ATRF Alberta Teachers' Retirement Fund Board

2012 Annual Report

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PROFILE

The Alberta Teachers' Retirement Fund Board (ATRF) is a corporation established under the *Teachers' Pension Plans Act.*

ATRF is the trustee, administrator and custodian of the assets of the Teachers' Pension Plan for all Alberta teachers employed in school jurisdictions and charter schools.

ATRF is also the trustee, administrator and custodian of the Private School Teachers' Pension Plan for teachers employed by those private schools that have elected to join the plan.

The plans are defined benefit pension plans registered under the *Income Tax Act* and are sponsored by the Government of Alberta and the plan members, who are represented by The Alberta Teachers' Association. These plan sponsors are responsible for changes to plan design, benefits and funding, and share in plan gains and losses.

The Teachers' Pension Plan covers:

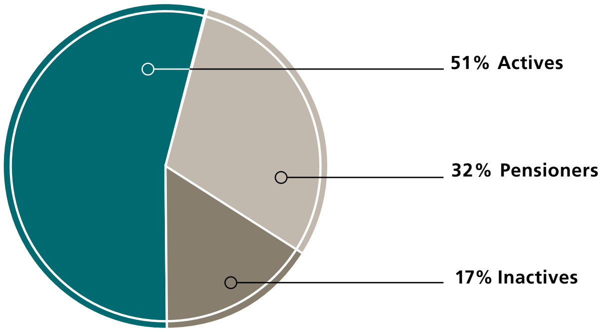
- 38,094 active teachers;
- 23,872 pensioners; and
- 12,186 inactive teachers.

The value of funding liabilities relating to service accrued subsequent to August 31, 1992 by members of the Teachers' Pension Plan exceeds the funding value of assets by $2.880 billion.

The Private School Teachers' Pension Plan has a deficiency of $8.411 million and covers:

- 242 active teachers;
- 171 pensioners; and
- 218 inactive teachers.

Total Membership Profile



Financial & Operational HIGHLIGHTS

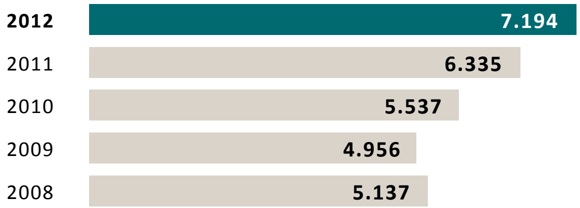
ATRF FINANCIAL POSITION AT AUGUST 31

$ Thousands		2012		2011
Investments				
Fixed Income	$	2,464,446	$	2,328,177
Public Equities		3,821,766		3,545,275
Private Companies		358,590		277,502
Infrastructure		186,940		123,895
Real Estate		334,913		60,558
Accrued Income and Other		24,178		7,844
		7,190,833		6,343,251
Other Assets and (Liabilities)		3,196		(8,179)
Net Assets Available for Benefits		7,194,029		6,335,072
Accrued Pension Obligations		9,108,721		8,294,365
Deficiency	$	1,914,692	$	1,959,293

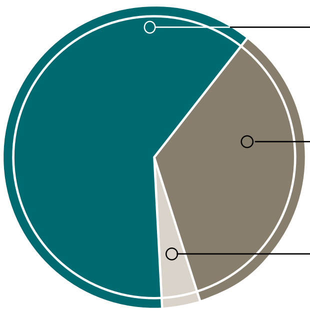
ACTIVITY DURING YEAR ENDED AUGUST 31

$ Thousands		2012		2011
Benefit and Investment Operations				
Investment Earnings	$	511,967	$	440,389
Investment Operation Expenses		(23,316)		(21,029)
		488,651		419,360
Net Contributions		632,878		601,443
Benefits Paid		(257,478)		(218,450)
Member Service Expenses		(5,094)		(4,226)
		370,306		378,767
Increase in Net Assets		858,957		798,127
Increase in Accrued Pension Obligations		(814,356)		(826,677)
Decrease (Increase) in Deficiency	$	44,601	$	(28,550)

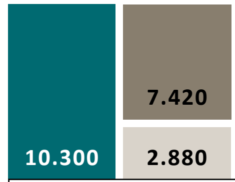
Net Assets of ATRF
($ Billions)



Asset Mix
at August 31, 2012



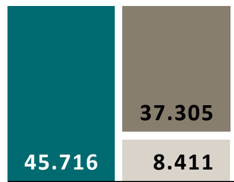
60.0% Return Enhancing	
Global Equity	39.0%
Canadian Equity	16.0%
Private Equity	5.0%
34.0% Liability Matching	
Universe Bonds	20.5%
Long-Term Bonds	11.5%
Money Market	2.0%
6.0% Inflation Sensitive	
Real Estate	3.5%
Infrastructure	2.5%



Teachers' Pension Plan Post-1992 Period

Funding Liabilities	10.300
Funding Value of Assets	7.420
Funding Deficiency	2.880

at August 31, 2012 ($ Billions)



Private School Teachers' Pension Plan

Funding Liabilities	45.716
Funding Value of Assets	37.305
Funding Deficiency	8.411

at August 31, 2012 ($ Millions)

Fund Results

- For the year ended August 31, 2012, the fund returned 7.8% exceeding the fund's benchmark of 6.3% by 1.5%
- Over the 20-year period since the current funding structure was adopted by the plan sponsors, the Teachers' Pension Plan has on average earned 7.0% each year, exceeding the plan's funding rate-of-return objective of 6.6% by 0.4% each year; over the same period, the rate of return for the Private School Teachers' Pension Plan fund has been 6.7%, slightly exceeding the plan's rate-of-return objective of 6.6%
- The fund's rate of returns have been impacted by the severe equity market downturns and financial turmoil over the past 12 years. The fund of the Teachers' Pension Plan has returned on average only 3.8% each year since September 2000, which is 3.0% per year short of the long-term investment objective. The fund of the Private School Teachers' Pension Plan has returned on average only 3.4% each year since September 2000, which is 3.4% per year short of the long-term investment objective. As a result, substantial funding shortfalls exist that require additional funding contributions from active teachers, taxpayers and private school employers.

Key Accomplishments – 2011/12

- Completed a comprehensive review of the funded position of the plan to ensure the plan remains sustainable for the foreseeable future and improved the margin for adverse plan experience by decreasing the expected future long-term expected rate of return
- Continued to implement the new infrastructure and real estate asset classes, and to expand the private equity asset class
- Implemented On-Line Services enhancements allowing plan members to electronically name or change their beneficiary in a secure environment and to allow retiring plan members to complete the entire pension application process electronically
- Developed plans for a comprehensive redesign of our website for anticipated spring 2013 launch
- Met or exceeded all service turnaround benchmarks for our services to active and inactive plan members, and pensioners
- Recognized as having timely service to plan members, positive plan member service survey results and one of the lowest plan member service costs in the industry at $82 per member

The BOARD

From left to right

HARRY BUDDLE
Retired - President and CEO of Capital City Savings, Servus Credit Union.

LOWELL K. EPP
Executive Director, Capital Markets, Alberta Treasury Board and Finance;
Vice Chair of the Board; Chair of the Investment Committee.

KAREN A. ELGERT
Principal, Ecole Queen Elizabeth Jr. High, Wetaskiwin Regional School Division;
Vice Chair of the Finance and Planning Committee.

GREG MEEKER
Science teacher at Victoria School of the Arts in Edmonton;
Chair of the Board and Chair of the Audit Committee.

SHARON L. VOGRINETZ
Coordinator, Teacher Welfare with The Alberta Teachers' Association;
Chair of the Human Resources and Compensation Committee;
Vice Chair of the Investment Committee.

GENE WILLIAMS
Acting Assistant Deputy Minister, Alberta Education;
Chair of the Finance and Planning Committee; Vice Chair of the
Human Resources and Compensation Committee and the Audit Committee.

Report of the BOARD CHAIR

Greg Meeker

Our principal objective is to secure the pensions of Alberta teachers, which means that our main focus is on plan funding and ensuring that sufficient assets are in place to meet future pension payments. The Board also continues to enhance ATRF's governance processes, to examine the management of forward-looking risks, and to oversee the cost-effective operations of ATRF.

All pension plans, including the pension plan for Alberta teachers, continue to face funding challenges to secure the benefits promised under the plans.

- Returns from higher-risk and higher-return assets such as equities have been subjected to negative market extremes over the past 12 years and pension plans have incurred funding deficiencies and the cost for future benefits has increased.
- The makeup of plan members has changed dramatically over the past 40 years. In 1970, the average teacher retired at age 62 and would collect a pension for about 20 years. Today, teachers retire on average at about 59 and will collect a pension for about 30 years.
- Good pension plans, like the Alberta teachers' plans (that also provide for additional benefits such as cost-of-living adjustments and generous early retirement benefits) are expensive and are getting more expensive.
- In addition, pension plans costs are rising as people live longer, thereby increasing the amount of money required to pay benefits.

It is important to note that the benefits under the plans are set by the plan sponsors, namely the Government of Alberta and The Alberta Teachers' Association (ATA). The Board's responsibility is to ensure that these benefits are funded within the prescribed legislative provisions. The Board has only one option available when investment market returns are low, and that is to raise contribution rates. In fact, the legislation requires the Board to do so.

The Board monitors the financial position of the plans on an ongoing basis. We carefully examine the funding policy of the plans and various funding assumptions with management and the plans' actuary. We also stress test the funding assumptions and make changes to these long-term assumptions as required. In addition, we provide the Government of Alberta and the ATA with detailed information on the current funded status of the plan and on forward-looking funding challenges that may arise for the plans. Finally, the Board makes changes to the amount of funding contributions to ensure that current benefits are being funded and that any deficits are amortized within the maximum 15-year period required by legislation.

Funding Review

Last year, we completed a comprehensive review of the funded position of the plans to ensure that the plans remain sustainable for the foreseeable future. The funding policy of the plans is based on the following three key elements:

- securing the pension promise by targeting funding assets to be equal to at least the funding liabilities;
- managing the volatility of year-to-year contribution rate changes; and
- maintaining a level of funding equity between generations.

Our funding review showed that we cannot rely on our best estimate of what returns the future investment markets may provide, and that we must establish a larger cushion to manage year-to-year volatility and to enhance intergenerational funding equity. The Board has determined that the margin for adverse plan experience needs to be improved by decreasing the future long-term expected rate of return in the Teachers' Pension Plan from the current level of 6.75% per year to 6.25% per year, and in the Private School Teachers' Pension Plan from the current level of 6.50% per year to 6.25% per year. The result is, when you expect to earn less investment income, more funding needs to be put in; consequently, funding contribution rates will need to increase.

Plan Contribution Rate Changes

Consistent with the estimated funding cost-increase information that we provided to all plan stakeholders earlier in 2012, the actuarial funding valuation of the Teachers' Pension Plan as at August 31, 2012 showed that a total contribution rate increase of 4.16% of total teacher salaries is required effective September 2013; 2.15% for teachers and 2.01% for the Government of Alberta. This increase was primarily related to positioning the plan to remain sustainable for the foreseeable future. As noted above, the increase is the result of the impact of enhancing the margin for adverse plan experience that was implemented by decreasing the discount rate to 6.25% from the 6.75% rate used in the last valuation.

The actuarial funding valuation of the Private School Teachers' Pension Plan as at August 31, 2012 showed a total contribution rate increase of 1.97% of total teacher salaries is required effective September 2013; 1.02% for teachers and 0.95% for the private school employers. This increase was also primarily related to positioning the plan to remain sustainable for the foreseeable future. It is the result of the impact of increasing the margin for adverse plan experience that was implemented by decreasing the discount rate to 6.25% from the 6.50% rate used in the last valuation.

Acknowledgments

ATRF employees merit the Board's sincere thank you and congratulations for their commitment to meeting the needs of ATRF's plan members and other customers. Their strong efforts have led to the successful achievement of a number of progressive new initiatives. I wish to recognize my fellow Board members and the external members of the Investment Committee for their strong focus on corporate governance and the expertise they bring to ATRF.

Sharon Vogrinetz's term on the Board ended on September 23, 2012 after more than 12 years of active engagement in our various challenges. She provided valuable contributions to the Board's corporate governance role in working with management on ATRF's strategic and business initiatives and on the oversight of the management, and operations of ATRF. As Chair of the Human Resources and Compensation Committee, she led the Committee on its various key human resource and compensation responsibilities. I want to thank Sharon for all of her hard work and dedication to securing the pension income of plan members.

Sandra Marcellus was appointed to the Board effective December 19, 2012 and we look forward to working with her on the governance oversight of ATRF.

A thank you is extended to Allison O'Brien who retired as an external member of the Investment Committee after providing nine years of valuable counsel on the investment policies and operations of the fund. We welcome Richard Fortier as a new external member of the Investment Committee and look forward to working with him on overseeing the investment policies and performance of the fund.

Greg Meeker

Board Chair

The Board is committed to good governance and believes that ongoing improvement in the corporate governance of ATRF will lead to enhanced long-term value for plan members and sponsors. Our Statement of Corporate Governance Practices is found on our website. Go to www.atrf.com > About ATRF > Corporate Governance.

Report of the CHIEF EXECUTIVE OFFICER

Emilian Groch

The past fiscal year was defined by growth challenges for both developed and developing economies. These challenges included cautious consumers and businesses resulting in weak global demand and manufacturing. Governments continued to focus on reducing deficits and debt accumulation, and European politicians struggled to fully cooperate at a level needed to move forward. With inflation largely contained, central banks responded by further easing monetary policy.

For the second consecutive year, the ATRF fund returned a very strong positive return of 7.8%. This rate of return exceeded the fund's 2011-12 fiscal year benchmark by 1.5% and met the funding rate-of-return objective of the plans. However, these positive rates of return over the past two years have had little effect in mitigating the impacts that the severe equity market downturns and financial turmoil have had on rates of return over the past 12 years. The fund of the Teachers' Pension Plan has returned on average 3.8% each year since September 2000, which is 3.0% per year short of the targeted funding rate-of-return objective. Consequently, substantial funding shortfalls exist that require additional funding contributions from active teachers and taxpayers.

The Teachers' Pension Plan has a funding deficiency of $2.880 billion as at August 31, 2012, while the much smaller Private School Teachers' Pension Plan has a funding deficiency of $8.411 million. In accordance with legislation, these funding deficiencies must be covered by additional contributions over a maximum period of 15 years. The additional contributions may increase further as investment losses deferred from the 2007-2009 financial crisis are fully recognized over the next two years.

Ongoing Focus on Plan Member Services

Our objective is to provide plan members with complete, timely and cost-effective services. We continue to receive high ratings for our services in plan member surveys. We exceeded our service turnaround benchmarks for all service processes and we further shortened the benchmarks for some processes. Our costs for plan member services continue to be about half of the average cost of other major Canadian public sector pension organizations.

We also try to identify other potential services and how we can provide existing services more effectively. In the past fiscal year, we implemented a new reciprocal transfer agreement with the Federal public service plan. We also enhanced the services available to plan members through our secured internet-based On-Line Services. Plan members may now complete the entire pension commencement process online, as well as make changes to their beneficiary designations.

Managing Growth in Fund Assets

The invested assets of the Teachers' Pension Plan represent plan liabilities for pensionable service after August 1992 making the plan a very young plan with positive cash flow for the next 15 years. Assets under management are projected to reach $10 billion in three years and $15 billion in seven years.

While continuing to focus on our investments in the public markets, we also continued our work to enhance our new infrastructure and real estate asset classes, and expand the private equity asset class.

The biggest challenge to success in these illiquid asset classes for many investors has been the high costs associated with funds and fund-of-funds in the form of manager fees and carried interest. ATRF's asset growth and significant total allocation of 35% of fund assets to these asset classes provides the scale to reduce, but not eliminate, its reliance on high-cost external fund-management structures, by enhancing its internal investment operation.

