

LEADING THE WAY

2011 REPORT TO MEMBERS



2011 HIGHLIGHTS

The Ontario Teachers' Pension Plan has earned a reputation for leadership and innovation in pension fund management since it was established in 1990. As defined benefit pension plans everywhere deal with economic and demographic challenges, Teachers' board and management are committed to helping the plan sponsors remain at the forefront with fair, realistic and sustainable solutions.

Investments

11.2% rate of return

Teachers' investments performed very well, increasing net assets to an all-time high of \$117.1 billion. Our ongoing focus on risk management directly supports members' long-term retirement security.

Member Services

9 out of 10

We continue to provide outstanding, personalized service to members at a reasonable cost. More than half of members surveyed for our Quality Service Index gave us a perfect 10 out of 10 for service delivery.

Plan funding

\$9.6 billion funding gap

Our annual preliminary funding valuation projects our assets against our liabilities (the cost of future pensions), looking out more than 70 years. Pension costs are growing faster than assets, causing recurring funding shortfalls.

INSIDE

Message from the Chair and CEO pg. 2-3
Plan funding pg. 4

Member Services pg. 5
Investments pg. 6-7

Report to members

A recent independent study determined that our service to members is second to none and our 10-year investment performance has been ranked number one among our international peer funds. The plan's funding challenges continue, however, and changes will be required to keep the plan affordable and viable in the future.

IMPRESSIVE RESULTS AMID MARKET CHAOS

The plan's investments earned a strong 11.2% rate of return in 2011, increasing net assets to \$117.1 billion. Taking a longer view, we have earned an average annual return of 8.0% over the last 10 years and 10.0% since 1990.

Investment gains were achieved last year amid difficult market conditions. We were one of the few pension plans globally to deliver this level of performance. We are also pleased to report that our rate of return exceeded the fund's 9.8% composite benchmark, generating \$1.4 billion in value-added returns (the amount by which we exceed our benchmark) – equivalent to the annual value of more than 37,000 pensions. Value-added returns directly reduce funding deficits and support the goal of pension security.

PENSION SERVICES BEST AMONG PEERS

In addition to investing, we deliver pension services directly to 300,000 working and retired members. We try to improve our service every year and track member satisfaction through regular surveys conducted by a third party. This feedback forms our Quality Service Index (QSI), which measured 9.0 out of 10 last year. Furthermore, an independent survey by CEM Benchmarking Inc. determined that our service was the best among peer pension plans. This is the second time we have earned first place in our group.

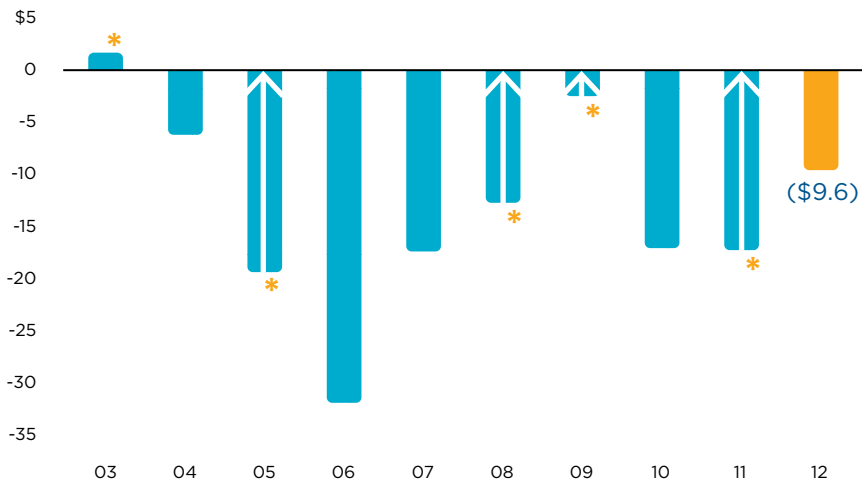
“We have earned an average of 10% since 1990 and have maintained quality service scores in the 9 out of 10 range for many years.”

JIM LEECH, MBA, ICD.D
PRESIDENT AND CHIEF EXECUTIVE OFFICER



PRELIMINARY FUNDING VALUATION

(as at January 1) (\$ billions)



Plan funding shortfalls are recurring due to a combination of demographic and economic factors.

