

Alberta Heritage Savings Trust Fund

Statement of Investment Policy and Goals



Heritage Fund

Effective April 1, 2011

Approved By:
Tim Wiles, Deputy Minister
Alberta Finance and Enterprise

Mission

The preamble to the *Alberta Heritage Savings Trust Fund Act* (“the Act”) states:

The mission of the Heritage Fund is to provide prudent stewardship of the savings from Alberta’s non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.

1. Purpose and Legislative Framework

1.1 Purpose

This document establishes the framework set by the Minister of Finance and Enterprise (“the Minister”) for the investment of the Alberta Heritage Savings Trust Fund (“Fund” or “Heritage Fund”) by providing a clear statement of the investment policies and standards that must be adhered to in investing the Fund.

1.2 Legislative Requirements

Investment Management

Section 3(2) of the act states: *“Investment made under the endowment portfolio must be made with the objective of maximizing long-term financial returns.”*

Section 3(4) of the act states: *“Subject to the regulations, when making investments the Minister of Finance shall adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return that will enable the endowment portfolio and the transition portfolio to meet their respective objectives.”*

Income of the Fund

Section 8(2) of the act states: *“The net income of the Heritage Fund less the amount allocated to the Heritage Fund under section 11 shall be transferred by the Minister of Finance from the Heritage Fund to the General Revenue Fund annually in a manner determined by the Minister of Finance.”*

Inflation-proofing

Section 11(1) of the act states: *“...the Minister of Finance shall retain from the income of the Heritage Fund and allocate to the endowment portfolio as soon as convenient after the end of each fiscal year an amount equal to the value of the total equity of the Heritage Fund as recorded in the financial statements of the Heritage Fund for March 31 of the fiscal year multiplied by the percentage increase, if any, for that fiscal year in the Canadian gross domestic product price index specified by the Minister of Finance.”*

Section 11(2) of the act states: *“If the income of the Heritage Fund in a fiscal year is less than that required to be allocated to the endowment portfolio under subsection (1), the Minister of Finance shall allocate that income, if any, to the endowment portfolio as soon as convenient after the end of that fiscal year.”*

Section 11(3) of the act states: *“For the purposes of subsection (1), if the percentage increase in the gross domestic product price index specified by the Minister of Finance is a negative number, that negative number shall be treated as if it were zero.”*

1.3 Legislative Oversight

In regards to the Heritage Fund, the Treasury Board has the following responsibilities:

- ❖ Review and approve annually the business plan for the Fund.

An all-party committee of the Legislative Assembly, the Standing Committee on the Alberta Heritage Savings Trust Fund, has the following responsibilities as per the act:

- ❖ Review and approve annually the business plan for the Fund.
- ❖ Receive and review quarterly reports on the operation and results of the Fund.
- ❖ Approve the annual report of the Fund.
- ❖ Review after each fiscal year end the performance of the Fund and report to the Legislature as to whether the mission of the Fund is being fulfilled.
- ❖ Hold Annual public meetings with Albertans on the investment activities and results of the Fund.

1.4 Fiscal Context

The assets and net income of the Fund are fully consolidated with the assets and revenues of the Province. For fiscal purposes, the entire net income of the Fund is transferred to the General Revenue Fund and any inflation-proofing is treated as an investment into the Fund.

2. Investment Beliefs

2.1 Introduction

The following investment beliefs show the investment philosophy and core values that were used in developing the investment policies for the Fund.

2.2 Key Investment Beliefs

- ❖ The Heritage Fund is invested for the long-term.
- ❖ Risk and return are strongly related. Over the long-term, holders of riskier assets should be paid a premium to hold these assets. While prudent levels of risk are necessary to achieve investment objectives, risk-taking does not guarantee positive or higher investment returns.
- ❖ The most important investment decision is establishing return goals and risk tolerances and then setting an appropriate asset allocation reflecting these goals and tolerances. Periodic reviews of policies, risk tolerances and asset allocations should be done to reflect evolving financial markets as well as changes in investment goals.
- ❖ Risk should be managed at the portfolio level as well as on an investment by investment basis. Overall portfolio risk has more importance in the long-term than the risk of any one individual investment.
- ❖ Prudent diversification helps achieve more consistent returns and minimizes total fund risk but cannot eliminate all investment risk. The benefits of diversification are limited and, therefore, diversification should only be used when it improves the risk-return profile of the investment portfolio.
- ❖ Active management refers to the choices made by the Investment Manager to deviate from the Policy Portfolio in order to generate higher returns. These choices can be made at the security level or at the asset class level. Allowing the investment manager latitude to make active management decisions greatly enhances their ability to add value.
- ❖ The Heritage Fund should be considered as one of many assets of the Province of Alberta when determining investment policy.

