



**“Despite strong investment performance, the funding shortfall continues to grow. The OTF and the Ontario government face difficult decisions to resolve it this year.”**



Claude Lamoureux  
President and Chief Executive Officer

I'm pleased to report on how we performed against our goals in 2005:

- > Beating the fund's composite benchmark and maximizing investment returns within acceptable risk levels
- > Delivering prompt, reliable pension information and services
- > Providing transparent reporting on the plan's financial position and performance

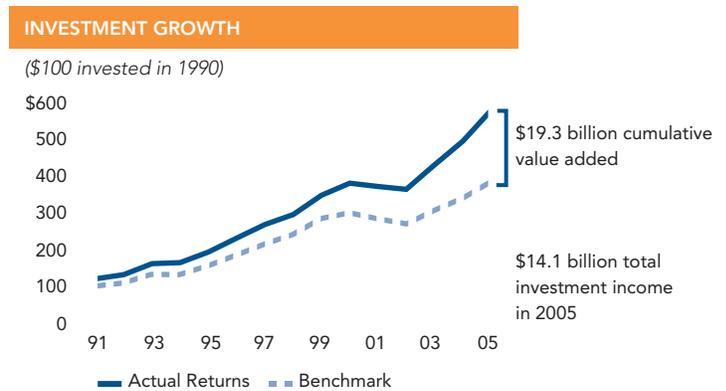
### Annual return beats benchmark for sixth straight year

Our investment managers produced a 17.2% rate of return in 2005, compared to a composite benchmark of 12.7%. This is the sixth consecutive year we have performed better than the financial markets in which we invest.

In 2005, we earned \$14.1 billion in investment income, and increased net assets to \$96.1 billion from \$84.3 billion a year earlier. During the past three years, our team has generated more than \$36 billion to pay pensions.

We measure our performance against a composite benchmark for the fund. The benchmark is calculated using the actual returns of the various markets we invested in, such as the S&P/TSX Composite. 'Value added' is the portion of our investment income that is better than market performance – it is, the difference between our 17.2% return and 12.7% benchmark. In 2005, we generated \$3.6 billion in value added for the total fund.

We achieved these results while diligently managing risk. In addition, we helped drive better corporate performances as part of the Canadian Coalition for Good Governance. We believe good corporate governance creates long-term shareholder value.



### Member Services streamlines work

We constantly strive to improve services, without increasing costs. In 2005, we delivered more with less, lowering our costs from \$127 per member in 2004 to \$122 in 2005.

Improved technology, streamlined business processes and enhanced online services helped us achieve a client satisfaction rating of 9.2 out of 10. Client ratings are calculated by surveying thousands of members every year.

Despite implementing dramatic changes to how work flows through our organization, we maintained our 2004 client satisfaction ratings, and we did so while the number of pensioners and our work volumes continued to increase.

In 2005, we also: began 5,700 new pensions; welcomed our 100,000th pensioner; paid out \$3.6 billion in benefits; and collected \$1.6 billion in contributions from teachers working at school boards and private employers, and the Ontario government.

### Funding shortfall continues

Despite positive news on the investment and service fronts, the plan's funding shortfall grew for the third consecutive year.

The plan sponsors – the Ontario Teachers' Federation (OTF) and the Ontario government – must decide this year how to deal with the shortfall by either changing the contribution rate, changing the future level of benefits, or both. The sponsors are responsible for ensuring the plan remains fully funded for the long term, and for setting contribution and benefit levels. It's important to understand that current pensions and pension benefits accumulated to date are protected by law.

As the OTF and government consider funding solutions, we will support them by providing information and perspective.

