DRAFT Financial Statements of

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

Year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of The University of Western Ontario

We have audited the accompanying financial statements of the University of Western Ontario Retirement Income Fund, which comprise the statement of net assets as at December 31, 2012 the statement of changes in net assets available for retirement income payments for the year then ended, and notes, comprising 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 the Canadian accounting standards for pension plans; this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an 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 our 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, we consider 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of net assets of the University of Western Ontario Retirement Income Fund as at December 31, 2012 and its changes in net assets available for retirement income payments for the year then ended in accordance with Canadian accounting standards for pension plans.

Chartered Accountants, Licensed Public Accountants

June 4, 2013

London, Canada

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

Statement of Net Assets

DRAFT

December 31, 2012, with comparative information for 2011

	2012	2011
Assets		
Cash	$ 1,407,512	$ 2,147,917
Accrued income	51,039	63,954
Investment in Master Trust (note 4(a))	203,352,932	196,495,611
	204,811,483	198,707,482
Liabilities		
Accrued expenses	425,748	435,901
Retirement income payments payable	1,352,223	1,230,502
	1,777,971	1,666,403
Net assets available for retirement income payments	$ 203,033,512	$ 197,041,079

See accompanying notes to financial statements.

On behalf of the Board of Governors:

_____ Chair _____ Secretary

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

Statement of Changes in Net Assets Available for Retirement Income Payments

DRAFT

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Investment income (loss) (note 4(b))	$ 14,742,315	$ (231,739)
Increase in net assets:		
Transfers (note 6)	16,470,441	18,988,819
Transfers in to fund	158,506	877
	16,628,947	18,989,696
Decrease in net assets:		
Benefit payments (note 7)	(24,785,009)	(21,637,129)
Fund managers' fees (note 10)	(56,442)	(102,140)
Agency fees	(113,000)	(113,000)
Administrative costs recovered by the University (note 9)	(307,991)	(298,834)
Custodian fees	(94,727)	(99,116)
Transaction costs	(21,660)	(27,367)
	(25,378,829)	(22,277,586)
Net increase (decrease)	5,992,433	(3,519,629)
Net assets available for retirement income payments, beginning of year	197,041,079	200,560,708
Net assets available for retirement income payments, end of year	$ 203,033,512	$ 197,041,079

See accompanying notes to financial statements.

1. Description of program:

The University of Western Ontario Retirement Income Fund (the "UWO RIF", "RIF" or "Fund") is a periodic payment program that provides income to former members of the University of Western Ontario Pension Plans for Academic Staff and Administrative Staff (the "University pension plans"). The Northern Trust Company, Canada is the trustee of the Fund which is managed by The University of Western Ontario (the "University"). The Fund was initiated effective October 1, 2000. The following description of the Fund is a summary only. For more complete information, reference should be made to the Declaration of Trust, registered under the Income Tax Act, Canada, registration number RIF 1220.

Former members of the University pension plans may allocate all or a portion of their entitlement accrued under the pension plans to either a Registered Retirement Income Fund ("RRIF"), a Life Income Fund ("LIF") or a Locked in Retirement Income Fund ("LRIF"). These transfers may be made directly from the pension plans or from another registered retirement vehicle trusteed by another financial institution, provided the funds originated in the University pension plans. Surviving spouses and former spouses of the former members of the University pension plans may also make transfers to the Fund, provided the funds originated from the University pension plans. Funds held in the pension plans and that transferred in from outside the Province of Ontario are subject to the transfer requirements of their originating province's pension legislation and as such may not be eligible for transfer into the UWO RIF.

Upon death, the annuitant's total accumulated entitlement is equal to the amount allocated plus the pro-rata share of net investment earnings less cumulative retirement income payments that have been made. If the annuitant has a spouse at the date of death, that individual may continue to receive periodic payments or may transfer the funds to another registered retirement vehicle on a tax deferred basis. If there is no spouse at the date of death, the balance of the funds are payable to the last named beneficiary in a taxable lump sum payment. At any time, the annuitant may choose to transfer his or her funds to a registered retirement vehicle trusteed by another financial institution or use the funds to purchase a life annuity.

