


# ACCESS TO OPPORTUNITY



2013 ANNUAL REPORT



View of Abraham Lake, Clearwater County, Alberta from Vision Quest Trail



Opportunity. Clear, fleeting, or rare. Whatever the form, it takes skill, readiness, and patience to ensure the right opportunity at the right moment is not missed.

In 2008, the Government of Alberta created AIMCo to be an institutional investment manager with the scale and efficiency to compete on a global stage and deliver a strong risk-adjusted rate of return for its clients. Over the past six years, we have delivered on that mandate with low costs, high returns and strong value added.

AIMCo's clients have the opportunity to make a meaningful difference to the lives of Albertans. The pension money we manage builds retirement income for hundreds of thousands of workers. Our endowment funds

are targeting maximum long-term return on Alberta's resource wealth.

Markets will never predictably deliver the returns our clients ideally would like to earn. By exploiting the investment efficiency of a large-scale institutional investor, and building the internal skills to recognize long-term value, AIMCo offers the platform to earn more than markets alone can deliver.

AIMCo... Access to Opportunity.



Every year, AIMCo assesses thousands of potential investment opportunities, selecting only those that fit our clients' objectives.

Seizing the right opportunities, those where we can add value and generate above market returns for our clients, takes scale, expertise and long-term vision.

### Vision

To be among the best institutional investment managers and inspire the confidence of Albertans.

### Mission

Establish the framework for a centre of excellence, dedicated to delivering superior performance.



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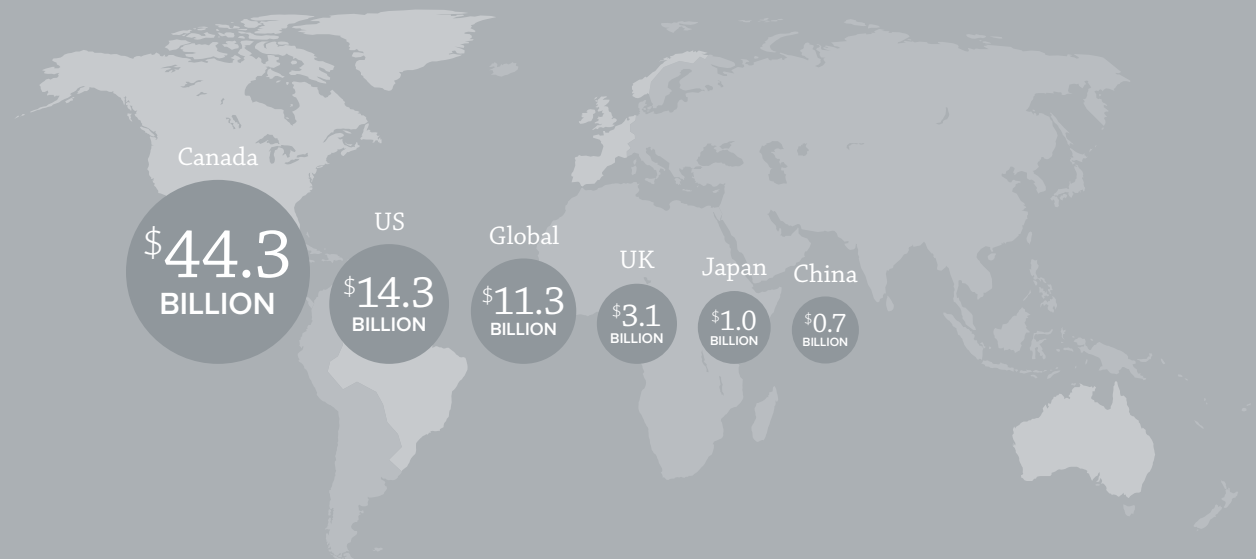
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## YEAR IN REVIEW HIGHLIGHTS

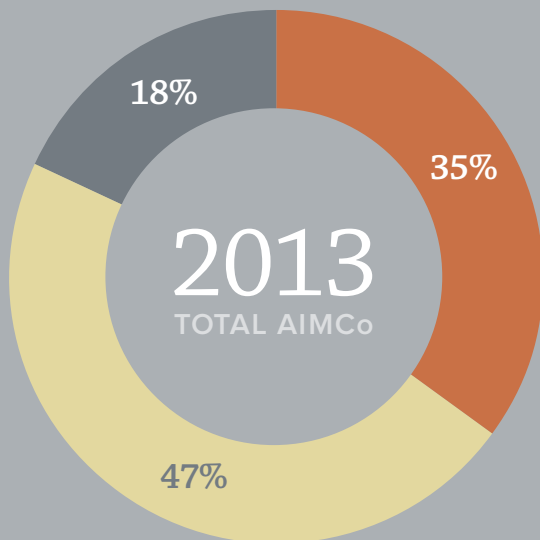
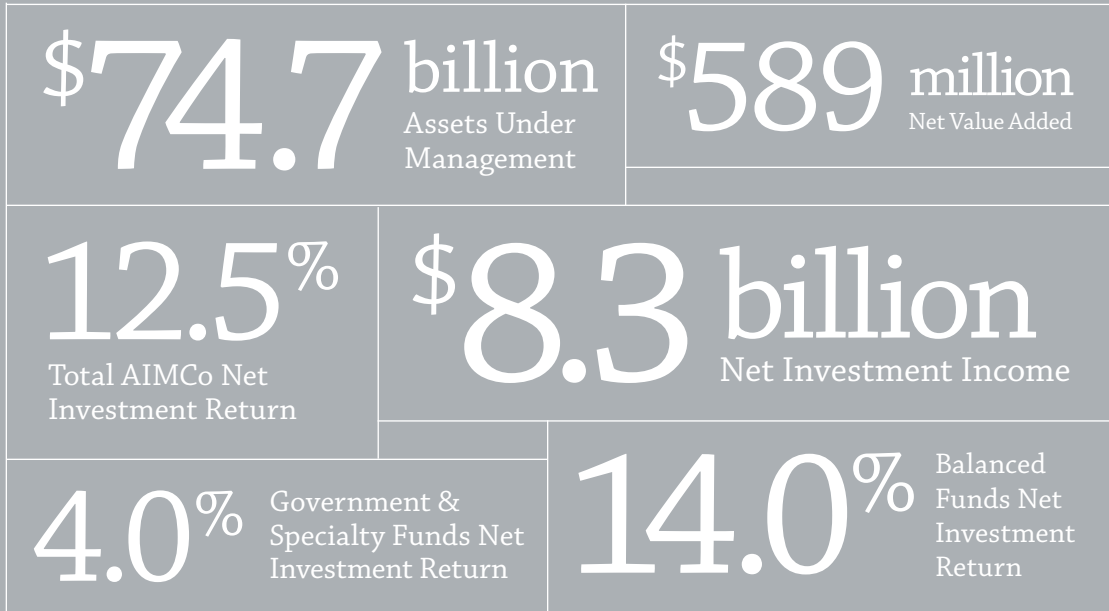
Our clients provide us the scale and long-term investment horizon to be a Canadian investment leader with global impact.

On their behalf, we place strategic, long term investments in assets smaller investors could not consider. But just because we can, does not mean we always do. AIMCo only accepts the best opportunities on the best terms, so that our clients can earn the best return on their assets.

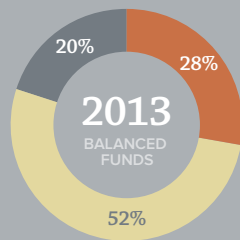


## INVESTMENT PERFORMANCE HIGHLIGHTS

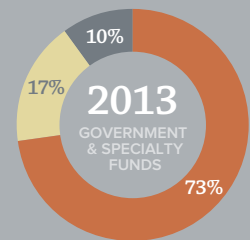
(as at December 31, 2013)



**\$74.7 billion**



**\$63.2 billion**



**\$11.5 billion**

- MONEY MARKET AND FIXED INCOME
- EQUITY
- INFLATION SENSITIVE AND ALTERNATIVES



With \$75 billion of assets under management, AIMCo's scale is a critical advantage. Scale allows us to consider larger and more diverse investments.

In 2013, AIMCo invested in London-based Vue Entertainment, a world class operator and developer of state-of-the-art multiplex cinemas to support their ambitious growth plans in central Europe.





## WHEN WE GO TO THE MOVIES, WE SEE THINGS THAT OTHER PEOPLE DON'T

Vue is the third largest cinema operator in Europe. Over the last three years it has more than doubled its cinemas from 70 to 157, and screens from 679 to 1,368. Vue has grown both organically and through acquisitions, and now operates across the UK, Europe and Asia.



### SCALE

Effectively leveraging our scale allows AIMCo to make high-conviction investments in assets that will provide our clients with stable, long-term returns.

### CINEMA STATISTICS

- Over **1,368** screens and over **250,000** standard and luxury VIP seats.
- Strategically located venues throughout its markets, and modern, state-of-the-art cinema facilities featuring Sony 4K Technology.

### VUE ENTERTAINMENT DEAL TEAM

- 1 JAMES VALLANCE**  
Portfolio Manager,  
Private Equity
- 2 GABE BECHER**  
Portfolio Manager,  
Private Equity
- 3 RABAH SADRUDDIN**  
Senior Analyst,  
Private Investments
- 4 JASON PETERS**  
Director,  
Private Equity
- 5 PETER TETI**  
Senior Vice President,  
Private Equity &  
Relationship Investments

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## INTERVIEW WITH PETER TETI

### How did the Vue Entertainment transaction come about?

AIMCo Private Equity and OMERS Private Equity acquired Vue on a 50/50 basis in August 2013 from UK-based private equity firm Doughty Hanson. The opportunity arose within a small window, and our team worked extremely hard to conduct diligence and complete the transaction in an expedited time frame of only four months. Once our positive views on the business were confirmed, both AIMCo and OMERS utilized an innovative offer structure to provide certainty to the sellers that we would complete the transaction at our agreed price, and to ensure that transaction-related costs would be minimized.

### Why the cinema industry?

We believe cinemas are an attractive industry for AIMCo's stakeholders to be exposed to. During our diligence we discovered that the cinema industry exhibits low volatility in Europe, particularly in the UK where market admissions have been very stable over the long term. We also found cinemas to be anti-recessionary in certain markets, as consumers will continue to attend cinemas regardless

of the economic cycle. Finally, in Europe especially, we found that attending cinemas is a well-established pastime, acting as the second largest leisure activity in the UK and being a very affordable option relative to other activities.

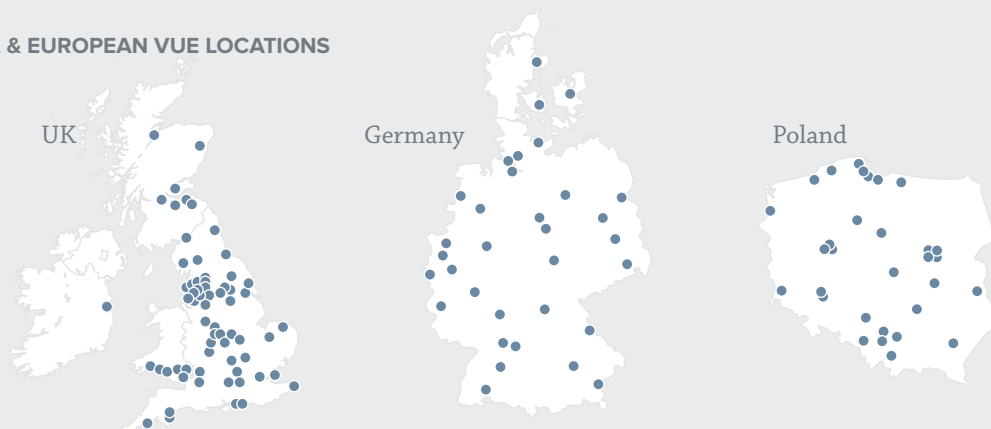
### Why Vue Entertainment?

Vue is a world class asset, and there are many reasons we were positive on the business. First, Vue provides a market-leading platform in European cinema. Vue is currently the #3 cinema operator in Europe, and the company has a very high quality cinema estate with young and modern theatres, fully digitalized equipment, state-of-the-art 4K projectors, and 3D capabilities. Vue also has an excellent management team, as the company's three key executives founded the business and have over 70 years of combined industry experience. CEO Tim Richards is a Canadian national and key industry spokesman with numerous distinctions, including E&Y Entrepreneur of the Year in 2007. Finally, we believe that Vue offers an excellent growth platform to expand into other countries with growing cinema markets, including those in Western Europe and the Baltic regions.



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## UK & EUROPEAN VUE LOCATIONS





## EXPERTISE

By attracting top talent, supporting continuous learning, and encouraging a free exchange of all ideas, AIMCo can offer its clients high-quality, internal investment expertise at a fraction of the cost of external management.

AIMCo's Fixed Income Group is one of the most experienced in the industry with years of combined experience and collaboration.



## WHEN THE OUTLOOK IS BAD OR WORSE, WE FIND THE GOOD

AIMCo's Fixed Income Group has consistently delivered strong results. In 2013, it added value by correctly positioning the portfolio for higher interest rates, reducing duration and emphasizing high quality credit.

AIMCo's Fixed Income team combine's expertise with experience to provide our clients unsurpassed return opportunity.



The Fixed Income team remains focused on continuous innovation in its strategy and products. AIMCo's "no-silos" approach encourages the sharing of ideas across teams, joint review of opportunities, and participation in the development of new market products. Being successful in fixed income sometimes means rowing against the tide. Being early does not always pay off immediately, but the return on implementing a well thought out strategy with conviction can be significant.

### EXPERTISE

Effectively innovating a traditional asset class like Fixed Income requires expertise and the experience to know how to effectively deploy new strategies and products.

The Fixed Income team completed another successful year in 2013 with roughly \$518 million in net value added, or 167 basis points over benchmarks.

## INTERVIEW WITH SANDRA LAU

### How does AIMCo's Fixed Income group deliver on its mandate?

The Fixed Income group manages a portfolio of more than \$25 billion on behalf of AIMCo's clients. Size provides significant economy of scale, but more important is how we leverage that scale to create value. Our team has established a good reputation in the market so that when an opportunity presents itself we can act quickly and decisively.

### Describe the Fixed Income Team.

We are fortunate to have a team of highly experienced investment professionals that have also spent a significant portion of their professional careers working alongside one another. There is a high level of trust within the group that is evident when we evaluate new strategies or discuss market trends.

### Interest Rates are at historic lows – how is the team managing in this environment?

Our Fixed Income team has adopted a patient, cautious approach to interest rate calls over the last couple of years.

We formed a high conviction view in mid-2012 that interest rates had finally bottomed and subsequently switched our strategy to incorporate a short duration bias across our portfolios. Our market timing was very good and this position contributed to our clients' out-performance when interest rates increased by almost 1.2%.

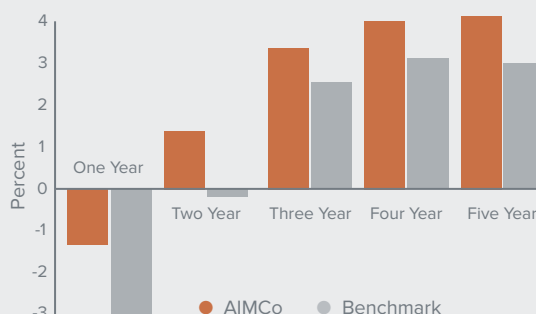
### How did AIMCo's Corporate Credit strategy perform in 2013?

Corporate bonds performed well throughout 2013 and AIMCo's fixed income portfolios benefited from an overweight in high quality, short maturity corporate bonds. We have a core group of experienced credit analysts that help us identify pockets of value in the credit markets. Fortunately our timing was good and we were able to position the portfolios with securities that outperformed the broader market. We also sold positions in sectors of the credit market that appeared expensive. Sector and security selection continue to be key drivers of positive relative performance.

