2:37 p.m.
[Mr. Pham in the chair]

THE CHAIRMAN: Good afternoon, ladies and gentlemen. I would like to call the meeting to order now.

We have with us here today the Provincial Treasurer and his staff and also people from the Auditor General's office. I would ask the staff from the Auditor General's office to introduce themselves first, and then I would ask the Provincial Treasurer to introduce his staff. Then we'll take it from there.

MR. HUG: Jim Hug, Assistant Auditor General.

MR. BOISSON: Rene Boisson, principal.

MR. DAY: Is that it?

MR. BOISSON: That's it.

MR. DAY: Okay. Great. Robert Bhatia is here, our assistant deputy. To my right is Laurence Waring, director of external fund management, and three people down to my left is Gisele Simard, director of investment and debt accounting.

I have the privilege of presenting to you our new chief investment officer, Mr. Paul Pugh. Paul has joined us recently, and I'm sure you will remember him from your national and international reading: a former chairman of Prudential and their entire investment operations and comes to us with a great history of investment capability. We're delighted that he's here.

So we'll take any questions you have.

THE CHAIRMAN: Thank you. I also notice that we have a researcher from the Liberal caucus and a researcher from the PC caucus. If you want to identify yourselves, too, for the record.

MR. KAPLAN: My name is Lennie Kaplan, Liberal caucus.

MR. KETO: I'm Dave Keto from the government research caucus.

THE CHAIRMAN: Thank you.

First I would like to have a motion to approve the agenda for today's meeting. Moved by Mr. Shiraz Shariff. Any opposed? Approved? It's carried.

I also need a motion to approve the minutes of the last meeting, on April 26. The motion has been moved by Mr. Ron Stevens that the minutes of the April 26, 1999, Standing Committee on the Alberta Heritage Savings Trust Fund be adopted. Any opposed? Approved? It's carried.

Now I would like to turn it over to the Provincial Treasurer to give us the report on the Alberta heritage savings trust fund annual report.

MR. DAY: Thanks, Mr. Chairman. I appreciate the input that we've already had from members as they've looked at the draft elements here. Looking at the '98-99 annual report, I think there are some things you've probably noted and should note. The performance of each of the portfolios themselves is reviewed on a separate basis. You'll find on page 10 the report related to the transition portfolio, and pages 15 and 16 actually deal with the endowment portfolio.

One of the things that you've heard, that we've heard over the years is that the heritage fund overall should outperform and be ahead of our total debt cost portfolio. That direction is coming from Albertans and is of course based on common sense and reasonableness, and when you look over the last two years, you see in fact that the heritage fund in total has earned more than the cost of the province's debt.

In terms of performance during this last year the transition portfolio was below its benchmark, and you look at a number of items related to that: the fact that the transition portfolio does have equity content while the benchmark is purely on fixed income. For instance, we hold about $80 million in TransCanada PipeLines and Nova Chemicals in the transition portfolio. That's a bit of a mismatch there in terms of that actual asset mix. That helps us in periods when the equity market outperforms the bond market, but certainly it can hurt us, as it did in the last year, when bonds outperform equities. Those are some of the realities of life in the market both nationally and globally, of course, that actually contributed to 24 basis points of underperformance on half of that total, just that asset mix.

Two other areas that I think are worthy of note. The benchmark is based on Alberta's borrowing cost, but for liquidity purposes we have to hold a significant portion of the transition portfolio in government of Canada bonds, and those earn a lower yield than provincial. Also, it's one of the areas that our new officer and also other of our officials are looking at, in terms of how we actually can lower and reduce our exposure to those federal issues. The benchmark itself has no cash component, but as you know, we're transferring assets over from the transition portfolio to the endowment portfolio and will be converting those assets from fixed income to equity. Therefore you have to convert some of the transition assets to cash, at the rate of about $100 million per month, if you're going to purchase those stocks.

The endowment portfolio itself lagged behind its benchmark. If you recall when we last met, I gave indication then that performance was improving and had improved, although it wasn't registered in that particular quarter, and that we would be close to the benchmark by the end of March. In fact that is the reality. When you look at the results, those positives on the performance side were having the right asset mix and strong relative performance in terms of Canadian equities, so it's something that we had anticipated and it's something in fact that did materialize. There were negatives on performance. There was a slight underperformance in fixed income and also underperformance in the foreign equity portion. Those markets are very narrow, and the pressure is going to be at those times on your active managers and underexposure to currencies and real estate. So those are all reflected in there.

We've introduced a relative measure in terms of analysis of performance. What has happened there: we compare the return of the endowment portfolio to a sample of other investors. That would include pension funds and endowment funds. On a relative basis, then, we're able to get a sense of what our performance was relative to other performers, basically. We know we can be in situations globally when the entire market can turn down, and if we look at just the performance of our fund in terms of an overall turndown, then we say: "Okay; that's our fund. Did other funds also experience a turndown, or did they experience positive gains?" For instance, if we're in a positive era and we show positive results, that's good, but let's see that compared to other performers in the field too. So that's been introduced so that we have a sense of how others are doing, and we can do what we think are some real comparisons there. On that basis our performance was actually quite strong for the year.

Most managers had a very difficult time beating their market benchmarks, so when we look at how our fund performed in relation to missing certain benchmarks – and the one I talked about was in terms of being 24 basis points lower – the driving question needs to be: what are the other ones doing, and how are the other fund managers doing? We see that we did relatively well there.

In terms of the movement of portfolios. As you know, the fund moving from transition portfolio to an endowment portfolio is now one-third complete. The timetable is on track. The income level has been higher than expected there, and that's based on long-term rates of return. As you know, when you move to the longer term, then you're going to be slightly more exposed to the shorter term fluctuations in the market, and that is indeed what we've seen, not just with this fund, and is what all funds have experienced. Even with that, the income is higher than expected there. Total income from the fund, $932 million, is just slightly less than the $947 million the year before. Pages 4 to 7 are similar to previous years, and the first few pages of those sections deal with the transition and endowment portfolios. Again, a lot of this is a result of the input which we've had from around this table over the times and the months and years that we've been meeting.

The annual report also contains a new section on administrative expenses. You'll see that on page 17. In general we divide and we now can divide those expenses into two categories. The first would be what Alberta Treasury does either directly or indirectly through the internally managed pools. Then the second is what's done through the external managers, the external managers of course dealing mainly with the specialized equity mandates. What we'll find as more of those assets are transferred from the transition to the endowment portfolio is that the amount of assets managed by the external managers is actually going to increase. External managers have a higher fee structure, so we're going to see that reflected. The important thing here is that that's one of the reasons we're breaking this out into the two sections, so that it's easily visible, auditable, and accountable as we move to that shift.

2:47

In terms of the overall format, again as a result of guidance from this committee, I think the overall format is relatively unchanged. For purposes of consistency, so that people can measure and comment and reflect from year to year, I believe that's important. There are going to be significant changes in format, and we have to be able to demonstrate the reasons for that so that people don't raise questions as to why particular areas of format may have changed.