* Sponsors filed a funding valuation that brought the fund into balance through contribution, benefit and/or economic assumption changes

PLAN CHANGES REQUIRED TO MEET RECURRING SHORTFALLS

Despite strong investment performance, the plan's preliminary funding valuation showed a \$9.6 billion shortfall between projected liabilities (the cost of future pensions for all members) and projected assets at January 1, 2012. As our members will recall, Ontario Teachers' Federation (OTF) and the Ontario government resolved a shortfall in 2011 but, once again, the plan is in a deficit position.

The pension plan has experienced recurring shortfalls because the cost of future pensions is growing faster than plan assets – and has been for several years. This imbalance is primarily due to increasing life expectancy and low interest rates. We anticipate high pension costs and modest asset growth will result in continued funding challenges unless the plan adapts to the new economic and retirement realities.

While Teachers' offers advice to help the plan sponsors – OTF and the Ontario government – as to the implications of the choices they are considering to keep the fund financially sound, ultimately the sponsors will decide which options to consider and adopt.

PENSION SECURITY IS OUR GOAL

The plan's funding challenges can be overcome. Small adjustments to the plan today will have a big impact many years from now and will keep it healthy for future retirees.

Members should feel reassured that the plan sponsors, with the counsel of Teachers' management and board, are working on your behalf to ensure your pensions will be there for you at a reasonable cost. Teachers' has a history of leading the pension industry, and we will continue to lead the way by seeking a fair and sustainable funding solution.

“Even with top investment results, the pension plan has recurring shortfalls and must adapt to the new economic and retirement realities.”

EILEEN MERCIER, MA, MBA, FICB, F.I.C.D.
CHAIR

Plan funding

The plan's most recent funding valuation projected a \$9.6 billion preliminary shortfall at January 1, 2012. This shortfall was anticipated and emerged despite strong investment returns and contribution rate and benefit changes announced last year to deal with the previous funding shortfall. Recurring funding shortfalls are primarily due to economic and demographic factors.

ECONOMIC



Uncertain markets mean we must project modest investment returns



Low real interest rates cause money to grow more slowly, which means the plan needs to set aside more money today for future pensions

DEMOGRAPHIC



Increased longevity results in many teachers collecting pensions for more years than they worked



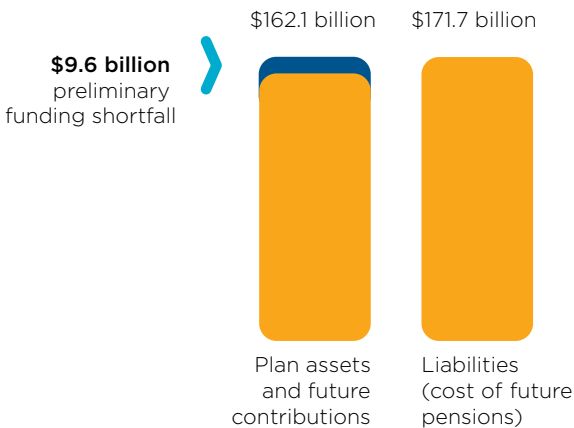
Declining ratio of working-to-retired members limits the amount of investment risk that can be taken to earn returns

WHAT IS A FUNDING VALUATION?

It is an independent actuary's assessment of the plan's long-term financial situation (70+ years in the future). Using a number of assumptions, it projects whether the pension plan has sufficient assets to cover the cost of future pension benefits for all current members. The plan sponsors use funding valuations to determine required contributions and pension benefit levels.

PRELIMINARY FUNDING VALUATION

(as at January 1, 2012)



WHAT IS BEING DONE TO ADDRESS FUNDING SHORTFALLS?

Last year, the plan sponsors introduced a 1.1% contribution increase phased in over three years, matched by the government and designated employers, and invoked conditional inflation protection for pension credit earned after 2009 to resolve a funding shortfall. The rate of return used to prepare the funding valuation was validated by the Hearing Officer jointly appointed by the sponsors. The next balanced funding valuation is required to be filed with Ontario's pension regulator by 2014.