Over the past year, we continued to implement our plans to build and maintain a successful, cost-effective investment program for illiquid asset classes. This required us to make additional significant commitments to internal resources. We successfully added additional staff and advisory services required to continue to build the investment programs for infrastructure, real estate and private equity. In addition, we implemented the required administrative, control and reporting functions to support best-practice operations of these illiquid asset classes. We will continue to add additional staff and new systems in the 2012-13 fiscal year.

Acknowledgements

I must recognize the successful, ongoing commitment of ATRF staff in serving the needs of the plan members and our other customers. Through effective collaboration and team work, the collective performance results of ATRF staff continue to make ATRF successful in all of its operational areas.

I want to thank the Board members for their counsel, support of our business plan initiatives and dedication to securing the pensions of Alberta teachers.

Emilian Groch

Chief Executive Officer

Management Discussion & ANALYSIS

This section of the Annual Report provides a detailed overview from management's perspective of the liabilities, assets, investments and service activities of ATRF that will assist readers in reviewing ATRF's performance and financial position. It contains forward-looking statements reflecting management's objectives, outlook, and expectations that involve risks and uncertainties. Our actual results will differ from those anticipated.

PLAN LIABILITY AND FUNDING STRUCTURES

The Teachers' Pension Plan and the Private School Teachers' Pension Plan have unique liability structures and funding arrangements. The liabilities relate to three distinct components:

- the pre-September 1992 benefit period for the Teachers' Pension Plan (Pre-1992 Period);
- the post-August 1992 benefit period for the Teachers' Pension Plan (Post-1992 Period); and
- the Private School Teachers' Pension Plan.

Teachers' Pension Plan: Pre-1992 Period

The liabilities of the Pre-1992 Period consist of the actuarial value of the accrued Pre-1992 Period pension benefits. There are no fund assets in respect of these liabilities. The Government of Alberta guarantees the payment of benefits related to the Pre-1992 Period and is providing ATRF sufficient funds each month to pay these benefits as they become due, and provided ATRF a total of $430 million in the past fiscal year.

Teachers' Pension Plan: Post-1992 Period

The cost of benefits being earned for service after August 1992, including the 60% cost-of-living pension adjustment provision, is shared equally between active members and the Government of Alberta. Active members are responsible for the additional 10% cost-of-living pension adjustment provision. Funding deficiencies under the plan are amortized by additional contributions from active members and the Government of Alberta over a 15-year period. Since Post-1992 Period benefits are not guaranteed if the plan is terminated, the primary objective is to ensure there are sufficient assets to pay all Post-1992 Period benefits.

Funding Policy

The funding policy sets out the principles and guidelines governing the funding requirements of the benefits in respect of service under the plan in accordance with the plan's legislation and the objectives of the Board. The overall objective is to ensure the sustainability of the Post-1992 Period plan over the long term and to ensure the provision of benefits to plan members and their beneficiaries.

The Board and management review the funding policy for the Post-1992 Period Teachers' Pension Plan annually. In the 2011-12 fiscal year, we completed a comprehensive review of the funded position of the plan to ensure that the plan remains sustainable for the foreseeable future. This review showed that the margin for adverse plan experience needs to be increased to more effectively manage year-to-year volatility and to enhance intergenerational funding equity. Accordingly, the funding policy was adjusted and the plan's future expected long-term rate of return was decreased from the current level of 6.75% per year to 6.25% per year. The result of this change will increase plan funding contribution rates.

The key elements of the current funding policy are as follows:

- The primary objective is benefit security focused on maximizing the likelihood of attaining and maintaining a plan funded ratio of at least 100%. This is a critical component in the sustainability of the plan, and is enhanced by the governance structure of ATRF and the extremely low likelihood of the plan winding up.

- Contribution rate stability is a key secondary objective. The cost of the plan should be sustainable over time and reflect a long-term view of the plan's assets and liabilities. The plan should be funded to ensure that the level of required contributions remains relatively stable without undue fluctuations, and do not increase to unaffordable levels.

- Based on the plan's cost-sharing arrangement, it is expected that, to the extent possible, each generation of active members and provincial taxpayers will fund the benefits accruing for that generation of active members.

- The actuarial liability of the plan is determined under both a best-estimate-assumption basis, using management's best-estimate of future events, and a funding-assumption basis. Under the funding-assumption basis, management's best-estimate assumption for the long-term investment rate of return is adjusted for a provision for potential adverse plan experience.

- The funding-assumption basis is determined by the plan's actuary, in consultation with ATRF, to achieve the funding objectives. The funding-assumption basis is set such that the liabilities fall within a target range of 110% to 115% of the best-estimate liabilities.

- To achieve stability in contribution rates, the funding-assumption basis can be adjusted to achieve liabilities not less than 100% of best-estimate liabilities in order to reduce deficits where the plan and fund are under more extreme financial pressures, or to achieve liabilities of up to 125% of best-estimate liabilities, thereby providing a reserve for future adverse plan funding experience.

Funding Valuation Results

An actuarial funding valuation of the Post-1992 Period Teachers' Pension Plan was completed as at August 31, 2012. The discount rate for this valuation was based on the long-term expected return of the fund considering the long-term target policy asset mix and funding policy outlined above. The valuation assumptions were the same as those used in the funding valuation as at August 31, 2011 but used a lower discount rate of 6.25% in order to increase the margin for future adverse plan experience.

The following table outlines the results of the funding valuation as at August 31, 2012.

Teachers' Pension Plan Post-1992 Period

at August 31, 2012	($ Billions)
Funding Liabilities	10.300
Funding Value of Assets[1]	7.420
Funding Deficiency	**2.880**

[1] The plan uses an actuarially accepted practice of smoothing market returns over a five-year period to moderate short-term adjustments to contribution rates. This practice is intended to even out the impact from the volatility of market returns on the plan's funded status. As at August 31, 2012, the plan's funding value of net assets available was $261 million higher than the fair value of net assets available (2011 - $514 million higher).

The use of the lower 6.25% discount rate increased plan funding liabilities by $818 million. This increased the contributions required to fund the additional funding deficiency over the next 15 years, as required by legislation. The lower discount rate also increased the plan's normal benefit cost.

The funding valuation showed that a total contribution rate increase of 4.16% of total teacher salaries is required effective September 2013; 2.15% for teachers and 2.01% for the Government of Alberta.

Teachers’ Pension Plan Contribution Rates (Percent)	September 2012 Teachers	Government	September 2013 Teachers	Government
Normal benefit cost (including 60% COLA)	7.15	7.15	7.85	7.85
Additional 10% COLA for service after 1992	0.44	–	0.50	–
Deficiency (including 60% COLA)	3.49	3.49	4.80	4.80
Deficiency on additional 10% COLA	0.23	–	0.31	–
Total	**11.31**	**10.64**	**13.46**	**12.65**

Teachers’ Pension Plan Contribution Rates (Percent)	Sept 2012	Sept 2013
Teachers		
Total Teacher Contribution	11.31	13.46
Salary up to YMPE[1]	9.60	11.44
Salary above YMPE	13.72	16.34
Government	10.64	12.65

[1] YMPE is the Year’s Maximum Pensionable Earnings used by the Canada Pension Plan ($51,100 in 2013).

Plan Funding Challenges

A key assumption in the funding of the plan is that the fund will earn an average investment return each year equal to the discount rate used for the funding valuation net of investment costs. To even out the impact from the volatility of market returns on the plan’s funded status, the plan uses an actuarially accepted practice of smoothing market returns over a five-year period to moderate short-term adjustments to contribution rates. This practice is intended to even out the impact from the volatility of market returns on the plan’s funded status.

The August 31, 2012 funding valuation showed that, primarily due to the 2007-2009 financial crisis, the current market value of plan assets is $261 million less than the asset value used to assess the plan’s funded position. This means that the fund must earn at least 6.25% each year for the next two years and must also earn an additional $261 million to avoid further contribution increases. If the plan’s investments earn only 6.25% each year over the next two years, the funding deficiency will grow and the additional amount will have to be amortized by increasing funding contributions over a 15-year period. We have estimated that should this occur, overall funding contributions would increase over the two years ending August 31, 2014 for a total increase of about 0.90% of teacher salaries.

We also carried out various stress tests on our long-term funding assumptions. For example, if the future long-term rate of return on investments is only 5.75%, total plan cost would increase by a further 4.43% of teacher salaries to 30.54% from the 26.11% total plan funding cost as of September 2013.

Best-Estimate Valuation Results

We conduct a best-estimate actuarial valuation for the purposes of the financial statements. This best-estimate valuation uses a mark-to-market approach that values plan liabilities and assets based on current market values. It therefore, does not use the 6.25% discount rate applied in the funding valuation, as the funding valuation included a 0.75% provision for potential adverse plan experience in its discount rate. As a result, the best-estimate valuation was conducted using a 7.0% best-estimate discount rate.

The actuarially accepted practice of smoothing market returns over a five-year period used in the funding valuation cannot be utilized for the best-estimate actuarial valuation as the fair value of net assets must be used. Accordingly, the asset and liability amounts of the best-estimate actuarial valuation differ from those in the funding valuation.

The table below outlines the results of the best-estimate valuation as at August 31, 2012.

Teachers’ Pension Plan Post-1992 Period at August 31, 2012	($ Billions)
Best-Estimate Liabilities	9.068
Fair Value of Assets	7.159
Deficiency	**1.909**

Private School Teachers' Pension Plan (PSTPP)

The cost of benefits being earned, including the 60% cost-of-living pension adjustment provision, is shared equally between active members and private school employers. Active members are responsible for the additional 10% cost-of-living pension adjustment provision. Funding deficiencies under the plan are amortized by additional contributions from active members and the private school employers over a 15-year period. Since benefits are not guaranteed if the plan is terminated, the primary objective is to ensure there are sufficient assets to pay all benefits.

PSTPP Funding Policy

The Board has also adopted a funding policy for the PSTPP that sets out the principles and guidelines governing the funding requirements of the benefits in respect of service under the plan in accordance with the plan's legislation and the objectives of the Board. The overall objective is to ensure the sustainability of the plan over the long term and to ensure the provision of benefits to plan members and their beneficiaries.

In the 2011-12 fiscal year, we completed a comprehensive review of the funded position of the plan to ensure that the plan remains sustainable for the foreseeable future. This review showed that the margin for adverse plan experience needs to be increased to more effectively manage year-to-year volatility and to enhance intergenerational funding equity. The funding policy was adjusted accordingly and the plan's future expected long-term expected rate of return was decreased from the current level of 6.50% per year to 6.25% per year. The result of this change will increase plan funding contribution rates.

PSTPP Funding Valuation Results

An actuarial funding valuation of the PSTPP was completed as at August 31, 2012. The discount rate for this valuation was based on the long-term expected return of the fund considering the long-term target policy asset mix and funding policy outlined above. The valuation assumptions were the same as those used in the funding valuation as at August 31, 2011 but used a lower discount rate of 6.25% in order to increase the margin for future adverse plan experience.

The following table outlines the results of the funding valuation as at August 31, 2012.

Private School Teachers' Pension Plan at August 31, 2012	($ Millions)
Funding Liabilities	45.716
Funding Value of Assets[1]	37.305
Funding Deficiency	**8.411**

[1] The plan uses an actuarially accepted practice of smoothing market returns over a five-year period to moderate short-term adjustments to contribution rates. This practice is intended to even out the impact from the volatility of market returns on the plan's funded status. As at August 31, 2012, the plan's funding value of net assets available was $2.287 million higher than the fair value of net assets available (2011 - $3.073 million higher).

The use of the lower 6.25% discount rate increased plan funding liabilities by $1.7 million. This increased the contributions required to fund the additional funding deficiency over the next 15 years, as required by legislation. The lower discount rate also increased the plan's normal benefit cost.

A total contribution rate increase of 1.97% of total teacher salaries is required effective September 2013; 1.02% for teachers and 0.95% for private school employers.

Private School Teachers' Pension Plan Contribution Rates (Percent)	September 2012 Teachers	September 2012 Employers	September 2013 Teachers	September 2013 Employers
Normal benefit cost (including 60% COLA)	8.12	8.12	8.74	8.74
Additional 10% COLA for service after 1992	0.56	–	0.61	–
Deficiency (including 60% COLA)	1.92	1.92	2.25	2.25
Deficiency on additional 10% COLA	0.15	–	0.17	–
Total	**10.75**	**10.04**	**11.77**	**10.99**

Private School Teachers' Pension Plan Contribution Rates (Percent)	Sept 2012	Sept 2013
Teachers		
Total Teacher Contribution	10.75	11.77
Salary up to YMPE[1]	9.31	10.22
Salary above YMPE	13.30	14.60
Employers	10.04	10.99

[1] YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan ($51,100 in 2013).

PSTPP Plan Funding Challenges

One key assumption in determining the funding of the plan is that the fund will earn an average investment return each year of 6.25% net of investment costs. To even out the impact from the volatility of market returns on the plan's funded status, the plan uses an actuarially accepted practice of smoothing market returns over a five-year period. This practice is intended to moderate short-term adjustments to contribution rates.

The August 31, 2012 funding valuation showed that, primarily due to the 2007-2009 financial crisis, the current market value of plan assets is $2.287 million less than the asset value used to assess the plan's funded position. This means that the fund must earn at least 6.25% each year for the next two years and must also earn an additional $2.287 million to avoid further contribution increases. If the plan's investments earn only 6.25% each year over the next two years, the plan's deficiency will grow and the additional deficiency will have to be amortized by increasing funding contributions over a 15-year period. We have estimated that should this occur, overall funding contributions would increase over the two years ending August 31, 2014 for a total increase of about 1.4%.

We also carried out various stress tests on our long-term funding assumptions. For example, if the future long-term rate of return on investments is only 5.75%, total plan cost would increase by a further 4.24% of teacher salaries to 27.00% from the 22.76% plan funding cost as at September 2013.

PSTPP Best-Estimate Valuation Results

We conduct a best-estimate actuarial valuation for the purposes of the financial statements. This best-estimate valuation uses a mark-to-market approach that values plan liabilities and assets based on current market values. It therefore, does not use the 6.25% discount rate applied in the funding valuation, as the funding valuation included a 0.75% provision for potential adverse plan experience in its discount rate. As a result, the best-estimate valuation was conducted using a 7.0% best-estimate discount rate.

The actuarially accepted practice of smoothing market returns over a five-year period used in the funding valuation, cannot be utilized for the best-estimate actuarial valuation as the fair value of net assets must be used. Accordingly, the asset and liability amounts of the best-estimate actuarial valuation differ from those in the funding valuation.

The following table outlines the results of the best-estimate valuation as at August 31, 2012.

Private School Teachers' Pension Plan at August 31, 2012	($ Millions)
Best-Estimate Liabilities	40.397
Fair Value of Assets	35.018
Deficiency	**5.379**

Funding Risks Looking Forward

The funding studies and valuations are based on assumptions that will differ from actual plan experience. Any difference between the assumptions and plan experience will emerge as gains or losses in future funding studies and valuations. Key among those assumptions is the expected rate of return of the fund and there can be significant deviation from this estimate over shorter periods of time.

The approach to smoothing investment gains and losses adopted by the plans has allowed the plans to postpone dramatic contribution increases that would otherwise have been triggered by the 2007-2009 financial crisis. This has provided the plans time for some measure of market recovery and to better gauge the longer-term contribution increases that will be required. However, the effects of the 2007-2009 financial crisis continue to linger and therefore, the plans' funding deficiencies may grow and contribution rates may need to increase further.

