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## Commonly Used Terms

Below you will find definitions of commonly used terms related to the Alberta Heritage Savings Trust Fund.

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### "A"

**Absolute Return Strategy** - The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external fund managers who employ various investment strategies. These strategies are expected to produce positive absolute returns in excess of the rate of inflation with low volatility.

**Accrued Interest** - Interest income that has been earned but not yet paid in cash.

**Active Strategies** - The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the TSE 300 Index for Canada Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

**Asset Mix** - The percentage of an investment fund's assets allocated to major asset classes (for example 60% equities, 5% real estate and 35% fixed income).

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### "B"

**Bear Market** - A prolonged period of falling prices, usually by 20% or more, accompanied by widespread pessimism.

**Benchmark** - A standard against which others are measured. For the purposes of the AHSTF Annual Report, benchmarks are established income indices used to measure the health of the Fund's investment income.

**Bond/Debenture** - A financial instrument where the issuer promises to pay interest on a periodic basis and repay the principal at the maturity date.

**Book Value** - Also known as Cost Value. The value for which an asset was acquired.

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## "C"

**Capital Gain** - The market value received on sale of an asset beyond its book value or purchase price. If an asset is bought for \$50 and sold for \$75, the realized capital gain (profit) is \$25.

**Cost Value** - The value for which an asset was acquired.

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## "D"

**Deposits** - Liquid, short-term investments. A cash equivalent.

**Derivative Contract** - Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

**Duration** (also called **Modified Duration**) - Modified duration is the weighted average term to maturity of the security's cash flows (i.e., interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

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## "E"

**Emerging Market** - An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

**Equity** - Stocks; the ownership interest in a company.

**External Manager** - A third-party firm contracted to provide investment management services.

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## "F"

**Fair Value** - Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is similar to market value.

**Fixed Income Securities** - Interest bearing investments such as bonds or debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

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## "G"

**General Revenue Fund (GRF)** - The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most expenditures are made.

**Generally Accepted Accounting Principles (GAAP)** - These are accounting guidelines, formulated by the CICA's (Canadian Institute of Chartered Accountants) Accounting Standards Committee, that govern how businesses report their financial statements to the public. They are the principles under which the financial statements of the Heritage Fund and other provincial funds are prepared. These principals help ensure fair presentation of the financial affairs of the Province.

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## "I"

**Income** - The return from an investment. Can be derived from interest, dividends or appreciation in the value of asset that is realized when the asset is sold.

**Internal Rate of Return** - The internal rate of return is the average rate earned by each and every dollar invested during the period. This rate is influenced not only by the movements in financial markets and decisions made by portfolio managers, but also by the timing and size of the cash inflows and outflows and the beginning and ending book or market values. Since the internal rate of return weights the final overall return by the size of the investment and the timing and size of cash flows in each subperiod, the method produces inappropriate results if the purpose is to compare the performance of two investment funds. For that purpose, the investment industry standard is to use time-weighted rates of return (see "Market (Value) Rate of Return").

**Interest Rate Sensitive Equity** - Equity whose return is expected to react to changes in interest rates.

**Investment Income** - Investment income is income from realized capital gains, interest, dividends, security lending and swaps.

**Investment Portfolios** - A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

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## "L"

**Large Cap** - Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

**Liquidity** - Describes the ease with which an asset can be turned into cash and the certainty of the value it will fetch.

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## "M"

**Market Value** - see [Fair Value](#)

**Market (Value) Rate of Return** - The market value rate of return measures income (dividends, cash interest and accrued interest) and capital appreciation (or capital depreciation). The method used to calculate the return is the time-weighted method with quarterly valuations. Time-weighted rates of return are designed to eliminate the effect that the size and timing of cash flows has on the **internal rate of return** since the pattern of cash flows vary significantly among fund. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

**Marketable Security** - An investment for which there is usually a ready market.

**Mid-Term Investment** - A fixed income investment (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

**Modified Duration** - A measure of price volatility of fixed income securities (i.e., bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of the bond, the greater its percentage price volatility.

**Money Market Security** - A fixed income security that matures within one year from the date of acquisition.

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## "N"

**Net Income** - The amount of earnings remaining after deducting expenses.

**Net Investment Income** - On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, include, in addition to the above, current period changes in unrealized gains and losses.

**Nominal Rate of Return** - A measure of return that does not exclude or net out the effect of inflation (see Real Rate of Return).

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## "P"

**Par Value** - A value set as the face amount of a security, typically expressed as multiples of \$100 or \$1,000. Bondholders receive par value for their bonds on maturity.

**Passive Strategies** - These strategies involve investing to replicate the performance of a given market index such as the TSE 300 Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

**Portfolio** - The collection of investment securities held by an investor or a subset thereof.

**Provincial Crown Corporations** - Special purpose companies which carry out government programs. Provincial Crown corporations are used because the nature of the programs are different than those delivered through government departments. The provincial Crown corporations discussed in this report generally offer financial services on a partial or full cost-recovery basis. Alberta Opportunity Company and the Alberta Social Housing Corporation are examples of Alberta provincial Crown corporations.

**Prudent Person Rule** - This assigns to the investment manager the responsibility to restrict investments to assets that would be approved by a prudent person.

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## "R"

**Real Value** or **Real Rate of Return** - A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

**Realized/Unrealized** - Terms generally used to describe capital gains or losses. A gain or a loss is realized when an asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

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## "S"

**Security** - Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

**Short-Term Investment** - An investment with a maturity date of less than one year.

**Small Cap** - Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

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## "T"

**Term-to-Maturity** - The number of years left until a bond matures.

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## "V"

**Volatility** - In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

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