment-related liabilities by maturity as at December 31 are as follows:

				2010
($ millions)	*Within One Year*	*One to Five Years*	*Over Five Years*	***Total***
Securities sold under agreements to repurchase	$(28,245)	$ –	$ –	**$(28,245)**
Securities sold but not yet purchased				
Fixed income	(898)	–	–	**(898)**
Equities	(249)	–	–	**(249)**
Joint ventures	(1,059)	(1,378)	(5,573)	**(8,010)**
Subsidiaries and VIEs	(2,427)	(2,860)	(3,438)	**(8,725)**
Real estate	(762)	(920)	(749)	**(2,431)**
Cash collateral received under credit support annexes	(383)	–	–	**(383)**
Derivative-related, net	(1,698)	–	–	**(1,698)**
Total	$(35,721)	$(5,158)	$(9,760)	**$(50,639)**

				2009
($ millions)	Within One Year	One to Five Years	Over Five Years	Total
Securities sold under agreements to repurchase	$ (9,684)	$ –	$ –	$ (9,684)
Securities sold but not yet purchased				
Fixed income	(1,429)	–	–	(1,429)
Equities	(983)	–	–	(983)
Joint ventures	(775)	(1,817)	(2,341)	(4,933)
Subsidiaries and VIEs	(1,679)	(3,000)	(2,639)	(7,318)
Real estate	(617)	(2,302)	(644)	(3,563)
Cash collateral received under credit support annexes	(268)	–	–	(268)
Derivative-related, net	(2,213)	–	–	(2,213)
Total	$(17,648)	$(7,119)	$(5,624)	$(30,391)

(i) **Securities collateral**

Canadian and U.S. government securities with a fair value of $858 million (2009 – $2,378 million) have been deposited or pledged with various financial institutions as collateral or margin. The Plan is not allowed to pledge the same securities with other financial institutions or sell them to another entity unless the Plan could substitute such securities with other securities that the counterparties accept.

Canadian and U.S. government securities with a fair value of $447 million (2009 – $269 million) have been received from various financial institutions as collateral. The Plan holds the collateral received as long as the Plan is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral but it has not sold or repledged any collateral as of December 31, 2010 and 2009.

NOTE 3.

Receivable from the Province of Ontario

The receivable from the Province consists of required matching contributions and interest thereon.

($ millions)	2010	2009
Contributions receivable	**$2,554**	$2,445
Accrued interest receivable	**73**	79
	$2,627	$2,524

The receivable as at December 31, 2010 from the Province consists of $1,316 million, which was received in January 2011, and an estimated $1,311 million to be received with interest in 2012. The receivable as at December 31, 2009 from the Province consisted of $1,245 million, which was received in January 2010, and an initial estimate of $1,279 million to be received in January 2011.

NOTE 4.

Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined by reference to market rates consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents accumulated deferred net losses/(gains), being the unamortized difference between the actual, and management's best estimate of, return on the Plan's equity investments (including real estate, commodities, alternative investments, and infrastructure and timberland). Annual returns that are in excess of (gains) or below (losses) management's best estimate of returns are amortized over five years. Upon adopting CICA Section 4600 in 2011, the actuarial asset value adjustment will no longer be deferred and amortized. All unamortized losses will be retroactively recognized. The decrease in actuarial asset value adjustment for the year was $6,049 million (2009 – $6,820 million).

Fixed income securities are valued at fair value on a basis consistent with the discount rate used to value the Plan's accrued pension benefits, and therefore do not give rise to the need for an adjustment to net assets.

The following schedule summarizes the composition of the actuarial asset value adjustment as at December 31:

	Unamortized (Gains)/Losses	*Unamortized (Gains)/Losses*
($ millions)	*2010*	*2009*
2006	$ –	$ (1,268)
2007	818	1,637
2008	10,395	15,593
2009	(2,443)	(3,258)
2010	(2,115)	–
	$ 6,655	$12,704

NOTE 5.

Accrued pension benefits

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $146,893 million (2009 – $131,858 million) reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, salary escalation rate and the inflation rate. The discount rate is based on the market rate, as at the valuation date, of long-term Government of Canada real-return bonds, which have characteristics similar to the Plan's liabilities, plus 50 basis points to reflect the credit risk of the Province of Ontario. The inflation rate is the difference between the yield on Government of Canada long-term nominal bonds and Government of Canada real-return bonds. The salary escalation rate incorporates the inflation rate assumption and long-term expectation of growth in real wages. A summary of the primary economic assumptions, as at December 31, is as follows:

	2010	*2009*
Discount rate	4.05%	4.60%
Salary escalation rate	3.40%	3.55%
Inflation rate	2.40%	2.55%
Real rate	1.65%	2.05%

The primary economic assumptions were changed as a result of changes in capital markets during 2010. These changes resulted in a net increase in the value of accrued pension benefits of $10,242 million (2009 – $9,941 million). The assumed mortality rates and expected rates of improvement in future mortality rates were updated in deriving the December 31, 2010 accrued benefits to reflect recent mortality experience of Plan members. Changes in non-economic assumptions and methods increased the accrued pension benefits by $198 million (2009 – nil). Otherwise, there were no changes to the non-economic assumptions in 2009 and 2010. The changes in economic and non-economic assumptions resulted in a net increase in the value of accrued pension benefits of $10,440 million (2009 – $9,941 million).

(b) Plan provisions

Credited service earned after December 31, 2009 is subject to conditional inflation protection as described in paragraph (f) of the Description of Plan note. The inflation protection benefits vary between 50% and 100% of the change in the Consumer Price Index. The co-sponsors may only invoke the conditional inflation protection provision at the time of a funding valuation filing, depending on the Plan's funded status. The Ontario government and designated employers participating in the Plan will make extra contributions to the Plan equal to any inflation protection benefits members forego.