INVESTMENT MANAGEMENT

The 2011-12 fiscal year was defined by growth challenges for both developed and developing nations. These challenges included weak, albeit positive growth in the U.S. and Canada, slowing growth in most developing economies, and recession across much of Europe. The economic and currency crisis among Eurozone countries dominated investment news throughout the year, adding to equity market volatility and driving bond yields to record lows in those countries seen to be safe havens, such as the U.S., Canada and Germany. Later in the fiscal year markets became cautiously optimistic that a coordinated solution to the European sovereign debt crisis could be found. In addition, the U.S. housing market, which was seen by many to be the cause of the 2008-09 recession, showed its first signs of growth in many years.

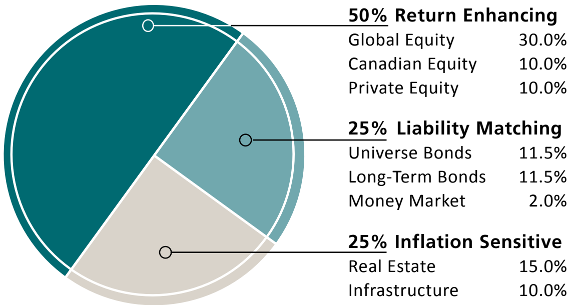
With this mixed economic backdrop, financial markets delivered a third consecutive year of positive returns. For the 2011-12 fiscal year, the Teachers' Pension Plan fund and the Private School Teachers' Pension Plan fund each generated a return of 7.8%.

The past fiscal year has again been one of substantial growth and development in ATRF's investment operations. Assets grew to exceed $7 billion, and we continued to make considerable progress toward our long-term target asset mix, which includes a significant allocation to non-publicly traded assets, such as private equity, infrastructure and real estate. While most of ATRF's growth has been in these non-publicly traded areas, we continue to be active in the public markets as well. Where prudent, we have repatriated money from external management firms to our internal teams in an effort to provide the most cost-effective investment management for our plan members. External management will always be required for some assets, and ATRF has forged a number of critical relationships with key investment partners around the world, expanding our investment opportunity set and seeking out assets that will generate positive returns in a variety of economic environments.

Target Policy Asset Mix

The following long-term target policy asset mix has been adopted by the Board. We will be undertaking a comprehensive asset-liability study of the plan in 2013 to ensure that this target policy asset mix continues to be optimal for the plan based on the funding policy outlined on page 10 and the nature of the plan liabilities and cash flows.

Long-Term Target Policy Asset Mix
at August 31, 2012



The 35% allocation to the illiquid, private equity asset class and the inflation-sensitive asset classes of real estate and infrastructure will take some time to fully implement. We are pursuing cost-effective internal operations, and partnerships with external managers and like-minded investors to manage these illiquid asset classes.

Return Enhancing Assets

Return enhancing assets are those assets whose primary purpose is to increase the overall return of the fund over the long term. Included in this category of assets are public and private equities, as well as other strategies principally designed to generate return.

Return Enhancing Assets
at August 31, 2012

	($ Millions)	(%)
Global Equity	2,757	38.3
Canadian Equity	1,180	16.4
Private Equity	359	5.0
Total[1]	**4,296**	**59.7**

[1] Includes cash, accrued income and derivatives within each asset class.

Public Equity Markets

The 2011-12 fiscal year was rather constructive as a number of markets managed to generate positive returns. Equity markets began the fiscal year on a weak note as government finances dominated the investment landscape. Although the focus was generally on the European Union, North American markets were also subject to close scrutiny and volatility. Despite political and fiscal challenges, the U.S. did manage to maintain its slow-growth economy during the year, highlighted by a reasonably good employment picture, along with a gradually improving housing market. Importantly, the unemployment rate dropped from 10% to 8% over the course of the fiscal year. After falling since 2007, housing prices in the U.S. appear to have bottomed, with activity levels for existing and new homes rising as a result of reduced inventories of unsold homes. Like the U.S., Canada managed to maintain a slow, but positive growth environment, with unemployment remaining relatively stable and low interest rates fueling the housing market.

The relatively strong showing of the North American economy translated into a year where U.S. stocks outperformed most other equity markets in the world. The S&P 500 Index generated a total return of 18.0% thanks to solid earnings growth, a relatively stable political environment, and an accommodative Federal Reserve. Equity returns in other regions of the world varied greatly depending on both political and economic factors.

European economies sharply contrasted North American economies, given the unresolved sovereign debt issues, retrenching consumers, high unemployment, and a lack of clear vision from political leaders. The European Union's greatest challenge appears to be achieving consensus on a unified strategy among all of its member nations, each of which faces a different economic and political reality. In the end, compromise will be necessary and member nations continue to discuss ways to balance austerity measures and bailout funding with promoting renewed economic growth. The economic diversity among European countries was reflected in the equity markets, with positive equity returns in the stronger economies such as Germany and Switzerland, and negative equity returns in weaker economies such as Spain, Portugal and Greece.

Asian and emerging markets also experienced negative equity returns over the past year, as economic growth slowed despite central bank actions to lower interest rates and stimulate growth. While the longer-term secular growth attributes of emerging markets remain intact, demand from the Western world is still an important growth element in these economies. Recession across Europe and weak growth in North America has had a significant impact on exports from emerging markets, resulting in weaker corporate profitability and lower share prices.

Canadian equities struggled this past fiscal year, with the S&P/TSX Index falling by 3.6%. The Canadian equity market has a very high degree of exposure to natural resource stocks, including energy, mining and agriculture companies. This was the primary reason for the weak performance of the index, as flat-to-declining commodity prices, coupled with rising operating costs hit margins and overall profitability for these sectors. Unanswered questions about the European crisis and stagnant growth in emerging markets led to an uncertain outlook for export demand, hindering the overall market's ability to generate a positive return. The best performing sectors over the past year were the more traditionally less volatile and more defensive sectors such as healthcare, telecommunication services, and consumer staples. The positive returns from these sectors were largely a result of their healthy dividend yields, which have become very attractive to investors in an environment of record-low bond yields.

Private Equity Markets

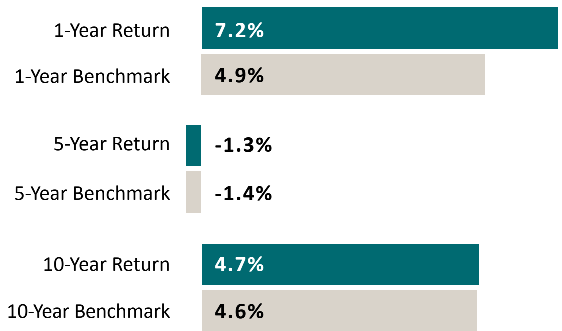
After experiencing strong activity levels in 2010, global private equity transaction volumes steadily subsided over 2011 and into 2012. U.S. private equity deal activity followed this global trend, while in Canada private equity transaction volume increased significantly. In Europe, the economic disruption has compromised the European banking sector, resulting in less debt availability and higher risk aversion. This in turn has made private equity transactions more difficult to finance, resulting in a decline in transaction volumes in the region.

The fund-raising environment remains challenging and competitive, as a large number of private equity groups are currently in the market. By some estimates almost 2,000 funds were fund-raising as of June 30, 2012. With the large number of funds in the market, many are taking longer to raise capital and are closing at smaller sizes than their predecessors. This can be seen as a positive environment for investors such as ATRF, as it creates the opportunity to negotiate more favorable fund terms, and gain better access to high-quality private equity funds.

Performance of Return Enhancing Assets

ATRF holds return enhancing assets in a number of different portfolios, both in public and private markets. These portfolios are structured to diversify risk across investment style, market capitalization, geography and vintage year (for private equity funds). In an environment full of economic and political challenges, our return enhancing assets returned 7.2%, which was well ahead of the benchmark return of 4.9%.

Return Enhancing vs. Benchmark Performance
to August 31, 2012



Like the previous year, 2011-12 saw considerable equity market volatility, along with a large disparity of returns from one region to another. ATRF's global equity asset class is comprised of a diversified combination of portfolios that together generated a total rate of return of 10.3% for the year. This compares favourably with the 9.1% return on our global equity benchmark, the MSCI World Index.

After a couple of years of outperforming other world markets, the Canadian equity market struggled in the past year. ATRF's Canadian equity exposure is held through a combination of internal and externally managed portfolios. Together, these portfolios delivered a modestly positive return of 1.6%, far exceeding the benchmark S&P/TSX Index that fell by 3.6%.

The private equity asset class consists of a number of limited partnerships and direct investments that are valued by our general partners on a fair value basis every quarter. As valuations for private equity investments are typically reported on the basis of calendar quarters rather than our fiscal quarters, we time-lag both the portfolio and benchmark returns by two months. Accordingly, these returns represent the twelve-month period ended June 30, 2012. For this period, our private equity assets generated a positive return of 4.0%, which exceeded the benchmark return of 1.1%. ATRF's benchmark for private equity is the MSCI World Index plus an illiquidity premium of 2.0%.

Rates of Return - Return Enhancing Assets
to August 31, 2012

	1 Year (%)		5 Years (%)		10 Years (%)	
Asset Class	**ATRF**	**Benchmark**	**ATRF**	**Benchmark**	**ATRF**	**Benchmark**
Canadian Equity	1.6	-3.6	1.3	0.2	9.3	8.7
Global Equity	10.3	9.1	-3.3	-3.1	n/a	n/a
Private Equity	4.0	1.1	n/a	n/a	n/a	n/a
Total Return Enhancing	7.2	4.9	-1.3	-1.4	4.7	4.6

Also included in the Return Enhancing Asset category is an active currency strategy. This investment approach uses derivatives to gain exposure to global currency markets within a pre-defined, controlled and monitored level of risk. The goal of the strategy is to add absolute value to the fund over the long term. In the 2011-12 fiscal year, ATRF's active currency strategy earned a net profit of $2.6 million, which represents an incremental return of approximately 0.04% for the total fund.

Liability Matching Assets

Liability Matching Assets are those assets whose primary purpose is to reduce the duration mismatch between plan assets and liabilities, as well as limit the overall volatility of returns. Included in this category are three different fixed-income asset classes.

Liability Matching Assets
at August 31, 2012

	($ Millions)	(%)
Universe Bonds	1,454	20.2
Long-Term Bonds	791	11.0
Money Market	128	1.8
Total[1]	**2,373**	**33.0**

[1] Includes cash, accrued income and derivatives within each asset class.

Fixed-Income Markets

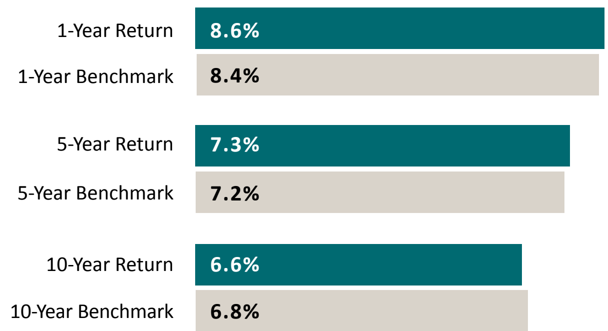
The 2011-12 fiscal year was one in which bond markets were unusually volatile, as European economic and political uncertainty led to some of the biggest variations in government bond yields ever seen. The perceived risk of sovereign debt defaults, headlined by formal bailouts of three countries drove investors to “safe haven” bond markets, which included Canada, the U.S. and Germany. As a result, yields in these markets fell to new all-time lows, while at the same time government bond yields were seeing new highs in troubled European countries such as Greece, Spain, Portugal, and Ireland. As an example, at the same time Canada was experiencing its lowest 10-year bond yield in history, at 1.58%, Spain’s 10-year bonds were yielding 7.62%, their highest since the creation of the Euro in 1999.

By year-end, Canadian 10-year yields settled slightly above these lows at 1.77%, as markets began to price in a third round of quantitative easing in the U.S., while the European Central Bank was attempting to assure markets that it would do whatever was necessary to preserve the Euro as a common currency.

Performance of Liability Matching Assets

ATRF’s Liability Matching Assets are held in a combination of fixed-income portfolios, with the majority of the assets managed by our internal investment team. These portfolios are structured to ensure the assets are well diversified, with exposure to short, medium and long-duration bonds as well as credit and private debt markets.

Liability Matching vs. Benchmark Performance
to August 31, 2012



As noted above, investors perceive Canada’s bond market to be among the least risky in the world. As a result, the high demand for safe assets caused yields to fall to unprecedented levels, resulting in another year of strong fixed-income returns for Canadian investors. As a whole, ATRF’s Liability Matching Assets returned 8.6%, which exceeded the benchmark return of 8.4%.

ATRF’s universe bond asset class generated a return of 7.2% for the year, which was higher than the 6.7% return of the benchmark DEX Universe Bond Index. The strong combined performance of ATRF’s portfolios came largely from well managed exposure to credit, which offered an attractive return vs. risk tradeoff during the year.

As has been the case in each of the past three years, record low interest rates were the primary driver of returns for the long-term bond asset class. For the 2011-12 year, ATRF’s long-term bond portfolio generated a very strong return of 13.2%, which essentially matched the 13.0% return of the benchmark DEX Long-Term Government Bond Index.

Money-market yields remained comparatively stable near historical lows, as the Bank of Canada left its benchmark interest rate unchanged throughout the year. In this environment, ATRF's money-market portfolio returned a modest 1.1%, compared to the 0.9% return of the benchmark DEX 30 Day T-Bill Index.

Rates of Return - Liability Matching Assets
to August 31, 2012

	1 Year (%)		5 Years (%)		10 Years (%)	
Asset Class	**ATRF**	**Benchmark**	**ATRF**	**Benchmark**	**ATRF**	**Benchmark**
Universe Bonds	7.2	6.7	7.3	6.9	6.2	6.2
Long-Term Bonds	13.2	13.0	n/a	n/a	n/a	n/a
Money Market	1.1	0.9	1.6	1.2	2.4	2.2
Total Liability Matching	8.6	8.4	7.3	7.2	6.6	6.8

Inflation Sensitive Assets

Inflation sensitive assets are assets that are held in part to mitigate the risk of unexpected inflation. Investments in this category typically exhibit returns that are at least partially correlated to inflation over the long term. This is beneficial to ATRF in the long run as pension benefits under the plans are 70% indexed to inflation. ATRF includes both real estate and infrastructure in this asset category.

Inflation Sensitive Assets
at August 31, 2012

	($ Millions)	(%)
Real Estate	335	4.7
Infrastructure	187	2.6
Total[1]	**522**	**7.3**

[1] Includes cash, accrued income and derivatives within each asset class.

Real Estate

Global real estate transaction volumes were slow in 2011-12; however, there was a marked flight to quality amongst real estate investors. As noted earlier, weak global economic growth and high market volatility have led to increased risk aversion in most financial markets, as reflected in record-low government bond yields. For real estate, this has resulted in a decrease in cash yields and a corresponding increase in valuations for stable, core assets in major markets. This flight to safety has also resulted in the development of a valuation gap between the yields available from the most sought-after leased properties in major markets and most other forms of real estate investment. This spread is as wide as it has been in many years, as yields for secondary assets have not compressed in the same way.

In Europe, deleveraging has caused distress in many commercial property markets, and this is expected to continue. Despite this volatility, opportunities to provide much-needed capital will exist and well-conceived strategies around this theme will likely represent attractive risk-adjusted investments. The economic outlook for North America also remains uncertain, with a low level of new construction in the U.S. and prices remaining generally below replacement cost levels. In Canada, competition to acquire core assets has been very strong, driving yields down and prices up. The first half of 2012 set a new six-month record for investment real estate activity in Canada, with approximately $14 billion in transaction volume.

Infrastructure

Given the disparate fiscal and economic health of the Eurozone, it is not surprising that both national governments and large corporations alike are continuing to reduce their debt loads by privatizing or selling infrastructure assets. Over the past year, a number of water utilities, airports, and transmission assets have been sold into the market. The market has also seen very strong demand for infrastructure assets driven not only by fund managers, but also sovereign wealth funds and institutional organizations.

