2013 Special Forces Pension Plan Annual Report

special forces
pension plan

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Governance Statement

This is the Governance Statement of the
Special Forces Pension Plan Board

Management of SFPP

The rules governing the Special Forces Pension Plan (SFPP) are found in the *Public Sector Pension Plans Act* and Regulations. The President of Treasury Board and Minister of Finance (the Minister) holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

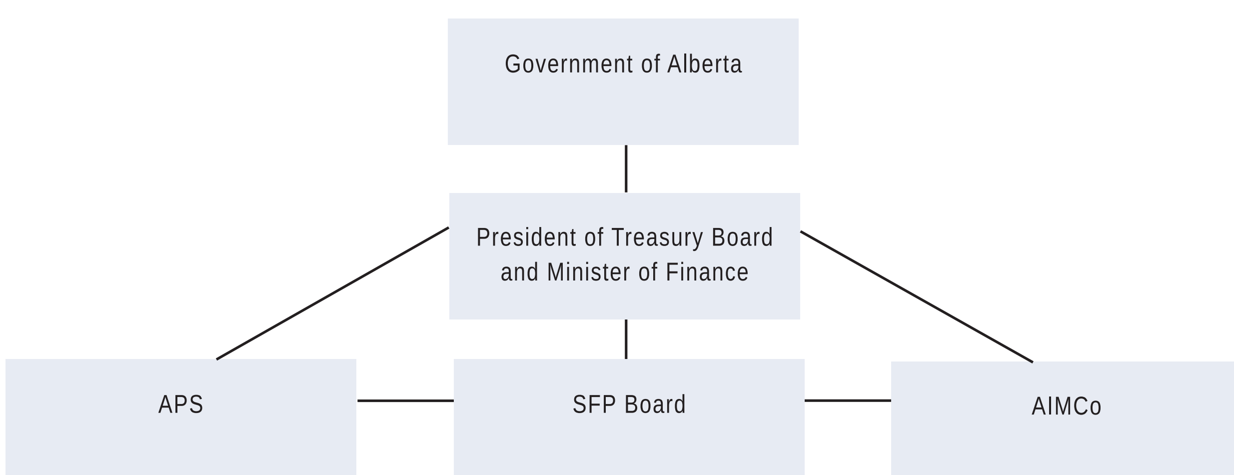
The SFP Board (the Board) has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The Board is charged with a number of legislated responsibilities, including arranging actuarial valuations, recommending plan rule changes, setting contribution rates based on the actuary's recommendations, setting contribution rates to the Indexing Fund for post-1991 Cost-of-Living Adjustments (COLA), providing general guidelines on plan administration, and setting an investment policy for the Plan's assets.

The Minister has delegated the administration of the Plan to Alberta Pensions Services Corporation (APS), which is a provincial crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. APS provides services to members, pensioners and employers, and is responsible for the day-to-day administration of SFPP.

Alberta Investment Management Corporation (AIMCo), a provincial crown corporation, manages and invests the assets on behalf of the Minister, and the Board.

The Auditor General of Alberta conducts an independent audit of the financial statements of SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian accounting standards for pension plans. The Auditor General's office provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.

The Board also seeks expert advice in order to make fully informed decisions. To ensure the appropriate and adequate discharge of its legislated and fiduciary duties, the Board requests its administrator to enter into contracts on its behalf for both actuarial and investment consulting services.



Administration Report

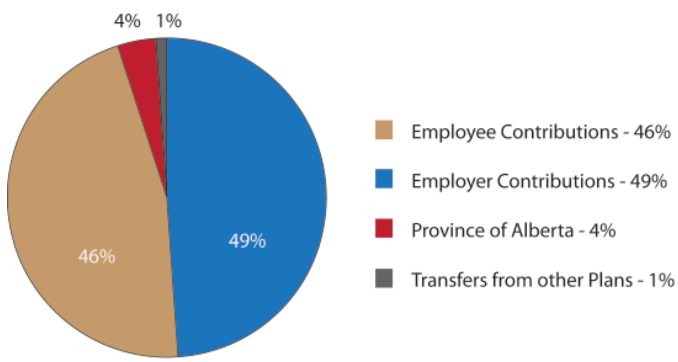
The Special Forces Pension Plan (SFPP) Administration Report is prepared by Alberta Pensions Services Corporation (APS), administrators of SFPP

Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the President of Treasury Board and Minister of Finance) on behalf of Special Forces Pension Plan (SFPP) members, pensioners, employers and plan governors. Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications (including communication about Plan benefits)
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

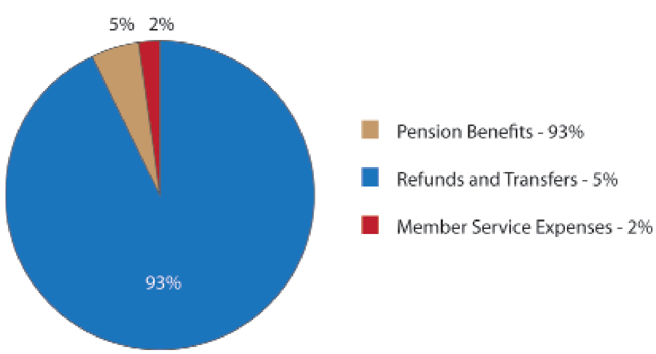
Contributions and Transfers to SFPP

In 2013, total contributions and transfers to SFPP were $115.3 million.



Payments from SFPP

In 2013, total payments from SFPP were $97.5 million.



SFPP Members, Pensioners and Employers

Based on year-end totals, SFPP has seven employers and a total of 6,712 active and deferred members and pensioners. In 2013, 188 members joined the Plan, six re-joined the Plan, 97 members retired, 30 members deferred funds, and 22 members terminated and left the Plan.

SFPP Member Services Expenses

SFPP's share of APS operating and plan-specific costs are based on cost allocation policies approved by the President of Treasury Board and Minister of Finance. In 2013, SFPP's share of APS' costs was $2 million. Based on average membership, SFPP's service expense per member was $302, which includes APS operating costs and actuarial fees.

Member Service Expenses	($ thousands) 2013	2012
General administration costs	$1,842	$1,603
Actuarial fees	165	215
Total member service expenses	2,007	1,818
Member service expenses per member	$302	$279

Cost-of-Living Adjustment (COLA) to Pensions in Pay

The Special Forces Pension Board has approved a plan regulation granting a COLA increase on the portion of pensions in pay and deferred pensions for service after December 31, 2000. Any future COLA increases for service earned after December 31, 2000 are granted on an ad hoc basis when there are sufficient funds.

In 2013, COLA was granted as a 0.96 per cent increase, or 60 per cent of Alberta Consumer Price Index (ACPI), on pensionable service before January 1, 2001 ("pre-2001"), and a 0.48 per cent increase, or 30 per cent of ACPI, on service after December 31, 2000 ("post-2000"). For those who retired during 2013, the COLA was prorated depending on the month of retirement.

Activities in 2013

APS focused on the following initiatives in 2013 to further enhance services to our valued SFPP clients:

- Streamlined some of our operational processes and took steps to ensure we continue to provide risk-managed, efficient and effective pension services to all of our clients and stakeholders.
- Launched a series of educational webinars for clients, with plans to continue in 2014.
- Completed an external review of our records management program to ensure member information continues to be stored and handled in an effective way.
- Completed more than 131,000 transactions – three per cent more than in 2012 and an average of more than 500 transactions per day.
- Continued to prepare for the 2014 implementation of the first phase of Next Generation, a multi-year, multi-system business transformation project that will efficiently and effectively help us meet changes in service demand by:
  - Simplifying processes – streamlining to add value and clarity for the Corporation and our valued clients, improving the quality and consistency of the pension experience.
  - Simplifying policies – reducing complexity and looking for opportunities to improve understanding for members, employers and staff.
  - Simplifying systems – upgrading and unifying the application systems needed to successfully deliver on our mandate to plan boards, members, pensioners and employers.
- Met all of our Next Generation milestones on time and on budget.
- Ongoing promotion of mypensionplan, a secure website for members to access their pension information:
  - As of December 31, SFPP had 241 new members registered on mypensionplan and 1,359 members registered in total.

