



Alberta Investment  
Management Corporation

**ANNUAL REPORT 2012**

# True to the principles that govern our investment decisions and to the values that define us as an organization.

**True** to our clients, all Albertans and to our talented employees who deliver on our promises.

**True** to the AIMCo vision to be among the best institutional investment managers and to inspire the confidence of Albertans.

For five years we have operated at arms-length from government, as a crown corporation. In that time, AIMCo has demonstrated that it is an Albertan success story—a global investment manager with a proven track record. Our economies of scale, governance model, and strong performance managing a wide range of asset classes are our strength. With our sights set on the future, we are modernizing our systems and refining our business processes, all with the aim of improving performance for our clients.

We are a long-term investor with patient capital and work positively alongside the firms in which we invest. With our history rooted firmly in Alberta, AIMCo turns confidently towards tomorrow and the promise it provides for our clients.

## Vision

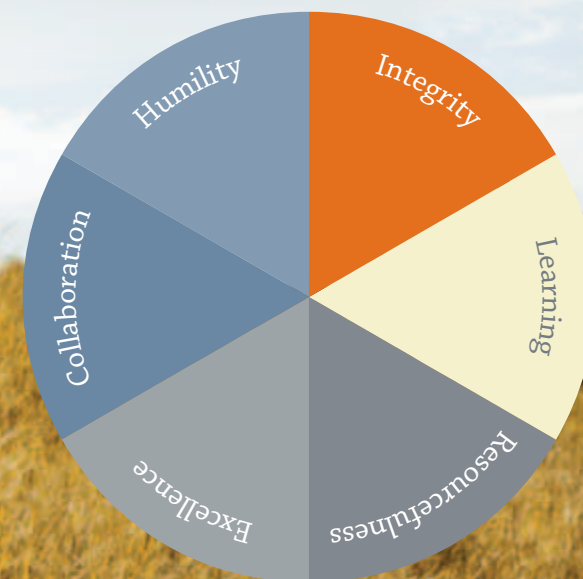
To be among the best institutional investment managers and inspire the confidence of Albertans.

## Mission

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


# Core Values

Bringing our aspirational culture and AIMCo's Core Values to life is one of our most important priorities.



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A landscape photograph showing a river or stream winding through a field of tall, golden-brown grasses. The sky is filled with soft, grey clouds. On the left side, there is a line of green trees. The overall scene is peaceful and natural.

Aim True.



—  
Global operator.  
Local champion.

We target the best investment opportunities wherever they might be.

From infrastructure in South America and real estate in Europe to positions on every global exchange, AIMCo invests in a global mix of assets on behalf of our clients.

# INVESTMENT PERFORMANCE HIGHLIGHTS

(as at December 31, 2012)

\$1.6

billion

Gross of Fees Value Added

\$6.9

billion

Gross Investment Income

\$68.6

billion

Assets Under Management

10.8%

Total AIMCo  
Gross Investment Return

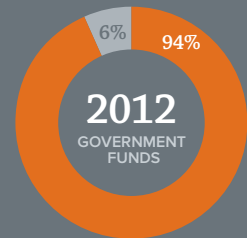
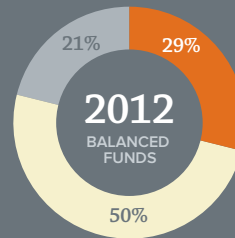
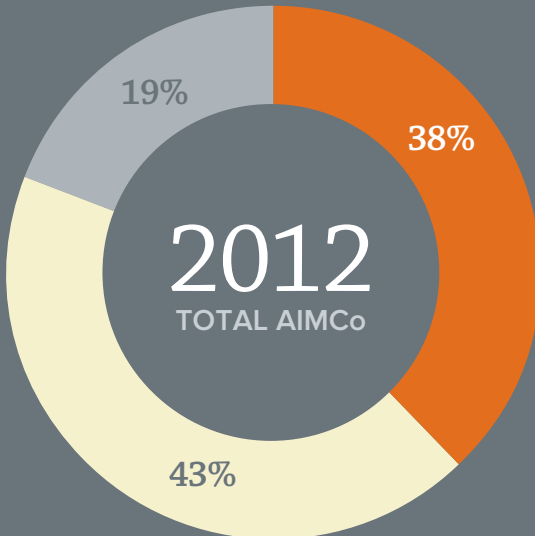
12.6%

Balanced Funds  
Gross Investment Return

3.1%

Government Funds  
Gross Investment Return

## ASSET MIX



- MONEY MARKET AND FIXED INCOME
- EQUITIES
- INFLATION SENSITIVE



## MESSAGE FROM THE CHAIR

On behalf of the Board of Directors of Alberta Investment Management Corporation, I am pleased to report yet another year of attractive investment returns. For calendar 2012, AIMCo earned a gross return of 10.8% and a net after cost return of 10.2% on \$70 billion of assets. \$1.6 billion or 2.6% of that gross return represented value-added in excess of our market benchmark.

Five years ago, the Province of Alberta took the decision to establish AIMCo as an independent investment management corporation with the goal of ranking among the best, acting as a catalyst for growth in the financial industry in the Province and becoming a source of pride for Albertans. Results to date suggest that AIMCo is indeed earning those challenging value-added returns that the Provincial Government envisaged at the time of AIMCo's creation.

Achieving these strong 2012 results required the combined effort of the AIMCo team and demonstrate what is possible when one is able to attract top talent throughout the organization by offering the opportunity to seek out new investment ideas and approaches.

The existence of this pool of expertise adds value to the Alberta financial landscape beyond investment returns. AIMCo is implementing leading edge investment techniques, and sharing them with our clients through seminars and white papers. We are also part of the broader Alberta community, and our team members are increasingly sought after as expert resources.

The Board of Directors commends the Province of Alberta for having the vision and foresight to establish AIMCo. The pensions, endowments and government funds that comprise AIMCo's clients benefit not only from the economies of scale afforded by asset size, but increasingly from our investment discipline and our world-class investment team.

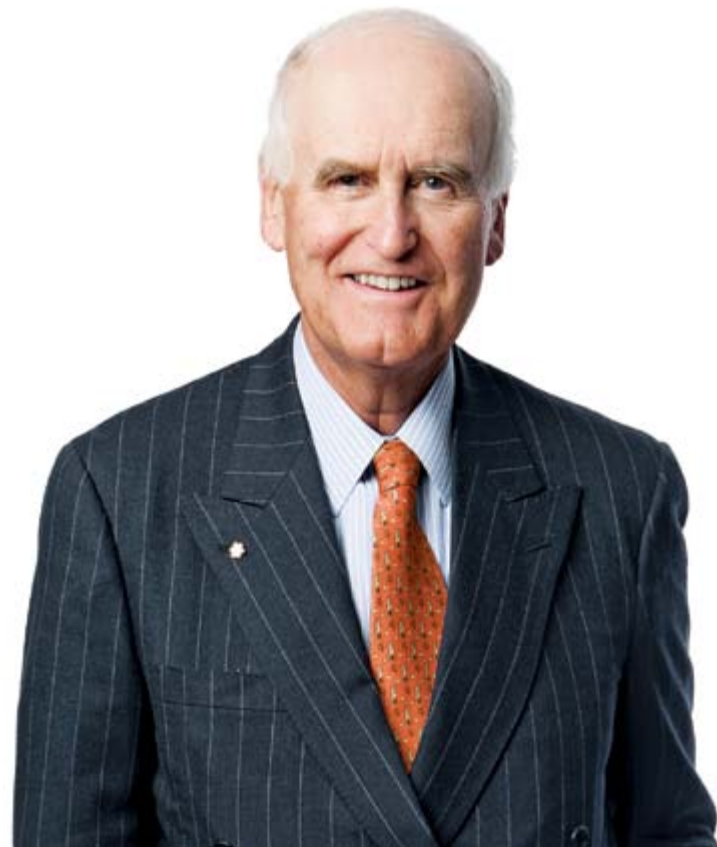
Our clients' continued support is critical as we navigate the future. We are acutely aware of the unique and significant issues they face. AIMCo will strive to provide client-specific solutions and bring our expertise to bear as a readily accessible tool to address their needs.

Finally, I want to thank Leo de Bever and the entire AIMCo team for their unrelenting pursuit of sound investment opportunities and above-market returns, but more importantly for building an organization positioned for the future. The Board recognizes that no investment can consistently outperform the market in the short term, but we do believe that AIMCo's disciplined approach to investing will produce superior long-term results.

The AIMCo team captures the uniquely Alberta can-do spirit; set a challenging target, and Aim True.

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





## MESSAGE FROM THE CEO

We set out to build an organization that could deliver superior investment returns at low cost. With \$70 billion of endowment and pension assets, we have been able to attract strong internal expertise. We work hard to make performance persistent, but it is best to stay humble in the face of both successes and setbacks as past investment outcomes are rarely a reliable predictor of future results.

Calendar 2012 was very good to our clients. We have no control over market returns, and the future is so opaque that it is rare that most efforts to outguess markets pay off. Our balanced clients earned 11.9%, 2.3% more than a policy market return and far above its long-term norm. Our government clients earned 2.9%, 1.1% more than markets alone would have given them. The total \$1.6 billion of incremental return over market is the largest in AIMCo's five-year history. We celebrated, and then turned to trying to do it again in a new year.

We always look for where opportunity will be next. Bond markets may be reversing a long period of good returns, so we are trying to find bond substitutes less sensitive to interest rate risk. Stocks are not cheap, but return on stock risk will likely be higher than on bond risk over the next five to ten years. We are putting more assets in private investments. With good selection we should earn higher net returns than we can get from listed assets. However, the popularity of some private assets has lowered expected returns. Delivering superior returns will depend on being agile in finding new niches.

Our aim is to be strong investment partners for our clients, for the companies we invest in and for the pension and endowment peers investing alongside us. AIMCo is a long-term investor with patient capital. When we take significant positions in companies, we work with management to increase value for all shareholders. I am particularly proud that our team has forged strong relationships with peers and other institutional investors to pursue private opportunities that can create strong long-term value for AIMCo clients.

Superior asset management increasingly depends on having good business information systems to better measure and monitor changes to investments and risk. We started planning the introduction of a completely new set of best in breed tools four years ago, and expect to complete that effort in 2013.

We remind ourselves daily that what we do affects real people: the retirement security of firefighters, policemen, civil servants, judges, and in the case of the Heritage Fund, all Albertans. Many thanks to our client Boards, the Province of Alberta and the many individuals who work alongside our team to support us in meeting our objectives.

It is my good fortune to lead a team of highly motivated yet down-to-earth professionals. I want to thank the entire AIMCo team for always working to push the boundaries of the possible, and for what that allowed us to accomplish for our clients last year.

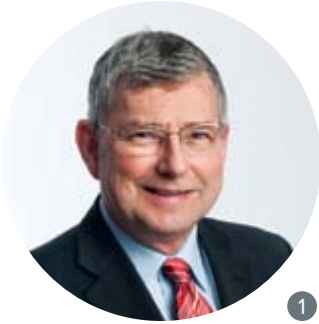
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**Leo de Bever**





# OUR TEAM




- 1 **LEO DE BEVER**  
Chief Executive Officer
- 2 **DALE MACMASTER**  
Executive Vice President,  
Public Market Investments
- 3 **JAGDEEP SINGH BACHHER**  
Executive Vice President,  
Venture and Innovation
- 4 **ROBERT MAH**  
Executive Vice President,  
Private Market Investments
- 5 **DAVID GOERZ**  
Executive Vice President,  
Investment Strategy and  
Risk Management
- 6 **ANGELA FONG**  
Chief Corporate and  
Human Resources Officer
- 7 **JACQUELYN COLVILLE**  
Chief Financial Officer
- 8 **JOHN OSBORNE**  
Chief Risk Officer
- 9 **MICHAEL BAKER**  
Senior Vice President,  
Investment Operations
- 10 **DARREN BACCUS**  
Associate General Counsel

Alberta has a can-do spirit, great career possibilities, and excellent access to quality education and healthcare. The global market for talent is exceptionally competitive, and through 2012 AIMCo was able to source talent from within Alberta, and around the world.

The diversity of our employees is rivaled only by the diversification of our investments. Our team brings relevant experience from multiple disciplines with experience in established and emerging markets. With more than 39 languages and dialects spoken we are truly global, and we bring it all home to our head office in Alberta.

The AIMCo team is committed to continuous learning. This has paid off, and we were proud to have 10% of our active workforce promoted in 2012. We encourage our team to rise to new challenges and seek out greater responsibility to support organizational growth. That drive and energy is key to earning strong results for our clients while building the next generation of AIMCo's leadership from within.

Organizational culture matters. We align our Core Values in day-to-day decision making, knowing that a meaningful organizational culture will enable us to attract and retain top quartile talent. This all translates into a high performing workplace, with solid business results.

A woman with short dark hair, wearing a black blazer, is smiling and holding a white spiral-bound notepad. The notepad has the text "WORKING FOR ALL ALBERTANS" written on it in black, hand-drawn capital letters. The background is a solid orange color.

WORKING FOR  
ALL ALBERTANS



**FOCUSED ON  
OUR CLIENTS**

We aim for strong returns so AIMCo's 27 clients can better meet their obligations.

We work hard to be a valued service provider and a trusted advisor, and to better understand the unique needs of our pension, endowment and government funds.