1. Description of program (continued):

Funds are invested at the discretion of the annuitant into units of the Master Trust for the Academic and Administrative Staff Pension Plans and Retirement Income Fund Program (the "Master Trust"). The investment policies of the Master Trust are determined jointly by the Academic and Administrative Pension Boards. The Master Trust consists of eighteen separate investment pooled funds as follows:

- Money Market Fund
- Target Date Fund 2014
- Target Date Fund 2016
- Target Date Fund 2018
- Balanced Income Fund
- Balanced Growth Fund
- Diversified Bond Fund
- Canadian Bond Fund
- Canadian Long Term Bond Fund
- Immunized Bond Fund - Admin
- Immunized Bond Fund - Academic
- Diversified Equity Fund
- Canadian Equity Fund
- U.S. Equity Hedged Fund
- U.S. Equity Unhedged Fund
- Non-North American Equity Fund
- Socially Responsible Global Equity Fund
- Liquidating Trust Fund

The Balanced Income Fund and the Balanced Growth Fund are portfolios that hold units of the Diversified Bond Fund and Diversified Equity Funds. They were established in September, 2001.

The Master Trust holds units in each of the eighteen investment pooled funds. These pooled funds contain investments in units of external pooled funds and individual securities.

Some of these investment funds are not available for the annuitants of the UWO RIF since they do not yet qualify as registered investments under the Income Tax regulations (Balanced Funds, Diversified Bond Fund, Immunized Funds, and Non-North American Equity Fund). The investment options that are offered to the annuitants of the RIF have all been registered effective October 1, 2000 with Canada Revenue Agency as Quasi-Mutual Fund Trusts.

The contributions or transfers of each annuitant are credited to an individual account in the annuitants' name and accumulated together with pro-rata net investment earnings. This account is fully vested and payable to the annuitant on termination of retirement income fund or to the annuitants' beneficiary on death.

1. Description of program (continued):

Annuitants can choose, as frequently as each month, the proportion of his or her personal account which is to be invested in any of the active investment funds. The valuation of each investment fund is established by the fund manager at the end of each month based on policies set by the Pension Board.

2. Basis of presentation:

(a) Basis of presentation:

The Fund is a participant in the University of Western Ontario Master Trust which was established by the University to facilitate the collective management of investment assets for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Fund of the University.

The Fund has prepared these financial statements in accordance with Canadian accounting standards for pension plans.

In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Fund to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of The Canadian Institute of Chartered Accountants' ("CICA") Handbook - Accounting or Canadian accounting standards for private enterprises ("ASPE") in Part II of the CICA Handbook - Accounting. The Fund has chosen to comply on a consistent basis with ASPE.

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans and present the information of the Fund as a separate financial reporting entity independent of the University and the Fund's annuitants.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for investments and derivative financial instruments which are measured at fair value through the statement of changes in net assets available for retirement income payments.

3. Significant accounting policies:

(a) Revenue:

Interest earned on investments, within the pooled funds held by the Master Trust, is recorded on an accrual basis. Dividends are recorded as income, within the pooled funds held by the Master Trust, on the date the dividend is declared. Investment income is allocated each month among the annuitants' accounts under the assumption that all interfund transfers of assets occurred at the month end following the request for transfer. Transfers into the Fund are allocated to annuitants' records effective the end of the month in which the transfer occurs.

(b) Financial assets and financial liabilities:

Under a management and administration agreement for the Fund, the Academic and Administrative Staff Pension Boards of the University of Western Ontario have been delegated the responsibility for investing the Fund's assets. The assets available for investment are pooled with the Academic Staff Pension Plan and the Administrative Staff Pension Plan in the Master Trust.

Investment transactions are recorded on the trade date of the transactions, which is the date that the Master Trust becomes a party to the contractual provisions of the instrument. Transaction costs are recognized in the statement of changes in net assets available for retirement income payments when incurred.

The assets of the Master Trust are exposed to market, interest rate, exchange rate and liquidity risks. The Master Trust uses derivatives with the primary investment objective to gain market exposure on a passive basis and to manage currency risk at the portfolio level. As a policy, the Master Trust does not speculate in currencies when using derivatives. The notional amounts of these derivative financial instruments is not recognized in the financial statements when initiated. Unrealized gains or losses on these instruments are recognized in the financial statements. The Master Trust's present use of derivative financial instruments is restricted to pooled funds that invest in exchange traded, unleveraged, U.S. and foreign equity index futures, currency forwards and swaps.

