

Management Discussion & ANALYSIS

This section of the Annual Report provides a detailed overview from management's perspective of the investments, assets 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 likely differ from those anticipated.

PLAN LIABILITY, FUNDING AND INVESTMENT 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 plan sponsors agreed to significant changes to the funding of the Pre-1992 Period liabilities effective September 1, 2009. There are no assets in the Pre-1992 Period. The liabilities of the Pre-1992 Period consist of the actuarial value of the accrued Pre-1992 Period pension benefits plus a loan of \$1.185 billion that was lent by the Post-1992 Period fund to ensure the payment of pensions to plan members who earned pensionable service prior to September 1992.

Effective September 1, 2009, the Government of Alberta has assumed full responsibility for funding Pre-1992 Period benefits. The Government of Alberta guarantees the payment of benefits related to the Pre-1992 Period and is providing ATRF sufficient funds to pay these as they become due. In addition, we expect the Government of Alberta to repay the \$1.185 billion loan to the Post-1992 Period fund in January 2010.

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 Board has adopted a funding policy for the Post-1992 Period 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 Post-1992 Period plan over the long term and to ensure the provision of benefits to plan members and their beneficiaries.

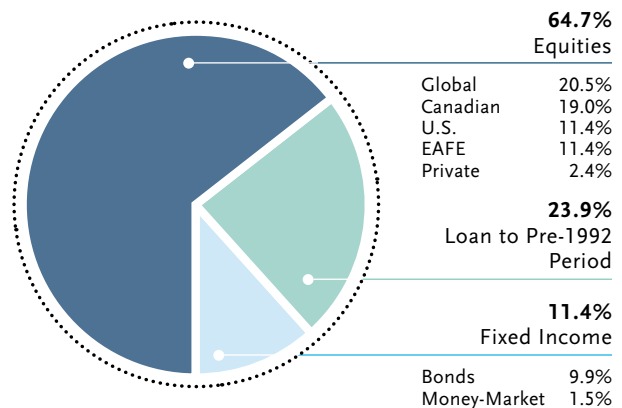
The key elements of the funding policy are as follows:

- The primary objective is benefit security focused on maximizing the likelihood of maintaining a plan funded ratio of at least 100%. This is a crucial 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 assumptions for the long-term investment rate of return, inflation and/or salary increases may be 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 range of 100% and 110% of the liabilities based on the best-estimate-assumption basis, with a target level equal to 105% of the best-estimate liabilities.
- To achieve stability in contribution rates, the funding-assumption basis could 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 110% of best-estimate liabilities, thereby providing a reserve for future adverse plan funding experience.

Policy Asset Mix – August 31, 2009

The chart below shows the policy asset mix for the Teachers' Pension Plan Post-1992 Period as at August 31, 2009.

**POLICY ASSET MIX – POST-1992 PERIOD
TEACHERS' PENSION PLAN**
at August 31, 2009



With the significant change in the funding to the Teachers' Pension Plan effective September 1, 2009 and the anticipated repayment of the \$1.185 billion loan to the Pre-1992 Period in January 2010, it was necessary for us to undertake a fundamental review of our long-term investment policies.

New Policy Asset Mix

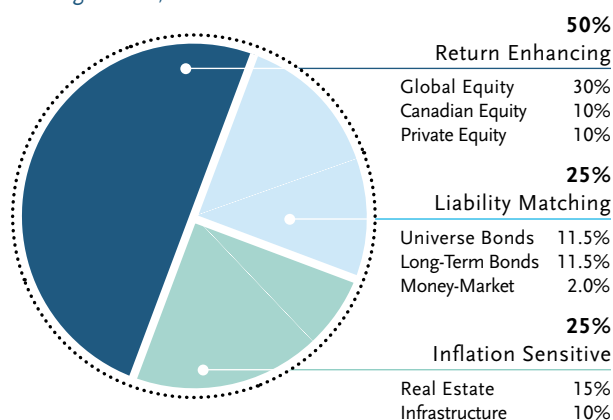
The expected elimination of the loan to the Pre-1992 Period from the plan's asset mix, which represented about 24% of all plan assets as at August 31, 2009, was the key consideration in our re-examination of the investment policies under the plan. Two additional key elements in this re-examination were the funding policy outlined above and the fact that the Post-1992 Period plan has relatively immature liabilities and will have positive cash flow for about the next 15 years.

We undertook a wide-ranging asset-liability study of the plan. The objective of this study was to establish a new optimal policy asset mix that would maximize the funded ratio of the plan while minimizing the volatility of the total funding contribution rates. Management worked with the plan's actuary, external investment

specialists, the Investment Committee and the Board to complete the study and to recommend a revised policy asset mix to the Board.

We assessed other available asset classes that were not currently part of the policy asset mix and selected three new asset classes for the fund: long-term bonds, real estate and infrastructure. Long-term bonds were selected for their liability-matching attributes. Real estate and infrastructure were selected as they have some inflation-sensitive characteristics that provide a partial match to the inflation-related elements of the benefits under the plan. The long-term target policy asset mix in the following chart was adopted by the Board.

**NEW TARGET POLICY ASSET MIX –
POST-1992 PERIOD TEACHERS' PENSION PLAN**
at August 31, 2009



The change to the above 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. Management intends to pursue strategic partnerships with external managers and like-minded investors to manage these illiquid asset classes.

This means developing relationships with investment managers that are capable of customizing an asset management solution in the near term that is sufficiently flexible to accommodate the changing needs of ATRF over the long term. It may also mean collaborating with other Canadian pension plans and institutional investors. Using this approach ATRF can progressively acquire the requisite knowledge, experience and relationships required to internally manage certain asset classes more cost-effectively.

Funding Actuarial Valuation Results

A funding actuarial valuation of the Post-1992 Period Teachers' Pension Plan was conducted as at August 31, 2009 to establish the ongoing funding position of the plan and the required funding contribution rates that will be effective September 1, 2010.