**Yu Ding** Analyst, Client Relations

Moving to Alberta from half-way around the world, Yu is the newest member of AIMCo's Client Relations team and focused on building strong relationships with our clients through high engagement and thorough reporting.

AIMCo provides investment management, performance measurement, administration, compliance and proprietary market research to meet our client needs. As a multi-client manager, we rely on a strong client relations team to articulate client challenges to our portfolio managers and to then communicate back to clients how we are addressing those challenges.

Our clients play important roles in the lives of Albertans:

- In 2012 our pension funds made nearly \$1.3 billion in pension payments to meet the retirement needs of over 310,000 active and retired public sector employees.
- The Alberta Heritage endowment fund system is the largest of its kind in Canada.
- The government funds we manage are used for Albertans' priorities such as health care, education, infrastructure and social programs.

We take pride in the responsibility we have to our clients.



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### **Public Service Pension Plan**

The Public Service Pension Plan (PSPP) was established in 1947 to provide financial retirement security for employees of the Alberta government and other public service organizations. The PSPP is a defined benefit pension plan which currently includes 31 employers and nearly 80,000 members and pensioners.



# ASSETS UNDER MANAGEMENT

## By client type as of December 31, 2012

(\$millions)	Market Value	Asset Class <sup>1</sup>		
		Money Market and Fixed Income	Equities	Inflation Sensitive
<b>AIMCo TOTAL</b>	<b>68,600</b>	<b>38%</b>	<b>43%</b>	<b>19%</b>
<b>Balanced Funds<sup>2</sup></b>	<b>58,530</b>	29%	50%	21%
Endowment Funds	20,379	21%	52%	26%
Heritage Savings Trust	17,161	21%	52%	27%
Heritage Medical Research	1,392	21%	51%	28%
Heritage for Science and Engineering	800	21%	51%	28%
Heritage Scholarship Fund	790	22%	53%	25%
Long-Term Disability Bargaining Unit	180	28%	61%	11%
Long-Term Disability Management	56	27%	61%	12%
<b>Pension Plans</b>	<b>38,151</b>	33%	49%	18%
Local Authorities	22,873	35%	45%	20%
Public Service	7,309	33%	54%	13%
Management Employees	2,993	25%	62%	13%
Universities Academic	2,937	31%	56%	13%
Special Forces	1,748	28%	58%	14%
Judges	106	41%	49%	10%
Judges Supplementary Retirement	106	46%	49%	5%
Management Supplementary Retirement	79	37%	55%	8%
<b>Government Funds</b>	<b>10,070</b>	94%	0%	6%
Short-Term Government Funds	7,500	100%	0%	0%
Sustainability	3,359	100%	0%	0%
Money Market Depositors <sup>3</sup>	2,118	100%	0%	0%
General Revenue	1,426	100%	0%	0%
Debt Retirement Account	534	100%	0%	0%
Management Closed Pension Membership	11	100%	0%	0%
Alberta Municipal Services Corporation	7	100%	0%	0%
Alberta Risk Management Fund	45	100%	0%	0%
<b>Special Purpose Government Funds</b>	<b>2,570</b>	75%	0%	25%
Agriculture Financial Services Corporation	1,154	100%	0%	0%
Workers' Compensation Board	652	0%	0%	100%
Alberta Cancer Prevention Legacy	507	100%	0%	0%
Credit Union Deposit Guarantee	199	100%	0%	0%
Special Areas Long-Term Account	29	100%	0%	0%
Alberta Securities Commission	29	75%	25%	0%

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

2 For Local Authorities currency hedges valued at \$10.7 million are excluded.

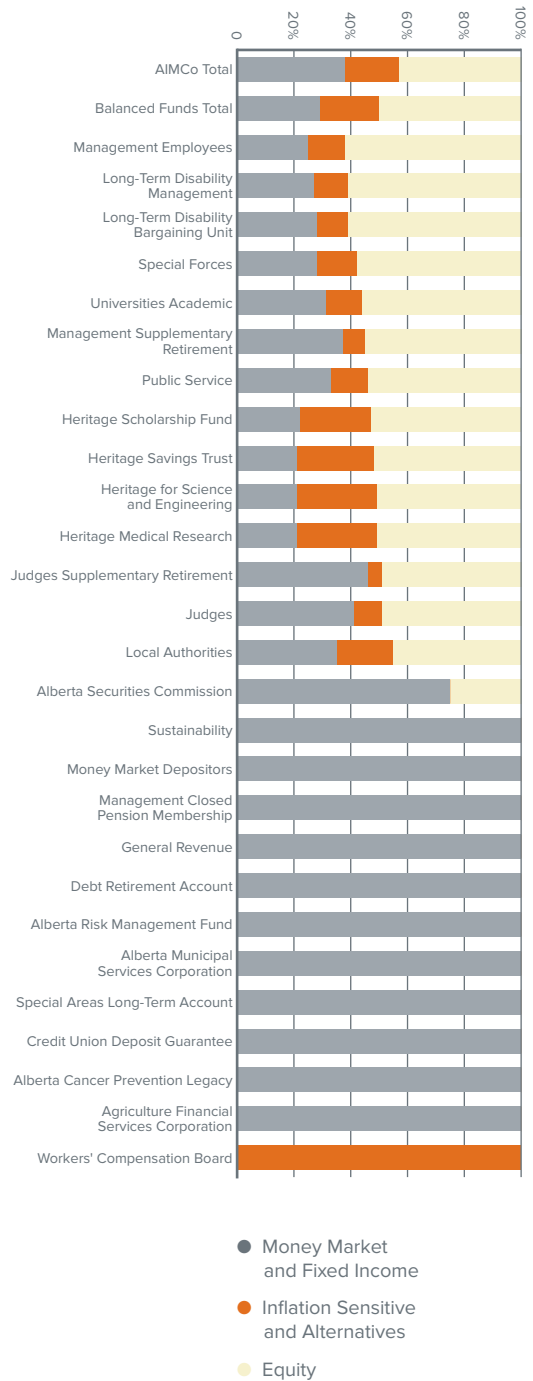
3 Includes various government agencies, organizations, Crown corporations and other accounts.

# ASSETS UNDER MANAGEMENT

AIMCo's clients set their own asset mix policy and asset mix ranges.

Most government funds seek preservation of capital through money market and short duration fixed income assets, while most balanced fund clients combine more modest allocations to fixed income with large exposures to equities, inflation sensitive and alternative assets.

In the case of the Workers' Compensation Board, it uses AIMCo's expertise by investing in inflation sensitive assets.



**ASSETS UNDER MANAGEMENT – 4 YEARS FROM CALENDAR YEAR 2009 THROUGH 2012**

Since 2009, our pension funds have contributed \$3.6 billion in new capital, and government and endowment accounts have withdrawn approximately \$26.1 billion. Investment returns and active returns added approximately \$20.6 billion, including \$2.3 billion in value-added.

In the years ahead, we expect short-term government fund assets to stabilize. Endowment funds are expected to grow with the Province’s decision to retain more income in the Heritage Savings Trust Fund. Pension funds will likely grow from net fund inflows and investment returns.

**AIMCo Changes in Assets Under Management, 2009-12**



- 22.4 Billion Short Term Government Fund Withdrawals
- 3.7 Billion Endowment Fund Withdrawals



- Pension Fund Net Contributions



- 18.3 Billion Benchmark Returns
- 2.3 Billion AIMCo Value-Added





Exceeding  
Objectives!



AIMCo earned a total fund net return of 10.2% in 2012, \$1.3 billion more than our market benchmarks.

Our clients each have specific investment needs and unique asset mixes.

The net return was 11.9% for pension and endowments clients, and 2.9% for our special purpose government funds clients.

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**Geoffrey Mwangi** Director, Investment Valuations

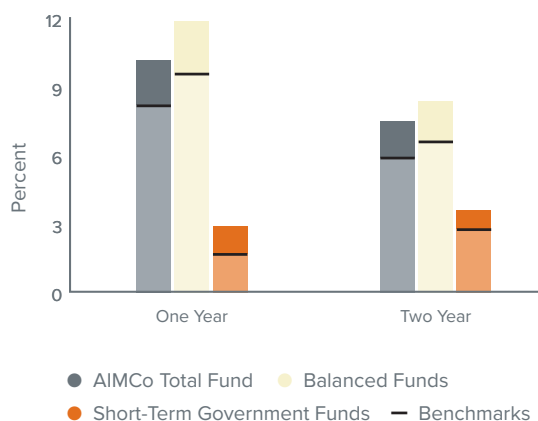
Bringing a unique international perspective, Geoffrey uses his multi-disciplinary expertise as a Chartered Business Valuator to ensure all of AIMCo's investments are accurately valued for our clients in accordance with the latest fair value guidance.

## RETURNS FROM ACTIVE MANAGEMENT

Every year, the Board and Management agree on active return targets consistent with top quartile return on active risk. In 2012, we achieved more than double our active return target. Active management added \$1.6 billion to gross return. Net of fees, active return was \$1.3 billion.

Public equities contributed \$878 million, fixed income added \$438 million, and real estate generated \$115 million. Private equity, infrastructure and timberlands lagged behind the very strong performance of their listed benchmarks. Efforts to add value by underweighting or overweighting asset classes resulted in a gain of \$141 million of value add.

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



## Investment Performance

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



### Justin Lord

Equity Trader, Public Equities

Departing Eastern Canada for life on the prairies, Justin brought considerable expertise and a growing family to Alberta where he keeps his eye on global market movements to execute trades and formulate investment strategies for our clients.



## 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, 2012)</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
<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
Private Debt and Loan	70% DEX Real Return Bond Total Return Index / 30% MSCI World Net 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 All Country 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

# **MANAGING COSTS**

## **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, a clear advantage for our clients.

However, 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:

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



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### **Mortgages**

A ten year \$175 million first mortgage secured by Bell Trinity Square, a 938,898 square foot Class A two tower office complex in Toronto, Ontario. The financing assisted with the acquisition of the property by an institutional investor.



# ASSET CLASS SUMMARIES

as of December 31, 2012

Asset Class	Market Value (\$ Millions)	Annualized Net Returns (%)				Calendar Year Net Return (%)		
		1 Year	2 Year	3 Year	4 Year	2011	2010	2009
<b>Total AIMCo Fund Aggregate<sup>1</sup></b>	<b>68,600</b>	<b>10.2</b>	<b>7.5</b>	<b>7.6</b>	<b>7.9</b>	<b>4.8</b>	<b>7.9</b>	<b>8.6</b>
Benchmark		8.2	5.9	6.4	6.9	3.7	7.5	8.4
Balanced Funds Aggregate	58,530	11.9	8.4	8.9	9.6	4.9	9.9	11.7
Benchmark		9.6	6.6	7.6	8.9	3.6	9.8	12.7
Government Funds Aggregate	10,070	2.9	3.6	3.5	3.5	4.3	3.4	3.5
Benchmark		1.7	2.8	2.7	2.4	3.9	2.6	1.5
<b>Money Market and Fixed Income<sup>2</sup></b>	<b>26,334</b>	<b>4.3</b>	<b>5.8</b>	<b>5.8</b>	<b>5.5</b>	<b>7.4</b>	<b>5.7</b>	<b>4.7</b>
Benchmark		2.6	5.5	5.3	4.6	8.5	4.8	2.6
Money Market	4,039	1.4	1.3	1.1	1.1	1.1	0.7	1.1
Benchmark		1.0	1.0	0.8	0.7	1.0	0.5	0.5
Universe Bonds	6,091	7.5	7.9	8.4	8.2	8.2	9.5	7.8
Benchmark		3.6	6.6	6.6	6.3	9.7	6.7	5.4
Long Bonds	5,692	5.3	11.0	11.7	10.3	17.1	13.0	6.2
Benchmark		4.0	11.2	11.5	8.9	18.8	12.1	1.5
Segregated Short-Term Fixed Income <sup>3</sup>	4,077	2.6	3.7	3.7	4.0	4.8	3.6	5.0
Segregated Long-Term Fixed Income <sup>4</sup>	1,715	2.0	2.8	2.8	3.5	3.6	2.9	5.6
Private Mortgages	2,353	4.8	7.8	8.7	7.4	10.9	10.4	3.6
Benchmark		3.6	6.6	6.6	6.3	9.7	6.7	5.4
Real Return Bonds <sup>5</sup>	2,201	3.1	10.4	10.6	11.2	18.2	11.0	13.1
Benchmark		2.9	10.3	10.6	11.5	18.3	11.1	14.5
<b>Inflation Sensitive and Alternatives</b>	<b>12,555</b>	<b>12.1</b>	<b>14.4</b>	<b>13.2</b>	<b>9.0</b>	<b>16.8</b>	<b>10.9</b>	<b>(2.9)</b>
Benchmark		12.2	12.3	12.0	9.9	12.5	11.2	4.0
Real Estate	7,978	15.5	18.1	16.3	9.6	20.7	12.8	(8.4)
Benchmark		13.8	14.8	13.6	10.0	15.9	11.2	(0.1)
Private Infrastructure	3,143	8.1	8.1	7.3	6.3	8.0	5.9	3.1
Timberlands	738	(0.4)	9.3	8.6	4.4	20.0	7.2	(7.2)
Benchmark		9.5	8.1	8.9	10.8	6.7	10.7	16.5
Private Debt and Loan	696	8.5	7.4	–	–	6.3	–	–
<b>Equities</b>	<b>29,459</b>	<b>15.2</b>	<b>5.3</b>	<b>6.8</b>	<b>10.0</b>	<b>(3.7)</b>	<b>9.8</b>	<b>20.1</b>
Benchmark		12.0	3.1	5.2	8.5	(5.2)	9.6	19.0
Canadian Equity	6,548	11.6	1.3	6.8	13.3	(8.0)	18.5	35.6
Benchmark		7.2	(1.1)	4.8	11.9	(8.7)	17.6	36.1
Global Equity	19,644	17.4	6.4	6.6	8.8	(3.5)	6.8	15.8
Benchmark		13.6	4.1	4.8	6.5	(4.6)	6.3	11.6
Global Small Cap Equity <sup>6</sup>	670	1.5	–	–	–	–	–	–
Benchmark		0.4	–	–	–	–	–	–
Private Equity	2,596	9.9	9.1	9.0	6.3	8.4	8.7	(1.6)
Benchmark		13.6	4.5	5.9	8.9	(3.9)	8.8	18.6

1 Includes tactical overlays of \$252 million.

2 Includes government policy loans.

3 Includes investments held in the Sustainability, Credit Union Deposit Guarantee and Alberta Cancer Prevention Legacy portfolios, Alberta Risk Management Fund.

