Legislative Assembly of Alberta

The 30th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting

Thursday, November 25, 2021
7 p.m.

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Second Session

Standing Committee on the
Alberta Heritage Savings Trust Fund

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Jones, Matt, Calgary-South East (UC), Deputy Chair

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Eggen, David, Edmonton-North West (NDP)
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Athana Mentzelopoulos	Deputy Minister
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7 p.m. Thursday, November 25, 2021

[Mr. Rowswell in the chair]

The Chair: Good evening. I would like to call the 2021 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order.

My name is Garth Rowswell. I am the MLA for Vermilion-Lloydminster-Wainwright and chair of the Standing Committee on the Alberta Heritage Savings Trust Fund. The committee is pleased to be holding this meeting on the heritage fund in the Edmonton Federal Building in Edmonton, Alberta.

I would like to note for members that masks are to be worn in the committee room except when you are speaking, and members are also encouraged to leave an appropriate amount of physical distance around the table. I'd also like to note that the public galleries in the committee room are closed for this year.

The Alberta Heritage Savings Trust Fund Act requires that the committee hold a public meeting on the fund every year. The nonpartisan staff of the Legislative Assembly Office arrange and promote these public meetings, so I'd like to thank all involved for making this year's meeting possible.

The Alberta heritage savings trust fund is an important part of investing in a better Alberta. The fund earned a net income of $1.35 million for the year ended March 31, 2021. A return of 16.1 per cent was achieved during the fiscal year. This public meeting is an opportunity for Albertans to participate in a discussion about the status of the fund, what's in store for 2022, and how the fund will continue to provide a positive future for our province in the years to come. As well, the investment professionals hired to manage and get the best possible return for the fund are here to answer your questions.

I'd like to ask the members in the room here to introduce themselves, first to my right.

Mr. Jones: Matt Jones, MLA, Calgary-South East.

Mr. Hunter: Grant Hunter, MLA for Taber-Warner. Good to be here tonight.

Mr. Rehn: Pat Rehn, MLA, Lesser Slave Lake. Happy to be here and to serve.

Mr. Eggen: Good evening. My name is David Eggen. I'm the MLA for Edmonton-North West.

Ms Gray: Good evening, everyone. Christina Gray, MLA for Edmonton-Mill Woods.

Mr. Huffman: Good evening. Warren Huffman, committee clerk.

The Chair: And online we have MLA Tracy Allard for Grande Prairie, we have Peter Singh for Calgary-East, and we have Shannon Phillips for Lethbridge-West. I think that's got everybody. Yes. Okay.

The committee's mandate is to review and approve the performance of the fund and report to the Legislative Assembly and Albertans. The President of the Treasury Board and Minister of Finance is ultimately responsible for the fund and its investments. The department looks after setting the fund's long-term strategy, developing its investment policies, and monitoring the performance of its investments. Joining us on the panel from Alberta Treasury Board and Finance are Ms Athana Mentzelopoulos, the deputy minister; Mr. Lowell Epp, assistant deputy minister, treasury and risk management division; Ms Brittany Jones, senior manager, portfolio analytics and research; Mr. Stephen Thompson, executive director, capital markets.

The Alberta Investment Management Corporation, or AIMCo, is responsible for making and managing investments in stocks, bonds, and other investment instruments within the fund's portfolio. Joining us from AIMCo are Dale MacMaster, the chief investment officer, and Amit Prakash, chief investment strategy officer.

Tonight's meeting is being broadcast live on Alberta Assembly TV and streamed in both audio and video formats on the Legislative Assembly website at assembly.ab.ca. We are also streaming live on the Legislative Assembly of Alberta YouTube, Facebook, and Twitter accounts. I'd like to encourage everyone to join the discussion during our live broadcast. You can ask questions via teleconference by calling 1.888.892.3255 using the conference code 489262. You can submit your questions via e-mail or web form on the committee's website at committee.admin@assembly.ab.ca or through Legislative Assembly of Alberta social media on Facebook or Twitter using #abheritagefund. The contact information is displayed on the bottom of the screen.

We hope to respond to as many questions as time will allow during the question-and-answer segment of the meeting, which will immediately follow our panel presentations. The committee will alternate questions between those joining via teleconference and those asking questions via e-mail and social media. Your input is important to us, and I encourage you to participate. Participants are asked to please keep their questions and comments respectful and relevant to tonight's topic, the Alberta heritage savings trust fund. Please note that this meeting is being recorded by *Alberta Hansard*. A transcript of this meeting will be available online on the Assembly website in due course.

With that, let's take a look at the video on the Alberta heritage savings trust fund, followed by presentations from Alberta Treasury Board and Finance and AIMCo. So we'll go with the video.

[A video was shown from 7:06 p.m. to 7:08 p.m.]

The Chair: Okay. Thank you very much.

I would now like to invite Ms Mentzelopoulos and Mr. Epp with Alberta Treasury Board and Finance to present a financial update on the heritage fund.

Mr. Epp: Good evening, Mr. Chair, and thank you. Is the presentation going to be up on the screen?

The Chair: It's up there, yeah.

Mr. Epp: Perfect. Thank you.

As the chair mentioned before, my name is Lowell Epp. I'm the assistant deputy minister in the treasury and risk management division. It is our responsibility to provide advice to our minister on the heritage fund. In the next few minutes I will provide some basic information about the heritage fund as well as review its investment performance.

Slide 2. The mission of the heritage fund is to take savings from Alberta's nonrenewable resources that have been saved and invest these funds for the current and future generations of Albertans.

The next slide, please, or the next two slides, I guess. Thank you. The Alberta Heritage Savings Trust Fund Act is the legislation that governs how the fund is to be managed. Under the act the President of Treasury Board and Minister of Finance is responsible for managing and investing the fund.

The next slide. The minister is supported, as the chair has already mentioned, in managing and investing the fund by the Department of Treasury Board and Finance, AIMCo, and the standing committee. The department is responsible for developing, evaluating, and eventually recommending investment policies for the fund to the minister. This includes making recommendations for the policies that will guide how the fund is invested and managed, including the allocation to different types of investments. In addition, the department is responsible for monitoring the investment performance of the fund. Finally, the department prepares annual and quarterly reports for the fund to provide information about the fund to the public and how the fund has performed.

7:10

AIMCo is responsible for managing the investments of the fund, including deciding how the fund's investment policy will be implemented. As the investment manager AIMCo is expected to actively manage the fund's investments, in accordance with the investment policy, to enhance its returns. AIMCo determines where the fund is invested and when to buy or when to sell investments.

Finally, the heritage fund act establishes the standing committee to review the fund's quarterly reports and to approve annual reports. The committee is also charged with reviewing the fund and reporting annually to the Legislature on whether or not the fund is fulfilling its mandate.

The next slide. Section 3 of the heritage fund act requires that the fund be invested with the objective of maximizing the returns for the fund over the long term. This section also requires that the fund be managed prudently to avoid the risk of incurring losses.

The next slide. Five investment beliefs guide the development of investment policies for the fund. These beliefs are, first, that investing for the long term produces larger investment returns over time. In other words, patient, long-term investing allows the fund to avoid selling when the market suffers losses and allows it to take advantage of some of those periods when prices are low.

The asset mix – in other words, the allocation of investments among different classes of investments – has the largest impact on returns. That's the second belief. If the fund were exclusively invested in equities, returns and risk would be much different than if it was invested only in fixed-income securities. As an example of the asset mix and its impact, over the last 10 or so years the fund has been invested more heavily in global investment – that is, equity investments – instead of keeping all its equities in Canada. This mix produced larger returns for the fund as global investments generally outperformed Canadian investments over that time period.

The third belief is that risk should be managed on a portfolio basis. An individual investment may be risky, but when combined with other investments in a portfolio, investments such as that may actually reduce risk.

The fourth: diversification is an important tool in managing risk and can improve risk-adjusted returns for the fund.