The discount rate for this valuation was based on the long-term expected return of the fund considering the long-term revised target policy asset mix and funding policy outlined above. The discount rate was set at 6.75%, a decrease of 0.50% from the previous valuation as at August 31, 2008. The long-term inflation rate assumption was set at 2.75%, down from 3.0% in the prior valuation. All other valuation assumptions were the same as those used in the actuarial valuation as at August 31, 2008, except that the mortality table was adjusted for expected future increases in the life expectancy of plan members.

The following table outlines the results of the funding actuarial valuation as at August 31, 2009, based on a 4.82% increase to salaries pursuant to collective agreements effective September 1, 2009.

TEACHERS' PENSION PLAN POST-1992 PERIOD	
at August 31, 2009	(\$ Billions)
Funding Liabilities	7.070
Funding Value of Assets ¹	5.304
Funding Deficiency	1.766

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, 2009, the plan's funding value of net assets available was \$374 million higher than the fair value of net assets available (2008 - \$135 million higher).

The funding actuarial valuation showed that the combined contribution rate requirement by both teachers and the Government of Alberta for the Post-1992 Period is 20.69% of all teacher salaries. Significant contribution rate increases arose due to the decrease in the discount rate and the requirement to amortize some of the investment losses from the severe market downturn in the past fiscal year over the next 15-year period.

If the 4.82% salary increase under the collective agreements is modified to be 5.99%:

- The liabilities under the plan would increase \$54 million and the resulting deficiency would increase from \$1.766 billion to \$1.820 billion.
- The cost of future benefits to be earned by teachers would increase by 0.02% of total teacher salaries, 0.01% each for teachers and the Government of Alberta.
- The total amortization rate for the deficiency would increase 0.10%, 0.05% for both teachers and the Government of Alberta.
- The combined contribution rate requirement by both teachers and the Province of Alberta for the post-August 1992 benefit period of the Teachers' Pension Plan would increase by 0.12% from 20.69% to 20.81% of all teacher salaries.

The table below shows the September 2009 contribution rates and the revised contribution rates that would come into effect September 1, 2010, based on the results of the August 31, 2009 funding actuarial valuation based on both a 4.82% and a 5.99% salary increase under the collective agreements.

TEACHERS' PENSION PLAN			
Contribution Rates	September 2009	September 2010 - Based on 4.82% Salary Increase	September 2010 - Based on 5.99% Salary Increase
(Percent)			
Teachers			
Total Teacher Contribution	9.51	10.65	10.71
Salary up to YMPE ¹	8.05	9.01	9.04
Salary above YMPE	11.50	12.87	12.91
Government	8.93	10.04	10.10

¹ YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan (\$47,200 in 2010).

Best-Estimate Actuarial Valuation Results

For the purposes of the financial statements, we conduct a best-estimate actuarial valuation. This best-estimate valuation uses a mark-to-market approach that values plan liabilities and assets based on current market values. It therefore, cannot use the 6.75% discount rate used for the funding valuation, as the funding valuation included a 0.25% 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.

In addition, the best-estimate actuarial valuation must use the fair value of net assets and cannot employ the actuarially accepted practice of smoothing market returns over a five-year period used in the funding actuarial valuation. It is for these reasons that the asset and liability amounts of the best-estimate actuarial valuation differ from those in the funding actuarial valuation.

The table below outlines the results of the best-estimate actuarial valuation as at August 31, 2009.

TEACHERS' PENSION PLAN POST-1992 PERIOD	
at August 31, 2009	(\$ Billions)
Best-Estimate Liabilities	6.829
Fair Value of Assets	4.929
Deficiency	1.900

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.

Funding Policy

The Board has 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.

The significant difference in the funding policy for the PSTPP, as compared to the funding policy outlined above for the Post-1992 Period of the Teachers' Pension Plan, is the addition of a further margin for potential adverse plan experience. The PSTPP is a small, voluntary pension plan where there is the potential risk of plan termination if all participating private school employers withdraw from the plan. As a result, the funding policy for the PSTPP must contain additional margins as compared to the large Teachers' Pension Plan where legislation does not permit eligible teachers and employers to withdraw from the plan. The key differing elements of the funding policy are as follows:

- The funding-assumption basis is determined by the PSTPP's actuary, in consultation with ATRF, to achieve the funding objectives. The funding-assumption basis is set such that the liabilities fall within a range of 100% and 120% of the liabilities based on the best-estimate-assumption basis, with a target level equal to 110% of the best-estimate liabilities.
- To achieve stability in contribution rates, the funding-assumption basis could be adjusted to achieve liabilities of up to 120% of best-estimate liabilities, thereby reducing surplus, or 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.

New Policy Asset Mix

We also completed a comprehensive asset-liability study of the PSTPP. The objective of this study was to establish a revised optimal policy asset mix that would maximize the funded ratio of the plan while minimizing the volatility of the total funding contribution rates. The study concluded that the new long-term target policy asset mix outlined above for the Post-1992 Period of the Teachers' Pension Plan was also optimal for the PSTPP.

The PSTPP will participate in the identical investments over the same transitional period that will be employed for the overall fund with respect to the Post-1992 Period of the Teachers' Pension Plan.

Funding Actuarial Valuation Results

A funding actuarial valuation of the PSTPP was conducted as at August 31, 2009 to establish the ongoing funding position of the plan and the required funding contribution rates that will be effective September 1, 2010.

The discount rate for this valuation was based on the long-term expected return of the fund considering the long-term revised target policy asset mix and funding policy outlined above. The discount rate was set at 6.50%, a decrease of 0.75% from the previous valuation as at August 31, 2008. The long-term inflation rate assumption was set at 2.75%, down from 3.0% in the prior valuation.

The following table outlines the results of the funding actuarial valuation as at August 31, 2009.

PRIVATE SCHOOL TEACHERS' PENSION PLAN	
at August 31, 2009	(\$ Millions)
Funding Liabilities	34,520
Funding Value of Assets ¹	29,528
Funding Deficiency	4,992

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, 2009, the plan's funding value of net assets available was \$2.684 million higher than the fair value of net assets available (2008 - \$1.515 million higher).