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

5 Moved from Inflation Sensitive January 1, 2012.

6 Effective date of performance and benchmark return is February 16, 2012 when position initiated.

Most of our \$53.9 billion of public market assets are managed internally. External mandates reflect our continued search for high return but unconventional strategies that are hard to replicate internally. Net active return was \$1.3 billion in 2012; approximately two thirds of which came from internally managed strategies.

### **FIXED INCOME**

The \$20.5 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 pool", and the "long bond pool", returned 7.5% and 5.3% net of fees, strongly outperforming their respective benchmarks by 3.9% and 1.3%. The portfolios were positioned quite defensively on interest rates which were unusually low and offered little inflation protection. The team traded the portfolio throughout 2012 to add value as there were periods of volatility which presented us with attractive opportunities.

The fixed income portfolios were overweight in high quality short maturity corporate bonds in 2012. This strategy was one of the key drivers of our positive relative performance in 2012. A significant overweight in banks and financials was a strong driver of performance from the credit sector through 2012. Other highlights include strong performance from CMBS (Commercial Mortgage Backed Securities) and CLOs (Collateralized Loan Obligations).

### **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 2012, the portfolio generated a modest return of 3.1% net of fees, outperforming its benchmark by 0.2%.

### **MONEY MARKET**

Our \$4.0 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 2012, our money market fund returned 1.4% net of fees, outperforming the benchmark by 0.4%.



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### **Infrastructure**

Kruger Energy's Montérégie LP (KEMONT) wind farm is a late-stage, greenfield development project with a design capacity of 101 MW. The wind project was commissioned in December 2012 and includes 44 wind turbines erected on agricultural land in five Montérégie municipalities, located southeast of Montreal, Québec.

## MORTGAGES

Our \$2.4 billion portfolio of commercial mortgages provides steady cash flow and a premium return over government bonds. The portfolio is comprised of low-risk mortgages secured by institutional quality, cash flow producing properties, mainly in major markets. The portfolio returned 4.8% net of fees, outperforming its benchmark by 1.2% in 2012.

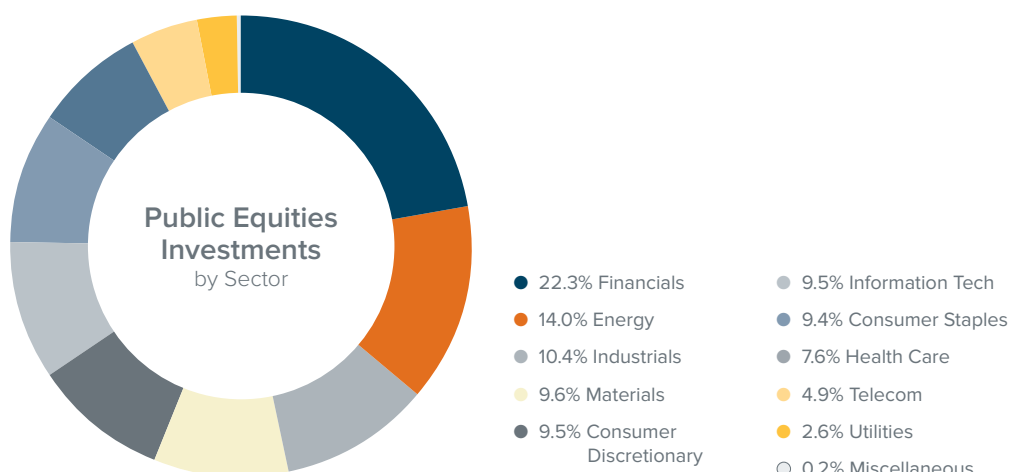
## PRIVATE DEBT AND LOAN

Our \$0.7 billion in 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 portfolio is comprised of high quality loans extended to privately-held middle market businesses. It generated an 8.5% net return, outperforming its benchmark by 2.4% in 2012.

## PUBLIC EQUITIES

The Equity team manages \$26.9 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 2012. The total equity portfolio returned 16.1% net of fees, outperforming its benchmark by 4.3%. Our Canadian portfolios returned 11.6% net of fees for the year, beating the TSX Composite Index. The global portfolios earned 17.4% net of fees on the year versus a benchmark of 13.6%.

The portfolio had a defensive posture and a value tilt that suited the uncertain investing climate. Overweight positions in defensive sectors such as utilities, telecommunications and consumer staples and underweight positions in cyclicals and materials helped drive the superior performance. The strong performance of the internal team was augmented by strong security selection from our team of external managers and hedge funds. A common theme is the changing role of banks in the economy and markets. This evolution has presented us with unique opportunities in the credit markets and insurance-linked strategies.





# PRIVATE MARKET INVESTMENTS

The private markets team manages \$14.5 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 \$8.0 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 at 5% to 7% per year. Assets consist primarily of direct investments in high quality office, retail, industrial and multi-unit residential properties in Canada's major centres and increasingly abroad. The portfolio returned 15.5% net of fees in calendar year 2012, outperforming its benchmark by 1.7%. Canadian assets returned 17.0%. The 6.2% return on foreign assets reflects their recent acquisition and ongoing development.

### Real Estate Exposure | Top 5 Investments

- |  |  |  |   |   |
|--|--|--|---|---|
| <p><b>1.</b><br/>Yorkdale Shopping Centre<br/>Retail: 1.5 million ft<sup>2</sup><br/>Toronto, ON<br/>50% ownership</p> | <p><b>2.</b><br/>Square One<br/>Retail: 1.9 million ft<sup>2</sup><br/>Mississauga, ON<br/>50% ownership</p> | <p><b>3.</b><br/>Place Ville Marie<br/>Office: 2.8 million ft<sup>2</sup><br/>Montreal, PQ<br/>50% ownership</p> | <p><b>4.</b><br/>Scarborough Town Centre<br/>Retail: 1.6 million ft<sup>2</sup><br/>Scarborough, ON<br/>50% ownership</p> | <p><b>5.</b><br/>Bow Valley Square<br/>Office: 1.5 million ft<sup>2</sup><br/>Calgary, AB<br/>50% ownership</p> |
|--|--|--|---|---|



### Alberta Heritage Scholarship Fund

The Alberta Heritage Scholarship Fund is a provincial endowment fund established to recognize and reward the scholastic achievements of residents of Alberta and provide them with incentives to pursue post-secondary education in Alberta or abroad, as well as to attract high calibre students interested in studying in Alberta. The rewards supported by the fund encourage and reward persons who have displayed outstanding ability in at least one of several fields of endeavour.



- 41.7% Ontario
- 31.9% Alberta
- 6.2% United Kingdom
- 5.8% Quebec
- 5.8% United States
- 5.8% Canada Various
- 2.4% Europe
- 0.4% Latin America



- 40.7% Office
- 30.5% Retail
- 10.1% Pooled Fund
- 8.2% Industrial
- 4.6% Land
- 4.4% Residential
- 1.3% Hospitality
- 0.1% Public Equity
- 0.1% Equity

## Real Estate

Eighth Avenue Place is a premier twin office tower development in Calgary, Alberta. The project, comprised of a 41 storey west tower currently under construction and a 49 storey east tower, is 98.3% leased, and represents one of the first major AAA office developments in Canada to be awarded the pre-certified Leadership in Energy and Environmental Design (LEED) Platinum status, the highest environmental standard.



## PRIVATE EQUITY

Our \$2.6 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 9.9% in 2012

underperforming its benchmark by 3.7%. The underperformance is primarily due to investments in funds prior to 2008, and recently acquired direct assets relatively early in their investment lifecycle.

### Private Equity Exposure | Top 5 Holdings

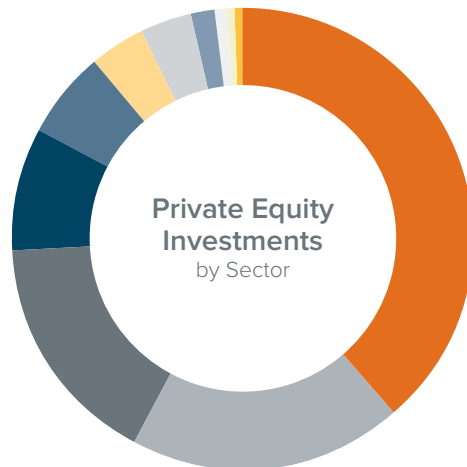
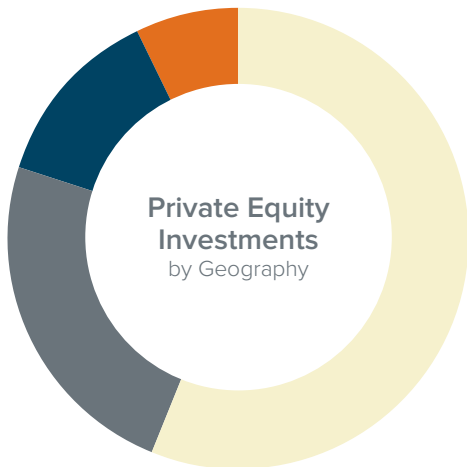
**1.**  
Bloom  
Energy  
Energy  
US

**2.**  
Bonanza  
Creek  
Energy  
US

**3.**  
Ladder  
Capital  
Financials  
US

**4.**  
Klemke  
Mining  
Corporation  
Energy  
Canada

**5.**  
KiOR  
Energy  
US



● 56.2% United States    ● 13.0% Europe  
● 23.8% Canada        ● 7.0% Asia/Emerging

● 38.6% Energy        ● 3.9% Telecom  
● 19.4% Industrials    ● 3.5% Information Tech  
● 16.4% Consumer Discretionary    ● 1.8% Consumer Staples  
● 8.6% Financials      ○ 0.7% Undisclosed  
● 6.1% Health Care     ● 0.6% Materials  
● 0.4% Utilities

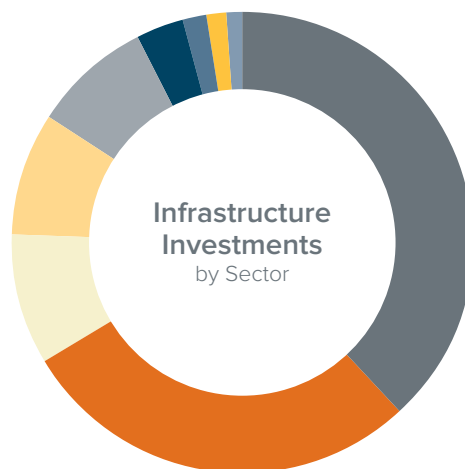
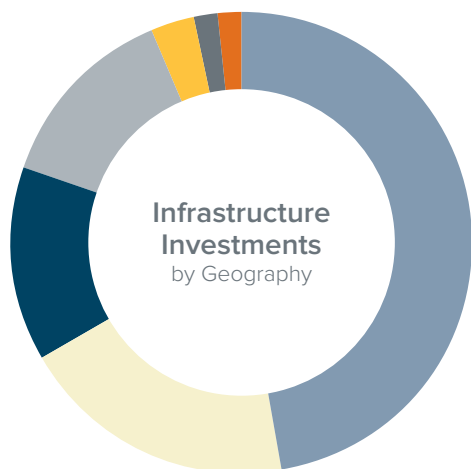
## INFRASTRUCTURE

AIMCo infrastructure investments match long duration real return asset characteristics with inflation-indexed pension liabilities. The \$3.1 billion portfolio consists primarily of diversified long-term equity positions in assets with regulated returns or long-term contracted

revenues. The portfolio returned 8.1% net of fees for the year, 1.4% 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 Exposure | Top 5 Infrastructure Investments

<p><b>1.</b> <b>Autopista Central</b> Transportation Chile</p>	<p><b>2.</b> <b>Grupo Saesa</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> Integrated Utilities UK</p>
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## TIMBERLANDS

Timberland investments provide inflation hedging and a long-term duration match with client obligations. AIMCo manages \$0.7 billion in timberland assets situated primarily in North America, Australia and New Zealand. The AIMCo Timberlands portfolio generated a -0.4% net

return, underperforming its benchmark by 9.9%. The bulk of the assets were acquired out of bankruptcy a few years ago with a view to generating restructuring and repositioning profits over a period of years.

A woman with short, dark hair and a slight smile is holding a white sign with a grid pattern. The sign has the text 'Adapting to change' written in a black, handwritten-style font. She is wearing a dark grey blazer over a black shirt. The background is a solid orange color.

