

Lakehead University
Pension Investment Fund
Financial Statements
For the year ended December 31, 2012

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Independent Auditor's Report

To the Administrator Lakehead University Pension Investment Fund

We have audited the accompanying financial statements of Lakehead University Pension Investment Fund, which comprise the statement of financial position as at December 31, 2012, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements have been prepared by management based on the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act of Ontario.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act of Ontario, 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (cont'd)

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012, and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act of Ontario.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 in the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Administrator of the Fund to meet the requirements of the Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Administrator of the Fund and the Financial Services Commission of Ontario and should not be used by parties other than the Administrator of the Fund or the Financial Services Commission of Ontario.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
June 7, 2013

Lakehead University Pension Investment Fund Statement of Financial Position

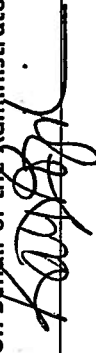
For the year ended December 31

2012

2011

	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total
Assets					
Cash	\$ 1,060,123	\$ 173,008	\$ 1,233,131	\$ 28,878	\$ 204,809
Investments, at market value (Note 3, Schedules 1 and 2) (cost 2012- \$202,385,686 ; cost 2011- \$201,048,023)	178,682,173	27,858,701	206,540,874	170,628,115	198,093,548
HST receivable	6,420	1,048	7,468	2,650	435
Sponsor's contributions receivable	-	-	-	438,325	73,815
Employees' contributions receivable	-	-	-	246,089	75,385
	179,748,716	28,032,757	207,781,473	171,491,110	199,135,056
Liabilities					
Accounts payable (Note 4)	247,661	33,700	281,361	183,892	30,184
Net assets available for benefits	\$ 179,501,055	\$ 27,999,057	\$ 207,500,112	\$ 171,307,218	\$ 198,920,980

On behalf of the Administrator



The accompanying notes are an integral part of these financial statements.

Lakehead University Pension Investment Fund
Statement of Changes in Net Assets Available for Benefits

For the year ended December 31

2012

2011

	Professional and Administrative Staff Plan (Ontario) Registration Number 246058	Employee Pension Plan (Ontario) Registration Number 526921	Professional and Administrative Staff Plan (Ontario) Registration Number 246058	Employee Pension Plan (Ontario) Registration Number 526921	Total	Total
Income (loss)						
Investment income	\$ 5,336,939	\$ 870,970	\$ 6,207,909	\$ 1,004,033	\$ 7,120,801	\$ 7,120,801
Net realized gains on investments	4,779,081	779,929	5,559,010	926,046	6,567,705	6,567,705
Net unrealized change in market value of investments	6,934,073	176,288	7,110,361	(2,426,508)	(15,182,534)	(15,182,534)
Other cash receipts - pension transfers (Note 5)	19,908	-	19,908	37,837	268,346	268,346
Contributions - employees	2,347,378	648,943	2,996,321	622,681	2,874,130	2,874,130
- sponsor	4,415,584	618,801	5,034,385	589,803	4,403,013	4,403,013
	23,832,963	3,094,931	26,927,894	753,892	6,051,461	6,051,461
Expenses						
Administration and professional fees (Note 7)	679,783	110,765	790,548	229,872	1,634,411	1,634,411
Increase in net assets before benefits paid	23,153,180	2,984,166	26,137,346	3,893,030	4,417,050	4,417,050
Benefits Paid						
Pension benefits and refunds (Note 6)	15,292,985	2,265,229	17,558,214	1,591,711	13,367,617	13,367,617
Increase (decrease) in net assets available for benefits	7,860,195	718,937	8,579,132	(1,067,691)	(8,950,567)	(8,950,567)
Net assets available for benefits, beginning of year	171,307,218	27,613,762	198,920,980	28,811,675	207,871,547	207,871,547
Interfund Pension Transfers (Note 5)	333,642	(333,642)	-	130,222	-	-
Net assets available for benefits, end of year	\$ 179,501,055	\$ 27,999,057	\$ 207,500,112	\$ 171,307,218	\$ 27,613,762	\$ 198,920,980

The accompanying notes are an integral part of these financial statements.

Lakehead University Pension Investment Fund

Notes to Financial Statements

December 31, 2012

1. Description of Plans

The Lakehead University Pension Investment Fund ("the Fund") consists of two plans. The following description of the Professional and Administrative Staff Plan ("PP") and the Lakehead University Employee Pension Plan ("LUEPP") is a summary only. For more complete information, reference should be made to the Plan Agreements.