The Year Ahead

- Implement our new pension payroll system to provide even better client service to the growing number of pensioners.
- Introduce mypensionplan.ca for pensioners, a new, convenient online service for pensioners giving them the ability to update their personal information, change beneficiaries, view the specifics of their pension plan, and provide documents through secure email.

For additional information on SFPP, please refer to the website at www.sfpp.ca.

Plan Performance and Investment Report

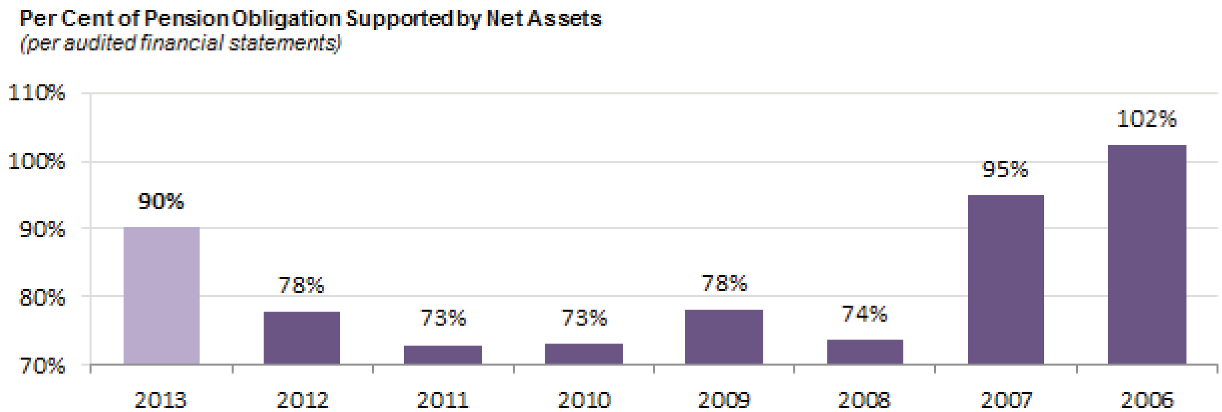
The SFPP Plan Performance and Investment Report is prepared by the Ministry of Treasury Board and Finance with input from Alberta Investment Management Corporation (AIMCo)

PLAN PERFORMANCE
Net Assets versus Pension Obligation

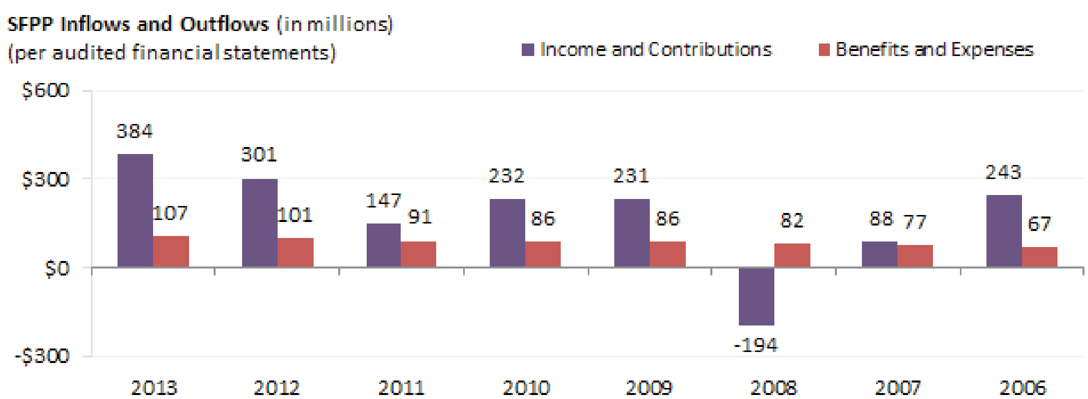
Net Assets: **$2.026** Billion
Obligation: **$2.247** Billion
Deficit: **$221** Million
Income and Contributions: **$384** Million
Benefits and Expenses: **$107** Million

In 2013, the financial position of the SFPP continued to improve. At December 31, 2013, the fair value of the Plan's net assets increased by 15.8 per cent (or $277 million) to $2.026 billion. The pension obligation remained substantially unchanged, decreasing by $1 million to $2.247 billion. As a result, the Plan's deficit declined to $221 million, according to the 2013 audited financial statements.

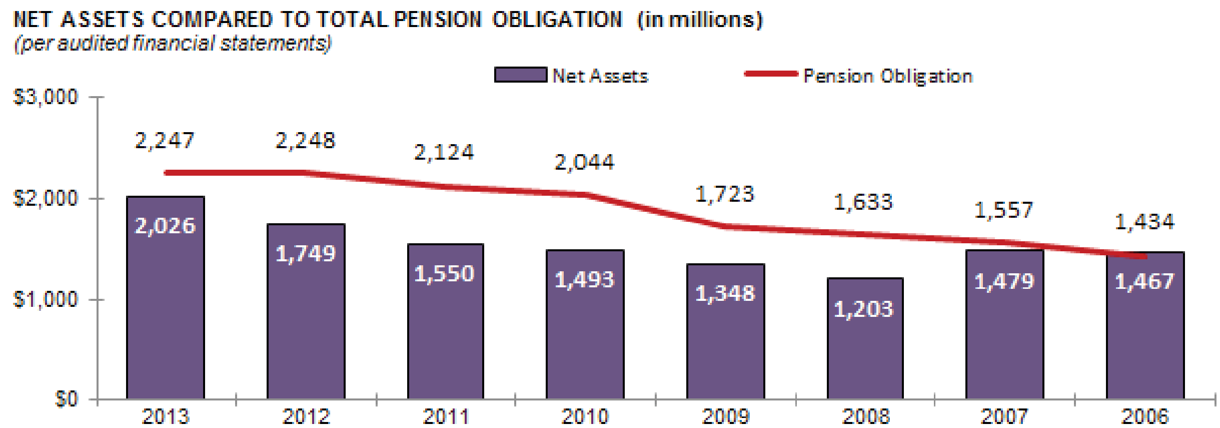
The Plan closed out 2013 with 90 per cent of the total pension obligation supported by net assets, a strong improvement from 78 per cent in 2012 and 73 per cent in 2011.



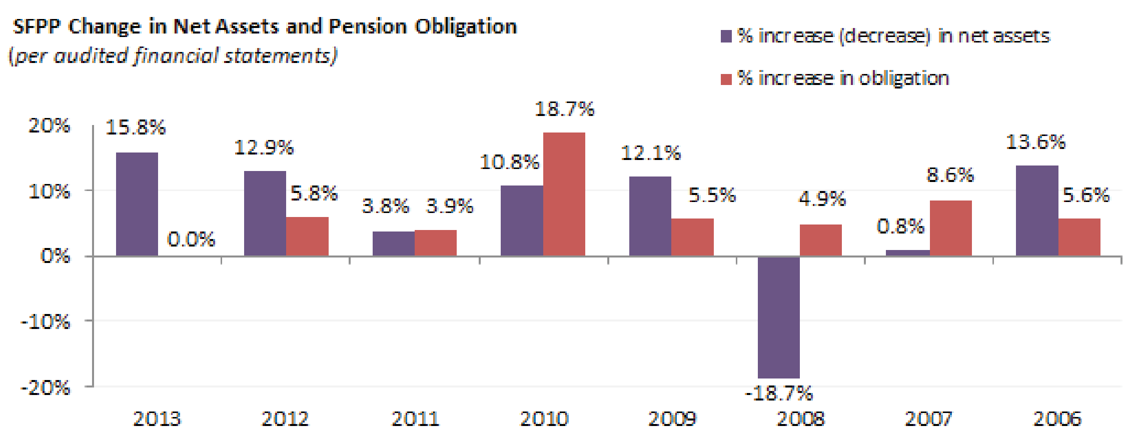
In 2013, inflows from investment income and contributions of $384 million were more than triple outflows from benefit payments and expenses of $107 million. Over twenty years, accumulated income and contributions totaled $2.7 billion while accumulated pension benefit payments and expenses totaled $1.2 billion.



