Alberta WCB Policies & Information	Chapter: **GENERAL POLICIES**	
	Subject: **INVESTMENT POLICY**	
	Authorization: **BoD Resolution 2018/07/42**	Date: **November 27, 2018**

ADDENDUM A: INVESTMENT POLICY GLOSSARY

Actuarial required real rate of return
The rate of return, net of inflation, that the investment portfolio needs to earn in order to generate sufficient funds to pay WCB's liability as estimated by the Actuary. The Actuarial Required Real Rate of Return is also known as the net discount rate since it is the net rate used in the actuarial valuation to discount future cash flows to present value.

Appraisal value
An estimate of the fair market value of an asset that is not regularly traded. Some methods of valuation include discounted cash flows, cost approach, comparative sales approach, and income approach.

Collateral
An asset that is promised or given to a creditor to guarantee the discharge of an obligation by the debtor. Upon default, the creditor may seize the asset and sell it to pay off the loan.

Commingled vehicles
Also known as pooled funds; hold assets from a number of different investors, which are then all invested into one portfolio, to be managed by one investment manager.

Custodian
A custodian provides safekeeping for investment securities, settles investment transactions initiated by the investment managers, collects income, provides accounting information and portfolio valuations on a periodic basis, and administers other corporate actions (e.g. stock splits) related to these securities.

Direct placement
Selling a new issue not by offering it for sale publicly, but by placing it directly with one of several institutional investors.

Domiciled
A permanent legal residence and the country in which taxes are paid.

Funding level volatility
The fluctuation of the ratio of total asset to total liabilities over time.

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Implementation strategies
Implementation strategies, in an investment management context, are the strategies employed to actually invest the assets in each asset class.

Inflation sensitive
Inflation sensitive assets have prices that are sensitive to changes in general inflation. These are usually assumed to include real return bonds, real estate, infrastructure and some commodities.

Leverage the Portfolio
To intentionally gain additional investment exposure that increases the total portfolio market risk.

Mandate
The classification of a portfolio manager's investment strategy with regards to its specific style, and the market sector in which it invests. Examples include active Canadian equity growth mandates, and high yield fixed income mandates.

Marked to market
Both the buyer and seller of derivatives contracts, or the providers of market priced collateral, realize all gains and losses to their offsetting positions, as changes occur in the market price of the underlying security, immediately as settlement to their margin accounts is done on a daily or more frequent basis.

Market inefficiencies
Assumes stocks are not fairly priced, and that psychological factors, fads, and noise trading are other variables that have an effect on the price. Historical studies have found a number of stock market anomalies that contradict the efficient market hypothesis. Examples include the January effect, small firm effect, and the P/E ratio effect.

Market value
At a given time, the price in which investors can buy or sell a security or asset. The market value tells you what you would have made if you sold your investment at that time. Market value is determined from observable prices for regularly traded assets and by appraisal for privately held assets.

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Over the counter
The buying and selling of securities that are not listed on an organized exchange. Trading is handled by dealers through negotiation rather than through the use of a stock exchange's auction system.

Overlay strategies
A strategy of using derivatives to change portfolio characteristics (asset mix, currency exposure) that avoids disrupting the activities of money managers.

Passive index replication
Managing the investments of a fund with the objective of matching the return and risk characteristics of a broad-based index. A passive strategy assumes that the marketplace will reflect all available information in the price paid for securities, and therefore, does not attempt to find mispriced securities.

Peer universe
A set of risk and return data that can be used to compare investment performance to peer groups. The average returns of each fund within the group are ordered, and each fund or manager receives a percentile ranking depending on relative performance within the comparison universe.

Private debt
A direct offering of fixed income or debt securities to a limited number of institutional investors, with financing being negotiated between the borrower and lender directly.

Prudent person rule
A fiduciary must discharge all duties with the care, skill, prudence and diligence that a prudent person would exercise in managing the affairs of others.

Recognized bond rating agency
Nationally recognized statistical rating organizations (NRSROs) provide credit ratings for money market funds, bond funds, and unit investment trusts. These ratings provide investors with a measure to some of the risks associated with investing in a rated fixed income fund. Examples include, A.M. Best Company Inc., Dominion Bond Rating Service Ltd., Fitch Inc., Moody's Investors Service, and the Standard & Poor's Division of the McGraw Hill Companies Inc..

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Securities lending
A loan of a security from one broker/dealer to another, who must eventually return the same security as repayment. The loan is often collateralized. Securities lending allows an investor in possession of a particular security to earn enhanced returns on the security through lending fees.

Segregated fund
A single fund managed by an external manager that includes the financial assets of only one investor. The assets are all held by the investors custodian.

Short selling
Short selling refers to selling an over valued security that is not owned, by borrowing the security, so that profits can be realized as the security depreciates in value over time.

Short term speculative trading
Is the practice of engaging in risky financial transactions in an attempt to profit from short term fluctuations in market value. Speculative trading is done without regard to the underlying financial attributes or fundamental value of a security and instead is done with the focus purely on price movements.

Soft dollar commission
Is an arrangement whereby a portion of the commission paid by an investment manager for brokerage is earmarked to pay for research services provided by a third party.

Value added targets
The set objective of an individual investment manager to perform above the passive benchmark, typically measured in basis points (100th of 1 percent). For example, a Canadian equity manager may have a value added target of 100 basis points above the return of the S&P/TSX Composite Index.

Previous versions

- Policy 0104 Part II - April 2018
- Policy 0104 Part II - January 2018
- Policy 0104 Part II - January 2017
- Policy 0104 Part II - January 2016
- Policy 0104 Part II - August 2015
- Policy 0104 Part II - January 2015
- Policy 0104 Part II - January 2014

ADDENDUM A: INVESTMENT POLICY GLOSSARY

- Policy 0104 Part II - November 2011
- Policy 0104 Part II - November 2010
- Policy 0104 Part II - November 2009
- Policy 0104 Part II - November 2008
- Policy 0104 Part II - October 2007
- Policy 0104 Part II - October 2005
- Policy 0104 Part II - January 2004
- Policy 0104 Part II - April 2002
- Policy 0104 Part II (1st Issue) - June 1998