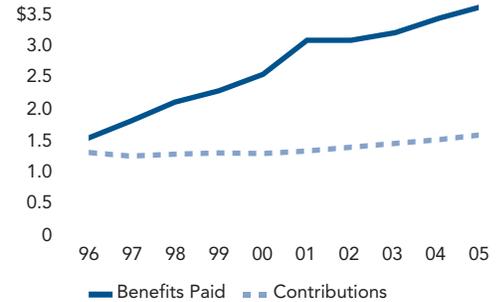
### Choosing prudent actuarial assumptions

Estimating how much money will be needed to pay pensions 70 years from now requires a number of assumptions. The one with the biggest impact on the pension plan's bottom line is the assumed future rate of return for the fund's investments.

In January 2005, the annual funding valuation showed the plan had a \$19.4 billion shortfall of assets compared to the estimated cost of future pensions. At the end of 2005, the board of directors assumed a long-term average real rate of return (after inflation) of 2.50%. The preliminary results of the January 2006 funding valuation revealed the funding shortfall had grown to an estimated \$31.9 billion.

#### CONTRIBUTIONS RECEIVED VS PENSIONS PAID

(for the year ended December 31) (\$ billions)

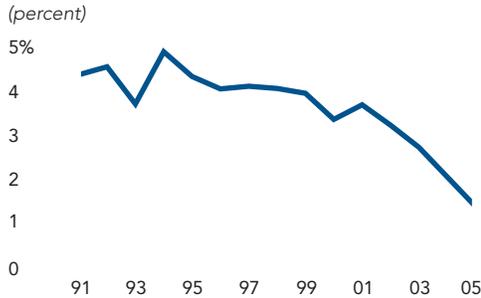


For every \$1 in contributions received the plan pays out \$2.30 in benefits.

Falling real interest rates, which are used to establish the long-term assumption, were the primary cause of the shortfall's continued growth in 2005.

Choosing the assumed future rate of return is one of the most difficult forecasts. Every 1% change in the assumption causes the plan's liabilities to increase or decrease by 22%.

**REAL INTEREST RATES**



When real interest rates fall, the cost of future benefits increases dramatically, creating a funding shortfall.

If, in the long run, the assumption is too conservative, the plan will collect more contributions than required from the current generation of teachers and there could be a surplus in the future. If the assumption turns out to be too liberal, the plan will collect less than required from this generation of teachers. In that case, young and future teachers, and taxpayers would have to make up the difference.

The \$31.9 billion shortfall mentioned earlier is the result of a preliminary valuation. The final valuation will be completed when all

actuarial assumptions are accepted by the plan's board of directors. The final valuation results could be significantly different if the board of directors accepts a higher future rate of return. However, more aggressive actuarial assumptions alone will not eliminate the funding shortfall.

**Decisions to be made in 2006**

The sponsors must file a funding valuation with pension regulators in 2006 that includes a plan for addressing the shortfall. When they make an announcement, we will provide further information as quickly as possible to help plan members understand how any changes may affect them.

**ASSETS REQUIRED TO FUND A TYPICAL PENSION OF \$40,000 AT RETIREMENT AT AGE 58**

Real Interest Rates	Rounded Value of Pension
2.0%	\$820,000
3.0%	\$715,000
4.0%	\$635,000
5.0%	\$565,000

**In conclusion**

The plan sponsors face difficult decisions. Their well-considered action is critical to the successful elimination of the shortfall, and we look forward to their decision. While no solution will be painless, we believe that the long-term health of the pension plan will be best served by acting now to rebalance the cost of future pensions in line with the fund's assets.

There is more information on this subject in our annual report, which is available online at [www.otpp.com](http://www.otpp.com) and in print by request. We hope you agree that by providing this funding information to all members as clearly and comprehensively as possible, we have met our final goal of transparent pension plan reporting.

Claude Lamoureux  
President and Chief Executive Officer

# Investment Highlights

Net assets grew by \$11.8 billion to \$96.1 billion in 2005.

