

**Alberta WCB
Policies &
Information**

Chapter:

GENERAL POLICIES

Subject:

INVESTMENT POLICY

Authorization:

Date:

BoD Resolution 2018/07/42

November 27, 2018

APPLICATION 5: ASSET MIX AND FOREIGN CURRENCY EXPOSURE

1. *What are WCB's Long Term Asset Mix Targets and Minimum and Maximum allocations to each asset class?*

Long-Term Asset Mix

	Percentage		
	Minimum	Target	Maximum
<u>Fixed Income</u>			
Cash & Short Term	(3)	3	8
Bonds & Mortgages	17	<u>27</u>	45
Total Fixed Income	20	30	50
<u>Equity</u>			
Canadian Equity	5	10	15
Global Equity	10	20	30
Emerging Market Equity	0	<u>5</u>	10
Total Equity	20	35	45
<u>Inflation Sensitive</u>			
Real Return Bonds	4	8	15
Real Estate*	8	13	18
Infrastructure*	5	12	17
Timberland*	<u>0</u>	<u>2</u>	<u>5</u>
Total Inflation Sensitive	20	35	45
 Total Investment Portfolio		<u>100</u>	

* No more than 32% of the market value of the total investment portfolio will be allocated to private inflation sensitive assets.

The actual allocations when compared to asset mix targets, minimums and maximums are all based on market value and adjusted for the exposures created by derivative securities when utilized for management of the asset mix.

**Alberta WCB
Policies &
Information**

Chapter:

GENERAL POLICIES

Subject:

INVESTMENT POLICY

Authorization:

Date:

BoD Resolution 2018/07/42

November 27, 2018

APPLICATION 5: ASSET MIX AND FOREIGN CURRENCY EXPOSURE

- 2. *Why are there minimum and maximum allocations to each asset class and to total fixed income, total equity and total inflation sensitive?***

The asset mix was selected based on WCB’s required return and risk tolerance. The minimum and maximum allocations to each asset class allow for changes due to market movements and for taking tactical positions to increase return or reduce risk when deemed appropriate.

Significant deviations from the target asset mix may expose the portfolio to unacceptable risk levels and/or a higher probability of earning returns below expectations. The minimum and maximum allocations ensure that the asset class weights are close enough to the targets to generally preserve the intended risk and return characteristics.
- 3. *How will the policy asset mix targets be determined for performance measurement purposes during transitions to new policy asset mix targets?***

For performance measurement purposes the target asset mix for each calendar year will be contained in the Investment Management Strategic Plan that is approved annually by the Board of Directors.
- 4. *Why does WCB have foreign currency exposure?***

The portfolio contains allocations to global equities, emerging market equities, globally diversified infrastructure and foreign denominated bonds. By owning securities denominated in foreign currencies the portfolio assumes an exposure to changes in the exchange rate for those currencies.

**Alberta WCB
Policies &
Information**

Chapter:

GENERAL POLICIES

Subject:

INVESTMENT POLICY

Authorization:

Date:

BoD Resolution 2018/07/42

November 27, 2018

APPLICATION 5: ASSET MIX AND FOREIGN CURRENCY EXPOSURE

5. *What is WCB’s policy on hedging foreign currency exposure?*

The target hedge ratios for the various asset classes that contain foreign currency exposure are as follows:

Global Equity: 25% for US dollars, 50% for other major currencies

Emerging Market Equity: unhedged

Foreign Bonds: 100% hedged

Developed Market Infrastructure and Timberland: 100% hedged

Emerging Market Infrastructure and Timberland: unhedged

6. *Why has WCB chosen to hedge currency exposures and why at different hedge ratios for each asset class?*

Empirical studies support that currency hedging is an efficient method of reducing short term volatility. WCB is sensitive to short term volatility because of the potential impact on its funded position and premiums. The target hedge ratios vary by asset class based on the volatility of the asset class, the cost of hedging, the currency characteristics and the expected relationships between currencies and asset prices.

7. *Does the policy permit active management of the foreign currency exposure?*

Internal management and the external managers of foreign currency denominated assets have the discretion to actively manage currency exposures, subject to the prudent person rule, and with consideration of the risk and return characteristics of the strategy.

8. *When is this policy application effective?*

This policy application (Application 5 – Asset Mix and Foreign Currency Exposure) is effective January 1, 2019, except when noted otherwise in a specific policy section(s).

**Alberta WCB
Policies &
Information**

Chapter:

GENERAL POLICIES

Subject:

INVESTMENT POLICY

Authorization:

Date:

BoD Resolution 2018/07/42

November 27, 2018

APPLICATION 5: ASSET MIX AND FOREIGN CURRENCY EXPOSURE

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