The chart below shows the gap between total pension obligation and the net assets. By the end of 2013, the gap narrowed as the growth in net assets exceeded the growth in the pension obligation. The total pension obligation is based on the estimated net present value of future pension benefits paid to employees when they retire. Retirement benefits earned by employees provide a lifetime pension for each year of pensionable service based on a specified percentage applied to the average salary for the five highest consecutive years, subject to the maximum benefit limit allowed under the Canadian Income Tax Act. The estimated pension obligation increases annually for each additional year of pensionable service earned by employees. The pension obligation is an estimate because it is based on various assumptions used by the Plan's actuary. For example, an estimated discount rate is used to determine the present value of future retirement payments. A higher estimated discount rate will decrease the total pension obligation. A higher estimated life expectancy will increase the pension obligation. Net assets increase when there are positive overall investment returns and when employee and employer contributions exceed pension benefits paid. Net assets decrease when there are investment losses.



In 2013, the Plan's net assets grew by 15.8 per cent while the total pension obligation remained unchanged.



INVESTMENT PERFORMANCE

Year In Review

The growth in net assets of 15.8 per cent or $277 million was comprised of a return on investments of 14.5 per cent, or $259 million and 1.3 per cent or $18 million from contributions in excess of pension benefits. Investment expenses increased by 36.1 per cent to $10.1 million from last year's investment expenses of $7.4 million.

SFPP Investment Returns

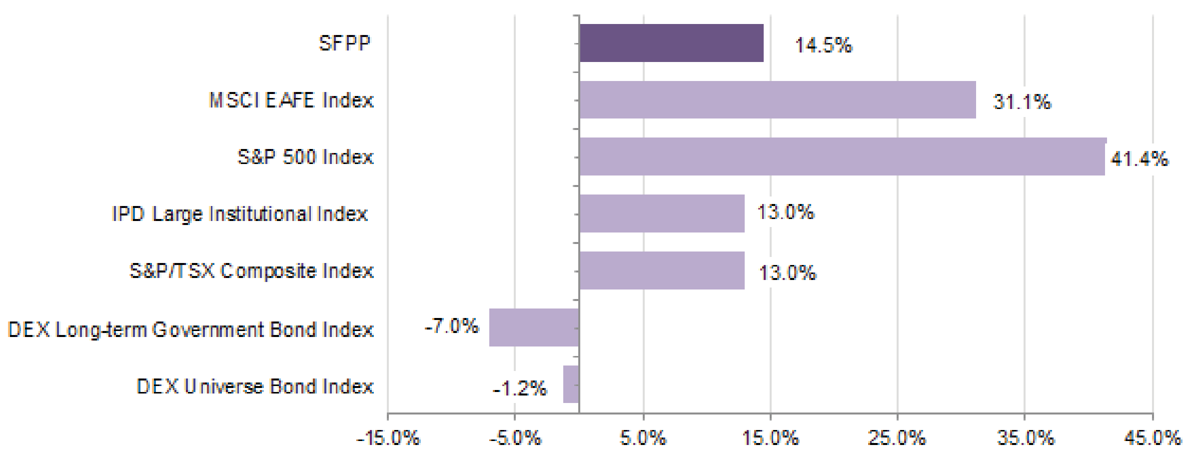
1st quarter	4.3%
2nd quarter	-0.4%
3rd quarter	3.3%
4th quarter	6.7%
Annual 2013	**14.5%**

The year started out strong with SFPP earning 4.3 per cent on its investments in the first quarter. The second quarter saw markets contract and SFPP lost 0.4 per cent on its investments. Markets improved in the third quarter with SFPP earning 3.3 per cent on its investments. The fourth quarter was a strong quarter in the markets with SFPP earning 6.7 per cent. Overall SFPP finished the 2013 year earning 14.5 per cent on its investments, net of investment expenses, compared to 11.6 per cent in 2012.

At December 31, 2013, 60.2 per cent of the Plan's assets were invested in equities (2012: 58.2 per cent), followed by 24.9 per cent in interest bearing securities (2012: 25.7 per cent), and 14.9 per cent in inflation sensitive and alternative investments such as real estate, infrastructure, real return bonds and timberland (2012: 16.1 per cent).

The following chart summarizes the market returns in 2013 from various indexes around the world and the return of SFPP.

Returns for Major Markets and the SFPP (in Canadian dollars)



In equity markets outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE) Index gained 31.1 per cent in 2013 in Canadian dollars compared to a gain of 14.8 per cent in Canadian dollars in 2012.

In the United States equity market, the S&P 500 Index, which tracks the performance of the top 500 American companies, increased by 41.4 per cent in 2013 in Canadian dollars (32.4 per cent in U.S. dollars) compared to 13.5 per cent 2012 in Canadian dollars (16.0 per cent in U.S. dollars).

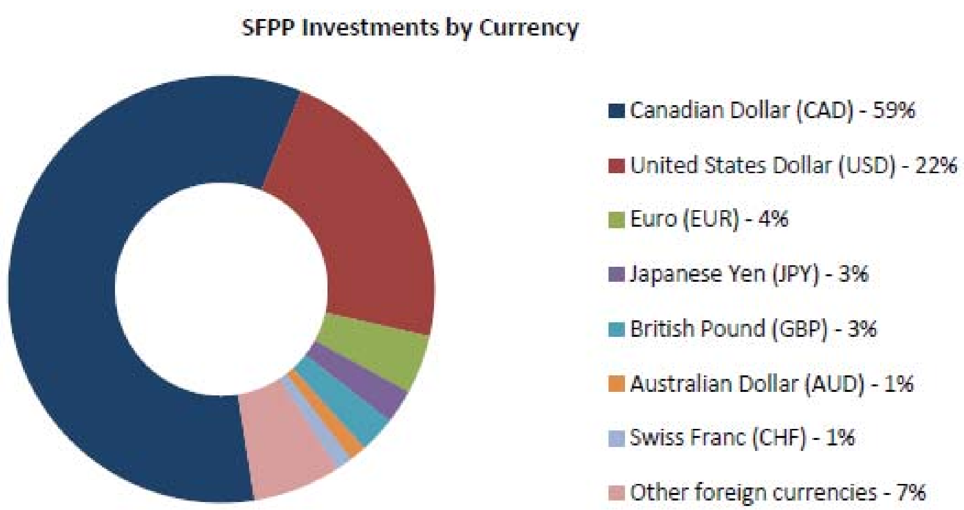
The Canadian real estate market, represented by the IPD Large Institutional Index gained 13.0 per cent in 2013 compared to 13.8 per cent in 2012.

In the Canadian stock market, the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index gained 13.0 per cent in 2013, compared to a gain of 7.2 per cent in 2012.

In the bond market, the DEX Universe Bond Index posted a loss of 1.2 per cent in 2013 compared to gain of 3.6 per cent in 2012. The DEX Long-term Government Bond Index recorded a loss of 7.0 per cent in 2013, compared to gain of 4.0 per cent in 2012.

Investments by currency

At December 31, 2013, 59 per cent (2012: 62 per cent) of the Plan's investments were denominated in Canadian currency, followed by 22 per cent (2012: 20 per cent) in U.S. currency and per cent 19 (2012: 18 per cent) in currencies outside North America. The value of the Plan's foreign investment portfolio is exposed to foreign currency risk (i.e. potential loss) when the value of the Canadian dollar strengthens against other currencies. By year-end, the Canadian dollar was weaker against the U.S. dollar, meaning U.S. dollar investments were worth more when translated into Canadian dollars. At December 31, 2013, one U.S. dollar was worth $1.06 Canadian compared to $1.00 Canadian at the beginning of the year.



Statement of investment policies and goals *(sip&g)*

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's SIP&G. The SIP&G is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

Investment management services

Alberta Investment Management Corporation (AIMCo) is a provincial corporation of Alberta Treasury Board and Finance. AIMCo was created on January 1, 2008. It manages and invests the assets of the Plan on behalf of the Minister and the Board. AIMCo invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Investment expenses

In 2013, the overall investment expense charged by AIMCo increased by $2.7 million or 36.1 per cent while average assets under management increased by 14.5 per cent. In 2013, investment expenses include external performance fees of $2.2 million. In 2012, and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $1.7 million.