For financial statement valuations, the Plan accrues the minimum amount of inflation protection benefits in accordance with the guidance of the CICA Handbook Section 3290, Contingencies. Conditional inflation protection was not invoked in the funding valuation last filed. Should the co-sponsors invoke it in the next required funding valuation as at January 1, 2012, conditional inflation protection would be applicable starting January 1, 2013; therefore the indexation percentage for post-2009 credited service is 100% up to December 31, 2012 and 50% for the period thereafter. The indexation percentage for credited service earned before 2010 remains at 100%.

If 100% indexation had been assumed for the entire period, the accrued pension benefits would increase $755 million to $147,648 million. The present value of the maximum extra contributions the Plan would receive from the Ontario government and designated employers would be $755 million should the co-sponsors invoke conditional inflation protection in the next required funding valuation.

(c) Experience gains

Experience gains on the accrued pension benefits of $316 million (2009 – $111 million) arose from differences between the actuarial assumptions and actual results.

NOTE 6.

Investments in joint ventures

The Plan's proportionate share of the fair value of assets and liabilities in joint ventures as at December 31, 2010 (excluding joint ventures related to real estate which are disclosed in note 8) is $12,353 million (2009 – $7,996 million) and $8,010 million (2009 – $4,933 million), respectively.

NOTE 7.
Consolidation of subsidiaries and variable interest entities
Subsidiaries and variable interest entities
The Plan's fair value of assets and liabilities of subsidiaries (excluding the real estate subsidiaries included in note 8) and VIEs at December 31, 2010 is $14,318 million (2009 – $11,665 million) and $8,725 million (2009 – $7,318 million), respectively.

Subsidiaries
In 2010, the Plan acquired a controlling interest in the following companies for consideration of $612 million comprised primarily of cash:

- a 79% interest in Acorn Care and Education Ltd., a provider of special needs schools and independent fostering services in the U.K.;
- a 100% interest in Camelot Group Ltd., which has an exclusive licence to operate the U.K. National Lottery;
- an 81% interest in Exal Group, a manufacturer of aluminum containers in the U.S.; and
- a 100% interest in Ledgewood Bay Property LLC, which operates a seniors housing property in the U.S.

On the date of acquisition, the consideration paid represented the cumulative fair value of the net assets.

NOTE 8.
Investment in real estate
(a) Investment in real estate
The Plan's investment in real estate, which is comprised of real estate-related investments that are either owned or managed on behalf of the Plan by The Cadillac Fairview Corporation Limited, a wholly-owned subsidiary, as at December 31, is as follows:

	2010		2009	
($ millions)	*Fair Value*	*Cost*	*Fair Value*	*Cost*
Assets[1]				
Real estate properties[2]	**$17,100**	**$12,505**	$15,461	$12,167
Investments	**1,831**	**1,392**	1,992	1,509
Other assets[2]	**361**	**321**	319	248
Total assets	**19,292**	**14,218**	17,772	13,924
Liabilities[1]				
Debt on real estate properties[2]	**1,719**	**1,792**	2,947	2,984
Other liabilities[2]	**712**	**528**	616	484
Total liabilities	**2,431**	**2,320**	3,563	3,468
Net investment in real estate	**$16,861**	**$11,898**	$14,209	$10,456

[1] As at December 31, 2010, U.S. Dollar and British Pound Sterling net assets have been hedged by way of foreign currency forward contracts for a notional amount of $1,253 million (2009 – $1,698 million) with a combined fair value of $24 million (2009 – $71 million).

[2] Includes the proportionate share of assets and liabilities in real estate joint ventures of $3,259 million (2009 – $3,489 million) and $1,305 million (2009 – $1,371 million), respectively.

(b) **Real estate income**

The Plan's real estate income for the year ended December 31, is as follows:

($ millions)	*2010*	*2009*
Revenue		
Rental	$1,773	$1,698
Investment and other	66	106
	1,839	1,804
Expenses		
Property operating	776	724
General and administrative	32	28
Other[6]	24	11
	832	763
Operating income (note 9)	1,007	1,041
Interest expense (note 9)	(159)	(158)
	848	883
Net investment gain on real estate assets and other liabilities[3][5]	1,574	95
Net investment (loss)/gain on debt on real estate properties[4][5]	(55)	75
Net real estate income	$2,367	$1,053

[3] Includes unrealized net gain on real estate assets and other liabilities, of $1,189 million (2009 – losses of $18 million).

[4] Includes unrealized net gain on debt on real estate properties and related hedge of $21 million (2009 – $55 million).

[5] This amount is included in net realized and unrealized gain/(loss) on investments shown in note 9.

[6] Includes transaction costs of $11 million (2009 – $3 million).

NOTE 9.

Investment income

(a) Investment income/(loss) before allocating net realized and unrealized gains/(losses) on investments, direct management fees and transaction costs to asset classes

Investment income, before allocating the net realized and unrealized gains on investments and transaction costs to asset classes, for the year ended December 31, is as follows:

($ millions)	*2010*	*2009*
Fixed income interest		
Debentures	$ 156	$ 306
Money-market securities	(138)	9
Bonds	1,049	923
Net repo interest expense	(56)	(41)
Net swap interest expense	(106)	(171)
Canadian real-rate products	393	330
Non-Canadian real-rate products	150	173
	1,448	1,529
Equity dividend income		
Canadian equity	148	137
Non-Canadian equity	643	662
	791	799
Real assets		
Real estate operating income (note 8b)	1,007	1,041
Real estate interest expense (note 8b)	(159)	(158)
Infrastructure	273	187
Timberland	43	34
	1,164	1,104
	3,403	3,432
Net realized and unrealized gain on investments(1)(2)	10,210	7,669
Direct management fees	(256)	(190)
Transaction costs	(88)	(20)
Investment income	$13,269	$10,891

(1) Includes unrealized net gains of $6,755 million (2009 – $10,546 million).

