

# GLOSSARY

## ABSOLUTE RETURN

Return as measured by accounting records for any set of investments, including a depositor's portfolio or the Caisse's overall portfolio.

## ABSOLUTE RISK

Expression of a portfolio's market volatility. This risk is used to measure, on the basis of the securities in the portfolio, the magnitude of a potential return deficit in comparison with the portfolio's expected return.

## ACCUMULATION INVESTMENT

Investment that involves accumulating shares of a publicly traded company over the long term to acquire a strategic position so as to take advantage of value-enhancement opportunities.

## ACTIVE MANAGEMENT

Portfolio management that differs from the benchmark index as a function of the manager's opinion regarding the market's future behaviour. The manager selects certain securities or sectors to create value added.

## ACTIVE RISK

Volatility of value added, generally measured on the basis of the portfolio manager's current positions and the volatility and correlations of the return associated with these positions.

## ACTUARIAL LIABILITIES

Total financial obligations that a pension or insurance plan must meet, given the nature of the plan and its commitments to participants.

## ANALYTICAL APPROACH

Data-analysis method that is carried out in advance of an investment decision and takes into account quantitative and qualitative factors.

## ARBITRAGE

Transactions carried out to profit from a real or apparent imbalance between two securities or two baskets of securities. Arbitrage involves the purchase of a security or a basket of securities that appears to be undervalued and the sale of another that appears overvalued. Depending on the products available, transactions may be conducted in cash or on the futures market.

## ASSET ALLOCATION (TOTAL)

Percentage of each asset class in a portfolio. It may refer to the portfolio's targeted or real asset allocation. The Caisse's total asset allocation results from the sum of the weighted asset allocation of each depositor.

## ASSETS UNDER ADMINISTRATION

Assets for which the Caisse's subsidiaries and affiliates provide administrative services on behalf of the clients that own them. The companies that administer the assets are not involved in investment or disinvestment decisions and receive payment in the form of fees.

## ASSETS UNDER MANAGEMENT

Assets that are owned by partner companies or clients and managed by a subsidiary or an affiliate of the Caisse. The units that manage the assets are involved in investment and disinvestment decisions and receive fees as payment for services rendered.

## BENCHMARK INDEX

Index used to measure the effect of all investors' decisions. It reflects the general market trend and allows comparison with the Caisse's portfolio management result for each specialized portfolio or management mandate. The market index may vary depending on the investment horizon and mandate. It can be a stock market index for an entire portfolio or a subindex that corresponds to a chosen investment universe for a management mandate.

## BOTTOM-UP ANALYSIS

Analytical process that examines specific elements before considering general elements. For example, a company is analyzed before the impact of sector concentration, national concentration and foreign currency exposure are examined. Top-down analysis functions in the opposite direction.

## CAISSE'S OVERALL PORTFOLIO

Combination of the depositors' individual portfolios in proportion to the weight of each portfolio managed by the Caisse, whose overall return is the weighted average return on depositors' funds.

## CAPITALIZATION RATE

Standardized and annualized net income of a property at a specific date, divided by the estimated value or selling price. This rate can be used to compare real estate property values.

## COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)

Securities issued in tranches, for which credit ratings are provided by a recognized rating agency. Each tranche has a different credit rating depending on the guarantee associated with it. The guarantee is based on a group of mortgages granted to borrowers and on the guarantee provided by the issuer of the security.

## COMMERCIAL PAPER

Debt security issued by a corporation with a maturity usually shorter than or equal to one year. Commercial paper is to corporations as treasury bills are to governments.

## COMMODITIES

Products that trade in the form of futures contracts on specialized exchanges. Examples are crude oil, gold, wheat and coffee.

## COMPLIANCE CERTIFICATE

Document certifying compliance with the laws, regulations and policies governing the operations of the Caisse.

## COMPOSITE

Predetermined set of securities that have shared investment objectives or strategies. A composite may be based on one or more of the following criteria: currency, country, company size, product type, etc.

## CONVENTIONAL INVESTMENT (REAL ESTATE)

High-quality real estate occupying a dominant position in its market. This type of real estate asset presents an attractive financial picture over the long term (five to 10 years) owing to its high level of stability and potential to weather a downturn in the real estate cycle. This type of property also has the following characteristics: a strategic location, a stable cash flow and a high current return similar to the return on fixed-income investments such as bonds and quality tenants.