($ millions)	2013	2012
Investment expenses charged by AIMCo	$ 10.1	$ 7.4
Per cent increase in investment expense	36.1%	45.5%
Per cent increase in average investments under management	14.5%	8.4%
Increase in value of investments attributed to AIMCo	1.1%	2.3%
Expenses as a per cent of each dollar earned	3.8%	3.9%
Expenses as a per cent of each dollar invested	0.54%	0.45%

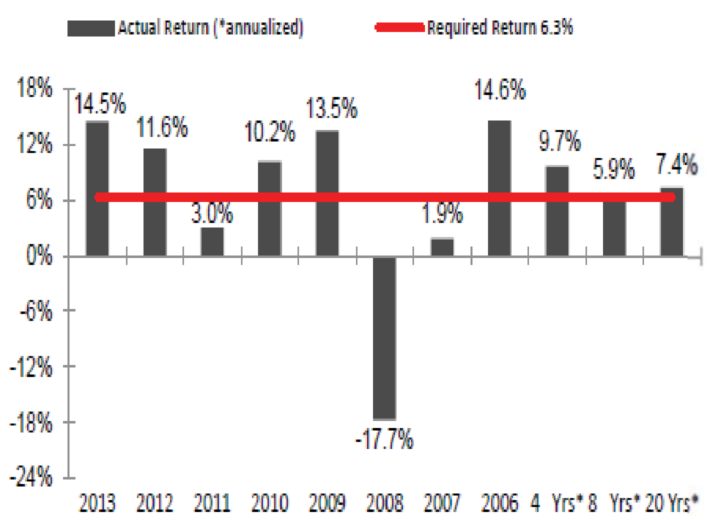
Long-term investment objective (funding)

An important goal of the board is to ensure the Plan is sustainable over the long-term so that the total pension obligation to members is fully supported by net assets in the Plan. In order to achieve this, the Board sets an expectation that the actual return on investments will exceed the required long-term average annual return of 6.3 per cent. This includes an expectation of earning 4.0 per cent above the forecast annual rate of inflation currently assumed to be 2.3 per cent.

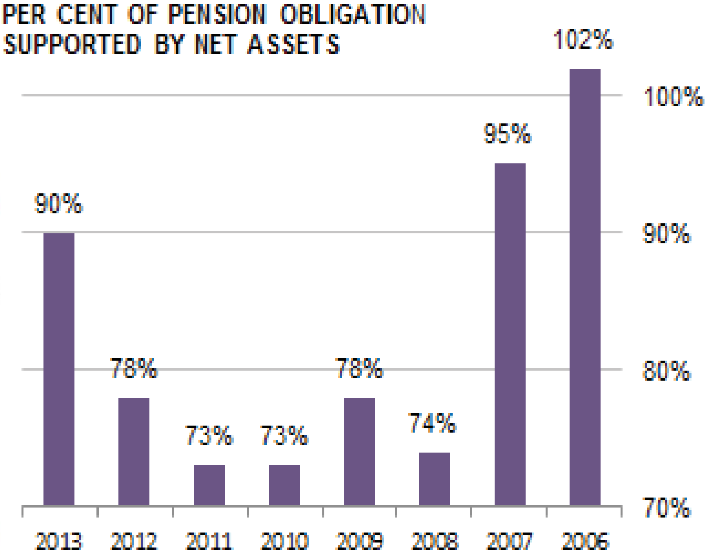
Annual returns by year and per cent of pension obligation supported by net assets

According to the audited financial statements, the Plan's investments generated a return of 14.5 per cent in 2013 and 7.4 per cent per annum over the past twenty years. At December 31, 2013, the per cent of the total pension obligation supported by nets assets improved to 90 per cent, up from 78 per cent, the previous year.

ACTUAL RETURN VERSUS REQUIRED RETURN



PER CENT OF PENSION OBLIGATION SUPPORTED BY NET ASSETS



Board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the SIP&G annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The Board monitors the services provided to the Plan by AIMCo. Services provided and charges for those services including performance standards are set out in the Investment Management Agreement between AIMCo and the Board.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board then reviews the fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the SIP&G.

Asset mix

For 2013, the Board has given AIMCo the following broad ranges within each asset class to invest the Plan's assets:

Equities	38 to 78 per cent
Fixed income	18 to 38 per cent
Money market	0 to 10 per cent
Inflation sensitive	4 to 30 per cent

Equities include ownership in both publicly traded and private enterprises, in Canada and outside Canada, that provide long-term growth to meet the funding requirements of the Plan's pension obligation. Bonds and mortgages include publicly traded or privately issued fixed income securities which have a high correlation to the interest rate risk of the Plan's pension obligation. Cash and short-term securities include investments that have a low absolute volatility with cash benchmarks. Inflation sensitive investments include any publicly traded or privately held investment that provides inflation based returns that are positively correlated with the inflation risk of the Plan's liability including, but not exclusive to, investments in real estate, infrastructure, private debt, real return bonds and timberland.

The table below shows the policy asset mix benchmark and range for each class of investments held in the Plan compared to the actual asset mix for 2013 and the previous year.

Asset Class	Policy Benchmark	Policy Range Minimum	Policy Range Maximum	Actual 2013	Actual 2012
	%	%	%	%	%
Money Market	**1.0**	**0.0**	**10.0**	**1.1**	**0.7**
Fixed income	**26.0**	**18.0**	**38.0**	**23.8**	**25.0**
Universe bonds		8.0	10.0	9.7	8.8
Long government bonds		10.0	20.0	12.0	13.5
Private mortgages		0.0	5.0	2.1	2.7
Equities	**57.0**	**38.0**	**78.0**	**60.2**	**58.2**
Canadian		12.0	22.0	18.0	17.9
Global		26.0	46.0	33.6	32.0
Emerging markets		0.0	5.0	4.9	4.8
Private equities		0.0	8.0	3.7	3.5
Inflation sensitive	**16.0**	**4.0**	**30.0**	**14.9**	**16.1**
Real estate		4.0	10.0	6.7	7.1
Infrastructure and private debt		0.0	8.0	4.5	5.1
Real return bonds		0.0	7.0	1.8	2.3
Timberland		0.0	5.0	1.9	1.6
Grand Total	**100.0**			**100.0**	**100.0**

Investment results in relation to the benchmarks

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the Board. Investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices: DEX 91-Day T-Bill Index, DEX Universe Bond Index, DEX Long Term All Government Bond Index, DEX Real Return Bond Index, S&P/ TSX Composite Index, MSCI All Country World Index, IPD Large Institutional All Property Index.

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns. According to the Plan's SIP&G, the Board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0 per cent per annum, above the policy benchmark return over the long-term.

The table below shows the value added return (loss) from the investment manager in each of the past four years along with the annualized returns over four years, eight years and twenty years.

INVESTMENT RETURNS (%) Ending December 31, 2013	Annual Returns (%) 2013	2012	2011	2010	Annualized Returns (%) 4 Years	8 Years	20 Years
Actual return	14.5	11.6	3.0	10.2	9.7	5.9	7.4
Policy benchmark return	13.4	9.3	2.2	10.5	8.7	5.7	7.2
Value added return	1.1	2.3	0.8	(0.3)	1.0	0.2	0.2

