The Ontario Teachers’ Pension Plan Board is responsible for the future retirement income of 153,000 elementary and secondary school teachers, 77,000 retired teachers and their survivors, and 92,000 former teachers with entitlements in the plan. The plan is sponsored by a partnership between the Ontario government and the plan members, represented by the Ontario Teachers’ Federation. The co-sponsors negotiate the use of surplus and have an equal say in the plan’s design, including changes in benefits.

The pension board’s current asset mix policy is 60 percent equities, including shares in public and private companies and equity-return derivatives contracts; 22 percent inflation-sensitive assets such as real estate, real-rate bonds and commodities; and 18 percent fixed-income securities, largely federal and provincial government bonds.

Financial markets were highly volatile in 2000, a trend we expect to continue. Despite the less reliable investment climate, the pension plan enjoyed another strong year in 2000. The total fund return was 9.3 percent, increasing the value of net assets to $73.1 billion at year end.

The Ontario Teachers’ Pension Plan Board is a leading global fund manager, managing and investing the value of net assets to $73.1 billion at year end. Since inception, they averaged 13.1 percent, beating the benchmark of 10.7 by 2.4 percent. In dollar terms, that means our investment team has created $6 billion in value added since 1990.

Since 1990, strong stock markets around the world have helped the fund grow faster than the increase in the cost of future pension benefits. However, what has really made the difference are deliberate decisions that allowed us to do better than the market.

Over the past decade we have gained exposure to foreign markets through equity-based derivatives and partnerships with external managers to earn value-added returns from active equity selection. We have built one of the largest merchant banks in Canada to earn premium returns from private equity markets. We have introduced innovative portfolio management techniques to earn above-market returns from equity and fixed-income index funds. Most recently, we purchased The Cadillac Fairview Corporation, making us one of the largest Canadian owners of North American real estate.

**Best-ever Value Added**

These and other initiatives paid off handsomely in 2000, with portfolio managers achieving $2.6 billion in value added. This amount is the difference between the total fund return of 9.3 percent and the 5.3 percent return for the composite benchmark. All this confirms the importance of actively managing the asset base and rewarding investment managers for their effort.

Looking back at the value added to the fund over the last four years, the investment team averaged 15 percent against a benchmark of 12.5 percent. Since inception, they averaged 11.1 percent, beating the benchmark of 10.7 by 2.4 percent. In dollar terms, that means our investment team has created $6 billion in value added since 1990.

I want to congratulate our entire investment team for their professionalism, foresight and innovation to meet the growing needs of the pension plan with value added investment income. It has been, and continues to be, a job well done.
AVOIDING UNDUE LOSS

The emphasis on maximizing returns also means trying to avoid unnecessary losses when markets turn for the worse. It is difficult, of course, for a large investment fund to predict short-term trends. Nevertheless, the pension board is attentive to prudent opportunities.

A good example in 2000 concerned technology stocks. Going into the year, we believed that most technology stocks were overvalued. The pension board took proactive action by reducing its technology holdings in Canadian and American stocks. As a result, we avoided substantial losses that would otherwise have occurred.

PROTECTING THE FUND

Finding ways to add value by maximizing returns without incurring undue loss is a priority in view of the increasing number of pensioners. Since the mid-1990s, we have modified our investment approach to meet the changing needs of the pension plan.

Our asset mix continues to shift from equities and bonds to inflation-sensitive assets, especially commercial real estate properties, real-rate bonds and commodities. These investment classes have been chosen specifically for their ability to rise in value with inflation, mitigating the long-term cost impact of inflation on growing liabilities, and safeguarding the fund if current expectations of lower returns from investment in stocks over the next decade are realized.

Increased risk  In future, we expect modest real rates of return from stock and bond markets compared with the past 10 years. If history repeats itself, low or negative real-rate returns are possible over multiple years, as the chart on page 3 illustrates.

We are more concerned now about the impact of short-term market volatility on our ability to keep contributions stable than we were 10 years ago.

Managing Our Technology Exposure

<table>
<thead>
<tr>
<th>(percent)</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<td>38.4</td>
<td>26.0</td>
</tr>
<tr>
<td>% Underweight in our portfolio</td>
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We reduced our exposure to technology stocks as a percentage of the TSE 300 Index throughout 2000.

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STRIVING FOR EFFICIENCY

In seeking above-average investments, as well as providing timely and personalized member services, we strive to be an efficient organization. Last year, it cost $133 million to operate the pension board. Ongoing administrative costs were $106 per member. Investment expenses at 14 cents per $100 of net assets were low compared with many other institutional investors.

ACKNOWLEDGEMENTS

Our bi-annual employee survey showed that the pension board continues to be an attractive place to work. The positive attitudes and professionalism of staff are behind our standing as one of the consistent top investment performers in the pension fund industry as well as our highest-ever customer satisfaction rating from teachers and retirees. We remain committed to doing an even better job in the future.