Members of the standing committee, both government and opposition members, had submitted a variety of questions, and we've tried to do what we can to either accommodate those requests for changes or in fact reflect on what ability we have to do them. A request had been made for including in the management section of the report some discussion and analysis and a narrative on each investment component of the transition and endowment portfolios to discuss issues related to investment strategies, performance measurement, et cetera, and also to explain the significant variances that we see from time to time from the business plan and from the benchmarks. So we have prepared draft information which could be included in that particular discussion. I'll submit that, and if people do not object, that could be included in the report. We tried to get you the information we could on that, and that's just being circulated right now.

There was also a request made to include in the annual report an assessment of the performance of the external managers. That type of information, again, going to industry standards, isn't the type of information that's provided in an annual report. We don't recommend that it be included in the annual report. Industry practice is to assess performance on a portfolio basis, but through the investment management division we do monitor the external managers on a regular basis, and we assess their performance. The performance of those managed pools is included in the performance of the Canadian equity and the foreign equity components and is addressed in the analysis. So that information is definitely available. That work is done. Committee members definitely can have and should have access to that information. It just is not typically included in an annual report, but the information is there for you to look at and to do the assessments on.

There was a request made for inclusion in the economic climate section of the report information regarding the sensitivity of the major holdings of the transition and the endowment portfolios, and that's susceptibility to changes in economic assumptions. When the heritage business plan is prepared, these factors are all taken into account. Sensitivities are included, and the business plan is the appropriate place for that information. Again, the management discussion and analysis section of the annual report is to assess what actually occurred, but the information that's being asked for in that particular one in terms of economic assumptions definitely is available in the business plan and should be and is available in that particular section.

There was also a request made to include the complete list of investments for all of the various pooled funds, and what we've done here is provided in the list of investments – if you look on pages 46 to 53 of the annual report – the 10 largest investments in the pools where the endowment portfolio's holdings are greater than 5 percent, anywhere it's greater than 5 percent, and the 10 largest Canadian public equity issues that are directly held by the endowment portfolio. Also, the 10 largest issues that are directly held in the transition portfolio are all included. If you wanted to do the complete list of absolutely everything, that would be voluminous. Actually it would double the size of the present report. It's not the general practice. But I do want to emphasize that a complete list of the securities outside of the annual report can be provided to this committee. So it's just a matter of for purposes of bulk, and again, going with industry practice, it's not actually in this report. But that complete list is available, and you can break it down to the very smallest of investments.

There was also a request made for a complete breakdown of all real estate holdings. There are competitive realities there in terms of not providing a detailed list of the real estate holdings for commercial confidentiality reasons. If the fund was ever in the place, as it is, in terms of selling any of those holdings, that information could actually be detrimental in terms of trying to get the best price. Again, it's not general industry practice to do that.

I have included, though, the top 10 private mortgages and their location, where they're held in the private mortgage pool. As committee members, based on the usual rules of confidentiality, for any question you have related to any particular real estate holding, you are allowed, obviously and clearly, and should have access to that information. So that would be made available to you though the entire amounts are not published in the annual report.

Mr. Chairman, I think that gives an overview of the report, some of the key numbers. Obviously it's far more detailed. You've got wiser people than I around this table if I can't answer any of the detailed items. That's a report on where we're at on the changes we were able to include at the request of the members, and letting you know that on the ones we couldn't fully include, that information is available to members absolutely anytime they request it.

THE CHAIRMAN: Thank you, Mr. Treasurer.

Before I open the floor for questions, I would like to remind all members and other people who are present here today that this report is not made public yet. Therefore, the content of it should still be treated as confidential until such date as the Provincial Treasurer decides to announce and release it to the public. So please keep the information that you have today as confidential until that time.

Any questions from members of the committee? Mr. Bonner.

MR. BONNER: Thank you very much, Hung. Getting back here to the list of securities, I notice when I look back to the 1995-96 report, for example, that we did have a complete list of the top 10 in both areas, and it really doesn't seem to add too much to the report in comparison to what we've received here this year. So again I can't see that the length of listing these would be that great compared to what we already have here. That was one of the recommendations that Debby had made in her letter to you.

THE CHAIRMAN: Bill, maybe what we'll do because we have quite a bit of time is allow you to pose one question and let them respond. That way we can keep the flow.

MR. BONNER: Oh, for sure. Yes.

You know, this is the same thing that's done in the Alaska permanent fund as well.

THE CHAIRMAN: Okay. Do you want to respond?

MR. DAY: The list now is significantly longer, Bill. I mean, if it's the wish of this committee, that is available information and we can get that. Moving from the transition to the endowment portfolio, the whole nature of investment now is significantly more in depth. It's a lot longer. But nothing's being hidden here. If it's the will of this committee that the report be significantly increased in volume, then that's the will of this committee. I'm just giving observations on it and ab informal recommendation. It's significantly longer, but you know I'm at the will of the committee.

MR. BONNER: This is quite a list, I see, as it is.

MR. DAY: Yeah. That's the '95 one.

THE CHAIRMAN: And, Bill, you understand the decision that we made at that time. We are going to move every year a significant portion from the transition portfolio to the endowment portfolio; right? So as we move along from year to year, the endowment portfolio will be a lot more significant, and it will have more investment activities and different accounts and stuff like that. That list that you see will grow significantly from year to year as we move more money from the transition portfolio to the endowment portfolio. Therefore, the list may look small in 1995, it may look significantly bigger in this year, and it will be even bigger next year.

MR. BONNER: Right. I was just thinking it would be easier to follow.

MR. SHARIFF: If I could just add to this point. That information should be made available. Whether it's part of the annual report or additional information upon request, I think it should be made available and accessible. I doubt too many people will ask for it, but it's important that it's made available.

MR. DAY: Yeah, and it is available. Mr. Chairman, again, if it's the will of this committee, we can produce that document as supplemental information and have the full list. I'll have to see if we can have that by the 28th in a presentable form. I don't know if we could.

2:57

THE CHAIRMAN: Maybe what you can do is that you may want to make it available on the Internet site and then provide the address so that people can log on and see it. It may be easier that way.

MR. DAY: Yeah, let's have a look at that. Okay.

I just want to clarify that it is clearly available. It's strictly the size, the bulk of the document you want, but we can release that as supplemental information to the report.

MR. SHARIFF: Maybe as part of your report you could mention somewhere who people can call to get that detailed report.

MR. DAY: Okay. That's actually a good suggestion. If that's your will, Mr. Chairman, we can add that: where it's accessible.

MR. WARING: Just so that members of the committee know what we're talking about, several of the products we participate in are called index funds. So TSE 300, 300 names; Morgan Stanley world capital markets index, about 1,600 names; S&P 500, 500 names. If you add that up, you're getting into thousands of names. That's when we're talking about lengthy reports. That's just to give you an idea where that comes from.

MR. BONNER: Okay. Very good. Thank you.

Another recommendation we had. When you prepare your budget and we refer to the price of oil, you can give us a breakdown on what happens. If, for example, the price of Texas crude drops a dollar, that results in $135 million less for us. Could we do something along that line here in the sensitivity analysis, whereby if interest rates increase or decrease 1 percent, what would be the impact on the fund?

MR. DAY: Yeah. Actually in the budget itself, in the business plan on page 185, Heritage Fund Income Forecasts and Underlying Assumptions, we direct attention directly to that sensitivity analysis: percentage changes for every 1 percent in interest rates and equity returns. They're all listed there, Bill.

