

1:35 p.m.

[Mr. Pham in the chair]

THE CHAIRMAN: Good afternoon. I'd like to call the meeting to order now. We have in front of us the agenda for today's meeting, and each member has received in the mail all the documents that we need to look at for today's meeting. First I need a motion to approve the agenda of today's meeting.

MR. HIERATH: So moved.

THE CHAIRMAN: Moved by Mr. Ron Hierath. Anybody opposed? Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: So carried.

Next I need a motion to approve the minutes of the June 21, 1999, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund. Moved by Mr. Ron Stevens. Anybody opposed? Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: So carried.

The next item on our agenda is to look at the first quarter investment report. However, the Treasurer is tied up at another official function and cannot be here until 2 o'clock. So I will jump to item 5, Communications with the Public.

We are going to look at that document today under tab 5 in your binder. As you recall, for the last two meetings we have floated the idea that we are going to change the way that we communicate with Albertans regarding the Alberta heritage savings trust fund, because for the past few years, despite our attempts to attract more people to the public meetings, the attendance was very low. It was understandable because of the technical nature of the information that we provided to the public.

However, we still need to inform Albertans about how the fund is doing and consult them from time to time as to what the future direction of the fund will be. At the last meeting we passed a unanimous motion to change the legislation so that we are no longer required to have the public meetings. However, we still keep the intent of the original act as to keeping Albertans informed about these things. The information that you received in front of you is the communication plan for the year '98-99. It outlines the issues, the purpose, the goals, and the key message, and it outlines the different options with the cost estimate. At the end we have the recommendation to members.

At this time I am going to open the floor for discussion, and today we can make the decision as to which option we are going to pick. We don't have to accept all these recommendations. We can pick and choose. We can keep the ones that we like, and we can drop the ones that we don't like. It is entirely up to the members of the committee to make that decision. The most important thing that we have to keep in mind is that we want to find the most effective way to inform Albertans about the heritage fund, and we want to generate interest and raise awareness of the fund. Any comments from members?

MR. BONNER: I have a question. How much did we spend last year traveling around the province?

THE CHAIRMAN: The cost last year for the public meetings was \$47,000.

MRS. SHUMYLA: That was the total committee expense.

THE CHAIRMAN: The other things. The advertising cost last year was \$33,000. Car rental was \$1,400. Hosting was \$300. Other labour and service was \$900. Office equipment rental and purchase was \$1,100. Postage and freight was \$900, and travel was \$1,300. I can say that the rough estimate is about \$40,000 that we spent last year on public meetings. Remember that last year the total budget allocated for our committee was \$68,377, and out of that we only spent \$47,000. So we were way under budget, \$21,000 under budget. This year we were allocated a budget of \$83,787, and out of that we estimate that this year we will spend about \$39,389 on advertising. Roughly, we are planning to spend about \$40,000 on advertising this year.

Yeah, Debby.

MS CARLSON: The strategic recommendation that we see before us doesn't have a cost attached to it. Would the people recommending it believe that we could do an adequate job with the \$40,000 that's available to us in the three-pronged approach?

THE CHAIRMAN: If you look at pages 2 and 3, I think that they are recommending this thing on a long-term point of view. If you look at the billboard advertising alone, they estimate it will cost about \$80,000. So I don't think that they are going to make this recommendation. They just throw it out as to what they think is the best way to communicate with the people if money is no object. We still have to look at it within the budget constraint. If we find out that we need to do these things, then we can always bring it back to the Legislature and ask for more money.

MS CARLSON: Right, but I'm a little disappointed that we don't have a recommendation before us that encompasses the budgetary limitations we have, because none of us here are experts in this regard. I mean, we could close our eyes and pick a choice here and be completely ineffective, or we could get the expertise of people who do this.

THE CHAIRMAN: Actually, if you look at each item, the cost was already itemized out; for example, billboard advertising costs are \$80,000. For newspaper advertising it depends on the size. If we keep the size as last year, it costs about \$38,000. Item 2 on page 2. The cost to revamp the web site, about \$5,000, as found on page 2. The brochure that can be mailed out for individual requests we can estimate because we don't know how many people will request them, but if you take the cost of printing, about a dollar apiece, and 50 cents to mail it out, it's about \$1.50. Right? You guesstimate how many individuals will make that kind of request.

The essay contest, you know, depends on how much money we want to put in as prizes. We can spend up to \$5,000 or as little as \$500. It depends on what kind of prize you want to give out.

