Speech to the

Ontario Teachers' Pension Plan
Annual General Meeting

5 p.m.
Friday, April 11, 2008
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Check against delivery

Eileen Mercier, Chair:

Good afternoon, et bienvenue, mesdames and messieurs a notre assemblée générale annuelle.

My name is Eileen Mercier, and I am Chair of the Ontario Teachers' Pension Plan Board. I am pleased to be here to report to you on the 2007 performance of the Plan. Joining me today to report to you are:

- Jim Leech, our newly appointed President and CEO, who will talk to you about the larger challenges of the plan;
- Bob Bertram, Executive Vice-President, Investments, who will discuss our solid investment performance, and elaborate on the effect the mid-year credit crisis and its aftershocks had on us; and
- Rosemarie McClean, Senior Vice-President, Member Services, who has good news for everyone about her team's 2007 service levels … and how they plan to sustain and even improve that performance.

It's a pleasure to see so many members joining us today. We had 400 RSVPS to the invitation to join us here, and many more are joining via the live webcast.

I also would like to introduce to you the other board members joining us here today: Guy Matte, Helen Kearns, Jill Denham, Louis Martel, Sharon Sallows, Bill Swirsky, Jean Turmel and Hugh Mackenzie. If you'd stand up and be recognized please. Sharon Sallows and Bill Swirsky are our newest board members, both joining us in 2007. Your board now is at full complement. And as you can see, we have an excellent array of talent and experience upon which to draw.

Last year I talked to you about organizational culture and what an important role it has played in the success of the Ontario Teachers' Pension Plan. Culture always is driven from the top, and in Teachers' case, its culture was created and driven by its inaugural CEO, Claude Lamoureux.

2007 was Claude’s last as our CEO and, as he retired late in the year, I would like to take a moment at the outset today to thank Claude sincerely for the superb job he did in establishing this plan and making it into a pension role model.

Claude’s tenacity and wisdom during his 18 years at the helm resulted in an impressive and extensive list of accomplishments on behalf of teachers and taxpayers. He arrived here with a vision that few others could see. Even more important, he saw how it might be achieved. Today that vision is a reality, and the teachers of Ontario enjoy a pension income that would not have been possible without his skill and leadership. He truly revolutionized pension management and led a corporate governance movement that has created value for all investors.

I must also mention The Claude Lamoureux Student Scholarship program, the legacy that marks Claude’s retirement, and for which Jim Leech was largely responsible. This $3 million Richard Ivey School of Business endowment is the brainchild of Jim and our former board member, Carol Stephenson, Dean of the Ivey School. The endowment comprises $1 million in personal donations from more than 80 of Claude’s friends and colleagues – there are no corporate funds in it – matched two-to-one by government grants…. It will help 10 students each year achieve their dreams of studying business.

A symbol of friendship and respect, this scholarship exemplifies Claude's passion for students and for learning. And I hear that Carol already has tapped Claude as a guest lecturer next semester.

He deserves our thanks and admiration for all he has done for the plan, its members and staff. He’s with us here today, and so I would ask you, Claude, to please stand and be recognized.

Claude’s retirement leads me now to report on the most important decision a board can make: the selection of a new CEO.

The CEO executes policy set by the board, sets the tone for the organization through its values, and, as I said, drives the culture that defines an organization. It is the CEO – not the board members – who motivates the staff. And it is the CEO on whom the board members and plan sponsors rely for the information and advice we need to make sound decisions.

The board undertook a transparent and comprehensive search for Claude’s successor early in 2007. We looked at candidates inside and outside of Teachers’, from within Canada and from other countries, and from other industries.

One candidate was already well known to us. Jim Leech had done a great job as Senior Vice-President of Teachers’ Private Capital since 2001. After careful and considerable deliberation, he emerged as the board’s clear candidate of choice. Teachers’ believes in excellence, and in cultivating talent and promoting from within. In technical and managerial expertise, Jim matched or beat the very best. In terms of understanding our people and culture, he was the clear winner. His appointment reflects an important continuity of leadership, and four months into his tenure, the board is more confident than ever that he will continue to build successfully on the foundation built by Claude.

2007 was a dynamic year for the board. As you will know by now, while absolute returns were much lower this year than in past years – at 4.5% – the investment team did another stellar job, nearly doubling their 2.3% benchmark and adding $4.7 billion to total assets. That’s the good news. Our preliminary funding valuation, however, shows a $12.7 billion shortfall. This reflects the ongoing funding challenges of managing a mature plan – one with a declining ratio of working to retired members.

The plan’s sponsors must file the triennial valuation, with their plan for bringing it into balance, by September 30 of this year. Talks are well underway, with Teachers’ board and management, the OTF and the government working together constructively to find a long-term funding solution.