The plan sponsors have three broad options to resolve funding shortfalls:

1. Increase contribution rates
2. Reduce inflation protection for the portion of members' credit earned after 2009
3. Reduce other future benefits. (The value of pension benefits already earned by retirees and working teachers is protected under current legislation.)

Visit otpp.com and FundingYourPension.com for more information on the plan's funding challenges.

Member Services

We provide services directly to a growing number of plan members and strive to offer exceptional service at a reasonable cost. We believe members deserve timely, reliable services and pension information that is relevant to them at different stages of their careers, and we aim to improve our level of service every year.

SERVICE HIGHLIGHTS

\$4.7 billion in pension benefits paid to 120,000 retirees and their survivors

54% of members gave us a 10 out of 10 in responding to service satisfaction surveys

More service to more members

395,000 member interactions, such as calls, e-mails and web sessions, including 181,000 personal member requests completed

Balancing service and cost

Cost per member was \$143 in 2011 compared to \$146 in 2010

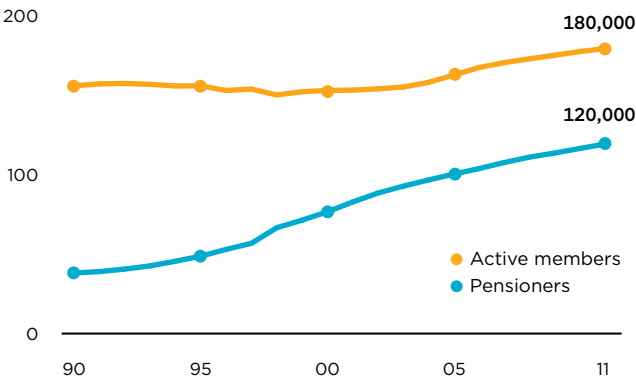
Growing use of online services

218,000 web sessions by members, most frequently for pension estimates and updates to personal information through *iAccess Web™*, our secure member website

“We must balance service with costs, membership growth with web and system optimizations, and strategy with regulation.”

ROSEMARIE McCLEAN, MBA, CMA, ICD.D
SENIOR VICE-PRESIDENT, MEMBER SERVICES

ACTIVE MEMBERS AND PENSIONERS
(as at December 31) (thousands)



The number of pensioners has tripled since 1990. The plan includes 102 pensioners who are 100 years of age or older.



Investments

Teachers' investments are well diversified to manage risk and maximize long-term returns for the pension plan. We invest in high-quality assets with an appropriate level of risk to produce strong growth for the pension fund. Investment gains were produced mainly in fixed income, private equity, real estate and infrastructure in 2011.

RATES OF RETURN COMPARED TO BENCHMARKS

(percent)	Actual	2011 Benchmark
Equities	(0.8)	(5.1)
Fixed income	19.9	19.5
Commodities	(2.3)	(1.5)
Real assets	13.1	13.3
Real estate	18.2	21.8
Timberland	0.8	10.2
Infrastructure	7.7	6.1
Total plan	11.2	9.8

Equities – Our investments in publicly listed and private companies around the world totalled \$51.7 billion at the end of 2011.

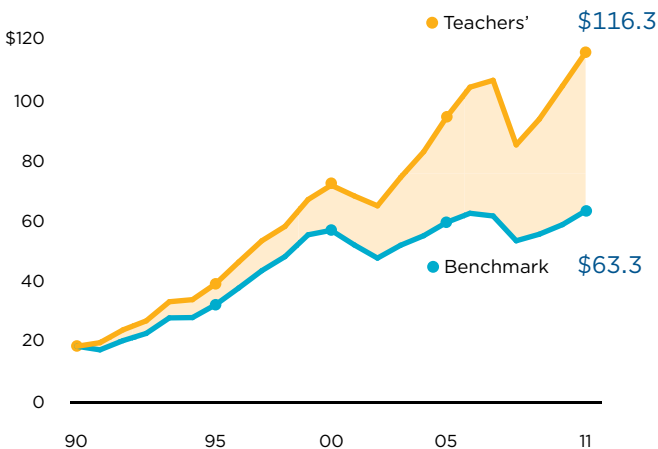
Fixed income – Bonds offer steady income and stability for the pension plan. We have steadily increased our holdings to \$55.8 billion since 2008's financial crisis.