We had communications people at Alberta Treasury get this information together for us, and we at this table will make the choice as to which one we're going to go with. Okay?

MS CARLSON: Yeah.

MR. SHARIFF: I was just wondering. You're asking us to make a decision or recommend one of these options, but you're also presenting a limitation on the dollar value?

THE CHAIRMAN: First of all, I want us to find what the best strategy is to communicate with Albertans. After that we'll worry about the money.

MR. SHARIFF: Okay.

THE CHAIRMAN: If the money that we have in front of us is not enough, then we have to ask for more. I don't want to restrict ourselves within that \$38,000 and say that we only have this \$38,000 to deal with. If we can find a manner to do it, then I'm all ears.

1:45

MR. SHARIFF: In that case, Mr. Chairman, I will recommend that we have a brochure or pamphlet sent to every household in Alberta. That's under direct mail, sub (2).

THE CHAIRMAN: Okay.

MS CARLSON: Well, Mr. Chairman, I'm still not very satisfied with what we have in front of us. Is it possible, given the strategic recommendation that's been given to us, that we be given three or four options with prices attached to them of what would be somewhat effective? I think a three-pronged approach is good, more than a one-pronged approach has got to be better than just using one single source, and surely all of those different approaches could be costed. I'm thinking that we could have easily had a strategic recommendation come in at a low figure of \$50,000 or \$60,000 for marketing costs, a medium exposure of \$115,000, which would be the direct mail costs, and a perfect scenario, which would be whatever it would be. I'm pretty uncomfortable with choosing one or a possible combination of these options without knowing the kind of exposure we're actually going to get, and particularly if we have to go back to the Legislature and ask for more money, I think it's premature to be making decisions in this meeting on the dollars that we're prepared to spend.

MR. DOERKSEN: Mr. Chairman, looking at the three-pronged approach that we have, the first is research. I don't see how that would really imply a cost to us, because it would be fairly easy to piggyback it, as is suggested, onto some other kind of survey. So I think this one we can accomplish fairly simply without any cost.

On advertising. I'm not a fan of billboards because I don't think you can get across the message we need to get across very effectively. I would endorse the newspaper advertising, and I would probably alternate newspaper advertising and brochures maybe year to year or maybe do three years of newspapers and one year of brochures, because we don't have to do it the same all the time.

The other one, the web site. I think that's a no-brainer. I think that's one that we have to do as well. It's becoming more and more used as a tool.

So of the options presented, research and the web site should proceed, in my view, and we can consider the cost, then, of advertising and the brochures, but again, because it's our mandate to inform the public, I don't know if we have an option but to proceed with both, but not in the same year.

THE CHAIRMAN: That's good.

Ron Stevens.

MR. STEVENS: Thank you, Mr. Chairman. The background material we have relative to this matter is generally satisfactory from my perspective, and I'm prepared to accept the recommendations under the heading Strategic Recommendation. It seems to me, however, that we do have a set budget and that we are moving to this particular approach because of our questions regarding the effectiveness of the way that we did communicate through the public meetings. It seems to me that we have no particular reason at this point to go beyond the budget that we have, and my recommenda-

tion would be that the strategic recommendation as outlined be reviewed with the current budget that's available to us and that we develop a strategy based on that and measure the success of that communication to see perhaps next year if that amount of money is sufficient or whether we should increase it. I don't think that we start out with the proposition that more money is necessarily better. So I would like to live within the budget that we currently have and have people who are proficient in the area of communications, which I admit I am not, tell us how best to spend the money, given the options that are here and given the budget that we have.

The only comment I would make with respect to what is here or what is not here perhaps – and it's a small point – is that MLAs as a matter of course do communicate with their constituents, and typically we have vehicles which are either free or at little cost to us. So I think one of the things that can be added to this is a regular report, annual or quarterly or whatever, that MLAs could use in their written communications with constituents and slip it into the newsletters that they send out regularly. That would be something we can all do, if we take it up, with little or no cost.

Thanks.

THE CHAIRMAN: Thank you, Mr. Ron Stevens.

Having heard the ideas from the committee members, I think I would propose the following solution. I believe that all of you will find it acceptable. We will keep doing the research, so that doesn't cost anything extra to our budget. We will drop the idea of billboards. We will use newspaper advertising, as we did last year. So we will more or less live within our budget. We will revamp the web site of the heritage savings trust fund at a minimal cost, about \$5,000 maximum.