## FIXED INCOME TEAM

- |                                                                        |                                                                    |
|------------------------------------------------------------------------|--------------------------------------------------------------------|
| <b>1 ANDREW SADURSKI</b><br>Associate Portfolio Manager, Money Markets | <b>6 GEORGE NALLIAH</b><br>Associate Director, Credit              |
| <b>2 AMIT DUTTA</b><br>Senior Analyst, Credit                          | <b>7 DOUGLAS PAUL</b><br>Portfolio Manager, Bonds                  |
| <b>3 JIM DAYE</b><br>Portfolio Manager, Money Markets                  | <b>8 GEORGE ZHU</b><br>Analyst, Credit                             |
| <b>4 SANDRA LAU</b><br>Senior Vice President, Fixed Income             | <b>9 HIMESH SHAH</b><br>Associate Portfolio Manager, Money Markets |
| <b>5 CHRIS PESTRE</b><br>Director, Fixed Income                        | <b>10 JEFF SCHELLENBERG</b><br>Director, Fixed Income              |
|                                                                        | <b>11 KASEY BALASUBRAMANIAM</b><br>Analyst, Fixed Income           |

## Fixed Income Performance





## LONG-TERM VISION

Most of the capital we manage will meet client obligations decades into the future.

With that time horizon in mind we can target investments with erratic or limited short-term returns, but a superior long-term payoff.

AIMCo employed this strategy when it acquired the timber assets of Great Southern Plantations in Australia in 2011.





## WHERE OTHERS SEE CHALLENGE, WE SEE OPPORTUNITY

The Great Southern Plantation assets cover approximately 270,000 hectares on 640 parcels of rural land in six Australian States. The land was leased to investors to grow bluegum trees which are harvested and processed into woodchips for the pulp and paper industry in Japan and China.



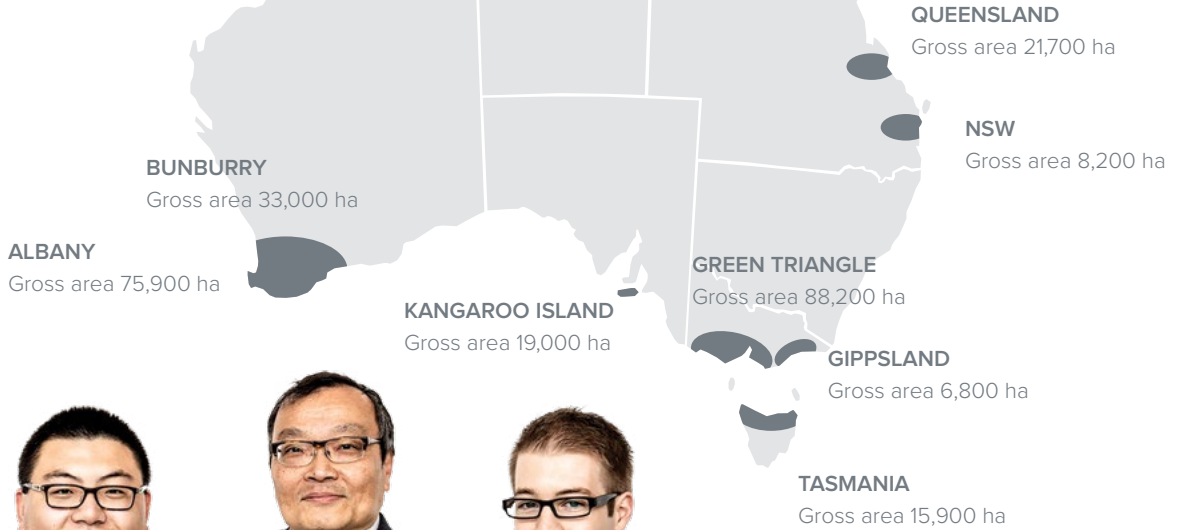
Investors in both the land and the trees had been attracted by tax incentives, but excessive leverage resulted in bankruptcy for all entities involved.

AIMCo, with our local partner New Forests, understood that we were unique in having the capital and patience to deal with the complex legal issues and to restore the plantation back to normal operating conditions. After three years of hard work, control over the trees and the land was in the same hands, regular timber harvesting had resumed, and this much simpler and better capitalized

structure had become much more valuable because of greater operational control over asset management.

AIMCo now seeks to extract value from this investment in two ways. A portion of the land base offers good long-term potential for timber growth and returns that fit in our clients' timberland portfolios. The rest has a higher and better use in agriculture or real estate development. AIMCo is working with New Forests to exploit this optionality to maximize total return.

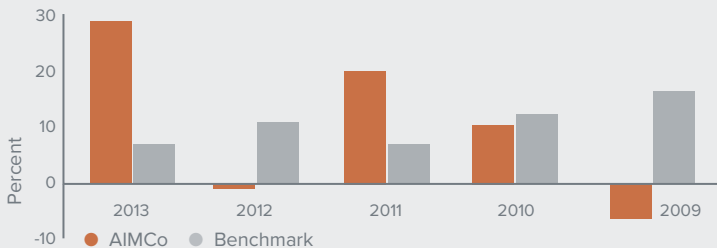
Map of forestry properties of Great Southern Plantations acquired by AIMCo & New Forests



**LONG TERM VISION**

Our clients' long-term return horizon allows AIMCo to target opportunities not accessible by investors judged against short-term market returns.

**Timberlands Performance**



**AUSTRALIAN TIMBERLANDS DEAL TEAM**

- 1 BENNY LE**  
Senior Analyst,  
Private Investments
- 2 KELVIN MAK**  
Portfolio Manager,  
Timber Investments
- 3 JONATHAN BRAAMS**  
Analyst,  
Private Investments



## MESSAGE FROM THE CHAIR

On behalf of Alberta Investment Management Corporation's Board of Directors, it gives me great pleasure to report that through calendar 2013 AIMCo recorded its strongest investment performance since becoming a crown corporation in 2008.

AIMCo earned a gross return of 13.0%, 12.5% net of expenses on \$75 billion of total assets. \$914 million or 1.4% of that return represented gross value-added in excess of market benchmarks. Over five years, AIMCo has returned 8.8%, a testament to the team's commitment to seeking out innovative opportunities in all asset classes, and continuously adapting to changing markets.

Creating AIMCo as an arms-length investment manager operating on commercial terms required great vision by the Government of Alberta. Our clients include some of Canada's largest pension plans, the nation's largest endowment system, and the day-to-day operating balances of the Province.

Every dollar that AIMCo manages affects millions of Albertans, and we are committed to helping our clients achieve their goals using the best available strategies and tools. By leveraging AIMCo's scale and internal expertise, our clients collectively can access opportunities with far greater efficiency and significantly lower cost than they could achieve individually.

AIMCo accesses global markets to capture the best returns and diversification opportunities. This year we established our first international office with a modest space in London, England. Arriving at the decision to expand our footprint did not come easily, but was pursued to lower the cost of managing and improving the oversight of our geographically dispersed portfolio.

Our first five years were focused on building an investment organization of which Albertans could be proud. As we set our sights on the future, AIMCo's strategic plan supports the mandate originally set in 2008 with particular emphasis on providing meaningful client solution support and delivering superior rates of return.

The Board would like to acknowledge the important contributions to the AIMCo board of two founding directors, Daryl Katz and Clive Beddoe, and of Kurt Winkelmann, who respectively retired from the board this year. Their significant business acumen and experience has helped AIMCo develop into the world class investment organization envisaged at its creation.

We are pleased to welcome three new directors to the board: John Ferguson, Founder and Chair of Princeton Developments and Chair of Suncor Energy; Richard Bird, Executive Vice President, Chief Financial Officer and Corporate Development of Enbridge Inc.; and Robert "Jay" Vivian Jr., former Managing Director of the IBM Retirement Funds. Each joined in March 2014.

In closing, we would like to thank Leo de Bever and his colleagues for their relentless pursuit of excellence through the innovative investments and the leadership they demonstrate each day to deliver AIMCo's clients unsurpassed access to opportunity.

[Original signed by A. Charles Baillie]

**A. Charles Baillie**





## MESSAGE FROM THE CEO

For the last five years, we have worked to combine investment scale and skill to find the best global opportunities. Last year, active management and strong stock markets earned AIMCo the strongest returns in its six-year history. Our Pensions and Endowment assets earned 14.6% before expenses, 1.6% better than market, while our short-term Government and Specialty Funds earned 4.0%, 0.7% better than market. We did it with very little incremental active risk, and at low cost compared to peers.

Market volatility in 2013 was unkind to strategies that diversified risk without considering where risk was likely to have a return. We added value by overweighting equities, having good security selection, and exploiting the inefficient boundaries between asset classes.

Modest expected stock and bond returns make it all the more important to add value with active management, to help achieve ambitious client objectives. Low rates and rising rates will make fixed income a challenging asset class. Equities are not cheap, but an abundance of capital-friendly technological change is supporting long-term prospects.



Iconic private assets are harder to find at prices that imply reasonable long-term returns. Demand has increased much faster than has the supply of good opportunities, as investors try to find alternatives to fixed income in a low rate environment. Buying overpriced assets does not serve client needs, so we are maintaining pricing discipline.

Our private asset strategy has always focused on transactions where patience and our ability to deal with complex issues was expected to yield extra return. For example, in 2011 we bought 640 bankrupt Australian timberland properties. These assets initially lagged far behind listed benchmarks, but hard work and patience more than made up for that in 2013.

Markets evolve, and we have to evolve as well: you cannot achieve the extraordinary in ordinary ways. In all markets, we look for dislocations, and then work with clients to capture excess returns from being more nimble and adventurous than other investors. Our capital stability, structuring ability, and responsiveness has value for our investment partners. We must get better at capturing smaller and more complex opportunities in existing asset classes, and in the commercialization of new technologies.

Monitoring performance and risk accurately and timely is as important as selecting good investments. It can dramatically reduce financial losses, and yields information that allows us to make better investment decisions. We used to have our challenges in this area. So in 2013, the whole organization came together to replace all of AIMCo's business information systems concurrently, on time, and on budget.

My thanks to the AIMCo Client Boards, the Government of Alberta, AIMCo's Board of Directors and to all who supported our efforts. I feel privileged to lead AIMCo's talented team, and thank them for creating a strong organization capable of achieving the best investment outcomes for those we serve.

[Original signed by Leo de Bever]

**Leo de Bever**



## OUR TEAM



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Driven by the opportunity to make a difference, AIMCo's teams are singularly focused on delivering the best risk-adjusted rate of return on behalf of our clients.

- 1 **LEO DE BEVER**  
Chief Executive Officer
- 2 **DAVID GOERZ**  
Executive Vice President,  
Investment Strategy &  
Risk Management
- 3 **DALE MACMASTER**  
Executive Vice President,  
Public Market Investments
- 4 **ROBERT MAH**  
Executive Vice President,  
Private Investments
- 5 **ANGELA FONG**  
Chief Corporate and  
Human Resources Officer
- 6 **JACQUELYN COLVILLE**  
Chief Financial Officer
- 7 **BRETT KIMAK**  
Chief Compliance Officer
- 8 **JOHN OSBORNE**  
Chief Risk Officer
- 9 **MICHAEL BAKER**  
Senior Vice President,  
Investment Operations
- 10 **DARREN BACCUS**  
Chief Client Relations  
and Legal Officer

Alberta has been the dynamo behind Canada's economic growth. The province's energy sector has attracted some of the greatest entrepreneurs. As Alberta's investment manager, AIMCo was established with the same can-do spirit of the province, successfully attracting globally experienced talent from Alberta and beyond to the organization.

Driven by the opportunity to make a difference, AIMCo's teams are singularly focused on delivering the best risk-adjusted rate of return for our clients. Whether it's ensuring investment decisions are made with the most accurate data and efficient processes or identifying the next source of return, we operate with a deep understanding that our success is necessary to ensure our clients meet their obligations to their stakeholders.

Our culture is built around AIMCo's Core Values. AIMCo's recently launched Community Investment Program allows our team to meaningfully contribute their time and expertise to initiatives that make a real difference in our communities.



# OUR CLIENTS' OBJECTIVES

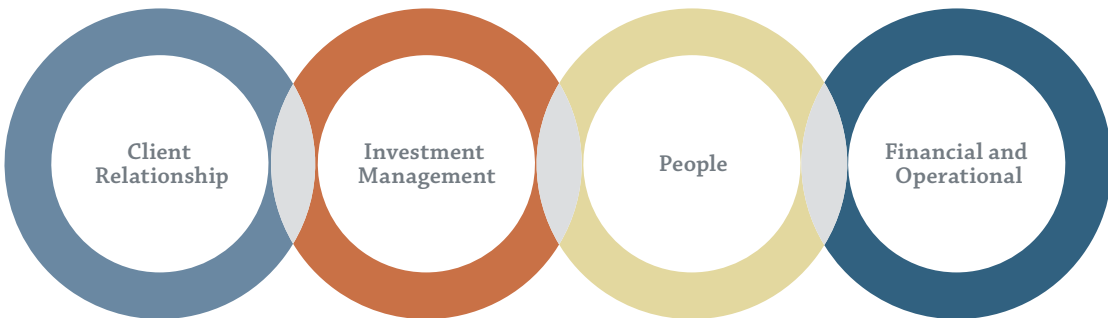
are AIMCo's objectives.





AIMCo provides a platform that supports earning superior risk-adjusted rates of return. Accomplishing this requires not only thoughtful investment strategy, but a deliberate corporate strategy that envisions the future direction of the organization and its ability to deliver sustainable, long-term results.

### Success Drivers



#### CLIENT RELATIONSHIP

- AIMCo's relationship with our clients is foundational to our business and we develop our strategic plan to achieve their critical goals, aligning our actions to support these outcomes.
- Our focus on clients is an integrated, organization-wide initiative involving all our resources, our people and our board.

#### INVESTMENT MANAGEMENT

- AIMCo's goal is to deliver high-quality investment management services and maximization of investment returns taking into account all risks.
- Key initiatives include extending AIMCo's global investment reach and augmenting AIMCo's currency management practices.

#### PEOPLE

- AIMCo's goal is nurturing a culture that embraces our Core Values.
- Key initiatives include employee development programs focusing on leadership and technical development.

#### FINANCIAL AND OPERATIONAL

- Financial and operational goals support AIMCo's investment value proposition.
- Key initiatives include leveraging improvements to portfolio information systems and expanding AIMCo's risk management enterprise wide.

## MANAGING COSTS IN AN EVOLVING PORTFOLIO

The easiest return we can earn for our clients is the dollar that we do not spend.

AIMCo's scale and capacity enables us to add value through cost savings beyond the returns earned from our investment strategy. According to the latest CEM benchmarking survey, AIMCo continues to be a low-cost manager compared to peers with similar asset mix and implementation style<sup>1</sup>.

Total operating costs have increased over the last four years. This increase in expenses resulted from four key business drivers all of which contributed significantly to AIMCo's strong returns and value-add for our clients:

- We manage more assets internally at a fraction of the external cost which requires an investment in people, process and technology.
- We manage more pension assets with a higher allocation to equities, which are more expensive to manage than bonds.
- Our clients are asking us to hold more high-cost, inflation-sensitive and alternative assets.
- Our success in adding value with active management has increased performance fees.