The funding actuarial valuation showed that the combined contribution rate requirement by both teachers and the private school employers is 19.98% of all teacher salaries. Significant contribution rate increases arose due to the decrease in the discount rate and the requirement to amortize some of the investment losses from the severe market downturn in the past fiscal year over the next 15-year period. The table below shows the September 2009 contribution rates and the revised contribution rates that will come into effect September 1, 2010, based on the results of the August 31, 2009 funding actuarial valuation.

PRIVATE SCHOOL TEACHERS' PENSION PLAN		
Contribution Rates (Percent)	September 2009	September 2010
Teachers		
Salary up to YMPE ¹	7.63	9.07
Salary above YMPE	10.91	12.95
Private Schools	8.08	9.65

¹ YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan (\$47,200 in 2010).

Best-Estimate Actuarial Valuation Results

For the purposes of the financial statements, we conduct a best-estimate actuarial valuation. This best-estimate valuation uses a mark-to-market approach that values plan liabilities and assets based on current market values. It therefore, cannot use the 6.50% discount rate used for the funding valuation, as the funding valuation included a 0.50% 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.

In addition, the best-estimate actuarial valuation must use the fair value of net assets and cannot employ the actuarially accepted practice of smoothing market returns over a five-year period used in the funding actuarial valuation. It is for these reasons that the asset and liability amounts of the best-estimate actuarial valuation differ from those in the funding actuarial valuation.

The following table outlines the results of the best-estimate actuarial valuation as at August 31, 2009.

PRIVATE SCHOOL TEACHERS' PENSION PLAN	
at August 31, 2009	(\$ Millions)
Best-Estimate Liabilities	32.201
Fair Value of Assets	26.844
Deficiency	5.357

Funding Risks Looking Forward

The 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 actuarial valuations.

Key among those assumptions is the expected rate of return of the fund. While the long-term expected rate of return is based on our best estimate of the long-term future rate of return of the fund's policy asset mix, there can be significant deviation from this estimate over shorter periods of time. The plans experienced a significant negative deviation from the long-term expected rate of return over the past fiscal year.

The plans smooth investment gains and losses to mitigate the annual impact on the funding status of the plans and to moderate short-term adjustments to contribution rates. It is important to understand that the plans must still recognize large investment losses from the past two fiscal years over the next four years, and the funding deficiencies will grow unless the investment markets turn sharply positive.

INVESTMENT MANAGEMENT

The global financial crisis, which began in late 2007 with the collapse of the sub-prime mortgage market, continued to deepen throughout 2008, triggering the worst global recession in several decades. The first half of the 2008-09 fiscal year saw the failure of major global financial institutions, and unprecedented actions by national governments in order to prevent further failures. This economic backdrop proved to be extremely destabilizing for financial markets, and equity and credit markets around the world dropped precipitously. In the second half of the year, economies began to show early signs of recovery, and markets rebounded significantly. This recovery however, was not sufficient to offset all of the losses from the first half of the fiscal year.

For the 2008-09 fiscal year, the Teachers' Pension Plan fund declined 8.5% while the Private School Teachers' Pension Plan fund fell 12.7%. The significant difference in return between the two funds stems from the fact that 24% of the assets of the Teachers' Pension Plan fund consisted of a fixed-income asset representing the loan to the Government of Alberta related to the payment of plan benefits for service prior to September 1992. This means that the Private School Teachers' Pension Plan had greater exposure to equity markets, resulting in a lower overall rate of return.

ATRF's investment portfolio continues to be structured with a long-term view, and remains globally diversified across a variety of equity and fixed-income markets. In the coming year, we will begin implementation of the new target policy asset mix, which will involve initiating investment programs for long-term bonds, real estate and infrastructure. We expect that this process will involve a combination of enhanced internal investment management, and the establishment of new strategic partnerships with external investment managers and advisors. We will also continue the development of our investment risk systems, which will provide us with more information on management of risk inherent in our investment portfolios.

Equity Markets

The 2008-09 fiscal year was a story of two very different halves. The first six months of the year was a continuation of the prior year themes, where the contraction and ultimate freezing of credit markets

impacted economic growth and corporate profitability. This translated into very poor equity market performance as corporations' access to all forms of capital became either very expensive or non-existent. Panic culminated in the first half of the year with most global equity markets declining between 30 and 50 percent. In the second half of the year, markets staged a dramatic recovery with returns averaging between 30 and 50 percent. Although not recovering all that was lost, the rally provided welcome relief to investors who had endured an 18-month bear market.

Financial institutions bore the brunt of many of the issues facing global economies as they typically are at the centre of most financial transactions. Weak lending practices from prior years sparked catastrophic losses, to which no one was immune. Although bankruptcies became common, one of the greatest collapses was that of Wall Street investment bank, Lehman Brothers. Lehman's over-exposure and over-leverage to weak sub-prime mortgages and poor credit derivatives brought about its insolvency and ultimate bankruptcy. Although there were many factors that brought about the ensuing financial market collapse, this event may have been one of the most significant as it showed government willingness to allow some institutions to fail.

Banks and insurance companies may have taken centre stage in this market downturn; however, every sector was impacted as the financial crisis sparked an economic decline, the magnitude of which had not been seen since the Great Depression. Commodities declined due to economies shrinking around the world. Crude oil declined by over two-thirds from the peak at US\$145 per barrel to bottom near US\$30 per barrel, and some energy stocks declined by a similar amount. Base metals declined by more than half along with industrial and transportation stocks. Only gold stocks performed well, as investors looked for a safe haven as other asset classes were declining.

The second half of the year proved to be virtually a mirror image of the first half. A concerted effort by governments and central banks around the world provided much needed liquidity and relief to economies. Central banks dropped benchmark rates as close to zero as possible to encourage lending, while governments provided loan guarantees and incentives to spend in order to help bring confidence back to the system. In the end, these efforts helped provide assurance

that global economies have the resources necessary to recover from the credit problems and economic slowdown. Stock markets around the world rallied into the end of the fund's fiscal year.

EQUITIES		
at August 31, 2009	(\$ Millions)	(%)
Canadian	1,003	27
Global	932	25
EAFE	524	14
U.S.	466	12
Private	121	3
Total¹	3,046	81

¹ includes \$47.1 million cash and \$4.5 million in accrued interest.