The assets of the Fund are held by Northern Trust, Advisory Research Inc., Addenda Capital (formerly Cooperators), CGOV Asset Management, Dimensional Fund Advisors Canada ULC, Jarislowsky Fraser Limited, Letko Brosseau & Associates Inc. and State Street Global Advisors act as managers for the Fund and have discretionary investment authority.

The Fund is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

Professional and Administrative Staff Plan

The Plan is a contributory defined contribution pension plan. The Plan provides for a defined benefit guarantee for service prior to January 1, 1997. Under the Plan, contributions of 6.5% (2011 - 6.5%) of earnings were made by faculty and librarians and 8.05% (2011 - 8.05%) by the Plan sponsor. For other members, contributions of 8.05% (2011 - 8.05%) of earnings were made by employees and 8.05% (2011 - 8.05%) by the Plan sponsor.

Lakehead University Employee Pension Plan

The Plan is a contributory defined contribution pension plan. Under the Plan, employees contribute 7.9% (2011 - 7.9%) of their earnings except for contracted employees who contribute 7.15% (2011 - 7.15%) of their earnings. The Plan sponsor matches employee contributions. For contract lecturers, contributions of 6.5% (2011 - 6.5%) of earnings were made by employees and 7.9% (2011 - 7.9%) by the Plan sponsor.

2. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under Section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario. These regulations require pension plans to adhere to the provisions of *Section 4600 - Pension Plans in Part IV - Accounting Standards for Pension Plans* of the Canadian Institute of Chartered Accountants (CICA) Handbook, although they permit the exclusion of the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2012

2. Significant Accounting Policies (cont'd)

Investments

Investments are stated at fair value which is based on closing quoted market prices.

Dividend income is recognized as of the ex-dividend date. The purchase and sale of securities are recorded on a trade date basis.

Realized gains and losses from security transactions are based on the average cost of the security.

Use of Estimates

The preparation of financial statements in accordance with the accounting principles described in the significant accounting policies requires the Fund Administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the Fund Administrator's best estimates as additional information becomes available in the future.

Foreign Currency Translation

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2012

3. Investments

	Market Value	2012 Cost	Market Value	2011 Cost
Canadian equities	\$ 27,046,338	\$ 24,714,716	\$ -	\$ -
Canadian unit trust equities	91,488,735	91,312,667	103,199,374	105,751,226
US unit trust equities	24,999,766	24,989,521	21,698,877	24,751,736
Canadian unit trust bonds	54,796,156	53,765,998	65,742,440	63,032,543
US partnerships	8,102,607	7,495,512	7,435,851	7,495,512
Accrued income	107,272	107,272	17,006	17,006
	\$ 206,540,874	\$ 202,385,686	\$ 198,093,548	\$ 201,048,023

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2012

3. Investments (cont'd)

Individually significant investments

The cost or market value of the following investments exceeds 1% of the cost or market value of total pension fund investments at December 31, 2012:

	2012 Cost	2012 Market Value
Canadian Equity Fund		
Jarislowsky Fraser Investments - Equity Fund (1)	\$ 34,088,611	\$ 36,302,903
Letko Brosseau - RSP Equity Fund (2)	11,793,979	10,918,193
Bond Fund		
Addenda Capital (6)	24,536,166	24,961,297
Jarislowsky Fraser Investments Bond Fund (1)	29,229,832	29,834,859
Letko Brosseau - RSP Balanced Fund (2)	37,454,430	36,291,933
Foreign Equity Fund		
Advisory Research - Small Cap Value Fund II (3)	7,495,512	8,102,607
State Street Global Advisors - Global Equity Unit Trust (5)	15,971,381	18,112,359
Dimensional Fund Advisors - International Small Cap (4)	9,024,241	6,893,508
Miscellaneous - Other		
Jarislowsky Fraser Investments - Short Term Investments (1)	7,975,647	7,975,647
CGOV - Canadian common stocks (7)	24,815,867	27,147,508

- (1) Jarislowsky Fraser investments are pooled funds administered by Jarislowsky Fraser Limited.
- (2) Letko Brosseau investments are pooled funds administered by Letko, Brosseau & Associates Inc.
- (3) Advisory Research investments are pooled funds administered by Advisory Research Inc.
- (4) Dimensional Fund investments are pooled funds administered by Dimensional Fund Advisors Canada ULC
- (5) State Street Global Advisors investments are a pooled fund administered by State Street Global Advisors, Ltd.
- (6) Addenda Capital (formerly Co-operators) investments are a pooled fund administered by Addenda Capital.
- (7) CGOV investments are a segregated fund administered by CGOV Asset Management

