

Historically, the biggest challenge to success in these non-publicly traded asset classes for many investors has been the high cost associated with funds and fund-of-funds in the form of manager fees and carried interest. The growth in the assets of the fund, and the significant total allocation of 35% of fund assets to these asset classes, will give ATRF the scale to reduce, but not eliminate its reliance on high-cost external providers. Our investment into these asset classes will take considerable time to fully implement, and our approach is to manage these asset classes by building internal capability and leveraging strategic partnerships to source funds and to co-invest with like-minded investors.

In the 2010-11 fiscal year, we commenced the implementation of the long-term vision, strategy, process and resource requirements involved in building and maintaining a successful, cost-effective investment program for non-publicly traded asset classes. Our investment staff has now doubled in size over the past two years, providing the required human resources to support our ongoing growth in assets and successfully implement our investment plans in non-publicly traded assets. ATRF has become an increasingly active and sophisticated investor in illiquid asset classes such as private equity, infrastructure and real estate.

Enhancements to Plan Member Services

We continue to focus on quality and cost-effective services that meet the needs of the plan members. We have improved customer service and operational efficiency through best-practice reviews, and the identification and implementation of enhancements to our customer service processes and communication activities. These quality plan member services are being provided in a very cost-effective manner. The cost of providing services to plan members in the 2010-11 fiscal year was \$69 per member, less than one-half of the average cost of \$155 per member for the group of major Canadian public sector pension organizations that benchmark cost and service levels.

The results of our bi-annual plan member survey in 2011 revealed that 95% of survey respondents rated our overall service as good to excellent. Our ongoing survey of new pensioners showed that 98% of survey respondents rated service and communication during their pension application process as good to excellent. We will continue to make cost-effective enhancements to plan member services and communication.

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 2010-11 fiscal year, with comparisons for the 2009-10 fiscal year. We exceeded the benchmark in all processes and improved our average elapsed time in three of the nine processes.

Service Provided	Benchmark	Average Elapsed Time 2010-2011	Average Elapsed Time 2009-2010
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	3 days	4 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	3 days	2 days
Urgent written inquiries including email inquiries	Within 7 days	1 day	2 days
Non-urgent written inquiries including email inquiries	Within 10 days	1 day	2 days
Telephone inquiries	Within 1 day	Less than 1 day	Less than 1 day

Plan Service Stats

Interviews, Seminars and On-Line Services:

- ATRF staff conducted 2,300 personal interviews throughout Alberta.
- About 1,500 plan members attended our pension seminar at conventions and other sessions.
- Almost 16,000 plan members are registered to take advantage of the functions available through On-Line Services.
- Over 5,600 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.

Surveys Deliver HIGH MARKS

2011 Plan Member Survey

ATRF received high ratings from over 2,700 plan members who responded to our eighth most recent plan member survey. The survey was distributed electronically in March to almost 13,000 active members who were registered for On-Line Services and achieved a high response rate of 21%. 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.

- 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 active member newsletter to be easy to read, informative and timely.
- 98% of respondents who visited the website found it to be very informative and 92% said it was easy to find information on the website.
- 94% of respondents who used On-Line Services indicated the pension and purchase calculators were valuable tools.

- Of the 1,538 respondents who viewed the videos on our website, 86% rated them from good to excellent.

The majority of the 319 written comments indicated ATRF staff is doing a great job, and that the website and communication material is meeting plan member needs.

New Pensioner Questionnaire

Each of the 986 plan members, who retired during the 2010-11 fiscal year, received a New Pensioner Questionnaire.

Of the 14% who responded:

- 98% rated ATRF service and communication as good to excellent;
- 60% indicated they were registered for On-Line Services;
- 88% said they had visited the website; and
- 53% had used the web calculator to do pension estimates.

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

Plan Liability, Funding & INVESTMENT STRUCTURE

Teachers' Pension Plan:

Pre-1992 Period

The liabilities of the Pre-1992 Period consist of the actuarial value of the benefits earned for service prior to September 1992. 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 \$421 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.

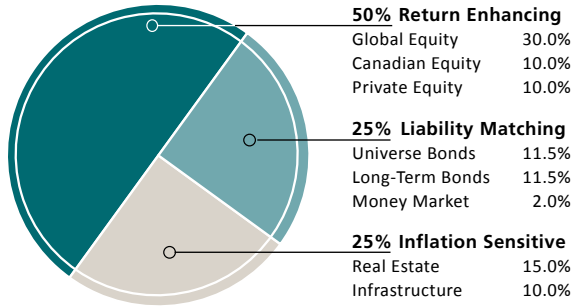
The Board has adopted a funding policy that sets out the principles and guidelines governing the funding requirements of the plan in accordance with the plan's legislation and the objectives of the Board. The overall objective is to ensure the sustainability of the plan over the long term and to ensure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

The Board is undertaking a comprehensive review of plan funding with management and the plan's actuary, in light of the changing economic and financial environment. The margin for adverse plan experience will be reassessed and may be increased to provide for additional reserves to enhance protection against uncertainty and to mitigate the transfer of liability for benefits being earned today to future generations. An increase in the provision for potential adverse plan experience will increase plan liabilities and result in increases to overall plan funding contribution rates. We anticipate that the review should be completed by mid-2012 and information on the changes to the funding policy and contribution rates will be presented at that time.