Finally, active management, or active buying and selling of investments at opportune times, can improve the returns or reduce portfolio risk or both.

The next slide. This slide shows the current target asset mix on the left and the actual asset mix at the end of the fiscal year on the right. The heritage fund's target allocation is to invest 47 and a half per cent of the fund in equities, 32 and a half per cent in inflation-sensitive investments, and 20 per cent in fixed income. Inflation-sensitive investments are intended to protect the real value of the fund during an inflationary period, and examples of these types of investments are real estate and the investments in infrastructure such as power companies. These companies' revenues tend to go up with inflation.

The allocation of investment among the different classes is AIMCo's responsibility as the investment manager, and you can see from the chart that the asset mix at the end of the fiscal year was fairly close to the long-term target allocations. There was a slight overweight to equities at 50.3 per cent of investments and a small underweight to inflation-sensitive and fixed-income investments.

There's also a small investment in what we call opportunistic investments. These are investments that don't fit neatly into one of the other three categories, but they do allow AIMCo to make an unusual investment that doesn't fit the other categories. They can make it an attractive investment instead of being constrained by an overly restrictive investment policy. Opportunistic investments are limited to 5 per cent of the total fund and are typically much lower than that.

Next slide, please. The heritage fund's performance is evaluated by two targets, a real return target and a value-added target. The real return target focuses on the longer term performance of the fund relative to inflation and allows the asset mix to be evaluated. If the fund continually earns less than the target, the asset mix may not be sufficient to provide the returns that we seek. This target intentionally focuses on a longer period of time, recognizing that there will be periods when returns are good, but there will also be periods when returns are not so good. The fund is expected to earn a real return of 4.5 per cent over a five-year period, and it is calculated by adding 4.5 per cent to the percentage change in the consumer price index over that five-year period.

Next slide. The value-added target measures whether or not the investment manager is adding sufficient value through actively managing the fund, again over a period of time. The target is to earn a return that is 1 per cent higher than the returns of a passive index. An example of a passive index would be the S&P/TSX equity index, which measures the average return on various stocks within the stock market.

Next slide, please. How did the fund do in 2021, and how has it done over the last five years? You can see some of the highlights on the screen. Over the last five years the fund has earned a return of 7.4 per cent. The fund was $17.8 billion in size at the end of the last fiscal year, March 31, '21, and it earned a very strong return of 16.1 per cent during last fiscal year. In dollar terms the fund earned $1.4 billion in investment income during the year; $1.2 billion of these investments were transferred to the government to provide money to finance government programs and services, and $146 million was retained in the fund to protect the fund against the impact of inflation.

Next slide. The primary reason for the fund's strong performance was its large investment in equities as shown by the performance of the MSCI world equity index. This index has increased tremendously over the last year and a half, from the lows seen near the start of the pandemic, rising 61.7 per cent during the last 18 months. The end of last fiscal year was very near the low point of the world's equity markets, and you can see a V-shaped recovery of the equities markets has benefited the heritage fund greatly since that time.

Next slide. How has the fund done versus its two performance targets over the last five years? Well, the fund earned 7.4 per cent over the last five years. This return is 1.3 per cent above the real return target of 6.1 per cent. However, the fund did not meet the active management target over the last five years, with the return from active management being .6 per cent below what a passively managed portfolio would have earned.

7:20

Slide 16, please. During the fiscal year you can see that equity investments were the largest contributor to the fund's returns. Equity investments earned 37.9 per cent during the year and had a positive return on active management of 5.3 per cent. Fixed income had a pretty good year, particularly when compared to current interest rate levels. The low interest rate levels and falling interest rate levels during the year helped fixed-income investments earn

4.8 per cent during the year, which represents a return that is 2.5 per cent greater than its benchmark.

Inflation-sensitive investments had a negative return of 7.8 per cent during the year, largely due to the falling value of some of the investments held such as real estate. These fell near the beginning of the pandemic, and the values were adjusted throughout the year. Active management resulted in returns being 8.7 per cent below the passive benchmark for the year, and these low returns were caused primarily by reduced valuations for the assets held and not by actually selling at low prices. In other words, many of those losses, most of those losses were not realized.

Next slide. In terms of investment income, equities provided the lion's share of total income, contributing slightly less than $1.2 billion in earnings. Fixed-income investments provided $285 million, and despite the negative market value returns on inflation-sensitive investments, these investments contributed $18 million in investment income.

Next slide. Slide 18 shows the returns on the various asset classes and subclasses held by the fund. On the right side of the chart you can see that all types of equities had a very good year. Canadian, global, and private equities all had very strong returns, and value-added in each of those segments by the investment manager, AIMCo, was positive, significantly positive. Inflation-sensitive investments, as I said before, did not have a good year. You can see that real estate lost 9.3 per cent, infrastructure assets lost 5.1 per cent, and renewable resources earned negative 5.3 per cent during the year. As mentioned earlier, the value-added on inflation-sensitive assets was negative 8.6 per cent.

Slide 19. The fund has grown in most years since 2010 and now totals $17.8 billion in size. Most of the losses seen in 2019-20 have been recovered by the fund.

Slide 20, please. As I think I've already mentioned, the fund contributed $1.2 billion in earnings based on earnings of $1.4 billion. Inflation-proofing during the year, which is required by the heritage fund act, resulted in $146 million being retained by the fund.

Slide 21. Despite the fund having poor market value returns in 2019-20, total income was only $50 million higher this year than last year. The market value performance loss was caused almost exclusively by unrealized losses, most of which have recovered in the past year.

Slide 22. The mission statement that I started with states that the heritage fund is to be managed for the benefit of current and future Albertans. The fund has provided $42 billion to the government to pay for various priorities since transfers began in 1982. This money has been used to pay for health care, education, and many other things. This money certainly has benefited the current generation of today by transferring this $42 billion, and the $17.8 billion that remains will produce income for future generations.

Thank you for your time as I've gone through the various facts and figures for the fund. In summary, the fund had a very good year and a very good five years, earning 7.4 per cent over five years, 16.1 per cent during the last year. Its market value is $17.8 billion, and it contributed $1.2 billion to the government's finances during 2021.

Thank you, Mr. Chair. That ends my presentation.

The Chair: Okay. Thank you very much.

I understand that this was not seen on the TV, but it has gone over Twitter for those that have access to that.

Thank you for . . .

Ms Gray: The Legislative Assembly Twitter?

The Chair: Yeah.

Thank you very much for your presentation.

I'll now ask Mr. MacMaster and Mr. Prakash to provide AIMCo's presentation regarding the fund.

Mr. MacMaster: Great. Thanks, Mr. Chair. My comments will be brief, and then I believe we'll take questions. I would like to say on behalf of AIMCo that it's a privilege for me to be here today along with my colleague Amit Prakash. We take great pride in managing the heritage fund on behalf of all Albertans and welcome questions about how the investments in the Alberta heritage fund are managed and how we're doing.

Perhaps it's a cliché, but it's probably worth stating: what a difference a year makes. When we met for this annual meeting last year, we were closing out a very challenging year from an investment perspective and, of course, from a public health standpoint. As well, all of us were impacted by COVID-19. The successful global rollout of vaccines has allowed economies to resume some degree of normality, and the financial markets have responded with enthusiasm, which has contributed to very strong absolute and relative returns for the heritage fund.

The heritage fund returned 16 and a half per cent for the one-year period ending September 30. That's a full 6 per cent above its benchmark return. Most asset classes within the portfolio are contributing to these positive results. Both public and private equities have been the leaders. This is, you know, great to see. This year we've also seen higher energy prices, which is always good news in Alberta. As we move into the end of year, we expect additional good news on the valuation of the private assets in the heritage portfolio.

