Alberta Teachers' Retirement Fund Board

2010

Annual Report Highlights

2009-2010 HIGHLIGHTS

Fund Results

- Over the 18-year period since the current funding structure was adopted by the plan sponsors, the Teachers' Pension Plan has on average earned 6.9% each year, exceeding the plan's funding rate-of-return objective of 6.6% by 0.3% each year
- For the year ended August 31, 2010, the Teachers' Pension Plan fund returned 5.6%

Key Accomplishments – 2009/10

- Completed detailed planning with respect to the implementation of the new target policy asset mix, with specific focus on infrastructure, private equity, real estate and global equity asset classes
- Met or exceeded all service turnaround benchmarks for services to pensioners, and to active and inactive plan members
- Recognized as having one of the lowest annual plan member service costs in the industry at $69 per member
- Ensured ongoing improvement of customer service and operational efficiency through best-practice reviews that identified work process enhancements
- Implemented enhancements to the plan member and pensioner On-Line Services functions, and increased the number of registered users of On-Line Services through a marketing initiative
- Reviewed and updated the Enterprise-Wide Risk Management Plan and identified additional risk mitigation plans
- Initiated testing of the operational effectiveness of internal controls relating to financial reporting

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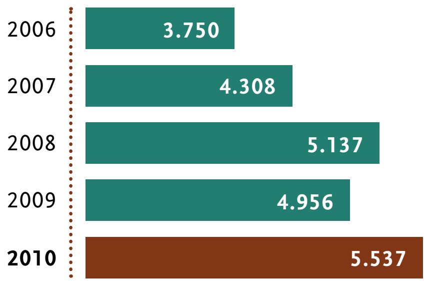
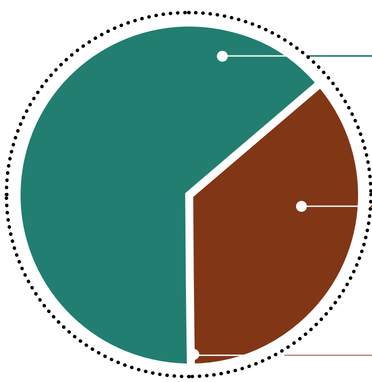
Change in Net Assets

The modest recovery in global investment markets contributed to a year-over-year increase in fund assets of $581 million (an increase of 11.7%) leaving the fiscal year-end value at $5.537 billion. Investment earnings of $274 million and $307 million of positive net cash flows from contributions above benefit payments and expenses accounted for this change.

NET ASSETS OF ATRF ($ BILLIONS)
at August 31, 2010



ASSET MIX – TEACHERS' PENSION PLAN
at August 31, 2010



63.0%
Return Enhancing

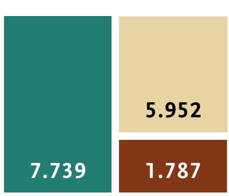
Global Equity	41.0%
Canadian Equity	19.0%
Private Equity	3.0%

37.0%
Liability Matching

Universe Bonds	23.5%
Long-Term Bonds	11.5%
Money Market	2.0%

0.0%
Inflation Sensitive

Real Estate	0.0%
Infrastructure	0.0%



TEACHERS' PENSION PLAN

Funding Liabilities	7.739
Funding Value of Assets	5.952
Funding Deficiency	1.787

at August 31, 2010 ($ Billions)

Greg Meeker

Report of the Board CHAIR

Funding Challenges Facing Retirement Savings Plans

The returns from the global investment markets and the 2007-09 financial crisis have been very challenging to retirement savings plans all around the world. Over the past decade, global markets have provided returns that have been below the long-term investment rate of return assumed by pension plans resulting in significant funding deficits.

Even more significant is that global interest rates have continued to decline. As a result, there is increasing sentiment that the low interest rate environment will translate into lower returns for a number of years.

The lower return expectation has required, and will continue to require, pension plans to adjust their assumed long-term investment rate of return for funding the benefits under the plans. A lower long-term investment rate of return assumption increases the cost of future benefits to be earned by plan members. In addition, it raises the plan's accrued liabilities for benefits already earned and results in further contribution rate increases to amortize the larger plan deficit.

