



Ontario Teachers' Pension Plan Annual Meeting

Friday, April 3, 2009
The Carlu
Toronto, Ontario

CHECK AGAINST DELIVERY

Eileen Mercier, Chair:

Good afternoon. My name is Eileen Mercier and as Chair of the Board it is my pleasure to welcome you to the Ontario Teachers' Pension Plan Annual Meeting. I would also like to welcome those members joining our live webcast today. C'est avec grand plaisir que nous nous présentons devant vous pour ce dialogue annuel. I am joined at the podium today by

- CEO Jim Leech,
- Executive Vice-President, Investments, Neil Petroff,
and
- Rosemarie McClean, Senior Vice-President, Member Services.

A number of my fellow members of the board also are joining us. Our board members are: Guy Matte, Helen Kearns, Jill Denham, Louis Martel, Sharon Sallows, Bill Swirsky, Jean Turmel and Hugh Mackenzie.

At the conclusion of our presentations, we will open the floor to questions. We also will answer any we received in advance that are not addressed in our presentations.

Because 2008 was such a difficult year, Jim, Neil, Rosemarie and I are especially glad to have this opportunity to join you today. Over the next hour and a half we'll discuss:

- The impact of the economic crisis on the plan.
- The resolution of the 2008 funding shortfall.
- And the lengths to which this organization goes on members' behalf to ensure you have the best service possible.

First, the financial crisis and the resulting economic downturn Jim and Neil will report fully on the impact it is having on our investment strategy and the fund's health. I will address it from the perspective of the governance of the plan.

The fund realized a negative 18% rate of return in 2008. It is small comfort to any of us – board or management - that this is about the same as the average reported by other large Canadian pension plans. Nor is there any solace in the fact this is only the third time in the fund's history that we have incurred a loss and that our long-term rate of return remains nearly 10%. What is reassuring is the swift and deliberate action the executive team took to stem losses. That, in tandem with the diligence of your board members, was invaluable to the fund's long-term health.

All of the fund's losses are directly related to the credit crisis ... which led to the financial crisis ... which in turn is causing the current recession. Part of the loss, however, although *exacerbated* by the credit crisis, is something for which the plan must take direct responsibility. It stems from the fact that the market for some of the complex credits products we held going

into the year froze so completely that their market value plummeted. Neil will explain this situation's impact in detail.

We expect that a large percentage of the losses we incurred in 2008 – those which are marked-to-market or non-cash losses - - are recoverable. Some are not, however.

What does that mean for the Ontario Teachers' Pension Plan? It means that management, under the guidance of the board members, must do all they can to:

- first, continue to immunize the fund as much as possible from the ongoing recession, which continues to take its toll on economies globally, and
- second, develop and deploy risk-appropriate revenue-generating strategies.

The board has concentrated its oversight efforts on two particular factors: costs and risk management.

From a cost perspective, Teachers' has never been an extravagant environment, by any means. That remains our modus operandi, but we will continue to invest in the business with projects that will, for example, improve our risk systems and improve our efficiency.

The board also is responsible for executive compensation – a very hot topic these days. Teachers' believes we should practise the same executive compensation principles we demand from the companies in which we invest. Executive compensation is a cost of doing business. It must be competitive. But it must reflect performance against goals.

Teachers' has further advocated publicly that incentive payments should reflect performance not just for one year, but for a number of consecutive years. That is why our incentive payments reflect performance over four years.

Averaging incentives over four years precludes executives from receiving windfall payments one year for investments that subsequently turn negative. It also eliminates the possibility of totally wiping out bonus payments as a result of one bad year. This year's bonuses reflect one very bad year at Teachers': 2008; and three very good years: 2005, 2006 and 2007. 2008's performance will continue to reduce incentive payments for the next three years.

In aggregate, total variable compensation is down 40% this year compared to 2007. In fact, incentive payments for our most senior executives, that is the CEO, CFO and three highest paid executives, are half of what they were last year. In addition, our three highest paid executives have deferred receiving their 2008 annual bonuses for two years. That money will remain invested with the fund and, as long as they remain at Teachers', they will receive those payments in April 2011. This reflects their confidence in the plan's investment strategy.

I also should point out that, due to the current economic environment, no executive reporting to the CEO or the Executive Vice-President will receive a salary increase in 2009.

Teachers' prides itself in being a leader in corporate governance. Our executive compensation program demonstrates that leadership.

You can see the full details of the compensation program in our annual report, copies of which are available at the registration desk. It details the corporate and investment performance against the goals established in 2007 and approved by the board.