3. Governance and Management

3.1 Responsibility for Investment Management

The Minister is responsible for the investment management of the Fund, as provided in section 2(2) of the act. The investment policy of the Fund is established by the Minister. The Minister is also responsible for preparing a business plan for the Fund.

The Minister has delegated various elements of the investment management process. The division of responsibilities is as follows:

Department of Finance and Enterprise:

- ❖ Maintain ongoing investment research function.
- ❖ Develop investment policy in collaboration with the province's Investment Manager, the Alberta Investment Management Corporation (AIMCo).
- ❖ Bring recommendation for changes to the Statement of Investment Policy to the Minister.
- ❖ Prepare the Fund's financial statements and annual business plan for approval by the Minister.
- ❖ Review monthly, quarterly and annual Fund performance.
- ❖ Maintain and execute an income forecasting model for the Fund.

AIMCo:

- ❖ Execute investment transactions.
- ❖ Forecast the trends of pertinent economies and investment markets. Provide these forecasts to the Department as input into the Heritage Fund income forecasting model.
- ❖ Manage the Fund as a separate and distinct portfolio, within the general guidelines of this Statement.
- ❖ Maintain ongoing investment research functions and bring recommendations for changes to the Statement of Investment Policy to the Minister and the Department.

- ❖ Report to the Department on investment results and activities, and on compliance with the established policies and guidelines established under this Statement.
- ❖ Engage and manage all external investment managers, and on a quarterly basis ensure that internal and external activity is consistent with the guidelines and prospective investment strategy.
- ❖ Provide periodic reviews of investment costs to the Department.

3.2 AIMCo Management Structure

AIMCo manages the Fund using a multi-product platform, which uses both internal AIMCo staff as well as external fund managers. This multi-product platform makes extensive use of pooled funds, which provide significant cost savings, diversification, and consistency of return to participants. Both active and passive management techniques will be used. The selection and monitoring of managers is the responsibility of AIMCo.

3.3 Investment Policy Review

This Policy may be reviewed and revised at any time, but the Department must formally review the Policy at least once in every calendar year. Major changes that may prompt a review include:

- ❖ A fundamental change in the requirements and objectives of the Heritage Fund;
- ❖ Significant revisions to the expected long-term trade-off between risk and reward on key asset classes;
- ❖ A significant change in the financial risk tolerance of the province;
- ❖ Shortcomings of the Policy that emerge in its practical application; and
- ❖ Changes in applicable legislation.

AIMCo will be consulted on material changes prior to these changes being recommended to the Minister.

3.4 Standard of Professional Conduct

AIMCo and Department staff involved in the management of the Heritage Fund will adhere to the [CFA Institute's Code of Ethics and Standards of Professional Conduct](#).

4. *Investment Objectives*

4.1 Portfolio Return Expectation

It is expected that the policy portfolio outlined in section 5.1 will earn an average real return, after expenses, of 4.50% annually measured over a rolling five-year period. The real return will be measured by subtracting the Canadian Consumer Price Index (CPI) from the total return of the Fund.

It is expected that the Investment Manager will generate average annual returns of 1.00% in excess of the Policy Portfolio return.

5. Asset Allocation

5.1 Asset Allocation

Asset Allocation Table			
Asset Class	Policy Target	Minimum	Maximum
Money Market & Fixed Income	20%	15%	45%
Money Market		0%	25%
Fixed income (universe)		10%	35%
Long bonds		0%	10%
Private Mortgages		0%	10%
Inflation Sensitive & Alternative Investments	30%	15%	40%
Real Estate		10%	20%
Infrastructure ¹		5%	15%
Timberlands		0%	5%
Real Return Bonds		0%	10%
Private Debt		0%	5%
Equities	50%	35%	70%
Canadian	8%	5%	15%
Global Developed	42%	20%	65%
Emerging Markets		0%	10%
Frontier Markets		0%	5%
Private Equity		0%	10%
Hedge Funds		0%	6%

¹Infrastructure investments refer to investments located in AIMCo Private Income Pools

5.2 Investment Manager Discretion

The Investment Manager has sole discretion to determine the manner in which the Fund is invested, provided that the investments and investment strategies conform to this Policy.