MR. BONNER: Can you link that back for us on how those differences would impact?

MR. DAY: Well, we can. I'll look for some direction here. With everything we do, we try and meet industry standards, and an industry standard in an annual report on a fund like this is to report the performance of the fund. I don't want to appear to be producing a document that varies significantly from how industry does it on all of their major funds. That's why we do a report on it and it's in the business plan. I'm just a bit hesitant to put it in the actual annual report just from the point of view of maintaining consistent standards.

MR. SHARIFF: Mr. Chairman, I agree with the Provincial Treasurer. The purpose of this report is to report the outcome of performance. With those variables that can change over time, I think that's part of the business plan, and we do take that into consideration under that section. So I'm not even sure if this would be appropriate for the reporting process in the annual report.

THE CHAIRMAN: I appreciate the reason why Bill asked the question. I do think the idea that how a drop or increase in interest rates affects the performance of the fund, for example, should be addressed more during the business plan phase of our committee. I agree with the Provincial Treasurer that we should try to keep the report as close to the market standard as possible. We should look at it as any major fund out there of the same size. However, in your job as a member of the committee you're welcome to ask additional information of the Provincial Treasurer, either directly at a meeting like this or you can write to him for additional information to make your job easier.

MR. BONNER: Sure. Thank you.

MR. DAY: Mr. Chairman, I could tell the member for the record just so you know. I mean, it's a good question. It's just where it's all put. A 1 percent change in the interest rate on the '99-2000 investment plan will be about $5 million. Just so you have a sense there.

MR. BONNER: What this would indicate as well is that it would link the business plan to the annual report, just how we did.

MR. DAY: Yeah. That's a good comment.

THE CHAIRMAN: Any further questions? Are there any other questions by other members of the committee?

Seeing no further questions, I would like to have a motion by the committee members to approve . . .

MR. BONNER: Mr. Chairman, I'm sorry. I misunderstood you there. I was just referring to the recommendations. I do have some more questions.

THE CHAIRMAN: Sure. Go ahead.

MR. BONNER: Very good.

In the Treasurer's report it is pointed out how the performance of the endowment portfolio has compared to other institutional portfolios through a survey of fund returns. "For the year ending March 31, 1999, the median or middle ranked fund return based on an industry survey was 1.3%." This would have put the endowment portfolio into the top 25 percent of fund managers. Could the Treasurer provide further background on how the performance of the endowment portfolio is compared to other institutional portfolios?

MR. DAY: Well, in terms of the specifics on how it's done, I'll let Robert or Laurence handle that in terms of the mechanics of that.

MR. WARING: There are a number of services that are produced to measure returns of funds managed in institutional portfolios, endowment funds, pension funds. The one that was quoted in the Treasurer's report is done by SEI Funds Evaluation Services. What we do, though, is check that survey against others. I usually do an exercise where I compare it to two others just to make sure that, you know, there's no spurious sampling being done here. What we do is that we look at the balance on the return, and then we also look by segment as a class at Canadian equities, foreign equities, bonds, and that, so we get that comparison.

We have a multilayered comparison. We're comparing against other active investors. We're comparing against the benchmarks themselves, the market indices. We also will compare to the industry survey done by what's called PIAC, although that one is not a public survey. It's just all the people within that association. It's kind of like a trade association. We compare our numbers just to get a sense, again because those are real numbers, real funds, to see where they're at. I guess that's about all I can say on the services.

Oh, just one last point. That survey – the numbers that we report were actually reported in the press as well, so we can give you more detail on that. It's not like it's a private survey that we're using. It is a publicly reported survey as well.

MR. BONNER: Very good. Thank you.

Could the Treasurer commit to including a comparison of the endowment portfolio versus institutional portfolios in further annual reports on the heritage fund?

MR. WARING: I think it's actually a part of the business plan that we are committed to making that comparison. That was one of the changes in the last year in the business plan, that we would make those comparisons as well as benchmark comparisons, so this will be a regular feature.

MR. BONNER: The investment strategy of the transition portfolio is

> to invest in investment grade interest bearing securities within a duration range for the overall Portfolio of between 2.4 and 3.2 (to minimize the deviation from the province's debt portfolio duration). Duration is the weighted average of the timing of when cash flows (such as interest and principal) are received and provides a means of gauging how sensitive a fixed income portfolio is to increases or decreases in the general level of interest rates.

Could the Treasurer indicate the duration of the transition portfolio for the year ended March 31, 1999, as compared to the duration of the province's liability, the Canadian dollar debt, for the year ended March 31, 1999?

MR. DAY: I've got that here. I'll just take a minute.

MR. BONNER: What page are you on, Stockwell, please?

MR. DAY: I'm looking at a couple of pages. Right now I'm looking at the notes on page 44, but I don't know if I'm in the right spot here.

MR. BHATIA: I don't have right immediately where that number is, but the durations were very, very close. They were approximately 2.8 years. We can get you the specific number. They were very close together.

3:07

THE CHAIRMAN: Prior to the meeting we circulated the annual report to every member of the committee. When you have questions that require going into a lot of details like that, for the next meeting you may want to send a question in advance to make sure that we have the information.

MR. BONNER: Oh, sure. No problem. If it's not readily available, this is absolutely no problem. Okay. We can move forward here then.

What impact would occur, relating to the market rate of return of the transition portfolio, if the duration of the transition portfolio were increased beyond 3.2 years? In other words, for each one-tenth year increase in the duration of the overall portfolio, what would be the impact on the market rate of return of the transition portfolio?

MR. DAY: I don't mind admitting that I don't have that off the top of my head, and I don't know if any of the officials do. Do you want to take a run at that, Paul?

MR. PUGH: We can give you direction. The change in duration of the portfolio is a management tool to extend or decrease the term of the portfolio based on your outlook of interest rates. If you decide to extend the term of the portfolio, the assumption is that interest rates will fall and the market value of the portfolio will go up. It's difficult to tell what the extent of the change would be if you extended your duration, because it's dependent on what happens with interest rates. The higher interest rates go or the lower interest rates go when you extend the portfolio – it's a relationship between the change in interest rates and the change of the term of the portfolio. So you could do a whole model that would be a full matrix, which would show you – if interest rates went down 10 basis points, or one-tenth of a percent, and you extended the term 10 years, you could see what the impact would be on the portfolio. But if you only extended the term of the portfolio two years, there would be a totally different change in the value of the portfolio for that one-tenth of a percent move.

It's an interactive situation, so I can't give you an answer right up front. We could if you said that interest rates went up one full percent and you extended the term of the portfolio, let's say, by a duration of one year. You'd lose approximately 10 percent or something like that of the value of the portfolio.

I don't know if I've helped you or confused you, but it is an interactive situation depending on what interest rates do and how you change the term of the portfolio.

THE CHAIRMAN: So, Bill, look at the value of the fund as an equation or function, like X and Y. It depends on two variables: the term and the interest rate. You can throw in there a whole bunch of combinations so that it will become a full function. It may take quite a bit of math knowledge in order to demonstrate that. Then when you go back to university and look at the . . .