With the valuation pending, the board and management worked closely with our sponsors last year, especially on three key initiatives:

- a members' survey, regarding contribution rate and benefit preferences, should shortfalls necessitate changes;
- a new mortality table, which indicates that members are living considerably longer than our existing assumptions had suggested, and
- an outside expert panel to review the plan's assumptions.

In addition, Teachers' commissioned a supplementary report. It studies eight other Canadian defined benefit plans, to understand how they have dealt with the mature membership funding challenge. We are making this data available to our sponsors, as well.

I am pleased to say that we all are working together cooperatively to find the most appropriate solution not just for filing the balanced valuation, but solving the ongoing funding challenge. Together, we have commissioned studies and surveys, and there have been many meetings and discussions on the subject. In fact, Barbara Zvan, the fund's Senior Vice-President responsible for Asset Mix and Risk, Malcolm Hamilton, our actuary, and board member Sharon Sallows and I all made presentations to the OTF board of governors at their spring meeting yesterday and today.

The 2007 investment climate was clouded, to say the least, by last summer's credit crisis. Its impact reverberated across investment markets – and not just in the United States, where the crisis originated, but around the world. Canada was no exception. Although our economy remains strong, our markets continue to feel the aftershocks. As you have seen in the media, the market turmoil that began in 2007 has continued into 2008.

I will leave it to Bob to give more details and context, but I raise this to make it clear that, large and strong as this fund is, it is not immune to market forces. No matter how clever or prepared our investment professionals might be, we can never know all of the surprises the market might have in store. Bob has been saying for some time that the fund's past performance could not be sustained, and we all have been reminded this year that market downturns are not just theory: they're fact.

Bob was not just being modest; he was being realistic. He has always maintained that we are long-term investors, and when it comes to investing, "Slow and steady wins the race."

Add to that the fact that experience beats speculation every time. Your senior investment team and executives all have experienced and survived similar investment pain in the past. The market is cyclical and many of us have seen major downturns before. Cool heads are in charge. They remain confident, as does the board, in their geographical and asset-diverse portfolio, their attention to market condition details, and their ability to act and react. The board is confident that the investment team is responding appropriately, with pension security the ongoing focus of their long-term investment approach.

With that, I will ask Jim Leech to come forward to share his insights on the previous year and his first months at the helm.

Jim?

Jim Leech
President and Chief Executive Officer:

Thank you, Eileen, and good afternoon and welcome, everyone.

Bonne après-midi a tous. C'est avec grand plaisir que nous presentons devant vous pour ce dialogue annuel.

It's an honour for me to join you today for my first annual meeting as Chief Executive Officer of your pension plan. I am looking forward to meeting many of you personally at the reception following our presentations. I also want to welcome those members who are joining us today remotely by way of our webcast.

First, I too must recognize our inaugural CEO, Claude Lamoureux, who is joining us today in the comfort of an audience seat for the first time. Eileen noted the tremendous contribution Claude made to this plan. He was driven always by the priority of meeting members' needs, and also by protecting members' rights as shareholders, becoming Canada's best known corporate governance pit bull.

But in addition, Claude was the model mentor throughout his career. He has always understood that the fundamentals of trust and respect are the cornerstones of a meaningful career and a sound corporate culture. I personally want to thank him for what he has taught me, and also for building the powerhouse of an organization that I am so proud to lead today.

Eileen noted that I had been on the investment side of the house before taking reins from Claude. So, as you can imagine, I was more familiar with the investment division and employees than I was with the Member Services side of our business. That's why I made a point of spending most of my first day as CEO job-shadowing one of our pension benefit specialists, Zeina Vouitsis. And what an eye-popping experience that was. It's one thing to read reports and statistics, and know that we have 278,000 active and retired members or that we have nearly 100 pensioners over the age of 100, that the average retirement age now is 58. It’s quite another to listen as a member calls in, as one did that day, to say that he is about to undergo life threatening surgery, and he needs to know the status of his pension as he ensures that his affairs are in order for his family. That was real. And it brought home to me more than any statistic ever could, the fact that we are with people during their life-changing moments, their moments of highest stress and impact. It could be something as joyous as a maternity leave for a new baby, or as sad as a death or a divorce. But either way, we are there. I will never forget what I did my first day on my job. And I understand that this member came through his surgery and is recovering well.

In a recent media interview, the reporter asked about my background and career path. I told him I had graduated from the Royal Military College, and had gone into the military, or what I refer to as the “family business,” having grown up as an army brat on bases across Canada and Germany.