3. Significant accounting policies (continued):

(b) Financial assets and financial liabilities (continued):

Investments are stated at their fair value. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for retirement income payments as net unrealized change in fair value of investments. On sale of an investment, the difference between the carrying amount of the asset and consideration received is recognized in the statement of changes in net assets available for retirement income payments as a net realized gain (loss) on sale of investments.

All other financial assets and liabilities, being cash, accrued income, accrued expenses and retirement income payments payable are measured at amortized cost.

(c) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In determining fair value, the Master Trust has early adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CICA Handbook. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Master Trust uses closing market price as a practical expedient for fair value measurement.

When available, the Master Trust measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Master Trust establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

3. Significant accounting policies (continued):

(c) Fair value measurement (continued):

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Within the Master Trust all changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for retirement income payments as part of the net unrealized change in fair value of investments. Fair values of the underlying investments held within the pooled funds are determined as follows:

(i) Publicly traded bonds, debentures and equities are valued at published closing market quotations where available.

(ii) Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

(iii) Guaranteed investment certificates, term deposits maturing after a year, mortgages and real estate debentures are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quality and maturity.

(iv) Units in pooled funds are valued based on published unit values supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

(v) Illiquid securities are valued based on a calculation performed by the investment manager using a discounted cash flow model.

3. Significant accounting policies (continued):

(d) Unit valuation:

Annuitants are issued units in the Master Trust based on the unit value at the end of the month in which any transfers are made. Investment income, net of custodian fees and fund managers' fees, is credited to unit holders each month. Redemptions are made each month to recover trustee fees and operating costs.

Fund units are redeemed at net asset market value per unit at the end of the month in which the request for redemption is made by the annuitant. The redemption amount is paid in the following month and includes interest for the interim period.

(e) Foreign exchange:

These financial statements are presented in Canadian dollars, which is the Fund's functional currency. Transactions in foreign currencies are accounted for using the exchange rates in effect at the transaction date. At year end, investments in foreign currencies are accounted for at the rates of exchange in effect at year end and the resulting unrealized gains or losses are included in the net unrealized change in fair value of investments.

(f) Capital risk management:

The main objective of the Fund is to sustain a certain level of net assets in order to meet the retirement income obligations of the University. The Fund fulfills its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the University. The Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds transferred in to the Fund in accordance with the approved SIPP. The main use of the net assets is for retirement income payments to annuitants. There are no regulatory requirements relating to the level of net assets to be maintained by the Fund.

(g) Related party transactions:

Related party transactions with the University, in the form of administrative cost recoveries, are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

3. Significant accounting policies (continued):

(h) Estimates:

The preparation of financial statements requires management 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 changes in net assets available for retirement income payments during the year. Actual amounts could differ from these estimates.

4. Investments and investment income:

(a) The following table provides details of the underlying investments held within the Master Trust, representing a 18.3% (2011 - 18.5%) position in the Master Trust based on units held by individual members of the Fund:

	2012		2011	
	Cost	Market	Cost	Market
Short-term:				
Money Market Fund	$ 7,603,504	$ 7,606,881	$ 7,384,990	$ 7,385,476
Bonds:				
Target Date Fund 2012	-	-	7,575,397	8,960,532
Target Date Fund 2014	8,344,343	9,304,306	9,073,620	10,224,933
Target Date Fund 2016	10,028,805	10,871,278	5,096,991	5,614,131
Target Date Fund 2018	4,910,960	4,984,793	-	-
Canadian Bond Fund	38,780,239	54,265,022	40,403,933	56,063,930
Long Term Bond Fund	11,432,063	12,602,060	11,640,267	13,339,498
Equities:				
Diversified Equity Fund	72,232,333	79,683,159	73,198,247	72,252,674
Canadian Equity Fund	16,708,077	17,026,091	18,658,870	17,647,763
Socially Responsible Investments	-	-	428,248	450,287
U.S. Equity Hedged Fund	1,457,400	1,736,657	1,115,150	1,215,762
U.S. Equity Unhedged Fund	2,014,514	2,330,132	790,724	868,618
Liquidating Trust	3,249,334	2,942,553	3,284,041	2,472,007
	$176,761,572	$203,352,932	$178,650,478	$196,495,611