5.3 Opportunistic Investments

There may be opportunities for the Investment Manager to fund certain investments that exhibit a superior risk/return profile that are outside the asset classes listed in the asset allocation table in section 5.1 or otherwise restricted by this policy. As these investments provide an opportunity to deploy the Fund's capital more efficiently, the Investment Manager has the authority to investigate and fund such investments up to 2% of the total market value of the Fund.

By investing in these alternative investments, it is recognized that they will displace the asset allocation outlined in section 5.1, thus, these opportunistic investments will inherit the benchmark of the displaced asset, as determined by the Minister.

The Investment Manager will inform the Department whenever such a transaction occurs no later than the next reporting cycle. Due to the potential illiquid nature of some opportunistic investments, it is recognized that the Investment Manager may not be able to reverse the trade in a timely manner.

5.4 Currency Hedging and Active Currency Overlays

Currency is viewed as a diversifier and therefore it is the overall policy for the Heritage Fund to be unhedged.

The Investment Manager has the discretion to hedge certain asset classes in order to isolate the asset class returns and remove the effects of exchange rate movements from the risk/return profile of the asset class.

Currency can also be viewed as an asset class and as a source of investment return. The Investment Manager has the discretion to use active overlays to an economic exposure limit of 5% of the market value of the Fund.

5.5 Rebalancing

The Investment Manager must operate the portfolio within the ranges established in section 5.1.

However, it is recognized that at times, it may be impossible to operate the portfolio within the ranges without a severe negative impact.

If AIMCo believes it necessary to operate the portfolio outside of the ranges for a short period of time, it will bring a recommendation to the Department for the Minister's approval as soon as reasonably practical.

5.6 Periods of Portfolio Transition

During periods of asset mix change it will be necessary for a Transition Plan to be created in order to facilitate a smooth implementation of the new asset mix. A plan will be developed by the Department in consultation with the Investment Manager. The transition plan will include, but not be limited to, such items as:

- ❖ Asset Mix Transition
- ❖ Policy Benchmark Transition
- ❖ Asset class reclassifications
- ❖ Risk Transition

6. Risk

6.1 Total Portfolio Risk

Investment risk should be managed on a total portfolio basis. Risk will be reported for the actual portfolio and the benchmark portfolio. Risk is defined as the measures outlined in this section as well as any other risk measures the Department and the Investment Manager deem appropriate.

The Department is responsible for setting all risk targets and ranges in consultation with AIMCo. AIMCo is responsible for monitoring and reporting any breaches as part of the regular reporting cycles unless otherwise noted.

6.2 Value at Risk

Markets are volatile and unpredictable. While the portfolio has a long-term expected rate of return, this is not a given and in reality there is a wide range of possible outcomes. The possible range of portfolio outcomes is modelled and analyzed statistically using both historic data and forward-looking expectations.

For the Heritage Fund, the portfolio was constructed to earn an expected return of Canadian CPI + 4.5%. Based on statistical modeling, it is expected that the Heritage Fund will achieve this return or better 60% of the time. However, because of volatility of market returns, the portfolio will sometimes experience losses. Portfolio risk management is focused on understanding the possible downside risk of portfolio losses.

The riskiness of the total portfolio is assessed using Value at Risk (VaR). VaR measures the maximum amount the portfolio can lose under most circumstances based on historical risk and return information. Therefore, using the output from the statistical modeling, a lower end loss is established. The riskiness of the portfolio is monitored against this target to ensure that the portfolio does not contain too much risk. If the riskiness of the portfolio moves into the Warning Range shown below, actions will be taken to reduce the overall riskiness of the portfolio.

This measure is VaR and the range for the Heritage Fund is as follows:

Actual Portfolio VaR	Range
Target or Normal Range ("Green")	-11.0% to -13.0%
Warning Range ("Yellow")	-13.0% to -14.0%

The Heritage Fund uses a 95% VaR measure. Based on this VaR measure and further statistical modelling related to expected returns, this means that in 12 years out of 20 the portfolio is expected to earn a return of at least the target of CPI + 4.5%. In seven out of 20 years the return is expected to be between the VaR threshold of -12% and the target return of CPI + 4.5%, and in one year out of 20 the portfolio is expected to earn a return worse than -12%.