He asked me about my job as a communications officer in the signal corps. I explained that I facilitated communications between the senior command and the troops in the field – to ensure that no matter what the message or the location, that the radios were situated in such a way as to ensure the parties could maintain constant contact with each other.

I was reflecting on the interview later, and it struck me that my first job was not so entirely different from my current job. We have four parties – our employees, our members, the OTF and the government. It’s our job at the pension plan, to ensure that all of the parties understand the current state of the pension fund, and the implications for the present and future. And it’s my job, as CEO, to ensure these communication lines are open at all times.

Never before has that open communication among all of our parties been more important than now, as our annual meeting theme indicates:

Keeping the promise. Facing the challenge.

The promise is pensions for life for all of our members. The challenge is managing a mature pension plan.

Before I explain, let me note that Bob Bertram will be at the podium next, detailing his investment team's successes during a very trying period last year. They managed to earn $4.7 billion for the fund in 2007. And then Rosemarie will tell you about how well her team marshaled their costs and delivered another 9 out of 10 in customer service, all while undertaking the largest shift in focus ever.

But first, back to the promise and the challenge.

Our investment team did another superb job last year. They decisively outperformed their benchmark and raised the fund's value, as of December 31, 2007, to $108.5 billion. However, despite beating the benchmark, our returns fell short of the level required to match the growth of our plan's liabilities. As our preliminary valuation of the fund shows, under the current Funding Management Policy, there is a $12.7 billion shortfall.

So in other words, the cost of current members' pensions is $147.6 billion, and the value of future contributions and assets, including the $108.5 billion that we have in the bank, is $134.9 billion. And that leaves a $12.7 billion gap. Again, this is in accordance with our current Funding Management Policy, which is under review as part of the filing discussions.

We find ourselves in this situation, as do so many other defined benefit pension plans across Canada and around the world, for one simple reason: we are a mature plan.

Plan maturity itself doesn't cause shortfalls. What it does is make it increasingly difficult for us to recover from any shortfall.

And, not only do we have more pensioners, our pensioners are living longer, as our new mortality tables tell us.

In 1990, for example, members taught for 29 years, and then were on pension for 25 years. There were four active teachers for every pensioner. Today, there are 1.6 active teachers for each pensioner. Teachers retire with 26 years' credit, are expected to be retired for 31 years, and a survivor pension will be paid for an additional 5 years. As such, pensions now will be paid out for 10 years longer than contributions are made.

With this shifting ratio of active-to-retirees, contributions comprise a smaller percentage of the fund's value than ever before. In fact, we paid out more than twice as much in pensions as we collected in contributions last year.

This is not a criticism – it's just a simple demographic reality.

At a time when we are more and more dependent on investment returns, we cannot expose the fund to the volatility that comes with increased risk. We just cannot afford to invest as much as we used to in the riskier, but potentially more lucrative asset classes, such as equities. In 1995, for example, we could afford to invest 65% of our assets in equities. Today, equities are only 45%.

Let me illustrate why.

You will see on this chart, that in 1970, when the active member-to-retired member ratio was 10:1, the average contribution rate was 5.2% and the present value of contributions as a percentage of total fund assets was 93%. So, a 10% loss to the fund then could have been covered by an increase of only about one-half of 1% in member contribution rates.

Even in 1990, when the active-to-retired ratio had decreased to 4:1, and the average contribution rate was 8%, the present value of contributions as a percentage of total fund assets was 42%. Then, a contribution rate increase of about 2% would cover a 10% decrease in assets.

Today, however, with a 1.6:1 ratio, a 10% loss – and believe me, in these weak markets, those numbers are more realistic that we'd like to imagine – would require a contribution rate increase of 4.2% to recover. That would drive rates up from an average of 11% to over 15%, a level well above the pain threshold for teachers and taxpayers. I remind you that although 2007 was our eighth straight year of beating our benchmark, in 2001 and 2002 the fund suffered losses, with rates of return of -2.3% and -2% respectively. This to say that talented and attentive as our investment team is, markets are unpredictable by nature and losses are possible.

Put simply, a declining proportion of the plan's membership bears increasing responsibility for keeping the plan fully funded.

Eileen and I and our colleagues are participating in the discussions now underway amongst the partners. Dialogue is ongoing and constructive. We are all working together to find a funding solution, not just for this filing year, but for the many filing years yet to come.

The expert panel's observations and the members' survey results are helping to inform these discussions. In addition, we recently received a supplementary report on other Canadian pension plans' solutions to the mature plan challenge. The combination of these studies provides an objective assessment of the current Funding Management Policy's strengths and weaknesses, as well as the views of those who will be most affected by any future changes. In combination with the information gathered for the 2005 filing, this information will be valuable to the sponsors as they prepare the 2008 filing.