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2012

4. Accounts Payable

	2012	2011
Investment Management		
Addenda Capital	\$ 17,456	\$ 22,266
CGOV Asset Management	28,676	-
Letko, Brosseau & Associates Inc.	113	113
Jarislowsky Fraser Limited	45,199	55,625
State Street Global Advisors, Ltd.	9,755	8,803
 Other		
BDO Canada LLP - Audit	9,500	8,175
Eckler Ltd. - Actuarial	57,053	25,324
AON Hewitt - Actuarial	-	-
Proteus - Investment Advisors	26,993	26,993
Northern Trust - Custodial Services	13,572	12,255
Ontario Pension Commission	11,699	10,002
Administration	61,345	44,520
	\$ 281,361	\$ 214,076

5. Pension Transfers

Pension transfers into the Lakehead University Plans were \$19,908 (2011 - \$268,346).

Transfers between the Lakehead University Employee Pension Plan and the Professional and Administrative Staff Plan were \$333,642 (2011 - \$130,222). Funds are transferred for members of the Lakehead University Employee Pension Plan that transfer to the Professional and Administrative Staff Plan when changing benefit classification effective January 1, 2012.

6. Pension Benefits and Refunds

	2012	2011
Pension benefits	\$ 7,482,404	\$ 7,539,655
Refunds	10,075,810	5,827,962
	\$ 17,558,214	\$ 13,367,617

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2012

7. Administrative Expenses and Professional Fees

	2012	2011
Investment management fees	\$ 359,748	\$ 1,111,574
Actuarial fees	171,211	192,780
Investment counselling	107,972	107,971
Commodity tax consulting	-	17,148
Audit fees	10,840	9,013
Custodial service fees	52,702	58,489
Other - Pension Commission	11,699	10,002
Administration	83,887	115,269
Goods and services tax rebate	(7,511)	12,165
	\$ 790,548	\$ 1,634,411

8. Related Party Transactions

The Pension Fund does not hold any securities of the employer sponsor or its related parties.

9. Income Taxes

The Fund is not subject to income tax since it is a Registered Pension Trust as defined by the Income Tax Act (Canada).

10. Statement of Cash Flows

A statement of cash flows is not presented since the cash flow information is readily apparent from other financial statements or is adequately disclosed in the notes to the financial statements.

11. Financial Instruments

The carrying value of HST, sponsor's and employees' contributions receivable, and accounts payable approximates their fair value because of their short-term nature.

Risks arising from financial instruments:

Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's financial position and revenue. This risk arises from the Fund's investments whose returns are linked to interest rates. The Plan invests in pooled funds that may hold debt instruments linked to interest rates.

Lakehead University Pension Investment Fund

Notes to Financial Statements

December 31, 2012

11. Financial Instruments (cont'd)

Foreign Currency Risk

Foreign currency exposure arises from the Fund's holdings of foreign equity or debt instruments. The Fund invests in mutual funds that may hold debt or equity instruments denominated in a foreign currency and as such would be exposed to fluctuations in currency risks. All of the Fund's investments are denominated in Canadian or US Dollars. US Dollar investments are translated into Canadian Dollars at the market rate at the end of the fiscal period. Investments denominated in foreign currencies are noted on the Schedule of Cost and Market Value of Investments by type (Schedule 1). An increase or decrease of 1% in the US exchange rate would result in an increase or decrease of net assets available for benefits of \$331,000.

Market Risk

Concentrations of market risk exist when a significant portion of the portfolio is invested in securities with similar characteristics and/or similar economic, political or other conditions that may prevail. The Fund Administrator believes that the investments in which the Fund invests spreads the market risk over different market sectors. The Fund Administrator uses a variety of investment management companies to ensure the portfolio is balanced to help mitigate market risk. An increase or decrease of 1% of the Fund's investment portfolio would result in an increase or decrease of net assets available for benefits of \$2,065,000.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum credit exposure to the Fund is represented by the fair value of the contributions receivable and investments presented in the Statement of Net Assets Available for Benefits. A portion of the Fund's cash equivalents are invested in short term debt instruments guaranteed by the Federal and certain provincial governments.

Financial Instruments Fair Value Hierarchy

Disclosure of a three-level hierarchy for fair value measurements is based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1:

For securities valued based on unadjusted quoted prices in active markets for identical assets.

Level 2:

For securities valued based on inputs, other than quoted prices included in Level 1, that are observable for the asset, either directly or indirectly.