INVESTMENT PERFORMANCE	Since 1990	10 year	4 year	2004	2005
Rates of return (percent)	11.7	11.4	11.6	14.7	17.2
Benchmark (percent)	8.9	9.2	7.7	10.6	12.7
Dollars value-added above benchmarks (\$ billions)	19.3	15.0	11.1	3.0	3.6

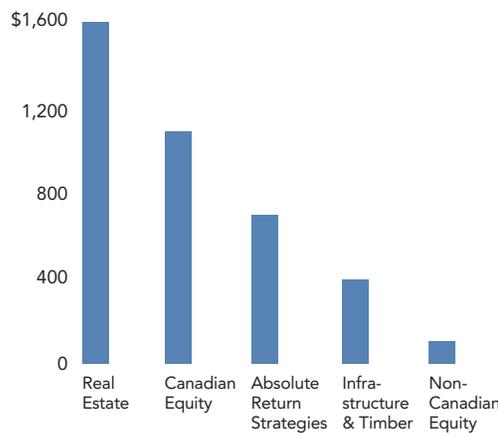
“We closed the year with a 17.2% rate of return on investments – 4.5% above the fund’s benchmark.”



**Bob Bertram**  
Executive Vice-President, Investments

## MAJOR SOURCES OF VALUE ADDED

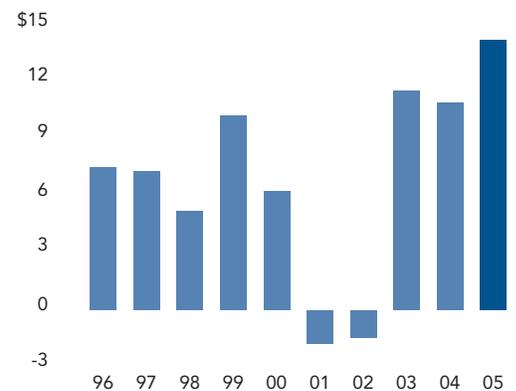
(for the year ended December 31, 2005) (\$ millions)



Our real estate and equities portfolios were top performers for adding value above benchmarks in 2005. Real estate is managed by Cadillac Fairview, our wholly owned subsidiary.

## INVESTMENT INCOME

(for the years ended December 31) (\$ billions)



The fund generated almost \$25 billion in investment income in the last two years.

## POLICY ASSET MIX

(as of December 31, 2005)

Asset Mix %

Equities	45
Inflation-sensitive	33
Fixed income	22

Our asset mix selection and the individual decisions of our investment managers allowed us to achieve much higher returns than would have been possible by pursuing a passive investment strategy.

**RATES OF RETURN COMPARED TO BENCHMARKS**

(percent)	1-Year Return	1-Year Benchmark
<b>Fixed income &amp; Absolute return strategies</b>	<b>15.3</b>	<b>11.8</b>
<b>Equities</b>	<b>17.9</b>	<b>14.7</b>
Canadian equity	31.7	24.1
Non-Canadian equity	8.3	8.0
<b>Inflation-sensitive investments</b>	<b>17.5</b>	<b>10.0</b>
Real estate	21.3	6.2
Real-return bonds	13.3	13.1
Infrastructure & timber	15.6	6.2
Commodities	21.6	21.6
<b>Total Plan</b>	<b>17.2</b>	<b>12.7*</b>

\*Composite benchmark weighted by the policy asset mix.

Benchmarks are weighted to form composite benchmarks

**Fixed income & Absolute return strategies**

- > Scotia Capital Treasury Bills (91 days)
- > Custom Canada Bond Universe
- > Custom Currency Policy Hedge
- > CPI plus 4%

**Equities**

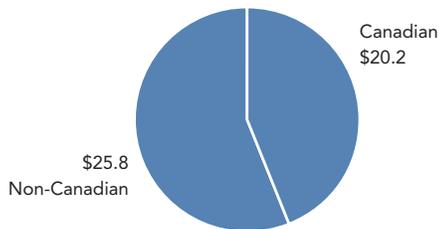
- > S&P/TSX Composite
- > S&P 500
- > Morgan Stanley Capital International (MSCI) Europe, Asia and Far East, Emerging Markets
- > MSCI All Country World (excluding Canada)
- > Custom Non-Canadian National