(2) Includes net foreign currency gains of $569 million (2009 – $1,607 million).

(b) **Investment income/(loss)**

Investment income/(loss) by asset class, after allocating net realized and unrealized gains and losses on investments, direct management fees, and transaction costs for the year ended December 31, is as follows:

($ millions)	*2010*	*2009*
Fixed income	**$ 4,172**	$ 3,144
Canadian equity	**1,659**	1,140
Non-Canadian equity	**3,678**	6,087
Commodities	**660**	(51)
Real assets	**3,100**	571
	$13,269	$10,891

NOTE 10.

Investment returns and related benchmark returns

Investment returns and related benchmark returns by investment asset class for the year ended December 31, are as follows:

	2010		*2009*	
(percent)	***Investment Returns***	***Investment Benchmark Returns***	*Investment Returns*	*Investment Benchmark Returns*
Fixed income[(1)(3)]	**9.9%**	**9.5%**	6.9%	3.7%
Canadian equity	**14.6**	**13.8**	23.5	31.9
Non-Canadian equity	**9.4**	**5.9**	21.2	13.6
Commodities[(2)]	**3.2**	**3.3**	(3.9)	(3.6)
Real assets[(1)(2)]	**13.9**	**5.5**	2.5	3.4
Total Plan[(3)]	**14.3%**	**9.8%**	13.0%	8.8%

(1) Starting January 1, 2010, returns generated by real-rate products, previously classified as real assets are included in fixed income. 2009 comparative returns have been reclassified to reflect this change.

(2) Starting January 1, 2010, returns generated by commodities, previously classified as real assets, are attributed to their own asset class. 2009 comparative returns have been reclassified to reflect this change.

(3) Starting January 1, 2010, returns generated by absolute return strategies and money market, previously included in fixed income, are included in the Total Plan return and not attributed to an asset class. 2009 comparative returns have been reclassified to reflect this change. This change had no impact on Total Plan returns.

Investment returns have been calculated in accordance with the acceptable methods set forth by the CFA Institute and the Pension Investment Association of Canada.

The Plan identifies benchmarks to evaluate the investment management performance. The performance of each asset class is measured against benchmarks that simulate the results based on the investment strategies employed by the investment managers identified for the asset class.

The Total Plan return is measured against a Canadian dollar-denominated composite benchmark produced by aggregating returns from each of the policy asset class benchmarks, using the Plan's asset-mix policy weights.

NOTE 11.

Statutory actuarial valuations

Statutory actuarial valuations are prepared periodically to determine the funding requirements of the Plan. Active members are currently required to contribute 10.4% of the portion of their salaries covered by the CPP and 12.0% of salaries above this level. Member contributions are matched by the Province and other employers. In addition, the Funding Management Policy established by the co-sponsors provides procedures for the co-sponsors to determine contributions and benefits.

The actuarial methods used to prepare statutory actuarial valuations are different than those used to prepare a financial statement actuarial valuation and the amounts disclosed in these consolidated financial statements. The statutory actuarial valuations use a valuation method which takes into account future benefits to be earned and future contributions to be made by members of the Plan as at the valuation date.

The most recent statutory actuarial valuation that has been filed with regulatory authorities was prepared as at January 1, 2009 by Mercer (Canada) Limited and disclosed a funding surplus of $765 million.

Using the assumptions prescribed by the Funding Management Policy, the estimate of the funding deficit is approximately $17,199 million as at January 1, 2011, assuming no change to the contribution rates, and that conditional indexing for post-2009 service will be at the 100% level. A funding valuation is not required to be filed with FSCO until 2012.

NOTE 12.

Contributions

($ millions)	*2010*	*2009*
Members		
Current service	$1,294	$1,259
Optional credit	19	19
	1,313	1,278
Province of Ontario		
Current service	1,280	1,332
Interest	52	60
Optional credit	16	16
	1,348	1,408
Other employers	25	24
Transfers from other pension plans	11	13
	36	37
	$2,697	$2,723

NOTE 13.
Benefits paid

($ millions)	2010	2009
Retirement pensions	$4,190	$4,086
Death benefits	244	234
Disability pensions	30	31
Commuted value transfers	21	28
Transfers to other plans	10	6
Refunds	5	8
	$4,500	$4,393

NOTE 14.
Administrative expenses

(a) Investment expenses

($ millions)	2010	2009
Salaries, incentives and benefits	$195.3	$133.4
Premises and equipment	30.6	23.7
Professional and consulting services	26.0	20.8
Information services	14.5	12.6
Communication and travel	10.0	9.3
Custodial fees	9.0	10.3
Statutory audit fees	1.3	1.2
Board and committee remuneration	0.6	0.7
Other	2.7	2.2
	$290.0	$214.2

(b) Member Services expenses

($ millions)	2010	2009
Salaries, incentives and benefits	$27.9	$24.8
Premises and equipment	9.2	7.9
Professional and consulting services	4.0	3.3
Communication and travel	1.5	1.2
Statutory audit fees	0.1	0.4
Board and committee remuneration	0.1	0.2
Other	0.8	0.8
	$43.6	$38.6

NOTE 15.
Capital

Under CICA Section 1535, Capital Disclosures, the Plan is required to disclose the Plan's capital and how it is managed. For disclosure purposes under this requirement, the funding surpluses or deficits determined regularly in the funding valuations prepared by an independent actuary are described as the Plan's capital in the consolidated financial statements. The actuary's funding valuation is used to measure the long-term health of the Plan. The actuary tests the Plan's ability to meet its obligations to all current Plan members and their survivors. Using an assumed rate of return, the actuary projects the Plan's benefits to estimate the current value of the liability (see note 5), which is compared to the sum of the Plan assets, the future contributions for all current Plan members and the present value of the contribution increases for future members. The result of the comparison is either a surplus or a deficit.