MR. PUGH: If you wish, we could do a very simple example showing the change in the price of a bond with a duration, let's say, of two and a half years, what happens if you extend the duration to three and a half years based on changes in different interest rates, and show you the change in the price of the bond. But it'll come as a matrix.

THE CHAIRMAN: Shiraz, you have a point on this?

MR. SHARIFF: Just looking at the line of questioning, I'm wondering whether we should deal with the annual report and complete, you know, any questions on this specific report and then deal with the questions that are very, in some cases – I don't know if "hypothetical" is the right word, but looking at projections given changing scenarios. I'm just wondering whether this line of questioning is appropriate to deal with under the annual report. Maybe we need to deal with this first and then go on and deal with the other questions that he has.

THE CHAIRMAN: Bill, the questions that you have . . .

MR. BONNER: I don't have a problem if you want to follow that up.

THE CHAIRMAN: No. Is there any particular question that you would like the Treasurer to respond to today to you? Can you forward those questions to the Provincial Treasurer so he can respond to you in writing?

MR. BONNER: The question I just asked – I'm sorry; I should have referenced that to page 9 in the report.

MR. DAY: The approach that you just suggested, Mr. Chairman, is something that the Member for Edmonton-Ellerslie, Debby Carlson, had requested last time, whether it would be all right if she sent detailed questions in writing, and I certainly welcome that. That gives us the time to do the necessary research.

The development of this matrix that Paul has talked about is something that wouldn't be included in the report. Certainly it's good information to have. So I would say to Bill that any of those detailed types of questions that aren't going to be reflected necessarily in the report, especially given our time lines, by all means, get those to me. My usual process is to get them back to the chairman, and he circulates them to all members. Then if you think there's something lacking in what I gave you, just fire the questions again.

THE CHAIRMAN: Today our main goal is to have a last look at the report, see if there are any omissions, anything that we should change in there, anything that we think should be included or anything that we should take out of the report before it goes to the public. For information to enhance our knowledge or to find out more about the background information, it may be more useful to send for that information to the Provincial Treasurer either beforehand and ask for additional information or you can send it to him after the meeting, and I will ensure that you get back the answers to those questions.

Having said that, it's your right to ask questions. Feel free to ask questions.

MR. BONNER: Well, I have many questions, but I don't want to take all the time. If other members have questions, I certainly don't mind letting them ask them, and then I can come back to mine.

MR. DAY: Sure, and I can just indicate, Mr. Chairman, the ones that I'll get the information to. If we have it readily, boom, as soon as you ask the question, I'll get it to you. Otherwise, I'll be happy to send you the detailed response.

MR. BONNER: Super. Okay. Well, I'll continue here if nobody else has any.

For the 1998-99 fiscal year the market return of the transition portfolio was 5.4 percent compared to the benchmark cost of borrowing of 5.9 percent. The transition portfolio underperformed the benchmark by 50 basis points in 1998-99. The equity holdings in the transition portfolio had a negative effect of 24 basis points on return. Given the volatility of equities, what policies are pursued by fund managers to effect short-term changes in the weighting between fixed-income securities and equities during the course of the year in order to mitigate this volatility?

MR. DAY: I commented briefly on that in my remarks, and maybe I could just reflect on it. With the move from the transition portfolio to an endowment portfolio there's clearly a purposeful strategic difference in approach to investment and return. The sense that we had from our public meetings was that this portfolio should be long term and look at maximizing profits in the long term. That means a significant shift, not necessarily in risk but in practice, to equity-based investment. Bill, as this continues to move out of the transition into the endowment portfolio, you'll see that continue to move on that particular point.

That does mean that in the short term the endowment portfolio could actually reflect a loss, whereas if everything had just been kept in securities, it might not have experienced percentagewise that same loss. Since Albertans want us to go to the long term and we know historically the long term is based on that type of investment, that's the reason for that shift. When the equity market outperforms the bond market, as it did last year, then you have a different reporting.

You're quite right: there were 24 basis points of underperformance on half of that total. You'll see that as some of the liquidity requirements change, when you move out of the transition, you need that cash then to purchase and move into the equity side. We're only a third of the way there. As that grows, as that materializes, you'll see less of an effect there on the negative side.

MR. WARING: Just to amplify a point that the Treasurer made. On page 43 you'll actually see the two issues that he mentioned in his remarks on TransCanada PipeLines and Nova. Those are issues that were part of the original heritage fund. Those are just large equity positions that we're gradually unwinding. It's hoped that over a period of time we'll move those right out of the transition portfolio, and that will get rid of that mismatch and bring us back on the line. It's something that hurts us one year and helps us the next. That's basically what that comes down to.

3:17

MR. BONNER: Good. Perhaps these more technical questions we will provide in writing.

MR. DAY: Sure. I'd be happy to respond.

MR. BONNER: If you could, please, just reiterate why the real estate holdings are not made public.

MR. DAY: There are times, even in the last year or two, with any fund, including ours, where you actually will choose to dispose of some of those, put them for sale to try and maximize gains. To publicly declare the details, which would include purchasing and include rates of return, could affect your bargaining power when you go to flip those on the market. That's the only reason for lack of disclosure. It's strictly done on a commercial basis. If you have specific questions that you want to ask, certainly that would be made available to you. If there was some commercial confidentiality which would put the investment potential at risk – that's the taxpayers' investment there – then obviously we'd ask you to respect that, but as a standing member of this committee you can have that information if you had some specifics you wanted details on. But just to maximize our potential when we go to do our dealing and trading, that's not released, and that's true of any fund.

Do you want to add to that, Paul?

MR. PUGH: Yeah. A good portion of our real estate – since I've only been here a week, Laurence will correct me if I'm wrong – is held jointly with other investors, and they do not wish the ownership interest to be divulged to the marketplace because, as the Treasurer said, it could impact the commercial viability and the ability to sell or trade in real estate. Generally, real estate that is held in a minority position is discounted in the marketplace, so we don't want too much out in the marketplace about your ownership, et cetera. Our co-owners would not like us divulging the ownership interest, what we're in and what we're not in.

MR. DAY: Just so you know too, Bill, in terms of the overall risk in the fund there's a prudent investment guideline there, which I believe is 5 percent. We can't exceed 5 percent so we don't expose the fund to unnecessary risk.

MR. BONNER: Would it be possible at least to get a breakdown of real estate holdings by geographic area?

MR. WARING: I believe we've done that in the past.

MR. BONNER: Could that be included in the annual report? Would that jeopardize?

MR. DAY: We could look. I don't know if we can get it done in time for this printing. We'd certainly make that available to you. I don't know if we could have it in time for this printing.

Are you thinking of what degree of investment may be in the Pacific Rim and that type of thing? Is that where you're going, Bill?

MR. BONNER: Right.

MR. DAY: It's low; there are some minimal amounts. Yeah, we can get that to you.

THE CHAIRMAN: Mr. Ron Stevens has been waiting patiently for his chance to ask questions.

MR. STEVENS: Well, Bill's inspired me. I decided I must ask a question when I have the opportunity to ask the Treasurer.