**Inflation-sensitive investments**

- > Scotia Capital Real-Return Bond
- > Custom U.S. Treasury Inflation-Protected Securities
- > Goldman Sachs Commodities
- > CPI plus 4%

**EQUITIES**

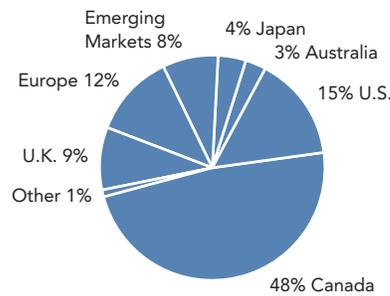
(as at December 31, 2005) (\$ billions)



Equities remained the largest asset class, with \$46 billion invested at year end, compared to \$39.9 billion at the end of 2004. Canadian equities include stocks and the Teachers' Private Capital portfolio. See the list of our major investments on page 6.

**STOCKS BY GEOGRAPHIC REGION**

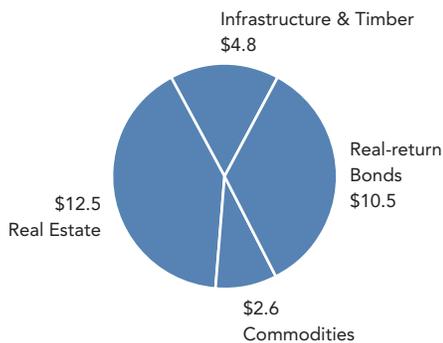
(as at December 31, 2005)



We have diversified holdings around the world (includes stocks held in other classes).

**INFLATION-SENSITIVE INVESTMENTS**

(as at December 31, 2005) (\$ billions)



Investments with a strong correlation to inflation changes are a good match for paying inflation-protected pensions. Infrastructure and timber have grown to 5% of the fund's investments in the past four years.

**FIXED INCOME**

(as at December 31, 2005) (\$ billions)



Bonds and money-market securities provide the fund with a regular stream of income. Absolute return strategies and hedge funds help us generate positive returns regardless of market ups and downs.

# Major Investments

As at December 31, 2005

## Bonds and Real-Return Investments

(\$ billions)

Province of Ontario debentures and provincial bonds	\$9.8
Canadian inflation-sensitive bonds, notes and mortgages	9.4
Canadian and international corporate bonds	7.7
Government of Canada bonds	6.3
Canadian treasury bills	2.4
U.S. and international government bonds	1.2
Short-term instruments	1.1

## Real Estate Managed by Subsidiary

(\$ billions)

The Cadillac Fairview Corporation Limited	\$12.5
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## Top 10 Real Estate Holdings

Chinook Centre, Calgary
Le Carrefour Laval, Montreal
Les Promenades St. Bruno, Montreal
Lime Ridge Mall, Hamilton
Markville Shopping Centre, Markham
Pacific Centre, Vancouver
Polo Park Mall, Winnipeg
Sherway Gardens, Toronto
Toronto-Dominion Centre Office Complex, Toronto
Toronto Eaton Centre, Toronto

## Top 10 Private Companies and Partnerships

Baillie Gifford Emerging Market Fund
Doane Pet Care Enterprises, Inc.
Hancock Timber Resource Group
InterGen N.V.
Luscar Energy Partnership
Maple Leaf Sports & Entertainment Ltd.
Parmalat Dairy & Bakery Inc.
Relational Investors LLC
Scotia Gas Networks PLC
Western Sydney Orbital Funding Trust

