

**Alberta WCB
Policies &
Information**

Chapter:

GENERAL POLICIES

Subject:

INVESTMENT POLICY

Authorization:

Date:

BoD Resolution 2018/07/42

November 27, 2018

APPLICATION 4: PERMITTED INVESTMENTS AND CONSTRAINTS

1. *How does WCB select investments for inclusion in the portfolio?*

WCB will select investments based on their contribution to the portfolio’s risk and return rather than in isolation. Managing the portfolio considering the total portfolio risk and return is consistent with the prudent person rule for fiduciary prudence.

2. *Why does the policy define permitted investments and implementation strategies?*

Defining the permitted investments and constraints aids communication and understanding of the types of investments, implementation strategies and the important limits on areas such as credit quality and holding size.

3. *What are WCB’s permitted investments and constraints?*

Permissible investments, consistent with the prudent person rule, are investments that adhere to investment and lending policies and standards and procedures that a reasonable and prudent person would apply to a portfolio of investments to avoid undue risk of loss and obtain a reasonable return.

Consistent with the above, the Board has identified the following permissible investments and associated quantity and quality constraints:

Cash & Short Term

- All fixed term debt securities with a term to maturity of less than 1 year.
- All short-term securities must have a minimum credit rating of R1-Low, or equivalent, as rated by at least one recognized bond rating agency, at the time of purchase.
- A negative allocation to cash & short term may be achieved through borrowing via a bank line, banker’s acceptances, or issuing short-term notes. Short-term borrowing is permitted as a tool to efficiently manage cash flows and to avoid the untimely sale of assets should liquidity be required on short notice.

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3. *Permitted investments and constraints (continued)*

Bonds

- All fixed term debt securities with a term to maturity of greater than 1 year. This includes government, corporate, asset backed debt securities, and commercial mortgages.
- Excluding federal and provincial bonds (including government guaranteed bonds), no more than 20% of the market value of the total fixed income holdings may be invested in securities with credit ratings below A-, or equivalent, as rated by at least one recognized bond rating agency.
- Excluding federal and provincial bonds (including government guaranteed bonds), no more than 10% of the market value of the total fixed income holdings may be invested in securities with credit ratings below BBB- or equivalent, as rated by at least one recognized bond rating agency.
- No more than 3% of the market value of the total fixed income holdings may be invested in securities with credit ratings below B- or equivalent.
- Excluding federal and provincial bonds (including government guaranteed bonds), no more than 5% of the market value of the total fixed income holdings may be invested in bonds of a single issuer and its subsidiary companies rated BBB- or higher.
- Excluding federal and provincial bonds (including government guaranteed bonds), no more than 2% of the market value of the total fixed income holdings may be invested in bonds of a single issuer and its subsidiary companies that is unrated or with a credit rating below BBB-.

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3. *Permitted investments and constraints (continued)*

- No more than 40% of the market value of the total fixed income holdings shall be invested in bonds issued by non-Canadian issuers, denominated in any currency, including Canadian dollars.
- No more than 20% of the market value of the total fixed income holdings shall be invested in bonds denominated in currencies other than Canadian dollars.
- No more than 20% of the market value of the total fixed income holdings shall be invested in unrated private debt.
- No more than 20% of the market value of the total fixed income holdings shall be invested in direct commercial mortgages.
- No more than 30% of the market value of the total fixed income holdings shall be invested in unrated private debt and direct commercial mortgages.

Real Return Bonds:

- All bonds that provide a rate of return that is linked to an inflation index. This includes government and corporate issued real return bonds.
- The constraints listed under bonds also apply to real return bonds.

Canadian Equity:

- Publicly traded equities, including income trusts and convertible securities, listed or domiciled in Canada.
- No more than 10% of the market value of the Canadian equity holdings shall be invested in one company or subsidiary company.

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3. *Permitted investments and constraints (continued)*

Global Equity:

- Publicly traded equities, listed or domiciled in developed countries as defined by inclusion in the Morgan Stanley Capital International (MSCI) World Index, excluding Canada.
- No more than 10% of the market value of the global equity holdings shall be invested in one company or subsidiary company.

