Alberta Teachers' Retirement Fund Board

ATRF

2012 Annual Report

HIGHLIGHTS

Teachers' Pension Plan

2011-2012 HIGHLIGHTS

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
- The fund's rate of return has been impacted by the severe equity market downturns and financial turmoil over the past 12 years. The fund 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.

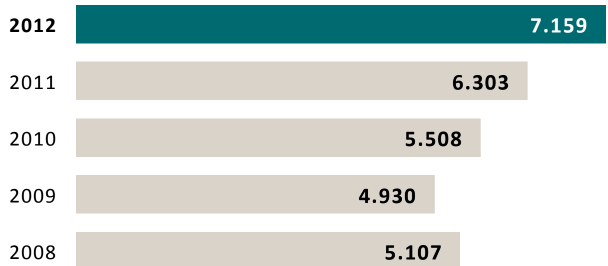
Key Accomplishments – 2011/12

- 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
- 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
- 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
- Continued to implement the new infrastructure and real estate asset classes, and to expand the private equity asset class

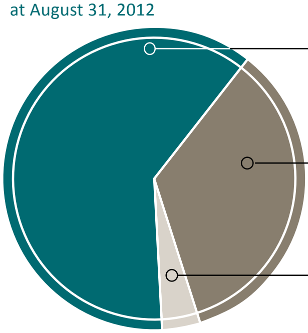
Go to www.atrf.com to view the 2012 Annual Report.

The 2011-12 fiscal year provided a third consecutive year of growth in net assets with a year-over-year increase in fund assets of $856 million (an increase of 13.6%) leaving the fiscal year-end value at $7.159 billion. Investment earnings of $509 million and $347 million of positive net cash flows from contributions above benefit payments and expenses, accounted for this change.

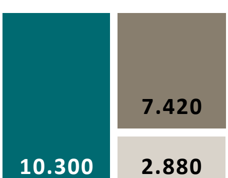
Net Plan Assets
($ Billions)



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)

Teachers' Pension Plan

Financial HIGHLIGHTS

NET ASSETS AVAILABLE FOR BENEFITS AT AUGUST 31

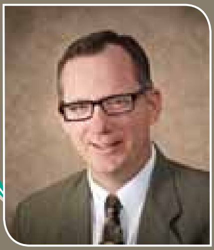
($ Thousands)	2012	2011
Investments		
Fixed Income	$ 2,452,450	$ 2,316,400
Public Equities	3,803,163	3,527,342
Private Companies	356,844	276,099
Infrastructure	186,031	123,269
Real Estate	333,282	60,252
Accrued Income and Other	24,060	7,804
	7,155,830	6,311,166
Other Assets and (Liabilities)	3,180	(8,138)
Net Assets Available for Benefits	**$ 7,159,010**	**$ 6,303,028**

FUNDING ACTUARIAL DEFICIENCY AT AUGUST 31

($ Thousands)	2012	2011
Funding Liabilities	$ 10,300,000	$ 8,568,000
Funding Value Assets[1]	7,420,000	6,817,000
Funding Deficiency	**$ (2,880,000)**	**$ (1,751,000)**

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, 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).

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.

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

- The extremely low interest rate environment has decreased the future expected rate of return that pension plans will earn.
- 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. As longevity increases, pension plan costs will continue to rise.
- Good pension plans, like the Alberta teachers' plan (that also provide for additional benefits such as cost-of-living adjustments and generous early retirement benefits) are expensive and are getting more expensive.

It is important to note that the benefits under the plan are set by the plan sponsors, namely the Government of Alberta and The Alberta Teachers' Association. 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.

Increasing Plan Sustainability

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

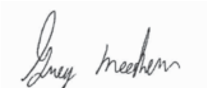
- securing the pension promise by targeting funding assets to be equal to at least the funding liabilities;
- managing the volatility of year-to-year contribution rate changes; and
- maintaining a level of funding equity between generations.

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 for the plan from the current level of 6.75% 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 Increases

Consistent with the estimated funding cost-increase information that we provided earlier in 2012, the actuarial funding valuation of the 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. The increase is the result of the impact of enhancing the margin for adverse plan experience that was implemented by decreasing the future long-term expected rate of return to 6.25% from the previous 6.75% rate.