On this third prong, dealing with public relations, we will provide brochures upon request. So when people read our ad and if they visit our web site and if they phone in to request additional information, then we can send out these brochures to them. That is Mr. Shariff's idea. We will also do the essay contest, and we will probably set aside a little amount of money, \$3,000 or \$5,000, to give awards to the students who have demonstrated the best knowledge of the heritage savings trust fund. I think that is a very good idea because it gets the kids involved when they are young and also gets the parents and the teachers involved.

So if we are going to go with this three-pronged approach, basically dropping the billboards, we can still live within our budget for this year, and then we can revisit it next year. You know, if it works out okay, then we can continue it for the next year. Is that acceptable?

MS CARLSON: So we accept that recommendation within the constraints of this year's budget. We'll see them come back to us with dollar figures.

THE CHAIRMAN: Then we'll take out the billboards. We don't put it on the billboards. That costs too much money.

MS CARLSON: Okay. That works for me.

THE CHAIRMAN: Good. So I need somebody to make that motion for me. As the chairman I shouldn't make a motion.

MR. SHARIFF: I can move it, given that you take those words and phrase them appropriately.

THE CHAIRMAN: Okay. So Mr. Shiraz Shariff has moved that we adopt the strategic recommendations as presented to us to communicate to the public, without the billboard advertising, we

will revisit the cost of that communications plan next year and make any revisions if required, and we will live within the budget constraints of this year.

THE CHAIRMAN: Okay? Approved?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? Thank you. So the motion is carried unanimously.

I trust, Diane, that you will communicate that to Alberta Treasury, communications.

I also want to remind members that the amendment that we made to the legislation at the last meeting will be forwarded to the Legislature in the upcoming session, and I would appreciate it if it receives speedy approval from both sides of the House, because that was the deal. After that, we can go ahead and implement these things without going to the public meetings, like we did last year.

Our Treasurer is walking up to the meeting room right now, literally walking.

So now I would like to move to item 7. Is there any other business that you want to raise at this point?

The date of our next meeting, item 8. When should we meet again?

1:55

MR. BONNER: What agenda have you got? You're one number off.

THE CHAIRMAN: No. Items 6, 7, and 8.

MS CARLSON: But you said: item 8, date of our next meeting. It's really item 7.

THE CHAIRMAN: Okay. Item 6, Other Business.

Item 7, Date of Next Meeting. When do you think is a good time to meet next?

MRS. SHUMYLA: You may want to choose to meet after the second quarter investment report is released, which I believe is really soon; is it? It might be another month or so.

MR. BHATIA: Mr. Chairman, the second quarter report would be released near the end of November. In addition, the business plan for the heritage fund for the 2000-2001 fiscal year will need to come before the committee. I think we in Treasury probably need to do a little bit more planning as to the timing, but that would logically be either in December or very early January.

MS CARLSON: So will we not have to meet one more time, before this publicity campaign starts, to formally approve the format of it, or is the motion we made going to take care of all those needs and Treasury will just go ahead with the work?

THE CHAIRMAN: What I'm going to do is ask them for a copy of the ad and then send it to each member for comment. If you have any changes or anything like that, then you can fax that to me.

MS CARLSON: Okay.

THE CHAIRMAN: I trust that it will be very much similar to the nature of the ad we ran in the last few years. I don't expect any earth-shattering things in there.

Okay. We will set the date of our next meeting as soon as we know when the second quarter report and the annual business plan for the fund are ready. It can be in December or January.

MR. CLEGG: I'd like to make a motion that at the call of the chairman we have our next meeting, because you'll know when it's going to be ready.

THE CHAIRMAN: Yeah. Okay. Having heard that motion, agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? Thank you. So carried. I would like to call a one-minute recess.

[The committee adjourned from 2 p.m. to 2:02 p.m.]

THE CHAIRMAN: If I may, I'd like to call the meeting back to order now. I would like to welcome the Provincial Treasurer, the Hon. Stockwell Day, joining us. For your information, we have gone over all of the other items of the agenda today. The last item that we still have for consideration is the first-quarter investment report, and I will turn it over to you, Stock.

MR. DAY: Thank you, Mr. Chairman. Thank you, members, also. I hope you got the message that I was going to be here at 2 o'clock.

MR. BONNER: We did.

MR. DAY: Good. I don't know if the chairman has addressed the next meeting. Is the chairman going to be here, in the chair, or do we know?

THE CHAIRMAN: I don't know. It's at the will of the Legislature.

MR. DAY: What's that? The will of the Legislature. Okay. We'll hold off, then, and see if the people rise up.

