Financials

Alberta Investment
Management Corporation

FINANCIAL REPORT
FISCAL YEAR 2012–2013

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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

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL *Alberta*

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

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 Budget (unaudited) *(Note 17)*	**2013**	2012
Revenue			
Cost recoveries	$ 250,000	**$ 402,814**	$ 322,688
Interest income	–	**293**	205
Total revenue	250,000	**403,107**	322,893
Expenses			
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
Operating transactions		
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 *(Note 12)*	23,048	11,107
	26,602	14,658
Capital transactions		
Acquisition of tangible capital assets	(29,470)	(15,943)
Investment transactions		
Payment of obligation under capital leases	(143)	–
Financing transactions		
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
	$ 39,111	$ 18,322

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
Cost							
Opening balance	$ 20,294	$ 23,966	$ –	$ 12,130	$ 4,447	**$60,837**	$ 44,894
Additions	2,329	26,858	268	235	48	**29,738**	15,943
Disposals	–	–	–	–	–	**–**	–
Transfers	1,775	(1,775)	–	–	–	**–**	–
Write-downs	–	–	–	–	–	**–**	–
Closing balance	24,398	49,049	268	12,365	4,495	**90,575**	60,837
Accumulated amortization							
Opening balance	13,338	–	–	2,499	856	**16,693**	12,549
Amortization expense	2,525	–	20	1,254	437	**4,236**	4,144
Disposals	–	–	–	–	–	**–**	–
Write-downs	–	–	–	–	–	**–**	–
Closing balance	15,863	–	20	3,753	1,293	**20,929**	16,693
Net book value at March 31	$ 8,535	$ 49,049	$ 248	$ 8,612	$ 3,202	**$69,646**	$ 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
	$	**59,371**	$	36,639

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	–		–	–		–
LTIP grants outstanding, end of year	29,251	$	32,504	20,911	$	15,764

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)
RFU grants outstanding, end of year	1,230	$	973	1,550	$	614

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
Accrued retirement obligation		
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
Plan assets		
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	–	–
	$ 3,647	$ 3,647

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
Issued and Authorized		
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
	$ 23,048	$ 11,107

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 [1]	**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
	$ 70,956,739	$ 69,666,741

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
Fixed income		
Fixed income [1]	**$ 22,538,737**	$ 26,009,083
Private mortgages	**2,362,946**	2,341,206
Inflation sensitive		
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
Equities		
Public equities and absolute return strategies	**28,363,195**	25,513,444
Private equity and venture capital	**2,287,474**	2,179,848
Overlays	**489,565**	81,354
Currency derivatives	**641**	–
	$ 70,956,739	$ 69,666,741

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
Revenues		
Indirect cost recoveries [1]	**$ 111,082**	$ 93,174
Expenses		
Interest on advance from Province of Alberta	**384**	265
Contracted services (rent and other) [2]	**230**	587
	614	852
Assets		
Accounts receivable [1]	**14,504**	13,574
Liabilities		
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
		Incentive Plan			Other		
	Base Salary (1)	Annual (2)	Long-Term (3)	Other Cash Benefits (4)	Non-Cash Benefits (5)	**Total**	Total
Chairman of the Board (6)	$ –	$ –	$ –	$ 91	$ –	**$ 91**	$ 105
Board Members (6)	–	–	–	448	–	**448**	427
Chief Executive Officer	500	950	1,500	17	82	**3,049**	1,587
Chief Financial Officer (7)	237	210	–	1	32	**480**	422
Chief Risk Officer	228	297	300	1	58	**884**	462
Executive Vice President, Venture & Innovations (8)	367	700	675	–	63	**1,805**	979
Executive Vice President, Public Market Investments (9)	307	869	300	1	67	**1,544**	686
Executive Vice President, Private Investments (10)	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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