Claude Lamoureux
President and Chief Executive Officer
Investment Performance

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets ($ billions)</td>
<td>73.1</td>
<td>68.3</td>
</tr>
<tr>
<td>Rate of return on investments (%)</td>
<td>9.3%</td>
<td>17.4%</td>
</tr>
<tr>
<td>Annual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Composite benchmark</td>
<td>5.3</td>
<td>17.6</td>
</tr>
<tr>
<td>Four-year average</td>
<td>13.0</td>
<td>15.4</td>
</tr>
<tr>
<td>Four-year benchmark</td>
<td>12.5</td>
<td>15.8</td>
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Average annual compound rates of return (%)

<table>
<thead>
<tr>
<th></th>
<th>1 yr</th>
<th>4 yr</th>
<th>5 yr</th>
<th>10 yr</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our return</td>
<td>9.3</td>
<td>13.0</td>
<td>14.2</td>
<td>13.8</td>
<td>13.1</td>
</tr>
<tr>
<td>Benchmark</td>
<td>5.3</td>
<td>12.5</td>
<td>13.6</td>
<td>12.7</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Net Assets (as at December 31) ($ billions)

- 2000: $80
- 1999: $60

Income ($ billions)

- 2000: $12
- 1999: $10

Investment Income
- Contributions: $2.6 billion

Over the past 10 years, retirees in their 50s have increased as a percentage of the pensioner population. We expect 50,000 retirements over the next decade.

Our commitment to providing outstanding immediate and personalized service to all plan members and pensioners earned us the highest-ever satisfaction rating in 2000.

---

Over 60 pension benefits specialists are ready to answer your questions.

Our investment professionals created $2.6 billion in extra value in 2000.
7
CHAIRMAN’S REPORT
AS AT DECEMBER 31
2000 1999
Investment Performance
Net assets ($ billions)$
73.1 68.3
Rate of return on investments (%)
Annual
9.3 17.4
Composite benchmark
5.3 17.6
Four-year average
13.0 15.4
Four-year benchmark
12.5 15.8
Average annual compound rates of return (%)
1 yr 4 yr 5 yr 10 yr SINCE INCEPTION
Our return
9.3 13.0 14.2 13.8 13.1
Benchmark
5.3 12.5 13.6 12.7 10.7

Net Assets
(as at December 31) ($ billions)
$80 60 40 20 0

Income ($ billions)
$12 10 8 6 4 2 0

Investment Income Contributions

Rates of Return Compared to Benchmarks
Investment Benchmark (percent) returns return Composite Benchmark
Fixed income and short-term securities (91 days)
Scotia Capital Treasury Bills
14.2 5.3 13.6 12.7 10.7
Scotia Capital Canada Universe
14.2 15.6 13.7
Scotia Capital Long Bond
Canadian equity
13.5 7.4 TSE 300
U.S. equity (4.1) (5.5) S&P 500
Non-North American equity
(8.5) (13.5) Morgan Stanley EAFE, EMF
American equity
Canadian Real Return Bond
Custom U.S. Treasury Inflation-Protected Securities
Goldman Sachs Commodities CPI plus 4%
Total Plan
9.3 13.0 14.2 13.8 13.1
Benchmark 5.3 12.5 13.6 12.7 10.7

Our commitment to providing outstanding immediate and personalized service to all plan members and pensioners earned us the highest-ever satisfaction rating in 2000.

Our 95 investment professionals created $2.6 billion in extra value in 2000.
The fixed-income group manages $14.3 billion in assets.

Real Estate Portfolio (as at December 31, 2000)

To better match inflation-indexed pensions, we are building up ownership of inflation-sensitive investments.

“Ensuring teachers’ retirement income for the 21st century”

Our plan is to increase ownership of high-quality office buildings and large shopping centres in North America.

Real return Canada bonds (plus inflation) 3.1

Canadian T-bills 1.8

Hwy 407 Real-return corporate bonds 0.0

Power Corp Convertible Debentures 0.0

Royal Bank of Canada 9.4

Toronto-Dominion Bank, The 8.4

Encal Energy Ltd. 31.1

Bank of Montreal 4.2

BCE Inc. 7.6

Bank of Nova Scotia, The 7.5

Manulife Financial Corporation 6.8

AT&T Canada Inc. 6.9

Maple Leaf Foods Inc. 37.9

Enron Corp. 2.2

Canadian Imperial Bank of Commerce 5.7

Sun Life Financial Services of Canada Inc. 6.2

Note: For a complete list of companies, please see our web site at www.otpp.com.

In April 2001, we purchased 10 million shares ($14 a share) of MacDonald Dettwiler and Associates, famous for building robotics such as Canadarm. We now own 29% of this company, bringing ownership of the Canadarm back to Canada.
Top 40 Investments

Government of Canada Bonds

Cadillac Fairview Corporation

Real return Canada bonds (plus inflation)

Canadian T-bills

Nortel Networks Corporation

Real-return corporate bonds

Power Corp Convertible Debentures

Royal Bank of Canada

Hwy 407 Real-return corporate bonds

Toronto-Dominion Bank, The

Encal Energy Ltd.

Bank of Montreal

Canadian Imperial Bank of Commerce

Sun Life Financial Services of Canada Inc.

Alcan Aluminium Limited

Canadian Pacific Limited

Petro-Canada

WestJet Airlines Ltd.

Power Systems Inc.

Canadian Natural Resources Limited

Maple Leaf Sports and Entertainment (undisclosed)

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Real Estate Portfolio

Inflation-Sensitive Investments

Real Rate

Bonds

Real Estate

Commodities

Money Market

Canadian

U.S.

Non-North American

Asset Mix

(as at December 31, 2000)

Inflation-Sensitive Investments

(as at December 31, 2000)

Real Rate

Bonds

Real Estate

Commodities

Money Market

Canadian

U.S.

Non-North American

Equities

(as at December 31, 2000)

Fixed Income

(as at December 31, 2000)

Real Estate Portfolio

(as at December 31, 2000)
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