Adapting  
to change



## MARKET REVIEW AND INVESTMENT OUTLOOK

Global markets have shown tremendous volatility over the past four years.

We suspect that the next few years will not be different, so we try to anticipate where opportunity will be next.

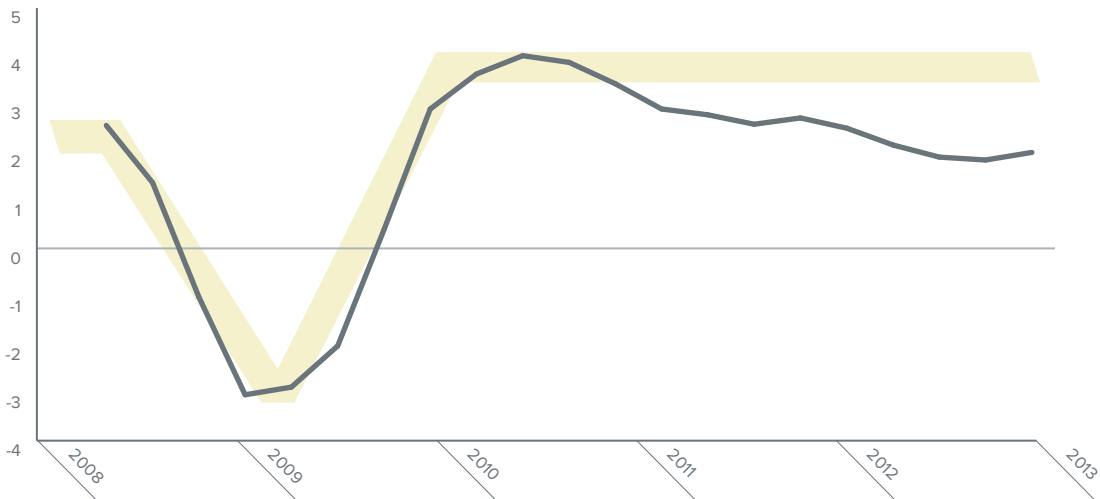


**Sandra Lau** Senior Vice President, Fixed Income

Long term and patient, Sandra joined AIMCo as an intern and through her commitment to AIMCo's Core Values and meeting the return requirements of our fixed income clients now leads the investment activities of AIMCo's \$26 billion Fixed Income portfolio.



## MARKET REVIEW AND INVESTMENT OUTLOOK



- The “square root” economic recovery continues with another year of moderate growth following the 2008 Global Financial Crisis (GFC). Although economic growth was still not strong enough to slash unemployment as much as desired, it was enough to drive better than average corporate earnings growth, based on reasonable profit margins, at least in North America. Concerns about lackluster sales growth continues to haunt equity investors, while fixed income investors are challenged by record low interest rates.
- Population and productivity are fundamental drivers of real economic growth. We see a new era of heightened productivity emerging and we are positioning ourselves to benefit from this trend. More potential for productivity growth could mean a longer than normal cycle of real economic expansion.
- Due to extraordinary central bank policy intervention and investor risk aversion, U.S. long-term government bonds, priced at negative real yields, appear significantly overvalued.



### Kevin Roseke

Portfolio Manager, Infrastructure and Timber

Scouring the global marketplace for unique investments that match the return profiles of our clients, Kevin has risen to the role of Portfolio Manager through a focus on new opportunities and active portfolio management.

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We believe that employment growth lagging economic growth reflects the short-term effect of accelerating innovation. Faster and cheaper internet access has led to faster and cheaper access to almost every aspect of human knowledge. Innovation is the process of adding new insights to known facts. Having better access to those facts should raise the potential for trend economic growth and prosperity.

Not all of this has been captured in economic statistics, but it is visible in sustained, above average profit margins that will eventually translate into more investment and GDP growth.

Companies have found ways to improve efficiency in recent years without adding many jobs. There is considerable debate over whether this short-term dislocation in employment from technological change will reverse, as it has done in the past. That in turn may depend on having a workforce able to work with all this new technology. If that is the case, the widely projected slowdown in GDP growth to 1.5% per year will not be inevitable. Real growth in North America could be a more normal 2.5% to 3.0%, given population growth of 1.0%, and 1.5% to 2.0% productivity growth.

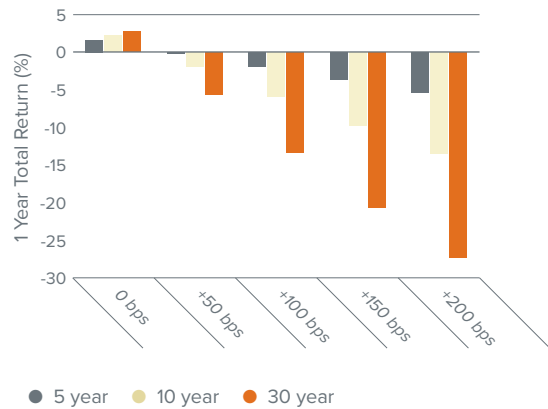
AIMCo is trying to position itself at the intersection of the persistent and compelling global desire to improve living standards and the investment and entrepreneurial solutions that could help us get there: better building materials, higher agriculture yields, disruptive energy technologies, more efficient communications and information access, and better education and health care.

We have witnessed a dramatic reversal in relative stock vs. bond valuations since 2000. Then, 10-year U.S. Treasury yields exceeded 6.2% compared to 1.9% today, and the S&P / TSX Composite Index exceeded 40 times earnings compared to 18 times today. Although stock market indices are near record highs, the price/earnings multiple has normalized with good growth in earnings.



Negative real interest rates witnessed in today's U.S. Treasury are unsustainable long term. Considering real growth and consumer price inflation both exceed 2%, a "normal" real return of 2.5% above inflation for bonds, as observed over the last 60 years, suggests 10-year Treasury yields starting closer to a 5.5% yield, versus the unprecedented rate of 1.9% observed at the end of 2012. Timing this reversal will be critical for our investment outlook over the next two years. Our view is that the "dove-ish" balance of the Federal Reserve's monetary policy committee is finally beginning to tilt back toward neutral, and the reversal of easy monetary policy is coming into focus.

**Effect of Interest Rate Increases on 5, 10 and 30 Year Bond Returns**



**Kelly Featherstone**

Analyst, External Funds

AIMCo's only Fellow with the Society of Actuaries, Kelly balances the joy of motherhood with a passion for numbers that she uses to incorporate niche investment strategies that will earn the best risk-adjusted returns for our clients.

The chart opposite shows the sensitivity of fixed income returns to changes in interest rates as a function of various Canadian Treasury maturities over a one-year holding period. The downside to fixed income returns will depend on when central banks begin to increase interest rates and by how much. In 1994, five-year Treasury yields increased from a low of 6.0% to over 9.0% by year-end, versus a recent exceptionally low trading range of 1.2–1.5%.

Given current global economic conditions, corporate profitability, and relative asset class valuations, our long-term investment outlook favors equities over the next decade. We see equities earning a risk premium over

cash greater than 5%. Moderate but stable economic growth, low inflation, expanding credit, housing recovery, re-stocking of inventories, and overall earnings growth are the key drivers for our preference for equities.

We are reminded that investors should be skeptical when they hear *“this time it’s different”*. We expect investors will eventually re-balance portfolios toward more compelling global equity valuations versus negative real bond yields. AIMCo welcomes the tactical challenges and strategic opportunities of current market conditions and is prepared to make uncomfortable choices in this uncertain world.

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### Special Forces Pension Plan

The Special Forces Pension Plan (SFPP) was established in 1979 for police officers, including Deputy Chiefs and Police Chiefs, working for participating local authorities. The Plan is financed by member and employer contributions as well as the investment earnings of the SFPP fund. The Plan has seven employers and close to 6,000 members and pensioners.



## RISK MANAGEMENT

Risk management is an integral part of furthering the financial stability of AIMCo's clients. The better we collectively understand how risks affect our portfolios, the more we can turn our analytical resources toward improving long-term return.

Investment risk can be measured in many ways. Most important is "total risk", specifically the loss in asset value from a decline in asset prices. Most of that risk is "market risk", or reduced portfolio value because the investment policy is exposed to negative returns from capital market volatility. A less significant risk is "active risk", the risk of losing money due to underperformance of active investment strategies relative to our client's policy benchmarks. Our in depth analysis can attribute all the sources of performance return variation in total and active risk to explain our performance over any given period.

AIMCo works closely with our pension and endowment clients to help shape how risk is interpreted and to tailor appropriate analysis and reporting to enable decision-making. For our government endowment clients our objective is to maximize the risk-adjusted total return.

In the case of a pension fund, the concern is the risk of not having sufficient assets to meet longer-term benefit liabilities, specifically future payments to retirees.

In consultation with our pension clients, AIMCo seeks to earn a return in excess of increasing pension benefit liabilities. Increasingly, with low fixed income yields, we find hedging these benefit liabilities with long maturity fixed income assets a less compelling and costly exercise. Instead we look for opportunities in well-priced public assets and in private real assets that provide a long term hedge to inflation and other less traditional opportunities as they arise.

It is all the more important to diversify risk when capital market return expectations are low and we are concerned about valuation levels, as we are with Treasury bonds, to minimize downside and unintentional risks. We manage investment strategies to seek out the best investment opportunities within our clients' investment guidelines and reasonable risk tolerances. In this way our risk management team works closely and cooperatively with all our portfolio management teams to achieve superior risk-adjusted returns. In 2012 AIMCo was able to add value exceeding \$1.3 billion above market benchmark alternatives for the benefit of our clients, while realizing less risk or only very modest additional risk versus those benchmarks.



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### Venture Capital

FloDesign Wind Turbine is a developer of high efficiency shrouded wind turbine technology. FloDesign's mid-scale shrouded wind turbine significantly reduces the cost of energy of wind, enables new distributed markets with lower wind speeds, and increases the utilization per acre of land while reducing environmental impact.

AIMCo's dedicated risk management team provides a consistent and independent perspective to new investment opportunities. We stress test unique investments, including specific assumptions that are critical to forecasting expected return, assessing specific risks, and evaluating the impact on our clients' portfolios.

Measuring and managing risk is complex, so it is important to be able to communicate easily with increased transparency to our clients. We are improving the accessibility and understanding of risk management through general and topical educational outreach to our clients, as we seek out an ever expanding number of investment opportunities to add value. Extensive investment in our information systems recently will increase the productivity, efficiency, and usefulness of leveraging data to manage money more effectively and communicate risk measures to clients. Specific initiatives over the last year included:

- Our Risk Management team provided four tutorials extending our ongoing risk management education program to client boards.
- We published several risk presentations in a video format accessible to clients to provide current and future members access to background on various risk concepts.

- Risk management user manuals were delivered to assist clients to crystallize their own risk frameworks and practices.
- AIMCo has engaged with pension clients on several timely topics, including pension fund sustainability, impact of pension plan maturation, and the employing of leverage in investment portfolios.

The AIMCo Board of Directors has been very engaged in discussions about best practices in risk management. Comprehensive Board education sessions were held throughout the year, and Board meeting materials were augmented to provide deeper insight into the risk profile of AIMCo managed investment strategies, and their combined impact on client portfolios. In addition, a new Board member, Kurt Winkelmann, has chaired a new Risk Management Committee of the Board last year, highlighting the increased importance of this topic to overall governance. Dr. Winkelmann has significant risk management experience with MSCI Inc., Goldman Sachs and other prominent investment organizations.



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### **Jerry Yang**

Senior Analyst, Equities Risk

Ensuring alignment of investment risks to investment goals, Jerry collaborates with AIMCo's portfolio managers to ensure trading strategies support our ability to reduce risk and add value for our clients.



Doing it  
Right



A strong set of Core Values guides all AIMCo decisions in fulfilling our clients' needs.

We believe we can make a difference to the companies we partner with, and the communities we serve.

We also continue to build and refine our own organization, strengthening our systems and operational capacity under the governance of a strong and independent Board of Directors.



**Dénes Németh** Manager, Corporate Communication

Always up for a challenge, Dénes came to AIMCo to build out the corporate communication function and provide our clients, and all Albertans, an awareness of the positive impact we aim to have on the communities we serve.

# RESPONSIBLE INVESTMENT

AIMCo's approach to Responsible Investment (RI) is guided by our Core Values and a long-term, intergenerational investment horizon. We integrate consideration of environmental, social, governance (ESG) factors into each investment decision.

## STRUCTURE

AIMCo's RI governance structure cascades throughout the entire organization and across asset classes. The RI Committee is chaired by the CEO and features a cross section of senior executives representing all functional areas. This committee oversees RI investment strategy, activities and risk attribution. The AIMCo Board approved AIMCo's RI Policy, while the RI committee approved the AIMCo Proxy Voting Guidelines.

## INVESTMENT PROCESS

AIMCo enhances shareholder value by exercising its proxy voting rights at publicly traded companies around the globe. Voting decisions are based on the corporate governance principles outlined in AIMCo's proxy voting guidelines, and consider unique circumstances and markets. 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. We employ a proxy voting service provider to exercise proxy votes. Our voting record is disclosed on the AIMCo website.

## ENGAGEMENT PROCESS

AIMCo prefers engagement to divestment in order to maintain the universe of public firms in which we invest and to contribute to companies' ESG progress. Shareholder engagements may be initiated and carried out by AIMCo alone, with co-investors, or with peer investment managers.