Emerging Market Equity:

- Publicly traded equities, listed or domiciled in emerging market countries, defined as countries not included in the MSCI World Index.
- No more than 20% of the market value of the emerging market equity holdings shall be invested in one company or subsidiary company.

Real Estate:

- Includes Canadian and Non-Canadian real estate, via direct placement, participation in institutional commingled vehicles or publicly traded real estate investment trusts (REITs).
- Real estate holdings must be diversified by geography and property type.

Infrastructure:

- Includes infrastructure assets, via direct placement, participation in institutional commingled vehicles, or publicly traded infrastructure related securities.
- Infrastructure assets must be diversified by geography and asset type, except during the initial implementation of this asset class.

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3. *Permitted investments and constraints (continued)*

Timberland:

- Includes land and growing stock where the primary purpose is for growing and selling timber.
- Timberland assets may be acquired via direct placement, participation in institutional commingled vehicles, or publicly traded timber related securities.

4. *Can the portfolio invest in derivative securities?*

Derivative securities may be held in the portfolio to:

- Replicate holding or selling any of the permitted investments, individually or in aggregate.
- Protect the portfolio from any credit, currency, interest rate, equity market risk, or other financial risk.

Derivatives may be exchange traded or transacted over-the-counter. For over-the-counter transactions counterparties must have a minimum credit rating of A-, or equivalent, as rated by at least one recognized credit rating agency.

Derivatives will not be used for short term speculative trading or to leverage the portfolio.

5. *Is the use of leverage permitted in management of the portfolio?*

Leverage is permitted, however as with all of the investments and investment strategies, the use of leverage is subject to the prudent person rule, and accordingly management’s assessment of the impact to risk and expected return on the portfolio.

6. *Will WCB lend the securities in the portfolio?*

The investments of the portfolio may be loaned for the purpose of generating income. Loans will be secured according to industry practice, with collateral, marked to market daily, that is in excess of 100% of the value of the securities lent.

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7. *Will WCB borrow and short sell securities?*

- WCB may short sell individual securities, by way of borrowing securities, or otherwise, to increase the return and/or reduce the risk in the portfolio.
- All short sales shall provide for the right to terminate the transaction and recover collateral.
- Total short selling within individual mandates must not exceed the total value of all long positions within that mandate.
- No more than 5% of the total portfolio market value may be short sold on individual securities.
- No more than 1% of the total portfolio market value may be short sold on any one company or subsidiary company.
- The use of short selling is subject to the prudent person rule, and accordingly management’s assessment of the impact to risk and return on the portfolio.
- The constraints in this section are not applicable to positions assumed in asset mix or foreign currency overlays.

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BoD Resolution 2018/07/42**November 27, 2018****APPLICATION 4: PERMITTED INVESTMENTS AND CONSTRAINTS****8. *What are WCB's permitted implementation strategies?***

- Portfolio mandates may be defined by an asset class, sub-asset class or multiple asset classes. Regardless of the mandate structure, the portfolio asset mix minimum and maximums must be adhered to in aggregate.
- Mandates may include passive index replication and active mandates with varying degrees of expected deviation from the benchmark indices.
- Mandates with benchmarks not included in the target asset mix are permitted, so long as the investments are in compliance with this Policy.
- Mandates may be managed internally, in partnership with Alberta Investment Management Corporation (AIMCo), under contract with external managers, or through privately or publicly offered pooled or mutual funds. Management will consider the resources required by type of mandate, an assessment of expected performance, risks, costs, the impact on the total portfolio strategy, and other intangibles when the choice of service providers and vehicles is considered.
- Where segregated funds of an insurance company, pooled funds or mutual funds (“pooled funds”) are utilized as an implementation strategy, the investment policy of the pooled fund must not be materially inconsistent with this Policy.
- Overlay strategies to manage portfolio exposures, such as asset allocation and currency, are permitted subject to the constraints contained in this Policy.

9. *When is this policy application effective?*

This policy application (Application 4 – Permitted Investments and Constraints) is effective January 1, 2019, except when noted otherwise in a specific policy section(s).

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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](#)
- [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 2006](#)
- [Policy 0104 Part II - October 2005](#)
- [Policy 0104 Part II \(1st Issue\) - June 1998](#)