In the U.S., slow domestic growth, and weak tax revenue is clearly impacting the ability of most states to maintain public infrastructure. While some states have adopted a Public-Private-Partnership ("PPP") method of financing projects, a very limited number of transactions have actually reached the market. Canada, by contrast has embraced this model of infrastructure financing, although only a limited number of new transactions came to the market in the past year.

Performance of Inflation Sensitive Assets

ATRF continues to grow its real estate and infrastructure programs, with a long-term goal of inflation sensitive assets representing 25% of total assets. For the 2011-12 fiscal year, these assets generated a combined rate of return of 7.5%, which was well in excess of the benchmark return of 4.8%.

Rates of Return - Inflation Sensitive Assets
to August 31, 2012 — **1 Year (%)**

Asset Class	ATRF	Benchmark
Real Estate	6.4	4.9
Infrastructure	9.4	5.2
Total Inflation Sensitive	7.5	4.8

Real Estate assets grew materially during the year, with the majority of the growth coming from new investment in Canada and the U.S. By year end, invested assets had grown to $335 million, up from $61 million the previous year. The total return on real estate assets in 2011-12 was 6.4%, exceeding the benchmark return of 4.9%. The benchmark return for real estate is a blended combination of the annual change in the Canadian Consumer Price Index plus 4.25% for mature assets, and the actual return of the portfolio for non-mature assets.

Infrastructure investment activity was also strong in 2011-12. However asset growth was somewhat slower as a number of fund commitments made by ATRF have yet to be invested. ATRF's invested infrastructure assets generated a total return of 9.4% for the year, significantly exceeding the benchmark return of 5.2%. Similar to real estate, the benchmark return for infrastructure is a blended combination of the annual change in the Canadian Consumer Price Index plus 4.75% for mature assets, and the actual portfolio return of the portfolio for non-mature assets.

INVESTMENT PERFORMANCE

Long-Term Investment Objective

The primary long-term investment funding objective of the fund is to meet the real rate of return target above the level of Alberta inflation. This target is an essential long-term assumption in determining the funding requirements of the plans to ensure that plan benefits are funded in accordance with the established funding structure. This long-term investment funding objective is measured starting September 1, 1992, when the plan sponsors agreed to the current funding structure of the plans.

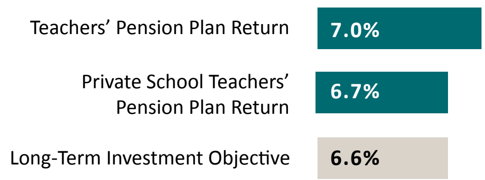
Since September 1, 2004, this long-term rate-of-return assumption has been 4.25% above the level of Alberta inflation. This target was 4.5% plus inflation from September 1, 1997 to August 31, 2004, 4% plus inflation from September 1, 1994 to August 31, 1997, and 3.5% plus inflation prior to that time.

In the 20 years since September 1, 1992, the investment return of the Teachers' Pension Plan has surpassed this long-term objective. The annualized rate of return on the fund's assets over this time period has been 7.0%, which exceeds the 6.6% rate-of-return objective. However, the fund's rates of return have been impacted by the severe equity market downturns and financial turmoil over the past 12 years. The fund of the Teachers' Pension Plan has returned on average only 3.8% each year since September 2000, which is 3.0% per year short of the long-term investment objective. As a result, substantial funding shortfalls exist that require additional funding contributions from active teachers and taxpayers.

Over this same time period, the Private School Teachers' Pension Plan investment return has been slightly lower, as it did not benefit from the stable return of the loan to the Province of Alberta that was part of the assets of the Teachers' Pension Plan until the end of 2009. The annualized rate of return for the Private School Teachers' Pension Plan over the same 20-year time period has been 6.7%, which slightly exceeds the rate-of-return objective of 6.6%. The rates of return of the fund of the Private School Teachers' Pension Plan have been impacted by the severe equity market downturns and financial turmoil over the past 12 years. The fund has returned on average only 3.4%

each year since September 2000, which is 3.4% per year short of the long-term investment objective. The resulting funding shortfall requires additional funding contributions from active teachers and private school employers.

20-Year Return vs. Long-Term Investment Objectives
to August 31, 2012



Benchmark Performance

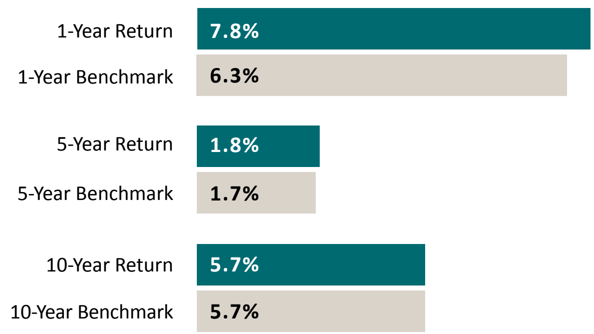
In order to measure the overall effectiveness of our investment strategies, we compare the actual performance of the investment portfolio to the return on the fund's benchmark over various time periods. Benchmarks for each asset class are selected by the Board and Investment Committee. The total-fund benchmark is calculated by aggregating the returns on each asset-class benchmark, and weighting them to reflect the fund's policy asset mix.

As outlined earlier, in 2011-12 the economic and investment environment was one of volatility and uncertainty. Maintaining a balanced and diversified portfolio proved to be critical in this environment, as market reactions to key political and central bank actions were difficult, if not impossible to predict. As a result of this uncertainty, we maintained an asset mix that was very close to our policy asset mix throughout the year. Most of ATRF's internal and external portfolios delivered strong returns relative to their respective benchmarks, allowing the total-fund return to exceed its benchmark return by a significant margin.

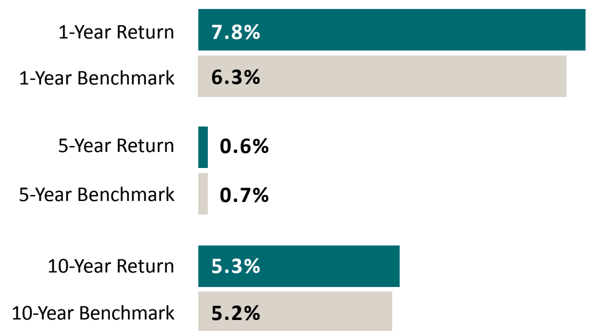
As the following tables illustrate, both the Teachers' Pension Plan fund and the Private School Teachers' Pension Plan fund earned returns which exceeded the benchmark by 1.5% in the 2011-12 fiscal year. While the return of the two funds is the same over the past year, returns differ over longer time periods due to the influence of the loan, as noted on page 19.

Over the five years ended August 31, 2012, the Teachers' Pension Plan fund return is 0.1% ahead of the benchmark, while over 10 years the fund return is equal to the benchmark. The Private School Teachers' Pension Plan fund return is 0.1% below the benchmark over five years, while it is 0.1% ahead of the benchmark over 10 years.

Teachers' Pension Plan Return vs. Benchmark Performance
to August 31, 2012



Private School Teachers' Pension Plan Return vs. Benchmark Performance
to August 31, 2012



Socially Responsible Investing

An ongoing and important part of our long-term investment strategy involves encouraging companies to both recognize and adopt best practices in corporate governance, which includes issues related to social responsibility. There are three primary ways in which we accomplish this.

First, investment managers, both internal and external regularly communicate with the management and boards of companies in which we invest, and include issues related to corporate governance and social responsibility in these discussions.

Second, we communicate with other institutional shareholders, and contribute to various joint initiatives primarily focused on improving corporate governance among corporations. ATRF is a founding member of the Canadian Coalition for Good Governance (CCGG), which counts many of Canada's largest institutional investors among its membership. The CCGG's principal mandate is to promote improved governance practices among Canadian corporations.

Third, our proxy voting guidelines encourage companies to strive for better corporate governance and advocate for improved shareholder rights. Our guidelines express support for the OECD Guidelines for Multinational Enterprise, which is a comprehensive set of principles and standards for responsible business conduct in areas such as the environment, employment and industrial relations, sustainable development, consumer interests and taxation. These guidelines have been endorsed by the member countries of the Organization for Economic Cooperation and Development as a policy tool to promote corporate social responsibility.

INTERNAL CONTROL OVER FINANCIAL REPORTING

ATRF business plans include action plans to enhance governance and management of internal control processes and systems to provide an appropriate level of due diligence and security in ATRF's internal controls, financial operations, and reporting and information systems.

Management bases its evaluation of the effectiveness of internal control over financial reporting, upon the "Internal Control – Integrated Framework", published in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO.

ATRF is not required by law or regulation to perform this annual evaluation. We have chosen to perform this evaluation and meet these standards as a part of our commitment to strong governance and accountability.

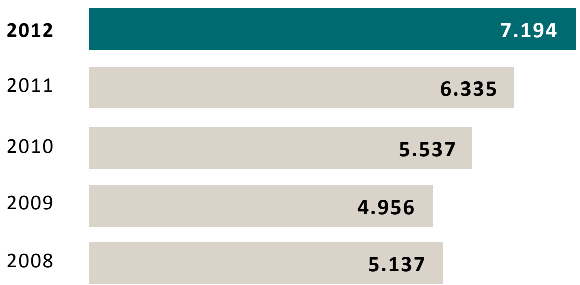
The Chief Executive Officer and the Director, Financial Services are responsible for the design and maintenance of internal control over financial reporting, to provide reasonable assurance that it is reliable and that the preparation of the financial statements conforms with Canadian accounting standards for pension plans. They are also responsible for the design and maintenance of disclosure controls and procedures to provide reasonable assurance that all material information is gathered and reported to management on a timely basis.

We have completed the 2011-12 fiscal year evaluation of the effectiveness of our internal control over financial reporting and disclosure controls and procedures. Based upon the results of the evaluation, the Chief Executive Officer and Director, Financial Services have concluded that internal control over financial reporting and disclosure controls and procedures are properly designed and operated effectively throughout the year. No changes were made in internal controls over financial reporting during the year ended August 31, 2012, that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

CHANGE IN NET ASSETS

The 2011-12 fiscal year returned a third consecutive year of growth in net assets with a year-over-year increase in fund assets of $859 million (an increase of 13.6%) leaving the fiscal year-end value at $7.194 billion. Investment earnings of $512 million and $347 million of positive net cash flows from contributions above benefit payments and expenses, accounted for this change.

Net Assets ($ Billions)



Costs of Providing Services

The increase in investment costs, from $21.029 million in the previous year to $23.316 million for the 2011-12 fiscal year, accounted for three quarters of the 12.5% overall increase in the $28.410 million total operating costs. The increase in investment costs was related to the additional staff and advisory services required to build the investment programs for infrastructure, real estate and private equity asset classes, and to external investment management fees that increased in conjunction with the growth in invested assets. Investment costs were about 32 cents for each $100 of assets, as compared to 33 cents in the previous year. These costs exclude management fees for private equity, infrastructure and real estate funds, and commissions paid when trading securities. However, all such costs are deducted in determining net investment returns.

Investment Costs ($ Thousands)	**2012**	**2011**
External investment management fees	$ 14,651	$ 13,976
Salaries and benefits	5,321	4,175
Custodial	1,110	1,149
External professional services	995	774
Communications	503	447
Board and Investment Committee	305	195
Premises and equipment	276	181
Audit	40	38
Actuarial Fees	10	12
Other	105	82
Total	**$ 23,316**	**$ 21,029**

Plan member service costs increased to $5.094 million, from $4.226 million in the previous year. The cost of providing services to plan members in the 2011-12 fiscal year was $82 per member, significantly less than the average cost of $145 per member for a group of major Canadian public sector pension organizations that benchmark cost and service levels.

Plan Member Service Costs ($ Thousands)	**2012**	**2011**
Salaries and benefits	$ 3,344	$ 2,782
External professional services	543	404
Premises and equipment	475	413
Communication and travel	328	341
Board and committee	135	79
Actuarial Fees	91	104
Audit	40	37
Custodial and banking	31	29
Other	107	37
Total	**$ 5,094**	**$ 4,226**

Operating costs will increase as the value of investments administered grows and the number of plan members continue to rise. We remain committed to:

- implementing prudent, cost-effective investment and administration structures,
- carefully managing both investment and administrative costs, and
- providing plan members with high-quality service and investment returns that meet the long-term funding requirements of the plans.

PLAN MEMBER SERVICES

Plan Members

Plan members include:

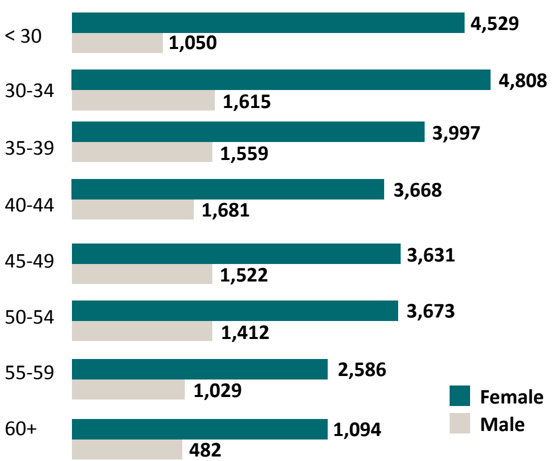
- 38,336 active members who accrued pensionable service during the 2011-12 fiscal year;
- 23,892 pensioners; and
- 12,404 inactive members.

The active category includes 1,388 disabled teachers who earned pensionable service in the 2011-12 fiscal year. The number of disabled teachers accruing pensionable service as a percentage of the total number of active teachers has remained stable over the last five years.

Year ended August 31	Number of Disabled Teachers	Number of Active Teachers	Percentage of Disabled Teachers
2012	**1,388**	**38,336**	**3.6%**
2011	1,349	38,242	3.5%
2010	1,328	38,578	3.4%
2009	1,247	38,442	3.2%
2008	1,233	37,627	3.3%

The age and gender distribution of the active members shows increasing numbers of active members under age 40 with 81% of active members under age 30 being female. Overall, 73% of the active members are female.

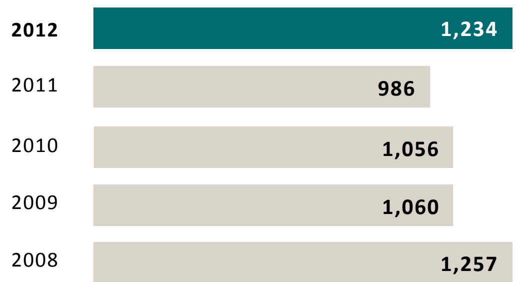
Age and Gender Distribution of Active Members



The number of new pensioners who commenced their pension in the 2011-12 fiscal year was 1,234, a slight increase from 986 in the previous year. It is expected that the average number of new pensioners added each year will be approximately 1,000 for the next decade.

Number of New Pensions Granted

as of August 31, 2012



Plan Member Statistics	2012	2011	2010	2005	2000
Active member average age	42.0	42.0	41.7	42.4	42.7
Active member average years of pensionable service	11.6	11.4	11.1	12.2	12.0
Pensioner average age	69.0	69.0	68.0	68.0	68.0
New pensioner average age	59.0	59.0	59.0	58.0	57.8
Average pensionable service of new pensioners	25.9	25.4	26.2	26.4	26.6

Timely Service to Plan Members

ATRF has a dedicated and knowledgeable team of employees providing services in a cost-effective manner to active teachers, pensioners, inactive teachers, beneficiaries, and their representatives.