## PLANNING FOR SUCCESS

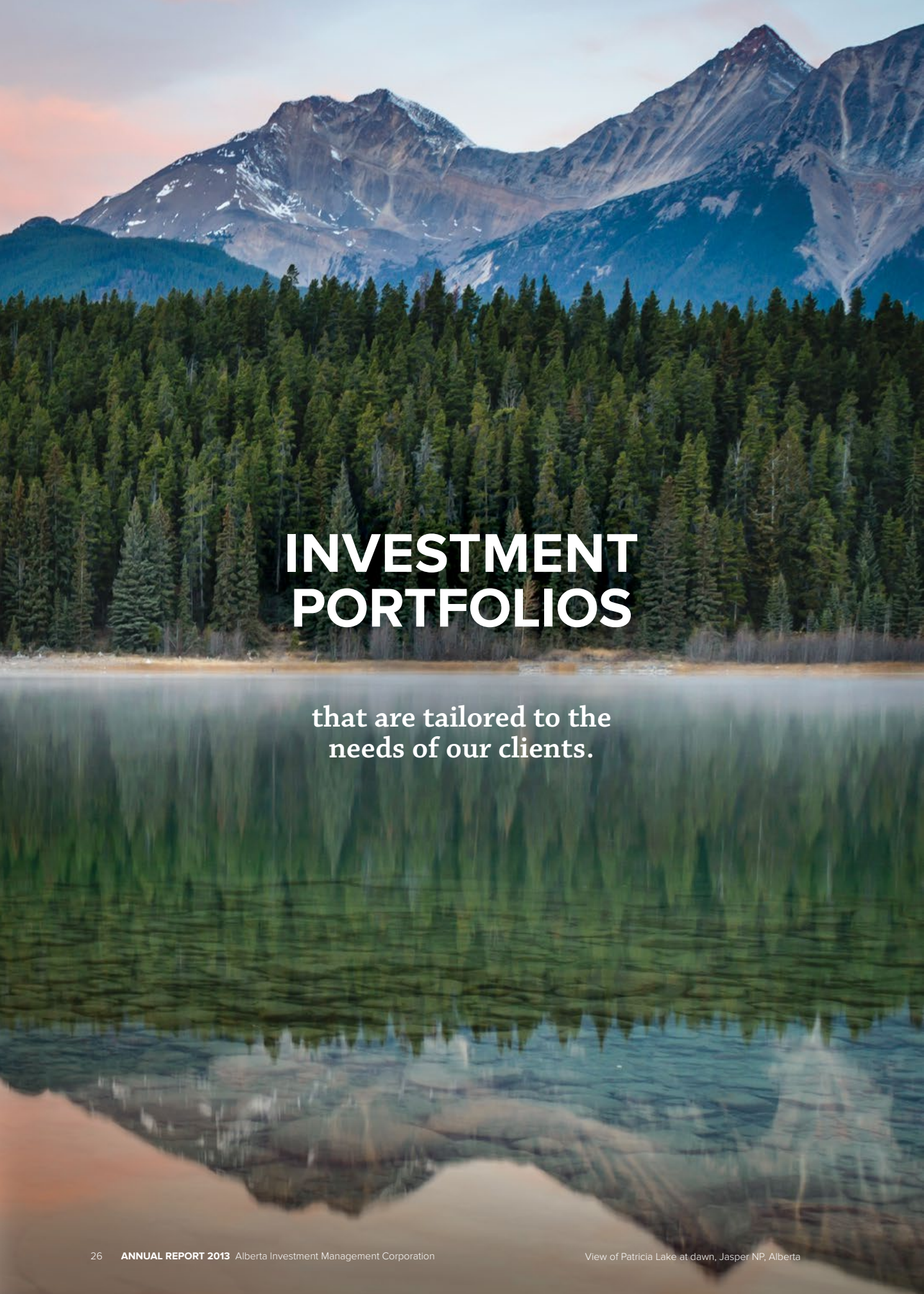
An ambitious plan to update and integrate AIMCo's operational platform to better service our investment and risk professionals was completed in August 2013. Full cooperation from all AIMCo divisions contributed to the success of this multi-year project.

AIMCo's new operational platform delivers an industry leading, data centric infrastructure that encompasses fund accounting, data warehouse, derivatives and trading systems required to support AIMCo's investment strategy and risk mitigation efforts. Clients benefit through an overall reduction in operational risk as well as the delivery of better data for improved decision making. We will continue to invest in and leverage our operating platform to meet the goals of our clients.

Key strategic priorities of the investment operations and finance groups are:

- **Leadership and People Practices** – An organization is only as strong as the people who support it. Our employees must be engaged and proud of the role they play within the organization.
- **Service Oriented Culture** – We seek to provide relevant and exceptional support to our clients.
- **Internal Controls Framework** – AIMCo will continue to focus on updating our policies and procedures in order to support the strengthening of our control framework.
- **Business Transformation** – AIMCo has the opportunity to leverage new technologies to minimize costs and support our investment teams.
- **Operational Effectiveness** – The service we provide to our clients is continually re-evaluated ensuring that efficiencies are captured and world-class operational effectiveness is exhibited.

<sup>1</sup> CEM Benchmarking, AIMCo Investment Cost Effectiveness Analysis Report for period ending December 31, 2012.



# INVESTMENT PORTFOLIOS

that are tailored to the  
needs of our clients.

## ASSETS UNDER MANAGEMENT

AIMCo's clients are responsible for setting their own asset mix policy and asset mix ranges. Based on those parameters, AIMCo creates unique investment portfolios for each client to best meet their obligations and preferences.

AIMCo Changes in Assets Under Management, 2009-13

**\$70.5B**

January 1, 2009

**\$74.7B**

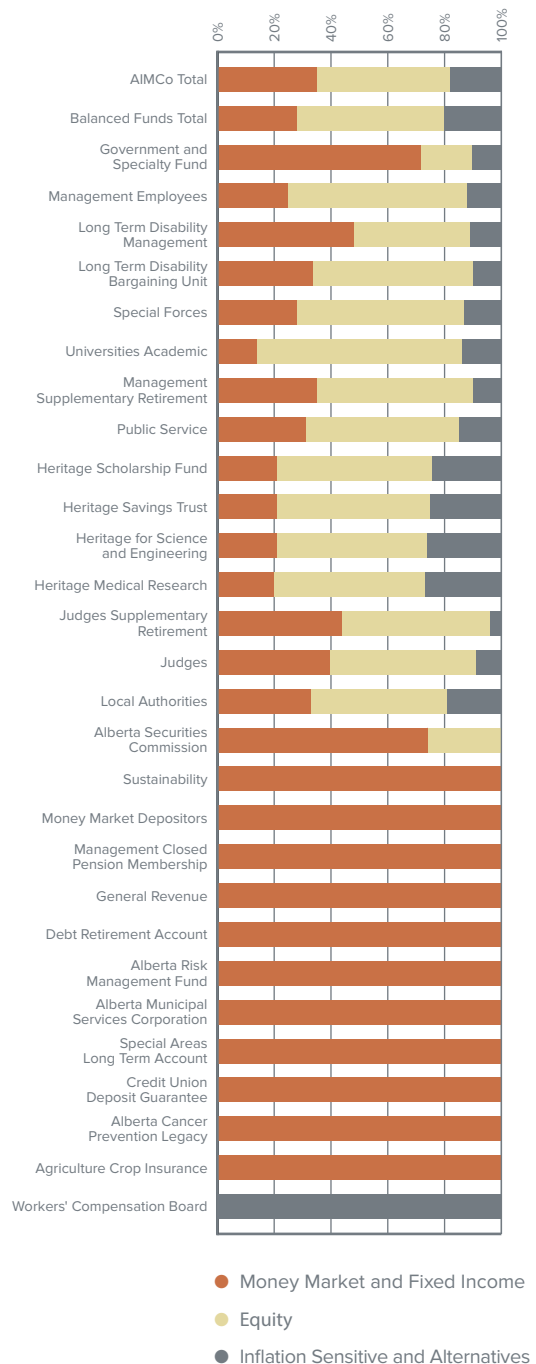
December 31, 2013

## ASSETS UNDER MANAGEMENT

AIMCo works with our clients to develop investment portfolios that meet their risk and return objectives.

Government funds tend to seek preservation of capital through money market and short duration fixed income assets. Most balanced fund clients (pension and endowment funds) combine more modest allocations to fixed income with larger exposures to equities and inflation sensitive and alternative assets.

The Workers' Compensation Board leverages AIMCo's expertise in inflation sensitive asset investments such as real estate.



**By client type as of December 31, 2013**

(\$millions)	Market Value	Asset Class <sup>1</sup>		
		Money Market & Fixed Income	Equities	Inflation Sensitive
<b>AIMCo Total</b>	<b>74,662</b>	<b>35%</b>	<b>47%</b>	<b>18%</b>
<b>Balanced Funds<sup>2,3</sup></b>	<b>63,154</b>	28%	52%	20%
Endowment Funds	22,315	21%	54%	25%
Heritage Savings Trust	18,737	21%	54%	25%
Heritage Medical Research	1,529	20%	53%	27%
Heritage for Science and Engineering	888	21%	53%	26%
Heritage Scholarship Fund	878	21%	54%	25%
Long Term Disability Bargaining Unit	217	33%	57%	10%
Long Term Disability Management	66	48%	41%	11%
Pension Plans	43,552	31%	52%	17%
Local Authorities	26,471	33%	48%	19%
Public Service	8,542	31%	54%	15%
Management Employees	3,461	25%	63%	12%
Universities Academic <sup>4</sup>	2,713	14%	72%	14%
Special Forces	2,020	28%	59%	13%
Judges	119	39%	52%	9%
Judges Supplementary Retirement	129	44%	52%	4%
Management Supplementary Retirement	97	35%	55%	10%
<b>Government Funds &amp; Specialty Funds<sup>5</sup></b>	<b>11,508</b>	73%	17%	10%
Short-Term Government Funds	5,916	100%	0%	0%
Sustainability	2,381	100%	0%	0%
Money Market Depositors <sup>6</sup>	2,116	100%	0%	0%
General Revenue	1,069	100%	0%	0%
Debt Retirement Account	264	100%	0%	0%
Management Closed Pension Membership	10	100%	0%	0%
Alberta Municipal Services Corporation	30	100%	0%	0%
Alberta Risk Management Fund	46	100%	0%	0%
Special Purpose Government Funds	2,879	75%	0%	25%
Workers' Compensation Board	709	0%	0%	100%
Agriculture Crop Insurance	1,397	100%	0%	0%
Alberta Cancer Prevention Legacy	495	100%	0%	0%
Credit Union Deposit Guarantee	221	100%	0%	0%
Alberta Securities Commission	27	74%	26%	0%
Special Areas Long Term Account	29	100%	0%	0%

1 Asset class weights are per AIMCo's categorization criteria.

2 For balanced funds, notional exposures and currency derivatives are not included in asset class calculations.

3 Excludes the market value and asset class weights for Universities Academic.

4 As of September 13, 2013, Universities Academic Pension Plan transitioned from a Balanced Mandate to a Specialty Mandate.

5 Government Funds category has been renamed to Government & Specialty Funds to reflect Universities Academic Pension Plan's mandate change. Market value and asset class weights includes Universities Academic.

6 Includes various government agencies, organizations, Crown corporations and other accounts.



# RETURN ON INVESTMENT

that exceeds our  
market benchmarks.



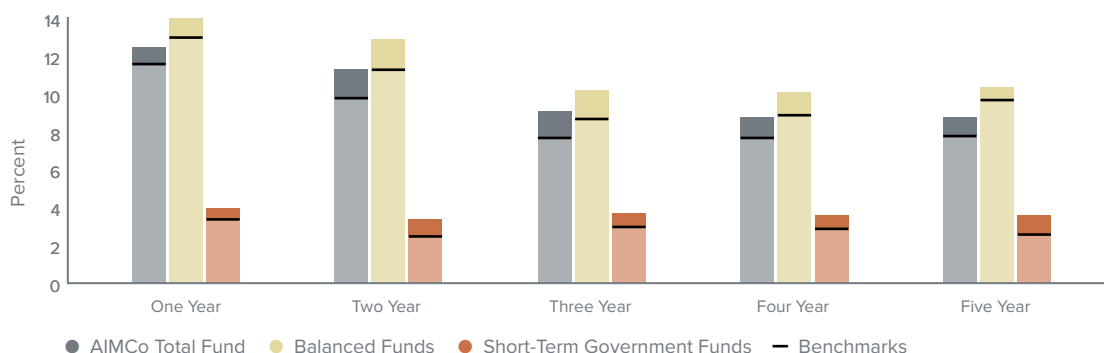


## RETURNS FROM ACTIVE MANAGEMENT

Annually, the board and management agree on active return targets consistent with top quartile return on active risk. In 2013, we again achieved our active return target. Active management added \$914 million to gross return. Net of fees, active return was \$589 million.

Public equities contributed \$520 million, while fixed income added \$518 million, and real estate generated \$118 million. Timberlands also delivered a very strong return, contributing \$175 million to value add. AIMCo's Private Equity and Infrastructure are still relatively early stage in their respective investment cycles and lagged behind the very strong performance of their listed benchmarks.

### AIMCo, Balanced and Short-Term Government Composite Investment Performance



### Investment Performance

	Calendar Year (net of fees)				
	2013	2012	2011	2010	2009
Rate of Return	12.5%	10.2%	4.8%	7.9%	8.6%
Benchmark	11.6%	8.2%	3.7%	7.5%	8.4%
Return above Benchmark	\$589	\$1,284	\$715	\$221	\$130



## PERFORMANCE BENCHMARKS

AIMCo's performance benchmarks measure what our clients could earn by passively implementing their investment policy with bond and stock market index investments.

The incremental return above what markets provide measures the contribution of active management.

<b>ASSET CLASS (as at December 31, 2013)</b>	<b>AIMCo BENCHMARK</b>
<b>FIXED INCOME</b>	
Cash and Money Market	DEX 91-Day T-Bill Index
Short-Term Bonds	DEX Short-Term All Government Bond Total Return Index
Medium-Term Bonds, including Mortgages	DEX Universe Bond Total Return Index
Long-Term Bonds	DEX Long-Term All Government Bond Total Return Index
Private Debt and Loan	70% DEX Real Return Bond Total Return Index / 30% MSCI World Net Total Return Index
<b>INFLATION SENSITIVE AND ALTERNATIVES</b>	
Real Estate, Canadian and Foreign	REALpac/IPD Canadian All Property Index – Large Institutional Subset
Real Return Bonds	DEX Real Return Bond Total Return Index
Timberlands	50% DEX Real Return Bond Total Return Index / 50% MSCI World Net Total Return Index (hedged to CAD)
Infrastructure	50% DEX Real Return Bond Total Return Index / 50% MSCI World Net Total Return Index (hedged to CAD)
<b>EQUITIES</b>	
Canadian Public	S&P/TSX Composite Total Return Index
Global Public	MSCI World Net Total Return Index
Global Small Cap	1/3 S&P/TSX Small Cap Total Return Index / 2/3 MSCI World Small Cap Net Total Return Index
Private Equity	MSCI All Country World Net Total Return Index



