Ontario Teachers' Pension Plan
Annual Meeting

Remarks
by

Jim Leech,
President and CEO

Friday, April 3, 2009
The Carlu
Toronto, Ontario

CHECK AGAINST DELIVERY

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 <u>smart</u> 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 <u>not</u> 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?