The board also is ultimately responsible for the plan's risk management. Our risk systems have served us well; however as the experts now say, no existing risk system could have forecast this year's market rout. Ours stood up fairly well, but did not fully capture the volatility of the more complex instruments. Accordingly, the plan's risk management systems have undergone a thorough third-party expert review. Enhancements are now being made to our market-risk management and risk-governance systems and procedures, and more are planned. This will ensure our systems' ability to deal with all types of investment products and their individual probabilities of loss.

2008 was nothing if not a year of major issues. The board was preoccupied with the resolution of the funding shortfall projected at the beginning of 2008 and with the deteriorating economy throughout the year.

To deal with the shortfall, the Ontario Teachers' Federation and the Ontario Government decided in mid-2008 to change the plan's cost-of-living provision. It was a difficult decision for them to make, but it was one they based on several years of study and research. They have been considering the various alternatives since 2005, and they deserve credit for weighing the implications and alternatives so carefully. The decision to provide conditional inflation protection going forward clearly was the best available option for the sponsors and the members.

Over time, this change, which the plan sponsors can invoke if necessary, will help to reduce two major risks:

1. That benefits will become unaffordable for the plan, and
2. That contribution rates will become unaffordable for members.

The change in the cost-of-living provision, would, if invoked, see inflation protection paid at between 50 and 100% on benefits earned after 2009. It permits the plan to assume a somewhat higher rate of return in determining the fund's projected long-term financial health. This rate of return assumption was instrumental in allowing the plan to file a balanced valuation in the fall.

The new provision also will help us manage future funding challenges resulting from:

- plan maturity,
- low interest rates,
- increased life expectancy, and

- the risk that investment returns fall short of growing liabilities.

It will not keep shortfalls from occurring if future pension costs grow faster than the plan's assets. What it will do is give the OTF and the government a new tool that they can use to deal with future shortfalls when and if they occur. A warning, however: it will be several years before the full benefit of this remedy can take effect, as it will apply only to pension credit earned after 2009. All credit earned before that has 100% inflation protection.

2008 also was a year of executive transitions. Jim Leech was at the helm as the plan's new CEO. And Bob Bertram, the plan's inaugural Chief Investment Officer, retired at year end. Bob, a legend in the art of pension fund management, is here today, participating from a seat in the audience, for the first time. Please join me in applauding Bob's career and contribution in building this fund into one of the most successful in the world.

Before I hand the floor over to Jim Leech, I want to say a few words about his first year of leadership. Jim took over the CEO role in late 2007. I know his first year is not one that he had anticipated. As difficult as it has been, without his leadership skills and his ability to communicate with and motivate staff, I know that we would not have the cause for optimism that we have today.

Jim kept the team focused and productive during the funding valuation discussions and the darkening economic climate. The board and sponsors are reassured that, painful as this recession is, under his leadership, the plan will recover and thrive.

Ladies and gentlemen, please welcome Jim Leech.

Jim?

Jim Leech, President and CEO:

Thank you, Eileen, and good evening, everyone. Bonjour et bienvenue a toutes et a tous.

Before I start into a review of 2008, I want to make an announcement. Eileen is too modest to mention this, but she has just been recognized as a Fellow of the Institute of Corporate Directors. She is being honoured for bringing outstanding corporate governance leadership to the boardroom. It is a prestigious – and much deserved – award. We at Teachers' are the real beneficiaries of her expertise, of course.

It is a pleasure to be here with you this evening, although I must say that it is a sobering time to be CEO of this remarkable organization. As Eileen noted, this is not the inaugural year I was expecting when I took on this position at the beginning of 2008.

No CEO works alone and believe me, 2008 confirmed that we have one of the most talented and dedicated teams an organization could ask for. They rose to the challenge as every system and theory we have relied upon was tested ... our investment principles, our management skills, our technology, our endurance

2008 was a humbling year. Teachers' is used to finishing the year in the top decile, not at the median. And we certainly aren't used to virtually across-the-board negative returns. Our drop to \$87.4 billion in net assets means that three years of value-add have effectively been eliminated from the fund. We are back to mid- 2004.

2008 was "the year of everything". Our funding valuation filing was due. The world fell into recession. Markets plunged and froze, taking deals and rates of return with them.

But, there was also some extremely good news, however, which I fear is being overshadowed by the economic melee: our Member Services operation was named the best in world.