At page 29, which contains one of the pages of the financial statements, there's a line that deals with the transfers to the general revenue fund both on a budget and actual basis for the 1999 year. It's a reflection, from what I can tell, of investment income that is earned in both the endowment and transition portfolios. When I review the entire package, it would appear to me that the $12.026 billion figure represents a cost basis for the portfolios, and there's a reference somewhere in the material to the market value being some $12.7 billion or thereabouts.

So the question ultimately with the idea that we are moving to a longer term, market-based investment portfolio is: what are we doing to determine income for the purpose of transfers to the general revenue fund if in fact much of our portfolio now is in the form of market securities as opposed to what I would call interest-generating securities?

MR. DAY: First, in terms of it being cost as opposed to market, we feel that to be responsible and reflect, again, industry standards and proper audit procedures, we need to put down there what the actual cost was. Then what we bring in in investment is what actually comes in, what we measure and what comes in. We do also put in what the various appraisal methods suggest is the market value, but until you've actually dispersed that particular holding, you don't really know for sure, so we don't want to give people a false sense in terms of the overall worth or value of the funds. We put in the basic: what is the cost there? That's why that amount that you reference is there. Earnings continue to come into the GRF.

What was the second part of the question, Ron, relating to that?

MR. STEVENS: How do we determine what will be the investment income for the purpose of transfer if a large portion of our portfolios is in the form of market securities that are not sold? I mean, I can understand that if you sell a security, you're going to end up with income, but it also seems to me that if it's a long-term proposition, you may choose not to sell anything, in which case you will have no gain or loss.

MR. WARING: That's in fact what happens. In terms of income it's whatever is realized. So it could be income from a bond, it could be a dividend, or if the security is bought and sold, there's a realized capital gain. That all gets added together. What we've found is that the realized capital gain is the most dynamic element. It's the most volatile, very difficult to forecast. You will find within portfolios that they do turn over, even if they're held for a long period of time. Our experience with some of our external managers, especially if they're particularly active, is that they can turn their portfolio over 100 percent in a year simply because they're repositioning a portfolio, and that will generate those types of gains.

In addition, with swaps we realize the income on every leg whenever income flows through that swap. Again, that's why we have a fair amount of volatility here. So we would anticipate that over time we would experience longer rates of return realized on sort of a moving average basis as managers slowly turn their portfolios over. You're going to get some deviation from that, but that's basically the dynamic that's going to work its way through.

MR. STEVENS: Just so I'm absolutely clear, investment income reflects in all circumstances actual income in the sense that, as it relates to securities, it will represent the net gain of securities disposed of.

MR. WARING: Right. Upon the sale.

MR. STEVENS: Right. Thank you.

THE CHAIRMAN: Mr. Glen Clegg.

MR. CLEGG: Thank you, Mr. Chairman. I think I've brought this up before. When I look on page 43, the only loans we have are Ridley Grain and Vencap. I certainly worry about Vencap when, in fact, I'm quite sure I won't be around in the year 2046 to collect that money. I understand Ridley, but how come so long for such a small amount of money? I mean, it's large to me, but to you, Mr. Treasurer, it would be a small amount.

3:27

MR. DAY: Well, that was the nature of the arrangement that was structured when we looked at disposal and dispersal of that. Shares were sold. Onex was involved there, as is related in your notes. There was some cash, $15 million I believe, to be paid out over the next two years, and the rest of those obligations extend out to the year 2046. I think you'll probably still be here. You're looking pretty vibrant today.

It was the nature of the agreement, the way it was struck at the time. As you know, we were moving out of a lot of different arrangements which, if we had had the opportunity to get into those types of arrangements today, obviously we wouldn't do. Our policy is very different. At the time, the exit strategies were done with what we felt were the ways to maximize the value, and that's strictly the way it was done. It wouldn't be like that today. It's fully accounted for and reported there, and I guess at the risk of sounding short on that, that was then and this is now. That's how we did it then, that's the agreement, and that's the way it'll flow out. I guess you'd call it long-term investment.

MR. CLEGG: It's like the guy 98 years old. He had a few dollars in the bank, and he said to his son: just invest it for another 10 years. That's kind of what we're doing here.

Obviously I like Murphy Oil and Alberta-Pacific, although we did get some criticism. I like that money in our hands rather than in somebody else's hands. I would sure like to see that money working a little better than it is with these kinds of loans.

MR. DAY: Again, that was the nature of the agreement, the terms that were done at the time. The province sold its loan for certain cash – $199,989,000 was the value – and 4 million Vencap share options for cash of $166 million, with $11,400,000 repayable in January 2001. You're quite right; the balance of $52,588,000 is repayable in July 2046.

I think the approach that we took on Al-Pac was significantly different. Getting back our $250 million in principal and $10 million in interest, which immediately began to bear interest once we got that cheque, which we did, that was a better way to go. Especially considering global prices related to forest products over the last couple of years, I think it showed, though some may not want to admit it today, that it was a prudent exit on that particular agreement.

MR. CLEGG: I have one more question. I don't like to show my ignorance, but I have to because I'm certainly not an accountant. When I look at this statement – I don't even know what page – we see it all the time: book value and market value. Now, can somebody explain exactly what they mean? Book value I can understand. Market value I don't quite understand. Is that if we sold it today or when this report was made?

MR. DAY: Right.

MR. CLEGG: Okay. That could change very rapidly then.

MR. DAY: Exactly. That's why we think Albertans need to know book value and actual cost also.

MR. CLEGG: Yes. Okay. I thought it was.

MR. DAY: The market value and the costs there.

MR. CLEGG: Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you.

Seeing no other questions from members of the committee, I have a few questions of my own. I don't want these questions to sound like criticism, though they may sound like that anyway. In the year of 1998-1999 the transition portfolio earned only 5.4 percent return while the market costs of the province's Canadian dollars debt was 5.9 percent. One of the reasons why we set that benchmark, that the transition portfolio has to outperform the cost of the province's Canadian dollars debt, is we want to ensure that keeping the fund is more beneficial for the province than liquidating the fund. That is one of the prime reasons why the public in 1995 told us to keep the fund and not liquidate it.

I understand the reasons why we did not perform as well as we should have and why we did not meet the benchmarks, but given that it is the fundamental reason that the public gave us the mandate to keep the fund, to ensure that keeping it is more beneficial than liquidating it, is there anybody in your department, Mr. Treasurer, who would be responsible for this? What will happen? What kind of action will we take to ensure that this trend is not going to continue?

MR. DAY: Overall this fund was affected by downturns in the market – I'm just giving the overall evaluation here – as were all funds or virtually all funds nationally and internationally. That's why the guideline that was given by Albertans is very important. So when you look at the two-year cumulative effect in terms of investment versus the cost, you'll see that combined over that two-year period, the fund as a whole returned actually 7 and a half percent. The liability portfolio return was 6.8 percent. So it is significantly – I won't say hugely – ahead in terms of cost on the two-year cumulative effect.

Again, looking at the shift as we move from transition to endowment, you have to be prepared to ride out some of the dips in the market. Going with that two-year cumulative effect, we are ahead of our liability or our borrowing cost. The combined effect of what was going on last year in the market worldwide and as we shift out of the transition portfolio into the equity side: that is going to show an effect. I think Albertans, in wanting to know that we consistently will run ahead of debt cost, are satisfied or will be satisfied with that performance. I guess we'll wait and see.