Subject to these Policy Statement guidelines, including the asset mix guidelines in section 5.1, AIMCo will strive to manage the actual portfolio to be within the Actual Portfolio VaR normal range of -11.0% to -13.0%.

When AIMCo considers it appropriate, AIMCo is permitted to operate the portfolio with less risk than the target Actual Portfolio VaR range and no extra reporting is required.

When AIMCo considers it appropriate, AIMCo is also permitted to operate the portfolio in the Actual VaR warning range. If the portfolio’s Actual Portfolio VaR is in the warning range, AIMCo will provide an explanation to the Department as to why the portfolio is being operated in the Actual VaR warning range as soon as reasonably practical.

AIMCo will strive to avoid operating the portfolio’s Actual Portfolio VaR beyond the limits of the warning range. If in the opinion of AIMCo, within a reasonable timeframe or given market circumstances, AIMCo cannot or should not bring the portfolio back to the warning or normal range, AIMCo will bring a recommendation to the Department for the Minister’s consideration as soon as reasonably practical.

6.3 Expected Tail Loss

Another measure that can be used in conjunction with VaR is Expected Tail Loss (ETL). A 95% ETL measures the average loss expected in the 1 out of 20 year event that VaR does not cover. ETL is a more robust risk measure that gives a better indication of the potential loss in the portfolio given a substantial negative economic event.

The ETL limits for the portfolio are outlined in the table below.

Actual Portfolio ETL	Range
Target or Normal Range (“Green”)	-17.5% to -18.5%
High Warning Range (“Yellow”)	-18.5% to -19.0%

Subject to these Policy Statement guidelines, including the asset mix guidelines in section 5.1, AIMCo will strive to manage the actual portfolio within the Actual Portfolio ETL normal range.

When AIMCo considers it appropriate, AIMCo is permitted to operate the portfolio with less risk than the target Actual ETL range and no extra reporting is required.

When AIMCo considers it appropriate, AIMCo is also permitted to operate the portfolio in the Actual ETL warning range. If the portfolio’s Actual Portfolio ETL is in the warning

range, AIMCo will provide an explanation to the Department as to why the portfolio is being operated in the Actual ETL warning range at the next regular reporting point.

AIMCo will strive to avoid operating the portfolio's Actual Portfolio ETL beyond the limits of the warning range. If in the opinion of AIMCo, within a reasonable timeframe or given market circumstances, AIMCo cannot or should not bring the portfolio back to the warning or normal range, AIMCo will bring a recommendation to the Department for the Minister's consideration.

6.4 Active VaR

Active Value at Risk measures the risk of the actual portfolio underperforming the benchmark portfolio.

The limit for Active VaR is set at -3.0%.

If Active VaR is above the limit, then AIMCo will advise the Department of what action it recommends and why.

It is understood that Active VaR is of secondary importance to Actual Portfolio VaR and ETL and that Active VaR can, at times, reduce Actual VaR without a reduction in overall portfolio expected returns.

7. Performance Measurement and Evaluation

7.1 Benchmarks

In order to measure the performance of the portfolio, investment returns will be gauged against a market benchmark. Whenever practically possible, the benchmark should be a market index that is replicable, measurable and a fair comparison to the portfolio being measured. It is acknowledged that in the case of new or private asset classes a perfectly matched benchmark may not be available. In these cases the closest market benchmark that approximates the risk and return profile of the asset class (“market proxy benchmark”) will be used.

7.2 Time Horizon

While it is important to assess performance over longer time periods, monitoring will be done on a quarterly basis and will include year to date results to identify and respond appropriately to potential deficiencies in the strategy and structure of the Fund.

A rolling five-year time horizon will be used for determining whether the net of fees investment return objective as outlined in section 4.1 are met.

7.3 Total Portfolio Benchmark

The total portfolio benchmark is outlined in the table below.

TOTAL PORTFOLIO BENCHMARK		
Asset Class¹	Benchmark	% of Fund's Performance Benchmark
Money Market & Fixed Income	DEX Universe Bond Index	20
Inflation Sensitive & Alternatives	IPD Large Institutional All Property Index	17.5
	S&P Global Infrastructure Index C\$	12.5
Equities	MSCI All Country World Index	42
	S&P/TSX Composite Index	8
		100

¹ Asset class benchmarks are detailed in Appendix 1.

The long-term performance of the total portfolio benchmark will be compared against the investment objective of CPI + 4.5% in order to determine the appropriateness of the policy portfolio asset mix.

