



Ontario Teachers' Pension Plan Annual Meeting

Remarks

by

Neil Petroff,
Executive Vice-President &
Chief Investment Officer

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The Carlu
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Thank you, Jim, and good evening everyone.

It's a pleasure to be here this evening ... And I mean that sincerely, because I have much better news to share this year than I did last year.

2009 truly was a difficult and challenging year at Teachers'. As Jim has noted, the market downturn did not end until March 2009, so we continued to play investment defence for the first quarter and then offence for the remaining 3 quarters of 2009.

And the results are clear: the fund earned \$10.9 billion. The markets regained confidence and value returned to many investments. But our team's success goes beyond that. Merely matching the benchmark would only have earned \$7.5 billion. We outperformed the market - adding \$3.4 billion - or 4.2% -- above benchmark. Our rate of return was 13%, compared to our composite benchmark return of 8.8%. To give you some perspective on these results, \$3.4 billion is the equivalent to \$11,800 for every one of the 289,000 active and retired members of the pension plan.

We're very proud of the teams responsible for that success. You can see the pictures of the leaders who head up each area on the screen:

- Stephen Dowd, Infrastructure and Timberland
- Wayne Kozun, Public Equities
- Ron Mock, Fixed Income and Alternative Investments
- Peter Sharpe, Cadillac Fairview, our real estate subsidiary
- Erol Uzumeri, Teachers' Private Capital
- Michael Wissell, Tactical Asset Allocation
- Barbara Zvan, Asset Mix & Risk & Chief Investment Risk Officer and
- Dan Houle, Investment Operations

Together, we followed our fund's three fundamental investment principles, which are to:

- take the long-term view.
- take appropriate risks to earn returns, and
- to use diversification to reduce our risk.

2008 was a year in which all asset classes fell and the credit markets froze.

2009, however, saw most markets begin to regain considerable value. The benefits of portfolio diversification returned. Something that didn't change was our investment team's thoughtful, intelligent and extremely hard work, as they rebuilt value, researched the markets, raised liquidity, re-negotiated terms, and kept a steady focus on the fund's needs.

I'd like to go over the highlights of our 2009 investment performance with you now.

First, let me remind you of our 2009 asset mix., Our actual asset mix at the end of the year was:

- 49% Inflation-sensitive investments
- 44% Equities, and
- 7% Fixed Income

I will start with our largest asset class, Inflation-sensitive, which accounts for 49% of our asset mix.

This asset class plays a critical role in allowing us to decrease risk and meet our long-term pension costs. Inflation-sensitive investment performance tends to correlate closely with changes in inflation, which is important for a fund that pays inflation-protected pensions.

This portfolio includes the assets you see on this slide. Holdings totaled \$45.9 billion at 2009 year end - up \$1 billion from 2008. Our real estate portfolio is managed directly by our wholly owned subsidiary Cadillac Fairview. It climbed \$1 billion in value in 2009, closing the year at \$17.2 billion. The increase is largely attributable to stock market gains, reflected in our publicly listed real estate holdings in Brazil and the UK. Gains in those markets were partially offset by valuation losses in our North American property portfolio, which continues to feel the recession's economic sting.

While valuations may be feeling the economic pinch, lease income is strong. Retail and office lease net income totaled \$1 billion for the year.

Real return bonds also form part of the inflation-sensitive asset class. These holdings totaled \$18.9 billion at the end of 2009, up \$1.5 billion from 2008. Included in these holdings are Canadian, U.S., Ontario and Quebec government-issued bonds, and Highway 407 bonds. We also hold some inflation-linked mortgages guaranteed by the Canada Mortgage and Housing Corporation.

Our infrastructure and timberland investments, which are largely direct investments, totaled \$7.9 billion at the end of 2009, down from \$10 billion, largely because of dispositions and the impact of the rising Canadian dollar on foreign investments.

The smallest slice of our Inflation Sensitive assets is commodities. Investments here totaled \$1.9 billion at the end of 2009.