The Teachers' management team stands at the ready to work together with all concerned to ensure fair and effective funding management for every member, to achieve:

- security of benefits,

- stability of contribution rates, and
- intergenerational equity.

I mentioned earlier that investment markets were weak. Bob will go into more detail on market impacts on your fund, but some of the major issues we are grappling with are:

- the adverse impact of the rising Canadian dollar on foreign investments; and
- the U.S. subprime mortgage crisis and its devastating effect on international credit markets, including the collapse of Canada's non-bank asset-backed commercial paper.

These conditions continue to affect the market. The crisis of the summer of 2007 has cast a long shadow, which we expect will remain throughout the rest of 2008.

In times of market turmoil, especially, I think there are few better responses than to focus on the basics, to concentrate on doing what we do well. Sir Winston Churchill once said: "In critical and baffling situations, it is always best to turn to first principles and simple action." As such, you can expect all of us at Teachers' to remain focused on the fundamentals of the business: long-term investment success for our members' retirement security.

As you can see, I have assumed my new role at Teachers' during a time of dynamic change:

- There were organizational changes, as Claude retired, and I took on my new responsibilities, and other promotions took effect.
- We led the largest buyout in history – BCE – which is scheduled to close at the end of this quarter.
- We opened a new office in London.
- Member Services adopted a new and enhanced service program.
- Our assumptions were studied and our member survey results evaluated.
- We underwent a new certification process for our internal controls.

- We commenced a project to replace our portfolio management computer system – I think of this as trying to perform a heart transplant – while running a marathon.
- And we welcomed 83 new full-time employees.

That was 2007. 2008 promises to be just as satisfying. Indeed, I am optimistic about our future. Why? Because of the people who comprise this great organization. They are pension benefits specialists, investment professionals, IT gurus, math whizzes, actuaries, CFAs, CBVs, CAs, lawyers and engineers. We even have a rocket scientist on staff!

But in addition to being highly-qualified and very bright, they also are great citizens. Let me give you a brief idea of who these people *really* are:

- There's Andrew Weston is Manager, Desktop Services, in our IT group. He spent two weeks of his vacation this January in Kenya and Zambia, working with the Project Childcare Foundation.
- Senior Pension Benefit Specialist Giselle Amann raised more than $10,000 in pledges last year for her Multiple Sclerosis Walk, in honour of our former colleague Kathy Andrew. Nearly 250 of her 350 pledges came from fellow Teachers' employees.
- Our Private Capital team does a team day for charity every year and last year they helped build a house for Habitat for Humanity.
- Pension Benefit Specialist Wendy Stimson spent a recent vacation with Living Water Canada in Guatemala, bringing clean water to a small village.
- And, our 2007 employee United Way campaign raised $354,000.
- And, our 2007 team Big Bike Ride for the Heart and Stroke Foundation raised $10,500.
- And I could go on and on …

As you would expect, people who care this much about their community care about everything they do. And that's the reality at Teachers': this is a talented, dedicated group of professionals, whose first priority always is our members. So you can understand why my guiding principle, my mantra, so to speak as CEO of this one-of-a-kind place is:

People. Execution. Results.

In a moment I'll turn the podium over to one of those **people** whose team's solid **execution** has delivered stellar **results** year after year: Bob Bertram, our executive vice-president of Investments.

But before he speaks, I want to mention that Bob was honoured recently by the Institutional Investor Magazine as one of the 75 most powerful and influential people in the world of finance today. As they said in that announcement, quote: "The first and only investment chief at Ontario Teachers' Pension Plan, Bob Bertram continues to chalk up an enviable record of performance and innovation."

So, please welcome newly-minted "Power 75" member, Bob Bertram…

Bob Bertram
Executive Vice-President, Investments:

Thank you, Jim, and good afternoon, everyone.

I'm here today to talk to you really about:

- the fund's performance in 2007,
- to put that performance into our mature plan perspective, and finally,
- to give further context to our performance, with an overview of the current investment climate.

Meeting our obligation to Ontario teachers means that the fund's investment income, when added to members' and the government's contributions to the plan, must be sufficient to cover today's and tomorrow's pensions.

Job One is to manage the fund's assets. That sounds straight forward enough. But to do so, first we have to make sure that we manage those assets relative to the plan's liabilities. We estimate the liabilities and then we match the liabilities and volatility of the fund's returns as closely as possible. As you are aware, according to our preliminary funding valuation, the plan is showing a $12.7 billion shortfall between assets and liabilities.