# ASSET CLASS SUMMARIES

As of December 31, 2013		Annualized Net Returns (%)					Calendar Year Net Returns (%)				
Asset Class	Market Value (\$mm)	1 yr	2 yr	3 yr	4 yr	5 yr	2013	2012	2011	2010	2009
<b>Total AIMCo Fund Aggregate <sup>1</sup></b>	<b>\$74,662</b>	<b>12.5</b>	<b>11.3</b>	<b>9.1</b>	<b>8.8</b>	<b>8.8</b>	<b>12.5</b>	<b>10.2</b>	<b>4.8</b>	<b>7.9</b>	<b>8.6</b>
Benchmark		11.6	9.8	7.7	7.7	7.8	11.6	8.2	3.7	7.5	8.4
Balanced Funds Aggregate	\$63,154	14.0	12.9	10.2	10.1	10.4	14.0	11.9	4.9	9.9	11.7
Benchmark		13.0	11.3	8.7	8.9	9.7	13.0	9.6	3.6	9.8	12.7
Government Funds Aggregate	\$11,508	4.0	3.4	3.7	3.6	3.6	4.0	2.9	4.3	3.4	3.5
Benchmark		3.4	2.5	3.0	2.9	2.6	3.4	1.7	3.9	2.6	1.5
<b>Money Market &amp; Fixed Income <sup>2</sup></b>	<b>\$25,512</b>	<b>(1.3)</b>	<b>1.4</b>	<b>3.4</b>	<b>4.0</b>	<b>4.1</b>	<b>(1.3)</b>	<b>4.3</b>	<b>7.4</b>	<b>5.7</b>	<b>4.7</b>
Benchmark		(3.0)	(0.2)	2.6	3.1	3.0	(3.0)	2.6	8.5	4.8	2.6
Money Market	\$3,779	1.4	1.4	1.3	1.2	1.1	1.4	1.4	1.1	0.7	1.1
Benchmark		1.0	1.0	1.0	0.9	0.8	1.0	1.0	1.0	0.5	0.5
Universe Bonds	\$6,483	0.6	4.0	5.4	6.4	6.7	0.6	7.5	8.2	9.5	7.8
Benchmark		(1.2)	1.2	3.9	4.6	4.8	(1.2)	3.6	9.7	6.7	5.4
Long Bonds	\$5,736	(4.9)	0.0	5.4	7.3	7.1	(4.9)	5.3	17.1	13.0	6.2
Benchmark		(7.0)	(1.6)	4.7	6.5	5.5	(7.0)	4.0	18.8	12.1	1.5
Segregated Short Term Fixed Income <sup>3</sup>	\$3,110	2.1	2.3	3.1	3.3	3.6	2.1	2.6	4.8	3.6	5.0
Segregated Long Term Fixed Income <sup>4</sup>	\$1,691	1.7	1.8	2.4	2.5	3.2	1.7	2.0	3.6	2.9	5.6
Private Mortgages	\$2,345	0.5	2.6	5.3	6.6	6.0	0.5	4.8	10.9	10.4	3.6
Benchmark		(1.2)	1.2	3.9	4.6	4.8	(1.2)	3.6	9.7	6.7	5.4
Real Return Bonds	\$2,205	(12.5)	(5.0)	2.1	4.3	6.0	(12.5)	3.1	18.2	11.0	13.1
Benchmark		(13.1)	(5.4)	1.9	4.1	6.1	(13.1)	2.9	18.3	11.1	14.5
<b>Inflation Sensitive</b>	<b>\$14,404</b>	<b>10.6</b>	<b>11.3</b>	<b>13.1</b>	<b>12.6</b>	<b>9.3</b>	<b>10.6</b>	<b>12.1</b>	<b>16.8</b>	<b>10.9</b>	<b>(2.9)</b>
Benchmark		9.7	10.9	11.4	11.4	9.8	9.7	12.2	12.5	11.2	4.0
Real Estate	\$8,945	12.2	13.8	16.1	15.3	10.1	12.2	15.5	20.7	12.8	(8.4)
Benchmark		10.9	12.3	13.5	12.9	10.2	10.9	13.8	15.9	11.2	(0.1)
Private Infrastructure	\$3,365	2.9	5.4	6.3	6.2	5.6	2.9	8.1	8.0	5.9	3.1
Timberlands	\$1,011	28.4	13.1	15.3	13.3	8.8	28.4	(0.4)	20.0	7.2	(7.2)
Benchmark		6.4	7.9	7.5	8.3	9.9	6.4	9.5	6.7	10.7	16.5
Private Debt and Loan Pool	\$673	8.1	8.3	7.6	–	–	8.1	8.5	6.3	–	–
Benchmark		(0.5)	2.7	5.7	–	–	(0.5)	6.1	12.0	–	–
<b>Equities</b>	<b>\$34,387</b>	<b>26.2</b>	<b>20.6</b>	<b>11.9</b>	<b>11.3</b>	<b>13.0</b>	<b>26.2</b>	<b>15.2</b>	<b>(3.7)</b>	<b>9.8</b>	<b>20.1</b>
Benchmark		26.6	19.1	10.4	10.2	11.9	26.6	12.0	(5.2)	9.6	19.0
Canadian Equity	\$7,502	15.4	13.5	5.8	8.9	13.8	15.4	11.6	(8.0)	18.5	35.6
Benchmark		13.0	10.1	3.4	6.8	12.1	13.0	7.2	(8.7)	17.6	36.1
Global Equity	\$22,720	32.4	24.7	14.5	12.5	13.2	32.4	17.4	(3.5)	6.8	15.8
Benchmark		30.7	21.9	12.3	10.8	11.0	30.7	13.6	(4.6)	6.3	11.6
Global Small Cap Equity <sup>5</sup>	\$954	42.0	–	–	–	–	42.0	1.5	–	–	–
Benchmark		29.3	–	–	–	–	29.3	0.4	–	–	–
Private Equity	\$3,211	6.7	8.3	8.3	8.4	6.3	6.7	9.9	8.4	8.7	(1.6)
Benchmark		31.1	22.1	12.7	11.7	13.1	31.1	13.6	(3.9)	8.8	18.6

1 Includes tactical overlays of \$359 million.

2 Includes government policy loans.

3 Include investments held in the Sustainability and Credit Union Deposit Guarantee Fund.

4 Includes investments held in the Debt Retirement Account, Special Area Long-Term Account, Agriculture Crop Insurance portfolios.

5 Effective Date of performance and benchmark return is February 16, 2012 when position initiated.



## **PUBLIC MARKET INVESTMENTS**

Most of AIMCo's \$57.1 billion of public market assets is managed internally. External mandates reflect our continued search for high return but unconventional strategies that are not cost-effective to support internally. Net active return was \$1.1 billion in 2013; approximately two thirds of that came from internal strategies.

### **FIXED INCOME**

The \$17.0 billion portfolio of fixed income securities provides liquidity and moderates risk in AIMCo clients' balanced portfolios. However, in this low return environment it is important that our assets are working as hard as possible. Managing these trade-offs is the portfolio manager's challenge.

Our two largest portfolios, the Universe Bond pool and the Long Bond pool, returned 0.6% and -4.9% net of fees, strongly outperforming their respective benchmarks by 1.8% and 2.1%. The team did an excellent job anticipating the onset of higher interest rates and positioned the portfolios to benefit from this forecast. Our active duration management and range trading around the market also attributed positively to our performance. Credit markets further cooperated and helped give the portfolios a lift into year end.

Fixed Income pools benefited from being overweight in high quality, short maturity, corporate bonds. Our sector and security selection continued to be the key drivers of our positive relative performance. Our Fixed Income team has continued to be innovative with our investment strategy. We have consistently stayed ahead of the market to identify the next best risk-adjusted investment opportunities.

### **REAL RETURN BONDS**

AIMCo's \$2.2 billion real return bond portfolio provides inflation protection for our clients. The majority of the portfolio is invested in less liquid Government of Canada real return bonds. For 2013, the portfolio generated a return of -12.5% net of fees, outperforming its benchmark by 0.6%.

### **MONEY MARKET**

Our \$3.8 billion portfolio of money market investments provides AIMCo clients with capital preservation, liquidity and superior risk-controlled return relative to benchmark. Assets are primarily invested in government, corporate and securitized assets, with modest allocation to floating rate notes. During 2013, our Money Market fund returned 1.4% net of fees, outperforming the benchmark by 0.4%.

### **MORTGAGES**

Our \$2.3 billion portfolio of commercial mortgages provides steady cash flow and a premium return over government bonds. AIMCo is a direct lender and the portfolio is comprised of low-risk mortgages secured by institutional quality, cash flow producing properties, mainly in major markets. The portfolio returned 0.5% net of fees, outperforming its benchmark by 1.7% in 2013.

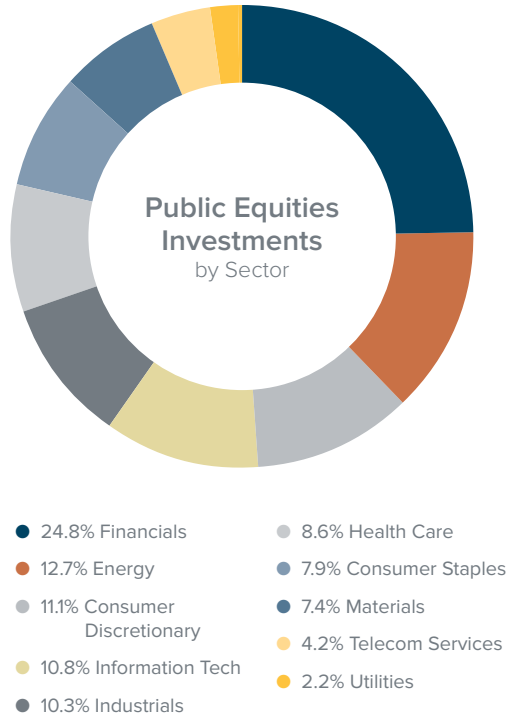
### **PRIVATE DEBT AND LOAN**

Our \$0.7 billion portfolio of private debt and loan investments protect clients against a rise in interest rates and provide diversification benefits due to the negative correlation with traditional fixed income investments. The highly diversified portfolio is primarily comprised of floating rate, senior secured loans extended to privately-held middle market businesses located in North America and Europe. The Private Debt portfolio generated an 8.1% net return, outperforming its benchmark by 8.6% in 2013.

## PUBLIC EQUITIES

The Public Equity team manages \$31.2 billion in public equities across domestic, global and emerging market portfolios. The team uses a range of strategies that optimize allocations across a number of dimensions including size, quality, risk, sector and regional exposures. These strategies added significant value during 2013. The total Public Equity portfolio returned 28.4% net of fees, outperforming its benchmark by 2.3%. Our Canadian portfolios returned 15.4% net of fees for the year, beating the TSX Composite Index by 2.4%. The Global Equity portfolio earned 32.4% net of fees, outperforming its benchmark by 1.7%, while the Global Small Cap Equity portfolio earned 42.0% net of fees on the year versus a benchmark of 29.3%.

The portfolio had a slight defensive posture and a value tilt that suited the investment climate. Strong internal performance was augmented by strong security selection from external managers and hedge funds.



## Milacron

Incorporated in 1884, Milacron is a leading global supplier of plastics-processing technologies and industrial fluids. Milacron's technologies are segmented into five business units: Milacron Plastics Machinery, Mold-Masters Hot Runner and Process Control Systems, DME Mold Technologies, Milacron Aftermarket Parts & Services, and CIMCOOL Fluid Technologies. Milacron employs approximately 4,100 individuals in 150 sales and service facilities worldwide. The company has an installed base of more than 60,000 machines, maintains 30,000 customer relationships across a range of industries, and sells its products in more than 100 countries across six continents.

## GLOBAL TACTICAL ASSET ALLOCATION

Global Tactical Asset Allocation activities focus on the overall global asset allocation and risk exposures of all of AIMCo's portfolios. AIMCo's Tactical Risk Allocation Committee monitors and oversees tactical asset allocation and investment strategy activities, including global portfolio risk exposures of our clients.

## DERIVATIVES

AIMCo utilizes derivatives to quickly and cost-effectively change its asset and currency allocation, and to add value to market returns.

### 1. Futures and Index Swaps

Futures and index swaps are used to manage our allocation to stock and bond markets more efficiently than if we purchased the constituents of market indices individually.

### 2. Credit Default Swaps and Interest Rate Swaps

Credit default swaps and interest rate swaps are employed by AIMCo's fixed income group to manage exposure to credit and interest rates.

### 3. Currency Forwards

Currency forwards allow us to match the currencies of our real estate, infrastructure, and timberland assets to the currencies of their respective benchmarks, and to express an active view on the relative value of currency pairs.

### 4. Options

AIMCo uses options to manage the impact of big swings in listed markets.



## Crombie REIT

The Mortgage Group leveraged its competitive advantages to assist Crombie REIT with the acquisition of 68 Safeway stores in a time-sensitive, sale lease back transaction. AIMCo's bespoke financing solutions provided Crombie with a two tranche, \$144 million first mortgage secured by 13 Safeway anchored shopping centres in British Columbia, Alberta and Manitoba. Crombie REIT selected AIMCo based on its ability to provide a large commitment, custom financing solutions, and react efficiently within the required transaction timeframe, coincident with the closing of a larger transaction.



## PRIVATE MARKET INVESTMENTS

The private markets team manages \$17.6 billion of assets in Real Estate, Infrastructure, Private Equity and Timberlands. The majority of investments are direct placements with some additional fund investments for specific mandates.

### REAL ESTATE

The \$8.9 billion Real Estate portfolio is expected to produce long run returns between those of stocks and bonds. Much like stocks, asset valuations can be volatile, but income returns tend to be stable in the range of 4% to 6% per year. Held assets consist primarily of direct investments in high quality office, retail, industrial and multi-unit residential properties with a core focus in Canada's major centres and an increasing opportunistic investment approach abroad. The portfolio returned 12.2% net of fees in calendar year 2013, outperforming its benchmark by 1.3%. Canadian assets returned 12.7%. The 9.4% return on foreign assets reflects their recent acquisition and ongoing development.

#### Real Estate | Top 5 Holdings by Size

1.

Yorkdale Shopping Centre

Retail  
Toronto, ON

2.

Square One Shopping Centre

Retail  
Mississauga, ON

3.

Scarborough Town Centre

Retail  
Toronto, ON

4.

Eighth Avenue Place

Office  
Calgary, AB

5.

Bow Valley Square

Office  
Calgary, AB

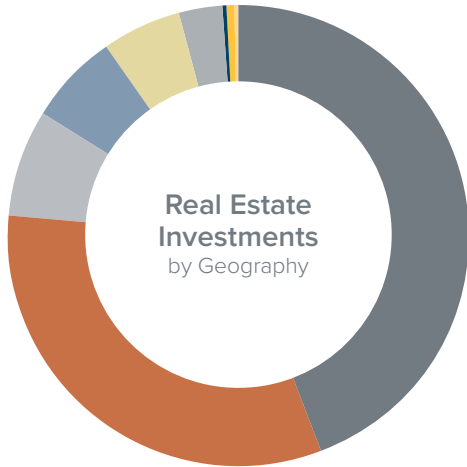


View of Cavern Falls, Johnston Canyon, Banff National Park

### Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund (Heritage Fund), created in 1976, is a provincial endowment designed to preserve a portion of Alberta's non-renewable resource revenue for current and future generations of Albertans. To date, over \$36 billion has been made available to fund Albertans' priorities, such as health care, education, infrastructure and social programs. Last year, the Government of Alberta recommitted to increase the level of savings allocated to the Heritage Fund, ensuring a long-term benefit to Albertans.





- 44.2% Ontario
- 32.4% Alberta
- 7.3% United States
- 6.6% United Kingdom
- 5.5% Canada Funds
- 2.9% Europe Funds
- 0.5% Latin America
- 0.4% Quebec
- 0.2% British Columbia

- 35.0% Retail
- 35.0% Office
- 11.2% Industrial
- 6.6% Residential
- 4.8% Canadian Funds
- 4.7% Foreign Funds
- 2.7% Other

### Local Authorities Pension Plan

The Local Authorities Pension Plan (LAPP), established in 1962, is a defined benefit pension plan designed to ensure financial retirement security for employees of local authorities in Alberta. These include health facilities, cities, towns, villages, municipal districts, colleges, school boards and many other public sector organizations. LAPP is the largest pension plan in Alberta serving more than 425 employers and over 230,000 members and pensioners.