Plan Performance and Investment Report

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

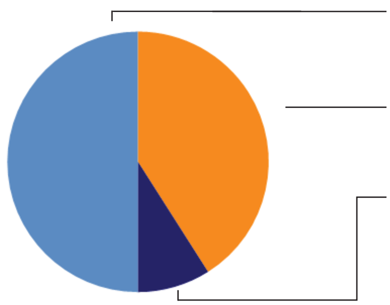
Table of Investment Returns[(1)]	December 31, 2013 Investment (millions)	Asset Mix (%)	Annual Returns 2013 %	2012 % restated (2)	2011 %	2010 %	Annualized 4 yr %
Overall Actual	**$2,020**	**100.0**	**14.5**	**11.6**	**3.0**	**10.2**	**9.7**
Policy Return (3)			*13.4*	*9.3*	*2.2*	*10.5*	*8.7*
Consumer Price Index (4)			*0.9*	*0.8*	*2.9*	*2.0*	*1.7*
Money market							
Short-term Fixed Income	**21**	**1.1**	**1.2**	**1.2**	**1.2**	**1.0**	**1.2**
DEX 91-Day T-Bill Index			*1.0*	*1.0*	*1.0*	*0.5*	*0.9*
Fixed income							
Universe Bonds	**196**	**9.7**	**0.6**	**7.5**	**8.2**	**9.4**	**6.4**
Private Mortgages (1)	**43**	**2.7**	**0.2**	**4.4**	**10.9**	**10.1**	**6.3**
Public Bonds and Mortgages			**0.5**	**6.6**	**9.3**	**9.7**	**6.4**
DEX Universe Bond Index			*(1.2)*	*3.6*	*9.7*	*6.7*	*4.6*
Long-term Government Bonds	**242**	**12.0**	**(5.0)**	**5.3**	**17.1**	**12.9**	**7.3**
DEX Long-term All Government Bond Index			*(7.0)*	*4.0*	*18.8*	*12.1*	*6.5*
Equities							
Canadian Equities	**363**	**18.0**	**15.4**	**11.9**	**(7.9)**	**18.6**	**9.0**
S&P/TSX Composite Index			*13.0*	*7.2*	*(8.7)*	*17.6*	*6.8*
Foreign Equities	**779**	**38.5**	**31.7**	**16.9**	**(4.4)**	**6.8**	**12.0**
MSCI All Country World Index			*31.1*	*13.6*	*(5.3)*	*7.1*	*10.9*
Private Equities (1) (2)	**75**	**3.7**	**5.7**	**7.7**	**6.2**	**6.9**	**6.6**
MSCI All Country World Index			*31.1*	*13.6*	*(5.3)*	*7.1*	*10.9*
Inflation Sensitive							
Real Estate (1)	**136**	**6.7**	**12.2**	**15.3**	**20.9**	**12.1**	**15.1**
IPD Large Institutional Index			*13.0*	*13.8*	*15.9*	*11.2*	*13.4*
Real Return Bonds	**35**	**1.8**	**(12.5)**	**3.1**	**18.1**	**11.0**	**4.3**
Combined Benchmark (5)			*(0.6)*	*6.6*	*9.6*	*11.1*	*6.6*
Infrastructure and Private Debt (1) (2)	**92**	**4.5**	**4.4**	**8.1**	**9.2**	**5.0**	**6.6**
Combined Benchmark (5)			*(0.6)*	*6.6*	*9.6*	*11.1*	*6.6*
Timberland (1) (2)	**38**	**1.9**	**28.4**	**(0.4)**	**20.0**	**7.2**	**13.2**
Combined Benchmark (5)			*(0.7)*	*6.6*	*9.6*	*11.1*	*6.6*

(1) Investment returns are provided by AIMCo. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, timberland, hedge funds and private debt. For these investments measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns and valuations, resulting from new information received after the cut-off date for preparation of the Plan's financial statements, will be reflected in the next reporting period.
(2) Returns for 2012 have been restated as a result of subsequent revisions to last year's reported amounts. The 2012 overall return increased from11.4 per cent to 11.6 per cent. The return for private equities increased from 5.5 per cent to 7.7 per cent, infrastructure returns increased from 5.3 per cent to 8.1 per cent, timberland returns increased from -2.5 per cent to -0.4.per cent. The overall policy benchmark increased from 9.2 per cent to 9.3 per cent as a result of a change in the real estate benchmark.
(3) The policy benchmark is a product of the weighted average policy sector weights and sector returns.
(4) The Consumer Price Index (CPI) on a one month time lag.
(5) Effective June 1, 2011, the combined benchmark for real return bonds, infrastructure and timberland is a combination of the DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011 the DEX Real Return Bond Index

MONEY MARKET AND FIXED-INCOME SECURITIES

At December 31, 2013, money market and fixed income securities totaled 24.9 per cent or $502 million, compared to 25.7 per cent or $450 million at the end of the previous year. Money market securities made up 1.1 per cent of the total investment portfolio while fixed income securities comprised 23.8 per cent. The Plan's investment in fixed income securities consisted of investments in AIMCo's Canadian Long-Term Government Bond Pool, Universe Fixed Income Pool and Private Mortgage Pool.

Summary of Fixed-Income Holdings (by pooled fund)



Pooled Fund Investments (by Issuer) compared to Benchmark Index (in per cent)

Issuer	Canadian Long-term Government Bond Pool	*Benchmark DEX LT All Government Bond Index*	Private Mortgage Pool	Universe Fixed Income Pool	*Benchmark DEX Universe Bond Index*
Federal	**8**	*35*	**-**	**13**	***38***
Provincial	**67**	*63*	**1**	**20**	***29***
Municipal	**4**	2	**-**	**-**	*2*
Corporate	**20**	-	**-**	**55**	*31*
Private debt and mortgages	**-**	-	**99**	**4**	-
Under 1 year	1	-	**-**	**8**	-
	100	*100*	**100**	**100**	*100*

The actual return from the Plan's money market investments in cash and short-term securities was 1.2 per cent in 2013, 0.2 per cent better than the benchmark return of 1.0 per cent.

Short Term Fixed Income	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	1.2	1.0	0.2
Four Years (annualized)	1.2	0.9	0.3

*DEX 91-Day T-Bill Index

In 2013 the loss from the Plan's investment in AIMCo's Canadian Long-Term Government Bond Pool (Public Long Bonds) was 5.0 per cent, 2.0 per cent better than the benchmark loss of 7.0 per cent.

Public Long Bonds	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	(5.0)	(7.0)	2.0
Four Years (annualized)	7.3	6.5	0.8

*DEX Long-term All Government Bond Index

The combined gain from the Plan's investments in AIMCo's Universe Fixed Income Pool (Public Bonds) and Private Mortgage Pool was 0.5 per cent in 2013, 1.7 per cent better than the benchmark loss of 1.2 per cent.

Public Bonds and Private Mortgages	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	0.5	(1.2)	1.7
Four Years (annualized)	6.4	4.6	1.8
*DEX Universe Bond Index			

EQUITIES

Canadian public equity investments

At December 31, 2013, Canadian public equities represented 18.0 per cent of SFPP's total investments or $363 million up from 17.9 per cent or $313 million at the end of the previous year. Most of the Canadian equity portfolio is held in AIMCo's Canadian Equities Master Pool. The Pool includes directly held investments in Canadian public companies and structured equity products which replicate Canadian public equity investments using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX). Directly held interest bearing securities support the notional value of index swaps and futures contracts.

Canadian Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2013 Sector	Benchmark TSX Composite Index %	Over (Under) Benchmark %
Consumer discretionary	5	1
Consumer staples	3	2
Energy	25	-
Financials	35	-
Health care	3	(1)
Industrials	8	-
Information technology	2	-
Materials	12	(1)
Telecommunications	5	1
Utilities	2	1
	100.0	

The actual gain from Canadian equity investments over the year was 15.4 per cent, 2.4 per cent better than benchmark gain of 13.0 per cent.

Canadian Equities	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	15.4	13.0	2.4
Four Years (annualized)	9.0	6.8	2.2
*S&P/TSX Composite Index.			

Foreign equities

At December 31, 2013 foreign equities comprised 38.5 per cent of total SFPP investments or $779 million, up from 36.8 per cent or $640 million at the end of the previous year. Most of the Plan's foreign public equities portfolio is included in AIMCo's Global Equities Master Pool (77 per cent) followed by investments in the Emerging Markets Equity Pool (13 per cent), Portable Alpha U.S. Pool (8 per cent) and other tactical equity allocations (2 per cent).

The Plan's actual gain from foreign equity investments in 2013 was 31.7 per cent, 0.6 per cent more than the benchmark gain of 31.1 per cent in Canadian dollars.

Foreign Equities	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	31.7	31.1	0.6
Four Years (annualized)	12.0	10.9	1.1

*MSCI All Country World Index (ACWI).