For illiquid asset classes (such as real estate, infrastructure, timberlands and private debt), at any month-end, the benchmark policy weightings designated in the Total Portfolio Benchmark table above will be equal to the actual allocations of the illiquid asset classes, with the remainder measured against the market proxy benchmark for that illiquid asset class. There may be times that price movements in the illiquid assets may cause unintended differences between the actual allocation and the policy weight of benchmark. During these periods the benchmark may be moved in 50 basis point increments to accommodate these changes.

7.4 Total Portfolio Active Management Benchmarks

Actual performance of the portfolio will be measured against the total portfolio benchmark in order to assess the overall performance of the Investment Manager's decision making.

7.5 Return Calculation

The returns of the Fund are calculated using market values derived from independent pricing sources. Returns are time-weighted so that cash flows have a minimal effect on return numbers. All income is included on an accrued basis.

8. Reporting

8.1 Performance Reporting

On a calendar quarterly basis, the Investment Manager will provide a performance report and a strategy review for the portfolio.

Reporting will include but not be limited to:

- ❖ Short-, medium- and long-term annual and annualized portfolio and benchmark performance
- ❖ Portfolio and benchmark risk characteristics
- ❖ Capital market update and future outlook
- ❖ Performance attribution and explanation of results
- ❖ External management updates
- ❖ Relevant investment universe and peer comparisons
- ❖ Any relevant corporate changes at AIMCo

8.2 Performance Attribution

The Investment Manager will provide performance attribution, which will isolate the effect of asset allocation at a broad asset class level as well as at a sub-asset class level. Attribution allows for the measurement of the Investment Manager's decisions and shows whether the decision positively or negatively impacted the portfolio.

For performance attribution purposes, investment performance will be measured both with and without any adjustment to asset mix required to increase or decrease risk. This effect may be calculated less formally until AIMCo's systems allow automated calculation.

8.3 Compliance Reporting

The Investment Manager is required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the Investment Manager's portfolio was in compliance with this Policy during the quarter. Copies of the compliance reports must be sent to the Department.

In the event that the Investment Manager is not in compliance with this Policy, the investment Manager is required to advise the Department in a timely manner, detailing the nature of the non-compliance and recommending an appropriate course of action to either remedy the situation or revisit the Policy, as appropriate.

If at any time AIMCo believes that the objectives cannot be met, that the guidelines or restrictions are unreasonable, or that the Policy restricts performance, the Department should be notified in writing.

9. Permitted Investments and Restrictions

9.1 Permitted Investments

Permitted Investments are investments that adhere to the investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable rate of return. The investments of the Fund must also be in compliance with this Policy and be recognized as qualified investments under the applicable legislative provisions.

Permitted investments include investments through units of any AIMCo pooled fund or segregated fund as approved by the AIMCo Board, provided that such vehicles conform to this Policy.

The Fund invests in several pooled funds, which have separate and independent investment policies. Should a conflict arise between the provisions of this Policy, and the provisions of the pooled fund's investment policy, the Investment Manager is required to notify the Department promptly in writing, detailing the nature of the conflict and the Investment Manager's recommended course of action.

9.2 Portfolio Restrictions and Limitations

All portfolios should hold a prudently diversified exposure to the intended market. In a prudently diversified portfolio the credit quality, liquidity and liquidity of the underlying security is an important consideration.

The Investment Manager has developed a policy in regards to various portfolio management concerns. This policy includes but is not limited to the following:

- ❖ Minimum quality standards
- ❖ Single name exposure limits
- ❖ Use of derivatives
- ❖ Minimum liquidity
- ❖ Securities lending
- ❖ Directed commissions

This policy is provided to the Department and AIMCo will provide any future material changes for review.

9.3 Tobacco stocks

The Fund or any portion of the Fund cannot directly hold investments of companies in the tobacco industry.

9.4 Loans and Borrowing

No part of the Fund shall be loaned to any person, partnership or association except as may be determined permissible by the Minister, or as permitted by this policy.

9.5 Leverage

Leverage may be used in the Fund for the purpose of rebalancing and managing risk. Leverage magnifies the actual returns beyond those experienced by the underlying securities, both on the upside and on the downside.

Leverage is commonly found in asset classes such as real estate, and private investments. In each case, leverage is understood to be an integral part of the underlying strategy and it is monitored, giving particular consideration to the related risks.

This Policy permits the use of leverage provided that the total Fund active risk constraints established in section 6 (Risk) are not exceeded.