## REPORTING

AIMCo's RI policies, proxy voting guidelines, engagement guidelines, voting records and rationale are all posted on the AIMCo website.

## COLLABORATION

AIMCo is an engaged member of the global RI community and is signatory to a number of responsible investment initiatives, including The United Nations Principles of Responsible Investment, The International Corporate Governance Network, Social Investment Organization, Canadian Coalition of Good Governance, and others. AIMCo collaborates with peers to improve corporate governance and voting efficacy in our proxy voting system.



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## Responsible Investment Pillars

## AIMCo PROXY VOTING OVERVIEW

The following table illustrates how AIMCo votes on significant issues.

Proposal	General Rationale For Support
Elimination of Dual Class Stock	AIMCo generally does not support the creation or extension of dual-class share structures.
Adoption of Majority Vote for Election of Directors	A majority vote standard increases shareholder rights and board accountability. Firms listed on the TSX are required to 'comply or explain' (as of October 4, 2012).
Adoption and Amendment of Shareholder Rights' Plan	Shareholder rights are a principle means by which shareholders exercise voice.
Advisory Vote on Executive Compensation	AIMCo will vote to support most executive pay plans that are reasonably constructed, correlate pay to performance, and are aligned with peer practices.
Independent Board Chairman/Separation of Chair and CEO	The board chair or lead director should be independent to avoid any conflict of interest.
Declassification of the Board (staggered terms)	Annual elections increases board accountability to shareholders.
Reporting and reducing GHG emissions	AIMCo supports proposals requesting resource based firms to disclose and/or reduce emissions.
Labour and Human Rights	AIMCo supports proposals that request firms to more adequately address workplace issues and human rights, as deemed appropriate.



True to our aim to be an organization in which all Albertans can take pride, AIMCo is attentive of our responsibility to the community and our role as a corporate citizen. AIMCo actively encourages employees to volunteer their time and effort to a variety of community causes and campaigns. In 2012 our team supported a wide range of causes including the United Way of Edmonton, 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 an employee 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, Rocky Mountain Business Seminar, 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.

**A. 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.

**B. Youth**

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

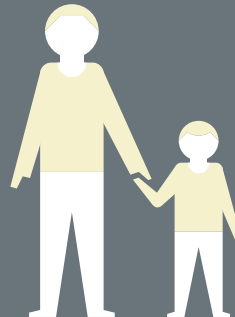
**C. Seniors in Need**

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

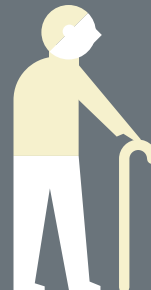
**A**



**B**



**C**





**\$250K**

raised by employees for various charities

## GOVERNANCE

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. Guided by this mandate, the Board sets the strategic direction of the Corporation and oversees the development and implementation of policies and procedures that govern the day-to-day conduct of AIMCo's business. 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 five standing committees, which assist the Board in discharging its responsibilities:

- **The Investment Committee** oversees and considers the investment activities 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.



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### Lorraine Mastre

Executive Assistant, CFO's Office

With a positive attitude and willingness to help, Lorraine embodies AIMCo's Core Values and together with the CFO's Office ensures our clients have current and accurate accounting data for reporting.

- **The Risk Committee** oversees and considers issues related to investment and enterprise risk management. The Risk Committee comprises all members of the Board, with Kurt Winkelmann 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 whistleblower policy. The Audit Committee consists of Cathy Williams (Chair), George Gosbee, Daryl Katz, Harold Roozen and Kurt Winkelmann.
- **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), 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 employee compensation practices, organizational structure and management development and succession. The Human Resources and Compensation Committee consists of Mac Van Wielingen (Chair), Clive Beddoe, Ross Grieve, Virginia Holmes and Andrea Rosen.

At every meeting of the Board of Directors, the Board and all committees have in camera sessions, without management attending.

### Workers' Compensation Board

The Workers' Compensation Board (WCB) – Alberta is a not-for-profit corporation legislated to administer the workers' compensation system for the province. Through the payment of premiums, over 154,700 employers fund this no-fault system to provide compensation for workplace injuries and occupational diseases to more than 1.9 million workers. Investments put premium revenue to work before it is needed to cover future costs from current year claims.



## **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.

## **BOARD ATTENDANCE AND REMUNERATION**

The Board held six regular meetings in fiscal 2012/13, 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.



### **Real Estate**

BBC Television Centre is an iconic site in West London, UK that has been home to the British Broadcasting Corporation since the 1950's. Together with partners Mitsui Fudosan UK and Stanhope plc, AIMCo has submitted a planning application to redevelop the site to a mixed-use estate with BBC remaining as a tenant at the property.

### Director Attendance - April 1, 2012 to March 31, 2013

	Board of Directors	Board of Directors Special Meetings	Audit Committee	Human Resources Committee	Governance Committee	Investment Committee	Investment Committee Special Meetings	Risk Committee <sup>1</sup>	Chile <sup>2</sup>
A. Charles Baillie <sup>3</sup>	6 of 6	3 of 3	1 of 1	5 of 5	5 of 5	5 of 5	1 of 1	3 of 3	–
George Gosbee	5 of 6	3 of 3	5 of 5	–	5 of 5	4 of 5	0 of 1	2 of 3	3 of 3
Clive Beddoe	6 of 6	3 of 3	–	6 of 6	–	5 of 5	1 of 1	3 of 3	–
Ross Grieve	6 of 6	3 of 3	–	6 of 6	5 of 5	5 of 5	1 of 1	3 of 3	–
Virginia Holmes	6 of 6	3 of 3	–	6 of 6	5 of 5	4 of 5	1 of 1	2 of 3	3 of 3
Daryl Katz	5 of 6	2 of 3	4 of 5	–	–	5 of 5	0 of 1	3 of 3	–
Harold Roozen	6 of 6	3 of 3	5 of 5	–	–	5 of 5	1 of 1	3 of 3	3 of 3
Andrea Rosen	6 of 6	3 of 3	–	5 of 6	5 of 5	5 of 5	1 of 1	3 of 3	–
Mac Van Wielingen	6 of 6	3 of 3	–	6 of 6	5 of 5	5 of 5	1 of 1	3 of 3	–
Cathy Williams	6 of 6	3 of 3	5 of 5	–	–	4 of 5	1 of 1	2 of 3	–
Kurt Winkelmann	5 of 6	2 of 3	5 of 5	–	–	5 of 5	1 of 1	3 of 3	–

1 The Risk Committee was created by resolution of the AIMCo Board on May 25, 2012. The first Risk Committee meeting was held on July 26, 2012.

2 George Gosbee, Virginia Holmes and Harold Roozen joined Leo de Bever and members of AIMCo's Infrastructure team on a trip to Santiago, Chile, to meet with key members of the Chilean government, as well as the Boards and executive teams of both SAESA and Autopista.

3 Charles Baillie, as Chair of the AIMCo Board of Directors, 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.

## 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 the same day as regular Board meetings.

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

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, 2012 to March 31, 2013

Remuneration Totals - April 1, 2012 to March 31, 2013	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	\$20,000.00	\$50,000.00			\$21,000.00	\$3,000.00	\$94,000.00
George Gosbee	\$20,000.00		\$10,000.00	\$1,500.15	\$27,000.00	\$3,000.00	\$61,500.15
Clive Beddoe	\$20,000.00				\$16,000.00	\$2,000.00	\$38,000.00
Ross Grieve	\$20,000.00				\$27,000.00	\$1,000.00	\$48,000.00
Virginia Holmes	\$20,000.00			\$7,500.00	\$24,000.00	\$10,000.00	\$61,500.00
Daryl Katz	\$20,000.00				\$11,000.00	\$1,000.00	\$32,000.00
Harold Roozen	\$20,000.00				\$18,000.00	\$3,000.00	\$41,000.00
Andrea Rosen	\$20,000.00			\$7,500.00	\$21,000.00	\$4,000.00	\$52,500.00
Mac Van Wielingen	\$20,000.00			\$7,500.00	\$27,000.00	\$2,000.00	\$56,500.00
Cathy Williams	\$20,000.00			\$10,000.00	\$14,000.00	\$2,000.00	\$46,000.00
Kurt Winkelmann	\$20,000.00			\$5,768.44 <sup>1</sup>	\$13,000.00	\$2,000.00	\$40,768.44

<sup>1</sup> Kurt Winkelmann was appointed as Chair of the Risk Committee effective May 25, 2012 and chaired the first Committee meeting on July 26, 2012. Mr. Winkelmann was compensated on a per diem pro rata basis for the quarter ending June 30, 2012.

## CODE OF CONDUCT

AIMCo has established the Code of Conduct and Ethical Standards for officers and employees, which outlines the organization's expectations regarding, amongst other topics, conflicts of interest, gifts and entertainment, confidentiality and personal trading. The Code applies to all AIMCo employees, including executive officers, 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.

## WHISTLEBLOWER POLICY

In accordance with governance best practices, the whistleblower policy and the accompanying reporting service provide all AIMCo employees, service providers and clients with the ability to confidentially report any failure to comply with the Code of Conduct.

## OPERATIONS

We are in the midst of a corporate-wide initiative to update the organization's operational and investment reporting infrastructure to better support our clients. Through 2012 and into 2013 advanced systems are being implemented over new structures of data that will enable us to reduce risk and deliver improved information to better support AIMCo's investment decision-makers.

Significant progress has been achieved on internal controls and AIMCo received a clean Type II audit report under CSAE 3416 which reviewed the design and the effectiveness of our controls for a six-month period in 2012.

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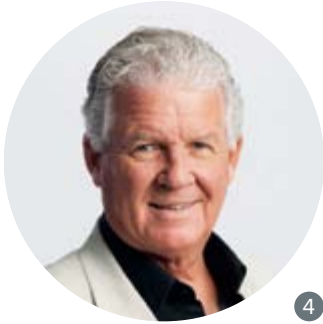
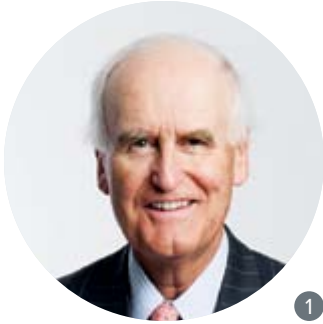
### Agriculture Financial Services Corporation

The Agriculture Financial Services Corporation (AFSC) is a provincial crown corporation that has been in operation for over 60 years. AFSC provides assistance to farmers and agri-businesses across Alberta by offering a complete range of insurance, lending and income stabilization products from over 50 offices across the province.





**BOARD OF  
DIRECTORS**



#### **1 A. CHARLES BAILLIE, O.C.**

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 Chair of the Art Gallery of Ontario and 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**

George F.J. Gosbee is the Chairman and CEO of AltaCorp Capital Inc. He is an Advisor on the Government of Canada's Economic Advisory Council, is a member of the Government of Canada's Science, Technology and Innovation Council, is on the Board of Directors for TMX Group and Chairman of the School of Public Policy at the University of Calgary. He is a former board member of Chrysler Group LLC in Detroit. Mr. Gosbee was one of 200 Young Global Leaders by the World Economic Forum in 2009, and was awarded the Queen's Diamond Jubilee Medal in 2013. Mr. Gosbee is an Honorary Lieutenant Colonel of the Calgary Highlanders Infantry Unit of the 41st Canadian Brigade Group.

#### **3 CLIVE J. BEDDOE**

Clive J. Beddoe is a founding shareholder, former President and Chief Executive Officer and current Chairman of the Board of Directors of WestJet Airlines. Mr. Beddoe is the recipient of numerous awards and honours, including Companion to the Order of the Business Hall of Fame, and is a member of the Marketing Hall of Legends in the Visionaries category. Mr. Beddoe holds Honorary Doctorates of Law from the University of Calgary and Wilfrid Laurier University.

#### **4 ROSS A. GRIEVE**

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.

#### **5 VIRGINIA A. HOLMES**

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., JPMorgan Claverhouse Investment Trust plc, Standard Life Investments Ltd. and Universities Superannuation Scheme Ltd. She has a BA from Durham University.

#### **6 DARYL A. KATZ**

Daryl A. Katz is the founder and Executive Chairman of Katz Group. He is also a member of the Canadian Council of Chief Executives. Mr. Katz has an LLB from the University of Alberta.

#### **7 HAROLD A. ROOZEN**

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 the Edmonton Eskimos Football Club, 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, and the Edmonton Community Foundation.

#### **8 ANDREA S. ROSEN**

Andrea 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 Hiscox 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**

Mac H. Van Wielingen is a founder, Chairman and Director of ARC Financial Corp. and a founder and Chairman of ARC Resources Ltd. Mr. Van Wielingen has an HBA from the Richard Ivey School of Business and has studied post-graduate economics at Harvard University.

#### **10 CATHY L. WILLIAMS**

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.

#### **11 KURT D. WINKELMANN**

Kurt D. Winkelmann is Managing Director and Head of Risk and Analytical Research at MSCI Inc. He is a member of the Board of trustees for the University of Minnesota Foundation and is Chairman of the Advisory Committee for the University of Minnesota's Heller-Hurwitz Economics Institute.



## COMPENSATION DISCUSSION AND ANALYSIS

### HUMAN RESOURCES AND COMPENSATION COMMITTEE MANDATE

The Board of Directors view retention of capable top management talent as critical to achieving AIMCo's investment goals. The Human Resources and Compensation Committee assists the Board with its fiduciary and governance responsibility by maintaining a long term People strategy, ensuring that AIMCo's culture engages the team and inspires strong performance, and has access to best in class human resource programs. HRCC also reviews executive succession, executive compensation policy, and performance measures.