THE CHAIRMAN: My next question, Mr. Treasurer: are we going to tie the performance of the fund to the salary or to the payment to the fund manager if we use outside fund managers? If they do not meet the benchmarks, will we take any action against them in terms of, you know, docking their pay or reducing the payment to the fund managers we use when we use outside fund managers?

MR. DAY: Yes. I can tell you that even with the CIO there is a measure of compensation which is performance-based. I can also tell you that the external managers are evaluated regularly. It is not unusual to see an external manager removed from our list of being an external manager if it was felt there could have been better performance.

THE CHAIRMAN: I feel that as a committee, when we put forward a benchmark to measure the performance of the fund, that benchmark should mean something.

MR. DAY: Absolutely.

THE CHAIRMAN: So if and when we don't meet the benchmark, there should be a consequence. There should be some kind of seriousness in tying the performance of the fund to the benchmark. You know, people can come and give us the explanation. They can give 1,001 reasons why they could not meet the benchmark; right? So I want to look at it from both sides. If the benchmarks that we set out are not reasonable, are not realistic, then as a committee maybe we have to look at those benchmarks and try to change them. But if the benchmarks that we set out are realistic, then I expect them to be met.

MR. DAY: Yes. I believe the benchmarks are realistic. We use industry standards, and that's why we've introduced this measure, which I reflected on at the start of the report, of relative measurement. If, for instance, you have a global downturn in the economy, obviously around the world all funds did not fire all of their managers. Then you do the relative comparison, and you see that if our managers performed relatively significantly poorer than the rest, even though there's a downturn, then they will be bumped, and they know that.

Also, on the fee basis, we actually pay 45 basis points for the first $100 million of an international mandate. Then it's 20 to 25 basis points for assets above the $100 million. That's a basic fee regardless of performance, but there is a bonus on returns above the set performance thresholds. So they have the incentive to the positive, and the incentive to the negative is that if you can't show why you missed that particular benchmark, then you're gone. It's a fairly abrupt measurement.

3:37

THE CHAIRMAN: Are there any other questions from the committee?

Seeing no further questions, I would like to have a motion from the committee

to accept the 1999 Alberta heritage savings trust fund annual report.

Moved by Mr. Shiraz Shariff. Anybody opposed? Approved?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Good. Thank you.

Thank you, Mr. Treasurer. I also think that you should include that one line telling the public where to find investment information, as suggested.

MR. DAY: Yes. We've made a note of that, yeah. We will include that. We'll also get that supplemental information, which we can, and we'll get that to you.

THE CHAIRMAN: At the last meeting we had members of the committee expressing the wish that they wanted to send in questions directly to the Provincial Treasurer on the third-quarter investment report, and the Provincial Treasurer has responded to all the written questions that were sent in to him in a very time-efficient manner. I have been informed by members of the Liberal caucus that they have some further questions they would like to address to the Provincial Treasurer today pertaining to those questions and answers they got back from the Provincial Treasurer.

Bill, do you want to ask those questions now?

MR. BONNER: Yes. A question here under the administrative expenses for external managers. Could you indicate if there were there any benchmarks that were established in contracts between the government of Alberta and external fund managers regarding the level of management and custodial fees paid as a percentage of the total fund value?

MR. DAY: Well, I just gave an indication in terms of a basic fee structure. I don't know if I've got anything supplemental to that one.

MR. WARING: Well, each of these contracts is negotiated. We set out with them the benchmark that they're to perform against, the risk-control measures, the limits and investment constraints.

There is a contract on fees. Most of our fees are based on a sliding scale of assets that is the industry standard. We obviously track any sort of industry survey we can to make sure that our fees are below what are normal out there, and the reason for that is because of size. We feel that we give sufficiently large mandates to get the best fees. In some cases we do have explicit performance-based fees.

There is considerable debate in the industry as to which is the most effective way to go. We've dealt with it on a case-by-case basis as far as that goes. Each manager is evaluated on a quarterly basis; that's actually my area of responsibility. I have to appear before an internal group of my peers and justify why I continue to hold or want to terminate a manager, and that's done on a quarter-by-quarter basis. Managers come in at least twice a year for formal face-to-face reviews. We also have on-line access to our custodians, so on a daily basis we can check exactly what the managers are doing. Today I was reviewing a manager under cash holdings. What they're doing is they had built up a bit of cash, so I had to introduce a tremendous amount of discussion with that manager. So that's basically the way we run things as far as those managers go.

MR. BONNER: Thank you.

MR. SHARIFF: I just have an added question along the same lines as what Bill just asked. That's in regards to a comparison, if any information is available, between the professionally managed managers and internal managers in terms of the outcomes. Are we seeing some differences between the two? Any of that information that is available that you can share with us.

MR. DAY: Yes. I'll get Laurence to give you some details, and there are differences. For instance, we have found over time with significant portions of our international, maybe especially the U.S. mandate, that external managers who are vitally involved day to day with that outside of our own people tend to be, as would be expected, a little more capable in terms of getting their return. So with some of those observable differences when decisions are made – should we keep something internal or should we go external? – I think there are other measurements that are used too. I don't know if Laurence wants to add to that.

MR. WARING: Yeah. In fact, the mandates that are done internally versus those done externally are complementary in the sense that internally, for example, in Canadian equities we run an index fund, what's called a core risk constraint strategy, then on the external side the large cap, much more style-based aggressive strategies, and then ultimately the small cap. In fact when you end up comparing these people, you are comparing very different types of strategies, and we're trying to bring those strategies together on a complementary basis to produce a strong, integrated product. So we do compare them, but we know that they're doing different things at different times. Then of course on the international side, as was pointed out by the Treasurer, it's exclusively external, because to get somebody who's an expert on Japanese stocks just wouldn't happen.

MR. SHARIFF: So my understanding of your answer is basically that the work done by internal managers is going to be somewhat different than what you assign to external managers.

MR. WARING: That's correct. But we still do make those comparisons to know what's going on.

THE CHAIRMAN: Mr. Bonner, further questions?

MR. BONNER: Yes. Under foreign equities and real estate, what criteria are used by Alberta Treasury to determine the percentage of an individual real estate project the heritage fund endowment portfolio would invest in?

MR. WARING: The investment is done on a pool basis. We operate a pool which all the funds participate in. When we are making an acquisition into the real estate fund, if we're trying to increase the heritage exposure to real estate, the cash would come from the heritage fund and be used to fund that acquisition. But in fact what the heritage fund is buying is just increased participation in the pool, so it has the average of all experience. So no one gets one asset and someone else gets another asset. What happens is you get the same pro rata participation in all the real estate assets that we buy, so from that point on everyone gets the same return.

MR. BONNER: Okay. A second question in the same area. Is there still policy in place that prohibits investment in foreign real estate holdings?

MR. WARING: When we're looking at our asset classes, one of the things that we're looking at in terms of real estate is foreign equity, Canadian equity, fixed income. At this point we're exploring the possibility of using foreign real estate, but that would be considered part of the real estate, and I think at this point it's a question of: how far afield do you want to go in an asset class that's only 5 percent of your policy? So it's really a discussion here as to how far can we go afield and what do we have to do to actually implement that type of asset. The difficulty with it as well is that it doesn't really fit into – it would work but only for a small number of our funds. One in particular would be the endowment fund. For our pension fund it wouldn't make a lot of sense because they're limited to how much they can have in international. So we have to look at it as a different product altogether.