Canadian Equities

The Canadian equity market followed stock markets around the world this past year as the index halved and touched lows in March 2009 then rallied approximately 50% to the end of August. In stark contrast to prior years, every sector was down for the year, indicative of the widespread downturn in the economy. Commodity price fluctuations had the most significant impact on the Canadian equity market, with energy price declines alone accounting for close to half of the overall 18.2% decline in the S&P/TSX Composite Index.

Although the financial sector was hit hard globally, the Canadian financial system's more conservative practices and stronger regulatory oversight resulted in relatively good performance by Canadian banks. Information technology stocks also performed poorly, highlighted by a significant drop in mobile technology leader Research In Motion, and the bankruptcy filing of former market leader Nortel Networks.

U.S. Equities

The U.S. market is always key in the global financial marketplace and the past year was no exception. Lingering sub-prime issues, high housing inventories, rising unemployment, and general economic weakness all contributed to a dramatic decline in the first half of the year. Massive intervention by the Federal Reserve and other government agencies allowed the economic decline

to slow, and confidence began to return to corporations and consumers through the spring and summer of 2009. As in other markets, this triggered a significant equity and credit market recovery in the second half of the year. Although the Russell 3000 Index rose by more than 40% in the second half of the year, the weakness of the U.S. dollar relative to the Canadian dollar during that period diluted the return by half. For the fiscal year, the Russell 3000 Index declined 15.7% in Canadian dollars.

Non-North American Equities

European and Asian markets followed a similar path to North American markets with massive declines in the first half followed by a confidence-inspired second half recovery. The Canadian dollar return of the Morgan Stanley Capital Europe, Australasia and Far East (MSCI EAFE) Index for the fiscal year was -11.9%.

Europe had its own examples of financial market failures along with massive job losses, and economic contraction. The European Union was late in joining the U.S. and other countries in dropping short-term interest rates and providing stimulus packages but the impact of those efforts were felt later in the fiscal year.

In Asia, the cyclical nature of many of the economies caused these markets to turn down earlier and their resultant recovery is now more advanced. China's market began its steep descent in the fall of 2007, bottomed in the fall of 2008, and doubled going into August 2009. Along with other Asian nations, China is growing more rapidly than the rest of the world, and many investors look for this region to continue to lead the world in economic growth for many years to come.

Private Equity

Our private equity program continues to grow, and ATRF made three additional commitments within established manager relationships during the year. Although the global financial crisis slowed the pace of new investment considerably, overall investment in private equity increased by the end of the year. While we maintain only a limited number of direct manager relationships, the portfolio is well diversified by geography and investment type with investments in over 200 underlying partnerships.

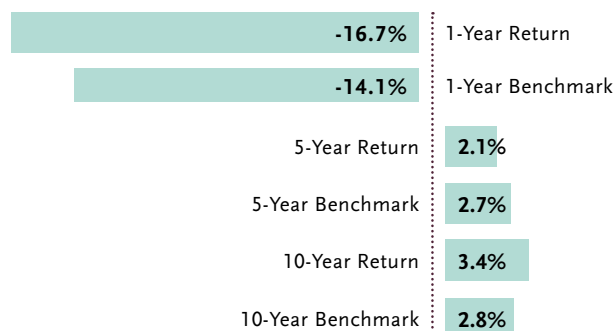
ATRF's private equity strategy was established in 2006, and has been designed to allow private equity investment to reach the long-term target allocation over the next

several years. Looking ahead, our new policy asset mix increases this long-term target allocation to 10% of assets. In the coming year we will update our overall private equity strategy in order to achieve this new, higher target allocation over the next several years.

Equity Portfolio Performance

In order to achieve diversification by region, market capitalization and investment style, ATRF holds its public and private equity investments in a variety of different portfolios. In a difficult year for all investment managers, these portfolios delivered a combined return of -16.7%, which was below the fund's equity benchmark return of -14.1%. While the relative returns were disappointing this year, the performance of our equity portfolios continues to exceed the benchmark over longer-time periods.

TOTAL EQUITY VS. BENCHMARK PERFORMANCE to August 31, 2009



Canadian equities are held in four separate portfolios, each with a different investment style. The largest of these is managed in-house by ATRF's own investment professionals, while the other three are managed by ATRF's external investment partners. These portfolios are highly differentiated by their degree of exposure to financial and commodity stocks, as well as market capitalization, which led to wide differences in performance during the year. On a combined basis however, ATRF's Canadian equity portfolios returned, -17.1%, which was 1.1% above the -18.2% return of the benchmark S&P/TSX Composite Index.

In the case of U.S. equities, ATRF makes use of two external investment firms. Both of these firms use a quantitative approach to investment management. Unfortunately, the extremely high degree of market volatility over the past year did not lend itself well to

this approach, and both portfolios underperformed the benchmark. Taken together, ATRF's U.S. equity portfolios, returned -17.6%, underperforming the Russell 3000 Index, which returned -15.7% in Canadian dollars.

Non-North American equities are also managed by two external managers, each representing a fundamentally different investment style from the other. On a combined basis, ATRF's non-North American portfolios generated a Canadian dollar return of -13.7%, versus -11.9% for the benchmark MSCI EAFE Index.

The portfolios noted above are all mandated to invest in specific countries or regions of the world. ATRF also invests with two external managers of global equity portfolios. We ask these managers to seek out the most attractive equity investment opportunities from around the world, without any specific regard to geography. Taken together, these two portfolios returned -16.0%, which was below the benchmark Morgan Stanley Capital World Index, which returned -14.2% for the year.

Going forward, ATRF's new policy asset mix will reduce the number of public equity benchmarks we reference from four to two. Canadian equities will continue to be benchmarked relative to the S&P/TSX Composite Index. All non-Canadian public equities will be benchmarked on a combined basis to the Morgan Stanley Capital World Index.