The objective of managing the Plan's capital is to ensure the Plan is fully funded to pay the plan benefits over the long term. The co-sponsors change the benefit and contribution levels to eliminate any deficits. The Funding Management Policy set by the co-sponsors in the Partners' Agreement provides guidance on how the co-sponsors manage the Plan's capital.

A funding valuation including a plan to eliminate any deficit is required to be filed with the pension regulator at least every three years. A preliminary funding valuation is performed by the actuary when the valuation is not filed with the regulator assisting the co-sponsors in managing the Plan's capital.

The most recent funding valuation filed and preliminary funding status are disclosed in note 11.

NOTE 16.
Retirement Compensation Arrangement (RCA)

Restrictions in the ITA on the payment of certain benefits from a registered plan for periods of service after 1991 may impact some Plan members. To address affected members, the RCA was established by agreement between the co-sponsors as a supplementary plan to provide these benefits.

The RCA is administered under a trust separate from the assets of the Plan. The Board has been appointed by the co-sponsors to act as the trustee of the RCA.

Because the RCA is a separate trust and the Plan does not hold any variable interest in the RCA, the net assets available for benefits and the value of accrued benefits and deficit, referred to below, have not been included in the consolidated financial statements of the Plan.

The RCA is funded on a pay-as-you-go basis from a portion of the contributions made to the Plan by teachers, the Province and designated private schools and organizations. The portion is based on a limit on contributions to the Plan with contributions above the limit being remitted to the RCA. The limit is determined annually by the Plan's independent actuary such that the RCA contributions are expected to be sufficient to pay the benefits over the next 12 months. At the beginning of 2011, the actuary determined that the limit should increase from $14,000 to $14,500. Due to the funding policy adopted by the co-sponsors, the net assets available for benefits will continue to be substantially less than the accrued benefits.

In addition, because it is difficult to predict the benefits expected to be paid over the next 12 months, it is possible that the assets may be insufficient to pay the benefits. In such a case, the payment of benefits will be temporarily suspended and contributions raised in order to fund the payments that are due under the RCA.

A summary of the financial statements for the RCA as at December 31, is as follows:

($ thousands)	2010	2009
Statement of net assets available for benefits and accrued benefits and deficit		
Net assets available for benefits		
Assets	$ 16,781	$ 14,931
Liabilities	(1,412)	(1,206)
	$ 15,369	$ 13,725
Accrued benefits and deficit		
Accrued benefits	$ 383,582	$ 295,992
Deficit	(368,213)	(282,267)
	$ 15,369	$ 13,725
Statement of changes in net assets available for benefits		
Contributions	$ 6,467	$ 4,446
Investment income	42	27
	6,509	4,473
Benefits paid	4,810	4,425
Expenses	55	63
	4,865	4,488
Increase/(decrease) in net assets	$ 1,644	$ (15)

The actuarial assumptions used in determining the value of accrued benefits are consistent with the assumptions used in the Plan except that the assumed discount rate has been adjusted to reflect the effect of the 50% refundable tax under the RCA.

The estimate of the value of accrued benefits is highly sensitive to salary increases, both actual and assumed. Any changes to the salary assumptions will have a significant effect on the liabilities for future benefits. In addition, significant uncertainty exists in projecting the liabilities of the RCA due to changes in the number of future participants as well as changes to the income tax regulations relating to pensions.

NOTE 17.
Commitments

The Plan has committed to enter into investment and other transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2010, these commitments totalled $7,449 million (2009–$8,831 million).

NOTE 18.

Guarantees and indemnifications

Guarantees

In 2004, as part of an investment transaction, the Plan agreed to guarantee a letter of credit facility of a counterparty. In the event that the counterparty defaults on the letter of credit, the Plan would assume 50% of the line of credit facility amount up to US$25 million as at December 31, 2010 (2009 – US$25 million) plus interest and transaction costs. These letters of credit facilities have a term of two years and are renewable. As at December 31, 2010, the counterparty has issued US$19 million in letters of credit which are guaranteed by the Plan (2009 – US$18 million).

The Plan acquired its pro-rata share of exposure to specified loans by entering into risk participation agreements. Under these agreements, when a borrower defaults payment of a specified loan, the Plan will pay the lenders its pro-rata share of a defaulted payment that was indirectly guaranteed. The maximum potential exposure is $133 million plus accrued interest as at December 31, 2010 (2009 – $125 million plus accrued interest). The risk participation agreements expire when the lenders receive full payment from the borrowers on the specified loans. No payments have been made by the Plan under risk participation agreements.

Certain joint ventures and subsidiaries have provided performance guarantees and/or letters of credit facilities during their normal course of business. The beneficiaries of these guarantees and/or letters of credit facilities have the ability to draw against these facilities to the extent the contractual obligations, as defined in the related agreements, are not met. The term of these guarantees and/or facilities can range from one year to twenty years. As at December 31, 2010, the maximum exposure is $406 million (2009 – $461 million).

The Plan also indirectly guarantees the underlying reference obligations when writing credit derivatives. The maximum potential exposure is the notional amount of written credit derivatives as shown in note 2c. No net payments related to written credit derivatives were made in 2010 (2009 – $239 million).

Indemnifications

The Plan provides that Board members, employees and certain others are to be indemnified against the expenses related to certain proceedings against them. In addition, in the normal course of operations, the Plan may, in certain circumstances, agree to indemnify a counterparty. Under these agreements, the Plan, its subsidiaries and joint ventures may be required to compensate counterparties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that would be required to pay all such counterparties.