4. Investments and investment income (continued):

(b) The investment income within the Master Trust is all from pooled investment funds and consists of the following:

	2012	2011
Interest:		
Securities lending	$ 15,446	$ 15,084
Short-term notes	178,254	229,688
Cash balances	267,889	320,787
Bonds and debentures:		
Government	1,046,656	985,500
Corporate	820,547	767,769
Dividends:		
Domestic	7,384,084	5,581,054
Foreign	469,551	783,825
Net realized gain on sale of investments	29,844,875	13,690,780
Net unrealized change in fair value of investments	56,900,993	(34,805,779)
	$ 96,928,295	$ (12,431,292)
Allocated to:		
Academic Staff Pension Plan	$ 54,248,343	$ (5,315,427)
Administrative Staff Pension Plan	27,937,637	(6,884,126)
Retirement Income Fund	14,742,315	(231,739)
	$ 96,928,295	$ (12,431,292)

4. Investments and investment income (continued):

(c) The maturity dates of individual debt securities held by the Master Trust consists of the following:

2012

	One year or less	One to five years	Five to ten years	More than ten years	No maturity date	Total $	Total %
Short-term:							
Individual holdings	$ 38,580,435	$ -	$ -	$ -	$ -	$ 38,580,435	8.2
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	3,472,530	86,774,872	39,494,784	57,433,450	-	187,175,636	39.6
Corporate bonds	32,473,040	17,982,700	11,198,811	20,776,886	-	82,431,437	17.4
Individual holdings Global:							
Government bonds	1,914,278	36,835,334	38,555,373	27,746,720	-	105,051,705	22.2
Corporate bonds	1,450,467	17,199,484	26,909,833	14,012,689	-	59,572,473	12.6
	$ 77,890,750	$158,792,390	$116,158,801	$119,969,745	$ -	$472,811,686	100.0
Percentage of total	16.4%	33.6%	24.6%	25.4%	-	100.0%	

4. Investments and investment income (continued):

(c) (continued):

2011

	One year or less	One to five years	Five to ten years	More than ten years	No maturity date	Total $	Total %
Short-term:							
Individual holdings	$ 59,710,650	$ -	$ -	$ -	$ -	$ 59,710,650	11.9
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	18,671,054	96,709,864	42,023,358	48,477,830	-	205,882,106	41.0
Corporate bonds	21,727,567	15,731,893	12,305,615	26,964,376	-	76,729,451	15.2
Individual holdings Global:							
Government bonds	5,111,526	22,431,931	39,946,166	44,561,231	-	112,050,854	22.3
Corporate bonds	272,471	19,100,735	19,609,377	9,122,274	-	48,104,857	9.6
	$105,493,268	$153,974,423	$113,884,516	$129,125,711	$ -	$502,477,918	100.0
Percentage of total	21.0%	30.6%	22.7%	25.7%	-	100.0%	

4. Investments and investment income (continued):

(d) The weighted average market yield rates for individual debt securities of the Master Trust consists of the following:

2012

	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	1.3%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	3.4%	1.3%	1.9%	3.1%
Canadian corporate bonds	0.4%	2.2%	3.0%	4.3%
Global government bonds	2.5%	1.6%	1.9%	3.0%
Global corporate bonds	0.8%	2.5%	3.2%	4.7%

2011

	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	0.1%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	1.1%	1.7%	2.5%	3.8%
Canadian corporate bonds	1.8%	2.7%	3.8%	4.5%
Global government bonds	1.2%	1.3%	2.5%	4.7%
Global corporate bonds	1.6%	3.1%	4.2%	5.0%

5. Individually significant investments:

The following information is provided in respect of individual investments in the Master Trust with a cost or market value in excess of 1% of the cost or fair value of the Master Trust as at December 31, 2012, as required by the Pension Benefits Act (Ontario).

The Master Trust consists of eighteen separate investment pools as described in note 1. Within these pools some investments are in units of pooled funds and some investments are individual securities.