Impact on Retirement Savings Plans

These issues have impacted all individual retirement savings vehicles and group defined benefit pension plans. The impact on individual retirement savings is largely dependent on the age of the individual and the ability of that individual to recover from the low returns and lower expected future returns. In particular, an individual would be required to find additional disposable income to save for retirement. However, the older an individual is, the less time there is to accumulate savings and the harder it will be to reach the previously expected retirement savings objectives.

A defined benefit pension plan, such as the Teachers' Pension Plan, provides pension benefits that are based on years of pensionable service and best-average earnings, and are not dependent on the value of the fund at the time of retirement. However, the impact of low market returns and lower expected future returns does increase the required funding contributions, a reality experienced by virtually all defined benefit pension plans. In addition to increasing contribution rates, some sponsors of defined benefit pension plans have reduced prospective benefit accruals and in some cases even earned benefits. Others have also taken steps to share the funding risk with pensioners by limiting the amount of cost-of-living increases that can be provided based on the funded status of the plan.

Unlike most individuals or other defined benefit plans, the defined benefit pension plan for Alberta teachers has a much greater capacity to recover from the impacts of poor market returns than any individual. This ability arises not only from the lower costs that come from the larger scale of the fund, but particularly from the fact that the plan has an extremely long-term time horizon and the funding risk is being shared by employers, taxpayers and 39,000 active plan members. However, since the cost of providing pension benefits in the current lower-return environment is higher, we must be prudent and increase funding contributions as required to ensure sufficient funds are available to provide for the promised benefits.

ATRF Board Actions

The Board continues to monitor the impact of the recent financial crisis on the plan. We undertook a detailed asset-liability study in 2009 and approved a revised long-term policy asset mix for the fund. We carefully examine the plan's funding policy and various funding assumptions with management and the plan's actuary. We also stress test the funding assumptions and make changes to these long-term assumptions as required. In addition, we provide the plan sponsors with detailed information on the current funded status of the plan and on forward-looking funding challenges that may arise for the plan. 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.

Even though contribution rates have increased due to the low market returns and the lower expected future returns, and will most likely increase further, it is important to note that the pension benefits under the plan are safe.

- *Pension benefits and cost-of-living adjustments are calculated based on legislated formulas and not on the investment performance of the fund.*
- *Benefits for pensionable service prior to September 1992 are guaranteed by the Government of Alberta.*
- *The funding status of benefits for pensionable service after August 1992 is regularly reviewed, and contribution rate adjustments are made as required to ensure that all pension payments will be made.*
- *We carefully oversee the investment policies, asset mix and fund managers to maximize risk-controlled, long-term investment returns.*

Teachers'
PENSION PLAN

NET ASSETS AVAILABLE FOR BENEFITS AT AUGUST 31, 2010

($ Thousands)	2010	2009
Investments		
Equities	$ 3,489,286	$ 2,980,020
Bonds and debentures	1,795,692	593,666
Money-market securities	189,061	157,131
	5,474,039	3,730,817
Cash	3,655	1,341
Contributions Receivable	11,265	11,087
Loan Receivable from the Province	–	1,184,685
Other Assets and Liabilities	19,099	1,666
Net Assets Available for Benefits	**$ 5,508,058**	**$ 4,929,596**

FUNDING ACTUARIAL DEFICIENCY AT AUGUST 31, 2010

($ Thousands)	2010	2009
Funding Liabilities	$ 7,739,000	$ 7,070,000
Funding Value Assets[1]	5,952,000	5,304,000
Funding Deficiency	**$ (1,787,000)**	**$ (1,766,000)**

[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, 2010, the plan's funding value of net assets available was $444 million higher than the fair value of net assets available (2009 - $374 million higher).

Report of the Chief Executive OFFICER

Emilian Groch

The fiscal year ended August 31, 2010 saw global financial markets begin a tepid recovery, providing the fund the opportunity for the first positive rate of return in three fiscal years. This followed a period from mid-2007 to early in 2009 when the global investment markets were under severe pressure, resulting in two consecutive fiscal years of negative returns for the fund.

With the worst of the 2007-09 financial crisis over, the road to recovery has proven to be slow and volatile in most parts of the world. While strong economic growth returned to emerging markets, it was much more elusive in the developed world. Europe in particular struggled with a sovereign debt crisis, while the United States still waits for signs of recovery in its housing and employment markets. In this environment, global equity returns were weak, but falling interest rates resulted in attractive returns from fixed-income markets. By the end of the 2009-10 fiscal year, the Teachers' Pension Plan fund returned 5.6%.