The company CEM Benchmarking annually measures performance at the 58 leading pension plans in Canada, the United States, the Netherlands and Australia. It evaluates multiple service categories, including how long members wait to get service over the phone, the availability of website tools, the accuracy of member data and pension payments, and the quality of pension statements.

In the past six years, we have placed in the top five pension plans for service levels. But, in CEM's most recent survey, Ontario Teachers' Pension Plan ranked first among our peers in

North America and we tied for first internationally. The Member Services team scored 89 out of a possible 100, which was 17 points above the class average. Markets may go down, but the quality of our service to our members continues to go up.

I also must note that Teachers' was honored last year to learn that Rosemarie herself had been named one of Canada's 100 most powerful women. This is a positive reflection of the quality of our management team.

I suspect that our plan members are asking two main questions right now:

1. What does this economy mean for my pension?
And
2. What are you going to do differently going forward?

The answer to the first question lies in two realities. One is our timeframe: we are long term investors ... with long term commitments. The second is the basic design of the plan: this is a defined benefit plan. Unlike Registered Retirement Saving Plans or defined contribution plans, a defined benefit plan is based on a formula of service and salary. It is not based on the value of the fund on the day a person retires.

Keep in mind that all pension credit already earned is protected by legislation. Accrued pension credit cannot be reduced retroactively. And we have \$87 billion in high-quality investments to back up the pension promise.

The plan sponsors, the Ontario Teachers' Federation and the Ontario Government, can adjust benefits and contributions during the course of a member's career. That's how defined benefit plans work. If there are major surpluses, benefits can be increased, as they were in the late 1990s, or contributions can be reduced. Conversely, if there are shortfalls, as has occurred since 2005, either benefits can be reduced or contributions can be increased.

I will leave the explanation of changes to our investment program in the wake of the economic downturn to Neil. However, I would like to make a few observations.

As the table on the screen indicates, 2008 offered virtually no investment safe haven. Equities, credit products, real estate... all were down. And all were down, ultimately, because of the housing bubble, which was inflated by the subprime mortgage fiasco. Warren Buffett described the situation succinctly when he said it involved "borrowers who shouldn't have borrowed, being financed by lenders who shouldn't have lent... It was a chain of folly that had to end badly and it did."

Like any great decline, it's not the fall itself, but the abrupt stop, that causes the damage. That's what happened in the credit markets. They fell to zero. Institutions stopped lending and the financial system crashed to a crippling halt.

As the managers of the Ontario Teachers' Pension Plan, we can't stop market downturns. What we can do, however, is try to ensure that we are doing everything possible to insulate the fund from these shocks when they occur.

So, did we do everything possible last year? We did a lot, but in retrospect, I wish we could have moved faster. As market dynamics changed, it became apparent that strategies that had worked for us in the past were no longer effective. We started to get out of credit markets before they froze, but big ships turn slowly. We couldn't move fast enough to escape major impact. Even so, the most important decision we made in 2008 was to return the fund to more conservative fixed income products and move away from the more complex credit products. I believe we saved the fund billions of dollars in doing just that.

I want to make an important point here about our investment losses. You'll be hearing the terms "marked-to-market" and "unrealized losses" a lot today. Let me be clear about what they mean. When we say an investment has been marked-to-market that means we are recording it at the price we would get IF we sold it today, in this market. We are talking about its selling price on a specific day. The reality is, if we don't like the price, we won't sell. When we know an investment is more valuable than current conditions allow us to sell it for, we hold onto it. Think of it in terms of your own house. The sale price of your house in today's market – its marked-to-market price - is probably lower than it was two years ago. But if you don't sell your house, you have lost *nothing* – you have what we call an "unrealized loss". The value is still there, the price is just different today than it was yesterday and it will be different again tomorrow. We took large "marked- to-market" write downs in 2008 - on even our most valuable assets. But we know their prices will rebound in normal market conditions.

The fact remains however, that 2008 broke our string of eight straight years of top decile performance, and saw us give back three years of over-performance. The personnel and investment changes we made during the year are paving the way for improved returns when the market recovery begins.

To be continuously successful in a venture as large and complex as Teachers', you must have the right talent and passion on board. And we have both. But we also have something else that money can't buy and that's a considerable amount of gray hair. Although many members of the investment community have never seen downturns or crashes before, members of our

executive team and our board have, and everyone has learned from their experiences. There was never any panic; we simply proceeded with caution.

No 2008 report on our fund would be complete without reference to BCE. The agreement to purchase BCE was terminated in December in accordance with its terms. While the conditions could not be satisfied and the acquisition was not completed, we all remain very proud of our team's efforts during this unprecedented transaction. We believe that our efforts were successful in effecting significant change at BCE ... changes that we expect will result in improved shareholder value.