Jim has already explained that, as a mature plan, we now have fewer members contributing relative to the number of pensioners. In a nutshell, this means that it is more difficult to take the risk necessary to earn the returns we need to pay pensions. As a mature plan, it is more difficult to recover from investment losses. Basic investing principles say that the more risk you take, the bigger your potential for gains – but also for losses. But while we need to earn investment income to pay pensions, we have had to change our asset mix over the years to reduce the potential for loss. We have to make every dollar we invest work as hard as it can.

As I said, we need to ensure that the sum of both *yours'* and the *government's* contributions plus the *fund's* investment income equals the cost of pensions at an appropriate level of investment risk. For teachers starting today, for instance, contributions will finance their pensions if they can be invested at a rate of return of just over 5% plus inflation from the day of deposit until the last pension payment is made… and that can be as long as 70 or more years from now. Once again, and at the risk of sounding like a broken record, with low interest rates continuing to prevail and more pensioners collecting over a longer timeframe, generating that kind of return has become extremely challenging.

Today's real rate of return remains well below 2%. The lower it is, the harder it is to match inflation-protected pension liabilities. Lower rates of return may be good for other people, like borrowers, but when you are funding an inflation-protected pension plan, low rates are bad news.

The early 90s boasted 5% plus real rates of return and we did very well. Those rates were well above average returns. Today's lower rates of return are closer to the historical average.

The investment team strives to beat benchmarks – that is, to do better than indexes around the world with similar holdings – to add value that this fund needs to keep the pension promise. Annual measurement against benchmarks helps us track our progress. As a long-term investor, however, results over at least a four-year period are more meaningful timeframes for us, as they reflect trends, not anomalies.

With that in mind, you can see that our team was successful once again in 2007, earning a 4.5%, rate of return, which is nearly double the 2.3% composite benchmark. This is our eighth consecutive year ahead of benchmark, and we finished the year in the top quartile for Canadian pension plans.

In Canadian dollars, that translates into $2.3 billion in value above our benchmarks for a total $4.7 billion in investment income earned. Put another way, the value-added that we earned in 2007 was the dollar equivalent of 64,000 pensions paid last year.

As of December 31, 2007, the fund totaled $108.5 billion, compared to $106 billion at the end of 2006.

On a four-year basis, which, as I said is a more meaningful period to us as a long-term investor, our rate of return was 12.3%, compared to a benchmark of 8.7%.

For example, benchmarks are an important concept. No two pension plans measure themselves against identical benchmarks, because no two pension plans' investment profiles – or more precisely, investment *risk* profiles – are identical. In our case, our Total Fund benchmark reflects an asset mix based on the realities of a mature plan, with its particular risk limitations. Again, our plan cannot bear as much risk as it used to … nor can it bear as much risk as other plans with different demographics.

Thanks to our individual asset managers' investment decisions, we once again achieved a higher rate of return than a passive management strategy would have earned.

In these highly competitive times, the value of our own dedicated, active investment team simply cannot be over-estimated. And I would like to ask the senior members of the investment team joining us today to please stand and be recognized as I call out their names. Neil Petroff, Barbara Zvan, Sean Rogister, Wayne Kozun, Erol Uzumeri, Ron Mock, Stephen Dowd and Peter Sharpe from Cadillac Fairview.

We reached a number of notable milestones with that team in 2007:

- Our private equity team was the successful BCE bidder.
- We expanded our Brazilian public equity investments with EBX Group.

- Our infrastructure team led the purchase of three Chilean water utilities, and closed our transaction for four marine container terminals in New York and Vancouver.
- We opened our first office outside of Canada, in London.
- We reinforced our corporate governance commitment, with our purchase of Glass Lewis, a leading investment research and governance services provider.
- The industry also recognized our teams. Private Equity International’s 2007 awards named Teachers’ Private Capital as Worldwide Limited Partner of the Year and Canadian Private Equity Fund of the Year. Our takeover of the New York and Vancouver marine container terminals was named Acquisition of the Year 2007 by Project Finance Magazine, and Alternative Investment News made us Public Pension Plan Investor of the Year for our hedge fund program.

It wasn’t all clear sailing in 2007, however...

On the Chinese calendar 2007 was the Year of the Pig. On the investment calendar, however, in our minds, it was the Year of the Black Swan.

Let me explain.

Author Nassim Taleb, describes a “Black Swan” as a highly improbable event, with three identifying characteristics:

Number One, it’s unpredictable

Number Two, it has a massive impact

And

Number Three, it can only be recognized after the fact.

In other words, if you have only ever seen *white* swans, you would have no reason to expect that black swans even exist.

It's an excellent allegory for 2007 as an investment year, with the massive and unpredictable collision of the unexpected soaring Canadian dollar and the credit crisis that began in U.S. subprime mortgages.