NOTE 19.
Litigation

In 2007, the Board on behalf of the Plan made an equity commitment in respect of a proposed transaction pursuant to which a corporation (the "Purchaser") organized by several investors was proposing to acquire BCE Inc ("BCE"). Pursuant to the definitive agreement that was entered into between BCE and the Purchaser in respect of the proposed transaction, a break-up fee would have been payable by BCE in certain circumstances, and a reverse break-up fee would have been payable by the Purchaser in certain circumstances. Certain of the investors, including the Board, are parties to a limited guarantee of this reverse break-up fee. The transaction was terminated in 2008 because not all of the conditions required under the definitive agreement could be satisfied. In connection with the BCE transaction, the Board has been named as a defendant in the following cases:

Break fee litigation

BCE has made a claim in the Superior Court of Quebec for the reverse break-up fee of $1.2 billion under the BCE acquisition agreement. The Board would be responsible for 58.7% of such fee if the claim is successful. This action is still at the discovery stage. At this time it is not possible to predict the outcome.

Proposed class action

A proposed class action lawsuit was commenced in the Province of Saskatchewan in October 2008 regarding the non-payment of second and third quarter common share dividends by BCE. The plaintiff has taken no steps to advance the claim since 2008. A certification motion has not been scheduled. At this time it is not possible to predict the outcome.

NOTE 20.
Subsequent event

On January 19, 2011, a VIE of a real estate subsidiary of the Plan issued two debentures for a total of $2 billion. The two debentures comprised of $1.25 billion 3.24% Series A Debentures maturing on January 25, 2016 and $0.75 billion 4.31% Series B Debentures maturing on January 25, 2021. The debentures may be redeemed by the issuer at any time prior to maturity.

Major investments

Fixed income and short-term investments over $100 million

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Government of Canada bonds	2011–2041	1.00–10.50	$ 20,482	$ 19,652
Canadian corporate bonds	2011–2056	0.00–30.00	3,081	3,131
Securities purchased under agreements to resell	2011–2011	-0.20–1.00	2,286	2,291
Canada treasury bills	2011–2011	0.00–0.00	2,138	2,137
International corporate bonds	2011–2038	0.00–15.55	2,059	2,601
United States treasury bonds	2011–2012	0.75–1.00	1,538	1,577
Provincial bonds	2017–2042	0.00–9.50	688	678
Bank notes	2011–2011	0.00–0.00	140	141
Securities sold under agreements to repurchase	2011–2011	0.22–1.38	(28,245)	(28,741)

Real-return investments over $100 million

Type ($ millions)	*Maturity*	*Coupon (%)*	*Fair Value*	*Cost*
Real-return Canada bonds	2021–2044	1.50–4.25	$12,258	$9,797
United States treasury inflation protection	2012–2040	1.75–3.88	6,869	6,892
Real-return provincial bonds	2013–2036	2.00–4.50	1,914	1,333
Real-return Canada corporate bonds	2016–2046	0.00–5.33	1,865	843
Index-linked mortgages	2023–2030	4.63–5.53	170	146

Province of Ontario debentures over $100 million

Maturity Date ($ millions)	*Coupon (%)*	*Fair Value*	*Cost*
2011–2012	10.68–11.31	$1,333	$1,223

Corporate shares/units over $100 million

(as at December 31, 2010) (millions)

Security Name	Shares	Fair Value
Multiplan Empreendimentos Imobiliários S.A.	52.1	$1,152.0
Northumbrian Water Group plc	138.8	724.9
OGX Petróleo e Gás Participações S.A.	56.9	679.7
Deutsche Telekom AG	51.6	664.7
Vodafone Group Plc	248.8	653.2
Hitachi, Ltd.	119.1	631.9
Hammerson plc	82.2	545.0
Transocean Ltd.	6.8	469.7
Potash Corporation of Saskatchewan Inc.	2.9	453.1
Barrick Gold Corporation	7.1	379.5
LLX Logistica S.A.	124.1	348.3
Eni S.p.A.	15.7	342.4
Akzo Nobel N.V.	5.1	318.0
Royal Bank of Canada	6.0	310.7
Goldcorp Inc.	6.7	309.7
Macdonald, Dettwiler and Associates Ltd.	6.1	306.2
HSBC Holdings plc	29.0	296.0
Portx Operações Portuárias S.A.	124.1	273.0
JPMorgan Chase & Co.*	6.4	268.1
BRF–Brasil Foods S.A.	15.9	262.1
ACE Limited	4.1	252.6
Toronto-Dominion Bank, The	3.9	243.0
Royal Dutch Shell plc	7.3	241.7
Nestlé SA	3.9	229.1
UBS AG	13.8	225.9
Intel Corporation	10.3	214.4
Total SA	4.0	212.2
The Walt Disney Company	5.6	211.0
The McGraw-Hill Companies, Inc.	5.8	211.0
Bank of Nova Scotia	3.5	199.8
Microsoft Corporation	7.1	198.3
Suncor Energy, Inc.	5.2	197.2
3M Company	2.3	194.5
Itaú Unibanco Holding S.A.	8.1	194.0
PSA Peugeot Citroen	5.1	192.7
Wells Fargo & Company*	6.9	190.4
Pfizer Inc.	10.4	181.0
Unilever N.V.	5.8	178.7
Safeway Inc.	7.8	176.2
Canadian Natural Resources Limited	4.0	176.1
Rio Tinto plc	2.4	169.0