We have established benchmarks for the delivery of services and each year measure our benefit delivery against those benchmarks. The following table shows our service turnaround benchmarks for key processes and our results for the 2011-12 fiscal year, with comparisons for the 2010-11 fiscal year. We exceeded the benchmark in all processes and improved our average elapsed time in two of the nine main processes.

Service Provided	Benchmark	Average Elapsed Time in 2011-2012	Average Elapsed Time in 2010-2011
Ongoing pensioner payments	On the third last business day of the month	All payments made on time	All payments made on time
Pension options package for new pensioner	Within 10 days of application	2 days	3 days
Pension payment for new pensioner	Within 7 days	3 days	3 days
Pension estimate	Within 7 days	1 day	1 day
Purchase estimate	Within 10 days	2 days	2 days
Termination benefit	Within 10 days	1 day	3 days
Urgent written inquiries including email inquiries	Within 7 days	1 day	1 day
Non-urgent written inquiries including email inquiries	Within 10 days	1 day	1 day
Telephone inquiries	Within 1 day	Within 1 day	Less than 1 day

Our Focus on Customer Service

In 2011-12, we continued to conduct best-practice reviews of our customer service processes and, in doing so, identified and implemented several enhancements that resulted in improved services to plan members. We will continue these best-practice reviews into the next fiscal year.

Meeting with Plan Members

Our team of four Pension Counsellors provides individual counselling sessions in our office in Edmonton, as well as at many locations throughout Alberta. During the 2011-12 school year, over 900 plan members visited our office for a personal interview. In addition, we conducted 640 interviews with plan members at seven different locations across the province and for an additional 670 teachers at 10 Teachers' Conventions. Plan members register for these individual interviews using our online registration function and can request pension estimates for two projected retirement dates. In addition, they can ask us to prepare more detailed information for them, for example, an estimate of the cost to purchase pensionable service and the impact that it would have on their pension.

We were invited to present our seminar, Your Pension Matters, to over 1,200 plan members at 18 locations as well as to about 580 teachers at eight Teachers' Conventions. Many of the seminar presentations take place at workshops organized by the Retirement Consultants of The Alberta Teachers' Association.

Communication Activities

In addition to interviews and seminars, we provide information directly to plan members through:

- annual plan member statements;
- newsletters; and
- annual report highlights.

Plan members are able to choose if they prefer to receive these documents in paper format, or to access the electronic version. Almost 3,900 plan members, and 2,300 pensioners, have chosen to receive these mailings in electronic format by registering for Join Our Email List. We also send email notifications to alert plan members, for whom we have an email address, about news items or upcoming mailings.

Website and On-Line Services

Almost 16,000 active and inactive plan members are now registered to take advantage of the functions available through On-Line Services. Plan members can:

- do benefit calculations based on the most recent salary and service information reported by their employer;
- view and update their personal information; and
- submit an application for plan benefits electronically.

This year we enhanced the On-Line Services functionality, making it possible for plan members to name or change their beneficiary in the secure environment. Another enhancement implemented this year allows retiring plan members to complete the entire pension application process electronically, including the selection of their pension option.

We are currently undertaking a comprehensive redesign of our website. In the spring of 2013, we will launch our "new look" with updated content, and a more user-friendly and engaging navigation structure. While our website and On-Line Services are key elements in our customer service and communication initiatives, plan members always have the choice of accessing services and information in the manner they prefer – in person, in writing, by telephone, or online.

Plan Member Data from Employers

ATRF could not provide current information directly to plan members without plan member data, including addresses, which we receive electronically on a monthly basis from employers. The timeliness of the data submissions continue to improve every year. We thank and congratulate the payroll staff of employers for their success and commitment to providing data to ATRF. Over 50% of plan members received their annual statements by November 25, 2011, and all plan members had received them by February 27, 2012.

New Pensioner Questionnaire

Each of the 1,234 plan members who retired during the 2011-12 fiscal year received a New Pensioner Questionnaire. These newly retired plan members are asked questions about the quality of service they received from ATRF staff, the communication material they accessed during the pension application process, and, if they utilized them, their assessment of our website and On-Line Services.

Of those who responded:

- 98% rated ATRF service and communication as good to excellent;
- 68% indicated they were registered for On-Line Services;
- 83% said they had visited the website; and
- 67% had used the web calculator to do pension estimates.

Respondents were invited to provide written comments and 121 specific comments were received. The majority of the comments were positive and focused on first-rate customer service and the excellent knowledge of ATRF staff. We use the comments and suggestions received to continue to improve the level of customer service provided to our retiring plan members.

Plan Member Benefits

The growth in the number of pensioners and the impact of cost-of-living adjustments (COLA) have resulted in an increase in total annual pension payments of 6.8% to $668 million as at August 31, 2012. Under the existing funding structure, despite the recent volatility of financial markets and the impact of investment returns on asset values, the fund is well positioned to meet ongoing cash-flow requirements. The average new monthly pension paid in 2011-12 was $2,999 compared to $2,774 in the previous year.

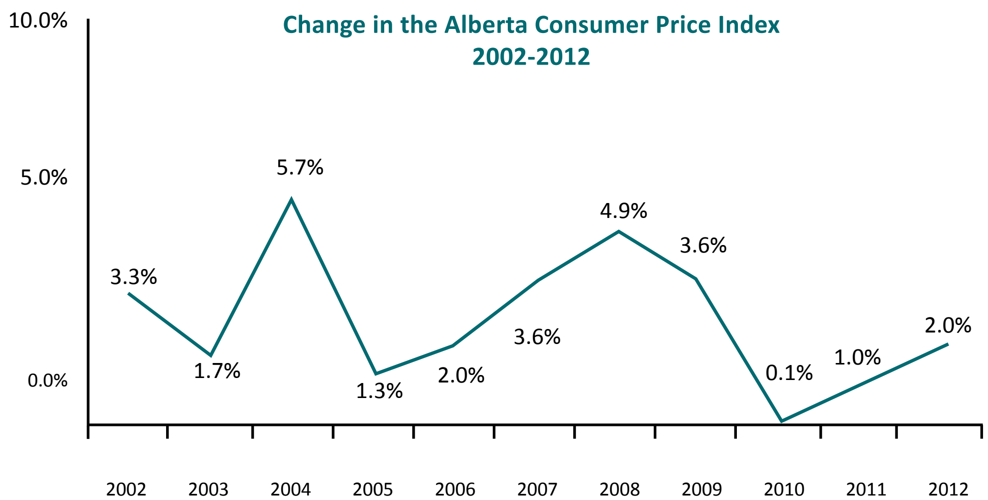
A provision of the *Teachers' Pension Plans Act* that affects our pensioners is the re-employment rule. The provision limits the amount of work under contract in a position that requires a teaching certificate while in receipt of a pension. If a pensioner works more than 0.6 of a year within a school year, the pension is reduced dollar for dollar by the amount of salary relating to the service accrued once the limit is reached.

Effective September 1, 2011, substitute service was removed from the plan rules relating to re-employment of pensioners. Based on the revised legislation, 643 pensioners returned to teaching under contract while receiving a pension from ATRF. This was a very slight decrease from the 645 in 2010-11. Of the pensioners who returned to work under contract, 35 earned greater than 0.6 of a year of service, which due to legislated benefit provisions, resulted in a reduction of their pension payment for the amount of salary earned once the pensioner had exceeded 0.6 of a year of service.

Cost-of-Living Adjustments

For pensionable service before 1993, pensioners receive a cost-of-living adjustment (COLA) of 60% of the change in the Alberta Consumer Price Index (ACPI). COLA for pensionable service after 1992 is 70% of the ACPI change.

In January 2012, COLA adjustments were based on an ACPI increase of 2.00%, compared to 1.00% in January 2011. Pensions that had been paid for the entire 2011 calendar year received a 0.60% increase for pre-1993 service and a 0.70% increase for post-1992 service. Pensions paid for less than a full year received a pro-rated portion of the COLA.



Compensation Discussion & ANALYSIS

The following is the report of the Human Resources and Compensation Committee (HRCC) on executive compensation. ATRF's executive compensation program objectives are to:

- Reward executives in a manner consistent with competitive market practice and thereby improve the organization's ability to attract and retain high quality professionals.
- Focus the executive team on critical business and investment issues identified in the strategic plan.
- Align interests of the executive team with pension plan member interests by encouraging and rewarding long-term performance. This is supported by promoting a pay-for-performance culture.
- Reward the executive team for superior performance on results.
- Ensure total pay reflects the shared efforts of the executive team by rewarding a collegial culture and teamwork that is assessed through individual performance assessments conducted by the HRCC and Board on an annual basis.

HUMAN RESOURCES AND COMPENSATION COMMITTEE MANDATE

The HRCC assists the Board in fulfilling its oversight responsibilities in relation to the corporation's human resources and compensation matters.

It is composed of all six members of the Board, each of whom is independent of management. The Committee meets a minimum of four times per year. The HRCC retains external advisors to provide executive compensation and any other expertise the Committee deems necessary. The HRCC met six times during 2011-12 fiscal year. It conducted in camera sessions at the beginning and end of each meeting, without management present.

The HRCC's key responsibilities include:

- the appointment, performance evaluation, compensation structure and succession planning for the Chief Executive Officer;
- approving the compensation of the Chief Executive Officer and Chief Investment Officer ("executives");
- approving the compensation philosophy recommended by the Chief Executive Officer for non-executive staff of ATRF;
- ensuring appropriate succession planning by the Chief Executive Officer for key staff positions;
- reviewing human resource and compensation aspects of the corporation's business plan;
- ensuring that the risk management framework appropriately considers human resource and compensation risks; and
- approving incentive and supplementary pension plans.

COMPENSATION PHILOSOPHY

ATRF's executive compensation philosophy establishes the foundation for its compensation program. Its aim is to:

- support the organization's business strategies and desired culture;
- state its desired competitive position and mix of compensation elements; and
- be responsive to the organization's objectives and employee's wants and needs.

ATRF's compensation program is designed to pay competitively while supporting ATRF's objectives of securing the pensions of plan members through the cost-effective and efficient use of resources. Of critical importance is the overarching strategy to achieve the maximum, risk-controlled, cost-effective, long-term investment returns required to meet the funding requirements of the plans.

A meaningful portion of variable compensation is based on the overall success of the organization. The compensation program provides incentive rewards for value-added and absolute investment returns, as well as other important business objectives such as maintaining quality customer service, and the cost-effective and efficient use of resources.

ATRF believes in a pay-for-performance culture. Accordingly, a large portion of variable executive compensation is linked to achieving "above median performance" against performance hurdles. "Above median performance" and performance hurdles are determined using a holistic approach that considers relevant external data sources, and the historical performance and risk of ATRF's fund. A significant portion of executive compensation is linked to longer-term, value-added and absolute performance.

MANAGING RISK

ATRF considered the implications of the risks associated with its compensation policies and practices, to ensure its compensation program does not incent management behaviours outside the organization's risk appetite. Compensation risk is managed by:

- the HRCC's independence from management, and retention of its own external compensation advisor;
- working within an enterprise-wide risk management framework and investing within the Investment Policy;
- establishing appropriate performance measures that align to the business strategy;
- setting individual and team accountabilities for achieving objectives;
- setting threshold levels of performance for all incentive plans;
- using appropriate payout curves and capping incentive payout opportunities;
- including long-term performance measures (i.e. four-year rates of return) in the short-term incentive plan as well as the long-term incentive plan to align compensation payouts with the time horizon of the fund; and
- including non-investment measures in the annual incentive plan.

COMPARATOR GROUPS USED TO SET COMPETITIVE PAY

ATRF's overall objective is to provide competitive compensation compared to those organizations against which it competes for the skills and expertise of investment-related and management professionals. Compensation is benchmarked against other Canadian in-house pension funds and institutional investment organizations of similar size and complexity to ATRF. Within these comparator groups, ATRF reviews compensation levels of comparable jobs, assesses performance against benchmarks, as well as the relative size and investment-structure complexity of its peers.

COMPENSATION PROCESS AND COMPENSATION CONSULTANTS

ATRF's compensation strategy and structure are regularly reviewed. Each year, the HRCC reviews and approves the comparator groups, overall base salary, and the annual performance measures, targets and weightings for the incentive plans, based on market conditions. Market data is provided to the HRCC by external sources.

The HRCC is supported by independent, external human resources and compensation consultants that are retained by, and report directly to, the HRCC. In the 2011-12 fiscal year, the HRCC's independent advisor for human resource and compensation purposes was Global Governance Advisors (GGA). During the 2011-12 fiscal year, GGA assisted the HRCC in undertaking a review of ATRF's CEO succession planning including an evaluation of the future top management structure of ATRF, the executive performance management system, the supplementary pension plan and the long-term incentive plan performance hurdles. GGA also conducted a custom Board education session on CEO succession planning. GGA did not provide any other services to ATRF or to management. The HRCC reviews all fees and the terms of consulting services provided by its compensation consultant, and is responsible for its own decisions, which may take into consideration more than the information and recommendations provided by its compensation consultant or management.

COMPENSATION PLAN STRUCTURE

The compensation structure for executives balances fixed and variable pay linked to longer-term performance. The elements of the executive compensation plan include a base salary, benefits, pension and performance-based short and long-term incentive plans to align executives with pension plan member interests. ATRF believes that longer-term investment success through prudent risk taking is more important than volatile short-term gains, and this philosophy is reflected in its short and long-term incentive plan designs.

Base Salary

Base salaries are intended to be competitive with the market and are reviewed annually at the end of each fiscal year. Salaries are set based on individual performance and salary range adjustments within ATRF market comparators. Base salaries for executives are reviewed and approved by the HRCC annually.

Annual Incentive Plan

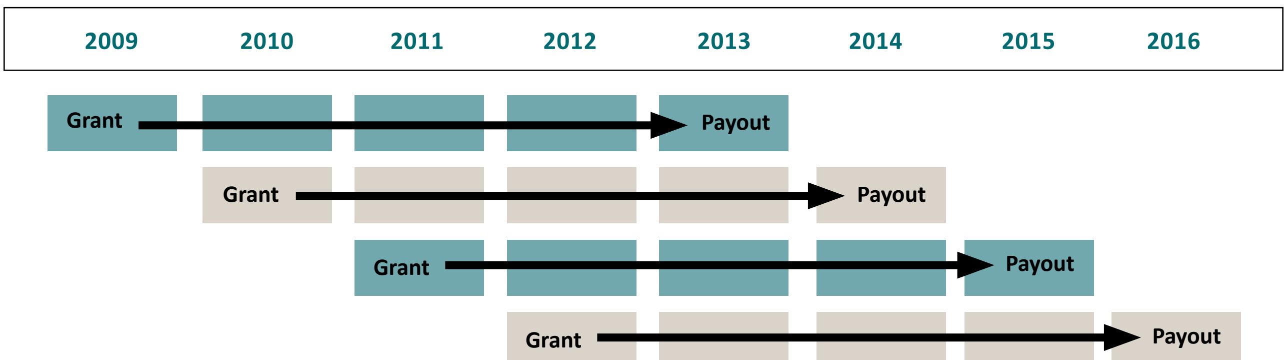
The annual incentive plan is designed to attract, retain and motivate high-quality people, and to provide competitive, performance-based opportunities based on market practices and ATRF's business strategy. Performance measures, targets and weightings are approved annually by the HRCC. Corporate, fund and portfolio benchmarks as well as individual objectives are established at the beginning of the year, and actual performance is evaluated at the end of the year. Each participant's target corporate incentive payment is calculated based on a percentage of salary. Based on actual performance against pre-approved objectives, payouts can range from zero to two times the target corporate incentive amount.