Target Policy Asset Mix

The Board has adopted the following long-term target policy asset mix. It was based on a comprehensive asset-liability study of the plan in 2009, the plan's funding policy and the fact that the plan has relatively immature liabilities and will have positive cash flow for the next 15 years.

Long-Term Target Policy Asset Mix



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

Funding Valuation Results

An actuarial funding valuation of the Post-1992 Period Teachers' Pension Plan was completed as at August 31, 2011. The following table outlines the results of the funding valuation as at August 31, 2011.

Teachers' Pension Plan Post-1992 Period	
at August 31, 2011	(\$ Billions)
Funding Liabilities	8.568
Funding Value of Assets	6.817
Funding Deficiency	1.751

The funding valuation showed that a total contribution rate increase of 1.14% of total teacher salaries may be required effective September 2012, 0.60% for teachers and 0.54% for the Government of Alberta. Just over half of the increase resulted from a change to the mortality assumption to recognize ongoing improvements in life expectancy. The remainder of the increase is related to a portion of the deferred investment losses from the 2007-2009 financial crisis that will have to be recognized by August 31, 2012. The actual contribution rates effective September 2012 will be set by the Board when its review of the funding policy is completed by mid-2012.

Teachers' Pension Plan Contribution Rates		
(Percent)	Sept 2010 to Aug 2012	Estimated for Sept 2012
Teachers		
Total Teacher Contribution	10.71	11.31
Salary up to YMPE ¹	9.04	9.60
Salary above YMPE	12.91	13.72
Government	10.10	10.64

¹ YMPE is the Year's Maximum Pensionable Earnings used by the Canada Pension Plan (\$50,100 in 2012).

Plan Funding Challenges

A key assumption in the funding of the Teachers' Pension Plan is that the fund will earn an average investment return each year of 6.75% net of investment costs. To even out the impact from the volatility of market returns on the plan's funded status, the plan uses an actuarially accepted practice of smoothing market returns over a five-year period to moderate short-term adjustments to contribution rates.

The August 31, 2011 funding valuation showed that, primarily due to the 2007-2009 financial crisis, the current market value of plan assets is \$514 million less than the asset value used to assess plan's funded position. This means that the fund must earn at least 6.75% each year for the next three years and must also earn an additional \$514 million to avoid further contribution increases. If the plan's investments earn only 6.75% each year over the next three years, the funding deficiency will grow and the additional amount will have to be amortized by increasing funding contribution over a 15-year period. We have estimated that should this

occur, overall funding contributions would increase over the three years ending August 31, 2014 for a total increase of about 1.6%.

Funding Risks Looking Forward

The funding valuation is 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 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 11 years. In addition, as a result of the major decline in global interest rates, we anticipate lower returns for the next few years.

The approach to smoothing investment gains and losses adopted by the plan has allowed the plan to postpone dramatic contribution increases that would otherwise have been triggered by the 2007-2009 financial crisis. This has provided the plan time for some measure of market recovery and to better gauge the longer-term contribution increases that will be required. However, it is becoming apparent that the effects of the 2007-2009 financial crisis will linger for some time in the form of lower expected returns. Therefore, the plan's funding deficiencies will most likely continue to grow and contribution rates will need to increase further.

Investment PERFORMANCE

Long-Term Investment Performance

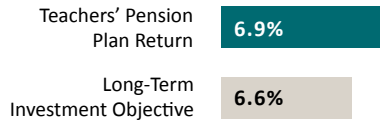
The primary long-term investment objective of the fund is to meet the real rate-of-return target above the level of Alberta inflation. This target is an essential long-term assumption in determining the funding requirements of the plan to ensure that plan benefits are funded in accordance with the established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

Since September 1, 2004, the long-term rate-of-return assumption has been 4.25% above the level of Alberta inflation. This target was 4.5% plus inflation from September 1, 1997 to August 31, 2004, 4.0% plus inflation from September 1, 1994 to August 31, 1997, and 3.5% plus inflation prior to that time.

In the 19 years since September 1, 1992, the investment return of the Teachers' Pension Plan has surpassed this long-term objective. The annualized rate of return on the fund's assets over this time period has been 6.9%, which exceeds the 6.6% rate-of-return objective.

19-Year Return vs. Long-Term Investment Objectives

to August 31, 2011

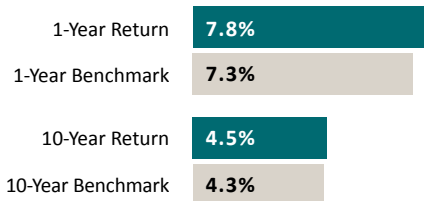


Benchmark Performance of Fund

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

Teachers' Pension Plan Return vs. Benchmark Performance

to August 31, 2011





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 share in plan gains and losses.

The Teachers' Pension Plan covers:

- 38,023 active teachers;
- 22,970 pensioners; and
- 12,131 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
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MYLES NORTON
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