Security Name	Shares	Fair Value
Novartis AG	2.8	$166.5
Apple Inc.	0.5	161.2
Thermo Fisher Scientific Inc.	2.9	160.2
MMX Mineracao e Metalicos SA	23.5	158.3
Exxon Mobil Corporation	2.1	149.2
Applied Materials, Inc.	10.5	146.9
Teva Pharmaceutical Industries Ltd.	2.8	146.1
Carnival Corporation	3.1	140.9
Yahoo! Inc.	8.5	140.6
Cheasapeake Energy Corporation	5.3	136.9
NuVista Energy Ltd.	14.4	134.3
Carrefour SA	3.2	131.9
Dell Inc.	9.6	129.4
DIRECTV	3.2	128.7
SAP AG	2.5	127.8
Viacom Inc.	3.2	126.5
Capital One Financial Corporation*	3.1	125.8
Toyota Motor Corporation	3.1	122.7
Daiwa Securities Group Inc.	23.9	122.2
Cisco Systems, Inc.	6.1	121.7
Nippon Telegraph and Telephone Corporation	2.6	118.1
Marisa Lojas S.A.	7.8	118.0
Samsung Electronics Co., Ltd.	0.1	117.6
Symantec Corporation	7.0	117.1
Woodside Petroleum Ltd.	2.7	116.5
Talisman Energy Inc.	5.2	115.0
Johnson & Johnson	1.8	111.0
Bank of Montreal	1.9	109.4
HRT Participações em Petróleo S.A.	0.1	108.2
Rockwell Collins, Inc.	1.9	107.4
Fairfax Financial Holdings Limited	0.3	105.3
Canadian Imperial Bank of Commerce	1.3	104.5
Yum! Brands, Inc.	2.1	102.6
CSX Corporation	1.6	102.4
Manulife Financial Corporation	6.0	102.1
SunTrust Banks, Inc.	3.5	101.3
Canadian National Railway Company	1.5	101.0
Cheung Kong (Holdings) Limited	6.6	100.5
Actividades de Construccion y Servicios, S.A	2.1	100.0

* Includes fair market value of warrants and subscription receipts.

Real estate investments over $100 million

(as at December 31, 2010)

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian regional shopping centres		
Champlain Place, Dieppe	804	100%
Chinook Centre, Calgary	1,380	100%
Fairview Mall, Toronto	878	50%
Fairview Park Mall, Kitchener	748	100%
Fairview Pointe Claire, Montreal	1,049	50%
Georgian Mall, Barrie	626	100%
Hillcrest Mall, Richmond Hill	586	100%
Le Carrefour Laval, Montreal	1,375	100%
Les Galeries D'Anjou, Montreal	1,226	50%
Les Promenades St. Bruno, Montreal	1,137	100%
Lime Ridge Mall, Hamilton	813	100%
Market Mall, Calgary	971	50%
Markville Shopping Centre, Markham	1,017	100%
Masonville Place, London	687	100%
Pacific Centre, Vancouver	1,440	100%
Polo Park Mall, Winnipeg	1,231	100%
Regent Mall, Fredericton	493	100%
Richmond Centre, Richmond	497	100%
Rideau Centre, Ottawa	693	100%
Sherway Gardens, Toronto	986	100%
Shops at Don Mills, Toronto	468	100%
The Promenade, Toronto	704	100%
Toronto Eaton Centre, Toronto	1,696	100%

Property	Total Square Footage (in thousands)	Effective % Ownership
Canadian office properties		
Encor Place, Calgary	359	100%
Granville Square, Vancouver	407	100%
HSBC Building, Vancouver	395	100%
Pacific Centre Office Complex, Vancouver	1,549	100%
PricewaterhouseCoopers Place, Vancouver	241	100%
RBC Centre, Toronto	1,228	100%
Shell Centre, Calgary	683	50%
Toronto-Dominion Centre Office Complex, Toronto	4,442	100%
Toronto Eaton Centre Office Complex, Toronto	1,897	100%
Waterfront Centre, Vancouver	410	100%
Yonge Corporate Centre, Toronto	670	100%
Canadian properties under development		
The Residences at The Ritz-Carlton and Ritz-Carlton Hotel, Toronto	N/A	40%
U.S. regional shopping centres		
Lakewood Mall, Lakewood, California	2,091	49%
Los Cerritos Center, Cerritos, California	1,309	49%
Queens Center, Queens, New York	964	49%
Stonewood Center, Downey, California	923	49%
Washington Square, Tigard, Oregon	1,326	49%
U.K. office properties		
Thomas More Square Estate, London	558	50%

Private companies and partnerships over $100 million

AB Acquisitions Holdings Ltd.
Acorn Care and Education Limited
Actera Partners L.P.
Alexander Forbes Limited
Alliance Laundry Systems, LLC
AOT Bedding Holding Corp.
Apollo Overseas Partners (Delaware 892) VI, L.P.
Apollo Overseas Partners (Delaware 892) VII, L.P.
Aquilex Holdings, LLC
Ares Corporate Opportunities Fund II, L.P.
Ares Corporate Opportunities Fund III, L.P.
Ashmore Global Special Situations Fund 4 Limited Partnership
Asia Opportunity Fund II, L.P.
Avaya Inc.
Barclays Structured Principal Invesment Fund L.P.
BC European Capital VII
BC European Capital VIII
BDCM Offshore Fund II Ltd.
BDCM Offshore Opportunity Fund II Ltd.
Birmingham International Airport
Bridgewater Pure Alpha Fund II Ltd.
Bristol Airport (Bermuda) Limited
Camelot Group plc
Carlisle Capital Structures Corporation
Cayman Cable Holding L.P.
Crestline Offshore Opportunity Fund, Ltd.
CTVglobemedia Inc.
CVI Global Value Fund B L.P.
Diamond Castle Partners IV-A, L.P.
Donnet Participações S.A.
Downsview Managed Account Platform Inc.
Easton-Bell Sports, LLC
Empresa de Servicios Sanitarios del Bio-Bio S.A.
EQT V (No. 2) Limited Partnership
Esval S.A.
Exal International Limited
Express Pipeline Ltd.
Fortress Macro Offshore Fund L.P.
GCT Global Container Terminals Inc.
Glenstone Capital Inc.
GMO Mean Reversion Fund (Offshore) L.P.
GNC Corporation, Inc.
Hancock Timber Resource Group
HS1 Limited
Hudson Catastrophe Fund, Ltd.
INC Research, Inc.
IntelSat, Ltd.
InterGen N.V.
Maple Financial Group Inc.
Maple Leaf Sports & Entertainment Ltd.
Marathon Special Opportunity Fund Ltd.
MBK Partners Fund II, L.P.
MBK Partners, L.P.
Northern Star Generation LLC
Nuevosur, S.A.
OLE Media Management, L.P.
Orbis SICAV Global Equity Fund
Park Square Capital, LLC
Park Square Capital Credit Opportunities L.P.
Permira IV L.P.
Pershing Square International, Ltd.
Providence Equity Partners V L.P.
Providence Equity Partners VI L.P.
Quinte Limited
R3, Ltd.
Resource Management Service Inc.
Scotia Gas Networks PLC
Silver Creek Low Vol CO Cayman LP
Silver Creek Special Opportunities Fund Cayman II, L.P.
Silver Creek Special Opportunities Fund Cayman III, L.P.
Silver Lake Partners III, L.P.
Sociedad Austral de Electricidad S.A.
Southern Cross Airports Corporation Holdings Inc.
Steward Trust
York Street Capital Partners II, L.P.