### KEY INITIATIVES FOR HRCC IN 2012 INCLUDED:

- Approve the 2012–2014 People Strategy.
- Review and approve the investment, corporate and individual performance objectives of the executive team.
- Oversee CEO succession planning, and monitor management's efforts on succession planning with particular emphasis on the executive team.
- Review and recommend for approval a reorganization impacting the executive investment officer positions.
- Review and recommend for approval the compensation policy, best practice and performance outcomes for the organization, with a particular emphasis on executive compensation.

The HRCC exercised a strong duty of care in reviewing existing compensation policies and programs. To assist in the execution of these responsibilities, HRCC worked closely with management and an independent compensation advisor, Hugessen Consulting Inc., retained by and directly accountable to the HRCC, to advise and counsel the HRCC on the competitiveness and appropriateness of AIMCo's compensation policies and performance metrics.

### EXECUTIVE COMPENSATION PRINCIPLES

The AIMCo compensation program, reviewed annually by the HRCC, contributes significantly to the ability to attract and retain top quartile talent. The program design is centered around the following compensation principles:

- AIMCo strives to be among the best institutional investors in Canada. The competition for the talent required to achieve that goal is fierce. AIMCo competes in the global market place with the world's most sophisticated financial services firms, including top investment and asset managers. Competitive compensation within Canada is essential in attracting and retaining the most talented executives. The cost of replacing talent within an organization is considerable. AIMCo is investing in our top performers, knowing that their commitment to the organization is fundamental to achieving our long term investment strategies.
- AIMCo aligns to a strong pay for performance compensation structure, one that rewards for superior and sustained performance, and adjusts when performance is not achieving intended results. A considerable component of executive compensation (ranging anywhere from 31 to 83% of total compensation) is comprised of variable compensation, tied to the achievement of corporate and investment performance, including Total Fund, Asset Class (divisional performance) and Individual objectives.
- AIMCo pays a competitive base salary, aligned with our comparator group in the Canadian pension fund management industry and relevant organizations within Alberta (as validated by external compensation survey data). This competitive pay environment promotes the organization's ability to attract and retain high performing talent.

- The annual and long-term incentive payments are designed to pay for persistent value-added performance above AIMCo investment benchmarks (which represent the listed proxy relevant to each asset class), measured over rolling four-year cycles.
- All employees align their individual goals to the corporate strategy and the goals of the organization. Part of their annual incentive payment is based on how well they have achieved those goals.

## HOW PERFORMANCE AND INVESTMENT STRATEGY IMPACT COMPENSATION

The following factors contributed to an increase in total compensation costs:

- Client shifted assets from listed to unlisted investments, expecting to earn higher long-term net returns. These assets are more costly to manage because they are more labour-intensive.
- Salaries and benefits increased because we continue to invest in attracting top performers to AIMCo, since internally managing assets is far more cost effective.
- Strong investment performance resulted in an increase to internal and external annual incentive fees.
- Our Long-Term Incentive Program (LTIP) paid out for the first time since it was implemented in 2009, to recognize active returns over the 2009–2012 period.

AIMCo's value-add calculations are net of all 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 performance fees paid to external managers.




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### Julia Kim

Manager, Investment Data Management

Understanding that good data drives good investment decisions, Julia works with AIMCo's Business solutions group to ensure the quality and integrity of our data to reduce operations risk.

## COMPENSATION DECISIONS OF THE HRCC FOR 2012

Key compensation decisions approved by HRCC in 2012 include:

- Reviewed executive compensation levels, resulting in modest changes for certain roles.
- Approved compensation for new executive hires.
- Review of CEO performance and compensation outcomes for 2012, and review of CEO's recommendations for performance assessment and compensation outcomes for 2012 for executive team.
- Approved STIP pool amounts and payouts for CEO and individual executives.
- Approved Long term incentive plan payouts (initially issued in January, 2009, and vested on December 31, 2012). This reflects the first payment for AIMCo's LTIP.
- Approved The Special Long Term Incentive Plan (SLTIP) grants, based on the achievement, for selected individuals, of superior investment performance on the "regular" LTIP. These SLTIP grants have a four year vesting period and won't mature until December 31, 2016.

The HRCC believes that the compensation awarded for 2012 appropriately reflects investment performance and individual contributions of AIMCo's executive team. The applied compensation principles support and reinforce a pay for performance philosophy.

## COMPONENTS OF COMPENSATION

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

**Pension:** 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.

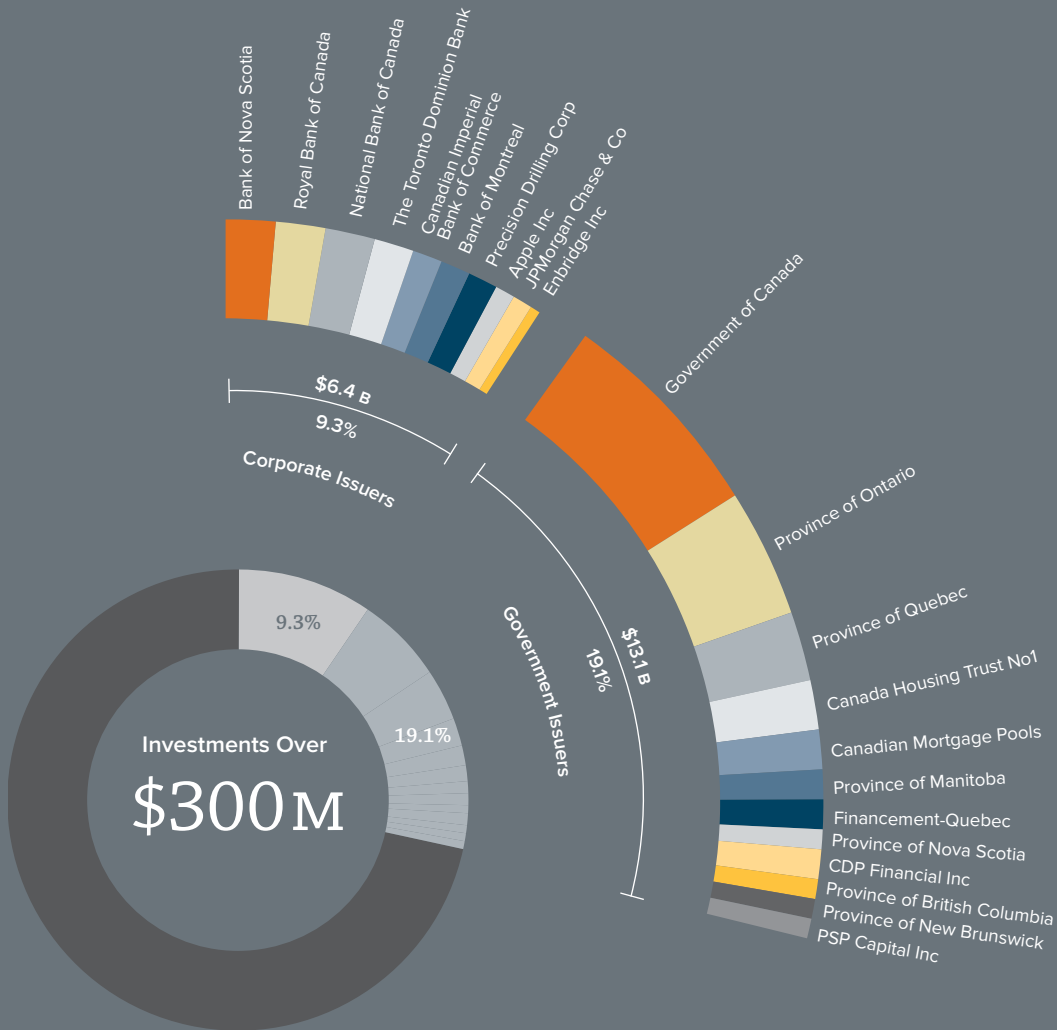
**Benefits:** A broad range of market competitive benefits are provided to employees, including health and dental coverage, short-term and long-term disability insurance, travel insurance, group life insurance, critical illness insurance, a learning and wellness benefit and subsidized public transit.

## Salary

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



# INVESTMENTS OVER \$300 MILLION



Corporate Issuers	Assets Under Management	% of Total
Bank of Nova Scotia	1,113.1	1.6%
Royal Bank of Canada	948.7	1.4%
National Bank of Canada	835.1	1.2%
Toronto-Dominion Bank	787.9	1.1%
Canadian Imperial Bank of Commerce	718.6	1.0%
Bank of Montreal	588.6	0.9%
Precision Drilling Corp	416.8	0.6%
Apple Inc	379.4	0.6%
JPMorgan Chase & Co	334.8	0.5%
Enbridge Inc	301.4	0.4%
	6,424.4	9.3%

Government Issuers	Assets Under Management	% of Total
Government of Canada	4,249.3	6.2%
Province of Ontario Canada	2,443.7	3.6%
Province of Quebec Canada	1,308.8	1.9%
Canada Housing Trust No 1	930.1	1.4%
Canadian Mortgage Pools	720.9	1.1%
Province of Manitoba Canada	617.5	0.9%
Financement-Quebec	571.5	0.8%
Province of Nova Scotia Canada	496.9	0.7%
CDP Financial Inc (Caisse de dépôt et placement du Québec)	493.1	0.7%
Province of British Columbia Canada	467.3	0.7%
Province of New Brunswick Canada	442.4	0.6%
PSP Capital Inc	357.4	0.5%
	13,098.8	19.1%



## EXECUTIVE TEAM AND BOARD OF DIRECTORS

### EXECUTIVE TEAM

**Leo de Bever**

Chief Executive Officer

**Dale MacMaster**

Executive Vice President,  
Public Market Investments

**Jagdeep Singh Bachher**

Executive Vice President,  
Venture and Innovation

**Robert Mah**

Executive Vice President,  
Private Market Investments

**David Goerz**

Executive Vice President,  
Investment Strategy &  
Risk Management

**Angela Fong**

Chief Corporate and  
Human Resources Officer

**Jacquelyn Colville**

Chief Financial Officer

**John Osborne**

Chief Risk Officer

**Michael Baker**

Senior Vice President,  
Investment Operations

**Darren Baccus**

Associate General Counsel

**Carole Hunt, Q.C.**

Chief Legal Counsel &  
Corporate Secretary

### BOARD OF DIRECTORS

**A. Charles Baillie, O.C.****George F. J. Gosbee****Clive J. Beddoe****Ross A. Grieve****Virginia A. Holmes****Daryl A. Katz****Harold A. Roozen****Andrea S. Rosen****Mac H. Van Wielingen****Cathy L. Williams****Kurt D. Winkelmann**





**ALBERTA INVESTMENT  
MANAGEMENT CORPORATION**

**HEAD OFFICE**

1100 - 10830 Jasper Avenue  
Edmonton, Alberta T5J 2B3, Canada

**TORONTO OFFICE**

First Canadian Place  
100 King Street West, Suite 5120, P.O. Box 51  
Toronto, Ontario M5X 1B1, Canada

[www.aimco.alberta.ca](http://www.aimco.alberta.ca)



Financials



Alberta Investment  
Management Corporation

**FINANCIAL REPORT**  
**FISCAL YEAR 2012-2013**



## **TABLE OF CONTENTS**

- 1** Management's Responsibility for Financial Reporting
- 2** Independent Auditor's Report
- 3** Statement of Financial Position
- 4** Statement of Operations
- 5** Statement of Cash Flows
- 6** Notes to the Financial Statements



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of Alberta Investment Management Corporation (the "Corporation") have been prepared by management and approved by the Board of Directors. The Financial Statements have been prepared in accordance with Canadian Public Sector Accounting Standards and within the framework of significant accounting policies summarized in the notes to the Financial Statements.

Management is responsible for the integrity and fairness of the Financial Statements. The Financial Statements include certain amounts which, by necessity, are based on the judgement and best estimates of management. In the opinion of management, the Financial Statements have been properly prepared and present fairly the financial position, results of operations and cash flows of the Corporation.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting duties.

The Board of Directors is assisted in discharging this responsibility by the Audit Committee, which consists of directors who are neither officers nor employees of the Corporation. The Audit Committee meets regularly with management and external auditors to review the scope and findings of audits and to satisfy itself that its responsibility has been properly discharged. The Audit Committee has reviewed the Financial Statements and has recommended their approval by the Board of Directors.

The Corporation has developed and implemented systems of internal control and supporting procedures which have been designed to provide reasonable assurance that assets are protected; transactions are properly authorized, executed and recorded; and the Financial Statements are free from material misstatement. The internal control framework includes the employee Code of Conduct and Ethical Standards, internal compliance monitoring, the selection and training of qualified employees, and the communication of policies and guidelines throughout the Corporation.

The Office of the Auditor General of Alberta has examined the Financial Statements and prepared an Independent Auditor's Report of its findings, which is presented in the Financial Statements.