## CORE STRATEGY

Strategy whereby the geographic and sector allocation of investments resembles that of the benchmark index and the value added comes from security selection.

## GLOSSARY

### CORRELATION

Statistic that measures the variation in the return on one financial asset in relation to another. The correlation coefficient measures the degree of dependence between two variables to determine, for example, whether the returns on a mutual fund fluctuate as a function of the market or other categories of funds. Selection of funds with a low degree of correlation ensures effective portfolio diversification.

### CREDIT DEFAULT SWAP

Credit swap in which the buyer makes periodic interest payments calculated on the basis of a fixed rate for the term of the contract, or any other equivalent amount, and the seller agrees to make a payment only upon the occurrence of a specified credit event.

### CREDIT SPREAD

Difference in yields to maturity associated with issuers other than the government of the country concerned. In this sense, the spread between corporate bonds and Government of Canada bonds is a form of credit spread, as is the difference in yields to maturity between Ontario bonds and Government of Canada bonds, Québec bonds and Government of Canada bonds, etc.

### DEPOSITOR'S BENCHMARK PORTFOLIO

Portfolio whose net asset allocation among the Caisse's specialized portfolios is agreed on with the depositor and corresponds to its needs and risk tolerance.

### DEPOSITOR'S INVESTMENT POLICY

Framework that defines the management of funds entrusted to the Caisse by a depositor and includes a description of the particular plan and its characteristics, the benchmark portfolio, the market indexes, the value-added expectations and other technical aspects, such as frequency of meetings and reporting requirements.

### DEPOSITORS' NET ASSETS OR DEPOSITORS' HOLDINGS

Fair market value of depositors' assets managed by the Caisse.

### DEPOSITORS' TOTAL ASSETS

Depositors' net assets plus assets financed by borrowing as well as transactions being settled, other liabilities and non-controlling interests.

### DERIVATIVES, DERIVATIVE PRODUCTS

Contracts, commitments or agreements for the sale or purchase of assets or the exchange of returns at a future date. These financial instruments are called derivatives because their value depends on an underlying asset.

There are three types of derivative products: futures and forward contracts, options and swaps.

### DEVELOPMENT CAPITAL

Investment in a privately or publicly held company that wants to expand through internal growth or through an acquisition. Also includes a partial or total buyback of shares from a major shareholder allowing for a transfer of ownership.

### DIRECTIONAL STRATEGY

Portfolio strategy based on the manager's ability to predict the direction of the price of a security or a group of securities.

### DISCRETIONARY APPROACH

Management approach that analyzes various parameters of the market and uses quantitative models to develop a measure of certainty regarding what appears to be a market imbalance. The transaction is carried out only if the manager believes the expected return compensates for the risk associated with the transaction.

### EQUITY INTEREST

Private investment made with the intention of holding it over the long term. This type of investment usually takes the form of capital stock in a company, and often gives the investor some degree of influence on the direction of the company through a board seat or specified management rights. In the context of the specialized Investments and Infrastructures portfolio, equity interest refers to a portion of the capital stock of a listed company.

### EVENT-DRIVEN STRATEGY

Portfolio management strategy designed to take advantage of an event that may take place on the market. For example, buying shares of a company after determining they have fallen too much in response to a lawsuit brought against the company.

### EXPECTED RETURN

Benchmark return to which is added the target value added, in accordance with the depositor's investment policy.

### FAIR VALUE

Value of an investment that reflects all fluctuations resulting from market behaviour or from any event that makes it possible to consider appreciation or depreciation. The expression "market value" is often used.

### FOREIGN EXCHANGE OR CURRENCY RISK HEDGING

Financial operation whereby an investment is protected from fluctuations in the exchange rate between the currency in which the investment was made and the investor's original currency.

### FUND OF HEDGE FUNDS

Fund whose component securities are hedge funds. This approach generally ensures diversification of styles, philosophies, risks, etc.

### FUNDAMENTAL ANALYSIS

Analysis based on the intrinsic value of a company and its more or less long-term outlook. It evaluates the company's qualitative and quantitative elements to determine whether, at the current share price, it appears undervalued, overvalued or fully valued. This method is based solely on calculation of ratios, returns and other quantitative data.

### GLOBAL MACRO

Investment operations based on an analysis of macroeconomic and political factors. The fund manager invests on the basis of the expected direction a market will take or the returns expected from one market compared with another. The manager can trade on interest rates, shares, currencies and commodities.