There are some headwinds and risks that we're watching very carefully, including rising inflation, supply chain disruptions, and labour shortages. We expect the upcoming year to be more volatile for investors, and we will make the necessary tactical adjustment to the portfolio as necessary. From an investment perspective we remain focused on managing a diversified portfolio of investments for the heritage fund, positioned to maximize risk-adjusted returns over the long term.

Before we carry on this evening, I would like to thank our colleagues at Treasury Board and Finance for their continued collaboration and the committee members as well for the high level of interest and engagement in what we do at AIMCo on behalf of Albertans. Thank you.

The Chair: Okay. Mr. Prakash, did you have anything to present?

Mr. Prakash: No. Thank you, Mr. Chair.

The Chair: No. Is there a video? No video? Okay. That's fine. Thank you.

Before I open the floor to your questions, I would like to remind everyone that we encourage Albertans to join the conversation and submit your questions for the committee or our panel of experts. Once again, you can ask questions via teleconference by calling 1.888.892.3255 using conference code 489262. You can also submit your questions via a web form on the committee's website, via e-mail, at committee.admin@assembly.ab.ca or through the Legislative Assembly of Alberta's social media, on Facebook or Twitter, using #abheritagefund. As mentioned, your comments are important to us, and we will attempt to answer as many questions as possible during the meeting.

I will now open the floor for questions from the phone – operator, if you could put the next one through – and when you do call, if you could have your first and last name and where you're calling from.

7:30

Mr. Huffman: There's nobody on the phone right now.

The Chair: There is no one on the phone right now, so we'll go to the e-mails.

Mr. Jones: Yeah. I got one.

The Chair: Okay. Very good.

Mr. Jones: This one is from Samir from Calgary. He says:

> Please comment on the abandonment liabilities associated with oil and gas credit investments, such as Journey, Pieridae, Razor, etc. Has the trend of abandonments increased or decreased in the last five years? How much value did the AIMCo-supported management proposal in the Calfrac restructuring provide to the Heritage Fund, relative to the Wilks Brothers proposal? Please comment on Heritage Fund performance compared to peers, especially CPPIB and Ontario Teachers' Pension Plan. Could the Heritage Fund change managers?

There's a lot in there. Good luck.

Mr. MacMaster: Why don't we break it apart, because I don't remember what the 10 questions were. Can I start with the first one?

Mr. Jones: The first one was around:

> abandonment liabilities associated with oil and gas credit investments, such as Journey, Pieridae, Razor, etc. Has the trend of abandonments increased or decreased in the last five years? How much value did the AIMCo-supported management proposal in the Calfrac restructuring provide to the Heritage Fund, relative to the Wilks Brothers proposal?

Mr. MacMaster: I can't really comment on the abandonment of wells. I just don't have the information on that at hand. Calfrac at this point represents, I believe, about $14 million out of a total fund of $130 billion, so it's more or less irrelevant to the overall, total fund for the heritage fund. I guess that would represent about 1 and a half million dollars or $2 million. Calfrac is up about 27 per cent on the year, doing quite well, along with many other energy companies, so we're pretty pleased with the performance.

What was the next question?

Mr. Jones: The next question was: "Please comment on Heritage Fund performance compared to peers [such as] CPPIB and Ontario Teachers' Pension Plan. Could the Heritage Fund change managers?"

Mr. MacMaster: Yeah. Good question. A fair question. We use a service called CEM, that compares, you know, global managers, not only the Canadian, what we call the Maple 8, but a global, universal of like managers. Over the long run we set our targets off what we see as top quartile results from those funds, and over long periods of time they tend to be in that top quartile of performance. When you look at just the Maple 8, there are a lot of differences in how we manage the assets. Obviously, the asset mix is different from fund to fund. Their choice of relative weights of fixed income versus equities, the degree of illiquid assets they hold, their treatment of leverage in the fund, their risk appetite, their treatment of currency: all of these variables result in different returns.

But saying all of that, if you look at performance annually over the last, say, five, 10 years, AIMCo on behalf of its, you know, total funds – the heritage fund is different from our pension funds – tends to be in the mix. Sometimes it's on top, sometimes it's at the lower end, but it tends to be in the mix. So over the last 10-year period the heritage fund for September 30 earned 10 per cent. I would guess that the Maple 8 are on either side of that number, so I think we compare quite favourably to that.

Mr. Jones: And the last part of the question is probably for TB and F, and I think it's just asking: in theory, could the heritage fund manager be changed?

Mr. Epp: Yes, AIMCo could be replaced.

Ms Mentzelopoulos: But we have no direction to do so.

Mr. Jones: Thank you.

Okay. I have another question here, from Scott Arnold from Edmonton. He asks: when will we finally – I'm sorry; I skipped a question.

Scott Richey from Calgary asks, "How will AIMCo divest from fossil fuels" – I'm assuming fossil fuel related investments – "as the world moves on and adapts to climate change?"

Mr. MacMaster: We have no interest in divesting of energy hydrocarbons. The energy business, as many of you know, is one of Canada's leading industries. Our approach to ESG: there's extensive information on our website. We also publish a responsible investing annual report that outlines our approach. We are very much a voice over exit, so, you know, we hold companies and encourage them to abide by the best standards of ESG, including things like worker safety, diversity on boards, better reporting on carbon exposures and CO_2 emissions and encourage best practices there. We are not interested in divesting. There's a tremendous amount of capital that's going to have to be put to work in order to manage an energy transition, and that's something that, I think, investors around the world are going to be participating in.

Mr. Jones: Thank you.

On to the next question. Scott Arnold from Edmonton asks: when will we finally have a saving program that cannot be dipped into? Should it not be illegal to take out even interest and growth until we hit – and he's suggesting $1 trillion, which could then be the source of future revenue?

Ms Mentzelopoulos: It's Athana here. I'll take a crack at that, and Lowell might want to help me. I guess, essentially, as Lowell commented in his opening remarks, we take direction from the government, in particular from the Minister of Finance, in terms of the appropriate management of the heritage fund. The choice that the current government makes is as was described in Mr. Epp's presentation, which is to say that we do draw, as the questioner clearly understands, government revenue from the fund. There are different ways, again as the questioner very appropriately points out, to manage it, but that is the decision of the government in terms of the current management of the heritage fund.

Mr. Epp: I would add that that is consistent with the decisions by previous governments as well.

Mr. Jones: Thank you very much. I have another question here, from Patty O'Table.

> In the past, one of the explanations as to why Alberta's Heritage Savings Trust Fund is not at the level of Norway's fund is that Norway is a sovereign country and Alberta is a sub-national entity, implying that Alberta has less resources and tools available to grow its fund in this way. As Alberta does have authority over its natural resource revenues, the disposition of the Fund, and the power of direct taxation, can you please identify what tools, in particular, Norway has as a national entity that Alberta lacks in relation to growing this fund?

Mr. Epp: It's Lowell here. Norway has complete control of its resources and how they are transported whereas Alberta relies on other provinces, First Nations, and primarily the federal government to allow it to move Alberta's landlocked oil. That's a big dip.

Mr. Jones: Okay. I have another question here, from Sally Mansour. "My question is: what return did the fund generate this year?"

Mr. MacMaster: The fund's return was 16.1 per cent during the year.

Mr. Jones: Do we have anybody on the phones?

The Chair: Not yet, no.

Mr. Jones: Okay. I have another. James Sullivan:

> AIMCo's recent Responsible Investment report stated that AIMCo is developing a climate action plan which will include an "overarching goal of making real world impact to reduce global greenhouse gas emissions." The report also states you intend to "consult with clients on this plan in early 2022" but provides no additional details. How will Albertans be consulted in the development of this plan to ensure it reflects our priorities and values? Is there an expected timeline?