Investment incentive payments are based on the achievement of total fund and/or portfolio performance above established benchmarks. Consistent with ATRF's compensation objectives, payments are calculated based on a 75% weight towards long-term total fund performance results over a four-year rolling average period and 25% towards the performance in the past year. Target investment incentive payments are set as a percentage of salary for delivering target benchmark performance. Based on total fund and/or portfolio performance, actual payments can range from zero to two times the target incentive amount. The annual incentive plan has a threshold level of performance. If the threshold is not met, incentive payments are not made. The threshold, target and maximum value-add hurdles are calibrated to account for ATRF's investment strategy and portfolio mix, which inherently accounts for ATRF's risk profile.

Long-Term Incentive Plan (LTIP)

The LTIP is designed to encourage and reward long-term performance, critical to ATRF's success; attract, retain and motivate participants by providing additional compensation if investment performance goals are achieved; and, to align participant interests with pension plan interests. The LTIP has a four-year vesting period, before a first payment is awarded to a plan participant based on relative value-added performance above the benchmark portfolio, net of investment operating costs and is further modified by absolute fund performance. The threshold, target and maximum value-add hurdles are calibrated to account for ATRF's investment strategy and portfolio mix, which inherently accounts for ATRF's risk profile.

Participation in the LTIP is limited to executives, management and senior investment professionals. Participants receive a notional grant (reflected as a percentage of salary), at the beginning of a four-year performance period. The grant is equal to the target award opportunity, and could increase or decrease based on final investment performance results relative to the benchmark portfolio, net of investment operating costs. At the end of the performance period, the four-year rolling average performance of the total fund is calculated. A multiplier is applied to the target plan award, based on the investment performance of the total fund after taking into account fees paid to external managers and direct investment costs as compared to specific benchmarks approved by the HRCC. The multiplier is capped at three times the value of the target award. Except for certain situations, an eligible employee must be actively employed as of the payment date in order to receive a payout.



Pension and Benefits

ATRF provides a competitive benefits program that includes pension benefits, health and dental-care benefits, life insurance, illness and long-term disability coverage, professional memberships and car allowances.

All ATRF staff participate in the Local Authorities Pension Plan (LAPP). This is a defined benefit pension plan, and provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the Year's Maximum Pensionable Earnings under the Canada Pension Plan and 2.0% on the excess. Benefits under this plan are capped by pensionable salary reached at the maximum pension benefit limit allowed under the federal *Income Tax Act*.

Where earnings are in excess of this capped pensionable salary, a non-registered, unfunded Supplementary Employee Pension Plan (SEPP) provides for a pension equal to the pension formula under the LAPP, with no cap applied to pensionable salary, less the initial pension provided under the LAPP. Participation in the SEPP is limited to executives, management, Asset Class Heads and Senior Portfolio Managers. For pensionable service before September 1, 2012, pensionable salary under the SEPP includes 50% of the actual annual incentive target-level amount paid under the annual incentive plan. The HRCC amended the plan effective September 1, 2012 to provide that pensionable salary, in respect of pensionable service after August 31, 2012, would no longer include any payments made under the incentive plans.

SUMMARY PERFORMANCE

For the 2011-12 fiscal year, incentive plan compensation was paid in relation to meeting and exceeding pre-set corporate objectives, individual portfolio benchmarks and to proportionately recognize the above-benchmark performance of the overall fund in the past fiscal year. In the 2011-12 fiscal year, the fund earned a rate of return of 7.8%, exceeding the fund's 6.3% benchmark by 1.5%. This outperformance resulted in $89.5 million of value-added investment performance by ATRF.

Summary Compensation Table

The following table provides complete disclosure of salary, annual incentive payments, value of SEPP benefits and all other compensation earned for years ended August 31, 2012, 2011 and 2010 by the Chief Executive Officer, Chief Investment Officer and the three other most highly compensated senior staff.

Summary Compensation Table ($ Dollars – Audited)

Name and Position	Year	Salary	Annual Incentive Plan	Long-Term Incentive Plan[1]	SEPP[2]	All Other Compensation[3]	Total Compensation
Emilian Groch	2012	375,000	237,100	10,000	(89,100)	40,300	573,300
Chief Executive	2011	320,000	86,000	–	294,400	40,000	740,400
Officer	2010	254,200	62,700	–	10,500	37,700	365,100
Derek Brodersen	2012	300,000	128,300	6,100	(189,600)	40,000	284,800
Chief Investment	2011	255,000	48,300	–	204,000	38,300	545,600
Officer	2010	233,800	38,700	–	11,200	36,800	320,500
Rakesh Saraf	2012	210,000	123,800	–	12,200	31,000	377,000
Head,	2011	191,700	72,800	–	13,300	28,800	306,600
Private Investments	2010[4]	92,500	30,600	–	5,800	15,000	144,400
Charlie Kim	2012	216,000	124,600	3,900	(6,400)	30,500	368,600
Senior Portfolio	2011	204,300	54,000	–	13,100	27,100	298,500
Manager, Equities	2010	191,300	31,400	–	13,200	24,800	260,700
Barry Petursson	2012	206,600	121,800	–	9,100	30,200	367,700
Head,	2011	195,000	72,200	–	16,300	28,900	312,400
Real Estate Investments	2010[5]	34,800	11,500	–	2,800	77,600	126,700

1 As the LTIP was effective September 1, 2008, the first actual payout for eligible participants was determined as at the completion of the 2011-12 fiscal year.

2 The present value of the accrued benefits of the SEPP is estimated based on the projected benefit method prorated on service, incorporating the same assumptions used for the Plans (see Note 5(a) to the financial statements), and represent entitlements that may change over time. In particular, the present value for the named employees is based on benefit amounts that have been projected for salary increases to retirement and as of August 31, 2012 the amount, recorded in accounts payable, is $1,052,900 (2011 - $1,225,700). The present value of accrued benefits, based on the accrued pensionable salary earned to August 31, 2012, that would be paid if all named employees left employment is $788,300 (2011 - $467,000).

($ Dollars)		Change in Present Value of Accrued Benefit due to:		
Name and Position	Present Value of Accrued Benefits August 31, 2011	Benefit Accrual and Change in Plan	Interest Cost and Change in Assumptions	Present Value of Accrued Benefits August 31, 2012
Emilian Groch Chief Executive Officer	658,200	(89,100)	45,400	614,500
Derek Brodersen Chief Investment Officer	483,300	(189,600)	36,600	330,300
Rakesh Saraf Head, Private Investments	20,900	12,200	2,400	35,500
Charlie Kim Senior Portfolio Manager, Equities	42,600	(6,400)	4,000	40,200
Barry Petursson Head, Real Estate Investments	20,700	9,100	2,600	32,400

Pensions under the SEPP will be paid when they come due. Accordingly, no pre-funding occurs. SEPP financing costs are included in pension expense.

3 All Other Compensation includes the employer's share of all employee benefits and contributions or payments made on behalf of employees, including pension (excluding SEPP), health and dental care, life insurance, long-term disability plan, professional memberships, and car allowances.

4 Employment commenced March 1, 2010.

5 Employment commenced June 15, 2010. Included in all other compensation is a $70,000 signing bonus.

LONG-TERM INCENTIVE AWARDS, ACCUMULATED VALUE

LTIP awards are granted at the start of a fiscal year and paid out at the end of the four-year vesting period. The following table shows the LTIP and estimated future payouts for the five most highly compensated senior staff. The future value of the awards granted but not yet vested are estimated as at August 31, 2012, based on:

- actual performance multipliers for fiscal years 2009-10, 2010-11 and 2011-12, and pro-forma multipliers of one (1.0x) for future years; and
- actual fund rates of return for fiscal years 2009-10, 2010-11 and 2011-12, and no assumed growth in future years.

Long-Term Incentive Plan Awards and Estimated Future Payouts ($ Dollars – Audited)

Name and Position	Year of Grant	Award (Target Value)[1]	Maximum Value[2]	Estimated Future Payouts at fiscal year ending August 31: 2013	2014	2015
Emilian Groch	2011-12	281,300	843,900	–	–	536,100
Chief Executive	2010-11	240,000	720,000	–	415,300	–
Officer	2009-10	190,700	572,100	260,000	–	–
Derek Brodersen	2011-12	180,000	540,000	–	–	343,100
Chief Investment	2010-11	127,500	382,500	–	220,700	–
Officer	2009-10	117,000	351,000	159,400	–	–
Rakesh Saraf [3]	2011-12	84,000	252,000	–	–	160,100
Head,	2010-11	76,700	230,100	–	132,700	–
Private Investments	2009-10	–	–	–	–	–
Charlie Kim	2011-12	84,000	252,000	–	–	160,100
Senior Portfolio Manager,	2010-11	81,600	244,800	–	141,200	–
Equities	2009-10	76,500	229,500	104,200	–	–
Barry Petursson [4]	2011-12	82,600	247,800	–	–	157,400
Head,	2010-11	78,000	234,000	–	135,000	–
Real Estate Investments	2009-10	–	–	–	–	–

1 Represents the target value at the time of grant; no award is payable if performance is below a threshold value-add hurdle.

2 Represents the maximum value payable at the end of the four-year vesting period. See the LTIP section for details.

3 Employment commenced March 1, 2010.

4 Employment commenced June 15, 2010.

SUCCESSION PLANNING

ATRF has short-term contingency plans and longer-term succession plans in place for the Chief Executive Officer and senior management. In identifying potential successors, the Board and Chief Executive Officer consider ATRF's future business strategy, the core skills and experiences required to carry out this strategy and the leadership abilities of individuals. Where there are gaps in experience or skills of potential successors, the Chief Executive Officer discusses developmental opportunities with the individual and with the Board. The Board also ensures that the Board members get to know the potential successors identified, through Board presentations and events.

The HRCC reviews the succession plan for the entire leadership team on an annual basis. In the 2011-12 fiscal year, the HRCC evaluated the future top management structure of ATRF relative to the business strategy. The succession plan for the Chief Executive Officer was updated based on the results of the review.

BOARD REMUNERATION

The *Teachers' Pension Plans Act* provides that no remuneration can be paid to any Board member who is employed by an employer covered by the plans, the Government of Alberta or The Alberta Teachers' Association. The Board annually reviews and sets the remuneration for Board members who are eligible to receive remuneration. The review is based on a survey of the remuneration rates being paid by other similar Canadian public-sector pension investment and administration organizations. Only one Board member was eligible to receive remuneration in the 2011-12 fiscal year.

In the past year, remuneration paid included: an annual Board member retainer of $15,000; a Board meeting fee of $1,200, and committee meeting fees of $800, for meetings up to four hours in any one day, and $1,200 for meetings in excess of four hours in any one day. Separate fees are not paid for committee meetings held the same day as a Board meeting.

Board Remuneration ($ Dollars – Audited)

Board Member	Retainer	Board Meetings	Committee Meetings	Meeting Fees	Total 2011-12 Remuneration	Total 2010-11 Remuneration
Harry Buddle	15,000	7/8	10/12	15,200	30,200	8,700[1]
Karen Elgert	n/a	8/8	7/7	–	–	–
Lowell Epp	n/a	8/8	15/15	–	–	–
Greg Meeker	n/a	8/8	12/12	–	–	–
Sharon Vogrinetz	n/a	8/8	12/12	–	–	–
Gene Williams	n/a	8/8	10/10	–	–	–

1 Appointed to the Board March 10, 2011.

2012 ATRF
FINANCIALS

Management's Responsibility for FINANCIAL REPORTING

The financial statements of the Alberta Teachers' Retirement Fund Board and all information in the Annual Report are the responsibility of management and have been approved by the Board. The financial statements have been prepared in accordance with Canadian accounting standards for pension plans. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions with due consideration to materiality.

Financial and operating data elsewhere in the Annual Report is consistent with the information contained in the financial statements.

For the integrity of financial information included in this Annual Report, management relies on the organization's system of internal controls and supporting procedures. This system has been established to ensure within reasonable limits that assets are safeguarded, that transactions are properly executed in accordance with management's authorization, and that the accounting records provide a solid foundation from which to prepare the financial statements. Controls include high quality standards for hiring and training employees, an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines throughout the organization.

Ultimate responsibility for the financial statements rests with the Board, which is assisted in its responsibilities by the staff and the Audit Committee. The Alberta Teachers' Retirement Fund Board's external auditor, the Auditor General, has conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as he considers necessary to express the opinion in his report. The Audit Committee of the Board reviews the Auditor's Report and the financial statements and recommends them for approval by the Board. The Auditor General has full and unrestricted access to discuss the audit and related findings regarding the integrity of financial reporting and the adequacy of internal control systems.

Emilian V. Groch
Chief Executive Officer

Myles Norton, CMA, CFA
Director, Financial Services

Independent Auditor's REPORT

To the Alberta Teachers' Retirement Fund Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Teachers' Retirement Fund Board, which comprise the statements of financial position as at August 31, 2012 and 2011, and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Teachers' Retirement Fund Board as at August 31, 2012 and 2011, and changes in net assets available for benefits and changes in pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original Signed by Merwan N. Saher]
FCA
Auditor General

December 18, 2012
Edmonton, Alberta

Actuary's OPINION

Aon Hewitt has been engaged by the Alberta Teachers' Retirement Fund Board ("ATRF") to prepare actuarial valuations for the *Teachers' Pension Plan* and the *Private School Teachers' Pension Plan* (the "Plans") as at August 31, 2012. The purpose of these valuations is to determine the necessary actuarial information for financial statement reporting for the Plans in accordance with Section 4600 of the Canadian Institute of Chartered Accountants' Handbook ("CICA 4600").

Our valuations have been prepared based on:

- membership and asset data provided by ATRF as at August 31, 2012 and adjusted to reflect anticipated new hires as at September 1, 2012;
- assumptions that we understand have been adopted as ATRF management's best estimates; and
- actuarial cost methods and asset valuation methods that are in accordance CICA 4600.

Based on the work we have performed, including conducting reasonability tests on the membership and asset data, we have concluded that, in our opinion:

- the data is sufficient and reliable;
- the assumptions adopted as best estimate by ATRF's management are, in aggregate, appropriate when considering the circumstances of the Plans and the purpose of the valuations;
- the actuarial cost methods and the asset valuation methods employed are appropriate for the purpose of the valuations; and
- the valuations conform with the requirements of Section 4600 of the handbook of the Canadian Institute of Chartered Accountants.

While the actuarial assumptions used to estimate the Plans' liabilities represent ATRF management's best estimate of future events and market conditions at August 31, 2012, the Plans' future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plans.

Our opinions have been given, and our valuations have been performed, in accordance with accepted actuarial practice in Canada.

Robert Thiessen

Robert J. Thiessen
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

Donald L. Ireland
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

October 25, 2012

Financial STATEMENTS

Statements of Financial Position
As at August 31

$ Thousands		2012		2011
Assets				
Investments (Note 3)	$	7,190,833	$	6,343,251
Contributions receivable - teachers		17,234		11,955
Other assets		1,020		663
		7,209,087		6,355,869
Liabilities				
Accounts payable (Note 4)		15,058		20,797
Net assets available for benefits		**7,194,029**		**6,335,072**
Accrued pension obligations (Note 5)		9,108,721		8,294,365
Deficiency	**$**	**1,914,692**	**$**	**1,959,293**

The accompanying notes are part of these financial statements.