As noted above, ATRF's private equity program continues to grow, and the pace of investment will accelerate in the future as a result of the increased allocation to 10% of assets. Unlike public equities, private investments are typically illiquid and are not valued based on prices quoted on stock exchanges. Valuations tend to be established infrequently, based on best-estimates of fair market value, and price adjustments typically lag valuations in the public markets. While ATRF's private equity program is in its early stages of growth, rates of return are not meaningful as the returns on earlier investments tend to be offset to a large degree by management fees on newer investments. During this growth phase of the program, the benchmark return for ATRF's private equity investments has been set to equal the actual rate of return earned on the portfolio. For the 2008-09 fiscal year, this rate of return was -23.5%, as private equity valuations were adjusted downward in response to the weak financial markets in the first half of the fiscal year.

RATES OF RETURN - TOTAL EQUITY to August 31, 2009						
Asset Class	1 Year (%)		5 Years (%)		10 Years (%)	
	ATRF	Benchmark	ATRF	Benchmark	ATRF	Benchmark
Canadian Equities	-17.1	-18.2	7.1	8.0	9.9	8.4
U.S. Equities	-17.6	-15.7	-4.7	-3.2	-4.6	-3.8
EAFE Equities	-13.7	-11.9	4.6	2.0	1.0	-0.7
Global Equity	-16.0	-14.2	n/a	n/a	n/a	n/a
Private Equity	-23.5	-23.5	-5.3	n/a	n/a	n/a
Total Equity	-16.7	-14.1	2.1	2.7	3.4	2.8

Fixed-Income Markets

Canadian Bonds

With the global economy going through a period of unprecedented financial instability in 2008-09, all financial markets saw wild swings in sentiment and valuations. The Bank of Canada continued to cut rates aggressively, taking the key overnight lending rate down from 3% to 0.25% by the end of April. Government of Canada 10-year and 30-year bond yields fell as low as 2.5% and 3.4% respectively in mid-January before moving steadily higher into the summer months.

Provincial and corporate spreads were very volatile over the past 12 months with 10-year provincial bonds moving from 0.8% over Government of Canada yields to 1.6% over in mid-December and then rallying to only 0.7% over by the end of August. Canadian bank bonds were some of the most volatile instruments with spreads over Government of Canada yields for Tier 1 capital moving from 2.6% to 6.0% and then back down to 1.8% by the end of August.

Money-Market Securities

Funds generated from investment income and contributions are invested in money-market investments prior to allocating the funds to more long-term investments or benefit payments. Normally, the fund holds between 1% and 4% of its assets in cash or money-market securities. The extreme volatility in

financial markets over the past year led to a flight to quality, taking money-market yields to unprecedented lows by mid-year. Despite rallies in equity and credit markets, money-market yields stayed stubbornly low, with the 30-day T-Bill yield averaging less than 1% throughout the second half of the year.

FIXED INCOME		
at August 31, 2009	(\$ Millions)	(%)
Total Canadian Bonds ¹	600	16
Money-Market Securities	111	3
Total	711	19

¹ includes \$4.7 million in accrued interest.

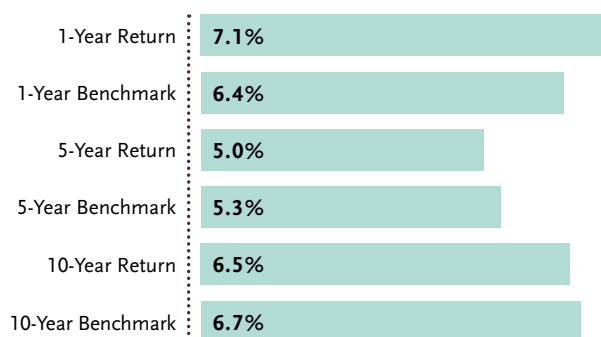
Fixed-Income Portfolio Performance

ATRF's Canadian bonds are held in two distinct portfolios. The larger of the two is managed internally by ATRF's own investment professionals. This portfolio performed extremely well in a very volatile and challenging year for fixed-income managers. The smaller of the two portfolios is externally managed and has a mandate to invest in a greater variety of fixed-income products, which includes a higher degree of exposure to credit. This credit exposure led to poor performance in the first half of the year and excellent performance in the second half of the year. When taken together, ATRF's Canadian bond portfolios returned

8.3%, well in excess of the benchmark DEX Universe Bond Index, which returned 7.2% for the year.

With short-term interest rates at or near all-time lows for most of the year, it was very difficult to earn a meaningful return from money-market instruments. For the year, ATRF's money-market portfolio returned 1.5%, which exceeded the 1.0% return of the DEX 30 Day T-Bill Index. On the whole, ATRF's fixed-income portfolios returned 7.2% for the year, which compared favourably to the benchmark return of 6.4%.

FIXED-INCOME RETURN VS. BENCHMARK PERFORMANCE to August 31, 2009



RATES OF RETURN - TOTAL FIXED INCOME

to August 31, 2009

Asset Class	1 Year (%)		5 Years (%)		10 Years (%)	
	ATRF	Benchmark	ATRF	Benchmark	ATRF	Benchmark
Canadian Bonds	8.3	7.2	5.4	5.8	6.4	6.6
Money-Market Securities	1.5	1.0	3.2	2.9	3.4	3.2
Total Fixed Income	7.1	6.4	5.0	5.3	6.5	6.7

Active Currency

The past year was the first full year of investment for ATRF's new active currency mandates. These portfolios are designed to add long-term absolute value to the fund through active management of currencies. Similar to many of ATRF's actively managed equity and fixed-income managers, our two currency managers use security selection as their primary source of value-added. They differ from these more conventional mandates however, in that they take positions in currency derivatives based on a notional value of assets. The degree of risk assumed is pre-defined and tightly

controlled through specific exposure limits to individual currencies, guidelines related to the types of securities used, and specific stop-loss provisions.

The extreme volatility experienced in financial markets over the past year was also reflected in instability in global currency markets. This proved to be a difficult environment for our currency managers, leading to disappointing first-year results. For the year, our currency mandates lost \$9.1 million, which translates into a loss of approximately 0.2% for the Teachers' Pension Plan and 0.3% for the Private School Teachers' Pension Plan.