Level 3:

For securities valued based on inputs that are based on unobservable market data.

As at December 31, 2012 and 2011 the Fund's investments are Level 1 within the fair value hierarchy. There were no transfers between levels during the year.

Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2012

12. Capital Management

The Fund's capital is its net assets available for benefits. The Fund's objective when managing capital is to safeguard the Fund's ability to continue to provide pension and related payments to its members. The Fund is not exposed to any externally imposed capital restrictions.

13. Actuarial Valuation

In the event that an actuarial valuation discloses a going concern unfunded liability or a solvency deficiency as defined by the Pension Benefits Act (1987), the University will be obligated to make additional contributions as required by the Act. The most recent actuarial valuation of the Plan at December 31, 2009, reported that based on then current provisions, the Plan had both a going concern unfunded liability and a solvency deficiency, and that additional University contributions would be required upon filing. The University is making special payments under Regulation 990 of the Pension Benefits Act of \$126,600 monthly to the Plan. These payments are expected to continue until the next scheduled actuarial valuation for the year ended December 31, 2012, at which point they will be reassessed. At the time of preparation of these financial statements, the 2012 actuarial valuation was not completed.

14. Contingent Liability

The Financial Services Commission of Ontario (FSCO) has raised issues with a Plan amendments made to the Professional and Administrative Staff Plan in 1992, 2000 and 2007. The amendments provided that pensioner increases would be granted only to the extent that the funds in the Retirement Account of the Plan are sufficient to support the increase. FSCO has indicated that the amendment may be considered void unless a court agrees the amendment is necessary to rectify the language of the Plan to reflect its original intent, or the Plan is further amended to comply with requirements of the Pension Benefits Act.

The University has retained legal counsel to assist with the matter. While the ultimate outcome is uncertain, it is possible that the amendments should not have been applied to pensions which commenced before January 1, 2008 (scenario 1 below) or, alternatively, before February 25, 2000 (scenario 2 below). In each case, the assets of the Plan would be reduced by an account payable for pension increases that should have been paid between 2000 and 2010, and future obligations (for additional benefits payable after December 31, 2010) would be increased. The Plan Actuary has estimated the potential impact as follows:

	Account Payable for Pension Increases Since 2000	Increases in Future Obligations for Pension Increases After 2010
For all pensions commencing before January 1, 2008 (Scenario 1)	\$8.4 million	\$20.4 million
For all pensions commencing before February 25, 2000 (Scenario 2)	\$4.1 million	\$7.6 million

Lakehead University Pension Investment Fund

Schedule 1 - Cost and Market Value of Investments by Type

December 31	2012		2011	
	Cost	Market value	Cost	Market Value
Equities				
Common stock				
Canada - CAD	\$ 24,714,716	\$ 27,046,338	\$ -	\$ -
Unit trust equity				
Canada - CAD	91,312,667	91,488,735	105,751,226	103,199,374
Foreign - USD	24,989,521	24,999,766	24,751,736	21,698,877
Total unit trust equity	116,302,188	116,488,501	130,502,962	124,898,251
Total equities	141,016,904	143,534,839	130,502,962	124,898,251
Fixed Income				
Unit trust bonds				
Canada - CAD	53,765,998	54,796,156	63,032,543	65,742,440
Partnerships				
Foreign - USD	7,495,512	8,102,607	7,495,512	7,435,851
Accrued income	202,278,414	206,433,602	201,031,017	198,076,542
	107,272	107,272	17,006	17,006
Total investments	\$ 202,385,686	\$ 206,540,874	\$ 201,048,023	\$ 198,093,548

Lakehead University Pension Investment Fund
Schedule 2 - Cost and Market Value of Investments
by Investment Manager

For the year ended December 31

2012

2011

	Cost	Market Value	Cost	Market Value
Advisory Research Inc.	\$ 7,495,512	\$ 8,102,607	\$ 7,495,512	\$ 7,435,851
Addenda Capital (formerly Cooperators)	24,536,166	24,961,297	36,428,955	37,652,972
Dimensional Fund Advisors Canada ULC	9,024,241	6,893,508	8,786,456	5,766,231
CGOV Asset Management	24,815,887	27,147,508	-	-
Jarislowsky Fraser Limited	71,294,090	74,113,469	85,520,399	89,773,040
Letko, Brosseau & Associates Inc.	49,248,409	47,210,126	46,834,415	41,515,803
State Street Global Advisors	15,971,381	18,112,359	15,982,286	15,949,651
	\$ 202,385,686	\$ 206,540,874	\$201,048,023	\$198,093,548