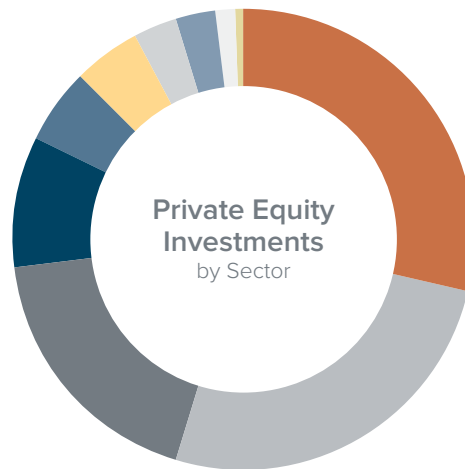
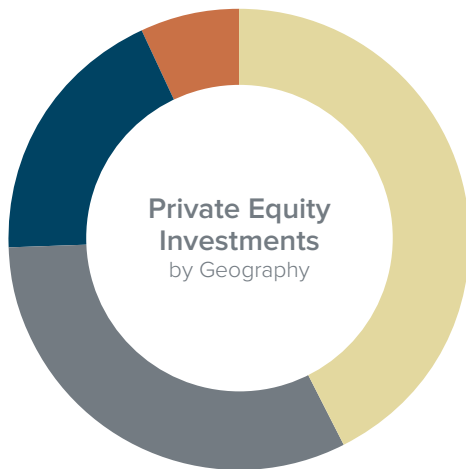


## PRIVATE EQUITY

Our \$3.2 billion Private Equity portfolio is intended to provide long-term growth with an illiquidity premium over public markets. The portfolio is invested across a mix of direct and co-investment opportunities and select relationship funds. Private Equities returned 6.7% in 2013 underperforming its benchmark by 24.4%. The under performance is due to investments in funds prior to 2008, and recently acquired direct assets relatively early in their investment lifecycle.

### Private Equity | Top 5 Holdings by Size

- |                                                                   |                                                                  |                                                                    |                                                             |                                                              |
|-------------------------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------|
| <p><b>1.</b><br/><b>Vue</b><br/>Consumer Discretionary<br/>UK</p> | <p><b>2.</b><br/><b>Ladder Capital</b><br/>Financials<br/>US</p> | <p><b>3.</b><br/><b>Tomkins Limited</b><br/>Industrials<br/>UK</p> | <p><b>4.</b><br/><b>Milacron</b><br/>Industrials<br/>US</p> | <p><b>5.</b><br/><b>Conversant</b><br/>Technology<br/>US</p> |
|-------------------------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------|



- 42.5% United States
- 18.7% Canada
- 32.0% Europe
- 6.8% Asia/Emerging

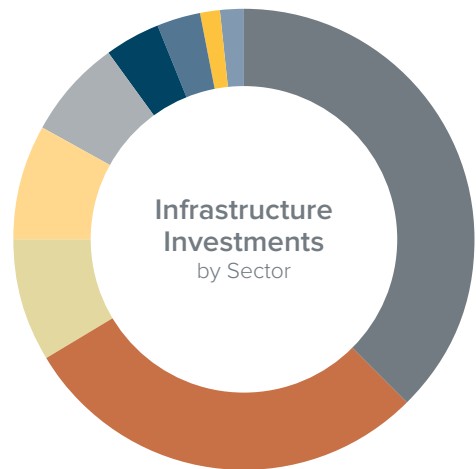
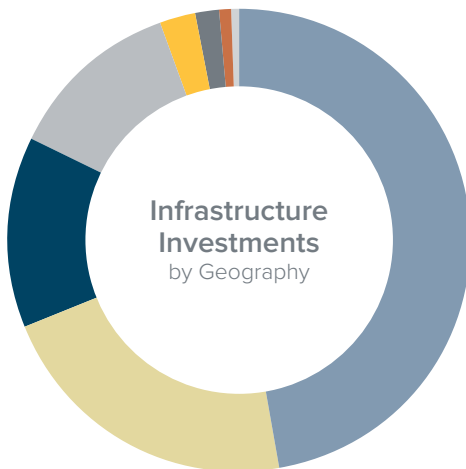
- 28.7% Energy
- 26.1% Consumer Discretionary
- 18.3% Industrials
- 9.2% Financials
- 5.3% Information Tech
- 4.7% Health Care
- 3.1% Fund of Funds
- 2.9% Telecommunication Services
- 1.4% Consumer Staples
- 0.3% Materials

## INFRASTRUCTURE

AIMCo Infrastructure investments match long duration real return asset characteristics with inflation-indexed pension liabilities. The \$3.4 billion portfolio consists primarily of diversified long-term equity positions in assets with regulated returns or long-term contracted revenues. The portfolio returned 2.9% net of fees for the year, 3.5% less than its benchmark. This performance in part reflects that some of the larger assets were acquired recently and are still at the earlier stages of their investment lifecycle.

### Infrastructure | Top 5 Holdings by Size

<p><b>1.</b> <b>Autopista Central</b> Transportation Chile</p>	<p><b>2.</b> <b>Saesa Group</b> Integrated Utilities Chile</p>	<p><b>3.</b> <b>Puget Sound Energy</b> Integrated Utilities US</p>	<p><b>4.</b> <b>Frequency Infrastructure Group</b> Communication Australia/UK</p>	<p><b>5.</b> <b>Thames Water</b> Water UK</p>
----------------------------------------------------------------------------	----------------------------------------------------------------------------	--------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------	-----------------------------------------------------------



- |                        |                  |                                |                           |
|------------------------|------------------|--------------------------------|---------------------------|
| ● 47.4% Chile          | ● 2.6% Australia | ● 37.6% Transportation         | ● 3.9% Power Generation   |
| ● 21.7% United States  | ● 1.6% Canada    | ● 28.9% Integrated Utilities   | ● 3.1% Alternative Energy |
| ● 13.3% United Kingdom | ● 0.8% India     | ● 8.6% Telecommunications      | ● 1.5% Waste Management   |
| ● 12.3% Europe         | ● 0.3% Other     | ● 8.0% Pipelines and Midstream | ● 1.5% Other              |
|                        |                  | ● 6.9% Water                   |                           |

## TIMBERLANDS

Timberland investments provide inflation hedging and a long-term duration match with client obligations. AIMCo manages \$1.0 billion in timberland assets situated primarily in North America, Australia and New Zealand. The AIMCo Timberlands portfolio generated a 28.4% net return, outperforming its benchmark by 22.0% in 2013. The bulk of the assets were acquired from a financially distressed seller in Australia in 2011, with a view to generating exceptional returns through restructuring and repositioning.



# A VISION FOR INVESTMENTS

that stretches the imagination.



## PENSION PLAN RISK

The traditional balanced “60/40” pension policy mix (60% equities and 40% fixed income) was originally viewed as a prudent and well-diversified asset allocation between modest but stable bond returns, high expected long-term return on stocks, and acceptable risk of short-term capital loss. To enhance return and diversify risk, new asset classes (e.g. real estate, infrastructure, timberland and commodities) and new strategies (e.g. hedge funds) were added.

However, in the aftermath of heavy equity losses in 2000-2003 and 2008, pension plan investment committees have been pressured by regulators, actuaries, trustees, and plan members to reduce the pursuit of return, and more closely match pension liabilities with bonds that have a similar return profile.

Such Liability Driven Investing (“LDI”) strategies have pushed the largest US public company defined benefit pension plans from 60/40 (equity/bonds) to 40/40/20 (equity/bonds/alternatives). Pension fund de-risking has moved the investment discussion from seeking opportunity with prudent risk to lowering risk.

Instead of reducing equities or letting their asset mix drift, Canadian plans mostly rebalanced their portfolios after the 2008 Global Financial Crisis, and have greatly benefitted from that decision. Since the S&P 500 Index troughed in March of 2009, it has returned well over 200% as the global economic expansion entered its fifth year.

## INVESTMENT OPPORTUNITY

Exceptional global equity return in 2013 was largely the result of re-rating global equity valuations as index appreciation exceeded earnings growth. A 60/40 balanced portfolio enjoyed a remarkable 12-15% return over the same period.

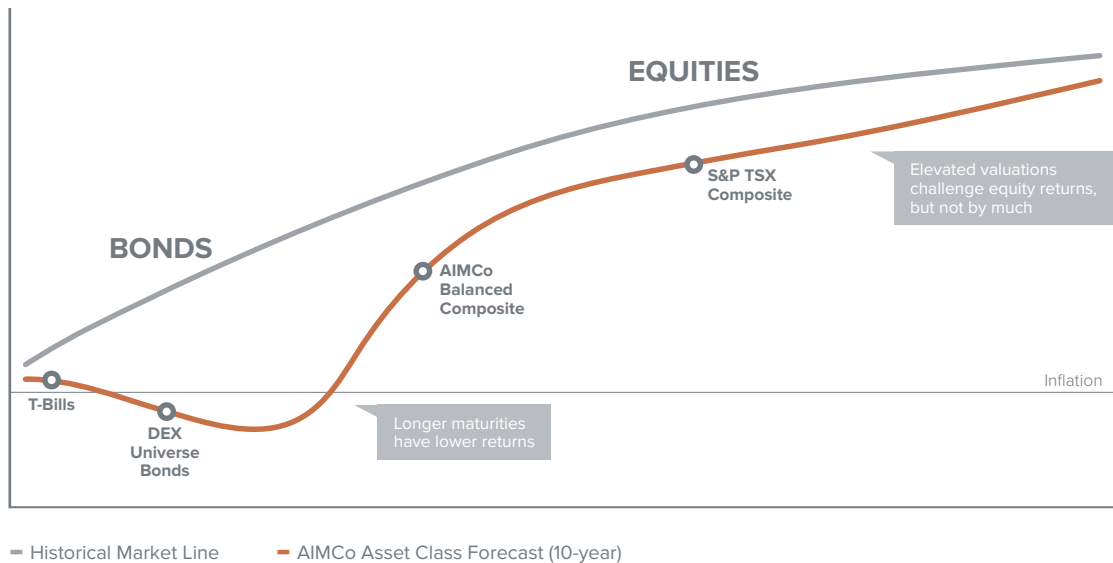
Equity returns have been driven by revenue growth and profit margins with record buybacks keeping equities well bid. Although equities have generally outperformed bond returns each year for the last five years, stock valuations are supported by future prospects, while bonds look over-valued.

Emerging market valuations are particularly compelling, as investors have probably overreacted to slowing growth rates. Within emerging markets we are concentrating on regions with solid growth and contained inflation.

We recently re-estimated our 10-year return forecasts. Our outlook reflects an eventual normalization of global interest rates, particularly for longer maturity government bonds. The stylized market line diagram shows the relationship between risk and return. The heavy grey black line represents the market line, while the orange line traces AIMCo’s 10 year forecast. Our forecast for longer maturity bonds suggests disappointing real returns (less than inflation) with greater risk than shorter term bonds.

### A note on Endowment Funds

AIMCo’s clients include the largest endowment system in Canada, and we help them formulate their investment policy, execute their decisions, and add value through active management. Their objective is to maximize long-term risk-adjusted return. The goal for pension plans is similar, but their risk tolerance can differ since pension funds have more specific funding requirements, and must make up any shortfall with increased contributions measured over a relatively shorter period of time. However, the long-term question is similar: should the focus be on controlling risk or maximizing the potential return on that risk?



A “normal” fixed income real return of 2.5% above inflation observed over the last 60 years requires Treasury yields closer to 5.0% versus 2.8% today. Exceptionally low or negative real interest rates are unsustainable with real growth and inflation of about 2%. Interest rates have been depressed by central bank policies. They should eventually normalize, and move closer to equilibrium interest rate risk premiums.

Equity indices have reached record levels in many markets, bringing valuation metrics in line with long-term averages. Looking ahead, AIMCo generally sees equity returns somewhat below long-term averages, but compared to bonds, equities still look attractive. To state it differently: modest return on equity risk trump paltry or negative returns on bond risk.

All asset classes are exposed to some interest rate duration risk. Long duration bond returns will be very challenged. Equity markets will discount strong earnings potential at higher interest rates, yet still offer prudent investment opportunities. Asset classes such as real estate and infrastructure are widely seen as substitutes for bonds. They have been bid up by low interest rates, and will suffer from rising rates, but they still offer a beneficial return from economic growth.

## CONCLUSION

We suspect 2013 may be a harbinger of a future where, as Milliman Inc. noted “plan sponsors that adopted an LDI strategy after 2009 have not seen as much improvement in their funded status as those that stuck with a more traditional asset allocation”.

Even as global equity returns outperformed bond returns each year for the last five years, equity valuations are not stretched. Yet, we believe bonds are extremely extended due to central bank policy intervention—the mirror image of 2000 that favoured bonds over equities.

With that thought in mind, AIMCo intends to leverage expertise and combined client scale to seek out investments with superior risk-adjusted returns and deliver... Access to Opportunity.



## RISK MANAGEMENT

The crisis of 2008 and its aftermath has led the financial industry to re-examine how we measure and manage risk. There may have been insufficient respect for downside risk prior to 2008. We now face a new challenge: being innovative in how we deploy risk for the most attractive return. We need to refine our models to fully capture the attributes of new asset types. We need to view risk from more than one perspective, to capture the lessons of the past without being paralyzed by them. And we need better ways to gauge how our investments might be affected by future economic or geopolitical events.

Last year, AIMCo took advantage of a complete makeover of our overall business technology platform to improve risk models for traditional assets, and to introduce models for new investment instruments. Tracking AIMCo's diverse portfolio requires millions of daily data points, and much of our risk improvements rested on having access to more and more accurate market data.

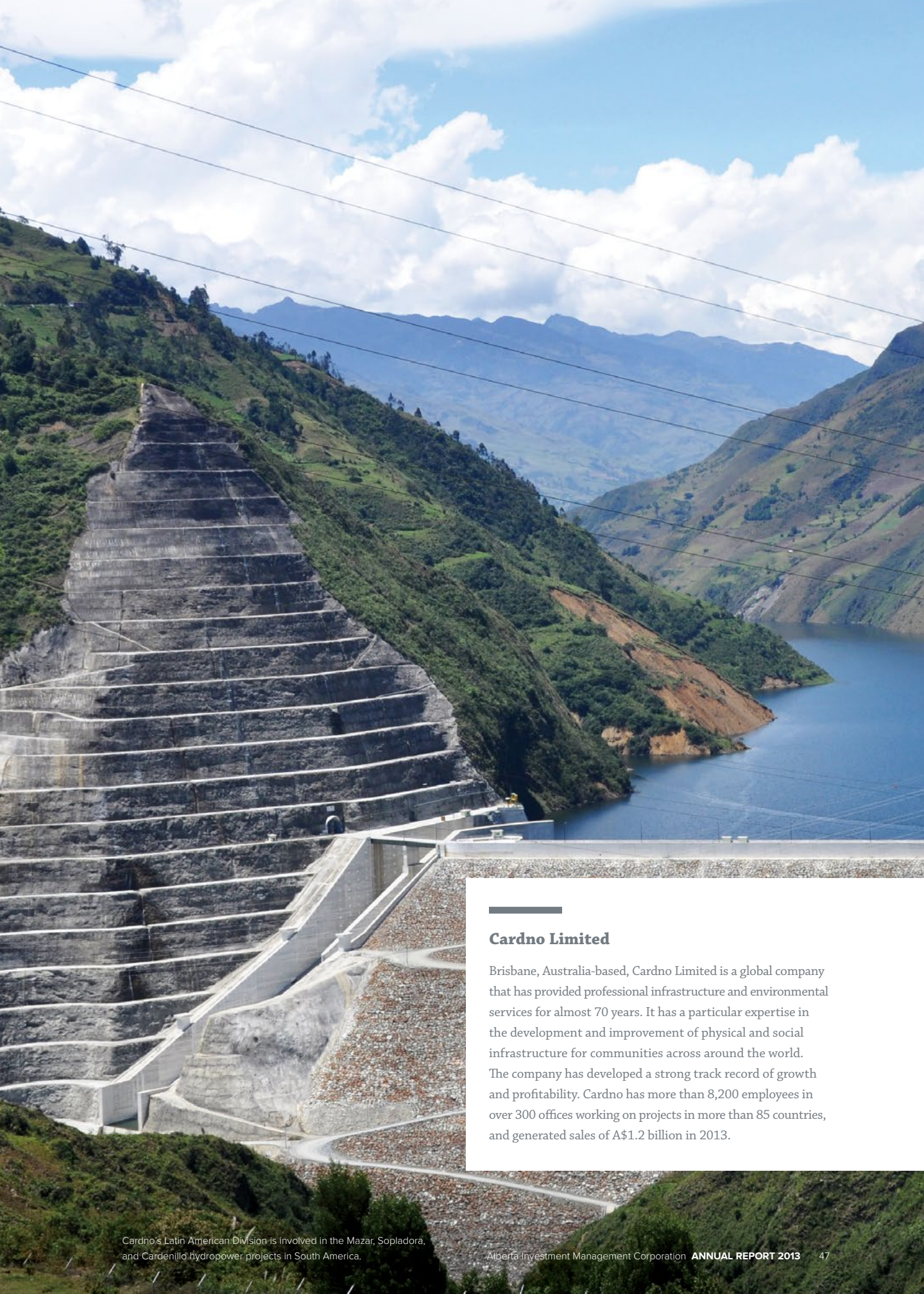
AIMCo will implement a secondary risk system in 2014 to decompose portfolio exposure to systematic risk factors, e.g. country and sector exposure, currency, equity style, inflation, economic growth, credit, and market volatility. That will help us measure and manage potential adverse outcomes due to more rapidly changing market and economic conditions. It will also help communicate sources of risk and return to clients.