LONG-TERM INVESTMENT PERFORMANCE

Long-Term Investment Objective

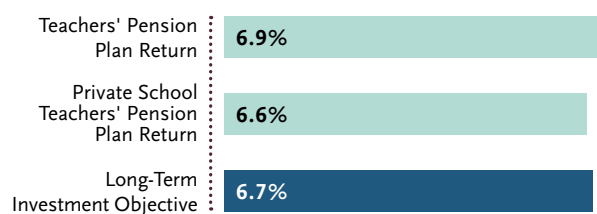
The primary long-term investment objective of the fund is to meet the real rate of return target above the level of Alberta inflation. This target is an essential long-term assumption in determining the funding requirements of the plans to ensure that plan benefits are funded in accordance with the established 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 plans.

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 past 17 years, since September 1, 1992, the investment performance of the Teachers' Pension Plan has surpassed the long-term objective. The annualized rate of return on the fund's assets over this time period has been 6.9%, which exceeds the 6.7% rate of return objective by 0.2% per year.

The investment performance of the Private School Teachers' Pension Plan has been slightly lower, as it has not had the benefit of the stable return from the loan that is part of the assets of the Teachers' Pension Plan. As a result the annualized rate of return on that fund's assets over the same time period has been 6.6%, which is very slightly below the rate of return objective of 6.7%.

17-YEAR RETURNS VS LONG-TERM INVESTMENT OBJECTIVES - to August 31, 2009



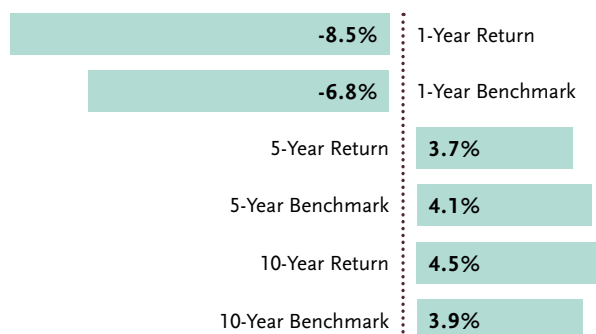
Benchmark Performance

The overall effectiveness of ATRF's managers, asset classes and investment strategies are assessed by comparing the rates of return achieved to the benchmark, as selected by the Board and Investment Committee. The total-fund benchmark is calculated by aggregating the asset-class benchmark indices, weighted to reflect the fund's policy asset mix.

Relative returns were disappointing in the past fiscal year as strong performance from internally-managed equity and bond portfolios was more than offset by weak relative performance by several of ATRF's non-Canadian equity portfolios, as well as the new active currency mandates. Additionally, ATRF's asset mix was positioned defensively relative to policy, in response to the significant market turmoil in the first half of the year. This resulted in the fund lagging the market somewhat during the rapid and sharp recovery which took place in the second half of the year.

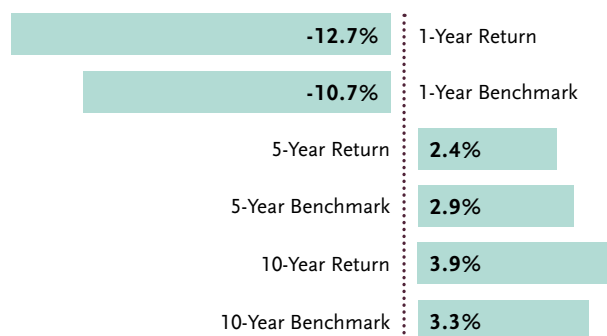
As shown in the table below, the Teachers' Pension Plan fund return fell 1.7% below the benchmark for the fiscal year. For the five-year period ended August 31, 2009, the return is 0.4% below the benchmark return. Over 10 years however, the Teachers' Pension Plan fund rate of return exceeds the benchmark by 0.6%.

TEACHERS' PENSION PLAN RETURN VS. BENCHMARK PERFORMANCE - to August 31, 2009



For the Private School Teachers' Pension Plan, the fund return for the past year was 2.0% below benchmark. Over the past five years, the return is 0.5% below benchmark, while over the 10-year period the fund return exceeds the benchmark by 0.6%.

PRIVATE SCHOOL TEACHERS' PENSION PLAN VS. BENCHMARK PERFORMANCE - to August 31, 2009



Socially Responsible Investing

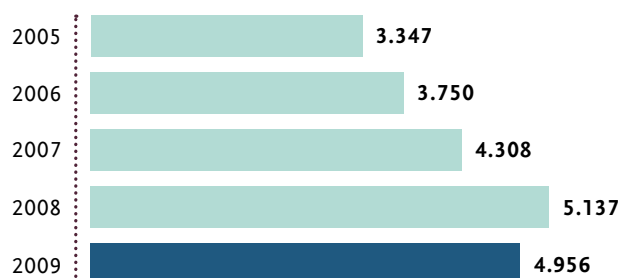
An important part of ATRF's long-term investment strategy involves encouraging corporations to adopt best practices in corporate governance, including matters related to social responsibility. We accomplish this in three ways:

- Our investment managers communicate with the management and boards of companies in which we invest, and include corporate governance and social responsibility in their discussions.
- We also communicate with other shareholders, and may contribute to a joint approach in promoting change in corporations toward improved corporate governance. ATRF is a founding member of the Canadian Coalition for Good Governance (CCGG). The primary goal of CCGG is to improve the governance practices of Canadian corporations. Its members include many of Canada's largest institutional investors.
- Our proxy voting guidelines are similarly targeted toward promoting good governance practices and shareholder rights in corporations. In our guidelines we express support for the OECD Guidelines for Multinational Enterprise. This 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. They have been endorsed by the member countries of the Organization for Economic Cooperation and Development as a policy tool to promote corporate social responsibility.

CHANGE IN NET ASSETS

The severe decrease in global investment markets in the first half of the fiscal year that was only partially recovered by year-end resulted in a year-over-year decrease in fund assets of \$181 million (a drop of 3.5%) leaving the fiscal year-end value at \$4.956 billion. Investment losses of \$443 million, offset by \$262 million in positive net cash flows from contributions above benefit payments and expenses, accounted for this change.