Real estate – High-quality office and retail properties, mainly Canadian, are valued at \$15.0 billion and produce strong, predictable income.

Infrastructure – Infrastructure assets account for \$8.7 billion of the total portfolio and provide low-risk, stable returns linked to inflation growth.

INVESTMENT ASSET GROWTH

(as at December 31) (\$ billions)



By actively managing our portfolio we have added \$53.0 billion to the plan's asset size since inception.

RESPONSIBLE INVESTING

We became a signatory to the United Nations-backed Principles for Responsible Investment initiative (PRI) in 2011. Find out more at www.otpp.com/responsibleinvesting.

“We manage investment risk and a by-product is a solid return over the long run. This is the foundation of our performance.”

NEIL PETROFF, MBA

EXECUTIVE VICE-PRESIDENT, INVESTMENTS AND CHIEF INVESTMENT OFFICER



Major investments

All figures as at December 31, 2011

Bonds and real-return instruments

(\$ billions)

Government of Canada bonds	21.0
Canadian real-return bonds and mortgages	19.8
International government and real-return bonds and debt	9.6
Canadian treasury bills	5.8
Canadian and international corporate bonds	4.8
Province of Ontario debentures and provincial bonds	4.0

Top 10 private companies and partnerships

Copenhagen Airport A/S
GCT Global Container Terminals Inc.
Hancock Timber Resources Group
InterGen N.V.
Maple Leaf Sports & Entertainment Ltd.
Orbis SICAV Global Equity Fund
Providence Equity Partners Fund VI L.P.
Resource Management Service Inc.
Scotia Gas Networks PLC
The Brussels Airport Company

Top 10 real estate properties

(Portfolio managed by subsidiary The Cadillac Fairview Corporation Limited)

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

Corporate shares/units over \$100 million

(millions)

Security Name	Shares	Fair Value
iShares MSCI Emerging Markets Index	49.7	\$1,918.4
Multiplan Empreendimentos Imobiliarios S.A.	52.1	1,103.0
GNC Holdings, Inc.	26.3	742.5
Hitachi, Ltd.	131.6	703.6
Canadian Natural Resources Limited	15.1	576.9
Total SA	11.2	570.9
Vodafone Group Plc	184.8	544.1
The McGraw-Hill Companies, Inc.	11.9	543.6
ACE Limited	6.3	447.7
Nippon Telegraph and Telephone Corporation	8.2	427.3
Wells Fargo & Company*	15.2	404.3
Potash Corporation of Saskatchewan Inc.	9.6	402.3
Royal Dutch Shell plc	5.2	333.6
Michael Kors Holdings Limited	13.2	325.7
Deutsche Telekom AG	27.7	324.2
Goldcorp Inc.	6.8	307.6
Marathon Petroleum Corporation	8.9	301.2
Transocean Ltd.	7.5	291.6
Continental AG	4.6	290.0
Royal Bank of Canada	5.5	284.4
Barrick Gold Corporation	6.1	282.1
MMX Mineracao e Metalicos SA	147.7	278.9
Toronto-Dominion Bank, The	4.2	274.3