[Original signed by]

**LEO DE BEVER**  
Chief Executive Officer

[Original signed by]

**JACQUELYN COLVILLE, CA**  
Chief Financial Officer

**TO THE SHAREHOLDER OF ALBERTA INVESTMENT MANAGEMENT CORPORATION****Report on the Financial Statements**

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Investment Management Corporation as at March 31, 2013, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

**AUDITOR GENERAL**

May 24, 2013

Edmonton, Alberta



# STATEMENT OF FINANCIAL POSITION

As at March 31, (\$ thousands)	2013	2012
<b>Assets</b>		
Cash and cash equivalents <i>(Note 5)</i>	\$ 39,111	\$ 18,322
Accounts receivable	14,813	13,777
Prepaid expenses	3,242	2,958
Tangible capital assets <i>(Note 6)</i>	69,646	44,144
Other assets	2,416	2,416
	<b>129,228</b>	<b>81,617</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	6,614	4,978
Accrued employment liabilities <i>(Note 7)</i>	59,371	36,639
Advance from the Province of Alberta <i>(Note 8)</i>	52,049	28,249
Pension liabilities <i>(Note 9)</i>	2,928	2,770
Deferred lease inducement <i>(Note 16)</i>	4,619	5,334
	<b>125,581</b>	<b>77,970</b>
Net assets <i>(Note 10)</i>	\$ 3,647	\$ 3,647
Contractual obligations <i>(Note 16)</i>		

The accompanying notes are part of these financial statements.

Approved by the Board:

[Original signed by]

A. CHARLES BAILLIE  
Board Chair

[Original signed by]

CATHY WILLIAMS  
Audit Committee Chair



## STATEMENT OF OPERATIONS

For the year ended March 31, (\$ thousands)	2013	2013	2012
	Budget (unaudited) (Note 17)		
<b>Revenue</b>			
Cost recoveries	\$ 250,000	\$ 402,814	\$ 322,688
Interest income	–	293	205
Total revenue	250,000	403,107	322,893
<b>Expenses</b>			
External investment management fees (Note 11)	117,273	125,229	109,717
External performance fees (Note 11)	–	103,834	30,989
External asset administration, legal, and other (Note 11)	31,793	62,669	88,808
Salaries, wages and benefits	58,578	74,661	59,090
Administrative expenses	6,974	10,091	9,955
Contract and professional services	18,732	9,286	9,015
Data services and subscriptions	7,940	8,798	7,286
Amortization of tangible capital assets	4,000	4,236	4,144
Rent	4,428	3,851	3,556
Interest	282	452	333
Total expenses	250,000	403,107	322,893
Annual surplus	\$ –	\$ –	\$ –

The accompanying notes are part of these financial statements.



## STATEMENT OF CASH FLOWS

For the year ended March 31, (\$ thousands)	2013	2012
<b>Operating transactions</b>		
Annual surplus	\$ –	\$ –
Non-cash items:		
Amortization of tangible capital assets	4,236	4,144
Amortization of deferred lease inducement	(715)	(716)
Change in obligation under capital leases	(125)	–
Change in pension liabilities	158	123
	3,554	3,551
Changes in operating accounts ( <i>Note 12</i> )	23,048	11,107
	26,602	14,658
<b>Capital transactions</b>		
Acquisition of tangible capital assets	(29,470)	(15,943)
<b>Investment transactions</b>		
Payment of obligation under capital leases	(143)	–
<b>Financing transactions</b>		
Proceeds from advance from the Province of Alberta	23,800	–
Increase (decrease) in cash and cash equivalents	20,789	(1,285)
Cash and cash equivalents at beginning of year	18,322	19,607
Cash and cash equivalents at end of year	\$ 39,111	\$ 18,322

The accompanying notes are part of these financial statements.





# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2013 (\$ thousands)

## NOTE 1 AUTHORITY

Alberta Investment Management Corporation (“the Corporation”) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes.

## NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Ministry of Finance for which the Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of \$70.9 billion (2012 – \$69.7 billion), see Note 13. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation’s financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation’s board of directors may approve recoveries greater than costs to maintain or increase the Corporation’s general reserve, although they have not done so in the past.

## NOTE 3 SUMMARY OF NEW ACCOUNTING PRONOUNCEMENTS

### Financial Instruments & Foreign Currency Translation

On April 1, 2012, the Corporation adopted the PSA Handbook Section PS 3450 “Financial Instruments”, on a prospective basis. The new standard includes the requirement for recognition, measurement, presentation and disclosure of specific financial instruments and is effective for years beginning on or after April 1, 2012. This accounting change did not have an impact on the Corporation’s financial statements other than additional risk disclosure presented in Note 18. The Corporation does not own any financial instruments designated in the fair value category and as such a Statement of Remeasurement Gains and Losses has not been included in the financial statements.

In conjunction with this adoption, the Corporation also adopted PS 2601 “Foreign Currency Translation”, which replaced PS 2600. The new standard clarifies how to account for and report transactions that are denominated in a foreign currency and is effective for years beginning on or after April 1, 2012. This accounting change had no impact on the Corporation’s financial statements.

#### **NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") and include the following significant accounting policies:

**a) Measurement Uncertainty**

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. External investment management fees which are recorded as \$125,229 (2012 – \$109,717), external performance fees which are recorded as \$103,834 (2012 – \$30,989), and pension liabilities which are recorded as \$2,928 (2012 – \$2,770) in these financial statements, are subject to measurement uncertainty. External investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 8 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liability.

Estimates and assumptions are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

**b) Revenue Recognition**

All revenues are reported on the accrual basis of accounting.

Cost recovery revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments, and on the recovery of indirect costs representing each government fund, pension plan and pooled fund's respective share of the Corporation's operating costs. The indirect charges are allocated based on assets under management and head count. Cost recovery revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

Under the *Alberta Investment Management Corporations Act*, the Corporation may establish and maintain one or more Reserve Funds with the ability to recover charges in excess of direct costs.

**c) Expenses**

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

**d) Assets**

Financial assets which include cash and cash equivalents and accounts receivable are assets that could be used to discharge existing liabilities or finance future operations.

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful life of the assets.

Prepaid expenses are charged to expense over the periods expected to benefit from it.

**e) Liabilities**

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in a sacrifice of economic benefits in the future.

**f) Financial Instruments**

All financial assets and financial liabilities are measured at cost or amortized cost.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

The Corporation does not own any derivative financial instruments.

Cash and cash equivalents include short-term and mid-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a maximum term-to-maturity of three years or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. The Corporation has access to these investments with no restrictions.

Accounts receivable are recorded at cost less any provision for doubtful accounts. Provision for doubtful accounts are made to reflect accounts receivable at the lower of cost and net recoverable value, when collectability and risk of loss exists. Changes in doubtful accounts are recognized in administrative expenses in the statement of operations (2013 and 2012 - \$nil).

**g) Tangible Capital Assets**

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation.

Amortization is calculated on a straight-line basis over the following periods:

Computer systems hardware and software	5 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Computer systems hardware and software development costs are not amortized until the assets are available for use.

**h) Write-down of Tangible Capital Assets**

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs are accounted for as expenses in the statement of operations.

**i) Net Assets**

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

PSAS require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

**j) Employment Benefits**

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new Supplementary Retirement Plan (“SRP”) for those individuals required to withdraw from the existing SRP for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management’s best estimate of expected plan investment performance, discount rate, salary escalation, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the average remaining service life of active employees. Transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to employees through a Long-Term Incentive Plan (“LTIP”) and a Restricted Fund Unit Plan (“RFU”). The value of these awards, which fluctuates over the vesting period based on achievement of certain performance factors, is expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the awards is remeasured at each reporting period based on changes in the intrinsic values of the awards, such that the cumulative amount of the liability will equal the expected payout at that date. Any gains or losses on remeasurement are recorded in the statement of operations. For any forfeiture of the awards, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

**k) Foreign Currency**

Assets and liabilities denominated in foreign currency are translated at the year-end rate of exchange. Exchange differences on transactions are included in the determination of net operating results. Foreign currency transactions are translated into Canadian dollars using the Bank of Canada noon rate for the day.

## NOTE 5 CASH AND CASH EQUIVALENTS

as at March 31, (\$ thousands)	2013	2012
Deposit in Consolidated Cash Investment Trust Fund	\$ 39,060	\$ 18,172
Cash in U.S. bank account	51	150
	<b>\$ 39,111</b>	<b>\$ 18,322</b>

The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2013, securities held by the Fund have a time-weighted return of 1.2% per annum (2012 – 1.2% per annum).

## NOTE 6 TANGIBLE CAPITAL ASSETS

for the year ended March 31, (\$ thousands)

	Computer systems hardware and software	Computer systems hardware and software under development	Equipment under capital leases	Leasehold improvements	Furniture and equipment	2013	2012
<b>Cost</b>							
Opening balance	\$ 20,294	\$ 23,966	\$ –	\$ 12,130	\$ 4,447	<b>\$60,837</b>	\$ 44,894
Additions	2,329	26,858	268	235	48	<b>29,738</b>	15,943
Disposals	–	–	–	–	–	–	–
Transfers	1,775	(1,775)	–	–	–	–	–
Write-downs	–	–	–	–	–	–	–
Closing balance	24,398	49,049	268	12,365	4,495	<b>90,575</b>	60,837
<b>Accumulated amortization</b>							
Opening balance	13,338	–	–	2,499	856	<b>16,693</b>	12,549
Amortization expense	2,525	–	20	1,254	437	<b>4,236</b>	4,144
Disposals	–	–	–	–	–	–	–
Write-downs	–	–	–	–	–	–	–
Closing balance	15,863	–	20	3,753	1,293	<b>20,929</b>	16,693
Net book value at March 31	\$ 8,535	\$ 49,049	\$ 248	\$ 8,612	\$ 3,202	<b>\$69,646</b>	\$ 44,144

Computer systems hardware and software under development are not subject to amortization. In addition, tangible capital assets includes \$268 (2012 – \$nil) of equipment lease additions that are non-cash transactions in the statement of cash flow.

## NOTE 7 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, (\$ thousands)	2013	2012
Annual incentive plan (a)	\$ 23,076	\$ 17,532
Long-term incentive plan (b)	32,504	15,764
Restricted fund unit incentive plan (c)	973	614
Accrued vacation salaries and benefits	2,818	2,729
	<b>\$ 59,371</b>	<b>\$ 36,639</b>

### a) Annual Incentive Plan

Variable pay per the Corporation's Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent year. Payments are tied to asset class and total fund value-added and include a component for achievement of annual individual objectives. The Chief Executive Officer may also make limited discretionary awards.

### b) Long-Term Incentive Plan

The Corporation provides retention incentives to employees through an LTIP and an RFU plan. The LTIP program promises a deferred reward for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance that vest at the end of the fourth calendar period subsequent to the grant date. The first of these grants, issued effective January 1, 2009, vested on December 31, 2012 with grants being issued annually thereafter. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years, they will pay between zero and three times the size of the grant based on cumulative performance under the four-year vesting period. The maximum amount will be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. For each of 2009 through 2011, the stretch target is \$500,000. For 2013, the stretch target is \$800,000 (2012 – \$600,000).

If the average four-year value-added exceeds the average "stretch target" annually set by the Board, employees have the potential to receive a Special LTIP Grant at the vesting date. This Special LTIP Grant, which cannot exceed the original grant, has a new four-year vesting period and is subject to the same parameters as regular LTIP grants. Strong performance in certain asset classes since the first grants were awarded have resulted in the potential for Special LTIP Grants. A Special LTIP Grant was awarded in the current year for \$2,233 (2012 – \$nil).

The accrued LTIP liability as at March 31, 2013 of \$32,504 (2012 – \$15,764) reflects the potential value of all LTIP, based on actual results to that date from the date they were awarded.

Information about total LTIP grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2013		2012	
	Notional Value		Notional Value	
LTIP grants outstanding, beginning of year	20,911	\$ 15,764	14,475	\$ 6,745
Granted	10,513	658	6,975	436
LTIP accruals	–	17,720	–	8,834
Forfeited	(2,173)	(1,638)	(539)	(251)
Paid	–	–	–	–
<b>LTIP grants outstanding, end of year</b>	<b>29,251</b>	<b>\$ 32,504</b>	<b>20,911</b>	<b>\$ 15,764</b>

The maximum potential obligation related to the LTIP as at March 31, 2013 was \$87,753 (2012 – \$62,733). Total expense related to the LTIP for the year ended March 31, 2013 was \$16,084 (2012 – \$8,990) which was recorded in salaries, wages and benefits.

#### c) Restricted Fund Unit Incentive Plan

The RFU program is a supplementary compensation plan based on a notional investment in the total assets under administration, where the value fluctuates based on the total rate of return. Unlike the LTIP grants, rates of return relative to benchmark do not impact the value of the RFUs. RFUs have time horizons of one-to-three years for vesting provisions. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments.

The accrued RFU liability as at March 31, 2013 of \$973 (2012 – \$614) reflects the potential value of all RFUs, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2013		2012	
	Notional Value		Notional Value	
RFU grants outstanding, beginning of year	1,550	\$ 614	505	\$ 481
Granted	–	–	1,200	192
Accrual	–	751	–	121
Paid	(320)	(392)	(155)	(180)
<b>RFU grants outstanding, end of year</b>	<b>1,230</b>	<b>\$ 973</b>	<b>1,550</b>	<b>\$ 614</b>

Total expense related to the RFU plan for the year ended March 31, 2013 was \$752 (2012 – \$314) which was recorded in salaries, wages and benefits.

## NOTE 8 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the Corporation received advances from the Province of Alberta during the year ended March 31, 2013 totaling \$23,800 to fund capital cost requirements. As at March 31, 2013, the outstanding advances from the Province totaled \$52,049 (2012 – \$28,249).