NET ASSETS (\$ BILLIONS)



Costs of Providing Services

Total operating costs decreased by almost 2% to \$18.199 million. Investment costs decreased from \$14.516 million in the previous year to \$13.947 million for the 2008-09 fiscal year, as external investment management fees decreased in combination with the downturn in the global investment markets. Fund investment costs for the 2008 calendar year were about 45 cents for each \$100 of assets. This level of cost is similar to costs incurred by comparable funds as measured by Cost Effectiveness Measurement Inc., who performs an annual analysis of our investment expenses. They have calculated the average cost for a Canadian pension fund of a similar size and asset mix to be 43 cents for each \$100 of assets for the 2008 calendar year, while the cost for balanced mutual funds is \$2.57 for each \$100 of assets.

INVESTMENT COSTS

(\$ Thousands)	2009	2008
External investment management fees	9,976	11,164
Salaries and benefits	1,940	1,596
Custodial and banking charges	965	1,003
External professional services	586	254
Communications	237	247
Premises and equipment	134	133
Board and Investment Committee	66	74
Audit	39	35
Other	4	10
Total	13,947	14,516

Plan member service costs increased 5.6% to \$4.252 million, from \$4.024 million in the previous year. The cost of providing services to plan members in the 2008-09 fiscal year was \$68 per member comparing favourably to the average of \$138 per member for the group of major Canadian public sector pension organizations that meet regularly to benchmark cost and service levels, to examine and compare operations, and to identify opportunities for enhancing service and cost effectiveness.

PLAN MEMBER SERVICE COSTS

(\$ Thousands)	2009	2008
Salaries and benefits	2,541	2,356
External professional services	744	688
Premises and equipment	470	477
Communications	364	345
Board	50	79
Audit fees	39	35
Custodial and banking charges	27	24
Other	17	20
Total	4,252	4,024

Ongoing growth in the number of plan members and the investment costs related to the increasing amount of fund assets will continue to influence operating costs. We continue to carefully manage both investment and administrative costs and to provide plan members with high-quality service in a cost-effective manner.

PLAN MEMBER SERVICES

Plan Members

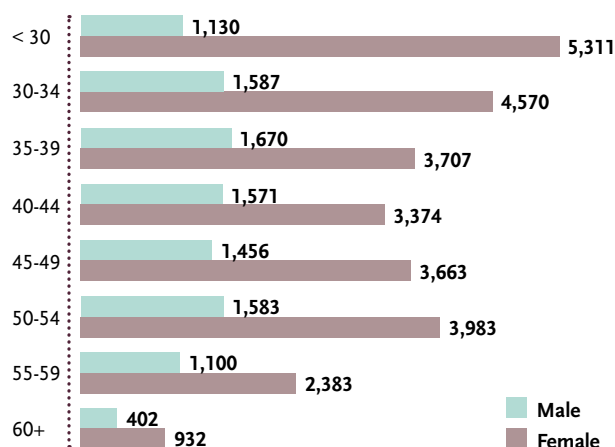
Plan members include:

- 38,422 active members who accrued pensionable service during the 2008-09 fiscal year;
- 21,563 pensioners; and
- 11,769 inactive members.

The active category includes 1,247 disabled teachers who earned pensionable service in the 2008-09 fiscal year. The number of disabled teachers accruing pensionable service as a percentage of the total number of active teachers has decreased slightly over the last three years.

Year ended August 31	Number of Disabled Teachers	Number of Active Teachers	Percentage of Disabled Teachers
2009	1,247	38,422	3.2
2008	1,233	37,627	3.3
2007	1,259	37,577	3.4
2006	1,342	36,640	3.7
2005	1,349	36,266	3.7

AGE AND GENDER DISTRIBUTION OF ACTIVE MEMBERS



Timely Service to Plan Members

We have established benchmarks for the delivery of services and each year measure our benefit delivery against those benchmarks. Below are our service turnaround benchmarks for key processes and our results for the 2008-09 fiscal year, with comparisons for the 2007-08 fiscal year. We met the benchmark in all processes and improved our average elapsed time in three of the nine processes.

SERVICE PROVIDED	BENCHMARK	AVERAGE ELAPSED TIME IN 2008-2009	AVERAGE ELAPSED TIME IN 2007-2008
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	6 days	6 days
Pension payment for new pensioner	Within 7 days	5 days	3 days
Pension estimate	Within 7 days	1 day	3 days
Purchase estimate	Within 14 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	3 days
Non-urgent written inquiries including email inquiries	Within 14 days	2 days	3 days
Telephone inquiries	Within 1 day	Less than 1 day	Less than 1 day

Feedback on our Customer Service

2009 Plan Member Survey

ATRF received high ratings from the 2,800 plan members who responded to our seventh bi-annual plan member survey. The survey was distributed electronically in March to the 11,000 plan members who were registered for On-Line Services. We received an excellent response rate of 25%, and thank those plan members who took the time to respond and provide feedback. The objectives of the survey were to assess how well ATRF is meeting plan member information and service needs, to evaluate the effectiveness of ATRF programs and information sources, and to measure ratings over time.

ATRF achieved top marks from plan members for the seventh consecutive survey, with 95% of respondents rating our overall service as good to excellent. Respondents also gave high ratings to our communication material.

- 96% indicated that the annual plan member statement helped them understand their pension benefits, it was informative, and it was easy to read.
- 95% found the Pension Points newsletter to be easy to read, informative and timely.
- Of the 41% who read the Annual Report Highlights, well over 90% indicated it was informative and assisted them in understanding the financial status of the pension plan.
- 97% of respondents who visited the website found it to be very informative. 92% said it was easy to find information on the website.
- 96% of respondents who used On-Line Services indicated the pension and purchase calculators were valuable tools.

The majority of the 316 written comments indicated ATRF staff is doing a great job, and that the website and communication material are meeting plan member needs. A number of plan members indicated they had difficulty accessing On-Line Services. Part of our review of On-Line Services scheduled for the 2009-10 fiscal year will include ideas and tips to make On-Line Services registration and the ongoing log-in process more user-friendly.