Security Name	Shares	Fair Value
BRF-Brasil Foods S.A.	13.4	267.9
Nestlé SA	4.5	261.9
Safeway Inc.	11.9	256.8
Intel Corporation	10.3	253.2
Akzo Nobel N.V.	5.1	251.9
Unilever N.V.	7.2	251.4
Microsoft Corporation	9.5	250.5
Chow Tai Fook Jewellery Company Limited	130.7	238.6
LLX Logistica S.A.	124.1	228.3
HSBC Holdings plc	28.5	224.2
Sprint Nextel Corporation	91.6	218.2
Macdonald, Dettwiler and Associates Ltd.	4.4	208.5
GlaxoSmithKline plc	8.7	204.0
Novartis AG	3.3	193.5
Apple Inc.	0.5	190.1
Rockwell Collins, Inc.	3.3	185.1
Bank of Nova Scotia	3.5	178.0
The Walt Disney Company	4.4	169.2
Metlife, Inc.	5.2	165.1
Google Inc.	0.2	164.0
Canadian Pacific Railway Limited	2.3	157.0
Pfizer Inc.	7.1	156.1
PNC Financial Services Group, Inc.*	3.1	153.5
Suncor Energy, Inc.	5.1	151.2
3M Company	1.8	148.5
Itaú Unibanco Holding S.A.	7.8	147.9
DaimlerChrysler AG	3.2	143.9
JPMorgan Chase & Co.*	4.2	141.9
Education Management Corporation	5.0	141.1
BAE Systems plc	31.1	140.4
Johnson & Johnson	2.1	139.5
Canadian Imperial Bank of Commerce	1.9	136.8
Exxon Mobil Corporation	1.5	132.6
Wolseley plc	3.9	131.4
SunTrust Banks, Inc.*	7.3	129.7
Applied Materials, Inc.	11.6	126.8
Rio Tinto plc	2.5	122.4
OGX Petróleo e Gás Participações S.A.	16.4	121.7
Dell Inc.	8.0	118.9
CVS Caremark Corporation	2.9	118.7
Samsung Electronics Co., Ltd.	0.1	117.2
Chesapeake Energy Corporation	5.2	116.9
Thermo Fisher Scientific Inc.	2.6	116.8
Sampo Oyj	4.6	116.3
Tiffany & Co.	1.7	115.5
Toyota Motor Corporation	3.3	113.7
QE National	31.6	113.0
Hewlett-Packard Company	4.2	111.3
Cisco Systems, Inc.	6.0	109.9
News Corporation	6.0	109.3
Woodside Petroleum Ltd.	3.4	108.9
Credit Suisse Group AG	4.5	108.6
TransCanada Corporation	2.4	108.1
Illinois Tool Works Inc.	2.3	108.1
PSA Peugeot Citroen	6.7	107.3
Danaher Corporation	2.2	105.9
Metalurgica Gerdau S.A.	10.7	104.0
Nissan Shatai Co., Ltd.	10.5	103.5
Koninklijke (Royal) Philips Electronics N.V.	4.8	103.4
Canon Inc.	2.2	101.9
Kroger Co., The	4.1	100.3

*Includes fair market value of warrants and subscription receipts.

Online resources at otpp.com:

- View the CEO's video message
- Get the facts about plan funding
- View the annual meeting webcast
- Read the complete 2011 Annual Report

Annual meeting webcast - View it live at 5 p.m. on April 12, 2012, or see the archive after the event.

Online resources for members at FundingYourPension.com:

- Get the latest news on plan funding
- View funding education presentations
- Take a 5-minute quiz
- Get the top funding Q&As

Contact us

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

Please contact Andrew Kondraski at 416-730-6880 or 1-877-812-7989, or at communications@otpp.com.

Print copies of our 2011 Annual Report are available upon request.

Client services

Telephone: 416-226-2700 or 1-800-668-0105

Fax: 416-730-7807 or 1-800-949-8208

E-mail: inquiry@otpp.com

Website: www.otpp.com

Mailing address

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

Ce bulletin est disponible en français. April 2012

About Teachers'

The Ontario Teachers' Pension Plan is an independent organization and the largest single-profession pension plan in Canada. It administers the pension benefits of Ontario's 180,000 elementary and secondary school teachers and 120,000 pensioners. The plan has one of the largest payrolls in Canada - it paid out \$4.7 billion in pension benefits in 2011.

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

The pension plan is sponsored by Ontario Teachers' Federation (OTF) and the Ontario government.



WHAT DO THE PLAN SPONSORS DO?



- Appoint the plan's board members
- Determine benefits the plan will provide and set the contribution rate for members and employers
- Ensure the plan is appropriately funded to fulfill its obligations to all plan members

WHAT DOES TEACHERS' DO?



- Invests the plan's assets to earn returns for future pensions
- Administers the plan and pays pension benefits to members and their survivors
- Reports the plan's funding status (surplus, shortfall or sufficient assets to cover future pensions)

Return undeliverable Canadian addresses to:

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