The advance is a revolving demand credit facility up to a maximum of \$70,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.98% (2012 – 0.94%). At March 31, 2013, the Corporation was in compliance with the terms of its revolving demand facility.

## NOTE 9 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the year ended March 31, (\$ thousands)	2013	2012
<b>Accrued retirement obligation</b>		
Beginning of year	\$ 2,275	\$ 1,629
Current service cost	406	399
Interest cost	112	91
Benefits paid	(18)	–
Actuarial loss (gain)	(476)	156
End of year	2,299	2,275
<b>Plan assets</b>		
Fair value, beginning of year	579	354
Actual return on plan assets	13	11
Employer contributions	119	107
Employee contributions	119	107
Benefits paid	(18)	–
End of year	812	579
Funded status - plan deficit	(1,487)	(1,696)
Unamortized net actuarial gain	(1,441)	(1,074)
Reported liability	\$ (2,928)	\$ (2,770)
Current service cost	406	400
Interest cost	112	91
Expected return on plan assets	(39)	(28)
Net actuarial gain amortization	(83)	(125)
Less: employee contributions	(119)	(107)
Total SRP expense	\$ 277	\$ 231



The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of March 31, 2013.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2013	2012
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

The following table presents key assumptions applicable to the SRP:

as at March 31,	2013	2012
Annual discount rate	4.2%	4.2%
Annual salary increase - base	3.5%	3.0%
Expected long-term return on plan assets	5.6%	5.6%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% increase or decrease in the discount rate would decrease or increase the reported liability by \$590 as at March 31, 2013 (2012 – \$602). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by \$737 as at March 31, 2013 (2012 – \$1,613). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by \$208 as at March 31, 2013 (2012 – \$172).

### Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan, and two multi-employer Long-Term Disability Income Continuance plans. The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of \$3,122 (2012 – \$2,988) for the year ended March 31, 2013 which was recorded in salaries, wages and benefits.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of \$303,423 (2012 – \$517,726) and the Public Service Pension Plan reported a deficiency of \$1,645,141 (2012 – \$1,790,383).

## NOTE 10 NET ASSETS

The accumulated surplus is made up as follows:

as at March 31, (\$ thousands)	2013	2012
Contributed surplus (a)	\$ 3,647	\$ 3,647
Share capital (b)	–	–
Accumulated surplus	–	–
	<b>\$ 3,647</b>	<b>\$ 3,647</b>

### a) Contributed Surplus

Contributed surplus of \$3,647 (2012 – \$3,647) represents equity received by the Department of Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

### b) Share Capital

as at March 31, (\$ thousands)	2013	2012
<b>Issued and Authorized</b>		
Province of Alberta - one share	\$ –	\$ –

## NOTE 11 EXTERNAL INVESTMENT COSTS

External investment costs include external investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

External investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by external managers include regular management fees as well as performance/incentive-based fees. These fees include significant estimates and measurement uncertainty. Actual results could differ from these estimates.

External asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring. During the March 31, 2013 year-end, \$13,774 (2012 – \$39,270) of one-time acquisition fees related to insurance investments were incurred.

## NOTE 12 CHANGES IN OPERATING ACCOUNTS

for the year ended March 31, (\$ thousands)	2013	2012
Increase in accounts receivable	\$ (1,036)	\$ (1,969)
Increase in prepaid expenses	(284)	(697)
Increase in accounts payable and accrued liabilities	1,636	1,076
Increase in accrued employment liabilities	22,732	12,697
	<b>\$ 23,048</b>	<b>\$ 11,107</b>

## NOTE 13 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2013 assets under administration totaled approximately \$70.9 billion (2012 – \$69.7 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

as at March 31, (\$ thousands)	2013	2012
Pension plans	\$ 39,926,701	\$ 35,126,435
Ministry of Finance		
General revenue and entity investment funds <sup>(1)</sup>	6,454,918	10,560,738
Endowment funds (including the Alberta Heritage Savings Trust Fund)	20,247,990	19,352,952
Insurance-related funds	2,070,890	2,020,941
Other government Ministry investment funds	2,256,240	2,605,675
	<b>\$ 70,956,739</b>	<b>\$ 69,666,741</b>

1 General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance.

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

Investments administered by the Corporation were held in the following asset classes:

as at March 31, (\$ thousands)	2013	2012
<b>Fixed income</b>		
Fixed income <sup>(1)</sup>	\$ 22,538,737	\$ 26,009,083
Private mortgages	2,362,946	2,341,206
<b>Inflation sensitive</b>		
Real estate	8,100,378	7,045,460
Infrastructure, timber and private debt	4,595,126	4,373,384
Real return bonds and commodities	2,218,677	2,122,962
<b>Equities</b>		
Public equities and absolute return strategies	28,363,195	25,513,444
Private equity and venture capital	2,287,474	2,179,848
<b>Overlays</b>	489,565	81,354
<b>Currency derivatives</b>	641	–
	<b>\$ 70,956,739</b>	<b>\$ 69,666,741</b>

1 General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Finance.

#### NOTE 14 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

for the year ended March 31, (\$ thousands)	2013	2012
<b>Revenues</b>		
Indirect cost recoveries <sup>(1)</sup>	\$ 111,082	\$ 93,174
<b>Expenses</b>		
Interest on advance from Province of Alberta	384	265
Contracted services (rent and other) <sup>(2)</sup>	230	587
	614	852
<b>Assets</b>		
Accounts receivable <sup>(1)</sup>	14,504	13,574
<b>Liabilities</b>		
Advance from Province of Alberta	52,049	28,249
	\$ 52,049	\$ 28,249

1 Recovered from government funds, pension plans and other entities.

2 Transacted with Ministry of Finance and other entities.

## NOTE 15 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward consistent value-added performance.

The tables below present total compensation of the directors and senior management of the Corporation earned for the year ended March 31, 2013 in accordance with Treasury Board directive 12/98 as amended. This directive applies to all departments, regulated funds, provincial agencies and Crown-controlled organizations.

	for the year ended March 31, (\$ thousands)						2013	2012
	Base Salary <sup>(1)</sup>	Incentive Plan		Other Cash Benefits <sup>(4)</sup>	Other Non-Cash Benefits <sup>(5)</sup>	Total	Total	
		Annual <sup>(2)</sup>	Long-Term <sup>(3)</sup>					
Chairman of the Board <sup>(6)</sup>	\$ –	\$ –	\$ –	\$ 91	\$ –	\$ 91	\$ 105	
Board Members <sup>(6)</sup>	–	–	–	448	–	448	427	
Chief Executive Officer	500	950	1,500	17	82	3,049	1,587	
Chief Financial Officer <sup>(7)</sup>	237	210	–	1	32	480	422	
Chief Risk Officer	228	297	300	1	58	884	462	
Executive Vice President, Venture & Innovations <sup>(8)</sup>	367	700	675	–	63	1,805	979	
Executive Vice President, Public Market Investments <sup>(9)</sup>	307	869	300	1	67	1,544	686	
Executive Vice President, Private Investments <sup>(10)</sup>	307	541	–	–	44	892	–	

1 Base Salary consists of all regular pensionable base pay earned.

2 Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent period.

3 Long-Term Incentive Plan consists of amounts vested in the year and paid in a subsequent period.

4 Other Cash Benefits consist of RFU paid in the year, retainers, honoraria, lump sum payments, and any other direct cash remuneration.

5 Other Non-Cash Benefits consist of the Corporation's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.

6 The Board consists of 11 independent members including the Chairman, whose compensation is disclosed separately.

7 Two incumbents occupied this position during fiscal 2012-13. Amounts presented are for the current incumbent who occupied this position for nine months of the fiscal year.

8 The incumbent in this role was previously the Deputy Chief Investment Officer, Change Management. Amounts presented are for the incumbent for the full year. The incumbent occupied this position for nine months of the fiscal year.

9 The incumbent in this role was previously the Senior Vice President, Fixed Income Investments. Amounts presented are for the incumbent for the full year. The incumbent occupied this position for nine months of the fiscal year.

10 The incumbent in this role was previously the Senior Vice President, Infrastructure & Timber Investments. Amounts presented are for the incumbent for the full year. The incumbent occupied this position for nine months of the fiscal year.

LTIP awards are granted at the start of each fiscal year and paid out after the end of a four year vesting period. The table below shows the LTIP grants and estimated future payouts for each named executive. The future value of awards granted for 2010, 2011 and 2012 but not vested are estimated as at March 31, 2013 based on actual performance for calendar years 2010, 2011 and 2012 and no assumed growth for future years. For awards granted in 2013, the estimated future payout is estimated to be equal to the grant amount. No amount is payable if performance is below a certain level.

**Notional Value**

	As at March 31, 2012	Granted in Year	Vested in Year	As at March 31, 2013
Chief Executive Officer	2,000.0	1,000.0	(500.0)	2,500.0
Chief Financial Officer	105.0	104.0	–	209.0
Chief Risk Officer	606.3	276.0	(100.0)	782.3
Executive Vice President, Venture & Innovations	1,073.5	585.0	(225.0)	1,433.5
Executive Vice President, Public Market Investments	817.0	565.5	(100.0)	1,282.5
Executive Vice President, Private Investments	478.5	327.0	–	805.5

**Estimated Future Payout**

	As at March 31, 2012	Change in Estimated Future Payout in Year	Vested in Year	As at March 31, 2013
Chief Executive Officer	\$ 2,836.6	\$ 3,548.0	\$ (1,500.0)	\$ 4,884.6
Chief Financial Officer	111.2	240.1	–	351.3
Chief Risk Officer	822.6	1,064.7	(300.0)	1,587.3
Executive Vice President, Venture & Innovations	1,476.7	1,898.0	(675.0)	2,699.7
Executive Vice President, Public Market Investments	1,029.3	1,987.2	(300.0)	2,716.5
Executive Vice President, Private Investments	527.8	528.4	–	1,056.2

**NOTE 16 CONTRACTUAL OBLIGATIONS**

The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services as follows:

as at March 31, (\$ thousands)	2013
2014	\$ 4,869
2015	4,155
2016	4,010
2017	3,994
2018	3,739
Thereafter	3,644
Total	\$ 24,411

The Corporation entered into a lease agreement commencing January 1, 2010, for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of \$6,768.

The inducement is recognized as a reduction in lease expense over the 10-year term of the lease. The total deferred lease inducement as at March 31, 2013, which includes the Corporation's offices in Toronto, is \$4,619 (2012 – \$5,334). The Corporation entered into two lease agreements effective March 1, 2012. The first agreement is for 5 years, with an option to renew for a further five years. The second agreement is for 2 years, with an option to renew for a further period of one year.

Pursuant to Order in Council 23/2008, the Province of Alberta has made available a facility to access up to a maximum of \$200,000 for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2013 the balance outstanding against the facility is \$116,974 (2012 – \$14,516).

#### **NOTE 17 2012-2013 BUDGET**

The Corporation's budget for the year ended March 31, 2013 was approved by the Board of Directors on November 25, 2011.

#### **NOTE 18 RISK MANAGEMENT**

The Corporation has minimal exposure to credit risk, liquidity risk and foreign exchange risk due to the nature of our operations.

##### **a) Credit Risk**

The Corporation is exposed to minimal credit risk as all our clients are established organizations that have a proven history of payment.

As at March 31, 2013, \$21 of accounts receivable was outstanding for 30 days but is not impaired.

##### **b) Liquidity Risk**

The Corporation has limited exposure to liquidity risk as it recovers all operating expenses and capital expenditures from our clients on a cost recovery basis.

Liquidity risk exposure is managed through regular recovery of all operating costs on a monthly basis. Further, the Corporation's board of directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, in the event additional funding is needed.

##### **c) Foreign Exchange Risk**

The Corporation has limited exposure to foreign exchange risk as amounts are payable and paid in a timely manner.

The carrying amount of the Corporation's US denominated foreign currency in accounts payable and accrued liabilities as at March 31, 2013 is \$135 (2012 – \$297).

##### **d) Interest Rate Risk**

The Corporation is exposed to interest rate risk from our advance from the Province of Alberta. The sensitivity of the Corporation's operating surplus due to a 1% change in the interest rate is \$520.



## EXECUTIVE TEAM AND BOARD OF DIRECTORS

### EXECUTIVE TEAM

**Leo de Bever**  
Chief Executive Officer

**Dale MacMaster**  
Executive Vice President,  
Public Market Investments

**Jagdeep Singh Bachher**  
Executive Vice President,  
Venture and Innovation

**Robert Mah**  
Executive Vice President,  
Private Market Investments

**David Goerz**  
Executive Vice President,  
Investment Strategy &  
Risk Management

**Angela Fong**  
Chief Corporate and  
Human Resources Officer

**Jacquelyn Colville**  
Chief Financial Officer

**John Osborne**  
Chief Risk Officer

**Michael Baker**  
Senior Vice President,  
Investment Operations

**Darren Baccus**  
Associate General Counsel

**Carole Hunt, Q.C.**  
Chief Legal Counsel &  
Corporate Secretary

### BOARD OF DIRECTORS

A. Charles Baillie, O.C.

George F. J. Gosbee

Clive J. Beddoe

Ross A. Grieve

Virginia A. Holmes

Daryl A. Katz

Harold A. Roozen

Andrea S. Rosen

Mac H. Van Wielingen

Cathy L. Williams

Kurt D. Winkelmann





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