Ontario Teachers' Pension Plan
Annual Meeting

Remarks
by

Eileen Mercier,
Chair

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The Carlu
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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
- Tracy Abel, Director of Business Solutions, Member Services, representing Senior Vice-President Rosemarie McClean.

A number of my fellow board members also are joining us today. First, please welcome the newest members, and I'll ask them all to stand: David Smith, who joined us last fall, and Rod Albert, who officially came on board January 1 of this year. Our returning board members are: Jill Denham, Helen Kearns, Hugh Mackenzie, Louis Martel, Sharon Sallows, and Jean Turmel. Please join me in thanking them for all they have done this year on your behalf.

If you joined us last year, you may recall that we did a survey asking for your feedback on the meeting. Most of that feedback told us that the meeting ran too long. So in response to member feedback, we have shortened our speeches somewhat. And with some changes to our approach, our question and answer session should also take less time.

Last year's annual meeting was largely devoted to helping you understand the impact of the financial crisis on our fund. With 2009 earnings of $10.9 billion – which represents a rate of return of 13% - we have a much brighter picture to report to you this year.

As solid and positive as those returns are, however, our preliminary funding valuation shows a $17 billion shortfall. I will address the reasons for this shortly.

Board members focused on two equally important priorities in 2009:

- Overseeing management's application of the lessons learned from the recent global financial crisis; and
- Addressing the serious funding challenges the plan continues to face.

I am glad to have the opportunity to discuss both with you today. Jim, Neil and Tracy will then discuss the details of management's progress in 2009.

First, the lessons learned.

2009 was a year of market resilience, but not major economic growth. You can credit Jim, Neil and the teams for harnessing that resilience, and positioning us well for true economic growth, as and when it occurs.

A great deal of value disappeared from markets in 2008 and early 2009, as some investors were forced to sell good assets at discounted prices to raise needed cash to meet their obligations. I am pleased to report that we did not have a liquidity issue. Furthermore, thanks to our nimble investment team, we were able to take advantage of opportunities unavailable to less liquid investors.

As a result, our 13% return beat our benchmark. It is important to note that our benchmark is not the returns realized by other pension funds. Rather, it is a composite of equity, fixed income and inflation-sensitive indices in the same proportions as our "policy" portfolio.

I want to take a moment to explain that we purposely do not measure ourselves against other pension funds because our needs are different. We have a lower percentage of equities in our asset mix policy, for example. This is because, as a mature plan, we have a lower proportion of working members per pensioner, compared to other plans. We have 1.5 working members for every pensioner.

Why is this relevant?

It's relevant because when we face a shortfall situation …. that is when the projected cost of future pensions outweighs the market value of our assets, as it does now … we have fewer contributing members whose benefits or contribution rates can be adjusted to close the gap. Therefore, the impact of a shortfall on each of our active members is higher. In other words, our plan is more vulnerable than less mature plans, which can spread the impact across a large number of active members.

And that forces us to be more risk averse.

As a result, we have a much different asset mix – only 40% equities compared to some plans at 60% - and so we cannot meaningfully compare our returns to those of other plans. And that is why our earnings assumptions are generally lower. Your board takes this responsibility very seriously, and is acting in members' best interests in working with the actuary to determine the appropriate rate of return assumption.

You will recall that in 2008, the theory of market diversification did not work. All asset classes suffered together. Although it was a year that was impossible to predict, we took lessons from it and are doing everything we can to manage our risk, including reviewing all of our processes and systems.

Risk is really at the heart of our funding assumptions and resulting investment policy. From an investment perspective, we believe that risk management begins at the top. It was our board members' major focus in 2009. We oversaw the strengthening of the plan's enterprise risk management system. An international investment risk management firm reviewed all of our investment risk reporting processes and systems and confirmed that we are among the pension fund world's risk budgeting leaders. Opportunities for improvement were identified, however, and already have been or are being implemented.

Now, to funding.

A balanced funding valuation was filed last year as at January 1, 2009. Small adjustments to the assumptions allowed the plan sponsors to resolve the preliminary $2.5 billion funding shortfall.

The sponsors decided to file this valuation earlier than required because it gives them an extra year, until 2012, to deal with this year's preliminary shortfall … and with expected shortfalls to come. For instance, we know that we must continue to recognize 2008's losses over another three years.

In addition to the 2009 filing, the sponsors decided to form a Sustainability Working Group to deal with the issue of recurring shortfalls. I want to commend them for this. The tripartite group comprises representatives from the OTF and the Ontario government, as well as plan management. It is facilitated by Dr. Harry Arthurs, who chaired the recent Ontario Expert Commission on Pensions. Together, they are considering all possible changes to the plan to safeguard its long-term viability and affordability. They will report with an action plan by this summer.

Their task is not an easy one. They are looking for solutions in an environment that is very different from the 1990s and early 2000s – when markets were flourishing and their potential seemed limitless. The thought of being retired for longer than you worked has only recently begun to sound alarm bells.

But as we have learned in recent years, concepts of unlimited growth are illusory. Markets crash, taking growth with them. Witness 2008: three years of good growth was erased from our fund. Expectations need to be re-set.

As former Bank of Canada Chairman David Dodge and his co-authors state in their recently released paper:

> "The longer the post-retirement period, and the fewer earning years over which savings accumulate, the higher the fraction of earnings that must be saved."

They go on to say that Canadians generally must decide to save more or save longer, or both, and on the other side of the ledger, decide to accept less, if they do not.

Dodge's assumptions were based on 30 to 37 contributing years. Our members, however, retire with an average of only 26 years of pension credit and are expected to receive a pension for 30 years, plus survivor benefits. This is the conundrum facing the members of the Sustainability Working Group. They understand that our investment team cannot close this gap alone and are studying the plan realistically and in its entirety.

In conclusion, while challenges remain, 2009 was a year of recovery and opportunity. Significant value was *re*covered, and valuable opportunities were *un*covered, both from an investment and administrative perspective. Management is to be congratulated for their diligence and success.

On behalf of all board members, I also want to congratulate the plan's bargaining unit and management on a new collective agreement, which will be in effect until December 31, 2013.

Further congratulations go to the whole employee population, who has proven their good citizenship once again. Their 2009 United Way campaign raised $375,000, for a 3-year total of more than $1 million. And more recently, they have reached out to their sister employees at our portfolio companies in Chile, which were badly hit by the earthquake. Teachers' employees recently delivered 1,400 pounds of winter coats and clothing from an employee drive.

Just before I turn the mike over to Jim, let me conclude by saying that I hope I have helped you understand the complex issues that board members confront on your behalf. I can assure you that each of us does so with every member's best interests in mind.

And now it is my pleasure to introduce the leader of Teachers' management team.

Ladies and gentlemen please welcome Jim Leech.