There are only two things that keep me up at night:

First, is Assets. And the other is Liabilities.

In other words, do we have enough money to meet our future commitments? I know we have enough to pay today's and tomorrow's. And those 40 years from now. But for the sake of future teachers, we also need to be confident that we can meet our commitments 70 and 80 years from now. The decisions we make every day are directed towards that goal: ensuring our assets meet our liabilities 70, 80 years down the road.

That's why we at Teachers' were so pleased with the partners' resolution of the projected 2008 shortfall. Their decision to adopt conditional inflation protection, which can be invoked to help resolve future shortfalls, was forward-thinking. It has been cited in many recent media reports as an example of how smart pension plans are dealing with the economic crisis. The Post, Star, Globe, CBC - all have mentioned the fact that this plan is preparing itself and its members for the future in a very prudent manner. So congratulations to the Ontario Teachers' Federation and the Ontario government for making this difficult, but important, decision. I want to stress here, however, that our goal remains to earn enough to accommodate 100% inflation protection.

At the same time, we also need to remember that although our reported shortfall is currently only \$2.5 billion, it will grow in the short term. That's because \$19.5 billion in losses have been held back in our smoothing adjustment ... and, unless the investment climate turns sharply positive, they will be recognized over the next four years.

We must be diligent in finding new revenue opportunities to further build our assets and leverage our talent. The Ontario government's recent budget contains a preliminary step forward in helping us do so. The proposed amendment to the Teachers' Pension Act will expand our mandate and allow us to manage other funds' investments and pension administration. We have been working on this for several years and are glad our partners support such an expanded mandate. Although we do not yet have the details of what this will entail ... and it will

be some time before such changes can be adopted ... it is an encouraging step forward towards pension reform for our members and thousands of other Ontarians.

Our investment and pension administration businesses are complicated and complex and they are supported by a myriad of intricate systems and technologies. They are rendered all the more elaborate by the literally millions of pieces of data that drive them. Keeping these systems current and managing that data is tremendously important. We have projects underway now to ensure that they remain state-of-the-art. These are costly undertakings, but not as costly as not doing them would be. And speaking of costs, we should not lose sight of the fact that we did finish 2008 with costs that were \$74 million lower than they were in 2007.

Neil Petroff, our new Chief Investment Officer, has been a senior colleague of Bob Bertram's for over 16 years. During that time he honed his investing skills, learning from the best. When we were looking for Bob's successor, we didn't have to look far. Succession from within is one of Teachers' real competitive advantages. I now would like to call on Neil Petroff to detail our 2008 investment results and his team's response to the economic climate.

Neil?

Neil Petroff, Executive Vice-President and Chief Investment Officer:

Thank you, Jim, and good evening everyone.

I am here to explain to you the economic factors behind the fund's 2008 losses and, more importantly, what we are doing to return your pension plan to positive investment returns.

Before I do so, however, I want to make an important point: 2008 had a remarkable impact on the fund, but it remains a solidly built, well-diversified portfolio of high quality assets. The investment team ensured we had adequate liquidity throughout the year to pay for trade settlements and make pension payments. At no point did we have to consider selling good investments at a loss. We continue to hold valuable assets and we are well-positioned for the next market cycle. Our investment strategy remains defensive, but flexible enough to take advantage of market opportunities as they arise.

That said, the past year was extraordinarily bad for investors worldwide, and our fund was no exception. The severe economic contraction of recent months has effectively eliminated three years of our hard-earned investment over-achievement. The fund ended 2008 with \$87.4 billion, with investment returns down 18%, or \$19 billion. We finished the year below benchmark, for the first time since 1998.

It was a year in which the benefits of portfolio diversification – the hallmark of our investment strategy – were largely lost. Virtually all asset classes fell.

Although our results reflect multiple market factors, our losses were largely the result of four main factors – any *one* of which presents tremendous challenges. Taken together, you can understand why the term “unprecedented economic times” is now in such common use. I will outline each of these factors and then explain to you the kinds of actions we are taking to deal with them on your behalf.

1) The first is global equity markets, which ended the year down sharply.

Some markets were down as much as 50%, and have continued to fall in 2009. Because our assets are marked-to-market, when those markets oscillate, we can expect our investment values to follow the trend. Although our equities performance was better than our benchmark, the portfolio was still down 23.2%.

In response, we have adjusted our asset mix and reduced our equity holdings to 40% of the total fund for 2009, compared to 45% in 2008.