Despite weak markets in recent years, long-term investment returns have met long-term return funding objectives. Over the 18-year period from September 1, 1992, to August 31, 2010 the fund has on average earned 6.9% each year, exceeding the plan's funding rate-of-return objective of 6.6% by 0.3% each year.

Implementation of New Target Policy Asset Mix

A new funding agreement between the plan sponsors came into effect September 1, 2009. In preparation for this new funding agreement, in the 2008-09 fiscal year, we completed a comprehensive reassessment of the funding, liability and investment structures of the plan. This review resulted in a new long-term target policy asset mix that includes new or increased allocations to non-publicly traded assets, including real estate, infrastructure and private equity. In the past fiscal year, we completed detailed implementation planning for this new target policy asset mix, with specific focus on infrastructure, private equity, real estate and global equity asset classes.

There are significant changes arising from the new long-term target policy mix that will be implemented gradually over the next few years. Our investment into the illiquid, inflation-sensitive asset classes of real estate and infrastructure, and the increased allocation to private equity will take considerable time to fully implement. Our approach is to manage these illiquid asset classes in a cost-effective manner by building internal capability and leveraging strategic partnerships to source funds and to co-invest with like-minded investors.

To facilitate this investment approach, we added to our investment staff in the past fiscal year and are planning to continue to add new positions in the 2010-11 fiscal year, more than doubling our investment staff in a two-year period. These new professionals will place us in a position to be able to evaluate investment opportunities that arise in infrastructure, private equity and real estate on a much more cost-effective basis than reliance on fund-of-fund managers and asset managers. As the size of these illiquid asset classes grows over the next five years, additional staff will be hired to ensure our effective maintenance of existing investments and the ongoing review of new investment opportunities.

Enhancing Plan Member Services

In the past fiscal year, we continued to focus on further enhancing our cost-effective and successful services to plan members. We know this from the high marks we receive from our ongoing surveys of plan members, our tracking of customer service turnaround statistics (see page 12), and from the assessment of our annual customer service cost of $69 per member that is about half of the average cost for a group of similar major Canadian public sector pension organizations.

Through our ongoing reviews of best practices, we identified and implemented changes to our work processes that have further improved customer services to plan members. We implemented various enhancements to our communication materials and focussed on expanding web-based communications by increasing the available features of our plan member online services. We plan to continue to make cost-effective, incremental improvements to our plan member services and communication.

Enhancing Risk Management

Last year, we undertook a comprehensive review of our Enterprise-Wide Risk Management Plan. This plan includes our approach in assessing the enterprise-wide risks of ATRF, the various steps involved in the risk evaluation process, a risk assessment summary of the key risks facing ATRF and the current risk mitigation strategies in place at ATRF. The plan was discussed in detail at the Board's strategic planning session, additional risk mitigation plans were identified and the plan was approved by the Board.

Our risk-enhancement activities include: further development of our investment risk systems; providing additional information to the plan sponsors on the investment risk within the target policy asset mix and the potential impact on future contribution rates; and the testing of the operational effectiveness of the various internal controls relating to financial reporting.

Plan Liability, Funding and **INVESTMENT STRUCTURE**

TEACHERS' PENSION PLAN: PRE-1992 PERIOD

The liabilities of the Pre-1992 Period consist of the actuarial value of the benefits earned for service prior to September 1992. From early 2003, when the assets of the Pre-1992 Period were depleted, to September 2009, the Pre-1992 Period borrowed from the Post-1992 Period to fund benefit payments.

In 2008, The Alberta Teachers' Association and the Government of Alberta agreed to significant changes to the funding of the Pre-1992 Period liabilities. Effective September 1, 2009, the Government 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. In addition in January 2010, the Government repaid the entire \$1.186 billion amount that was lent by the Post-1992 Period fund.

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. 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 over a 15-year period.

The Board has adopted a funding policy for the Post-1992 Period that sets out the principles and guidelines governing the funding requirements of plan benefits 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.

Target Policy Asset Mix

In 2009, we undertook a comprehensive asset-liability study of the plan with key consideration on:

- *the plan's funding policy;*
- *the elimination of the \$1.186 billion loan to the Pre-1992 Period from the plan's asset mix, which represented about 24% of all plan assets as at August 31, 2009; and*
- *the fact that the Post-1992 Period plan has relatively immature liabilities and will have positive cash flow for the next 15 years.*

The long-term target policy asset mix in the following chart was adopted by the Board.

