

Board of Directors' Meeting of August 28, 2007 Website Summary

Payment of Interest – Syncrude Custom Pricing Agreement

Decision

The Board of Directors ordered that interest be paid on special dividends that are being held by the WCB pending resolution of a dispute between Syncrude and three of its contractors at the rates designated in the *Judgment Interest Act*.

Rationale

In 2002, the Provincial Government enacted a Regulation (s. 18) allowing the Board of Directors to order the payment of interest in specific cases or classes of cases under the *Workers' Compensation Act*. The WCB has no authority to pay interest in any cases other than those specifically authorized by the Board of Directors under s. 18 of the Regulations:

- 18(1) The Board of Directors may, by order, specify
 - (a) a class or classes of cases in which interest is payable by the Board in respect of amounts owing by the Board, and
 - (b) the rate, manner and terms of the interest payable.
- (2) The Board is authorized to pay interest only in the circumstances specified in an order referred to in subsection (1).

Reason for Payment of Interest: Syncrude is currently in discussions with the three contractors regarding the disposition of certain special dividends. If the discussions fail, the issue might have to be determined by mediation, arbitration or the courts. Such proceedings could take a protracted period of time.

Pending resolution of the dispute between Syncrude and its contractors, the WCB has decided to withhold the special dividends of all contractors participating in the Syncrude CPA in order to preserve the rights of all parties potentially affected by the dispute. The amount of money to be withheld is significant and these funds clearly do not belong to the WCB. As such, the WCB recommends that payment of interest is appropriate in the present case.

Investment Management Strategic Plan (2008-2010)

Decision

The Board of Directors approved the Investment Management Strategic Plan (2008-2010).

Rationale

The Investment Management Strategic Plan allows the Board of Directors to approve the strategy for managing the investment portfolio from a total portfolio and multi-year perspective. Implementation of the plan can then be prudently delegated to management.

This is the second annual update to the Investment Management Strategic Plan since the first plan was approved by the Board of Directors in September 2005.

The key elements of the plan are a continuation of the gradual asset mix shift to the long term policy allocation targets, a strategy for implementing an allocation to the infrastructure asset class, and some evolution of the core/satellite manager structure that has been a hallmark of investment management activity since 2005.

Also evident in the plan is that the next few years will see a shift in focus from implementation of new satellite mandates to a greater focus on portfolio management. This shift is a planned part of the evolution of the portfolio and will ensure that WCB-Alberta has the resources and processes for optimum portfolio management and delivering consistent investment performance.

The updated Strategic Plan is consistent with achievement of the goals and objectives in the Investment Policy and the risk tolerance of the Board. Approval of the Strategic Plan will give management the authority to proceed with implementation as described.

Annual Investment Policy Review

Decision

The Board of Directors approved the amendments to the Investment Policy, effective October 1, 2007.

Rationale

The Investment Policy was completely redrafted and approved by the Board of Directors in 2005. The Finance Committee Terms of Reference and Application 8, Administration of the Investment Policy, require an annual review of the policy.

The proposed amendments can be grouped into two broad categories: there are amendments that will accommodate portfolio management changes and there are a number of amendments that are more of a housekeeping nature.

One of the principles guiding the content of the Investment Policy was that the boundaries for management are clearly set by having a comprehensive permitted investments and constraints application in the policy. This gives the Board of Directors a very clear understanding of the types of investments that may be utilized within the portfolio.

It was clear when the policy was redrafted in 2005 that minor amendments would be required as management implements the core/satellite manager structure and new satellite mandates are included in the portfolio. Rather than approve a wide open policy upfront, it is a better practice to make required amendments over time. This ensures that management clearly explains the purpose of the amendments and the reasons for expanding the permitted investments and the addition of new investment vehicles to the portfolio.

The proposed amendments that relate to portfolio management are found in Applications 4, 5 and 6, as follows:

1. Application 4: A change in the minimum credit rating from BBB- to B-. This change will allow for an exposure to high yield bonds within the Alberta Investment Management bond pool and the new global bond mandate that will be funded in the fourth quarter of 2007. Constraints on the total exposure to high yield bonds and to individual high yield issuers are also included.
2. Application 4: The inclusion of infrastructure as a permitted investment. This will permit the implementation of an infrastructure mandate in late 2007 or early 2008.
3. Application 4: The inclusion of short selling as a permitted investment activity. This will allow for adding mandates that include short selling as an investment strategy for increasing returns and/or reducing risk. Details on how short selling will be utilized is included in the 2008-2010 Investment Management Strategic Plan.
4. Application 5: Infrastructure is included as a specific asset class with a policy target of 2%. The bond and Canadian equity allocations are each reduced by 1% to provide for the 2% infrastructure target.
5. Application 5: The groupings of the asset classes are changed to have three main categories; fixed income, equity and inflation sensitive. These groupings are becoming the most common practice for institutional investors with inflation sensitive liabilities.
6. Application 6: The benchmark for the infrastructure asset class is included with the other asset class benchmarks. The benchmark is Canada Consumer Price Index (CPI) + 6.0%. This type of benchmark is used for infrastructure because of a lack of market based alternatives. The benchmark reflects the expectation that returns from this asset class will be positively correlated with inflation.

Ongoing oversight of the investment portfolio is an important role for the Finance Committee, which is fulfilled through reporting on investment compliance, performance and portfolio activities. The investment monitoring report that is presented quarterly to the Finance Committee will be changed to include reporting on the proposed amendments outlined above. The compliance section is designed to clearly show the portfolio characteristics relative to the Investment Policy constraints.

There are also a number of housekeeping amendments to the Investment Policy. The most significant is the removal of Application 7, Transitional Asset Mix. With the transition from equities to bonds now complete and the remaining asset mix changes being in less liquid asset classes (real estate and infrastructure), this application is no longer needed.

When the Investment Policy was redrafted in 2005, an expert consultation was conducted. In 2005, consultation was not required but was deemed appropriate given the substantive changes at that time.

For the amendments, an expert review was completed by an independent investment consulting company.