New Pensioner Questionnaire

Each of the 1,060 plan members who retired during the 2008-09 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 the 20% who responded:

- 98% rated ATRF service and communication as good to excellent;
- 70% indicated they were registered for On-Line Services;
- 80% said they had visited the website; and
- 53% had used the online calculator to do pension estimates.

Respondents were invited to provide written comments and 142 did so. The majority of the comments were positive and focused on the excellent customer service and knowledge of ATRF staff. We will use the comments and suggestions provided to continue to improve the level of customer service provided to our retiring plan members.

Communication Activities

Our team of four Pension Counsellors provides individual counselling sessions in our office in Edmonton, as well as at locations throughout Alberta. During the 2008-09 school year, over 1,000 plan members visited our office for an interview. In addition, we conducted 653 interviews with plan members at 11 different locations across the province and with an additional 533 teachers at 10 Teachers' Conventions.

We were invited to present our seminar, Your Pension Matters, to over 1,100 plan members at 15 locations as well as to over 440 teachers at 10 Teachers' Conventions.

In addition to interviews and seminars, we provide information directly to plan members in the following ways:

- annual plan member statements;
- two newsletters – fall and spring; and
- annual report highlights.

Over 2,300 plan members have chosen to receive these mailings in electronic format by registering for Join Our Email List.

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.

Website and On-Line Services

Over 11,400 active plan members and 1,850 inactive plan members have registered to take advantage of the functions available through On-Line Services. Plan members can view and update their personal information online. Active plan members can do benefit calculations based on the most recent salary and service information reported by their employer. They also have the option of submitting applications for plan benefits electronically.

Our goal is to continually enhance the information on our website and in our print material. We have launched five video presentations on the website to provide an alternative way for plan members to receive information about the plan. We also produced a new information kit called Steps to Retirement to assist plan members through the retirement process.

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.

Service to Pensioners

For the second consecutive year, the number of new pensioners decreased. The number of new pensioners who commenced their pension in the 2008-09 fiscal year was 1,060, a decrease of almost 16% from 1,257 in the previous year and significantly less than the record 1,419 new pensioners in the 2006-07 fiscal year. It is expected that the number of new pensions added each year will stabilize at around 1,000 per year for the next decade.

Providing accurate and timely pension payments and information to pensioners are primary goals of ATRF. During the year, we surveyed pensioners to obtain feedback on the effectiveness of our service and communication activities – the Pension Update newsletter, the Pensioners section of the website and the On-Line Services features available to pensioners. We sent both an electronic survey and the traditional paper survey to 7,400, or 33%, of pensioners. A total of 2,955 surveys were returned, a response rate of 40%.

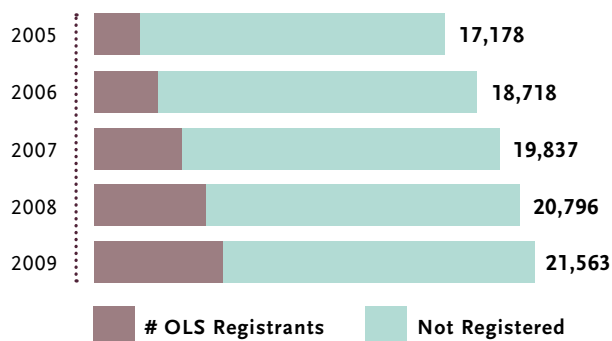
Overall, the survey results indicate that pensioners continue to hold ATRF in high regard and that ATRF is successfully meeting pensioners' service and information needs.

- 96% of respondents agreed that knowledge-base, responsiveness and completeness of service provided by our staff were either good or excellent.
- 99% agreed or strongly agreed that the Pension Update newsletter was easy to read, timely and informative.
- 95% found the website to be informative and easy to use and read.
- Over 90% of respondents indicated they were either comfortable or completely comfortable in using the On-Line Services functions to update contact information, income tax information and banking information.

While surveys of ATRF services continue to indicate a high level of satisfaction with service levels, we will use ideas written in the 'comments' section of the surveys to continue to maintain a strong focus on developing and implementing system enhancements and communication tools to help us meet increasing service requirements. We will continue to focus on electronic tools through our On-Line Services, the Join Our Email List feature and other web-based features.

With 33% of pensioners registered for On-Line Services, there is tremendous potential for increased usage of this cost-effective tool by pensioners to obtain information of a general nature, to review information on their plan and benefits, and to keep current on plan issues. The On-Line Services features go beyond the general information level, to allow members to view and update their own specific pension information in a secure environment.

NUMBER OF PENSIONS BEING PAID AND ON-LINE SERVICES REGISTRATIONS as of August 31



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 2009, COLA adjustments were based on an ACPI increase of 3.6%, compared to 4.9% in January 2008. Pensions that had been paid for the entire 2008 calendar year received a 2.16% increase for pre-1993 service and a 2.52% increase for post-1992 service. Pensions paid for less than a full year received a pro-rated portion of the COLA.

New Pensioners

The growth in the number of pensioners and the impact of COLA adjustments have resulted in an increase in total annual pension payments of 11% to \$568 million as at August 31, 2009. Under the existing funding structure and 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 2008-09 was \$2,627 compared to \$2,512 in the previous year. The average number of years of pensionable service for new pensions of 25.9 years and the average age of new pensioners of 58.2 years were both similar to the levels of previous years.

In addition to the survey of pensioners completed in the 2008-09 fiscal year, we survey new pensioners on an on-going basis at the time they receive their first benefit payment. Responses to this survey along with

NUMBER OF NEW PENSIONS GRANTED as of August 31



responses to the pensioner survey and the continued increase in On-Line Services registrations strongly indicate growing support and usage of electronic approaches to meet communication needs. Our service approach is to continue to build on current processes and activities, and to continue to strengthen our focus on new electronic communication alternatives while not abandoning the old.

PENSIONER STATISTICS	2009	2008	% Change
Average new monthly pension payment	\$2,627	\$2,512	4.6
Total annual pension payments	\$568 million	\$514 million	10.6
Average length of service of new pensioners	25.9 years	25.7 years	0.7
Average age of new pensioners	58.2 years	57.9 years	0.5
Number of new pensioners	1,060	1,257	(15.7)