MR. BONNER: Is there an intent, then, by Alberta Treasury to invest in real estate holdings in the U.S. and Europe?

MR. WARING: I think we would look at it as an investment opportunity. Whether we did it or not would be on the merits of it as an investment. I mean, circumstances may change. At this point we don't have any, but we're certainly always looking for different opportunities, and that could be one.

MR. PUGH: If I might, a number of the large pension funds and pension fund organizations are looking at and have made investments in foreign real estate, most notably the caisse de depot, and I believe the province of B.C. has done it as well. For pension funds there are some tax issues involved too, because you're buying real estate outside the country and you have withholding taxes. Since a lot of your return on real estate comes from the income level, you're impacted very negatively if you can't – I won't use the term since the Treasurer is here – avoid withholding tax. You've got to get tax treaties in place so that it can be treated just as a pension fund the same as any other pension fund, where it's nontaxable.

MR. BONNER: In the transition portfolio, the Prince Rupert grain terminal. Given that the terminal will not open until the fall of 1999 and the year-end for Ridley Grain is July 31, 1999, what estimate has Alberta Treasury prepared as to the payment which would be made on the loan this year?

3:47

MR. DAY: Just by way of a reminder, Bill, the loan and the loan agreement is based on throughput, and for the last I believe eight or nine consecutive years Ridley Grain in fact has met their requirements. The throughputs that you need – there's been a significant decrease there – our estimation is somewhere around 4 million, 4 and a half million tonnes to be able to make the payment. We think it's down to about 1.2 million; that's what's projected. The Canadian Wheat Board obviously is involved there and also the competition that they have from Roberts Bank.

So we can't put an exact amount on it. If the throughput stays at that lower level, then it's going to be less, and we'll have to wait and see what actually materializes. As you know, there's an 11 percent interest requirement and $4.25 million principal requirement on that particular loan. I don't think they will make it this year, and that is part of the agreement. If the throughputs aren't there, they don't make those. None of that is written off. All of that accrues, and when the final date rolls around in terms of final maturity, which is in 2015 – not quite as bad as 2046, as the Member for Dunvegan had reflected on the other one – all of that is owing. But I can't come out or I won't come out and say: here's the percentage less we think we'll get. You know, if they need 4 and a half million tonnes to come through with the full agreement and they're going to get 1.2

million – and they're shut down right now – obviously their payment this year would be seen in a deferred capacity, I think.

As soon as we can, we will indicate whether that actually has come in or not. In technical terms even then they're not in default. It's as per the original agreement that went way back to '85, '86 and onward from there, when different elements of the agreement were put in place.

MR. BONNER: Thank you. Given that the terminal has remained closed since February of '99 and Ridley Grain's year-end is July 31, '99, what is the latest estimate of the throughput for the period August 1, '98, to July 31, '99?

MR. DAY: Well, we're projecting that to be just over a million tonnes. We'll have to wait for the final results on that.

MR. BONNER: Why are the annual throughput volumes no longer disclosed in the heritage fund reports when they were disclosed in reports through 1995?

MR. BHATIA: I think frankly the reason is just that prior to the restructuring of the fund, there was much more emphasis on the investments that had been made for policy purposes, so there was a description of kind of the business events around each of those investments each year. Now with the focus more on the financial performance of the fund and the endowment portfolio, it's just a different type of information that's emphasized.

MR. BONNER: Given this scenario, then, is the government willing to consider proposals by the consortium members to buy out the province's interest in the terminal?

MR. DAY: I'm not anxious to consider anything other than the present arrangement we have. They haven't approached me with anything in terms of specifics at all. One of their own challenges, Bill, is that there's a number of partners involved, and anything that they did want to present, if in fact they were to come with some kind of offer, would have to be the consensus of all of their partners. That may be a bit of an achievement in itself.

Again, this loan has actually performed according to the arrangement for the last nine years. We know that with what's going on, with the fluctuating market and throughputs that I've already talked about, we'll probably experience less than full payment. But that's not a cause for alarm, and I would think the taxpayers would be reluctant to see any proposal looked at seriously that would mean a significant departure from what would be expected. So we're not overly nervous or panicking or considering any further write-down of this at this point, for that matter.

MR. BONNER: Those are all my questions, Mr. Chairman. Thank you.

MR. CLEGG: I just want to comment to the Treasurer – and I know this isn't his department – about what's happened to Ridley in Prince Rupert. Obviously, if we don't get some breakthrough, we're going to be in deep trouble for many years. Where the trouble is: it costs $5 a tonne more to ship to Prince Rupert, and the companies have always used that against Prince Rupert. The fact is that they save that $5 back from Prince Rupert to where the market is, but that's never taken into consideration. Unless the minister – I don't think we've got a minister of transportation anymore, but if we could get something and especially the federal government to recognize that, then Prince Rupert is by far the best port on the west coast, without any doubt. They never take into consideration the millions and millions and millions of dollars that in fact are being used dredging at the Vancouver port and at – what's the other port?

MR. DAY: Roberts Bank?

MR. CLEGG: Well, it's not the one I'm thinking of. There's another port that comes in up the St. Lawrence, and we had shares in that at one time.

Anyway, millions of dollars dredging, and that comes out of federal revenue, but they won't do anything to help Prince Rupert out. Unless we can get some breakthrough there, that consortium is going to be in trouble. We have to keep saying it to the federal government. Certainly we'd better take everything into consideration before we start running down Prince Rupert. The boats can come right up, never any dredging to be done. Well, I was shoveling it on by hand right from the bank. It's just something that we've never had the breakthrough in order to give them a fair chance. It's the best port for many reasons, but it becomes political.

MR. DAY: I think that's being weighed into some federal discussions that are going on right now. I'll make sure the appropriate minister is pursuing that. Also, there are discussions that are going on – I can't predict how they'll come out – just relating to the railroad itself in terms of some costs there and if there's some renegotiating that can be done.

MR. CLEGG: Good.

THE CHAIRMAN: Thank you very much, Mr. Treasurer, for making the answer to the written questions available to all members of the committee, and thank you for taking the time today to address additional questions that the members of the committee have.

The next item on the agenda: a communication plan and public meetings for this fall. You may want to stick around to listen to it, or you may want to have your communication staff here and report to you later on what the committee decides to do with it.

MR. DAY: I may want to stick around because there's something electric coming forward?

THE CHAIRMAN: No. No. There's nothing electric.

MR. SHARIFF: We'd like it to be electric.

MR. DAY: Well, I know communications is always a challenge. I commend the members of the committee for the work that you do in terms of keeping an eye on this fund. Also, I know the communications aspect of it is a challenge. It's one of the mysteries to me that something that you do report very well on – you make yourself available around the province, post public meetings – and there's very little sense of urgency from the public. So I will interpret that from the positive, that they sense that basically the fund is being managed and audited and watched by you folks. I know it's a bit of a challenge and a frustration at times too.