LONG-TERM TARGET POLICY ASSET MIX – POST-1992 PERIOD TEACHERS' PENSION PLAN
at August 31, 2010

The change to the long-term target policy mix is significant and will be gradually implemented over the next few years. In particular, the investment into the illiquid, inflation-sensitive asset classes of real estate and infrastructure, and the increased allocation to private equity will take considerable time to fully implement.

Funding Study and Plan Contribution Rates

The funding study of the Post-1992 Period Teachers' Pension Plan as at August 31, 2010 showed that the funded position of the plan was consistent with that identified in the August 31, 2009 actuarial funding valuation of the plan and that no immediate changes were necessary to the current overall funding contribution rate of 20.81% of teacher salaries. The table below shows the current contribution rates based on the results of the August 31, 2009 actuarial funding valuation.

TEACHERS' PENSION PLAN

Contribution Rates (Percent)	September 2010 to August 2012
Teachers	
Total Teacher Contribution	10.71
Salary up to YMPE[1]	9.04
Salary above YMPE	12.91
Government	10.10

[1] YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan ($48,300 in 2011).

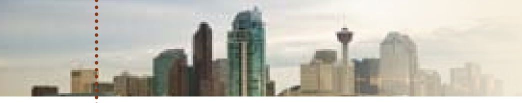
Funding Risks Looking Forward

The funding of the plan is based on a number of assumptions. One key assumption is that the fund will earn an average investment return each year of 6.75% 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, 2010 funding study revealed that, primarily due to the 2007-09 financial crisis, the current market value of plan assets is $444 million less than the asset value used to assess the plan's funded position. This means that the fund must earn at least 6.75% each year for the next four years and must also earn an additional $444 million to avoid further contribution increases. If the plan's investments earn only 6.75% each year over the next four years, the funding deficiency will grow and the additional amount will have to be amortized by increasing funding contribution over a 15-year period. We have estimated that should this occur, overall funding contributions would remain unchanged over the next year and then increase each year over the three years ending August 31, 2014 for a total increase of about 1.6% of teachers' salaries that would be shared about equally by active plan members and the Government.

It is important to note that the approach to smoothing investment gains and losses adopted by the plan has allowed the plan to postpone dramatic contribution increases that would otherwise have been triggered by the 2007-09 financial crisis. In so doing, the plan has been afforded time for markets to recover and to better gauge the longer-term contribution increases that the financial crisis will require. As the future unfolds, however, it is becoming apparent that the effects of the 2007-09 financial crisis will linger for some time in the form of lower expected returns. Therefore, the plan's funding deficiencies will most likely continue to grow and contribution rates will need to increase further.

We will continue to carefully assess all the long-term funding assumptions and make changes as required. Through our annual actuarial funding studies and valuations, contribution rate changes will be implemented to ensure that plan benefits are funded in accordance with the funding structure established by the plan sponsors.



Investment PERFORMANCE

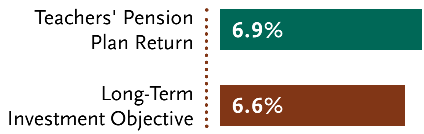
Long-Term Investment Performance

The primary long-term investment 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 plan to ensure that plan benefits are funded in accordance with the established funding structure. This long-term investment objective is measured starting September 1, 1992, when the plan sponsors agreed to the current funding structure of the plan.

Since September 1, 2004, the 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.

Over the 18-year period since September 1, 1992, the investment performance of the Teachers' Pension Plan has exceeded this long-term objective. The annualized rate of return on the fund's assets over this time period has been 6.9%, which compares favourably with the 6.6% rate-of-return objective.