7:40

Mr. Prakash: Dale, I'll start up. Thank you, Mr. Chair. As Mr. Epp mentioned, our primary objective in managing the heritage fund is to maximize the expected returns over the long term. As part of that mandate, for each of the investments we make on behalf of the fund, we are focused on the expected returns, risk, and other characteristics. Climate risk is one of those risks which potentially would impact investments over the longer term, so we are focused, as part of our mandate, to also look at climate risk very closely. Just to repeat what Evan Siddall, our CEO, said: as part of our mandate we are not looking to divest from hydrocarbons. We believe there is an urgent opportunity as well as risk with climate-related impacts, and that's what we're focused on.

As part of our planning on climate and responding to it, we are developing core principles and will be engaging with clients over the next couple of months to ensure that the principles in conjunction with the objectives for the investment mandate that we have are aligned and allow us on behalf of the fund to incorporate both the expected returns and risk, the opportunities and the risks, as we develop and formalize that plan. We will do it in consultation and collaboration with clients over the next few months.

Thank you.

Mr. Jones: Thank you.

The Chair: I'll just give the number again in case some people didn't write it down. The teleconference number is 1.888.892.3255 using conference code 489262, and you can submit your questions via a web form on the committee's website, via e-mail at committee.admin@assembly.ab.ca, to the Legislative Assembly of Alberta social media on Facebook and Twitter using #abheritagefund. If we run out of questions here, just to prep the committee members, if we get a lull, I'll come to you guys to ask you if you've got a question, and then we'll go back and forth and give people time to call in or send an e-mail. We don't have anyone on the phone yet? There we go. Yeah.

Mr. Jones: Thank you.

Here's a question from Twitter. What steps has AIMCo taken to increase trust that they are making sound decisions considering the disastrous decisions in the recent past culminating in the recent loss of $2.1 billion?

Mr. MacMaster: Sure. As a result of our loss, of the VOLTS strategy, in 2020 our board undertook an external review, that was performed by KPMG. That resulted in 10 different recommendations, that resulted in 31 specific objectives around all manner of risk management, including risk education, improving the risk culture, improving governance, transparency, all manner of risk management aspects. All of those recommendations and objectives will be achieved at the end of this year, where 30 out of 31 objectives are completed, and the last one will be completed by the end of December. So we took the opportunity to confront that loss to improve our governance and risk management throughout the organization. I think that's been very successful.

Mr. Jones: Thank you. Alexandria Fisher asks:

> In 2020 AIMCo's net return of 2.5% was 5.5% below benchmark. Given this, what was the reason for the massive increase in C-suite AIP Individual Objectives bonuses from 19/20 - 20/21? . . . This component of the CEO's compensation increased from $420,000 to $806,000.

Mr. Prakash: Okay. AIMCo takes a long-term view of performance and believes that a focus on short-term performance can distract from good investing. We will not comment on an individual's performance for the last year or any period, but I would direct the questioner to our annual report, where we provide readers with complete transparency regarding executive compensation in what we believe is one of the most comprehensive and transparent discussion analyses of compensation in our industry.

Secondly, it's also important that the incentive compensation considers achievement beyond investment performance. Relative to noninvestment measures, AIMCo's executives successfully executed against a number of corporate initiatives that have both ensured that there was no disruption to our operations as a result of the pandemic as well as also benefiting the organization and AIMCo's clients over the course of 2020.

Mr. Jones: Thank you.

My next question is from Neal Gray from Edmonton.

> During the presentations . . . AIMCo . . . mentioned concerns around inflation. Given that the Trust Fund's assets are global, is he suggesting that the threat of inflation is currently global? Can he expand on what he means about the risk of inflation, specifically where AIMCo sees inflation as a risk, why they believe inflation will rise, and how they see that interacting with their investment portfolio and the returns it provides to the HSTF and the province?

Mr. MacMaster: Sure. I can take a stab at that. I think most people are aware that inflation has crept up. In fact, the most recent release on U.S. CPI had it above 6 per cent. I think inflation in Canada is running over 4 per cent at this point after many, many years of benign inflation data. There are reasons for this. Partly it's a great amount of stimulus that's been provided on the part of governments, both fiscally and through monetary policy, to stimulate the economies coming out of the pandemic recession, including government support that put funds into individuals' hands. We are seeing energy prices, you know, rocket forward about 30 per cent of the CPI headline. The CPI number that we're seeing is related to a very sharp rebound in energy, which, again, is related to a pick up in demand brought about by all that stimulus.

We're seeing a shortage of labour, which is driving wages higher in part, again, because many of the workers that were laid off or impacted by the pandemic have not returned. Some are still collecting government funds. In the U.S. we have upwards of 10 million. That's been reduced to 4 million, but there are still significant folks that have not returned to the workforce, to the labour force, and many of them will not. It seems that the sharp rise in asset prices, in housing prices, and government support has had certain individuals rethink coming back in the labour force, and that's driving wages higher. So we have shortages of materials, shortages of labour, a rise in energy price that is driving inflation higher.

7:50

Central banks are currently taking the view that this is transitory. At this point we tend to agree with that, in part, by looking at what the bond yield curve is telling us, and that is that 10-year rates have moved upwards to a high of about 1.75 per cent while the short end of the curve has been most impacted by the rise in inflation. What does that tell us? It seems like, you know, if you believe in an efficient market, the market is saying that this is also transitory and that those forces that created deflationary impacts like technology, demographics, aging population, productivity increases will come to bear again once we get through this sharp demand period coming out of the pandemic. We are watching this very carefully for signs that inflation becomes more embedded in and creates a wage-price spiral, which would not be good for the markets or economies, we think, so we'll watch that very carefully.

The good news is that central banks are actively changing their positions and are about to begin tapering and withdrawing stimulus probably sooner than they had been saying six months or a year ago. So this is probably a positive step. I don't think we need, you know, rates this low, certainly negative real rates, right? With inflation at 4 per cent in Canada and 6 per cent in the U.S., we need to try and normalize rates, and I think that will be a good thing for markets.

Mr. Jones: Thank you very much. The next question comes from Twitter.

> How much money is invested in the TC energy coastal link project? When was the money invested, and comment on how much due diligence was done considering that major stakeholders, i.e. hereditary chiefs, were not consulted?

Mr. MacMaster: We have approximately $650 million approved for the Coastal GasLink project. It's a terrific project, unusual in that it has such widespread support both from community, government, and First Nations. This investment was made in 2019, and it has had some minor delays, but it is a very promising investment that we're very proud to make. It consists of long-term cost-of-service contracts with very creditworthy counterparties. It's a critical piece of Canadian infrastructure that we're very proud to be part of.

There's no direct commodity exposure or volume or merchant exposure, a reputable operator at TC Energy. It adds portfolio diversification on behalf of the heritage fund, hedging costs as here it is in Canada, the portfolio and infrastructure with a little underweight candidates, so we are pleased to see that. From an ESG standpoint, it's wonderful because liquefied natural gas can be shipped offshore to places like China and India, who are dependent on coal-fired generation. You know, 35 per cent of global emissions are coming from China, largely from coal-fired electric generators. We're very pleased to be part of replacing that with gas, so that aligns very well with our ESG credit.

We're very happy to be participating with First Nations. There are over 20 First Nations groups along the path of the pipeline who have signed on and are working on the pipeline and the project providing jobs. This is an example of a project that we're proud to be part of that ticks a lot of boxes for us.

Mr. Jones: Thank you. The next question is from Tony Odenbach from Red Deer.

> Some of the return is re-invested in the fund to offset inflation. With higher inflation rates, will this change the overall investment strategy? It was disappointing to hear that the fund managers didn't meet their active management targets.

Mr. MacMaster: Sorry; is that one for me? Sorry; could you repeat the question?

Mr. Jones: Yes. Tony is asking about some of the returns that are reinvested for inflation protection with higher inflation. Will any policies around this change? And then he commented on not reaching the active management targets.