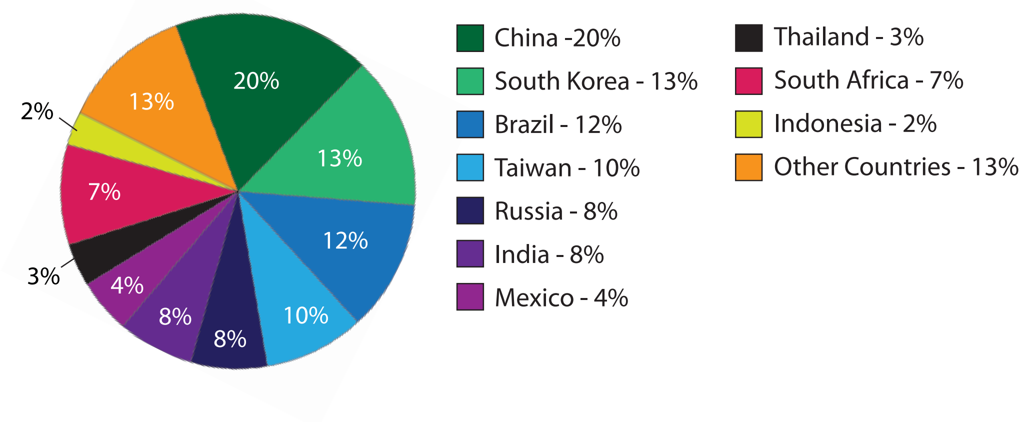
The Global Equities Master Pool includes exposure to publicly traded securities in the U.S, Europe, Australasia and the Far East (EAFE), Emerging Markets and Canada. The global portfolio is managed using directly held securities and structured equity index swaps and futures contracts. The Portable Alpha U.S Pool provides value added exposure to hedge funds. In 2013, the global equities component of foreign equities gained 35.7 per cent.

Global Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2013 Sector	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
Consumer discretionary	12	1
Consumer staples	10	(1)
Energy	9	(1)
Financials	21	1
Health care	11	1
Industrials	12	-
Information technology	12	1
Materials	6	-
Telecommunications	4	-
Utilities	3	-
	100	

Global Equities Master Pool Relative Regional Exposure to Benchmark December 31, 2013 Region	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
United States	55	1
Europe, Australasia & the Far East	41	-
Emerging markets	-	1
Canada	4	(1)
	100	

The Emerging Market Equity Pool is actively managed and includes securities in economies which are in the early stages of development and whose market has sufficient size and liquidity and is receptive to foreign investment. Major emerging markets include countries like China, Brazil, South Korea, Taiwan, Russia and India. The Plan's emerging markets component of foreign equities gained 5.4 per cent in 2013.

Top Ten Countries in Emerging Markets Pool



Private equities

At December 31, 2013, the Plan's investment in AIMCo's global private equity pools comprised 3.7 per cent of the Plan's total investment portfolio, or $75 million, up from 3.5 per cent or $61 million the previous year. The portfolio includes investments in institutionally sponsored international private equity pools managed by experienced external investment advisors with proven track records.

Private equities gained 5.7 per cent in 2013, 25.4 per cent less than the market based publicly traded benchmark gain of 31.1 per cent.

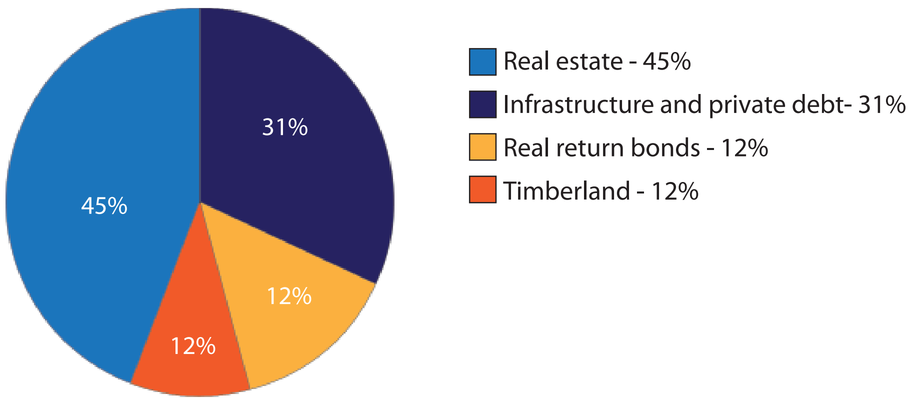
Foreign Equities	Actual Return %	Benchmark Index* %	Value Added (Lost) from Active Management %
One Year	5.7	31.1	(25.4)
Four Years (annualized)	6.6	10.9	(4.3)

*MSCI All Country World Index (ACWI).

INFLATION SENSITIVE INVESTMENTS

At December 31, 2013, the Plan's inflation sensitive portfolio comprised 14.9 per cent of total investments or $301 million compared to 16.1 per cent or $280 million the previous year. The inflation sensitive portfolio consists of real estate, real return bonds, infrastructure, private debt and timberland.

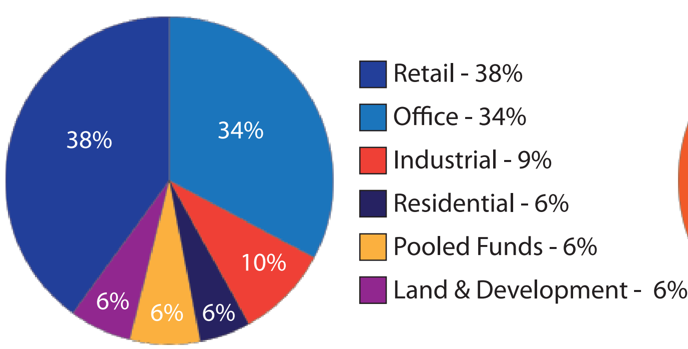
Inflation Sensitive Investments



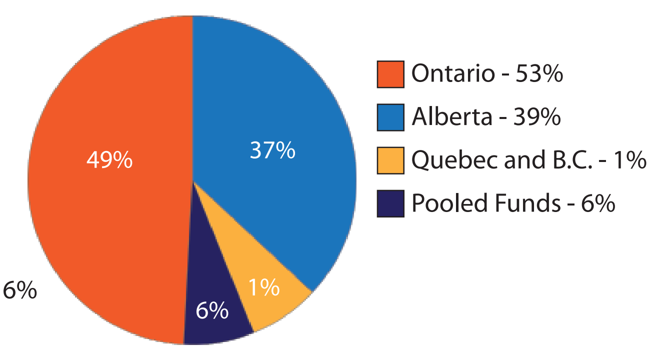
Real estate

At December 31, 2013, the Plan's Canadian and foreign real estate portfolio comprised 6.7 per cent or $136 million of the Plan's total investment portfolio compared to 7.1 per cent or $124 million the previous year. Most of the Plan's real estate investment is held in AIMCo's Canadian Private Real Estate Pool (83 per cent) with 17 per cent held in the Foreign Private Real Estate Pool. Investments in the Canadian Private Real Estate Pool are primarily a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary and Edmonton. The focus is on quality properties, featuring strong locations and tenants.

Canadian Private Real Estate Pool (by Sector)



Canadian Private Real Estate Pool (by Province)



The Plan's actual gain from real estate investments in 2013 was 12.2 per cent, 0.8 per cent less than the benchmark gain of 13.0 per cent.

Real Estate	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	12.2	13.0	(0.8)
Four Years (annualized)	15.1	13.4	1.7

*IPD Large Institutional Index.

Real return bonds

At December 31, 2013 real return bonds comprised $35 million or 1.8 per cent of the Plan's total investment portfolio down from $40 million or 2.6 per cent the previous year. The Plan's investment is held in AIMCo's Real Return Bond Pool. The Pool includes inflation-linked fixed income instruments designed to generate a specified real rate of return (return achieved after adjustments for inflation).

In 2013, real rate of return bonds lost 12.5 per cent, 11.9 per cent less than the policy benchmark loss of 0.6 per cent.

Real Return Bonds	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	(12.5)	(0.6)	(11.9)
Four Years (annualized)	4.3	6.6	(2.3)

*Combined benchmark: DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011, the DEX Real Return Bond Index.