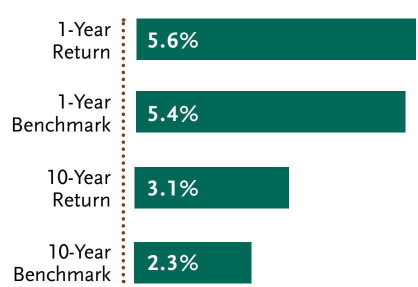
18-YEAR RETURN VS LONG-TERM INVESTMENT OBJECTIVES
to August 31, 2010



Benchmark Performance of Fund

The overall effectiveness of our investment strategies is assessed regularly by comparing the actual performance of the investment portfolio to the return on the fund's benchmark. Benchmarks for each asset class are selected by the Board and Investment Committee. The total-fund benchmark is calculated by aggregating the asset-class benchmark indices, which are weighted to reflect the fund's target policy asset mix.

TEACHERS' PENSION PLAN RETURN VS. BENCHMARK PERFORMANCE
to August 31, 2010

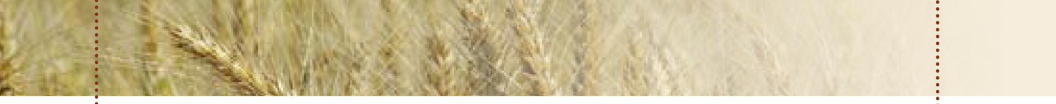


Plan Member Services
EXCEED BENCHMARKS

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

We have established benchmarks for the delivery of services and measure our benefit delivery against those benchmarks. Below are our service turnaround benchmarks for key processes and our results for the 2009-10 fiscal year, with comparisons for the 2008-09 fiscal year. We exceeded the benchmark in all processes and improved our average elapsed time in two of the nine processes.

SERVICE PROVIDED	BENCHMARK	AVERAGE ELAPSED TIME IN 2009-2010	AVERAGE ELAPSED TIME IN 2008-2009
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	4 days	6 days
Pension payment for new pensioner	Within 7 days	3 days	5 days
Pension estimate	Within 7 days	1 day	1 day
Purchase estimate	Within 10 days	2 days	2 days
Termination benefit	Within 10 days	2 days	2 days
Urgent written inquiries including email inquiries	Within 7 days	2 days	2 days
Non-urgent written inquiries including email inquiries	Within 10 days	2 days	2 days
Telephone inquiries	Within 1 day	Less than 1 day	Less than 1 day



Teachers' Pension Plan
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.

The plan is a defined benefit pension plan registered under the *Income Tax Act* and is 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.

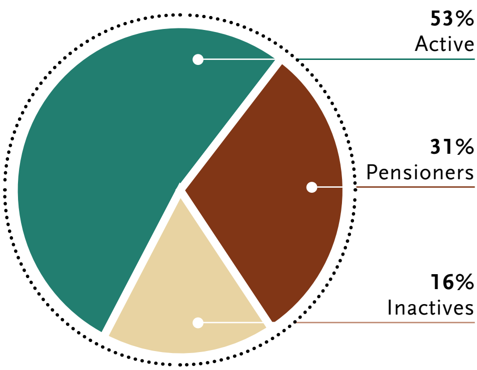
The Teachers' Pension Plan covers:

38,384 active teachers;

22,284 pensioners; and

11,884 inactive teachers.

TOTAL MEMBERSHIP PROFILE



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 $1.787 billion.

THE BOARD

From left to right: James Fleming, Lowell Epp, Karen Elgert, Greg Meeker, Sharon Vogrinetz, Gene Williams.

Greg Meeker
Chair of the Board and Audit Committee

Lowell K. Epp
Vice Chair of the Board and Vice Chair of the Investment Committee

Karen A. Elgert
Vice Chair of the Finance and Planning Committee

James Fleming
Chair of the Investment Committee

Sharon L. Vogrinetz
Chair of the Human Resources and Compensation Committee

Gene Williams
Chair of the Finance and Planning Committee, and Vice Chair of the Audit and Human Resources and Compensation Committees

MANAGEMENT

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

Emilian V. Groch
Chief Executive Officer

Derek M. Brodersen
Chief Investment Officer

Albert Copeland
Director, Information and Technology Services

Peggy Corner
Director, Benefit Information Services

Margot M. Hrynyk
Director, Human Resources and Communication

Myles Norton
Director, Financial Services

Randy G. Round
Director, Internal Control

ATRF Alberta Teachers' Retirement Fund Board

600 Barnett House
11010 142 ST NW
Edmonton, Alberta, T5N 2R1

Telephone: 780-451-4166
Toll Free: 1-800-661-9582
Email: info@atrf.com
Fax: 780-452-3547
Web: www.atrf.com

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