Approved by the Board

Greg Meeker
Chair

Lowell Epp
Vice Chair

Statements of Changes in Net Assets Available for Benefits
For the Year Ended August 31

$ Thousands	2012	2011
Net assets available for benefits, beginning of year	**$ 6,335,072**	**$ 5,536,945**
Investment operations		
Investment income (Note 6)	187,125	189,840
Change in fair value of investments (Note 6)	324,842	250,549
Administrative expenses (Note 7)	(23,316)	(21,029)
Net investment operations	488,651	419,360
Member service operations		
Contributions (Note 8)		
Teachers	327,369	309,957
Province	301,832	287,695
Employers	1,458	1,310
Net transfers from other plans	2,219	2,481
Benefits paid (Note 9)	(257,478)	(218,450)
Administrative expenses (Note 7)	(5,094)	(4,226)
Net member service operations	370,306	378,767
Increase in net assets available for benefits	**858,957**	**798,127**
Net assets available for benefits, end of year	**$ 7,194,029**	**$ 6,335,072**

Statements of Changes in Pension Obligations
For the Year Ended August 31

$ Thousands	2012	2011
Accrued pension obligations, beginning of year	**$ 8,294,365**	**$ 7,467,688**
Increase (decrease) in accrued pension obligations		
Interest on accrued benefits	586,557	529,087
Benefits accrued	427,515	399,855
Changes in actuarial assumptions	–	71,601
Experience losses	57,762	44,584
Benefits paid	(257,478)	(218,450)
	814,356	826,677
Accrued pension obligations, end of year (Note 5)	**$ 9,108,721**	**$ 8,294,365**

Notes to the Financial STATEMENTS

NOTE 1
DESCRIPTION OF PLANS

The following description of the Teachers' Pension Plan and the Private School Teachers' Pension Plan (the "Plans") is a summary only.

a) General

The Alberta Teachers' Retirement Fund Board ("ATRF"), a corporation of the Province of Alberta (the "Province") operating under the authority of the *Teachers' Pension Plans Act*, Chapter T-1, RSA 2000, is the trustee and administrator of the Plans. The Plans are contributory defined-benefit pension plans for the teachers of Alberta.

The Plans are registered pension plans as defined in the *Income Tax Act* (registration number 0359125) and are not subject to income taxes in Canada. The Plans may be subject to taxes in other jurisdictions where full tax exemptions are not available.

b) Obligations relating to the period before September 1992

The Teachers' Pension Plan's assets and obligations related to pensionable service after August 31, 1992 (the "Post-1992 Period") have been accounted for separately from the assets and obligations related to pensionable service prior to September 1, 1992 (the "Pre-1992 Period") and, accordingly, these financial statements and notes include only Post-1992 Period transactions of the Teachers' Pension Plan and transactions of the Private School Teachers' Pension Plan.

Effective September 1, 2009, the Province assumed full responsibility for obligations related to Pre-1992 Period pensionable service and provides the required amounts to ATRF to pay the obligations on a monthly basis.

c) Funding

The determination of the value of the benefits and the required contributions for the Plans is made on the basis of periodic actuarial valuations.

All teachers under contract with school jurisdictions and charter schools in Alberta are required to contribute to the Teachers' Pension Plan. Current service costs and related deficiencies are funded by equal contributions from the Province and the teachers. An additional 10 percent cost of living adjustment for service earned after 1992 is funded entirely by the teachers.

Certain other designated organisations in Alberta also participate in the Teachers' Pension Plan under the same funding arrangements, except these organisations make the employer contributions rather than the Province.

Certain private schools participate in the Private School Teachers' Pension Plan. Plan costs are funded by contributions from the employers and the teachers.

d) Retirement pensions

Retirement pensions are based on the number of years of pensionable service and the highest consecutive five-year average salary. Pensions are payable to teachers who retire after completion of at least five years of pensionable service, with certain restrictions, and who have attained age 65. Unreduced pensions are also payable to teachers who have reached at least age 55 and the sum of their age and service equals 85. With certain restrictions, reduced early retirement pensions are payable to teachers who retire on or after age 55 with a minimum of five years of pensionable service.

e) Disability benefits

Teachers who are disabled after August 31, 1992 are credited with pensionable service while disabled. Teachers do not contribute to the Plans while disabled.

f) Termination benefits

Refunds or commuted value transfers are available when a teacher ceases employment.

g) Death benefits

Death benefits are available upon the death of a teacher and may be available upon the death of a pensioner. The benefit may take the form of a lump sum payment or a survivor pension.

h) Other provisions

Purchase of past service and reinstatement of refunded service is allowed on a basis that is cost neutral to the Plans.

i) Cost-of-living adjustments

Pensions payable are increased each year by an amount equal to 60 percent of the increase in the Alberta Consumer Price Index. The portion of pension earned after 1992 is increased by an additional 10 percent of the increase in the Alberta Consumer Price Index.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared in accordance with Canadian accounting standards for pension plans. The statements present the aggregate financial position of the Plans. Certain prior year financial information has been reclassified to conform to the presentation adopted in the current year.

In April 2010, the Accounting Standards Board ("AcSB") issued Section 4600 of the Canadian Institute of Chartered Accountants ("CICA") Handbook. ATRF retrospectively adopted these standards for the year beginning September 1, 2011. Section 4600 prescribes accounting policies specific to investments and pension obligations. For accounting policies which do not relate to either investments or pension obligations, either International Financial Reporting Standards ("IFRS") in Part I of the CICA Handbook or accounting for private enterprises in Part II of the CICA Handbook must be applied consistently. The ATRF has elected to adopt IFRS. To the extent that IFRS is inconsistent with Section 4600, Section 4600 takes precedence.

With regard to accounting policies for investments, Section 4600 requires that fair value be measured according to IFRS. ATRF has elected to early adopt IFRS 9 *Financial instruments* and 13 *Fair value measurement* in order to reduce future policy changes and to maintain consistent measurement policy.

There are no changes to comparative information as a result of accounting policy changes.

b) Investments

Investments, investment receivables and investment liabilities are recognized on a trade date basis and are stated at fair value.

i) VALUATION OF INVESTMENTS

Fair value is the price at which an investment asset would be sold or investment liability transferred through an orderly transaction between market participants at the measurement date under current market conditions.

Fair values are determined as follows:

CATEGORY	BASIS OF VALUATION
Money-market securities	Cost plus accrued interest approximates fair value due to the short- term nature of these securities.
Bonds and debentures	Closing quoted market price. Where quoted prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities.
Public equity	Closing quoted market price. Where a market price is not available, market value is determined using appropriate valuation methods.
Real estate	Real estate assets and liabilities are held directly and through limited partnerships. Fair value for direct investments in real estate are based on estimated fair values using appropriate valuation techniques such as discounted cash flows and comparable purchases and sales transactions. Investments held through fund investments are valued using carrying values reported by the General Partner using similar accepted industry valuation methods.
Infrastructure	Infrastructure investments are made through joint ventures of varying legal forms. Fair value information is provided by investment managers using appropriate valuation techniques.
Private companies	Investments in private companies are held through limited partnerships and investment funds. Fair value is determined based on carrying values and other relevant information reported by the investment manager using accepted valuation methods. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value.
Derivatives	Market prices are used for exchange-traded derivatives such as futures. Where quoted market prices are not available, appropriate valuation techniques are used to determine fair value. Derivative contracts entered into by ATRF either directly with counterparties in the over-the-counter market or on regulated exchanges include foreign exchange forwards. A foreign exchange forward contract is a contractual agreement between two parties to exchange a notional amount of one currency for another at a specified price for settlement on a predetermined date in the future. ATRF uses foreign-exchange forward contracts to modify currency exposure for both hedging and active currency management.

ii) INCOME RECOGNITION

Investment income includes interest and dividends, net income from real estate and private company investments, and unrealised gains and losses resulting from changes in the fair value of investments and undistributed income.

Income is recognised as follows:

CATEGORY	BASIS OF RECOGNITION
Interest income	Accrual basis
Dividend income	Accrual basis on the ex-dividend date
Net operating income from real estate and private companies	Most current available operating income reported by the investment manager (where applicable, income is reported net of management fees charged by General Partners)
Realised gains and losses on investments	Difference between proceeds on disposal and the average cost
Unrealised gains and losses on investments	Change in the difference between estimated fair value and cost

iii) TRANSACTION COSTS

Transaction costs are incremental costs attributable to the acquisition, issue or disposal of investment assets or liabilities. Transaction costs are expensed as incurred, on initial recognition of investments acquired.

c) Fair value disclosures

All financial instruments measured at fair value are categorized into one of the following three hierarchy levels. Each level reflects the availability of observable inputs which are used to determine fair values:

Level 1 – inputs are unadjusted quoted prices of identical assets or liabilities in active markets.

Level 2 – inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the assets or liabilities.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the year-end date. Income and expenses are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The realised gains and losses arising from these translations are included within change in fair value of investments in investment earnings.

e) Contributions

Contributions from the members, the Province and the employers are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

f) Benefits

Pension benefits, termination benefits and transfers to other plans are recorded in the period in which they are paid. Any benefit payment accruals not paid are reflected in accrued pension benefits.

g) Accrued pension obligations

The value of accrued pension obligations and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made annually as at August 31. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation date, of various future events.

h) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives. Costs net of accumulated amortization are included with 'other assets' on the Statements of Financial Position.

i) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

Measurement uncertainty exists in the calculation of the Plans' actuarial value of accrued benefits. Uncertainty arises because the Plans' actual experience may differ significantly from assumptions used in the calculation of the Plans' accrued benefits.

Measurement uncertainty exists in the valuation of the Plans' private investments as values may differ significantly from the values that would have been used had a ready market existed for these investments.

j) Salaries, incentives and benefits

Details of senior staff compensation and Board member remuneration included in "salaries and benefits" (Note 7) are presented in the Compensation and Discussion Analysis section of the Annual Report.

The Board participants in the Local Authorities Pension Plan, a defined benefit public sector pension plan, which meets the accounting requirements for treatment as a defined contribution plan. The employer contributions are recorded as an expense under salaries and benefits (Note 7).

The Board provides a Supplementary Employee Pension Plan (SEPP) to executives and managers whose earnings exceed the pension benefit limit under the *Income Tax Act* regulations. The pension benefit is recorded as an expense under salaries and benefits (Note 7) and as a liability (Note 4).

NOTE 3
INVESTMENTS

The following schedule summarizes the cost and fair value of the Plans' investments before allocating the market exposure related to derivative financial instruments.

$ Thousands	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Fixed income				
Cash	$ 100,351	$ 100,351	$ 62,837	$ 62,837
Money-market securities	135,475	135,475	53,692	53,692
Bonds and debentures	2,228,620	2,042,681	2,211,648	2,068,999
	2,464,446	2,278,507	2,328,177	2,185,528
Public equities				
Canadian	1,239,230	1,079,703	1,200,857	989,004
Foreign	2,582,536	2,441,481	2,344,417	2,461,157
	3,821,766	3,521,184	3,545,274	3,450,161
Private companies	358,590	337,806	277,503	268,458
Infrastructure	186,940	177,962	123,895	124,041
Real estate	334,913	319,991	60,558	55,963
Investment related assets				
Accrued income	29,128	29,128	28,019	28,019
Unrealized gains and amounts receivable on derivative contracts	762,757	58,342	1,613,191	106,591
	1,672,328	923,229	2,103,166	583,072
INVESTMENT ASSETS	**7,958,540**	**6,722,920**	**7,976,617**	**6,218,761**
Investment related liabilities				
Unrealized losses and amounts payable on derivative contracts	763,294	60,649	1,629,794	113,198
Other	4,413	4,413	3,572	3,572
	767,707	65,062	1,633,366	116,770
NET INVESTMENTS	**$ 7,190,833**	**$ 6,657,858**	**$ 6,343,251**	**$ 6,101,991**

a) Fair value hierarchy

Financial instruments are categorized within the fair value hierarchy as described in Note 2(c) as follows:

2012 ($ Thousands)	Level 1	Level 2	Level 3	Total
Fixed income	$ 100,351	$ 2,364,095	$ –	$ 2,464,446
Equity	3,821,766	–	358,590	4,180,356
Real estate & infrastructure	–	–	521,853	521,853
Net investment-related receivables	–	24,178	–	24,178
Net investments	$ 3,922,117	$ 2,388,273	$ 880,443	$ 7,190,833
	55%	33%	12%	100%

2011 ($ Thousands)	Level 1	Level 2	Level 3	Total
Fixed income	$ 62,837	$ 2,265,340	$ –	$ 2,328,177
Equity	3,545,274	–	277,503	3,822,777
Real estate & infrastructure	–	–	184,453	184,453
Net investment-related receivables	–	7,844	–	7,844
Net investments	$ 3,608,111	$ 2,273,184	$ 461,956	$ 6,343,251
	57%	36%	7%	100%

The following table represents a reconciliation of financial instruments included in Level 3 of the fair value hierarchy:

2012 ($ Thousands)	Real Estate & Infrastructure	Equity	Total
Balance, beginning of year	$ 184,453	$ 277,503	$ 461,956
Realised losses	(19)	–	(19)
Unrealised gains	19,465	11,739	31,204
Purchases	317,954	69,348	387,302
Sales	–	–	–
Balance, end of year	$ 521,853	$ 358,590	$ 880,443

2011 ($ Thousands)	Real Estate & Infrastructure	Equity	Total
Balance, beginning of year	$ 5,250	$ 203,552	$ 208,802
Realised losses	–	–	–
Unrealised gains	413	26,425	26,838
Purchases	178,790	47,526	226,316
Sales	–	–	–
Balance, end of year	$ 184,453	$ 277,503	$ 461,956

NOTE 4
ACCOUNTS PAYABLE

$ Thousands		2012		2011
Tax withholdings	$	8,193	$	7,536
Supplementary Employee Pension Plan		1,457		1,624
Contributions due to the Province		269		8,566
Other		5,139		3,071
	$	15,058	$	20,797

NOTE 5
ACCRUED PENSION OBLIGATIONS

a) Valuations and assumptions

An actuarial valuation of the Teachers' Pension Plan for the Post-1992 period and the Private School Teachers' Pension Plan was performed as at August 31, 2012. Valuations for the Plans were also prepared as at August 31, 2011. The present value of accrued benefits was determined using the projected benefit method prorated on service. The assumptions used in the valuations are based on management's best estimate of future events.

The major long-term economic assumptions used in the best-estimate valuations are:

	2012	2011
Rate of return on invested assets	7.00%	7.00%
Rate of Alberta inflation	2.75%	2.75%
Real wage increases	1.00%	1.00%

b) Sensitivity of changes in major assumptions

The table below shows the impact of changes to major assumptions, holding all other assumptions constant:

	Teachers' Pension Plan		Private School Teachers' Pension Plan	
	0.50% decrease in Rate of Return on Invested Assets	0.50% increase in Rate of Inflation	0.50% decrease in Rate of Return on Invested Assets	0.50% increase in Rate of Inflation
Increase in current service costs (% of total teacher salaries)	1.61%	1.25%	1.96%	1.47%
Increase in accrued pension obligations	$768 million	$517 million	$3 million	$2 million

The current service cost (excluding 0.2% for administrative expenses) as a percent of total teacher salaries for the Teachers' Pension Plan was 13.81% and for the Private School Teachers' Pension Plan was 15.21%.

c) Results Based on Valuations

The valuation for the Post-1992 Period of the Teachers' Pension Plan as at August 31, 2012 determined a deficiency of $1.909 billion. The valuation for the Private School Teachers' Pension Plan to August 31, 2012 determined a deficiency of $5.379 million.