### INDEXED MANAGEMENT

Management that obtains the same return as the benchmark index by an essentially identical matching of the portfolio.

### INDIVIDUAL FUND

Fund attributed to a single depositor. An individual fund buys units from the Caisse's various specialized portfolios.

### INFORMATION RATIO

Difference between the return earned by a portfolio manager and the return on the benchmark index, divided by active risk. Used to evaluate a manager's ability to produce value added on a constant basis. By industry standards, an information ratio greater than 0.5 for a given period is considered excellent.

## GLOSSARY

### INFRASTRUCTURE

Investment in a company created to manage a specific project, such as a highway or an airport. It is characterized by less risk than other private equity investments owing to the stable and predictable nature of the long-term revenues.

### INVESTMENT POLICY (SPECIALIZED PORTFOLIO)

Framework that defines the rationale for a specialized portfolio or management mandate, and includes management philosophy, portfolio structure, investment universe, market index, target returns and value-added objectives, as well as risk elements and their limits.

### LEVERAGE

Use of borrowed funds to finance an investment. The classic example is the purchase of a property on which there is a mortgage. Derivatives and commodities also use a leverage effect.

### LEVERAGED BUYOUT

High-yield investment in a company that wants to acquire a majority position in a third company that is usually well established and profitable. With no capital provided, the acquisition is financed by an issue of high-yield bonds.

### LIABILITIES

Primarily undertakings related to investments, such as mortgage loans, securities sold under repurchase agreements and securities sold short.

### LIQUID INVESTMENT

Financial asset or security that can be easily turned into cash through a sale.

### LONG-SHORT STRATEGY

Absolute return operation based on the opportunity for portfolio managers to buy or sell a security short on the basis of their opinion regarding the direction of its price. See also Long position and Short position.

### LONG POSITION

Overweighting of a security, a sector or an asset class in comparison with the portfolio's benchmark index. See also Long-short strategy.

### MEZZANINE DEBT OR LOAN

Expression used in the context of private equity and real estate.

A hybrid financial vehicle whose return consists of a fixed portion of either cash or additional bonds and a variable portion consisting of warrants of a company. There is generally no repayment of capital during the term of the loan.

Financing that bridges the gap between traditional financing and equity capital.

There are many types of mezzanine loans based on the risks and barriers to investment. The two main types are called high-yield mezzanine and low-yield mezzanine. The first resembles equity while the second is closer to traditional real estate financing.

### OPPORTUNISTIC APPROACH

Investment method intended to take advantage of opportunities on the market to earn a profit. The opportunities may be the result of events or circumstances related to a rising or falling market or to market inefficiency.

### OPPORTUNISTIC STRATEGY (REAL ESTATE)

Investment method used for a real estate asset with attractive short- and medium-term growth potential, and with the prospect of a sale in the medium term. Investments can take the form of debt or equity. Given the generally low current return, the return expected from this type of investment derives largely from the expected increase in the value of the real estate asset.

### OUTSTANDING

Publicly issued and sold.

### OVERALL BENCHMARK PORTFOLIO

Weighted sum of the depositors' benchmark portfolios.

### OVERWEIGHTING

Proportion greater than the benchmark weighting.

### PRIVATE EQUITY

Investment made in a company on a private basis. Such transactions do not involve the usual mechanisms of the organized market.

### PROVISION

Estimated amount by which the balance of an asset that has declined in value is reduced and which is recognized in a counterparty account of the asset in question.

### QUARTILE

Ranking of the performance of investment managers. After the results of the managers in a sample have been ranked in descending order, they are divided into four equal groups. The first quartile corresponds to the best results in the sample, and the fourth quartile corresponds to the poorest results. The median is the mid-point of the sample and separates the top two quartiles from the bottom two.

### REAL RETURN

Return obtained over and above inflation. If an investment generates 6% per annum (nominal return) and inflation is 2%, then the real return is 4%. This return is used particularly in actuarial studies.

### REBALANCING

Asset allocation operation aimed at bringing the percentage of each asset class in the Caisse's overall portfolio back to the intended target. The percentages can differ from their targets because of market fluctuations, new return expectations, etc.

### RELATIVE RETURN

See Value added.

### RISK PREMIUM

Additional return required in comparison with the return obtained on an investment considered risk free, such as Government of Canada treasury bills or bonds.