2) The second factor was widening credit spreads.

Credit markets virtually froze last year. Although we did not hold asset-backed commercial paper covered by the Montreal Accord, we did hold other structured credit products and hedge funds. We invested in those products in previous years because they offered opportunities to enhance returns in a market environment in which returns on traditional fixed-income investments were low ... and in which premiums paid for assuming risk were also low. For several years these markets were relatively stable. They performed exactly as we expected, generating significant returns for the plan. When credit markets tightened up and risk premiums soared, however, those returns abruptly turned into significant losses. Fixed Income is our smallest asset class. Yet, it lost \$6.7 billion. It produced the largest relative loss of our three asset classes.

So, what are we doing about that?

As soon as we saw the market shifting, we made the judgment that these changes were not temporary and that they would continue to affect credit markets for some time to come. We therefore decided to reduce our exposure to credit risk and adopt a more conservative fixed income investment strategy. Unfortunately, that was much more easily said than done, as most of these markets became very illiquid and did not allow our investment team to reduce risk quickly, as we needed.

Throughout 2008 we employed a variety of different strategies to reduce our risk exposure. We re-positioned the Fixed Income group in 2008, changed the leadership and re-organized the department. Ron Mock now heads up this group as Senior Vice-President. Ron and his team, including Vice Presidents Jason Chang and Jonathan Hausman, have deployed a series of more conservative strategies designed to substantially reduce the plan from future credit market turmoil. In 2009 and beyond, our fixed income investment strategies will allow us to stabilize and diversify our returns.

3) The third investment factor affecting our fund in 2008 was lower worldwide real estate values.

Our real estate portfolio represents nearly 20% of our fund. It is part of our Inflation Sensitive asset class. It also is marked-to-market. And we all know what happened to real estate markets last year.

In fact, given the state of real estate markets last year, we completed 3 separate valuations of our portfolio between October and year-end, to be absolutely sure we had fully captured the downward trend. The final valuation was below benchmark.

Our strategy going forward is to continue to invest in upgrading the properties in our real estate portfolio. Given the high quality assets in this portfolio – and I believe they are the highest

grade properties in Canada - we are confident they will be the first to rebound in the coming years. I also must stress that, although market values are down, revenues are up across the board.

4) The fourth major factor affecting the plan is the continuing and growing gap – approximately \$2 billion - between pension contributions and payments.

I mention this because investment income is our only revenue stream beyond contributions ... the only means available to us to close the contribution-benefit gap. The first \$2 billion we earn each year goes to pay your pensions. So when there is insufficient investment income, we have to close the gap with assets on hand. And that means those assets are not available to be put to work to earn more income.

With that backdrop, let me now explain the performance of each of our asset classes in more detail. I'll start with our equity holdings.

Our combined public and private equity holdings returned negative 23.2% in 2008, compared to a benchmark return of negative 26.4%. Their combined total value at year-end was \$34.9 billion, compared to \$50 billion at 2007 year-end. Most of these losses are unrealized, and are largely a result of our practice of marked-to-market valuations ... which took place in the shadow of last year's abysmal market conditions. We expect many of our higher quality assets will regain their value when normal market conditions return. We are long-term investors and we are not under liquidity pressures to sell. We have the luxury of time on our side.

The lower Canadian dollar partially offset the fund's equity losses, given our combination of relatively high foreign exposure and our strategic currency hedging.

The S&P 500 is a good example of this: in US Dollars the U.S. equity market lost 37% in 2008, but was only down 21.2% when expressed in Canadian Dollars.

We continued to diversify our equity portfolio in 2008 by reducing our Canadian holdings and increasing our foreign equity investments. Our largest emerging market exposure now is in Brazil, currently the world's tenth largest economy. For those of you who aren't aware, the market in Brazil is up 25% year to date.

Teachers' Private Capital's investments totaled \$9.9 billion at year-end, compared to \$9.0 billion at the end of 2007. Although lower valuations put their return at negative 12.7%, they remained well ahead of their negative 19.3% benchmark. That portfolio includes direct private equity investments as well as investments in leading private equity funds around the world. I'm proud to announce that this team has been recognized for the second year in a row as the *Best Private Equity Firm in Canada* by Private Equity International magazine.

As I said earlier, the Fixed Income asset class was responsible for in the majority of our 2008 below-benchmark performance.

This asset class holds diverse assets ranging from bonds to hedge funds. It also provides funding for new investments in other asset classes, equivalent to a corporation's treasury department.