Eleven-year review

($ billions)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
CHANGE IN NET ASSETS											
Income											
Investment income	**$13.27**	$10.89	$(19.03)	$4.68	$12.31	$14.09	$10.80	$11.42	$(1.41)	$(1.74)	$6.21
Contributions											
Members/transfers	**1.35**	1.29	1.13	1.06	0.83	0.79	0.75	0.71	0.68	0.64	0.62
Province of Ontario	**1.35**	1.43	1.18	1.08	0.82	0.78	0.75	0.72	0.70	0.68	0.66
Total income	**15.97**	13.61	(16.72)	6.82	13.96	15.66	12.30	12.85	(0.03)	(0.42)	7.49
Expenditures											
Benefits paid	**4.50**	4.39	4.20	4.02	3.82	3.62	3.43	3.20	3.08	3.08	2.54
Investment expenses	**0.29**	0.21	0.15	0.23	0.22	0.21	0.19	0.16	0.10	0.12	0.10
Client service expenses	**0.05**	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.04	0.03
Total expenditures	**4.84**	4.64	4.39	4.29	4.07	3.86	3.65	3.39	3.21	3.24	2.67
Increase (decrease) in net assets	**$11.13**	$ 8.97	$(21.11)	$2.53	$ 9.89	$11.80	$ 8.65	$ 9.46	$(3.24)	$(3.66)	$4.82
NET ASSETS											
Investments											
Fixed income											
Bonds	**$ 22.73**	$ 15.46	$ 14.22	$ 22.91	$ 20.86	$ 5.28	$ 8.96	$ 10.30	$ 13.80	$ 7.56	$ 10.77
Real-rate products	**23.24**	19.88	17.41	11.06	11.80	10.56	11.90	7.07	5.92	6.98	9.55
Equities											
Canadian	**9.29**	8.43	6.21	13.73	16.39	19.26	16.80	15.19	13.43	17.06	17.74
Non-Canadian	**38.20**	32.75	28.72	36.31	32.42	25.78	23.09	19.13	18.19	24.28	23.14
Commodities	**5.22**	1.94	1.25	3.02	2.32	2.65	2.13	1.89	1.48	1.09	2.10
Real assets											
Real estate	**16.86**	14.21	13.48	13.41	11.12	8.75	7.20	6.20	7.28	7.25	6.20
Infrastructure	**7.07**	5.57	7.23	6.72	4.73	3.80	2.29	1.50	0.88	0.03	–
Timberland	**2.22**	2.34	2.80	2.12	2.05	0.97	0.70	0.40	0.09	–	–
Absolute return strategies	**11.38**	11.67	14.75	12.30	15.21	9.49	11.18	10.69	2.52	2.80	–
Money market	**(31.49)**	(18.74)	(20.97)	(13.58)	(11.22)	8.26	(2.53)	2.06	1.85	1.07	2.55
Net investments	**104.72**	93.51	85.10	108.00	105.68	94.80	81.72	74.43	65.44	68.12	72.05
Receivable from Province of Ontario	**2.63**	2.52	2.19	1.84	1.58	1.50	1.42	1.36	1.32	1.28	1.25
Other assets	**51.28**	31.02	47.35	48.19	35.47	20.90	23.17	11.30	23.45	24.26	13.15
Total assets	**158.63**	127.05	134.64	158.03	142.73	117.20	106.31	87.09	90.21	93.66	86.45
Liabilities	**(51.10)**	(30.65)	(47.20)	(49.48)	(36.72)	(21.07)	(21.98)	(11.41)	(24.00)	(24.20)	(13.33)
Net assets	**107.53**	96.40	87.44	108.55	106.01	96.13	84.33	75.68	66.21	69.46	73.12
Smoothing reserve	**6.66**	12.71	19.52	(3.63)	(11.16)	(7.44)	(1.54)	3.48	9.65	2.97	(4.34)
Actuarial value of net assets	**114.19**	109.11	106.96	104.92	94.85	88.69	82.79	79.16	75.86	72.43	68.78
Accrued pension benefits	**146.89**	131.86	118.14	115.46	110.50	110.53	96.73	83.12	73.67	65.43	58.56
Surplus (deficit)	**$ (32.70)**	$(22.75)	$(11.18)	$(10.54)	$(15.65)	$(21.84)	$(13.94)	$ (3.96)	$ 2.19	$ 7.00	$ 10.22
PERFORMANCE (%)											
Rate of return	**14.3**	13.0	(18.0)	4.5	13.2	17.2	14.7	18.0	(2.0)	(2.3)	9.3
Benchmark	**9.8**	8.8	(9.6)	2.3	9.4	12.7	10.6	13.5	(4.8)	(5.3)	5.3

Funding valuation history

Funding valuations must be filed with the pension regulator at least every three years. Valuation dates and voluntary filings are determined by the OTF and the Ontario government. Filings must show the plan has sufficient assets to pay all future benefits to current plan members. For reference, all previously filed funding valuations and decisions made to use surplus or address shortfalls are detailed in this section. Assumptions used for each valuation are also reported below.