From our perspective, foreign exchange and whether or not you were hedged was the story in 2007. In 2008, credit markets will be the story, and I will touch on that issue just a little bit later.

First, foreign exchange.

Because we report our foreign investment returns in Canadian funds, the Canadian dollar's strength against most foreign currencies diminished our infrastructure and non-Canadian equity returns. About half of our U.S. dollar exposure was hedged for much of the year, so we did not do badly overall. Those Canadian plans with larger hedge ratios did better, than those that did not hedge at all – and yes, there were some who truly felt the pain of our strong dollar.

Diversification and risk management continue to be the hallmarks of our investment philosophy. They allow us to survive market ebbs and flows. Our current asset mix policy is 45% equities, 33% inflation-sensitive assets and 22% fixed income. Let me give you an overview on the performance of those assets classes.

We finished 2007 with $50 billion in equities, compared to $48.8 billion at year-end 2006. Although we beat the one-year benchmark, that benchmark was negative, at -1.6%. Our return was -0.1%. This truly was a currency story, with U.S. markets returning 10% in U.S. dollars, but being reduced to -6% when measured in Canadian dollars. On a four-year basis, equities generated 12.8%, compared to a 10.7% benchmark.

Our non-Canadian equities were doubly impacted both by the strong Canadian dollar, and the downward pressure exerted by the credit crisis on the public equity markets. We did well in the first half of the year, until the credit markets tightened and forced many investors to sell their high quality equity investments to generate the liquidity they needed to meet their other obligations. This forced public equity prices down. In the long term, this has opened a buying opportunity for us.

Our private equity investments totaled $9 billion at year-end, returning 9.8% compared to a benchmark of -0.9%. As credit markets tightened, this market also slowed in the second half of the year.

Our inflation-sensitive portfolio is our second largest asset class. It includes such assets as real estate, infrastructure, timberland, real-return bonds and commodities. It was our most successful asset class in 2007, adding $1.5 billion, with a 7% rate of return, compared to a benchmark of 2.9%. At year-end, the total value of this class was $39.3 billion, compared to $35.4 billion at the end of 2006. These investments tend to correlate closely with changes in inflation, hence they act as a hedge against increases in the cost of future pension benefits.

Real estate assets comprise the largest portion of this asset class. They totaled $16.4 billion at year-end, almost $2 billion more than the previous year. Our real estate subsidiary, Cadillac Fairview, manages all of these assets on our behalf.

Although our infrastructure team is facing growing competition from other investors for assets, they made several valuable additions to the portfolio last year. They partnered with Australia’s Victorian Funds Management to acquire nearly 50% of Birmingham International Airport in the U.K. And as I noted earlier, they closed the $2.4 billion purchase of the New York and Vancouver marine container terminals, and completed the purchase of significant interests in three Chilean water utilities, in which we are partners with the Chilean government. I’d like to spend a moment on our Chilean water acquisition at this point, because I want to address a misperception that has been brought to our attention.

First, it's important for everyone to understand that Chile's water and waste water services and rates are regulated by the Chilean government. This ensures fairness in price and service for customers, and appropriate revenue for water suppliers. In order to fast track the modernization of their water distribution and wastewater treatment system – and safeguard the health of the population – the government of Chile needed investment assistance from the private sector.

Since privatization began in 1998, access to potable water and wastewater services in Chile has increased dramatically – to 99% and 78% respectively – and 87% in the areas served by the investments in which we're partnered with the government. That sounds pretty progressive, given that Environment Canada has predicted that Canadian cities and communities will need $10 to $20 billion over the next 20 years to clean up waste water treatment facilities here at home – just to meet the current national standards.

Commodity investments also fall into our inflation-sensitive asset class. Our 2007 commodities returns are a good example of the benefits of investment diversification and how one year's loser can become the next year's winner. In 2007 our commodity investments returned 12.4%, compared to a 15% loss in 2006. This is largely due to the portfolio's strong weighting towards the energy sector and relative to a four-year return of 6%.

Our third asset class is Fixed Income and Absolute Return Strategies. Its 2007 performance lagged the benchmark, returning 5.6%, compared to the 9.6% benchmark. With capital shifted out of the asset class in the latter half of the year in response to the credit market conditions, assets at year-end totaled $18.7 billion, compared to $21.5 billion in 2006.

Fixed Income comprises such traditional investments as government and corporate bonds and money-market securities, as well as derivatives and securitized pools of assets. We also include Absolute Return Strategies here, which include hedge funds and currency hedges, because they also provide steady income, but with an additional risk allocation for adding value above the benchmark.