Infrastructure and Private Debt

At December 31, 2013, infrastructure and private debt investments comprised 4.5 per cent of the Plan's total investment portfolio or $92 million compared to 5.1 per cent or $89 million the previous year. The Plan's infrastructure investments are held in AIMCo's private income pools which include investment projects that provide attractive returns plus inflation sensitivity with a long investment horizon. The Private Debt Pool primarily includes Canadian and foreign unrated debt.

In 2013, infrastructure and private debt investments gained 4.4 per cent, 5.0 per cent better than the benchmark loss of 0.6 per cent.

Infrastructure and Private Debt	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	4.4	(0.6)	5.0
Four Years (annualized)	6.6	6.6	0.0

*Cominbed benchmark: DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011, the DEX Real Return Bond Index. Prior to July 1, 2009, CPI plus 6%.

Timberland

At December 31, 2013, timberland investments comprised 1.9 per cent of the Plan's total investment portfolio or $38 million compared to 1.6 per cent or $27 million the previous year. The Plan's investment in timberland is held through AIMCo's Timberland Pool. Timberland investments are held in Canada and globally, including an ownership interest in timber and related land located in the Province of British Columbia and forestry and agricultural land in Australia and New Zealand.

In 2013, timberland investments gained 28.4 per cent, 29.1 per cent more than the benchmark loss of 0.7 per cent.

Timberland Investments	Actual Return %	Benchmark Index* %	Value Added Return %
One Year	28.4	(0.7)	29.1
Four Years (annualized)	13.2	6.6	6.6

*Combined benchmark: DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011, the DEX Real Return Bond Index.

Risk management system

The Board accepts that in order to meet the return objectives of the Plan, the Board must take on risk in the assets in which it invests. The Plan invests in a diverse set of asset types to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for the Plan's investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

Proxy voting

The Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long term value of investments. The Plan entrusts the proxy voting function to AIMCo, its primary service provider. Research and proxy voting have been outsourced by AIMCo to an independent adviser that specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

Financial Statements

The SFPP Financial Statements are prepared by the Ministry of Treasury Board and Finance

SPECIAL FORCES PENSION PLAN
Financial Statements
Year ended December 31, 2013

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2013, and the statements of changes in net assets available for benefits and changes in pension obligation 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 accounting standards for pension plans, 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 the Special Forces Pension Plan as at December 31, 2013, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[original signed by]
Merwan N. Saher, FCA

Auditor General

April 24, 2014

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2013

	($ thousands) 2013	2012
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,019,975	$ 1,743,779
Contributions receivable		
Employers	2,450	2,479
Employees	2,278	2,302
Province of Alberta	373	358
Accounts receivable and accrued investment income	1,455	809
Total Assets	2,026,531	1,749,727
Liabilities		
Accounts payable	420	285
Total Liabilities	420	285
Net assets available for benefits	$ 2,026,111	$ 1,749,442
Pension obligation and deficit		
Pension obligation (Note 5)	$ 2,246,581	$ 2,248,294
Deficit (Note 6)	(220,470)	(498,852)
Pension obligation and deficit	$ 2,026,111	$ 1,749,442

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2013

($ thousands)

	2013			2012
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 7)	$ 110,074	$ 5,203	$ 115,277	$ 111,177
Investment income (Note 8)	262,045	6,969	269,014	190,053
	372,119	12,172	384,291	301,230
Decrease in assets				
Benefit payments (Note 10)	95,371	-	95,371	92,219
Transfers to other plans	110	-	110	36
Investment expenses (Note 11)	9,894	240	10,134	7,447
Administrative expenses (Note 12)	2,007	-	2,007	1,818
	107,382	240	107,622	101,520
Increase in net assets	264,737	11,932	276,669	199,710
Net assets available for benefits at beginning of year	1,705,372	44,070	1,749,442	1,549,732
Net assets available for benefits at end of year	$ 1,970,109	$ 56,002	$ 2,026,111	$ 1,749,442

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2013

($ thousands)

	2013			2012
	Pre-1992	Post-1991	Total	Total
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 51,714	$ 90,137	$ 141,851	$ 134,072
Benefits earned	-	79,243	79,243	76,467
Net experience losses (Note 5c)	-	-	-	7,963
	51,714	169,380	221,094	218,502
Decrease in pension obligation				
Benefits, transfers and interest	59,140	38,196	97,336	94,424
Net decrease due to actuarial assumptions changes (Note 5a)	20,721	104,750	125,471	-
	79,861	142,946	222,807	94,424
Net (decrease) increase in pension obligation	(28,147)	26,434	(1,713)	124,078
Pension obligation at beginning of year	834,097	1,414,197	2,248,294	2,124,216
Pension obligation at end of year (Note 5)	$ 805,950	$1,440,631	$2,246,581	$2,248,294

The accompanying notes are part of these financial statements.

Financial Statements

Notes to the Financial Statements

Year ended December 31, 2013

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan Fund's assets and administration of the plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2011.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2013 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2013 for current service and post-1991 actuarial deficiency were 13.8% of pensionable salary for employers and 12.70% for employees. Of this, contribution rates towards current service were 10.32% of pensionable salary for employers and 9.22% for employees. Contributions towards the post-1991 actuarial deficiency were 3.48% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2013 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

of 0.75% each (refer to the Indexing Fund in note 1b) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2013 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the Income Tax Act. However, a portion of the 2.0% pension that is paid before age 65 is a bridge benefit paid only until age 65. The bridge benefit is 0.6% of the five-year average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. At 65, the bridge benefit is no longer paid. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the pension plan provides that the pension will continue in the amount of 65% to the surviving pension partner for their remaining lifetime. For a member who does not have a pension partner at retirement, the pension is payable for the member's lifetime with a guarantee that the pension payment will not cease until a minimum of 60 monthly payments have been made.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the statement of changes in net assets available for benefits.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the Act Schedule 4).

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2013, COLA at 30% (January 2012: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established under Part 5 of the *Financial Administration Act* of Alberta. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

Investment income includes the following:

i) Income distributions from the pools are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets (see Note 8). Income distributions are based on the Plan's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of units and unrealized gains and losses on units are recorded in the Plan's accounts and included in investment income on the statement of changes in net assets. Realized gains and losses on disposal of units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, including transaction costs, charged to the Plan by AIMCo (see Note 11). Investment expenses are recorded on an accrual basis.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [(a)]			2013	2012
Asset class	Level 1	Level 2	Level 3	Fair Value	Fair Value
Interest-bearing securities					
Cash and short-term securities	$ -	$ 21,575	$ -	$ 21,575	$ 12,479
Bonds and mortgages	-	438,342	42,525	480,867	436,808
	-	459,917	42,525	502,442	449,287
Equities					
Canadian	227,268	136,029	-	363,297	312,828
Global developed	431,650	165,870	81,347	678,867	557,417
Private			75,214	75,214	61,274
Emerging markets	71,943	9,819	18,107	99,869	82,803
	730,861	311,718	174,668	1,217,247	1,014,322
Inflation sensitive					
Real estate	-	-	135,966	135,966	124,049
Infrastructure and private debt and loans	-	-	91,594	91,594	89,006
Real return bonds	-	35,292	-	35,292	40,347
Timberland	-	-	37,434	37,434	26,768
	-	35,292	264,994	300,286	280,170
Total investments	$ 730,861	$ 806,927	$ 482,187	$ 2,019,975	$ 1,743,779

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $730,861 (2012: $639,866).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $806,927 (2012: $700,476). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $482,187 (2012: $403,437).