The fund's fixed income assets totaled \$5.3 billion at the end of 2008, compared to \$18.7 billion in 2007. We lost \$6.7 billion in this asset class, so if you're doing the math in your head, you are probably wondering why the portfolio value dropped by more than that amount.

We took advantage of an opportunity to switch our exposure from nominal bonds to inflation-hedged bonds that are well matched to paying teachers' pensions. Those real returns bonds are reported in our inflation sensitive category.

It was a very good opportunity for the pension fund in a year when there wasn't a lot of good news.

Now, let's tackle the losses.

There were two main reasons for our \$6.7-billion loss in fixed income. Let me explain each, along with some details on the solutions we are implementing:

1) Credits markets froze. This cost us approximately \$3.7 billion in our absolute return strategies, including such credit products as commercial mortgage-backed security swaps, credit default swaps, and other structured credit products, and another \$0.9 billion in externally managed hedge funds.

- To deal with this moving forward, we have shifted to a more conservative fixed income strategy, reducing our credit and hedge fund exposures and repatriating numerous externally managed funds.

2) The Canadian dollar declined against foreign currencies. The majority of the losses were on two fronts: settling of equity and commodity swap contracts payable in U.S. dollars and the policy currency hedge.

- We eliminated the policy currency hedge, which means that our currencies are now actively managed, to help mitigate this impact in the future. While we could not avoid losses, they would have been considerably worse had we not made this decision in the first half of the year.

Because the fixed income benchmark is based on government bonds, and does not include other investment strategies, this department finished the year significantly below benchmark.

Now I'll turn to our Inflation-Sensitive investments. This portfolio includes our real estate, infrastructure, timberland, those real-return bonds (I just talked about) and commodities. Its value at year-end 2008 was up \$5.6 billion to \$44.9 billion, from \$39.3 billion at the end of 2007. We benchmark this portfolio to reflect the fund's long-term return objectives. We do so because these investments tend to move closely with changes in inflation. They act as a hedge against increases in the cost of future pension benefits.

This is now our largest asset class. And because of its inflation correlation, it plays a critical role in decreasing our risk.

Our real estate is managed by our subsidiary company, Cadillac Fairview. Its marked-to-market portfolio value dropped to \$16.2 billion in 2008 from \$16.4 billion in 2007. With such crown jewel assets as the Eaton Centre, however, we know this value will rebound.

Infrastructure and timberlands is one of our newer portfolios. We started building it in 2001. We were a pension fund first mover here, as we were when we entered the private capital and real estate markets many years ago. This portfolio's value at year end was \$10 billion compared to \$8.8 billion the previous year. Although its returns were in positive territory, we benchmark against the inflation rates in the countries in which its investments are located, so it finished the year below benchmark. I should note that this team was honored with the prestigious Canadian Dealmaker Award of the year in 2008 for Utilities.

As I've already explained, we increased our exposure to real-return bonds in 2008 to take advantage of their attractive yields. As such, our real-return bond holdings at year-end totaled \$17.4 billion, compared to \$11.1 billion in 2007.

Our commodities portfolio dropped in value in 2008 to \$1.3 billion from \$3 billion in 2007, partly as a result of reducing our exposure and partly as a result of losses. We reduced our commodity exposure when oil prices were well over \$100 a barrel, and virtually matched benchmark at year-end.

That is a synopsis of how our 2008 results added up, when our asset mix was 45% equities, 22% fixed income and 33% inflation sensitive. Here's what it's been changed to for 2009 and why:

- Equities are down to 40%, recognizing the ongoing uncertainty in capital markets,
- Fixed income is reduced to 15%, indicating our move away from credit products, and

- Inflation-sensitive investments increase to 45% because they are well-matched to paying inflation-indexed pensions

There is no one single strategy or tool or process that will allow us to accelerate our investment returns. The only silver bullet out there is the combined diligence and innovation of the most committed and passionate investment team in this country.

This team shares my belief in three fundamental investment principles:

#1: always take the long-term view.

#2: you have to take appropriate risks to earn returns.

And #3: is the need for diversification to reduce our risk.

Our investment strategy, which we call Strategy 20/20 exemplifies these principles. It is the updated investment strategy we have had under development for the past 18 months or so, and which we now are beginning to roll out. It is a response to the continuing maturity of the plan and the need for all of our asset classes to work together like the gears of a Swiss time piece – precisely, smoothly and consistently.

One Strategy 20/20 initiative is our new Long-Term Equities portfolio.