$ Thousands	2012			2011		
	Teachers' Pension Plan	Private Teachers'	Total	Teachers' Pension Plan	Private Teachers'	Total
Net assets at beginning of year	$ 6,303,028	$ 32,044	$ 6,335,072	$ 5,508,058	$ 28,887	$ 5,536,945
Net contributions	594,258	1,995	596,253	575,019	2,427	577,446
Benefits	(219,386)	(1,467)	(220,853)	(193,017)	(1,436)	(194,453)
Investment earnings	509,377	2,590	511,967	438,091	2,298	440,389
Administrative expense	(28,266)	(144)	(28,410)	(25,123)	(132)	(25,255)
Net assets at end of year	7,159,011	35,018	7,194,029	6,303,028	32,044	6,335,072
Actuarial value of accrued pension obligations	(9,068,324)	(40,397)	(9,108,721)	(8,256,948)	(37,417)	(8,294,365)
Deficiency	$ (1,909,313)	$ (5,379)	$ (1,914,692)	$ (1,953,920)	$ (5,373)	$ (1,959,293)

NOTE 6
INVESTMENT EARNINGS

The following is a summary of investment earnings by asset class:

$ Thousands	2012			2011		
	Investment Income	Change in Fair Value[1]	Total	Investment Income	Change in Fair Value[2]	Total
Fixed income						
Cash and money-market securities	3,233	–	3,233	2,591	–	2,591
Bonds and debentures	77,268	117,377	194,645	82,809	53,428	136,237
Public equity						
Canadian	36,972	(17,210)	19,762	27,722	121,000	148,722
Foreign	64,034	192,006	256,040	65,465	53,002	118,467
Private companies	1,431	10,343	11,774	7,725	25,668	33,393
Infrastructure	3,222	9,155	12,377	3,206	(145)	3,061
Real estate	965	10,933	11,898	322	558	880
Derivatives	–	2,238	2,238	–	(2,962)	(2,962)
Total	187,125	324,842	511,967	189,840	250,549	440,389

1 Change in fair value includes a realised net gain of $33,107 and an unrealised net gain of $291,735.
2 Change in fair value includes a realised net gain of $122,592 and an unrealised net gain of $127,957.

NOTE 7
ADMINISTRATIVE EXPENSES

2012 ($ Thousands)	Investment Operation Expenses	Member Service Expenses	Total	Budget
External investment management fees	$ 14,651	$ –	$ 14,651	$ 17,033
Salaries and benefits	5,321	3,344	8,665	9,025
Custodial and banking	1,110	31	1,141	1,467
Professional and consulting services	995	543	1,538	1,946
Communication and travel	503	328	831	1,308
Board and committee	305	135	440	344
Premises and equipment	276	475	751	1,019
Audit	40	40	80	80
Actuary fees	10	91	101	110
Other	105	107	212	314
Total	**$ 23,316**	**$ 5,094**	**$ 28,410**	**$ 32,646**

2011 ($ Thousands)	Investment Operation Expenses	Member Service Expenses	Total	Budget
External investment management fees	$ 13,976	$ –	$ 13,976	$ 14,173
Salaries and benefits	4,175	2,782	6,957	6,934
Custodial and banking	1,149	29	1,178	1,229
Professional and consulting services	774	404	1,178	1,371
Communication and travel	447	341	788	1,042
Board and committee	195	79	274	281
Premises and equipment	181	413	594	812
Audit	38	37	75	74
Actuary fees	12	104	116	110
Other	82	37	119	249
Total	$ 21,029	$ 4,226	$ 25,255	$ 26,275

NOTE 8
CONTRIBUTIONS

$ Thousands		2012		2011
Teachers				
Current service	$	213,658	$	203,469
Current service additional 10% COLA		12,615		12,013
Past service		6,189		4,143
Deficiency		94,907		90,332
		327,369		309,957
Province				
Current service		211,269		201,622
Past service		2,138		1,686
Deficiency		88,425		84,387
		301,832		287,695
Employers				
Current service		1,167		1,095
Deficiency		291		215
		1,458		1,310
Net transfers from other plans		2,219		2,481
	$	632,878	$	601,443

NOTE 9
BENEFITS PAID

$ Thousands		2012		2011
Pension benefits	$	220,853	$	194,453
Termination benefits		36,625		23,997
	$	257,478	$	218,450

During the year $430 million (2011: $421 million) was received from the Province and was distributed as benefit payments relating to the Pre-1992 period.

NOTE 10
RISK MANAGEMENT

The Plans are exposed to certain financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. ATRF manages financial risk through the Investment Policy which is approved by the Board at least once every fiscal year. This policy contains risk limits and risk management provisions that govern investment decisions and has been designed to achieve the mandate of ATRF which is to invest its assets to achieve maximum, risk-controlled, cost-effective, long-term investment returns.

a) Market risk

Market risk is the risk that the fair value or future cash flows of an investment asset or investment liability will fluctuate because of changes in prices and rates. ATRF mitigates market risk through diversification of investments across asset types, geography and time horizons. Market risk is comprised of the following:

Currency risk

The Plans are exposed to currency risk through investment assets or liabilities which are held in foreign currencies. Changes in the relative value of foreign currencies in reference to the Canadian dollar will result in a change in the fair value or future cash flows of these investment assets and liabilities. ATRF permits portfolio managers to use currency-forward contracts to manage the Plans' foreign currency exposure. Foreign investments in real estate and infrastructure are hedged with the aim of removing all foreign currency exposure. The Plans' foreign currency exposure is as follows:

$ Thousands	2012			2011
Currency	Foreign Currency Exposure	Currency Derivatives	Net Foreign Currency Exposure	Net Foreign Currency Exposure
United States dollar	$ 1,543,193	$ (192,896)	$ 1,350,297	$ 1,296,301
Euro	283,364	(92,693)	190,671	234,313
British pound sterling	236,121	(35,290)	200,831	245,186
Japanese yen	144,547	15,102	159,649	180,080
Swiss franc	147,955	–	147,955	117,890
Hong Kong dollar	62,242	–	62,242	54,647
Other	285,988	23,443	309,431	167,569
	$ 2,703,410	$ (282,334)	$ 2,421,076	$ 2,295,986

A 1% increase/decrease in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease/increase in the value of net investments of $24 million as at August 31, 2012 (2011: $23 million).

Interest-rate risk

Interest rate risk is the risk that the fair value or future cash flows of an investment will change as a result of changes in market interest rates. Changes in interest rates affect fair values of fixed-rate securities and the cash flows of floating-rate securities. Increases in interest rates will generally decrease the fair value of fixed-rate securities.

ATRF manages interest rate risk for investments by establishing a target asset mix that provides an appropriate mix between interest-sensitive investments and those subject to other risks. A portion of the interest-sensitive portfolio is actively managed, allowing managers to anticipate interest rate movements to mitigate or take advantage of interest-rate changes. There are also certain alternative investments which may have interest-rate components making them subject to interest-rate exposure.

The term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities are as follows:

$ Thousands	2012					2011	
	Term to Maturity						
	Within 1 Year	1 to 5 Years	Over 5 Years	Total	Average Effective Yield	Total	Average Effective Yield
Money-market securities	127,487	–	–	127,487	1.07%	53,692	1.06%
Bonds and debentures	106,380	390,082	1,766,245	2,262,707	3.72%	2,194,122	3.87%

After considering the effect of derivative contracts a 1% increase/decrease in nominal-interest rates, with all other variables held constant, would result in an approximate decrease/increase in the value of net interest bearing investments and an unrealised loss/gain of $219 million (2011: $176 million).

Equity-price risk

Equity-price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest-rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The Plans are subject to price risk through their public equity investments and, in addition to geographic, industrial sector and entity specific analyses, uses strategies such as diversification and the use of derivative instruments to mitigate the overall impact of price risk. After giving effect to derivative contracts, a ten percent increase/decrease in the value of all public equity, with all other variables held constant, would result in an approximate increase/decrease in the value of public-market exposure and an unrealised gain/loss of $378 million (2011: $347 million).

b) Credit risk

Credit risk is the potential of loss should a counterparty fail to meet its contractual obligations, or a reduction in the value of assets due to diminished credit quality of the counterparty, guarantor or the collateral supporting the credit exposure. The Plans are exposed to credit risk through investment in securities, securities lending, balances receivable from sponsors and counterparties to derivative transactions.

Investment restrictions within the Plans have been set to limit the credit exposure to security issuers. Short-term investments require a rating of “R-1” or equivalent. Bonds or debentures require minimum ratings of “CCC” or equivalent in the externally managed portfolio and “BBB” for the portfolio managed internally. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies and guidelines. The counterparty credit risk associated with foreign-currency forwards is managed by limiting the number of counterparties to one; having a credit rating of “AA”. The fair value of the fixed-income investments and over-the-counter derivatives exposed to credit risk, by credit rating, is as follows:

	2012	2011
Investment grade (AAA to BBB-)	95%	97%
Speculative grade (BB+ or lower)	3%	2%
Unrated	2%	1%

b) Liquidity risk

Liquidity risk is the risk of the Plans being unable to generate sufficient cash in a timely and cost-effective manner to meet commitments and expenses as they become due. Liquidity requirements of the Plans are met through income generated from investments, employee and employer contributions, and by holding publicly traded liquid assets traded in active markets that are easily sold and converted to cash. These investments include money-market securities, bonds and publicly-traded equities.

All derivative and non-derivative investment related liabilities are due within one year.

NOTE 11
CAPITAL

Capital is the net assets of the Plans. In accordance with the *Teachers' Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plans are fully funded over the long term through the management of investments and contribution rates. Investments are based on an asset mix that is designed to enable the Plans to meet their long-term funding requirement within an acceptable level of risk, consistent with the Plans' investment and funding policies, which are approved by the Board.

The Plans' deficiency is determined on the fair-value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plans' funded status.

In accordance with the *Teachers' Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by August 31, 2027.

NOTE 12
COMMITMENTS

The Board has committed to fund certain investments over the next several years in accordance with the terms and conditions agreed to. As at August 31, 2012, the sum of these commitments equalled $698 million (2011 - $435 million).

NOTE 13
COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to the 2012 presentation.

NOTE 14
INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

Investment returns and related benchmark returns for the Plans for the years ended August 31 are as follows:

	2012	2011
Investment Return	7.8%	7.8%
Benchmark Return	6.3%	7.3%

11-YEAR FINANCIAL AND STATISTICAL REVIEW
(UNAUDITED)

Financial Position as at August 31 ($ Millions)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Investments											
Equities											
Canadian	1,239.2	1,200.9	1,156.8	1,016.2	1,248.5	1,246.2	1,035.6	955.6	795.1	707.8	687.9
Global	2,582.6	2,344.4	2,142.0	1,857.5	2,031.1	2,283.1	2,051.0	1,450.3	1,219.8	1,084.3	808.5
Private	358.6	277.5	208.8	127.7	120.6	53.9	22.6	6.8	3.0	2.7	2.9
Infrastructure	186.9	123.9	–	–	–	–	–	–	–	–	–
Real Estate	334.9	60.6	–	–	–	–	–	–	–	–	–
Accrued Income and Other	24.2	7.8	–	–	–	–	–	–	–	–	–
Fixed Income	2,464.4	2,328.2	1,995.2	756.2	777.7	714.2	624.2	913.4	839.0	663.7	686.4
Net Investments	7,190.8	6,343.3	5,502.8	3,757.6	4,177.9	4,297.4	3,733.4	3,326.1	2,856.9	2,458.5	2,185.7
Loan Receivable from the Province	–	–	–	1,184.7	944.1	–	–	–	–	–	–
Contributions Receivable	17.2	12.0	11.3	11.2	9.0	13.7	12.5	11.0	10.2	7.3	25.2
Other Assets and Liabilities	(14.0)	(20.2)	22.9	3.0	6.4	(3.1)	4.5	10.1	(6.4)	2.8	9.3
Net Assets Available for Benefits	7,194.0	6,335.1	5,537.0	4,956.5	5,137.4	4,308.0	3,750.4	3,347.2	2,860.7	2,468.6	2,220.2
Actuarial Value of Accrued Pension Obligations	9,108.7	8,294.4	7,467.7	6,861.7	6,321.9	11,316.3	10,702.2	10,285.5	9,681.6	8,703.2	8,189.1
Deficiency	1,914.7	1,959.3	1,930.7	1,905.2	1,184.5	7,008.3	6,951.8	6,938.3	6,820.9	6,234.6	5,968.9
Activity during year ended August 31											
Benefit and Investment Operations											
Investment earnings	512.0	440.4	274.3	(443.5)	(209.4)	440.3	259.0	373.2	287.9	163.0	(107.8)
Amount assumed by the Province	–	–	–	–	784.5	–	–	–	–	–	–
Net contributions	596.3	577.5	499.2	433.7	402.8	600.8	581.0	518.0	481.0	436.5	399.4
Pension benefits	(220.9)	(194.5)	(173.0)	(153.0)	(130.0)	(465.3)	(425.0)	(394.5)	(367.5)	(342.7)	(320.5)
Administrative expenses	(28.4)	(25.3)	(20.0)	(18.2)	(18.5)	(18.3)	(11.5)	(10.2)	(9.2)	(8.5)	(8.1)
Increase in Net Assets	859.0	798.1	580.5	(181.0)	829.4	557.5	403.5	486.5	392.2	248.3	(37.0)
Increase (Decrease) in Accrued Pension Obligations	814.4	826.7	606.0	539.7	(4,994.3)	614.0	417.0	603.9	978.5	514.1	1,217.9
(Decrease) Increase in Deficiency	(44.6)	28.5	25.5	720.7	(5,823.7)	56.5	13.5	117.4	586.3	265.8	1,254.9
Post 1992 TPP* - year ended August 31											
Performance	7.8%	7.8%	5.6%	-8.5%	-2.8%	11.3%	7.5%	12.4%	11.4%	6.8%	-4.6%
Benchmark	6.3%	7.3%	5.4%	-6.8%	-2.7%	10.9%	8.1%	12.2%	11.2%	9.7%	-6.4%
Long Term Funding Objective	5.3%	7.2%	4.8%	2.6%	8.3%	9.0%	9.0%	6.6%	6.5%	8.5%	6.8%
Funding Shortfall											
Pre 1992 TPP*	–	–	–	–	–	6,592.0	6,367.0	6,266.1	6,030.0	5,562.1	5,342.0
Post 1992 TPP*	2,880.0	1,751.0	1,787.0	1,766.0	1,048.0	742.0	742.0	700.4	662.0	434.1	407.0
Private School TPP*	8.4	5.6	6.0	5.0	(0.4)	0.1	0.1	(0.2)	(0.4)	(0.7)	(1.4)
	2,888.4	1,756.6	1,793.0	1,771.0	1,047.6	7,334.1	7,109.1	6,966.3	6,691.6	5,995.5	5,747.6
Plan Members											
Active	38,336	38,242	38,578	38,422	37,627	37,577	36,640	36,266	34,649	35,278	35,378
Inactive	12,404	12,384	12,119	11,769	11,713	10,852	11,260	10,940	11,937	11,654	10,972
Pensioners	23,892	22,989	22,302	21,563	20,796	19,837	18,718	17,718	16,888	16,163	15,479
Number of New Pensioners	1,234	986	1,056	1,060	1,257	1,419	1,263	1,103	993	968	944
Member Service Costs (per member)	$ 82	$ 69	$ 69	$ 68	$ 69	$ 68	$ 72	$ 65	$ 65	$ 62	$ 59
Benchmark	$ 145	$ 155	$ 148	$ 138	$ 132	$ 120	$ 116	$ 117	$ 110	$ 108	$ 104
Investment Costs (per $100 of assets)	$ 0.32	$ 0.33	$ 0.29	$ 0.28	$ 0.38	$ 0.30	$ 0.22	$ 0.20	$ 0.20	$ 0.17	$ 0.20
Administrative Expenses											
Member services	17.9%	16.7%	20.9%	23.4%	21.7%	21.4%	34.7%	34.3%	36.3%	37.6%	37.0%
Investments	82.1%	83.3%	78.9%	76.6%	78.3%	78.6%	64.3%	65.7%	63.7%	62.4%	63.0%

Note: Since 2008 amounts relate to transactions of the Post-August 1992 Period of the TPP* and of the Private School TPP*.

*Teachers' Pension Plan

From left to right: Derek Brodersen, Peggy Corner, Myles Norton, Emilian Groch, Margot Hrynyk, Albert Copeland.

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We welcome any comments or suggestions for this annual report, or any other aspects of our communications program.

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