Ontario Teachers' Pension Plan
Annual Meeting

Remarks
by

Eileen Mercier,
Chair

Friday, April 3, 2009
The Carlu
Toronto, Ontario
CHECK AGAINST DELIVERY

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?