I'll address securitized assets first. We did not invest directly in the types of investments that gave rise to what is now known as the subprime crisis. We did, however, have some indirect exposure to subprime assets through other debt securities. These debt securities had subprime mortgage-backed securities as collateral, as well as limited exposure to non-bank asset-backed commercial paper. In addition, we invested in bank-sponsored asset-backed commercial paper and commercial mortgage-backed securities, which trading values were materially impacted by the global credit crisis. In short, like so many other institutional investors, we were not immune to the subprime mortgage crisis.

This has been a brief overview of our 2007 investment performance. I hope you will go to our annual report, either print, available at the reception desk, or online on our website, for the full and detailed account.

I know there is a temptation in these turbulent times to be reactive to current market conditions. But we mustn't be. We need to be contrarian. We have to stay our course, work within our risk limitations and keep our fund working as hard as it can to maximize returns. Now is not the time to retreat, but it is a time to exercise caution.

As I look forward to the rest of this year and further into the future, I have to paraphrase Rudyard Kipling:

> "If you can keep your head while all others are losing theirs …. If you can trust yourself when all men doubt you …The world will be yours and everything that's in it; what's more, you'll be a successful *investor,* my son."

The world as we know it is not about to come to an end. There is some short-term chaos, but we must stay focused on long-term results. The fact of the matter is that in 2007 we did not earn as much as we have in the past five years. We earned less. We have fewer dollars earning for us for the future because of that. It's like the miracle of compound interest – but in reverse. A dollar not earned this year, is a dollar not earning for us next year.

2007 was living proof that the investment world in which we live is a riskier place. We are a mature plan, and feel that impact more keenly than other plans. As for our year's performance, we beat our benchmarks, we earned $4.7 billion for the fund during a highly-volatile year of unprecedented investment turmoil. Looking forward, we can expect that we will continue to feel the aftershocks of the credit crisis in 2008. Although it is too early to tell what the depth of that impact will be, you have my assurance that your investment team is 100% engaged in continuing to maximize the amount they can earn on your behalf.

And now, I will ask Rosemarie to report to you on her Member Services team's 2007 success.

Rosemarie?

Rosemarie McClean
Senior Vice-President, Member Services:

Thank you, Bob, and good afternoon, everyone.

Our 250 Member Services employees are the face of the pension plan with our active and retired members, school boards and other designated employers. And let me tell you, this is one information powerhouse. They take in and process billions of dollars in contributions, millions of pieces of personal information, and administer the timely payment of one of Canada's largest payrolls, with pensions going to 108,000 retirees and survivors.

Our overall objective is to provide outstanding personalized service to our members, while managing our costs to the previous year's levels plus inflation.

I am pleased to report that in 2007 our members once again rated our service quality a nine out of 10. This rating is based on service quality and communications.

As for our costs, they were contained at $123 per member. We benchmark ourselves against the best in the world, using the independent Cost Effective Measurement evaluation. We were ranked third overall internationally on our service level, moving up from fourth place last year.

Our 2007 member service priority was the launch and development of a new Contact Centre Strategy.

With apologies to Mr. Einstein, we dubbed that new strategy:

$$\mathbf{e=mc^3}$$

Let me explain:

"E" is for Excellence – excellence in everything we do for members.

"M" is for More – more of what we do best for members.

And the three "Cs" are for:

- customization
- counselling

and

- choice

All, once again, for our members, to ensure that their experience with us is as valuable as we can make it. So, excellence equals:

- more customization of information and service to meet members' individual needs;
- more counselling, allowing us to shift, as members have requested, from simply offering information about the retirement options available to them, to giving them guidance on which options might best suit their individual circumstances; and
- more choice in the ways members can contact us and receive their information from us, whether in print, by phone, in person, or online.

Technology is allowing us to make this shift. Members have embraced our secure website enthusiastically – in fact, according to our records, we have 26 members who logged in more than 100 times each last year – one member actually went online *134 times*. I think he was hoping his retirement date would change! They access their own information whenever they wish, and answer their own questions with just a click of their mouse, regardless of the time, day – or location.

We have 125,000 registered members, including 1,200 in 77 countries outside of Canada. A member can complete a pension estimate in 5 seconds. So you can see that our members are enjoying fast service and our pension benefits specialists have more time to provide more value-added services.

Our new $e=mc^3$ approach builds even further on this success and is being rolled out over the next few years.

I want to stress the fact that excellence is always our goal. And according to the list of finalists for the annual Contact Centre World Awards, our teams' efforts are recognized. We have been shortlisted into the top five for Best Customer Service and Best Contact Centre in our categories. The awards will be announced in June … but as they say at the Oscars, it really is an honour just to be nominated.