Thanks very much.

THE CHAIRMAN: Thank you.

I just want to remind members of the committee of the discussion that we had before on item 6. As many of you remember, for the last two years we've had to hold public meetings across the province, four public meetings every year, to meet the requirements of the Alberta Heritage Savings Trust Fund Act, that our committee is covered under. We spend a lot of money and a lot of time preparing for these meetings. The attendance in Calgary and Edmonton was not bad, but outside of the two major cities the attendance level at these meetings was not very high. Because of that, many committee members have put their heads together and tried to come up with a way to still meet the demand of the public to know about the fund but at the same time find a different way to get the information out to the public in a more cost-effective manner.

3:57

We have had several discussions between the communications people and Parliamentary Counsel as to how to replace the public meetings with another forum to communicate to the public. Many excellent suggestions have come from the communications people; for example, we can use the virtual meeting on the Internet, or we can have the meeting tag onto other meetings. For example, we can have a meeting tag onto a chamber of commerce meeting. However, at the meeting with Parliamentary Counsel all these ideas did not meet the legal definition of public meetings.

I remind members of the committee that presently in section 6(4)(e) we are required "to hold public meetings with Albertans on the investment activities and results of the Heritage Fund." Because of that, if we're going to keep the act the way it is, we will have to hold public meetings whether we have good attendance or not.

Many people have suggested, you know, that we can do it differently this year to begin with. We want to send out one page of information to every household in Alberta summarizing the major investment activities in the fund. That's number one. The second is that we may still want to run the ad in the newspaper with a contact address and web site address so that the public who want to find out more information about our fund can still contact us and find out more information. Those are the two things that we are going to try this year.

I understand that Mr. Bill Bonner is going to introduce an amendment to make sure that we can do the other things to get the information to the public without boxing ourselves into having to have public meetings.

MR. BONNER: Right, Hung. Yes. I do make this amendment. It is with the idea and the understanding that we will make those efforts to get the information to the public, as we have said we would. This is a proposed amendment to the Alberta Heritage Savings Trust Fund Act.

> The Alberta Heritage Savings Trust Fund Act is amended in section 6 by repealing subsection (4)(e) and substituting the following: to inform Albertans about the investment activities and results of the heritage fund.

THE CHAIRMAN: I just want to mention again about the process today at this committee. If we are going to vote yes for this amendment, what will happen is that we will forward our recommendation to the Provincial Treasurer. After that, the Provincial Treasurer will have to bring it to the Legislature, and only after the vote is passed in the Legislature will the act be changed and become effective. So our vote today will constitute the recommendation to the Provincial Treasurer so that he can bring that amendment to the Legislature.

Having heard the motion from Mr. Bill Bonner, is there any discussion from the members of the committee?

MR. CLEGG: I'm a little bit confused here about this amendment. If we pass this here today, is this just a recommendation? We can't pass amendments here, obviously.

THE CHAIRMAN: Yes. This amendment has been discussed with the Provincial Treasurer, and he is in full support of it.

MR. CLEGG: So we couldn't change anything this year, if I understand it right. Obviously the act right today: we have to have public hearings. This would be in effect for next year. Is that right?

THE CHAIRMAN: No. It depends on the amendment, but the day that the amendment passes in the Legislature, passes third reading and receives Royal Assent, the amendment will become effective right away. Depending on when we come back in the fall, it can be passed very quickly, or it can be passed at the end of the session. Whatever it is, the day it is passed, it becomes effective. Okay? According to our legislation, it doesn't say when we have to hold these public meetings.

MR. CLEGG: Oh. The same year as Vencap pays off the bill; then we can wait until 2046.

THE CHAIRMAN: The worst scenario: if the amendment is not passed by the end of the session, then we can still do the public meetings in December.

MR. CLEGG: Okay. I understand it now.

THE CHAIRMAN: Okay. Seeing no further comment from the members of the committee, is anybody opposed to that amendment? Great. The amendment is carried unanimously. I expect that we will have co-operation from both sides of the House to make sure it receives speedy approval in the Legislature.

Now I am going to have two scenarios in front of you. One is that if for whatever reason this amendment is not passed in the fall session, then we will have public meetings in December – okay? – like we had last year. This is just there in the back of your mind so that if it comes to that, then we will discuss that in the future.

I want to discuss and focus more on in the event that the amendment is passed in the Legislature. We still want to find some way to make sure that the public out there gets the information, so I will to turn it over to the communications people. You can present to us a plan of what you intend to do for this year if we can get this amendment passed in the House.

MS TAYLOR: Right. I hadn't heard the idea before of the mail-out to every household, but what we could do is, if anybody had any other suggestions, take it away and present a communications plan the next time we meet, probably in September or something like that, for proceeding through the fall.

THE CHAIRMAN: Okay. So I want every member to go away and think of, you know, a way to get the information out there to the public. We can certainly find different ways to get the information out to every household in Alberta about the fund's activities.

MR. STEVENS: On that score, when we review this again, I'd like to see a comparison between doing a full-page ad in the appropriate papers throughout the province with some good information in it as opposed to a mail-out to every household. It seems to me that if you have the appropriate papers and in fact you have good information together with follow-up address and phone number and whatnot, that may well be as effective if not more effective in getting information to Albertans relative to this. So I'd like to see that comparison.

MS TAYLOR: Yeah. I would say that both options, advertising or the mail-out, are expensive, so being able to do both of them might be difficult. It might become one or the other.

THE CHAIRMAN: Yeah. I would certainly write to the Provincial Treasurer and ask him to come up with a detailed cost analysis on both options, and we can bring it back to our committee members the next time to discuss.

4:07

MR. STEVENS: The other thing that I'd be interested in hearing about from a communications perspective is the use of the Internet and having a forum, if you will, with someone like an expert in this area available for an interview by an interviewer with questions and answers and then taking questions over the Net from people who are plugged into this. It seems to me that that probably is something that people these days do on a regular basis for other areas and probably, I would suspect, could be done fairly cost-effectively.

MS TAYLOR: Definitely. The only thing that would be expensive about that would be advertising it so enough people were aware of it.

MR. STEVENS: We might be able to tie it into the other campaign.

MS TAYLOR: Exactly. All of these things we'll be trying.

THE CHAIRMAN: Remember that our committee is a legislated committee, so we have the budget from the Legislative Assembly. This year we have about $68,000, I believe. So, you know, we can look at how to spend that money effectively to get information to the public, whether it is advertising in the paper, printing pamphlets, or stuff like that. If we do find that we need additional resources to get the message out to Albertans, then there is nothing stopping us from going back to the Legislature and asking for more resources to do it. The commitment is there to make sure that Albertans are well informed on how the fund has performed.

Is there any other business that committee members want to raise? The date of our next meeting will probably be tied to the first-quarter report, whenever that is available from Alberta Treasury. Before that meeting I will be sure to send the request to Treasury communications to ask you to come up with some cost analysis of different options. We will have a discussion at that meeting as to what combination of actions we are going to take to inform Albertans on the fund's activities.

Having said that, I would like to have a motion to adjourn right now. Moved by Mr. Ron Stevens. Anybody opposed? Great. We're adjourned.

[The committee adjourned at 4:09 p.m.]