Mr. MacMaster: Yeah. Fair enough. I'll say a couple of things. Let's talk of targets, first of all. You know, I was looking at the return recently for the heritage fund. I think it was at 16.1 per cent. I had to go back to 2009-2010 to see a return that high. That was 17.8 per cent back in 2009-11, so almost 12 years, so a very high return. Of those 12 years, AIMCo has outperformed the performance benchmark nine out of 12 years, so that's also good to see.

You know, I have more recent information than this report, the annual report that was presented by Finance. That was eight months ago. We have September 30 numbers, and the 10-year return for the heritage fund is 10 per cent annualized, so every year for the last 10 years 10 per cent. AIMCo has added 53 basis points over the benchmark on that basis, so that's roughly – call it $100 million a year that AIMCo is adding over the benchmark. That 10 per cent return represents about $17 billion of total return, so almost as large as the fund has been earned in returns over the last 10 years.

In any short period of time, even sometimes five years, we're going to show underperformance. I can tell you now that at September 30 we're above the five-year benchmark by 24 basis points, 10 years by 53, and by year-end we'll be even more. You know, this has been a V-shaped recovery in markets that has led to a sharp, high return, a 16 per cent return. Some of the illiquid assets have lagged because they're only marked, they're only valued quarterly, so we've continued to see those get marked higher through the year, and we will see that again at the end of the year.

So my news here for you is that AIMCo is quickly climbing back on the value-add trend again towards higher value-add, and we expect to be very close to those stretch targets, you know, very soon.

Mr. Jones: Thank you.

Tammy Gerow asks: "The money that came out of the fund was used for what purpose?" Also: "Who's fund is it? Ours or the Government?"

Mr. Epp: Well, the fund is definitely Albertans'. It's managed on behalf of Albertans by the government.

Sorry; I forgot the first half of the question.

Ms Mentzelopoulos: What's the money being used for?

Mr. Epp: Well, the money goes into the government's general revenue fund, and then, like taxes and other revenues of the government, it gets used for a variety of purposes. We don't actually track every dollar and how it gets spent. That would not be possible, quite frankly.

Ms Mentzelopoulos: But if you imagine some of the things that governments pay for, health care and education – those are the top two – it's reasonable to conclude that certainly the revenue derived from the heritage fund has had a contribution to helping to provide health care and education, amongst others.

The Chair: Okay. Thank you.

That's it for those questions, yet you can still send them in.

MLA Grant Hunter has caught my eye, and he's got some questions.

Mr. Hunter: Thank you, Mr. Chair. I have just two questions. The 2020-21 returns showed 16.1 per cent during very tumultuous times. I'm actually very interested in: what was your strategy? How did you prepare for that? If you didn't – I was just surprised to see it. Was it because of that V curve that you were able to realize those returns? I mean, I guess that after the 2008 housing crash you also saw an increased 17 per cent, as you said. Is that indicative of just a V curve that would affect that? How did you get that 16 per cent? Are you going to be applying that same thing to, you know, a higher than average inflationary time this year and next year?

Mr. MacMaster: Okay. Good question. Let me try and address the first part of that. You know, we're very patient investors. We invest for the long term. We get market dislocation, where you have panic selling and prices move away from true value, which creates opportunities for long-term investors. Part of that is our actions, but I would say that in this case with March 2020 the recovery was so quick. If you recall, March was dreadful, but the central banks took a page out of the credit crisis playbook to immediately respond, and the stock markets started going up almost immediately. So active investors in the public markets have very little time, you know, to act in that space of time. But what would happen, of course, is that we hold quality investments, and they were marked down in this location, and they came back. That was part of it.

8:00

The illiquid assets we hold: they would be considered infrastructure and real estate. Let's talk about real estate for a minute. Real estate in a pandemic was really a case of you either lucked out or you didn't. If you owned malls that closed, well, you know, you've got valuation adjustments. We own an airport in London, London City. Well, it closed. It closed for over a year. There's not much you can do about that. London City, as many of you may know, is completely at capacity in terms of air travel. It was before. Great investment. Air travel was growing 5 per cent a year globally going into this, and then this thing shuts down, right? It caters to commercial travel. So a lot of it was what you owned. And now, with economies up, of course, these assets are coming back, and valuations will increase.

Other things did quite well for us. You know, if you take real estate again, if you were in industrial property, say logistics, which cater to online activities – right? – buying online, if you're moving from retail bricks and mortar to online, logistics centres absolutely exploded, and we're overweighted. That sector is doing very, very well for us, and we'll see that in the returns coming in December.

You know, as always, one needs a diversified portfolio. If we talk about infrastructure for a minute – I mentioned London City – that got hurt a little bit, probably down 20 per cent from 2019. On the other hand, renewables, wind and solar, absolutely exploded. And you may have seen the press release that came out recently around our Spanish renewables platform, the Eolia, which we purchased for $600 million in 2019. Well, we're on pace to sell that for close to $1.8 billion, nearly a three-bagger on what was supposed to be a 7, 8, 9 per cent return type of investment. It just goes to show you that the demand for renewable assets is so great that it's separated itself from a reasonable valuation. We had to sell this because it was too risky to hold its future potential return at that valuation. So that was a tremendous lift for the portfolio, obviously, that, again, you'll see in the year-end return.

So a long story to say that, yes, the V-shaped recovery helped our assets come back, and what we lost in 2020 is being recovered in full in 2021 and then some.

Mr. Prakash: If I may just add one more comment to Mr. MacMaster's comments. A lot of the benefit that we've seen in the heritage fund isn't something, necessarily, that was done to it in March of last year. The design and the policy mix of the fund – its allocation to equities, to inflation-sensitive assets – creates a diversified pool, the resiliency that that adds to a fund such as that. We see the benefit as the markets turn around in a hurry and how the fund has benefited from the quick turnaround.

Thank you.

The Chair: A follow-up?

Mr. Hunter: It's actually a different question. If you want to go to someone else, it's fine. I can ask another question afterwards.

The Chair: Okay. We'll go to MLA Christina Gray.

Ms Gray: Thank you very much, Mr. Chair, thank you to everyone who is presenting this evening, and thank you to all the Albertans who have submitted questions. My question at this public meeting is around the topic of the fact that the government, or Treasury Board, retains the ability to direct individual investment decisions at AIMCo, and we've certainly heard the language of trust coming from some of those Albertans who've asked questions today. This is an issue that's been of public attention in the past two years, and at our last meeting the new CEO, Mr. Siddall, did acknowledge that there is the ability of government to direct investments and that he and, he believes, predecessors have recommended that that might be a perception problem for AIMCo.

So my question to Treasury Board and Finance, as we're nearing the end of the fall legislative session, is if the department, if the minister is considering any legislation to remove this power from Treasury Board and Finance. Would you be able to update the public if it continues to be the position of the minister that the government should retain the ability to direct individual investment decisions at AIMCo?

Ms Mentzelopoulos: Thanks. It's Athana here. I'll take a stab at answering that. Thank you for the question. I think that the question refers to section 19, which has not been utilized. There was a policy in place called the Alberta growth fund, but the government rescinded that.

In terms of the specific question about whether legislation is being contemplated, I can't speak to that because I believe that questions about legislation are generally held to be in confidence. I think that if that was going to be considered, it would be coming before the Legislative Assembly, and at that point it would be public.

Ms Gray: Thank you.

The Chair: A follow-up?

Ms Gray: No. I'm good.

The Chair: Okay. MLA Peter Singh.

Mr. Singh: Thank you, Mr. Chair. Let me begin by expressing my appreciation to the officers of AIMCo as well as the representative of Treasury Board and Finance. Thank you for being here with us today in this public meeting. My question. On slide 13 of the Treasury Board and Finance presentation it states that the fund experienced a 16.1 per cent return during 2020-21. How does that compare to the general

market? How does that compare to the rolling average over the last 20 years? How sustainable is the rate of return?
Thank you, Mr. Chair.