Thanks for the opportunity just to give you a quick update here in terms of the first quarter report, and I know you've had the opportunity to flip through these pages.

Have my officials been introduced to the committee? Well, I have Peter Kruselnicki of course – where is he? – our Deputy Provincial Treasurer. He is reviewing today's results of the fund investments, so he's not here right now. Robert Bhatia, our ADM, is here and Paul Pugh, the chief investment officer. Paul, were you here at the last meeting?

MR. PUGH: Yes.

MR. DAY: Yes, you were. I'm just checking attendance. Laurence Waring is here, director of external fund management, and Gisele Simard is here also, director of investment and debt accounting.

Just a quick snapshot in terms of the report itself. The book value of the fund is virtually unchanged from the end of March at \$12.1 billion. On a fair value basis the fund showed some marginal decline, from \$12.6 billion to \$12.5 billion, and we'll talk about that in a minute. Income earned for the quarter: \$258.2 million versus \$257.9 million earned a year ago, so up marginally since Paul arrived. As you are aware, of course, the funds are transferring from the transition portfolio to the endowment portfolio. By the end of June approximately 40 percent of those funds rested in the endowment portfolio, and that's of course destined to provide a longer term rate of return, 60 percent still being in the transition portfolio.

It is interesting to remind ourselves that by the end of this fiscal year we'll either be close to or have slightly exceeded the halfway point in terms of transition of the movement of funds, so significant steps are being taken there, and the progress is as projected and

planned. There still will be, then, of course some short-term volatility in the fund itself, in the income and the market valuation, but the trade-off there is the fund is going to be more oriented to the long-term growth picture, and that movement as announced and planned is continuing.

We've actually increased the income forecast over what was presented in the budget. That really just shows what's going on in capital markets globally, the rebound and the uptick that is happening. Also, our turnover assumption. The rates at which capital gains are realized have been higher than expected, so there was a decision made to revise the assumption upwards because of those being a couple of the key factors.

Just some background for you. During the quarter the equity markets, as we've already indicated and I'm sure you know, especially in Canada have recovered significantly. The TSE 300, which we use as the benchmark for the Canadian equity returns, showed 6.6 percent in that particular quarter, and international equity markets also showed positive returns, especially on the U.S. side and the Far East. We used the Morgan Stanley world index. That's our benchmark on the international equities. That particular index return of 2.4 percent. Bonds showed a slight negative return of .9 in the quarter, and that's based on the Scotia capital markets bond index.

The endowment portfolio performed well, in our estimation. That particular portfolio returned 3.2 percent, and our benchmark there is 2.1, so a significant achievement of the benchmark and slightly beyond. Strong returns there in the Canadian and the foreign equity markets. With that particular Canadian equity component there's a strong bias, as you know, towards larger companies, just given the size of the funds under management, and those companies were performing and faring very well in that particular quarter.

Looking at the foreign side. If you remember, in our last meeting we talked a lot about the volatility of the Canadian dollar and the effect that that has on performance. During the last half of '98 the dollar, as you know, dropped in value against all currencies, and that certainly showed and had somewhat of a negative impact on the relative performance of the swaps that are done in terms of hedging on the Canadian dollar side. Again, as you also, I'm sure, are aware, the Canadian dollar has recovered in value, and that's had quite a substantial positive impact on the relative performance recently.

It's very important to look at the two-year component. I know we're focused on quarterly reporting, as we should, but it's important to be stepping back and looking at the two-year component. In fact, as we see the funds continuing to shift to the endowment portfolio, the four-year picture begins to be a more predominant and more important one to look at to see how we're progressing. Over the two years the endowment portfolio has returned 10.4 percent on a compound annual basis. The benchmark there is 10.2 percent, so again achieving the benchmark and slightly surpassing it.

As you'll recall, in earlier reports there was some underperformance early in the portfolio's history. When we were going through the restructuring, large amounts of cash were being put to work, and as the shift continues to happen, we see that settling out and some of the long-term gains showing.

For the transition portfolio itself, the market return for the quarter was .4 percent, and the benchmark portfolio cost was .1 percent. You'll recall that the Canadian dollar debt portfolio is something that we keep in focus, having heard from Albertans that it's important that the fund outperform the Canadian dollar debt portfolio on a two-year transition basis. The transition portfolio is slightly below the benchmark, 5.8. When you tie in the strong performance of the endowment portfolio, the heritage fund then easily exceeds the province's cost of debt.