Our second largest asset class is Equities, representing 44% of our year-end holdings.

At year-end, our combined public and private equity holdings totaled \$41.2 billion, up by over \$6 billion from a year earlier. Canadian holdings totaling \$8.4 billion, and non-Canadian equities accounted for \$32.8 billion.

Direct investment is a hallmark of our fund. We believe that our employees can often find and manage investment opportunities just as successfully as external managers, and at a fraction of the cost. We have dedicated considerable resources over the years to build that in-house expertise – an investment that’s paying considerable dividends.

I’ve mentioned that infrastructure and real estate are two of our significant direct investors. Our other largest direct programs reside within the Equities asset class. Teachers’ Private Capital is one of the largest pools of investment capital for private companies. Our public equities’ Relationship Investing program is unique. And our newest direct portfolio, Long-Term Equities, announced its first major acquisition last month. Together, these teams are building an international reputation for their direct investment expertise.

The Relationship Investing team has a specialized strategy within the Public Equities group. They take large, strategic positions in companies in Canada and elsewhere and work with the companies’ boards to increase value. Our investments in two Brazilian companies reside in their portfolio. And they were the main drivers in our equities market outperformance in 2009. Brazil was the world’s strongest stock market performer last year and is now the world’s 10th largest economy. We are glad to be in this market.

The 2009 rebound in public equities markets was almost as spectacular as the 2008 decline. Because this rebound was largely the result of stock market recovery and not true economic growth, we don’t expect market returns to maintain this pace going forward.

Private equity markets remained flat in 2009. Our Teachers’ Private Capital team continued to adjust for weakness in the private markets; but the rising Canadian dollar negatively impacted the value of our foreign investments. We closed the year with \$10 billion in private equity assets. The team’s consumer and retail group announced their acquisition of Simmons Bedding late in the year, with partner Ares Management. Last week they announced their acquisition of Exal Group, the world’s largest specialty manufacturer of aluminum containers.

This brings me to our smallest, but important, Fixed Income asset class, with 7% of our portfolio. You may recall that we promised last year to put the “Fixed” back in “Fixed Income.” I’m pleased to say that we have done just that.

Our Fixed Income assets, net of related liabilities, totaled \$6.4 billion at 2009 year-end, compared to \$5.3 billion in 2008. This asset class includes the traditional government bonds and treasury bills that you would expect to find here. It also includes corporate bonds, external

hedge funds, money-market securities, and absolute return strategies. It also provides funding for new investments in other asset classes, equivalent to a corporation's treasury department.

As promised, we continued our strategy of returning to a more traditional fixed income investment program. This demanded a great deal of effort in strategic, structural, and process foundation building. We also reduced the use of externally managed hedge funds, repatriating that work internally.

After a turbulent year in 2008, the Fixed Income department re-focused. They ended the year strategically on course, contributing \$2.6 billion in value added.

Looking back at 2009 I would have to say that there were many temptations to waver from our principles, especially when the markets plummeted in the first quarter, but I'm pleased to say that our team stayed focused and disciplined on our fundamental investment principles.

Before I turn the floor over to Tracy for the Member Services update, I have a suggestion. We have 289,000 members in this plan. That's a lot of potential customers for the companies your fund owns. So, next time you're going shopping, why not head to the Eaton Centre, Fairview Mall or Sherway Gardens? If you need vitamins, look for a GNC store near you. For groceries, there's Maple Leaf Foods. Sporting events or a concert? We'd love to see you at the Air Canada Centre, BMO Field or the Ricoh Centre. And if you're in the market for sporting goods, look for such Easton Bell products as hockey sticks, helmets, and baseball equipment. Or if you're staying home, tune in to CTV while you read the Globe and Mail. And if you're looking for a good night's sleep, you have two great mattress choices: Serta and Simmons . . . And don't forget to tell your friends, too.....

Thank you, and now it's my pleasure to turn the floor over to Tracy Abel, Director of Business Solutions, for the annual update on Member Services.

Tracy?