### SECURITIZATION

Operation whereby a company converts assets or debt securities (mortgage loans, for example) by combining and structuring them in the form of a new security, which it then offers to investors. In this way it can increase its return, increase its liquid assets, revenues, etc.

### SENIOR DEBT

Security that entitles the holder to be reimbursed ahead of other holders of securities from the same issuer. The debt may take the form of a bond, loan, etc., and may be associated with specific collateral such as a building or machinery.

### SHORT POSITION

Underweighting of a security, a sector or an asset class in comparison with the portfolio's benchmark index. See also Long-short strategy.

## GLOSSARY

### SPECIALIZED PORTFOLIO

Group of securities with a common set of characteristics (currency, product type, market behaviour, etc.). Specialized portfolios are similar to mutual funds.

### STRUCTURED FINANCIAL PRODUCT

Debt security traded over-the-counter and integrating other financial instruments, such as options, swaps, caps or floors. The objective is to modify the profile of cash flows to make them more attractive.

### SUBORDINATED DEBT OR LOAN

Debt security or loan that ranks below another debt claim and entitles the holder to be reimbursed after other debt holders. See also Senior debt.

### SUBSIDIARIES AND AFFILIATES

Operational management company that specializes in one or more niche markets and is part of the Real Estate group's network. Its mandate primarily involves asset management and real estate investment (investments in equity ownership or financing products) on behalf of the Caisse, its main real estate subsidiaries and third-party investors. The Caisse or one of its main real estate subsidiaries normally holds a minimum 50% interest, which entitles it to appoint representatives to the company's board of directors and to exercise control, under a unanimous shareholder agreement.

### SYNDICATION

Operation whereby a group of financial institutions carry out an investment or provide financing.

### SYSTEMATIC APPROACH

Approach based on mathematical models incorporating several variables that portfolio managers define according to their degree of reliability and relevance. The managers follow a set of decision-making rules and try not to be influenced by their current opinion.

### TECHNICAL ANALYSIS

Analysis based on charts that map out the past behaviour of the market in an attempt to project its future behaviour. Technical analysis is used primarily to identify inflection points for a market or a company, to determine whether a recent trend is likely to continue in the longer term and to determine other trend indicators.

### TIME-WEIGHTED RATE OF RETURN

Return based on the initial fair value for the period, the contributions weighted by the time of contribution and the final fair value. The return alone is considered without regard to the decision as to when to call sums of money or to entrust sums to be managed.

### TOP-DOWN ANALYSIS

Analytical process that examines general elements before considering specific elements. For example, this approach considers foreign currency exposure, national concentration and sector concentration before analyzing the outlook for a company. Bottom-up analysis functions in the opposite direction.

### TOTAL ASSETS

See Depositors' total assets.

### TOTAL ASSET ALLOCATION

See Asset allocation.

### TOTAL ASSETS UNDER MANAGEMENT

All assets managed by the Caisse, namely all depositors' assets as well as assets under management and assets under administration on behalf of clients.

### UNDERLYING ASSET

Security or product to which another security, usually a derivative, is linked. For example, the barrel of oil is the product that underlies oil futures contracts. Similarly, the price of an ounce of gold affects the price of gold futures contracts.

### UNDERWEIGHTING

Proportion lower than the benchmark weighting.

### UNREALIZED DECREASE IN VALUE

See Unrealized increase (decrease) in value.

### UNREALIZED INCREASE (DECREASE) IN VALUE

Increase (decrease) in the fair value of a security in relation to its acquisition cost. The increase or decrease in value is "materialized" when it is recognized in the accounting books at the time of sale. If it is not yet recognized, it is said to be unrealized.

### VALUE ADDED

Difference between the absolute return on a portfolio and that of the benchmark index.

### VALUE AT RISK (VaR)

Method of measuring the risk that could be incurred as a result of exposure to a financial risk in normal market conditions during a given period within a determined confidence interval.

### VOLATILITY

Variability of the fair value of a market or security subject to rapid price changes. Volatility is said to be high when prices or rates vary widely over a short period.

### YIELD CURVE

Relationship among the yields of bonds of the same quality but different maturities, put into graphic form. A yield curve applies to a single market. For example, the Canada bond yield curve is different from the Québec bond yield curve. A curve is snapshot valid at a given time and changes along with the market.