Mr. MacMaster: I'll take a stab at that. You know, I don't have that number in front of me, the benchmark return. I can tell you that to the end of September the total return for the fund for one year is 16.5 per cent versus the benchmark of 10 per cent, so outperforming by 6 per cent. So that gives you some idea. It's a different period, but it gives you a sense. The total return is quite high, isn't it?

I mean, I think I highlighted earlier that you'd have to go back to 2009-10, when the heritage fund returned about 17.8 per cent, you know, for a total return of that magnitude. That's not the sort of return I'd expect next year in terms of total return for a few reasons. Number one, the interest rates are very low, 1 per cent, 1 and a half per cent, so fixed income is not going to earn much. There's been a lot of euphoria in the markets, which has driven valuations higher. We're taking advantage of that, so I expect a more muted return. Our long-term forecast returns are 6 to 8 per cent for a balanced fund for the next 10 years. That would be our forecast.

Mr. Singh: Thank you for answering.

I have one more question here. The overall value of the AHSTF has remained relatively stagnant over a number of years due to the policy decisions that have been made to how we inflation-proof the fund. With the rates of return at the 16 per cent range here, are policy options being considered to increase the principal value of the fund beyond inflation-proofing such as allowing greater than anticipated returns to the fund here?

Thank you.

Mr. Epp: There are many assumptions you have to make if you want to compare what returns and values would have been had the money been retained in the fund, and quite frankly we haven't done such a calculation. In addition, there's a cost to taking that income away from the government's ability to spend. Lots of people talk about what could have been if we'd maintained that money in the fund, but very few people talk about what Albertans would have had to give up to accommodate that growth.

Mr. Singh: Thank you for answering my questions, and I really appreciate you taking this time to be here.

Thank you, Mr. Chair.

8:10

The Chair: Our next question comes from MLA David Eggen.

Mr. Eggen: Thank you, Mr. Chair, and thanks to everyone who has tuned in tonight for the annual general meeting, the public meeting, for the heritage trust fund. I have a two-part question. I know that organizations are always going through change, and we did see the new CEO from AIMCo in an op-ed last month making it very clear that AIMCo had a lot of work to do in order to repair relationships with the public and noting that being honest and transparent is job number one. So I'm just curious to ask the first part of my question to AIMCo. What sorts of actions are you taking to meet this standard and to right the ship, so to speak?

Mr. Prakash: We've taken as an organization a range of actions to improve and repair our relationship with our clients, and the core to that is to evolve AIMCo as a more client-centric organization from an organizational perspective, from a consultative perspective, and from the general level of client service that we provide to our clients. From an organizational perspective, some of the changes we've made will strengthen our interactions with clients. It will improve and enhance the quality of the conversations we have with clients and, lastly, improve the analytical and research support and capabilities that we are building to further support our clients.

Secondly, with many of our clients, we have also formally started to consult on a variety of topics, including product descriptions, including cost-recovery models and the like, again, with a view to providing greater transparency and having more formal ways that we can interact.

Then, lastly, we've also more formally set up forums whereby, both at a senior and a strategic level, clients engage with us, where we can share priorities, solicit input, and have open and honest two-way conversations. Likewise, we're also doing that at a working level, at a more granular level, in order to both improve communications but, more fundamentally, build trust with our clients.

We believe that these steps have been well received by our clients, and we will continue to do so over the next little while. Thank you.

Mr. Eggen: Thank you very much. That sounds like a very engaging process, and I congratulate you for that.

The second part of my question is to Treasury Board and Finance, then. We heard what AIMCo has been doing to try to develop more positive relationships. I would just like to know what Treasury Board and Finance is doing to work through some of the bumpy processes that we've witnessed here in the last number of months – right? – for example, you know, with the teachers and the thing that went on with their pensions. I'm just curious to know if Treasury Board and Finance is going through a similar process to improve their relationship with their clients and the public.

Ms Mentzelopoulos: Well, I believe that we're here tonight to discuss the heritage fund, and I'm pretty proud to say that in terms of the heritage fund we have an incredibly high degree of transparency. We appear before the committee several times a year. We're here this evening to appear before the public. I think we have demonstrated our commitment to transparency. We appreciate a similar level of transparency from AIMCo around their own operations. I think that's the purpose of the meeting tonight, so I'm only really comfortable speaking in terms of the purpose, which is the heritage fund, tonight.

Mr. Eggen: Yes. Well, of course, the heritage fund is integral to your response to the public and part of your responsibility, to manage that.

Thank you.

The Chair: Thank you.

We have some more e-mails.

Mr. Jones: Yeah. A very quick one here from Tammy. She asks, "How do we contribute to this fund?" For TB and F.

Mr. Epp: That's a great question. I don't have a great answer because nobody has ever asked before. I'm sure we can find a way. If somebody wants to contribute to the fund, that won't be difficult, but to be honest, we honestly haven't seen that question ever before.

Ms Mentzelopoulos: There are no current contributions either, right?

Mr. Epp: No. There are no contributions except for extraordinary ones. I think the last one was in 2008.

Mr. Jones: Yeah. Perhaps you could just quickly comment on how the fund was historically funded and how that was changed.

Mr. Epp: The fund was historically funded by taking a portion of all revenues from nonrenewable resources. Initially this was, I think, 100 per cent. No. It was a third, right? Well, anyway, we took, let's say, 30 per cent of all nonrenewable natural resource revenues and put them in the fund. Starting in 1982, that amount was cut to 15 per cent, and then in 1987 the revenue contributions were eliminated. Since that time there's been inflation-proofing, which started in 2005, after the government paid down Alberta's outstanding debt, and there have been occasional ad hoc deposits into the heritage fund. These are all listed in the annual report.

Mr. Jones: Thank you very much.

The next question is from Alexandria Fisher.

> Unlike many peers, AIMCo doesn't disclose its external managers. When asked AIMCo said they couldn't share names due to "confidentiality." What specifically prohibits sharing this [information]? What actions must occur to disclose & match peer transparency best practices?

Mr. MacMaster: To be perfectly honest, I'm not sure we offer complete transparency to our clients, of course, and their consultants. We have a lot of material on our website and in our annual report as well. I'm not sure of the level of disclosure on external managers, though, or even what our policy is to the general public, to be perfectly honest.

Mr. Jones: Okay. Thank you.

An e-mailed question from Patty O'Table: "How large would the Fund have to be to generate sufficient revenue returns to General Revenue to return Alberta . . . to surplus budgets without raising taxes or cutting spending (excepting Covid expenditures)?"

Mr. Epp: Well, again, we've never done those sorts of calculations. We earned, over the last few years, about an average of $1.2 billion. The deficit this year is somewhere in the range of $7 billion, I believe, so we would need to have about four times the size. The size of the fund would be about four times its current size to produce that much intel.

Ms Mentzelopoulos: For a balanced budget.

Mr. Jones: Thank you very much.

Neal Gray from Edmonton asks:

> Is there anything in the current asset mix that might be considered offensive to, or not in line with, Albertans' ethics, values, and standards? Is AIMCo confident that nothing in the asset mix would be considered inappropriate were those assets brought to light as being owned or operated by [or] for the people of Alberta? What sorts of ethical or moral checks does AIMCo test assets against? Do those tests get revisited during an asset's lifetime . . . holding?

8:20

Mr. MacMaster: Sure. I think I'll start that one, and then you can weigh in. Almost all of our investments at this point go through an ESG due diligence process. Of course, there's a deep due diligence on, you know, looking at the merits of the investments, risk, legal compliance, but there's also a specific ESG due diligence checklist. Our responsible investing group is responsible for carrying that out, and they rate all of the investments on a red-yellow-green scale. We abide by best practices and doing business the right way. We have certain areas of focus in responsible investing – I mentioned earlier worker safety, diversity on boards, proxy voting approaches – and where we see a failure on the part of one of our portfolio companies, we will engage with that company and its board as well to elicit change.

Amit, do you want to comment further?