With respect to long/short strategies, the portfolio's total fund economic exposure will not exceed 105% of the value of the underlying assets.

9.6 Proxy Voting

Proxy voting policies will be used to support good governance and appropriate management practices.

The Province obtains voting rights for the securities held and will act in the best interests of the Fund. The Minister has delegated to the Investment Manager the responsibility to vote proxies in a prudent manner in order to enhance the Fund's investment returns.

Appendix 1: Asset Class Benchmarks

The Investment Manager's decision making will also be measured at the asset class level. The following table outlines the benchmarks used to measure the asset classes established in 5.1.

Asset Class	Benchmark
Money Market & Fixed Income	
Money Market	DEX 91 Day T-Bill Index
Fixed income (universe)	DEX Universe Bond Index
Long bonds	DEX Long Bond Index
Private Mortgages	DEX Universe Bond Index
Inflation Sensitive & Alternative Investments	
Real Estate	IPD Large Institutional All Property
Infrastructure	S&P Global Infrastructure Index Hedged C\$
Timberlands	50% DEX Universe Bond Index/50% MSCI All Country World Index
Real Return Bonds	DEX Real Return Bond Index
Private Debt	50% DEX Universe Bond Index/50% MSCI All Country World Index
Equities	
Canadian	S&P/TSX Composite
Global Developed excluding Canada	MSCI World Index ex Canada
Emerging Markets	MSCI Emerging Markets Index
Frontier Markets	MSCI Frontier Markets Index
Private Equity	MSCI World Index ^{X 1.25ⁱ} (MSCI World Index multiplied by a factor of 1.25)
Hedge Funds	MSCI All Country World Index

¹ Due to higher leverage and increased illiquidity in private equity over public equity, it is expected that both gains and losses in the portfolio will be increased.

Appendix 2: Key Terms and Concepts

Active Currency Overlay: Investments in currency (primarily forward contract) which increase or decrease the exposure to a particular currency. Participation in this investment vehicle is on a largely unfunded basis (investments are based on the notional amounts; small capital commitment is required for “margin” account only).

Active Management: Active management means the choices made by the investment manager to deviate from the Policy Portfolio in order to generate higher returns. These choices can be at the security level (adding or eliminating a specific stock or bond in the portfolio) or at the asset class level (overweighting or underweighting an entire asset class versus the index).

Canadian Public Equities: All securities of publicly traded companies that are listed on the Toronto, Montreal or Canadian Venture stock exchanges.

Emerging Markets Public Equity: All of the securities of publicly traded companies in economies that are in their earlier stages of development could be considered Emerging Markets Public Equity. Emerging Markets economies have sufficient size and liquidity for institutional investments and are receptive to foreign investments. Examples include China, Greece and Brazil.

Fixed Income Securities: All bonds, debentures, notes and other debt instruments over one year in term with at least investment grade rating at the time of purchase. The debt issues may be either public offerings, or private placements restricted to institutional investors.

Frontier Markets Public Equity: All securities of publicly traded companies in economies that are in the beginning stages of development. Frontier Markets economies have limited size and liquidity for institutional investments and are becoming increasingly receptive to foreign investments. Examples include Bulgaria, Kuwait and Jordan.

Global Developed Public Equity: All securities of publicly traded companies in mature and developed economies. Developed markets have well-established and regulated securities exchanges and capital markets. Examples include: Canada, Japan, United Kingdom and the USA.

Hedge Funds: Encompass a wide variety of investments and trading strategies in private and publicly traded securities with the objective of realizing positive returns independent of market direction. Investments in absolute return strategies are made through fund-of-funds and specific fund investments to increase strategy diversification.

Inflation Sensitive: Any publicly traded or privately held investment (both foreign and domestic) that provides some form of inflation-based return including, but not exclusive to, investments such as real estate, infrastructure, private debt or a commodity-based investment. As a result, it will be positively correlated to an economy's rate of inflation. Inflation sensitive assets are desirable within endowment funds because they help to hedge inflation rate risk.

Infrastructure: Infrastructure opportunities are investments selected and structured to provide unit holders with diversification, inflation protection, and a relatively high yield over long investment horizons. These investment opportunities could include infrastructure projects, project financing and corporate finance arrangement. These investments are housed in AIMCo Private Income Pools.

Long Bonds: The term "long bonds" refers to fixed income securities that are representative of the long-dated maturity portion of the fixed income market. Generally speaking, long bonds include, but are not limited to, semi-annual pay, fixed rate, government and corporate bonds with a remaining effective term-to-maturity of at least ten years.