In times of increasing uncertainty, correlations can increase reducing short-term diversification benefits between asset classes. The anticipated transition to rising interest rates will likely result in a prolonged period of risk parameter instability. Greater uncertainty in measuring volatility and correlation should be anticipated, as well as reflected in the way we allocate risk.

Extracting insights from massive data feeding into and resulting from quantitative risk management often requires intuition and experimentation. We are working on ways to rapidly transform complex data into visual representations to help us distinguish between the relative importance of various sources of risk. Risk measures will by their very nature always be estimates, but every innovation moves us a small step forward in our efforts to optimally allocate client risk budgets.

Most of the risk AIMCo manages is investment-related. We have always monitored corporate strategic and operational risks, but we are now implementing a more formal Enterprise Risk Management (ERM) program. AIMCo's Board of Directors approved an ERM Framework in 2013. We have established working protocols to guide our program's development, and are deploying specialized software to measure and manage ERM risk across various parts of the organization.





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### **Cardno Limited**

Brisbane, Australia-based, Cardno Limited is a global company that has provided professional infrastructure and environmental services for almost 70 years. It has a particular expertise in the development and improvement of physical and social infrastructure for communities across around the world. The company has developed a strong track record of growth and profitability. Cardno has more than 8,200 employees in over 300 offices working on projects in more than 85 countries, and generated sales of A\$1.2 billion in 2013.



# A COMMITMENT TO CORE VALUES

for our partners and  
our communities.



AIMCo has adopted a Community Investment Program that encourages employee volunteerism and support for a variety of causes and campaigns.

In 2013, our team supported a wide range of causes including the United Way of Edmonton, Edmonton's Food Bank, Junior Achievement of Northern Alberta, the Heart and Stroke Big Bike, Movember, Ride for Dad, and The Canadian Breast Cancer Foundation's Walk for the Cure.

AIMCo is also proud of our support of financial education in Alberta. Sound financial and business education is vital to the long-term success of Alberta and Canada. Our support for academic institutions and learning opportunities also strengthens AIMCo by building a base from which we can grow and develop new talent. We support the Alberta Finance Institute, University of Alberta MBA Games Teams, the Financial Leadership Summit, Institute for Public Economics Annual Conference and the AIMCo MBA Award.

Consistent with the numerous stakeholders our clients support and AIMCo's business objectives, we have proudly directed our efforts to support key initiatives in our community.

**FOCUS AREAS**



**Education**

Education is a pillar of our society and ensures that we are continually growing the bright minds that will lead us into the future.



**Youth**

AIMCo's endowment clients support the long-term requirements of our province and communities, creating a sustainable future for today's youth.



**Seniors**

AIMCo's pension clients support the retirement needs of more than 10% of the Alberta population.



**Habitat For Humanity**

AIMCo's Community Crew has forged partnerships with several important organizations serving our community. With a focus on volunteerism, AIMCo's support has benefited 3,000 students involved in Junior Achievement, ensured healthy meals are on the table from Edmonton's Food Bank and applied true sweat equity to build homes for deserving families with Habitat for Humanity.



## RESPONSIBLE INVESTMENT

AIMCo's approach to Responsible Investment (RI) is guided by our core values, our fiduciary duty to clients and a long-term investment horizon. AIMCo integrates environmental, social and governance (ESG) factors into investment analysis across all stages of investment decision-making. There is increasing evidence that ESG factors are material to the investment returns, especially when extrapolated out over the long term.

### STRUCTURE

AIMCo's RI governance structure cascades throughout the entire organization and across asset classes. The AIMCo board has ultimate oversight for RI, and reviews and approves the RI policy. The RI Committee is chaired by the CEO and features a cross section of senior executives representing all functional areas. The RI committee oversees RI investment strategy and activities, approving the AIMCo proxy voting guidelines, exclusions guidelines and engagement guidelines on an as-needed basis to allow for flexibility and adaptation to current trends.

### INVESTMENT PROCESS

AIMCo enhances shareholder value by exercising its proxy voting rights at publicly traded companies around the globe. Voting decisions are based on AIMCo's bespoke proxy voting guidelines, and take unique circumstances and markets into account. These guidelines provide voting directives across six broad categories: board of directors, shareholder rights, management and director compensation, audit function, take-over protection and ESG reporting and disclosure. AIMCo employs a proxy voting service provider to exercise our proxy votes, while AIMCo's RI team consider multiple proxy service advisory research inputs in addition to conducting independent research to inform our votes.

### ENGAGEMENT PROCESS

The RI Committee decides on the ESG focus areas for pro-active shareholder engagement. These are: Environment: Disclosure of mitigating strategies for companies whose operations have a high impact on the environment; Social: Worker health and safety across the supply chain, and Governance: Clear impediments to shareholder rights and alignment of investor and company interests.

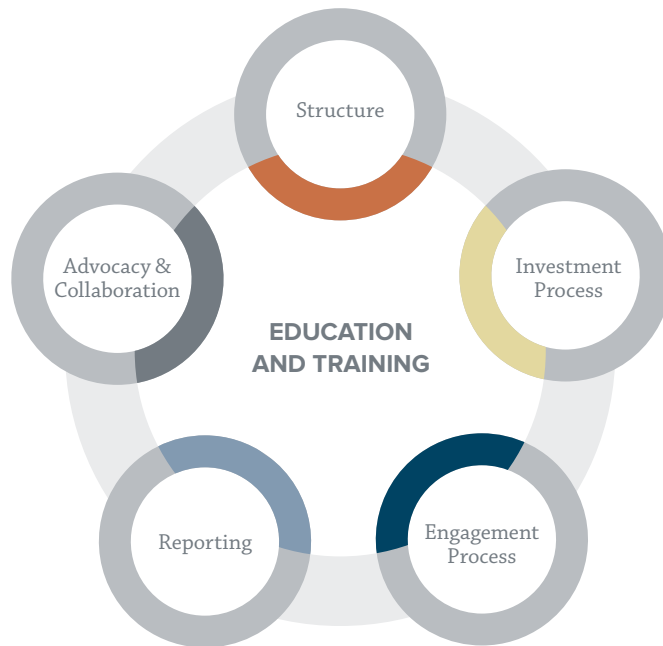
The RI team considers whether to initiate and engage with the company to encourage positive change, and when to cease an engagement. In general, AIMCo prefers a strategy of 'voice over exit' with investee companies so as not to decrease the investible universe and to positively contribute to companies' progress on ESG issues. Shareholder engagements may be initiated and carried out by AIMCo alone, or collaboratively, with peer institutional investment managers.

### REPORTING

AIMCo is committed to reporting and disclosure of its RI policies, guiding documents and activities. AIMCo reports on RI in the annual report, on our website, in the United Nations Principles of Responsible Investment (PRI) survey, and to clients. The AIMCo voting record is disclosed on the AIMCo website in real time shortly after the vote has passed. AIMCo actively participated in a PRI pilot project in spring 2013 to redraft the PRI survey to make it more efficient and relevant.

### COLLABORATION

AIMCo is an engaged member of the global RI community and is a signatory to a number of leading responsible investment initiatives, including the PRI, The Responsible Investment Association, The Canadian Coalition of Good Governance, and several others. AIMCo collaborates with peers in an effort to improve corporate governance and voting efficacy in our proxy voting system. AIMCo has two members on the Pension Investment Association of Canada (PIAC) corporate governance committee, one member on the PIAC board and one member on the International Corporate Governance Network (ICGN) shareholder responsibility committee.



## ADVOCACY

AIMCo participates in relevant public policy dialogues in order to advance best ESG practices and to promote client interests. By commenting on proposed changes to regulations and to various bodies' statements of priorities, AIMCo facilitates a conversation relevant to advancing client and beneficiary best interests. Participating in the development of best practice guidelines across the investment chain is viewed as integral to delivering on fiduciary duties. In 2013 AIMCo contributed to, or authored, a total of seven advocacy initiatives which are posted on our website.

AIMCo is also a member of a peer proxy voting working group which promotes efforts to contribute to the development of auditable proxy voting processes, and to encourage transparency in the system.

## AIMCO 2013 PROXY VOTING OVERVIEW

Voting is one of the primary methods by which AIMCo exercises shareholder voice on behalf of our clients. AIMCo voted on a total of 22,887 ballot proposals in 2013, while voting percentages improved from 98.7% of ballot proposals in 2012 to 99.7% of ballot proposals

in 2013. Shareholder proposals are included in the management proxy circular, and are useful to review as they give a general indication of issues shareholders would like to see management address.

Over the past two years, the total number of environmental, social and governance (ESG) shareholder proposals has increased, and AIMCo has voted to support higher percentages of ESG shareholder proposals. While executive compensation shareholder proposals have also increased in number, the percentage of these proposals that AIMCo has voted to support has not changed significantly. AIMCo will generally support ESG proposals that seem reasonable and support our proxy voting guidelines.

For example, AIMCo will generally vote to support proposals that request companies disclose political contributions, or will support management proposals requesting shareholder approval of executive pay structure ("say on pay") where the pay structure appears to align pay with performance. Similarly, AIMCo will generally vote against management proposals that pose a clear impediment to shareholder rights or otherwise contravene our proxy voting guidelines.

## EXCLUSIONS

AIMCo does not invest directly in tobacco manufacturers, or in manufacturers of landmines, nuclear explosive devices or cluster munitions, in keeping with client investment protocols, statutory investment restrictions and international treaties signed by Canada prohibiting the development, manufacture and distribution of such products. AIMCo does not invest in high risk geographic areas excluded by the Special Economic Measures Act (Canada) and is subject to all orders and regulations made under the United Nations Act (Canada) with respect to the Suppression of Terrorism.

Companies may be also be excluded from the investment universe if they appear to be operating in contravention of local or international legislation/international agreements; and/or after engagement with the company fails; and/or if a company's policies or activities appear to significantly raise operational, financial, environmental or social risks beyond an acceptable level.

## SHAREHOLDER PROPOSALS

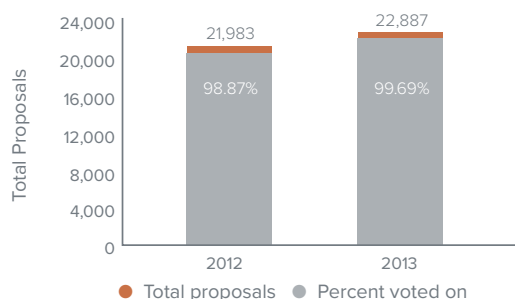
### Total Number of Shareholder Proposals AIMCo supported (voted FOR), by category (2012-2013) (Year over Year 2012-2013 Comparison)

Category	2012		2013	
	Total Proposals	% Supported	Total Proposals	% Supported
Environmental	14	0%	42	40%
Social	47	21%	64	69%
Governance	154	36%	214	42%
Compensation	45	29%	58	28%
Miscellaneous	5	40%	4	75%
<b>Total</b>	<b>265</b>	<b>30%</b>	<b>382</b>	<b>44%</b>

The number of Shareholder Proposals we voted on increased by 44% from 265 in 2012 to 382 in 2013. The most significant changes in AIMCo's voting were seen in the environmental and social categories with a 40% increase in AIMCo's support for environmental shareholder proposals and a 48% increase in AIMCo's support for socially themed shareholder proposals.

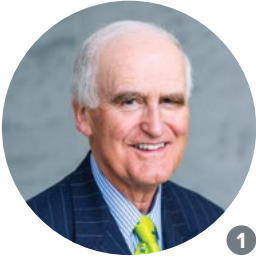
## ALL PROPOSALS

In 2013 AIMCo saw a 4% increase over 2012 in the total number of ballots, or voting proposals that were put forth for voting. The number of proposals that were voted on, or voting percentages, also increased by approximately 1%.





**BOARD OF  
DIRECTORS**





1. **A. CHARLES BAILLIE**, Chair, is the former Chief Executive Officer and Chairman of the Board of Toronto-Dominion Bank. Mr. Baillie serves on the boards of TELUS Corp., Canadian National Railway Co. and George Weston Ltd. He was appointed an Officer of the Order of Canada in 2006 and inducted into the Canadian Business Hall of Fame in 2007. He is Chancellor Emeritus of Queen's University and is currently President of the International Festival of Authors. Mr. Baillie is a former Chair of the Canadian Council of Chief Executives. He holds an MBA from Harvard Business School and an Hon. BA from the University of Toronto.

2. **GEORGE F. J. GOSBEE**, Vice Chair, is the Chairman and CEO of AltaCorp Capital Inc. He is an Advisor on the Government of Canada's Economic Advisory Council, is on the Board of Directors for TMX Group, is Chairman of the School of Public Policy at the University of Calgary and Director of the Libin Cardiovascular Institute of Alberta. He is the Executive Chairman and a Co-owner of the Phoenix Coyotes and Governor on the Board of Governors of the National Hockey League. He is a former board member of Chrysler Group LLC in Detroit. Mr. Gosbee was one of 200 Young Global Leaders named by the World Economic Forum in 2009 and was awarded the Queen's Diamond Jubilee Medal in 2013.

3. **J. RICHARD BIRD** (Appointed February 25, 2014) is Executive Vice President, Chief Financial Officer and Corporate Development of Enbridge Inc., responsible for all financial affairs of the company and corporate planning, mergers, acquisitions and corporate development. Mr. Bird serves on the Board of Directors or Trustees of Enbridge Energy Partners L.P., Enbridge Pipelines Inc., Enbridge Gas Distribution Inc., Enbridge Income Fund Holdings Inc., Gaz Metro Inc. and Bird Construction Company Inc. Mr. Bird was named Canada's CFO of the Year for 2010. He holds a Bachelor of Arts degree from the University of Manitoba, and a Masters of Business Administration and PhD from the University of Toronto.

4. **JOHN T. FERGUSON** (Appointed February 25, 2014) is the Founder and Chairman of the Board of Princeton Developments Ltd. and Princeton Ventures Ltd. He was also Chairman of the Board of Suncor Energy, Chairman of the Advisory Board of the Peter Lougheed Leadership Initiative, as well as a Director of Fountain Tire Ltd. Mr. Ferguson is a Member of the Order of Canada and a Fellow of the Alberta Institute of Chartered Accountants and of the Institute of Corporate Directors. He holds a Bachelor of Commerce degree from the University of Alberta in 1964 and received his CA designation from the Institute of Chartered Accountants in 1967.