FILED FUNDING VALUATIONS[1]

(as at January 1) ($ billions)	*2009*	*2008*	*2005*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
Net assets	$ 87.4	$ 108.5	$ 84.3	$ 66.2	$ 69.5	$ 73.1	$ 68.3	$ 59.1	$ 54.5
Smoothing adjustment	19.5	(3.6)	(1.5)	9.7	3.0	(4.3)	(7.3)	(5.1)	(6.0)
Value of assets	106.9	104.9	82.8	75.9	72.5	68.8	61.0	54.0	48.5
Future contributions									
Current members	25.9	23.6	16.7	14.7	13.7	14.4	13.4	12.0	12.6
Special contribution increases[2]									
Current members	4.0	4.2	4.3	–	–	–	–	–	–
Future members	1.5	1.4	1.9	–	–	–	–	–	–
Special payments[3]	–	–	–	–	–	–	–	3.7	8.5
Actuarial assets	138.3	134.1	105.7	90.6	86.2	83.2	74.4	69.7	69.6
Future benefits									
Current members	(137.5)[4]	(134.1)[4]	(105.6)	(89.1)	(84.3)	(76.4)	(69.8)	(66.2)	(62.8)
Surplus	$ 0.8	$ 0.0	$ 0.1	$ 1.5	$ 1.9	$ 6.8	$ 4.6	$ 3.5	$ 6.8

[1]Valuation filing dates determined by the plan sponsors.

[2]The preliminary 2005 funding valuation showed a $6.1 billion shortfall. The plan sponsors introduced special contribution increases to 2021 to address the shortfall, allowing a balanced funding valuation to be filed as required by the Ontario Pension Benefits Act.

[3]Owed by the Ontario government to pay off the plan's initial unfunded liability in 1990. The government used its portion of plan surpluses in the 1990s to eliminate the remaining payments.

[4]Assumes 100% inflation protection.

ASSUMPTIONS USED FOR FILED VALUATIONS

(as at January 1) (percent)	*2009*	*2008*	*2005*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
Rate of return	5.00	5.65	6.475	6.40	6.30	6.25	6.50	7.50	7.50
Inflation rate	1.35	2.20	2.750	2.05	1.90	2.20	2.25	3.50	3.50
Real rate of return	3.65	3.45	3.725	4.35	4.40	4.05	4.25	4.00	4.00

Funding decisions

The plan sponsors jointly decide what benefits the plan will provide; the contribution rate paid by working members and matched by government and other designated employers; and how any funding shortfall is addressed and any surplus is used. A history of the sponsors' plan funding decisions follows:

1990: Unfunded liability of $7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.

1993: $1.5 billion surplus; $1.2 billion used to reduce government's special payments; $0.3 billion used to offset government cost reductions in the education sector (social contract days).

1996: $0.7 billion surplus; $0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).

1998: $6.8 billion surplus; $2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; $4.6 billion to reduce the value of special payments owed by the government; OTF and Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next $6.2 billion would be available to the OTF for benefit improvements.

1999: $3.5 billion surplus; $3.5 billion to eliminate government's remaining special payments.

2000: $4.6 billion surplus; no changes to benefits or contribution levels.

2001: $6.8 billion surplus; $6.2 billion to pay for benefit improvements: permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions; $76 million was set aside in a contingency reserve to be used by the OTF at a later date.

2002: $1.9 billion surplus; no changes to benefits or contribution levels.

2003: $1.5 billion surplus; no changes to benefits or contribution levels; Funding Management Policy adopted by plan sponsors.

2005: $6.1 billion preliminary funding shortfall resolved, leaving plan with a $0.1 billion surplus; plan sponsors introduced special contribution rate increases to resolve the shortfall, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers; the OTF used the $76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.

2008: $12.7 billion preliminary funding shortfall resolved, leaving the plan in a balanced position; plan sponsors introduced conditional inflation protection for pension benefits earned after 2009 and increased the basic contribution rate to 9% from 8%.

2009: $2.5 billion preliminary funding shortfall resolved primarily by assuming a slightly higher long-term rate of return on investments: RRB yield plus 1.5% versus RRB plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.

Corporate directory

Ontario Teachers' Pension Plan

President and Chief Executive Officer
Jim Leech

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Peter Maher, Vice-President

enterprise Project Management Office
Jacqueline Beaurivage, Head

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David McGraw, Senior Vice-President and Chief Financial Officer
Tony Kalvik, Vice-President
Jennifer Newman, Vice-President

Human Resources
Marcia Mendes-d'Abreu, Vice-President

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Jeff Davis, Vice-President

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Russ Bruch, Vice-President, Chief Information Officer
Phil Nichols, Vice-President

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Dan Houle, Vice-President

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John M. Sullivan

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Cathal J. O'Connor, Executive Vice-President and Chief Financial Officer

General Counsel and Secretary
Sandra J. Hardy, Executive Vice-President

Investments
Andrea M. Stephen, Executive Vice-President

Operations
Ron Wratschko, Executive Vice-President

Annual Meeting

April 7, 2011 at 5 p.m.
Arcadian Court
401 Bay Street, 8th floor
Toronto

We welcome your comments and suggestions on this annual report.

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