Money Market: All debt securities under one year with at least an investment grade quality rating. Investment grade means securities that on analysis qualify as a reasonable risk for institutional investment managers serving in a fiduciary capacity.

Private Debt: Loans extended to a borrower on a privately negotiated basis where the borrower is typically a private corporate borrower. Generally, although not necessarily, there is security over the borrower's assets which is a fixed obligation ranking ahead of all other obligations other than payroll and government obligations. Debt can be in the form of either fixed or floating rate. Loan covenants are privately negotiated.

Private Mortgages: Types of private mortgages include, but are not limited to: 1) Conventional Mortgages - investments secured directly by real estate and 2) Specialty Mortgages - investments secured directly and indirectly by real estate such as second mortgages, mezzanine investments in real estate projects, subordinated and non-investment grade tranches of CMBS offerings, B-Notes and junior tranches of whole mortgage loans, non-investment grade mortgage bonds and distressed mortgages.

Private Equities: Institutional offering or private equity placements of companies that appear to have attractive growth prospects and do not exceed a reasonable level of risk. Private equities are separated into Canadian private equity and foreign private equity pools.

Real Estate: Investments in the operation of and creation of income producing properties located in major urban areas (domestic and foreign) with a long-term focus.

Real Return Bond: A fixed income security with a return that is linked to inflation to generate a specified rate of return after adjusting for the effects of inflation.

Securities Lending: Securities lending is the practice of an asset owner lending a security to another party for a fee so that the borrowing party may sell the asset short.

Short Selling: Selling a security that one does not own.

Timberland: Timberland investments, which are a renewable and sustainable resource, allow unit holders to participate in timberland investment opportunities on a global basis. These investments are expected to provide unit holders with income potential, diversification, inflation protection over long investment horizons.

Appendix 3: Benchmark Descriptions

CPI: Canadian Consumer Price Index measures the rate of inflation in Canada as published by the Bank of Canada.

DEX 91 day T-Bills Index: An index that generally reflects the performance of the Canadian money market as measured by investments in 91 day Treasury Bills.

DEX Real Return Bond Index: An index that covers most marketable, domestically issued Canadian inflation-linked bonds. The index is calculated on a total return basis including capital gain (loss) as well as interest income earned. The purpose of this index is to reflect performance of the broad Canadian inflation-linked bond market in a manner similar to the way the S&P/TSX Composite Index represents the Canadian equity market.

DEX Long Bond Index: An index that includes bonds issued by the Government of Canada (including Crown corporations), provincial governments (including provincially guaranteed securities), municipal governments, and corporations. The index consists of semi-annual, pay fixed rate bonds issued in Canada and denominated in Canadian dollars, with a remaining effective term to maturity of greater than ten years. Total returns are calculated daily and are weighted by market capitalization. Bonds included in the index must meet minimum liquidity requirements, as defined by PC Bond.

DEX Universe Bond Index: An index that covers most marketable domestically issued Canadian bonds with terms to maturity of more than one year. The DEX Universe Bond Index is comprised of Canada's, provincial, municipal and AA-through BBB-rated corporate issuers, weighted on a market basis including accrued interest. The index is calculated on a total return basis including capital gain (loss) as well as interest income earned on each debt category and sub-category. The purpose of this index is to reflect performance of the broad Canadian bond market in a manner similar to the way the S&P/TSX Composite Index represents the Canadian equity market.

ICREIM/IPD Large Institutional All Property Index: An index maintained by the Institute of Canadian Real Estate Fund Managers / International Property Databank that measures the total return from six large Canadian funds, which have real estate portfolios valued greater than \$1.5 billion. This index is also prepared on a Held Property basis.

Morgan Stanley Capital International Indices: Morgan Stanley Capital publishes a family of indices covering all aspects of equity markets including an All-World index, developed, emerging and frontier market indices as well as country and industry sector specific indices. The

MSCI family of indices is the standard in the industry for equities. For detailed information on each individual index please refer to Morgan Stanley's website: www.msci.com

Standard & Poor's Global Infrastructure Index: The index provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy.

S&P/TSX Composite Index: An index maintained by the S&P/TSX Canadian Index Policy Committee that measures the return on the largest companies that trade on the Toronto Stock Exchange. The index is float-weighted and calculated on a total return basis with dividends reinvested.