



Report of the Chief Executive OFFICER

The global capital markets were under severe pressure in the past fiscal year ended August 31, 2009, primarily due to the fallout of the sub-prime and asset-backed commercial paper markets, and the resulting extreme credit squeeze that impacted all global markets. It was a very disappointing year for investment returns. Not only were the global markets very negative but our returns fell short of our target benchmark.

At the end of the first half of the fiscal year, the funds were down over 20%. The second half of the fiscal year provided some relief to the extreme downturn in the first half of the fiscal year and the Teachers' Pension Plan fund ended the 2008-09 fiscal year with a negative 8.5% rate of return. The Private School Teachers' Pension Plan fund returned negative 12.7% for the fiscal year, as it had a greater exposure to equities in its policy asset mix (see page 16 of this Annual Report).

While the funds have suffered short-term losses, investment returns continue to meet long-term return funding objectives to ensure that plan benefits are funded in accordance with the established funding structure. Over the 17-year period from September 1, 1992,

to August 31, 2009 the Teachers' Pension Plan has on average earned 6.9% each year, exceeding the plan's funding rate of return objective of 6.7% by 0.2% each year. Over this same period, the Private School Teachers' Pension Plan has returned 6.6%, just short of matching the plan's 6.7% funding rate of return objective.

Investment Risk and Benefit Security

Pension funds take on investment risk to pursue higher potential investment returns from riskier asset classes such as equities in order to keep the amount of ongoing funding contributions by plan members and employers at an acceptable level. Taking on an appropriate level of investment risk is required, as investment returns provide for about 80% of the funding of pension plan benefits. Without pursuing return-enhancing investments that carry with them related additional risks, pension plan funding contributions from plan members and employers would have to be significantly higher.

It is important to understand that ATRF takes on diversified and prudent investment risk and that there will be times where investment shortfalls arise. The negative performance of the fund over the past fiscal year has resulted in an increased funding deficiency that, in accordance with legislation, is required to be funded through increased funding contributions over a 15-year period. The Board Chair's report has outlined these additional contribution rate increases.

Although investment losses occurred and contribution rates will increase, the pension benefits under the plans are safe.

- The pension 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 under the Teachers' Pension Plan are guaranteed by the Government of Alberta.
- The funding of benefits for pensionable service after August 1992 under the Teachers' Pension Plan and for all benefits under the Private School Teachers' Pension Plan is structured to make certain that funding contributions are adequate.
- We carefully oversee the investment policies, asset mix and fund managers to maximize risk-controlled, long-term investment returns.
- The funding status of the plan is regularly reviewed and contribution rate adjustments are made as required to ensure that all pension payments will be made.

We are long-term investors and invest the assets of the funds based on detailed studies of the future long-term make up of the liabilities of the plans. The policy asset mix is set to best match the funding policy and liability structure of the plans, and the funds are well positioned to weather the recent events of the financial markets. We are confident that despite the market events over the past two fiscal years, the plans will meet their funding and investment objectives over the long term.

Revised Investment Policy

During the past fiscal year, we undertook significant work to reassess the funding, liability and investment structures of the plans in order to recognize the new funding agreement agreed to between the plan sponsors effective September 1, 2009 and our expectation of future economic and investment developments.

We carried out a comprehensive asset-liability study of the two plans. The end result of this study was the establishment of an optimal policy asset mix that maximizes the funded ratio of the plans while minimizing the volatility of the total funding contribution rates to ensure that the total funding contribution rates do not become unaffordable. A more detailed discussion of the new target policy asset mix is provided starting on page 11.

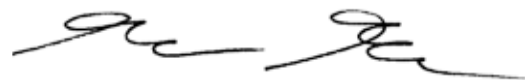
Work has commenced to develop a plan to implement the new target policy asset mix. We expect to complete a detailed implementation plan by the end of 2009 and to commence implementation of the new policy asset mix in 2010. Considerable time will be required to implement the new target policy asset mix, particularly the less-liquid, new asset classes of real estate and infrastructure. A transition period will be required to allow the current policy asset mix to shift toward the new target policy asset mix over time.

Our Services and Our People

I wish to particularly acknowledge the successful and ongoing dedication of the employees of ATRF in serving the needs of our customers: the plan members and their representatives, the staff of the employers, various officials of the plan sponsors and our other stakeholders. Not only do our employees exceed the benchmarks for delivery of services, they do so very efficiently. As compared to a group of major Canadian public sector pension organizations that benchmark cost and service levels, ATRF has the lowest cost per plan member.

In addition, employees of ATRF scored very highly on the results from surveys of plan members last year. Of those who responded to our surveys, 95% representing active plan members, 98% representing pensioners and 99% of newly retiring plan members rated overall services by ATRF employees as good to excellent.

I value the counsel and support from the members of the Board and the Investment Committee. I wish to thank them for their commitment to securing the pension income of Alberta teachers and to the effective governance of ATRF.



Emilian V. Groch
Chief Executive Officer