5. **ROSS A. GRIEVE** is the Chairman of the Board of Directors and former Chief Executive Officer of PCL Construction Holdings Ltd. He also serves on the boards of Melcor Developments and Kingsett Capital Fund. Mr. Grieve has received numerous accolades for his business leadership – most notably, Canada's Outstanding CEO of the Year Award in 2009. He has a BSc in civil engineering from the University of Manitoba.

6. **VIRGINIA A. HOLMES** is a former Chief Executive Officer of AXA Investment Managers Ltd. in London, U.K. Ms. Holmes currently serves on the boards of U.K. Post Office Ltd. and Standard Life Investments Ltd., and is Chair of Universities Superannuation Scheme Investment Management Ltd. She has a BA from Durham University.

7. **HAROLD A. ROOZEN** is currently the Chairman and CEO of CCI Thermal Technologies Inc. He presently sits on the Board of Directors of ZCL Composites Inc. (TSX), and is a member of the Canadian Council of Chief Executives. Mr. Roozen was previously Chair of WIC Western International Communication Ltd. and President of the Allarcom Group of privately held companies. His prior board experience includes Shaw Communications Inc., Royal Host REIT, the Edmonton Community Foundation, and the Edmonton Eskimos Football Club. Mr. Roozen holds a Bachelor of Commerce from the University of Alberta and an MBA from Queen's University.

8. **ANDREAS S. ROSEN** is the former Vice Chair of TD Bank Financial Group and President of TD Canada Trust. Ms. Rosen serves on the boards of Manulife Financial Inc., Emera Inc. and Hisco Ltd. Ms. Rosen has an LLB from Osgoode Hall Law School, an MBA from the Schulich School of Business, York University, and a BA magna cum laude from Yale University.

9. **MAC H. VAN WIELINGEN** is a founder and Chairman of ARC Financial Corp. and a founder and Chairman of ARC Resources Ltd. Mr. Van Wielingen is Chair of the Canadian Centre for Advanced Leadership in Business (CCAL) at the Haskayne School of Business. Mr. Van Wielingen has an HBA from the Richard Ivey School of Business and has studied post-graduate economics at Harvard University.

10. **ROBERT L. "JAY" VIVIAN JR.** (Appointed February 25, 2014) is the former Managing Director of the IBM Retirement Funds. Mr. Vivian is on the Board of Directors, Investment Committee, and Audit & Oversight Committee of ICMA-RC, and is the founding Chair of the Investment Committee of the Committee on Investment of Employee Benefit Assets. He is also on the Investment & Pension Subcommittee for the charity United Way Worldwide. He holds a Bachelor of Arts degree in Mathematics from Bowdoin College, a Masters of Business Administration from Harvard Business School, and a CFA® Charter from the CFA Institute.

11. **CATHY L. WILLIAMS** is the former Chief Financial Officer of Shell Canada Ltd. As a Director of Enbridge Inc., she is Chair of the Human Resources and Compensation Committee and a member of the Audit Committee. Ms. Williams is Co-Chair of the Calgary Poverty Reduction Initiative. She has an LLB from the University of Western Ontario and an MBA from Queen's University.

12. **CLIVE J. BEDDOE** (resigned effective December 31, 2013) is a founding shareholder, former President and Chief Executive Officer and current Chairman of the Board of Directors of WestJet Airlines.

13. **DARYLA. KATZ** (resigned effective June 20, 2013) is the founder and Executive Chairman of Katz Group.

14. **KURT D. WINKELMANN** (resigned September 16, 2013) is Managing Director and Head of Risk and Analytical Research at MSCI Inc.

AIMCo is a Crown corporation of the Province of Alberta and is committed to the highest standards of corporate governance. We believe that the policies, processes and institutions that form a robust corporate governance framework are fundamental to AIMCo's mission to rank among the best institutional investment managers and to inspire the confidence of Albertans. AIMCo is committed to a culture of integrity and accountability in the pursuit of its goals.

## BOARD OF DIRECTORS

In accordance with the Alberta Investment Management Corporation Act, the board of directors is responsible for overseeing the management of the business and affairs of AIMCo. All directors are duly appointed to the board by the lieutenant governor in Council and must have experience in investment management, finance, accounting or law, or have served as an executive or director with a large, publicly traded company. Individuals should also have, to the extent practicable, experience in executive management of a substantial corporation. All directors are fully independent of management.

Directors are required by statute to act honestly and in good faith with a view to the best interests of the Corporation and, as such, are required to exercise due care, diligence and skill, and manage risk appropriately in their oversight of AIMCo.

## BOARD COMMITTEES

The Board of Directors has established four standing committees, which assist the board in discharging its responsibilities:

- **The Investment Committee** oversees and considers the investment activities, risk management and operations of AIMCo, reviews investment and risk-related reports from management, and votes on specific investment-related matters. The Investment Committee comprises all of the members of the board, with Virginia Holmes serving as Chair.
- **The Audit Committee** oversees financial reporting processes, development and implementation of internal audit and financial control policies, and compliance with said policies and applicable laws and regulations. It also reviews the implementation of AIMCo's Confidential Reporting policy. The Audit Committee consists of Cathy Williams (Chair), Richard Bird, John Ferguson, George Gosbee and Harold Roozen.
- **The Governance Committee** oversees the policies, processes and procedures that comprise AIMCo's corporate governance framework. This includes overseeing terms of reference for the board of directors and each board committee, conducting board evaluations, and generally ensuring the principled, effective continuing operation of the board of directors. The Governance Committee consists of Andrea Rosen (Chair), John Ferguson, George Gosbee, Ross Grieve, Virginia Holmes and Mac Van Wielingen.
- **The Human Resources and Compensation Committee** oversees the human resources strategy, philosophy and policies of the Corporation and offers insights to ensure these are aligned with corporate objectives. The committee similarly reviews compensation practices, organizational structure and management development and succession. The Human Resources and Compensation Committee consists of Mac Van Wielingen (Chair), Ross Grieve, Virginia Holmes, Andrea Rosen and Jay Vivian.

At every meeting of the board of directors, the board and all committees have in-camera sessions, without management attending.

## **DIRECTOR ORIENTATION AND CONTINUING EDUCATION**

AIMCo provides new directors with a comprehensive orientation to the business and affairs of the Corporation. This orientation is designed to inform new directors of their responsibilities and provide them with the background information required to make informed decisions and judgments respecting the issues that face the board. New directors are provided with comprehensive written materials and access to management for the purpose of acquiring the knowledge required to discharge their responsibilities. Continuing director education is integral to achieving and maintaining a high standard of corporate governance. Meetings of the board of directors include educational opportunities for directors to enhance their knowledge of the Corporation and industry.

## **STANDARDS OF CONDUCT FOR DIRECTORS**

The board of directors has adopted various policies that outline acceptable standards of conduct for directors, including the Director Trading Policy and the Director Conflict of Interest Policy.

## **BOARD EVALUATION AND ASSESSMENT**

Each year, the directors complete a board self-evaluation questionnaire that is designed to enable the directors to assess their effectiveness as a board in key areas, while eliciting suggestions for improvement. The Chair of the board facilitates this process.

## **CODE OF CONDUCT & ETHICAL STANDARDS**

AIMCo has a well-established Code of Conduct and Ethical Standards, which outlines the organization's expectations regarding, amongst other topics, diligence and fairness, safe and respectful workplace, conflicts of interest, gifts and entertainment, confidentiality and our obligations to the capital markets. The Code applies to all AIMCo directors, officers and employees, and compliance with it is a condition of employment. All compliance exceptions, if any, are reported to the AIMCo board of directors Audit Committee and dealt with as appropriate.

## **CONFIDENTIAL REPORTING POLICY**

In accordance with governance best practices, AIMCo has an established Confidential Reporting policy and the accompanying reporting service provides all AIMCo employees, service providers and clients with the ability to confidentially report any failure to comply with the Code of Conduct and Ethical Standards.

In 2013, AIMCo received three disclosures through the confidential reporting system. All three disclosures were acted upon, but two were resolved during the initial formal assessment. The third disclosure was investigated but there was no evidence or findings of wrongdoing.

## BOARD ATTENDANCE AND REMUNERATION

The board held six regular meetings in fiscal 2013/14, split evenly between Edmonton and Calgary. In addition, the board held a strategic planning and educational session as well as four special meetings conducted by teleconference. The Investment Committee held eight meetings, one of which was conducted by teleconference.

The following table shows each director's attendance relative to the number of meetings held by the board and committees of which he or she was a member.

### Director Attendance – April 1, 2013 to March 31, 2014

	Board of Directors	Board of Directors Special Meetings <sup>1</sup>	Audit Committee	Human Resources Committee	Governance Committee	Investment Committee	Investment Committee Special Meetings <sup>2</sup>	Risk Committee <sup>3</sup>
A. Charles Baillie <sup>4</sup>	5 of 6	2 of 2	–	5 of 5	6 of 6	4 of 5	1 of 1	1 of 2
George Gosbee	6 of 6	2 of 2	5 of 5	–	6 of 6	5 of 5	1 of 1	2 of 2
Clive Beddoe <sup>5</sup>	5 of 5	1 of 1	–	4 of 4	2 of 2 <sup>6</sup>	4 of 4	1 of 1	2 of 2
Richard Bird <sup>7</sup>	–	–	–	–	–	–	–	–
John Ferguson <sup>8</sup>	–	–	–	–	–	–	–	–
Ross Grieve	6 of 6	2 of 2	–	5 of 5	6 of 6	5 of 5	1 of 1	2 of 2
Virginia Holmes	6 of 6	2 of 2	–	5 of 5	6 of 6	5 of 5	0 of 1	2 of 2
Daryl Katz <sup>9</sup>	1 of 2	–	1 of 2	–	–	1 of 2	–	1 of 2
Harold Roozen	5 of 6	2 of 2	5 of 5	–	2 of 2 <sup>10</sup>	4 of 5	0 of 1	1 of 2
Andrea Rosen	6 of 6	2 of 2	–	4 of 5	5 of 6	5 of 5	0 of 1	2 of 2
Mac Van Wielingen	6 of 6	2 of 2	–	5 of 5	5 of 6	5 of 5	1 of 1	2 of 2
Robert "Jay" Vivian <sup>11</sup>	–	–	–	–	–	–	–	–
Cathy Williams	6 of 6	2 of 2	5 of 5	–	2 of 2 <sup>12</sup>	5 of 5	1 of 1	2 of 2
Kurt Winkelmann <sup>13</sup>	3 of 3	1 of 1	1 of 2	–	–	1 of 2	–	2 of 2

1 Special Meetings of the Board of Directors include teleconference meetings, as well as Board education and/or strategy sessions, that are held outside of the regularly scheduled Board meetings.

2 Special Meetings of the Investment Committee include teleconference meetings held outside of the regularly scheduled meetings.

3 The Risk Committee was combined with the Investment Committee upon Kurt Winkelmann's resignation from the AIMCo Board. The last Risk Committee meeting was held on May 24, 2013.

4 Charles Baillie, as Chair of the Board, is an ex-officio member of the Audit, Human Resources and Governance Committee and attends committee meetings regularly. As the Human Resources and Audit Committee meetings are held concurrently, Mr. Baillie alternates his attendance between the two.

5 Clive Beddoe resigned from the AIMCo Board effective December 31, 2013.

6 Clive Beddoe attended the Governance Committee meetings on September 19, 2013 and November 14, 2013 as a guest at the request of the Committee Chair.

7 Richard Bird was appointed to the Board on February 25, 2014.

8 John Ferguson was appointed to the Board on February 25, 2014.

9 Daryl Katz resigned from the AIMCo Board effective June 20, 2013.

10 Harold Roozen attended the Governance Committee meetings on September 19, 2013 and November 14, 2013 as a guest at the request of the Committee Chair.

11 Robert "Jay" Vivian was appointed to the Board on February 25, 2014.

12 Cathy Williams attended the Governance Committee meetings on September 19, 2013 and November 14, 2013 as a guest at the request of the Committee Chair.

13 Kurt Winkelmann resigned from the AIMCo Board effective September 16, 2013.

## BOARD REMUNERATION

Directors' compensation is prescribed by provincial regulation. Board members receive annual retainers and meeting fees as described in the table below. The board Chair, Vice Chair and committee Chairs receive additional retainers to recognize the incremental responsibility associated with those positions. Directors have not been paid separate meeting fees for Investment Committee meetings when these are held on the same schedule as regular board meetings.

### Board Remuneration – as at March 31, 2013

	Board of Directors	Audit Committee	Human Resources Committee	Governance Committee	Investment Committee	Risk Committee
Base Retainer (Annual)	\$20,000	–	–	–	–	–
Chair Retainer (Annual)	\$50,000	\$10,000	\$7,500	\$7,500	\$7,500	\$7,500
Vice Chair Retainer (Annual)	\$10,000	–	–	–	–	–
Meeting Fees	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000

## DIRECTOR REMUNERATION

The following table shows payments made to directors based on individual attendance and prescribed fees as described in the table above.

### Remuneration Totals – April 1, 2013 to March 31, 2014

	Base Retainer (Annual)	Chair Retainer (Annual)	Vice Chair Retainer (Annual)	Committee Chair Retainer (Annual)	Meeting Fees (\$1,000 per meeting)	Travel Remuneration	Totals
A. Charles Baillie	\$20,000	\$50,000	–	–	\$20,000	\$6,000	\$96,000
George Gosbee	\$20,000	–	\$10,000	–	\$21,000	–	\$51,000
Clive Beddoe	\$15,000 <sup>1</sup>	–	–	–	\$13,000	–	\$28,000
Richard Bird	\$1,918 <sup>2</sup>	–	–	–	–	–	\$1,918
John Ferguson	\$1,918 <sup>3</sup>	–	–	–	–	–	\$1,918
Ross Grieve	\$20,000	–	–	–	\$21,000	–	\$41,000
Virginia Holmes	\$20,000	–	–	\$7,500	\$20,000	\$12,000	\$59,500
Daryl Katz	\$5,000 <sup>4</sup>	–	–	–	\$2,000	–	\$7,000
Harold Roozen	\$20,000	–	–	–	\$15,000	–	\$35,000
Andrea Rosen	\$20,000	–	–	\$7,500	\$18,000	\$6,000	\$51,500
Mac Van Wielingen	\$20,000	–	–	\$7,500	\$19,000	–	\$46,500
Robert "Jay" Vivian	\$1,918 <sup>5</sup>	–	–	–	–	–	\$1,918
Cathy Williams	\$20,000	–	–	\$10,000	\$17,000	–	\$47,000
Kurt Winkelmann	\$9,274 <sup>6</sup>	–	–	\$3,478 <sup>7</sup>	\$5,000	\$2,000	\$19,752

1 Clive Beddoe resigned from the AIMCo Board effective December 31, 2013.

2 Richard Bird was appointed to the AIMCo Board effective February 25, 2014. Mr. Bird was compensated on a per diem pro rata basis for the quarter ending March 31, 2014.

3 John Ferguson was appointed to the AIMCo Board effective February 25, 2014. Mr. Ferguson was compensated on a per diem pro rata basis for the quarter ending March 31, 2014.

4 Daryl Katz resigned from the AIMCo Board effective June 20, 2013.

5 Robert "Jay" Vivian was appointed to the AIMCo Board effective February 25, 2014. Mr. Vivian was compensated on a per diem pro rata basis for the quarter ending March 31, 2014.

6 Kurt Winkelmann resigned from the AIMCo Board effective September 16, 2013. Mr. Winkelmann was compensated on a per diem pro rata basis for the quarter ending September 30, 2013.

7 See footnote 6, above.

# **COMPENSATION DISCUSSION AND ANALYSIS**

## **HUMAN RESOURCES AND COMPENSATION COMMITTEE MANDATE**

The Human Resources and Compensation Committee (HRCC) assist AIMCo's Board in meeting its fiduciary and governance responsibility by: approving and maintaining a long term People Strategy that attracts and retains a top performing executive team, overseeing an effective executive succession planning program and validating executive performance, compensation and compensation principles. The Committee will review strategic initiatives that influence overall organizational health, culture, effectiveness, engagement, retention and sustained long-term performance.