## Corporate Shares/Units

Security Name (millions)	Shares	Fair Value
Nexen Inc.	30.1	\$1,669.0
BCE Inc.	44.9	1,266.5
Fording Canadian Coal Trust	25.7	1,073.9
Maple Leaf Foods Inc.	42.7	649.5
Northumbrian Water Group plc	129.7	649.0
Manulife Financial Corporation	6.5	443.4
Toronto-Dominion Bank, The	7.1	437.2
Royal Bank of Canada	4.6	418.8
Macquarie Infrastructure Group	120.4	377.0
EnCana Corporation	6.7	353.6
Macdonald, Dettwiler and Associates Ltd.	8.1	302.1
Yellow Pages Income Fund	18.2	297.9
Transurban Group	49.5	289.6
Suncor Energy, Inc.	3.4	247.6
Canadian Natural Resources Limited	4.1	234.0
WestJet Airlines Ltd.	18.5	226.9
Samsung Electronics Co., Ltd.	0.3	224.9
Nestlé SA	0.6	218.1
Bank of Montreal	3.4	217.8
Vodafone Group Plc	83.4	213.1
Sun Life Financial Inc.	4.5	210.1
Canadian National Railway Company	2.2	202.6
Bank of Nova Scotia	4.2	197.0
Canon Inc.	2.8	194.5
Royal Bank of Scotland Group plc	5.2	184.4
Alcan Inc.	3.8	183.2
Canadian Imperial Bank of Commerce	2.4	182.9
Sanofi-Aventis	1.8	182.3
Petroleo Brasileiro S.A.	2.6	172.6
Telefonos de Mexico SA de CV	62.2	167.1
Sprint Nextel Corporation	6.1	166.4
CRH plc	4.8	165.3
Shoppers Drug Mart Corporation	3.6	158.9
Pfizer Inc.	5.8	157.9
Talisman Energy Inc.	2.5	156.2
Eni S.p.A.	4.8	153.8
Total SA	0.6	146.9
Petro-Canada	3.1	145.6

For a complete list of equities and trust units over \$20 million, please visit [www.otpp.com](http://www.otpp.com) under Investments.

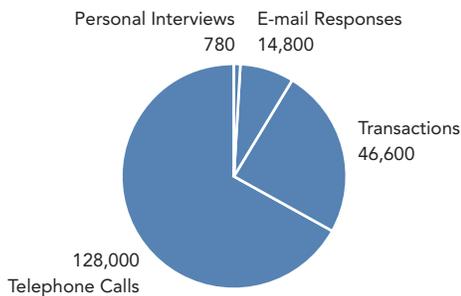
# Member Services Highlights

Members continue to rate our services highly – 9.2 out of 10

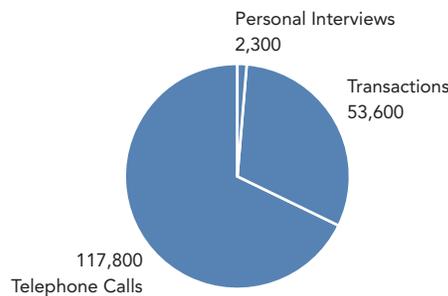
## Doing more online

We continue to offer more direct, personal and timely services, through *iAccess Web*, the secure members-only section of our website. From their computers, members can buy back service, generate pension estimates, apply to retire, update their personal information and view audio-visual presentations on popular pension topics. At the end of 2005, 67,000 members had registered for *iAccess Web*.

### SERVICES TO MEMBERS



2005



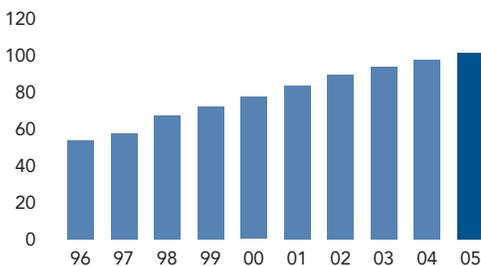
2000

Work volumes continue to increase with the growth in new members and pensioners.