*** Reconciliation of Level 3 Fair Value Measurements:**

	($ thousands)	
	2013	**2012**
Balance, beginning of year	$ 403,437	$ 364,594
Investment income	58,052	42,629
Purchases of Level 3 pooled fund units	82,826	79,189
Sale of Level 3 pooled fund units	(62,128)	(82,975)
Balance, end of year	$ 482,187	$ 403,437

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Private debt and loans is valued similar to private mortgages. Infrastructure investments are valued similar to private equity investments.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net

of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		December 31, 2013		December 31, 2012	
		($ thousands)	%	($ thousands)	%
Interest-bearing securities					
Money market (cash and short-term securities)	0 - 10%	$ 21,575	1.1	$ 12,479	0.7
Fixed income (bonds and mortgages)	18 - 38%	480,867	23.8	436,808	25.0
Equities	38 - 78%	1,217,247	60.2	1,014,322	58.2
Inflation sensitive	4 - 30%	300,286	14.9	280,170	16.1
		$2,019,975	100.0	$1,743,779	100.0

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality

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of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2013:

Credit rating	2013	2012
Investment Grade (AAA to BBB-)	90%	88%
Speculative Grade (BB+ or lower)	0%	2%
Unrated	10%	10%
	100%	100%

i) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

ii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2013, the Plan's share of securities loaned under this program is $107 million and collateral held totals $113 million. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41% of the Plan's investments, or $836 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.1% (2012: 3.8%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2013:

	($ millions)			
	2013		2012	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 453	$ (45)	$ 346	$ (35)
Euro	90	(9)	82	(8)
Japanese yen	52	(5)	40	(4)
British pound	56	(6)	50	(5)
Australian dollar	26	(3)	21	(2)
Swiss franc	25	(3)	16	(2)
Other foreign currencies	134	(13)	103	(10)
Total foreign currency investments	$ 836	$ (84)	$ 658	$ (66)

c) **Interest Rate Risk**

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.4% (2012: 2.7%).

d) **Price Risk**

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 5.8% (2012: 6.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) **Liquidity Risk**

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2013	2012
Contracts in favourable position (current credit exposure)	22	$ 26,125	$ 19,293
Contracts in unfavourable position	21	(13,435)	(7,563)
Net fair value of derivative contracts	43	$ 12,690	$ 11,730

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $26,125 (2012: $19,293) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2013	2012
Structured equity replication derivatives	$ 15,031	$ 12,260
Foreign currency derivatives	(2,632)	(771)
Interest rate derivatives	439	542
Credit risk derivatives	(148)	(301)
Net fair value of derivative contracts	$ 12,690	$ 11,730

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2013 deposits in futures contracts margin accounts totalled $12,801 (2012: $4,194) and deposits as collateral for derivative contracts totalled $3,961 (2012: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2011 by Mercer (Canada) Limited and was then extrapolated to December 31, 2013.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,246,581 (2012: $2,248,294) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

	2013	2012
	%	
Discount rate	6.70	6.20
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50
Mortality rate**		

* In addition to age specific merit and promotion increase assumptions.

** Mortality rate used for 2013 is the 2014 Canadian Pension Mortality Table (Public Sector) and for 2012 was the Uninsured Pensioner 1994 table projected generationally.

An actuarial valuation of the Plan as at December 31, 2013 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses subsequent to the next valuation.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 5 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2013:

($ thousands)

	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	142,549	0.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	43,602	1.1
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	374,913	5.1

* The current service cost as a % of pensionable earnings as determined by the December 31, 2013 extrapolation is 18.28%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

c) NET EXPERIENCE LOSSES

Net experience losses of $nil (2012: $7,963) reflect the results of the valuation as at December 31, 2011 extrapolated to December 31, 2013.

NOTE 6 DEFICIT

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

($ thousands)

	2013			2012
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (268,685)	$ (230,167)	$ (498,852)	$ (574,484)
Increase in Plan Fund net assets available for benefits	32,824	231,913	264,737	190,428
Increase in Indexing Fund net assets	-	11,932	11,932	9,282
Net decrease (increase) in pension obligation	28,147	(26,434)	1,713	(124,078)
Deficit at end of year	$ (207,714)	$ (12,756)	$ (220,470)	$ (498,852)

($ thousands)

	2013			2012
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 565,412	$ 1,184,030	$ 1,749,442	$ 1,549,732
Increase in Plan net assets available for benefits	32,824	243,845	276,669	199,710
Plan closing net assets available for benefits	$ 598,236	$ 1,427,875	$ 2,026,111	$ 1,749,442

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

	($ thousands) 2013	($ thousands) 2012
Current service		
Employers	$ 40,014	$ 39,210
Employees	35,793	35,050
Unfunded liability		
Employers	16,507	15,478
Employees	16,507	15,478
Province of Alberta	4,877	4,707
Past service		
Employers	204	229
Employees	1,138	676
Transfers from other plans	237	349
	$ 115,277	$ 111,177

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class.

	($ thousands) 2013	($ thousands) 2012
Interest-bearing securities	$ (9,332)	$ 24,899
Equities		
Canadian	48,971	33,380
Foreign	195,912	99,247
Private	6,620	5,866
	251,503	138,493
Inflation Sensitive		
Real estate	15,788	17,060
Real return bonds	(5,022)	1,299
Infrastructure and private debt and loans	7,043	8,094
Timberland	9,034	208
	26,843	26,661
	$ 269,014	$ 190,053

Investment income includes realized gains and losses from disposal of pool units, unrealized gains and losses on units and income distributions from the pools.

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

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NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2013	2012	2011	2010	2009
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.4	9.3	2.2	10.5	13.5
Value added return (loss) by investment manager	1.1	2.3	0.8	(0.3)	-
Total return on investments [(a)]	**14.5**	**11.6**	**3.0**	**10.2**	**13.5**
Other sources [(b)]	1.3	1.3	0.8	0.6	(1.4)
Per cent change in net assets [(c)]	**15.8**	**12.9**	**3.8**	**10.8**	**12.1**
Per cent change in pension obligation [(c)]	**-**	**5.8**	**3.9**	**18.7**	**5.5**
Per cent of pension obligation supported by net assets	**90**	**78**	**73**	**73**	**78**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.5% (PBR: 9.7%), ten years is 6.9% (PBR: 6.6%) and twenty years is 7.4% (PBR: 7.2%). The total return reported for 2012 was revised by AIMCo to conform to valuation changes made by AIMCo subsequent to the completion of the 2012 financial statements. The total return in 2012 increased by 0.2% from 11.4% to 11.6% attributed to an increase in the value added return by the investment manager.

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) the percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2013	**2012**
Retirement benefits	$ 87,912	$ 83,786
Disability benefits	371	351
Termination benefits	5,098	6,513
Death benefits	1,990	1,569
	$ 95,371	$ 92,219

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2013	2012
Amount charged by:		
AIMCo [(a)]	$ 10,056	$ 7,369
Alberta Treasury Board and Finance [(b)]	78	78
Total investment expenses	$ 10,134	$ 7,447
Increase in expenses	36.1%	45.5%
Increase in average investments under management	14.5%	8.4%
Investment expense as a percent of:		
Dollar earned	3.77%	3.92%
Dollar invested	0.54%	0.45%
Investment expenses per member	$ 1,524	$ 1,144

(a) For investment management services. Please refer to AIMCo's financial statements for a detailed breakdown of expenses. In 2013, investment expenses include external performance fees of $2,177. In 2012 and prior years, external performance fees were netted against investment income. External performance fees for 2012 totalled $1,685.

(b) For investment accounting and Plan reporting services.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2013	2012
General administration costs	$ 1,563	$ 1,240
Board costs	99	81
Actuarial fees	165	215
Audit fees	-	43
Other professional fees	180	239
	$ 2,007	$ 1,818
Member service expenses per member	$ 302	$ 279

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $12,141 (2012: $9,265) or $1,826 (2012: $1,423) per member and 0.60% (2012: 0.53%) of net assets under administration.

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NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2013	2012
The following amounts were paid:		
Remuneration		
Chair	$ 15,678	$ 15,961
Members	32,991	28,026
Travel, training and conference expenses		
Chair	6,034	9,363
Members	44,964	27,212

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the Act (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall on, the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. For 2013 there was no transfer.

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $1,902,397 at December 31, 2013 (2012: $1,711,929), comprising of $558,536 (2012: $553,070) Pre-1992 and $1,343,861 (2012: $1,158,859) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 6.96% of pensionable salary shared equally between employees and employers (3.48% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2013 (see Note 1b).

Effective January 1, 2011 awards of COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2013 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.