Considerable time in 2013 was allocated to executive succession for the CEO and other members of the executive team, ensuring depth planning and executive development is in place. Internal succession initiatives were augmented with the identification of potential successors for each executive role, as well as the hiring of an additional executive who has a strong investment and risk management background. Other priorities for HRCC included reviewing and recommending for approval, the investment, corporate and individual performance objectives of the executive team and undertaking a comprehensive review of AIMCo's short-term incentive plan and alignment to performance objectives.

In undertaking its responsibility to approve and/or recommend for approval the compensation framework for AIMCo executives, the Committee relies upon relevant reference market data. This data includes, but is not limited to, other Canadian large pension funds for the benchmarking of compensation for all executive roles, with emphasis on investment related positions. Non-investment related executive roles will include such comparisons, as well as relevant market and geographic specific data.

To assist with the execution of compensation related responsibilities, HRCC worked closely with an independent compensation advisor, Hugessen Consulting. Hugessen Consulting is retained by and directly accountable to the HRCC to advise and counsel on the market competitiveness and appropriateness of AIMCo's compensation policies and performance metrics. Final decisions pertaining to executive compensation rest with HRCC and the Board.

## **DECISIONS OR INITIATIVES OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE**

Key decisions or initiatives undertaken by HRCC in 2013 included:

- Reviewing the Annual Incentive Plan (AIP) compensation framework and accountabilities of the executive for AIP, with resulting modifications to the plan.
- Reviewing CEO performance and compensation outcomes for 2013, and reviewing the CEO's recommendations for performance assessment and compensation outcomes for CEO direct reports.
- Recommending for approval, the Annual Incentive Plan (AIP) pool amounts and payouts for CEO and individual objectives. Similarly, approving the Long Term Incentive Plan (LTIP) payouts (issued January, 2010 and vested on December 31, 2013).
- Recommending for approval, the Special Long Term Incentive Plan (SLTIP) grants based on the achievement, for selected individuals, of superior investment performance on the "regular" Long Term Incentive Plan. These SLTIP have a four year vesting period and won't mature until December 31, 2017.
- Approving the hiring and subsequent executive compensation package for a new executive hire.
- Reviewing and providing input into AIMCo's updated five-year strategic plan.
- Reviewing, approving and monitoring various activities associated with executive succession.

## COMPENSATION PHILOSOPHY

AIMCo's compensation program, reviewed annually by the HRCC, contributes to the ability to attract and retain top quartile talent and works to ensure the following principles:

- That the program is heavily weighted towards sustained pay for performance, with an appropriate emphasis on all measures of performance. Performance compensation for the executive team is tied to results in the areas of Total Fund, Asset Class (where appropriate), Corporate Objectives and Individual Objectives. A considerable component of executive compensation is comprised of variable pay, tied directly to the achievement of targets in these areas. For the executives, performance based compensation as a percentage of total direct compensation is between 51-70% if paid at target and 71-85% of compensation if paid at maximum.
- As long-term investors, we must assess sustained performance over a multi-year period. Both the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) are measured by value-added investment performance, above AIMCo investment benchmarks and net of fees, over a four year period.
- To reinforce AIMCo's standing as one of the best institutional investors in Canada, and allow it to compete globally for talent. Competitive compensation within Canada is essential in attracting and retaining the most talented executives.
- To target total compensation at median of its reference market. Top quartile sustained performance in all categories of Total Fund, Asset Class, corporate and individual objectives would reward at top quartile total direct compensation, with corresponding below median compensation if long term performance is not met and sustained. The annual and long-term incentive payments are designed to pay for persistent value-added performance above AIMCo investment benchmarks, measured over rolling four-year cycles.
- To reinforce collective organizational alignment to financial, corporate and individual performance, with a culture of teamwork, collaboration and innovative thinking/decision making.

## PERFORMANCE AND INVESTMENT STRATEGY IMPACT TO COMPENSATION

The following factors will contribute to an increase in total compensation costs:

- A client-directed shift from listed to unlisted investments, with an expectation to earn higher long-term net returns. These assets are more labour intensive to pursue and administrate, and therefore more costly to manage.
- A continued commitment to internal investment and asset management will increase total compensation, but remains considerably more cost effective for our clients.
- Strong long-term investment performance may result in an increase to internal and external incentive fees. AIMCo has demonstrated exceptional investment performance in recent years, and has contributed almost \$3 billion dollars in net value added since its inception in 2008. This strong investment performance is reflected in the performance compensation paid in the annual and long term incentive plans.
- AIMCo's Long-Term Incentive Plan (LTIP) is in its second year of payout since it was implemented in 2009. Value-added return performance over the 2010–2013 period was reflected in the LTIP values paid in 2013.

AIMCo's value-added calculations are net of external and internal costs, and represent incremental return to our clients. AIP and LTIP comprise approximately five cents for every dollar of value-added above performance benchmarks—substantially less than similar performance fees paid to external managers.

The HRCC believes that the compensation awarded for 2013 appropriately reflects investment performance and individual contributions of AIMCo's executive team. The applied compensation principles support and reinforce a sustained pay for performance philosophy.

## COMPONENTS OF COMPENSATION

The following shows all of the core elements of AIMCo's Compensation Program, all validated through external relevant surveys and endorsed through consultation with HRCC's external compensation advisor.

AIMCo participates in three defined benefit pension plans, the Management Employees Pension Plan, the Public Service Pension Plan and a supplementary retirement plan. All eligible employees hired after January 1, 2008 are required to participate in a defined contribution pension plan sponsored by AIMCo, and certain senior employees are also eligible to participate in a defined contribution supplementary retirement plan sponsored by AIMCo.

A broad range of market competitive benefits are provided to employees, including health and dental coverage, short-term and long-term disability insurance, travel insurance, group life insurance, critical illness insurance, a learning and wellness benefit and subsidized public transit. In the case of the executives, annual medical assessments are mandatory.

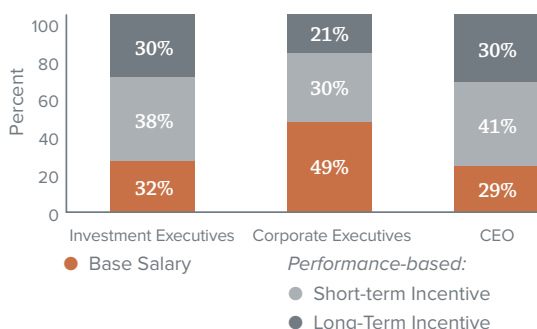
Component	Program Intent	Assessment and Eligibility Criteria	Plan Fundamentals	Variability with Performance
Base salary	Compensates for achievement of job duties based upon skill, experience and performance	All employees	Annual budget based upon external survey market data	Fixed (low variability)
Annual Incentive Plan (AIP)	Annual plan that rewards superior investment performance and individual contributions	All non-unionized employees	Payouts are capped at 2x target, based upon (1) value added investment performance over a four year period, weighted to Total Fund, and Asset Class (where applicable), and (2) Individual performance	High variability
Long-Term Incentive Plan (LTIP)	Intended to reward for superior and sustained investment performance, reinforcing long term nature of investment strategy and providing retention for high performers	Senior level, non unionized employees	Payouts are capped at 3x target, based upon Total Fund returns and value added investment performance over a four year period, weighted to Total Fund and Asset Class (where applicable)	High variability
Special Long-Term Incentive Plan (SLTIP)	Intended to reward for superior and sustained investment performance over an 8 year period	Those eligible for LTIP	Consist of an additional conditional LTIP grant, made when uncapped investment performance over any LTIP period (four years) exceeds the cap of 3x. Once granted, the SLTIP has the same mechanics as the LTIP	High variability
Restricted Fund Units (RFU)	To bridge "gap" period between commencement of employment and LTIP vesting	Granted on a case by case basis only	Vary depending upon circumstance	Low variability



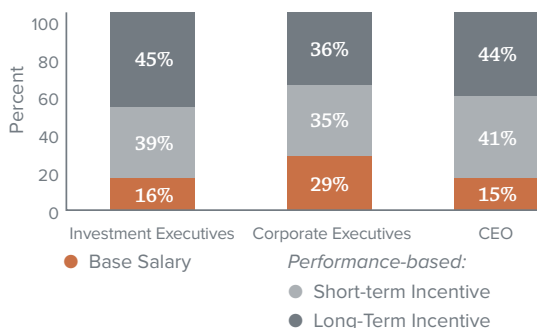
## MIX OF COMPENSATION

All executives have a significant component of their compensation tied to performance. The allocation is illustrated below.

### Executive Team (at Target Performance)



### Executive Team (at Maximum)



## CEO SUCCESSION STRATEGY

CEO succession is a critical fiduciary responsibility for the Board and is a matter that requires effective and prudent oversight. An effective succession process requires an in-depth knowledge of the organization's strategy and board mandate.

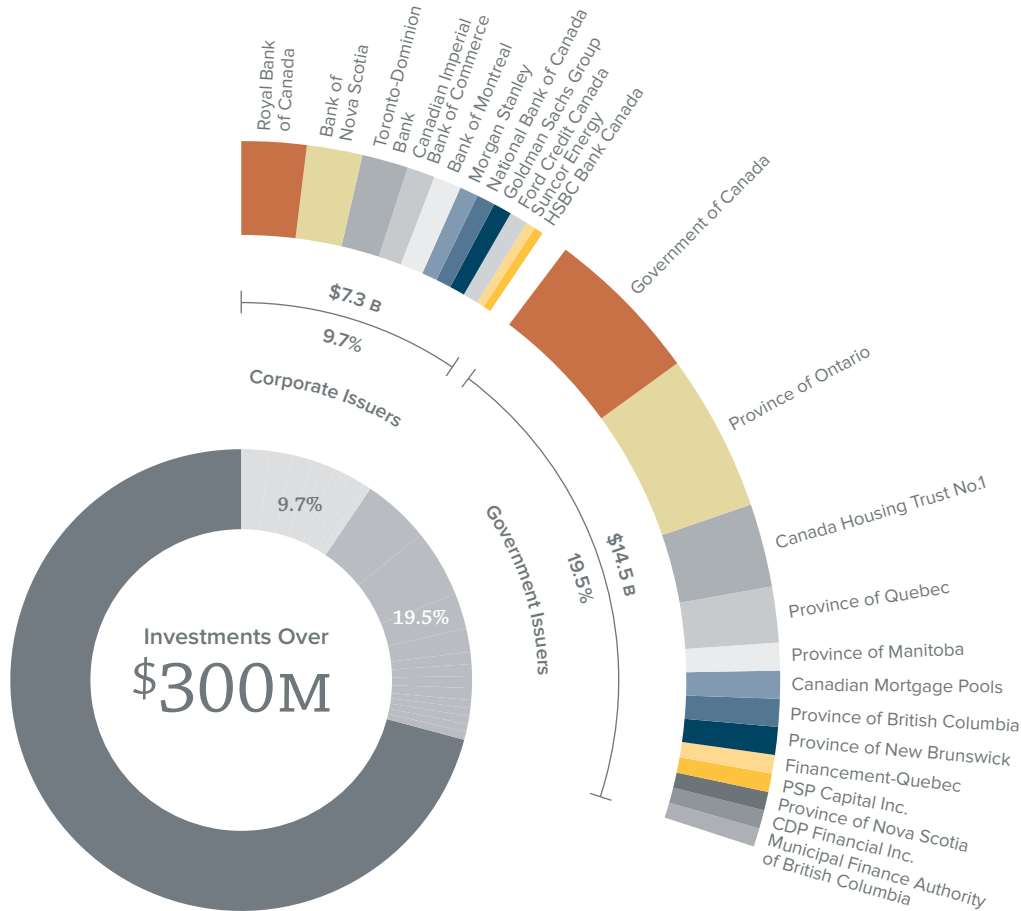
Earlier this year, AIMCo initiated its CEO succession plan. AIMCo has been very ably guided through its initial evolution as a new investment management organization. Through strong stewardship and demonstrated investment expertise, the organization is now well positioned to find a new leader for the future. A number of AIMCo Directors will complete their Board terms over the next two years, this contributing to the decision to commence the CEO search process now.

A robust global search process began in 2014 and will remain open as long as is necessary to find the appropriate successor. Given the expected geographic reach of the search and the relatively small pool of potential candidates, the Board elected to initiate a working notice provision within Mr. de Bever's employment contract. Working notice allows for an open and transparent process which the Board believes is in the best interests of AIMCo's stakeholders. Meanwhile, Mr. de Bever remains fully accountable as Chief Executive Officer and he is committed to maintaining a high performing organization that delivers exceptional investment results.

Mr. de Bever's compensation during the working notice period aligns to AIMCo's current compensation program and principles and remains predominately performance based. Should a new CEO be in place before the end of the working notice period, Mr. de Bever will be entitled to be paid for the duration of the notice period.



## INVESTMENTS OVER \$300 MILLION



Corporate Issuers	Assets Under Management	% of Total
Royal Bank of Canada	1,585.4	2.1%
Bank of Nova Scotia	1,260.1	1.7%
Toronto-Dominion Bank	948.1	1.3%
Canadian Imperial Bank of Commerce	616.3	0.8%
Bank of Montreal	602.4	0.8%
Morgan Stanley	535.0	0.7%
National Bank of Canada	426.3	0.6%
Goldman Sachs Group	356.7	0.5%
Ford Credit Canada	331.6	0.4%
Suncor Energy	322.3	0.4%
HSBC Bank Canada	318.5	0.4%
	<b>7,302.7</b>	<b>9.7%</b>

Government Issuers	Assets Under Management	% of Total
Government of Canada	3,502.9	4.7%
Province of Ontario Canada	3,419.5	4.6%
Canada Housing Trust No 1	1,772.4	2.4%
Province of Quebec Canada	1,275.5	1.7%
Province of Manitoba Canada	702.4	0.9%
Canadian Mortgage Pools	652.9	0.9%
Province of British Columbia Canada	651.7	0.9%
Province of New Brunswick Canada	566.6	0.8%
Financement-Quebec	411.4	0.6%
PSP Capital Inc	408.7	0.5%
Municipal Finance Authority of British Columbia	405.5	0.5%
Province of Nova Scotia Canada	392.3	0.5%
CDP Financial Inc (Caisse de dépôt et placement du Québec)	365.6	0.5%
	<b>14,527.4</b>	<b>19.5%</b>



## EXECUTIVE TEAM AND BOARD OF DIRECTORS

### EXECUTIVE TEAM

**Leo de Bever**

Chief Executive Officer

**David Goerz**

Executive Vice President,  
Investment Strategy &  
Risk Management

**Dale MacMaster**

Executive Vice President,  
Public Market Investments

**Robert Mah**

Executive Vice President,  
Private Investments

**Angela Fong**

Chief Corporate and  
Human Resources Officer

**Jacquelyn Colville**

Chief Financial Officer

**Brett Kimak**

Chief Compliance Officer

**John Osborne**

Chief Risk Officer

**Michael Baker**

Senior Vice President,  
Investment Operations

**Darren Baccus**

Chief Client Relations &  
Legal Officer

**Carole Hunt, Q.C.**

Chief Legal Counsel &  
Corporate Secretary

### BOARD OF DIRECTORS

**A. Charles Baillie, O.C.**

**George F. J. Gosbee**

**J. Richard Bird**

**John T. Ferguson**

**Ross A. Grieve**

**Virginia A. Holmes**

**Harold A. Roozen**

**Andrea S. Rosen**

**Mac H. Van Wielingen**

**Robert L. "Jay" Vivian Jr.**

**Cathy L. Williams**



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MANAGEMENT CORPORATION**

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