Aristotle said that "Excellence is not an act, but a habit." And at Teachers' it's a habit we've pledged to keep.

As Jim said, any wins that we celebrate are the results of the efforts of our people. We have a number of pension benefit specialists with us today, who can help you with any question you might have about your pension.

You will see their kiosks, which are live to the web, set up outside this room in the far back foyer – just follow the signs. I'd also like to recognize the leaders of our member services team; and I'd ask them to stand, they are: Tracy Abel, Mila Babic, Ken Harrison and Michael McAllister. We all look forward to speaking with as many of you as we can during our reception.

But enough about us. Let me tell you a little more about *you*.

There were a few notable changes in our member profile in 2007 that I should mention. Our new retirees' average age at retirement now is nearly 58. And according to new mortality tables, new retirees are expected to receive their pensions for 31 years, and a survivor will collect for an additional 5 years.

In 2007, 5,200 new retirees began collecting retirement or disability pensions. Of our 108,000 pensioners, here's a statistic I thought you'd find interesting – we now have 83 pensioners over 100 years of age… and our oldest registered *i*Access website user is 101 years old – so the next time someone says they're too old to load some new tunes onto their iPod, you can tell them that story!

One of our interesting ongoing efforts is the detective work that we have taken on. You see, every defined benefit program has inactive members. These are former members who have left teaching and are owed money, because they contributed to their pension, but we can't locate them. Typically, they made their contributions long ago, they stopped teaching before vesting and then they moved, without filing a change of address. Because pension plans are not required by law to attempt to find these people, most of them don't.

But we don't act like most pension plans.

In our case, we have 75,000 inactive members. And we have set a goal for ourselves of trying to locate 5,000 inactive members a year … and repay them their money with interest. Our Client Services team met that target in 2007, and repaid a total of $3.6 million. We're trying to find another 5,000 inactive members this year, so if you know of anyone who you think might qualify, let us know. Come to think of it, my own brother's an inactive. (Now we only have to find 4,999 more.)

Our Employer Information team deals with about 200 school boards and other designated employers. As you can imagine, with 200 different entities, all across the province, they see a vast array of administrative systems from excel spreadsheets to complex payroll systems with varying degrees of sophistication. Remember, it's these employers who make the deductions from teachers' pay and submit them to us. So, it's critical that the information we are receiving is correct and timely.

That's why we initiated a certification program with school board finance officers in 2004. We asked them to certify that the contributions they had submitted to us were correct in terms of timely remittance, and that they comply with the plan's rules including re-employment and enrolment eligibility. Ninety-three percent of our employers confirmed their compliance in 2007. As you can imagine, this compliance saves considerable time and effort – and member anxiety – down the road. It's one more example of how we try to deliver service excellence on our members' behalf. To help emphasize the importance of this service, we have an awards program that recognizes the school board with the best overall practices each year. Our 2007 winner was Simcoe County District School Board.

So in conclusion, you can think of our Member Services year-in-review like the courses you'd find in a curriculum.

- There's our stats class: With millions of pieces of information, billions of dollars paid and collected, and 278,000 members, sometimes it seems like we have more facts and figures than Stats Canada.

- There's our communications class: Communications is everything in our business, and getting accurate and timely information to our members in their preferred medium is critical for us.

- There's our computer and information science class: In fact, we can credit our IT staff's technology advancements with keeping us at the top of the service curve.

- And of course, there's our Canadian and world studies class: They don't call it the World-Wide Web for nothing – we have registered *i*Access users in 77 countries. We can provide pensions in 45 different currencies. And if you want to talk history, our oldest pensioner is 106, meaning she was born the year the first Victoria Day was celebrated.

Finally, and most important, every subject in our curriculum shares one common learning outcome:

Outstanding Service today. Retirement security tomorrow.

Thank you, and now I will return the podium to our Chair, Eileen.

Thank you, Rosemarie. I'm sure there is no doubt in anyone's mind that their pensions are in good hands.

Before we open the floor to questions, let me note that members were invited to submit questions online. I am to glad to say that we received a number of questions. Many of them arrived following the considerable media coverage of the preliminary shortfall, and expressed concern about how their benefits and contributions might be affected as a result.

The 85 factor and conditional inflation protection were two issues raised by a number of people. I remind everyone that contribution rates and benefits are the responsibility of the OTF and the Ontario government, and not of the Ontario Teachers' Pension Plan. So we passed those e-mails to the OTF. They tell me that every e-mail received now has been responded to. They also asked me to remind everyone that all pension benefits earned to-date are protected by law. The board and management will continue to work closely with the plan sponsors over the coming months as they make the decisions necessary to file the balanced funding valuation.

Now, I will ask…