Mr. Prakash: Yeah. I'll just add to that. Thank you, Dale. We are also very proud of our transparency in this space, consistent with the other areas. Our responsible investing report, our TCFD report, how we vote our proxies: all of that's available on our website. Again, the public has full transparency on our positioning in any of those areas.

Mr. MacMaster: We do have the restricted list as well, which includes your tobacco and weapons of mass destruction, which are no-go zones for us.

The Chair: Okay. Thank you very much.

MLA Pat Rehn has a question.

Mr. Rehn: Thank you, Mr. Chair, and I'd like to thank all Albertans for participating this evening. Also, thank you to everybody participating on the live screen. My question has to do with – the last global market contraction was in 2008, during the subprime mortgage crisis, and as most of us know, the economy also often works in a cyclical fashion. I wanted to know if you guys could comment on, now that we're going through a similar situation with COVID, what your thoughts are on positioning the heritage fund in order to try to maximize returns coming out of this type of a downturn.

Mr. MacMaster: Sure. Terrific question. One of the things we've done is that, you know, we've positioned the fund tactically, overweight equities through much of the past year and underweight fixed income, underweight bonds. The rationale for that was that we just felt that with the amount of fiscal and monetary support that was being put to work, equities would have a significant tailwind, which they have. On the other hand, fixed income, to us, has very little merit in anyone's portfolio beyond risk management and liquidity, which are important considerations, and for all of our clients that still represents a significant piece of the asset mix.

But in terms of return we really haven't seen such a long period of negative real rates and, in many parts of the world still, negative nominal rates, some $13 trillion, I believe, still trading below zero. Rates are very low, don't cover off inflation, and if rates start to move higher, you'll see negative returns there, so very appealing from a long-term investor point of view.

You know, many of our clients, including our folks at Treasury Board and Finance, have shifted the portfolio towards illiquid assets – private debt, mortgages, infrastructure, private equity, real estate – which have been partly responsible for the tremendous returns over the last 10 years because Treasury Board was astute in moving early in that regard.

Tactically, underweight fixed income, overweight equities: we've trimmed that recently, in part because we think valuations are somewhat stretched in the equity market. We are concerned about rising inflation and the potential for higher rates to potentially create more volatility in equities, so being cautious there.

In credit we're very cautious as well. Corporate credit spreads are very, very tight, so the extra yield premium you would buy in, say, buying a corporate bond versus a government bond is very narrow, all-time tight, offers very little protection over government bonds. Again, we're very cautious there.

We have moved more assets into private debt, where we think there are better risk-adjusted returns. In equities, you know, as well as taking our overweight down within the portfolio, we reduced what we call beta. In other words, we positioned the equity portfolio to be less sensitive to downward movements in prices should it happen, so we're being cautious there.

I would say that generally across the portfolio we're playing a bit of defence. In terms of our risk budget we're using about 66 per cent, so we have plenty of room to take more active risk in the portfolio should we get some kind of correction or dislocation. We are still seeing attractive opportunities in the illiquid asset classes, in part due to the rich partnerships we have around the world, because, you know, valuations are stretched. I talked about Eolia earlier. We use our partnerships and contacts to bring new investments to the portfolio that meet our standards, and we're continuing to find those despite difficult conditions.

In a nutshell, a little more cautious going forward in the next six months here.

The Chair: Okay. Thank you.

My schedule of questions right now is MLA Christina Gray, Tracy Allard, and then Grant Hunter, unless you have another one after that in between. No? Okay.

Go ahead, MLA Christina Gray.

Ms Gray: We're seeing right now the B.C. floods playing out, and there have been a number of devastating weather events in the recent past. Let me just say that my heart goes out to those who are impacted by the floods right now. I know there are a lot of people who are still working on that situation. It brings to mind, for me, disaster preparedness, and my question is to AIMCo around your own disaster preparedness system, your system redundancies as an organization, what you do to prepare for catastrophic events like this or even something like cyberattacks or what have you. As an organization, how do you prepare?

Mr. MacMaster: Sure. According to best practices we have, you know, what we consider state-of-the-art protections against cybersecurity attacks, business continuity plans, and contingency plans around that that, again, are reviewed annually through our external consultants, which make sure that we're keeping up to speed and have redundancies and contingency plans for all manner of potential catastrophes.

Obviously, cybersecurity is top of the list these days in terms of risks, and we use external consultants to test. We have a thorough education program. A lot of penetration around cybersecurity is around phishing, so we run regular tests. There are educational programs. We have external consultants come in and try and break through our security within our IT. It's an ongoing battle, no question. You can't rest for a moment because the hackers are always trying to stay one step ahead. It's absolutely at the top of the list in terms of risks we have to manage, and it's at the top of the list, I know, for our Audit Committee and our Enterprise Risk Committee as well, which take great interest in that.

Ms Gray: I appreciate that. Your answer focused very much on the cyberattacks. I guess I'm also wondering about physical redundancy in case there are power grid outages or infrastructure disruptions in your current headquarters, that type of thing as well. If you wouldn't mind speaking to that.

Mr. MacMaster: Yeah. Go ahead, Amit.

Mr. Prakash: I was going to say that we have a full BCP plan in place which builds in redundancies both from the physical structure that we have and certainly our computer systems, that would allow us in the event of us being unable to access our office infrastructure, whether virtually, as in the current mode, or, hopefully, at some near future when we are physically back in the office – there are levels of redundancy both on the systems and infrastructure that we have in place.

8:30

The Chair: Okay. Thank you.

MLA Tracy Allard.

Mrs. Allard: Thank you, Chair. I appreciate everyone's time here this evening, and I hope that this is helpful to those that have joined us online. I just wanted to ask some contextual questions first, and then I have a more specific question regarding COVID and the investment pattern within COVID.

My contextual question arises from my short time as an MLA. I often get constituents coming in who believe that the heritage savings trust fund is gone, which was really surprising to me. So I think it would be helpful for some of those members of my constituency and, possibly, right across the province to understand when the fund was started. Has AIMCo always been the manager of the fund?

Further to that, several comments were made about how AIMCo is a long-term investor and has long-term strategies, and for some people that doesn't really necessarily resonate. Can you tell me what your benchmarking – is it lower than other fund managers? Is it higher? Is it aggressive? Who sets it? Is it the Minister of Finance?

Then I have one other question about COVID after.

Mr. Epp: I'll start. I don't know if I can answer all of them, but I will start. The heritage fund was set up by the government of Peter Lougheed in 1976, and it has remained since then. It's currently near the peak of the amount of money it has invested. I think the peak is around $8 and a half billion, and right now it's $17.8 billion.

Could you repeat the other questions?

Ms Mentzelopoulos: Who sets the benchmark?

Mr. Epp: Oh. Who sets the benchmark? The benchmark is set primarily by the department and the minister when we set an investment policy.

Ms Mentzelopoulos: And has it always been managed by AIMCo?

Mr. Epp: Thank you. It has been managed by AIMCo since 2008, when AIMCo was created. Prior to that, AIMCo was a part of the Department of Finance, and whatever it was called throughout the years, it was managed internally. In 2007 legislation was passed to form the Alberta Investment Management Corporation, so it's been the same management team – well, not team but the same structure – throughout.

The Chair: A follow-up?

Mrs. Allard: Yes. Thank you very much. I think that context is really helpful for constituents who find it a little bit confusing, some of those transitions.

I'm going to ask a question now about COVID. What has come up in conversations often is around access to pharmaceutical and, particularly, domestic pharmaceutical supply with respect to the COVID vaccine. I'm just wondering: in the last year or two, has there been discussion at AIMCo about investing in pharmaceuticals, and if so, has there been reasonable return?