Greg Meeker
Board Chair

THE BOARD

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

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 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 plan. 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 over the past 12 years. The fund 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. In addition, there has been a significant decrease in the future expected rate of return that the plan will earn due to the extremely low market interest rates.

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 plan relate to 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 external manager fees. ATRF's asset growth and significant total target 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 these 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.

Emilian Groch
Chief Executive Officer

PLAN FUNDING

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 1, 1992. 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.

Plan 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 expected 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.

Funding Valuation Results

An actuarial funding valuation of the Post-1992 Period Teachers' Pension Plan was completed as at August 31, 2012. This table outlines the results of the funding valuation.

Teachers' Pension Plan: Post-1992 Period at August 31, 2012	($ Billions)
Funding Liabilities	10.300
Funding Value of Assets	7.420
Funding Deficiency	**2.880**

Contribution Rates Increase

The use of the lower 6.25% long-term expected rate of return 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. This lower 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		September 2013	
	Teachers	Government	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).

Future Funding Risks

A key assumption in the funding of the plan is that the fund will earn an average investment return each year equal to the long-term expected rate of return 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.

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 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.

Funding Risks Looking Forward

Funding 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 plan experienced significant negative deviations from the long-term expected rate of return over the past 12 years. In addition, as a result of the significant decline in global interest rates, we anticipate lower future returns. Plan funding contributions have increased substantially and may need to increase further based on emerging plan experience.

Investment PERFORMANCE

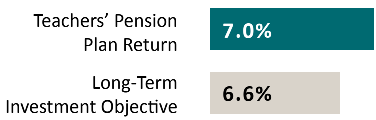
Long-Term Investment Performance

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 plan 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.

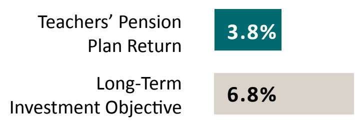
Since September 1, 2004, this long-term rate-of-return assumption has been 4.25% above the level of Alberta inflation. This target was 4.5% plus inflation from September 1, 1997 to August 31, 2004, 4% plus inflation from September 1, 1994 to August 31, 1997, and 3.5% plus inflation prior to that time.

In the 20 years since September 1, 1992, the investment return of the 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 rate of return has been impacted by the severe equity market downturns and financial turmoil over the past 12 years. The fund 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.

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



12-Year Return vs.
Long-Term Investment Objective
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.

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

Rates of Return
to August 31, 2012

Asset Class	1 Year (%) ATRF	1 Year (%) Benchmark	10 Years (%) ATRF	10 Years (%) Benchmark
Canadian Equity	1.6	-3.6	9.3	8.7
Global Equity	10.3	9.1	n/a	n/a
Private Equity	4.0	1.1	n/a	n/a
Universe Bonds	7.2	6.7	6.2	6.2
Long-Term Bonds	13.2	13.0	n/a	n/a
Money-Market	1.1	0.9	2.4	2.2
Real-Estate	6.4	4.9	n/a	n/a
Infrastructure	9.4	5.2	n/a	n/a
Total Fund	**7.8**	**6.3**	**5.7**	**5.7**

Plan Member Services EXCEED BENCHMARKS

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	2010-2011
Ongoing pensioner payments	On the 3rd 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	Within 1 day

Plan Service Stats

Interviews, Seminars and On-Line Services

- ATRF staff conducted 2,210 personal interviews throughout Alberta
- About 1,780 plan members attended our pension seminar at Teachers' Conventions and other sessions
- Almost 16,000 plan members are registered to take advantage of the functions available through On-Line Services
- Almost 3,900 plan members have chosen to receive mailings such as newsletters, statements, and the annual report highlights in electronic format by registering for Join Our Email List

ATRF
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 active plan members and taxpayers share in plan gains and losses.

The Teachers' Pension Plan covers:

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

MANAGEMENT

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

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 HRYNYK
Director, Human Resources and Communications

MYLES NORTON
Director, Financial Services

Alberta Teachers' Retirement Fund Board

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Visit our website to view the complete 2012 Annual Report.