	Cost	Market
Bonds:		
Pooled Funds:		
UWO SSGA Canadian Bond Fund	$ 99,575,083	$141,653,267
UWO Alliance Global Plus Bond Fund	120,049,863	167,204,047
Equities:		
Pooled Funds:		
Greystone Canadian Equity Fund	69,311,825	71,130,959
Connor Clark & Lunn Core Fund	72,523,673	71,715,997
Beutel Canadian Equity Fund	64,332,628	72,942,639
SSGA S&P 500 U.S. Equity Fund, Hedged	70,889,409	97,395,069
SSGA S&P 500 U.S. Equity Fund, Unhedged	12,684,493	14,634,423
SSGA S&P 400 Midcap	8,176,962	11,877,159
PanAgora Small Cap Core Equity	12,025,902	11,907,193
Alliance Bernstein Equity Cap	88,507,889	77,414,946
T. Rowe Price Global Equity Fund	37,281,583	40,916,407
Harris Associates Global Large Cap LP	31,312,033	42,974,033
MFS International Equity Fund	70,293,768	78,425,439
2333635 Ontario Inc.	40,000,000	41,461,600

6. Transfers:

Total transfers received by the Fund from the University pension plans are as follows:

	2012	2011
From the:		
Academic Staff Pension Plan	$ 12,311,985	$ 16,966,312
Administrative Staff Pension Plan	4,158,456	2,022,507
	$ 16,470,441	$ 18,988,819

Annuitants are allowed to redistribute past transfers among the investment funds. They may also choose which investment fund(s) that periodic retirement income payments should be made from.

7. Benefit payments:

	2012	2011
Retirement benefit payments	$ 13,860,110	$ 14,372,980
Termination benefit payments	9,699,349	7,264,149
Death benefit payments	1,225,550	-
	$ 24,785,009	$ 21,637,129

8. Income taxes:

The Fund is governed by the Income Tax Act, Canada. Provided that all assets are invested and administered as qualified investments for Registered Retirement Income Funds, the Fund is not liable for any income taxes.

9. Administrative costs recovered by the University:

Non-investment administrative expenses for participants of the Fund are incurred by the University on behalf of the Fund and are funded by various methods as follows:

(i) A portion of the costs are recovered, by the University, from annuitants through monthly redemptions of investments from the individual annuitants' accounts.

(ii) All remaining costs are paid by the University out of the corporate benefits budget.

The following summarizes the total non-investment administrative expenses incurred by the University for the Fund and the recovery of those costs.

	2012	2011
Administrative expenses incurred:		
Salaries and benefits	$ 144,258	$ 147,264
Other professional fees	78,104	77,604
HST accrual on deemed services	45,196	18,904
Systems and software	16,276	18,438
Audit fees	5,429	5,212
Office supplies and equipment	3,942	1,965
Professional development and membership	2,374	1,816
	295,579	271,203
Recoveries:		
Paid by (recovered from) the University out of corporate benefits budget	(12,412)	(27,631)
Administrative costs recovered by the University	307,991	298,834
	295,579	271,203
	$ -	$ -

As at December 31, 2012, administrative costs to be recovered by the University of $307,991 (2011 - $298,835) have been accrued but not yet paid.

10. Fund managers' fees:

Fund managers' fees include any fees paid by the custodian to the various fund managers. Fund managers' fees of certain pooled funds are netted against the unit value of those pooled funds.

11. Financial instruments:

(a) Fair values:

The fair values of investments are as described in note 4(a). The fair values of other financial assets and liabilities, being cash, accrued income, accrued expenses and retirement income payments payable approximate the carrying values due to the short-term nature of these financial instruments.

Fair value measurements recognized in the statement of net assets are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

All of the Trust's investments have been classified as Level 2. There were no changes in the classification of any investments during 2012.

11. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market. As all of the Fund's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for retirement income payments, all changes in market conditions will directly affect the change in net assets available for retirement income payments. Market price risk is managed by the Administrator through construction of a diversified portfolio of instruments traded on various markets and across various industries. In addition, market price risk may be hedged using derivative financial instruments such as futures contracts.

(ii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Fund invests in financial instruments and enters into transactions denominated in U.S. dollars. Consequently, the Fund is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars. The Fund's overall currency positions and exposures are monitored on a regular basis by the Administrator.

(iii) Interest rate risk:

A portion of the Fund's financial assets and liabilities are interest bearing and as a result, the Fund is subject to a certain level of interest rate risk. In general, bond returns are sensitive to changes in the level of interest rates, with longer term bonds being more sensitive to interest rate changes than shorter term bonds.

(iv) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Fund maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Fund is able to liquidate investments to meet its retirement income payments or other obligations.