Mr. MacMaster: Okay. Well, the short answer is that we have exposure because the first thing we do in equities is to achieve market beta, market exposure, at a reasonable cost, and most of the major stock market indices have pharmaceuticals. So we would have exposure to those by virtue of investing in the U.S. – and Canada is extending its pharmaceutical exposure – and in Europe and so on. We would have that exposure. I can't tell you off the top of my head whether we're overexposed or overweight or not, so that's the best I can do. We've got exposure through our market exposure, okay? We don't specifically have, you know, an ask in pharmaceuticals per se.

Mrs. Allard: Thank you very much.

Sorry. Just from my previous set of questions, if one of you can just answer: with respect to the annual benchmark, how does that compare across your colleagues or competitors?

Mr. MacMaster: Sure. I'll take a stab at that. We have a portfolio of assets. Each of the portfolios, each of the asset classes, has a benchmark that is a benchmark that is, you know, set mostly by our clients but in negotiation with AIMCo. The benchmarks for the most part are pretty standard – S&P 500 for U.S. stocks, MSCI global for global stocks – and used across the industry. That's the benchmarking question.

Every single year we set targets over and above that, and those targets use information such as: what are our clients' expectations in terms of stretch targets, and what does that look like? What does the top quartile manager look like in terms of value-add? We know that the average manager – again going back to my previous example using CEM, over a four-year period a first-quartile manager typically adds 75 basis points, right? Our clients have a target of 87 basis points. That's all net of costs; costs are about 45 or 50 basis points. Every year we go through this process and consider all these variables, our asset mix, and come up with a target that's approved by our board. This year it's likely to be 90 basis points net of costs, which is above top quartile. Then from that our risk team calculates a risk budget; in other words, they set constraints around the investment manager that only allow us enough active risk to achieve that and not much more – right? – because you want to contain the manager to the target. So it's quite a robust and thorough process.

I think our peers for the most part follow some kind of a procedure like that, but it's probably not exact. But that's our process.

The Chair: Okay. Thank you very much.

Our final question comes from MLA Grant Hunter.

Mr. Hunter: Thank you, Mr. Chair, and I do also want to thank the public for joining us tonight and for the very thoughtful questions that were asked. I thought they were very informative

My question is about ESG and how that is established. Who establishes the ESG criteria that AIMCo follows? Is there an international body that creates that? The reason why I ask that question is that you had mentioned, Dale, that, you know, there are no-gos such as tobacco and weapons of mass destruction. Glad to hear that. But the question that I have is that there are many investment companies in the world right now that are saying that they're not going to invest in oil and gas, and that might fall under the criteria for ESG. How would you address that issue if that's what they said?

Mr. MacMaster: Well, I'll repeat that, at this point, we have absolutely no intention of exiting energy, which is a substantial part of Canada's economy, the benchmarks we invest in, and obviously a much-needed commodity for decades to come. We need a stable supply of that. I think that if you look at what's going on in the U.S., where the Americans have had to tap emergency resources because there's such a shortage of hydrocarbons, and if you look at what's happened in Europe recently, where they invested too heavily in renewables and, unfortunately, the wind didn't blow and the sun didn't shine and they had very low inventories of gas and found their gas prices skyrocketed – electricity prices in Europe went up fivefold compared to what we pay here in Alberta. That's because of a lack of investment in infrastructure, a lack of capital available to hydrocarbon companies to continue to explore for the decades to come for the resource that's needed. So I think this has been a sort of shot across the bow or a warning for folks that the path to a greener future is going to be volatile and very expensive.

Amit, do you have anything to add?

Mr. Prakash: No. I think, Dale, you covered it.

To the question about the criteria for ESG, I would simply add that this is a growing area. It's a complex area. Some of the work that we do is around measuring and understanding the exposures to allow us to make better decisions. As Dale mentioned, to retread, there isn't any knee-jerk desire to actively be divesting investments in a short-sighted manner.

8:40

The Chair: A follow-up?

Mr. Hunter: Yeah. No. I just wanted to understand: who establishes the ESG criteria? That was my first question. I went onto a bunch of others, so I apologize.

Mr. MacMaster: Maybe I'll take a stab at that one. You know, if you look at our ESG approach, it's really got five components. There's the structure, there's the investment process, engagements, reporting, and then advocacy and collaboration. When we look at structure, our AIMCo board of directors approves our responsible investment policy. We have a responsible investment committee made up of senior executives and consists of our responsible investing team, which sets proxy voting guidelines, asset class sustainability guidelines, engagement, co-op guidelines, exclusion guidelines, sets our priorities. One can't do everything within the world of ESG, so we set priorities every year, which might, again, include diversity. Of course, climate change is a big one these days. And then around the pillars of the investment process I spoke about how each investment is reviewed from an RI standpoint and rated in terms of a red-yellow-green scale in terms of its ESG cred.

There are engagements with our investee companies to encourage them to accept best practices around ESG. Our team engages with portfolio companies, engages with regulators, engages with peers who are, of course, signatories of UN PRI for many, many years and, you know, meet all of the obligations that come with that, including quite an extensive review of our investment process. I can tell you that our recent results were, in 12 out of 14 categories, A plus.

Today one of the areas of focus is around climate change. Today it's mostly involved around helping regulators and standard boards set standards for reporting so we can at least discover what carbon footprint and CO_2 emissions are in our portfolio, because there are no standards. That's the first step: measure. Then someday perhaps there'll be targets as well, but the first step is to set targets. That's a very robust area of activity among the team now.

Amit, do you have something to add?

Mr. Prakash: I'll add one last thing. Your question in terms of, you know, who sets the criteria: I'll add an aspect to it. If you think about equity benchmarks, TSX, S&P 500 are well understood. In the ESG space the analogous ESG-related benchmarks: that is still an evolving space. MSCI has ESG benchmarks, I would say provides ESG benchmarks, but those standards, unlike S&P 500 or MSCI world, which are almost 99 per cent similar, the ones that the different major index providers have in the market are still in an evolutionary state and similar in certain ways but still different relative to the more traditional equity bond benchmarks.

The Chair: Okay. Thank you very much.

We have another e-mail question.

Mr. Jones: Yes. Thank you. This one is from Justin Huseby from Calgary. How will the investment manager AIMCo ensure that the investment strategy of long-term stable investments is adhered to? "We saw a disconnect with AIMCo and pensions with the legislated monopoly they're afforded in not being responsive to the needs of clients." How will they prevent another VOLTS misalignment of the heritage fund?

Mr. MacMaster: Okay. First of all, you know, the asset mix is set by Treasury Board and Finance, and then AIMCo executes on that investment asset mix and tries to add value, add a value stretch target within a risk budget. We have a risk team that independently reviews a portfolio to make sure it's compliant. We have a compliance department that makes sure that it's compliant with the rules and constraints set on behalf of our clients. Then specific to VOLTS. I think I mentioned earlier that we had an external review by KPMG. There were 10 recommendations, leading to 31 different objectives that are all going to be complete by year-end, including improved governance, transparency, oversight, and new product descriptions and strategy descriptions for every single strategy and product within the organization, with renewed constraints, oversight, transparency, stress testing. You know, these changes, we're quite confident, will put us on the right path to never having a VOLTS again. That's the objective.

The Chair: Okay. Thank you very much.

Seeing no more questions, I'll begin wrapping up our meeting. I would like to sincerely thank all of you for participating tonight. I think I can speak on behalf of the entire committee when I say that we've enjoyed spending the evening with you and engaging in a conversation about your Alberta heritage savings trust fund. In turn, we hope that you found the meeting informative and of value. There were some really good questions tonight from the MLAs and the public at large, so that was really good to see.

To our TV viewers and online viewers: I want to thank you for tuning in tonight. All of our questions were e-mailed. I guess no one uses the phone anymore, so it wasn't a teleconference-type thing. Anyway, thank you for joining that way. More information about this committee and its mandate can be found on the Standing Committee on the Alberta Heritage Savings Trust Fund page on the Legislative Assembly website.

The meeting is now adjourned. Thank you very much, everybody.

[The committee adjourned at 8:46 p.m.]

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