This newly launched portfolio will purchase major positions in companies that can hold their value and allow us to hedge inflation. As you know, that is important when you are paying inflation-adjusted benefits. It will be a hybrid portfolio, with some publicly listed, and some private holdings.

We'll be looking for iconic, ubiquitous brands, with steady cash flows and growth potential. We'll hold these assets for many decades – truly the long term.

All in all, 2008 was a year of terrible surprises. Just when we thought it couldn't get worse, it did. It surprised us, but it did not unnerve us. I am very proud of the way the investment team continues to respond to this economic crisis – with clarity and resolve.

Your investment team is working passionately to reverse the impact of these recent economic shocks. We are in a defensive posture but as I like to say, it's a Bobby Orr kind of defense. Bobby Orr, who is considered one of the best hockey players of all time, played defense. But, he had a unique talent to spot opportunities, see openings and rush up the ice to score goals. Your investment team will continue to score opportunistically on your behalf.

Thank you, and now it's my pleasure to turn the floor over to our Senior Vice President of Member Services – officially the best member services group in the world, headed by one of Canada's most powerful women - Rosemarie McClean.

Rosemarie?

Rosemarie McClean, Senior Vice-President, Member Services:

Thank you Neil for that generous introduction and good evening everyone.

As I prepared for my speech today, I knew that the first thing I wanted to do was to thank our members for the continued confidence that they have shown us. It has been a trying year all around. But, we have been so proud to learn that according to feedback from our customers, and from independent third parties who measure these things, we continued to effectively deliver the service they need and value.

In Member Services, we make a commitment to deliver on our promises, especially in the areas of: Timely and accurate pension payments, service quality, service innovation, administrative efficiencies, and cost containment.

Let me spend a few minutes telling you about how we do this.

Paying pensions every month is just one part of our job. The bigger role we play is customer service. By consistently providing positive interactions for our members, we devote ourselves to helping working teachers, inactive members and retirees understand their benefits.

In addition, we partner with school boards and designated employers to produce accurate and timely pension-related data. This data is critical because it lays the foundation for the services we provide. More importantly, it dictates the accuracy of the benefits we pay our members.

Plan members are grouped into three categories, each with different career and life-cycle needs.

Working teachers represent the largest portion, at just under 50 percent of the total membership. But, this group is becoming smaller, relative to total membership—a demographic reality that increases pressure on Neil's investment team to generate extra returns to pay future pensions.

In absolute terms, the number of working teachers grew slightly last year for a net gain of 3,000 members, bringing the total to 173,000. By contrast, the number of retirees and survivors

collecting retirement or disability pensions continued to grow in both relative and absolute terms. An influx of 4,700 new retirees in 2008 increased the net pensioner population to 111,000.

Those who drew a pension for the first time last year can look forward, on average, to 30 years or more of Teachers' pension income.

Over the next 12 years, we expect more than 57,000 teachers to retire. That means that very soon there will be 1.2 **active members for every pensioner. This is an astonishing change from 40 years ago** when there were 10 active members for every pensioner.

Mortality rates are also shifting; retirees are living longer than ever. Today, the average pensioner is 68-years-old and the age range moves dramatically upward from there. In fact, we have 78 pensioners who are over 100-years old, compared to 58 in 2005.

The smallest group in our membership is 72,000 inactive members who taught briefly in recent decades. Many of them don't know that they have benefit entitlements with us. Because our service standards and integrity must be consistent for all members, we make every possible effort to locate these people. Last year we found more than 5,000 former teachers and gave them the good news and paid out their entitlements.

So, how do we serve all these people and achieve our overriding commitment to outstanding personalized service? One key driver is technology.

Each year, we process billions of dollars of contributions and manage millions of pieces of personal information. Technology allows us to do this efficiently while keeping a lid on costs, and yet maintaining that personal touch – it is always a fine balance.

Our team continues to find ways to use technology to create personalized customer service. For example, we are a pioneer in providing easy-to-navigate and easy-to-calculate web services. Our secure, self-serve website, called *iAccess web*, allows members to learn about their entitlements and calculate their benefits online.

Technology enables us to engage plan members in ways that we couldn't before, while creating service value and, of course, protecting confidential, personal information.

The numbers really tell the story.

Last year, members went online over 179,000 times. And, despite increases in membership, telephone enquiries continued to decline.

And the web's appeal doesn't stop there. Last year an astonishing 80 percent of retiring teachers submitted their retirement applications online—a 13 percent increase from the previous year. It's clear that members have embraced *iAccess* web and we couldn't be more pleased.