“New technology, workflow changes and enhanced web offerings helped us deliver better services at lower cost.”

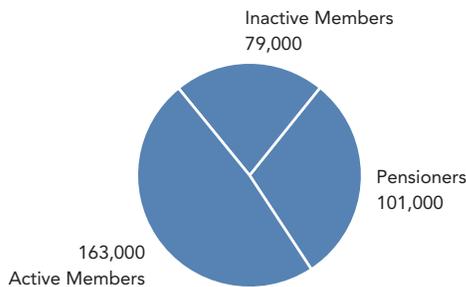
### NUMBER OF PENSIONERS

(as at December 31) (thousands)



We added 5,700 people to the pension payroll in 2005, ending the year with 101,000 pensioners. The average starting pension for a teacher retiring at the 85 factor was \$39,600 in 2005. The average retirement age now is 57, with an expected 29 years on pension.

### MEMBER PROFILE



Today, teachers outnumber pensioners by a ratio of only 1.6 to 1.



Rosemarie McClean  
Senior Vice-President, Member Services

# Corporate Profile

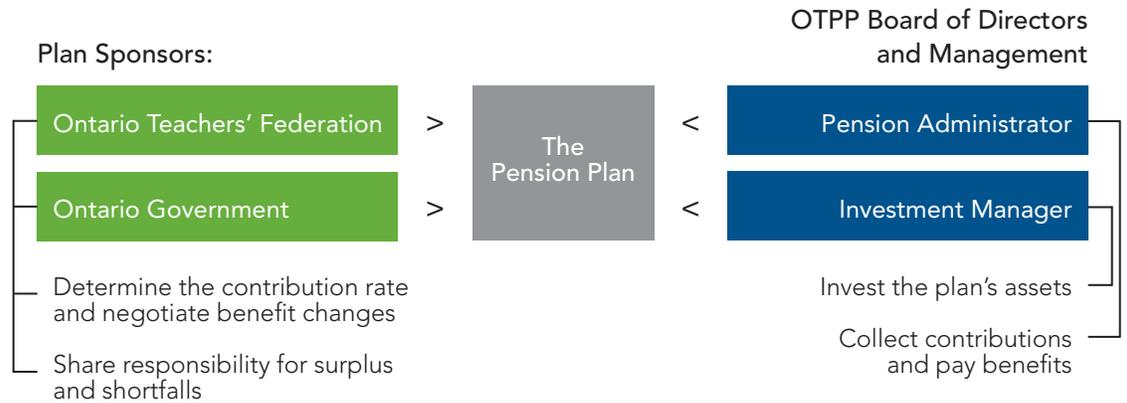


A pension plan for Ontario’s teachers was created in 1917. In 1990, the province established an independent corporation to invest the plan’s assets and administer pensions.

Today, the Ontario Teachers’ Pension Plan is one of the largest plans in Canada with more than \$96 billion in assets and 264,000 members.

The Government of Ontario and the Ontario Teachers’ Federation, the plan’s co-sponsors, are responsible for ensuring the pension plan is fully funded and for setting plan benefit and contribution levels. The plan sponsors also appoint Teachers’ board of directors, with equal representation from the two sponsors, plus an independent chair.

Teachers’ 575 employees are responsible for setting and implementing investment strategies for the plan’s assets and for delivering immediate, personalized services to members in keeping with the corporation’s vision.



## Contact Us

Our complete 2005 Annual Report and audited financial statements are available on our website at [www.otpp.com](http://www.otpp.com) under Publications. If you would like a print copy, please contact us. We welcome your comments and suggestions on this Report to Members, as well as other aspects of our communications program.

## Communications Department

Ontario Teachers’ Pension Plan  
 5650 Yonge Street, Toronto  
 M2M 4H5

Toll Free: 1-800-668-0105

Local: 416-226-2700

E-mail: [communications@otpp.com](mailto:communications@otpp.com)