APPLICATION 6: MONITORING AND CONTROLS

1.	***What control systems are in place to safeguard investment assets and ensure the portfolio is being effectively managed?***	WCB's internal controls, custodian and investment manager internal controls, a compliance monitoring program, portfolio monitoring by internal staff, independent performance measurement and the annual external audit are the key control systems.
2.	***What is the arrangement for safekeeping and investment recordkeeping?***	All investment assets are held by WCB's custodian(s). The custodian safekeeps all assets, executes all trades and transactions, collects all income and dividends and provides recordkeeping for the portfolio. The custodian has legal responsibility for safekeeping and correct execution of transactions.
3.	***Is the portfolio recordkeeping and accounting subject to an external audit?***	As a service organization, the custodian is subject to an annual compliance audit of the internal controls over its safekeeping, record keeping, and reporting functions, which is performed in accordance with generally accepted auditing standards. Review of the accounting for the investment portfolio is a component of the Province of Alberta Office of the Auditor General's (OAG) annual external audit of WCB. The OAG tests only to the extent needed for an audit opinion.
4.	***What is the frequency of compliance reporting and to whom is it reported?***	Investment Policy and contractual compliance is reported to Senior Management and the Finance Committee of the Board on a quarterly basis. Compliance with the Investment Policy is reported to the Board of Directors on a quarterly basis.
5.	***How will rates of return be evaluated?***	Investment rates of return will be evaluated versus absolute return expectations, relative to index benchmarks and relative to peer universes.

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6. ***How will the absolute rates of return be evaluated?***

The absolute rates of return will be evaluated versus the actuarial required real rate of return as used in WCB's actuarial valuation.

Evaluating the rate of return versus the actuarial required real rate of return is an evaluation of the performance of the Policy and the asset mix decision.

7. ***How will relative rates of return be evaluated?***

The rates of return will be evaluated versus passive index benchmarks for each asset class and the total portfolio. This is the primary method of evaluating the rate of return performance of Management, the Investment Department staff and the external investment managers.

The index benchmarks for each asset class are as follows:

Cash & Short Term	FTSE Canada 91-day Treasury Bill Index
Bonds	FTSE Canada Universe Bond Index
Real Return Bonds	FTSE Canada Real Return Federal Bond Index
Canadian Equity	S&P/TSX Composite Capped Index
Global Equity	MSCI World Index excluding Canada (Currency 50% hedged, U.S. Dollar 25% hedged)
Emerging Market Equity	MSCI Emerging Markets Index
Real Estate	REALpac/IPD Canada Property Index

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	Relative rates of return (continued)	Infrastructure & Timberland	50% FTSE Canada Real Return Federal Bond Index and 50% MSCI All Country World Index (ACWI) (Currency 100% hedged)

The total portfolio benchmark is constructed with the above listed asset class benchmarks and is weighted by the policy target asset mix or the transitional asset mix targets.

8. ***How will rates of return relative to peer universes be evaluated?***

The rates of return will be evaluated versus a peer universe at the asset class level (where practicable) only. The objective is that the asset class performance will be in the top half of the peer universe.

Evaluation of rates of return versus a peer universe is not a valid comparison for the total portfolio because of differences in asset mix that are driven by risk tolerance and liability characteristics. It is also not valid at the manager level because of varying goals and objectives between manager mandates.

Peer universe evaluation is a performance indicator and an additional tool for evaluating performance, but should be used with caution and should not be used as a primary evaluation of either the policy or the implementation.

9. ***How will the rates of return of individual investment managers be evaluated?***

The rates of return of each individual manager mandate will be evaluated versus the relevant index benchmark and value added targets specified in manager contracts.

10. ***How will assets not regularly traded be valued?***

Assets that are not regularly traded will be valued through an independent appraisal or an externally audited internal appraisal. They will be completed at intervals consistent with industry practice.

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11. ***Over what time periods should rates of return be evaluated?***

The rates of return for quarterly, annual and four-year annualized periods will be evaluated. The quarterly and annual periods are primarily for evaluating interim progress and identifying significant performance problems early. The primary time period for evaluation is rolling four-year periods.

Four-year rolling rates of return are most important for evaluation because markets can behave in a random and unpredictable fashion in short time periods, but over a full market cycle, a disciplined, consistent investment management process should be able to meet the established objectives.

12. ***How will the risk (volatility) of the portfolio be measured?***

The volatility of portfolio rates of return will be estimated by the annualized standard deviation of monthly returns. This is a commonly used method of estimating investment volatility because it permits measurement with a shorter time period as compared to monitoring the actual volatility of annual rates of return.

13. ***How will the risk (volatility) of the portfolio be evaluated versus the expected volatility?***

The actual volatility will be evaluated versus the expected volatility quantified in an asset/liability study.

As with absolute rates of return, this is an evaluation of the policy and the asset mix decision.

14. ***How will the relative risk (volatility) of the portfolio be evaluated?***

The volatility of the portfolio will be evaluated versus the volatility of the passive index benchmark.

This is an evaluation of the success of an implementation strategy that targets lower volatility than the passive index benchmark. This is the primary method for evaluating the risk performance of Management, the Investment Department staff and the external investment managers.

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15. ***Over what time periods should risk performance be evaluated?***

The volatility of the portfolio will be evaluated on annual and four-year annualized time periods.

The absolute volatility should be primarily evaluated on rolling four-year annualized time periods.

The relative volatility will be evaluated on both annual and rolling four-year annualized time periods. The evaluation of volatility management is different than the evaluation of relative rates of return because the relative volatility should be maintained at levels lower than the benchmark throughout the time period, whereas adding return over a benchmark is more important over longer time periods and short-term periods of underperformance are expected and can be tolerated.

16. ***Who measures, interprets and reports on the rate of return and risk performance?***

An independent investment consulting firm is appointed by the Finance Committee of the Board. They review the return and risk metrics and report directly to the Finance Committee on a semi-annual basis. This review is supported by performance measurement calculations that are prepared by a third party and are provided directly to the investment consulting firm.

Management provides performance reporting to the Finance Committee and the Board of Directors on a quarterly basis.

17. ***When is this policy application effective?***

This policy application (Application 6 – Monitoring and Controls) is effective January 1, 2019, except when noted otherwise in a specific policy section(s).

Previous versions

- Policy 0104 Part II - April 2018
- Policy 0104 Part II - January 2018

Alberta WCB Policies & Information	Chapter: **GENERAL POLICIES**	
	Subject: **INVESTMENT POLICY**	
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- 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