Teachers have demanding schedules, so we can't underestimate the convenience factor. Consequently, it's no surprise that our statistics show that many of our members go online in the evening.

iAccess web service creates a win-win situation: Our members love the convenience of having access at their fingertips; we're able to cut down the expense of producing and mailing out pension materials, and we realize the added benefit of reducing our environmental footprint.

Our online strategy is an intrinsic part of our overall customer service strategy, which we introduced last year. As you may recall, we dubbed this $e=(MC)^3$ (with apologies to Einstein).

"E" is for excellence in everything we do for our members.

"M" is for more of what we do best

And the three "c's" are for

- Customization
- Counseling
- and Choice

iAccess creates a choice for our members, in how they can interact with our team. Their acceptance of online service has also enabled us to customize the experience and deploy even more one-on-one counseling—a real plus for individual members who need thoughtful guidance in making critical decisions about their benefits.

Personalized counseling is something our members have long requested. The benefits and rules of our pension plan are complex and the decisions made by members have lifelong consequences. Therefore, it's very important that we be there to assist each member in making the best decision.

In the past, we simply disclosed the options each member had and left the decision to them. This year, we're laying the foundations to enable our pension benefit specialists to gain a deeper understanding of each member's circumstances—discuss their benefit options, and assist them in making informed decisions.

But that's not all.

We are always looking for ways to improve our interactions and service. With that in mind, last year we assigned three experienced team members to examine our business from the perspective of plan members. You might think of this group as a Member Services SWAT team, whose goal is to find and fill gaps in the services we offer.

Here's one outcome. In 2008, we took a look at how we could make the retirement application process simpler and more efficient. The results speak for themselves: We were able to reduce the time it takes to process a retirement application in half.

We also eliminated paper by implementing an alternative to applying on-line with the new capability to initiate a retirement application via the phone. All of this has helped reduce costs and processing inefficiencies, while increasing convenience and choice for members.

Because we went looking for opportunities, we were able to find and fix a time-consuming and inefficient process that was previously out-of-sight and out-of-mind.

So, how did our members react? Well, they responded by giving us our highest satisfaction rates ever, with 65 percent of teachers rating the service 10 out of 10.

This is just the beginning. The team will be focusing on continuously improving the way we work. You might say that process improvement has become part of our DNA.

Our members continue to rate all of our services at the top of the scale. We use a quality service index that measures member satisfaction with our direct service and communications. You might think of this as our quarterly report card and - believe me - we take it seriously. It also influences how we are all paid in Member Services.

The survey is done by an independent third-party and since 2005 we have maintained a score of 9 out of 10.

We have a number of our pension benefit specialists with us today, who can help you with any questions you may have. They have set up kiosks, which are live to the web, just outside this room in the far back foyer. We all look forward to speaking with many of you once our formal presentations are completed.

I would like to turn now to the partnerships we maintain with another important group: our employers.

Every day, we work with some 200 school boards and designated employers, each with administrative systems that can vary dramatically in practice and sophistication.

One primary focus is to monitor and improve the quality of pension data because this is used to calculate the benefits we pay to our members. Since 2004, we have been working with employers to certify and review the accuracy of contributions and member information. This time-consuming initiative has been successful in improving the quality of information and our efforts have resulted in data consistency and reliability, regardless of where our members work.

We also have created a robust online reporting system that is now the primary communication channel between our organizations. This system has delivered excellent results by making workflow easier, more efficient and more cost effective.

We never stop looking for ways to make our service better. For example, we recently moved to a one-to-one model by designating one staff member as the contact for each employer. This change enables individual specialists to have a deeper understanding of the employer's payroll systems and to develop strong relationships with each employer. In turn, employers benefit from the convenience of always knowing who they are dealing with to get their work done.

This year we will recognize our top three employers in the province: the Rainbow District School Board, the Simcoe County District School Board and the Northeastern Catholic and District School Board, by presenting each of them with the Employer Service Excellence Award.

In 2008, they provided same day service to our priority requests and achieved extraordinary pension reporting results. These organizations exemplify the partnership that allows us to continually improve interactions with our members.

The philanthropist, Andrew Carnegie once said: "People who succeed are those who have chosen one line and stick to it."

At Teachers' that line is an unwavering commitment to service.

Our investments in technology and process efficiencies have enabled us to manage costs so that they grow no faster than inflation. But, at the root of everything we do is service.

Thank you for your continued confidence in us. I look forward to the year ahead as our team works on more innovations and enhancements to serve our members better.

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