We looked at other benchmarks that we use. We don't have the SEI performance numbers in yet, or they may be in just recently

since the printing of this, but we can use the Mercer index. We see a balance fund median return of 2.9 percent for the quarter and 3.4 for the year ended June 30, '99. That compares to the endowment portfolio of 3.2 percent, the Mercer index being 2.9, so again surpassing it there. Again, the Mercer index shows 3.4 percent for the year ended June 30, and for the year on the endowment portfolio we show 6.6, again surpassing our benchmarks there.

I should just mention a couple of areas in terms of any changes in the fund and give you a bit of an update to the end of August in terms of the fund itself. One of the most important moves, I believe, is increasing the foreign equity holdings in the endowment portfolio. Those holdings increased – you can see them in the various foreign equity pools – by \$272 million. That reflects the policy decision to move that foreign equity component – you'll remember a policy decision discussed around this table – from 20 to 30 percent. So you see that being reflected there.

There's also a bump upwards in terms of real estate and acquisitions there that doubles the real estate holdings, real estate in terms of overall for the fund still being comparatively a relatively small component, yet again a move upwards there.

By the end of August the endowment portfolio had 3.3 percent in cash; the policy there is for 3.0 percent. There was 34.7 percent in fixed income, a policy weight of 37 percent, so slightly below the weighting there. You can see that the endowment portfolio itself had 24.5 percent in Canadian equities. The policy weight there is 25 percent, so just slightly below. It had 30.3 percent in foreign, with a policy weight of 30 percent.

2:12

You're probably wondering about my comment on real estate. Real estate is 7.2 percent versus a policy weight of 5 percent, so slightly in excess of the 5 percent. That happens when, in terms of investing on the real estate side, the ability to invest in very small items is somewhat limited, so sometimes a larger acquisition could take you past the actual benchmark by a slight amount.

Overall, in terms of where do we see the fund going, where do we see the markets going, our projections and our advice are, we think, as good as anybody's. If you want to stake your future on it, you just go right ahead. I think we've been fairly accurate in the past and continue to be so. Certainly one of the major stories globally is the ongoing economic strength in the U.S. Some people are still talking about a new paradigm, and some economists are even suggesting that the business cycle is dead, that we are into long-term growth only subject to short periods of volatility. I'll leave those projections to you, whether you want to buy into them or not, but there's no question that economic growth in the U.S. has been stronger than expected, and the momentum, from anybody's point of view, is certain to continue.

Also on the positive side we're seeing ongoing growth in Europe and in Asia. The Asian flu is down to a cough and a head cold, and signs of recovery are there, increased economic activity is there, and we can see that in some of the higher commodity prices that are out there now, Alberta farmers excepted of course.

The outlook for Canada in the Canadian equity market has improved. I guess the downside, or the counterweight to that, is that with that kind of growth you see wage pressures and you see price increase beginning to happen. In the States that makes the feds somewhat nervous. We could be looking at some interest bumps there to try and so-called cool things down. Whether that'll happen or not, we don't know. Most economists are seeing ongoing growth.

So, Mr. Chairman, that's just some notes and highlights on what we have before you for this particular quarter.

THE CHAIRMAN: Thank you, Provincial Treasurer.

I will now open the floor for questions from members of the committee. We'll begin with Mr. Victor Doerksen.

MR. DOERKSEN: Mr. Treasurer, I actually have two questions for you today. The first one has to do – I believe we released the Auditor General's report today. I haven't had a chance to go through the report, but I wonder if there are any recommendations from him with respect to the Alberta heritage savings trust fund.

MR. DAY: I'm just trying to remember. It's just recently out, as of moments ago. I don't think anything significant that I can recall. Now, I don't have that report in front of me.

Of course, the Auditor General's overriding comment, which I'll just get on the record because you probably won't see it reflected in the media, is overall commending the government for their adherence to the Government Accountability Act and giving the government a clean set of books with the one qualification being how we rate on the consolidated basis, the RHAs and the school boards, et cetera. All of his comments he prefaced by saying that it was not an indictment on performance but in fact encouragement to continue to do well. So that's the overriding statement on the Auditor General's report.

I don't recall anything specific on the fund itself. I could be subject to correction on that.

THE CHAIRMAN: We have two gentlemen here from the Auditor's office.

MR. BOISSON: Mr. Chairman, Rene Boisson from the Auditor General's office. I'd just like to confirm what the minister has said, that there's no recommendation relating to the Alberta heritage savings trust fund or Treasury investments.

THE CHAIRMAN: Thank you.

MR. DOERKSEN: Okay. Thank you.

My second question. You may not have the answer to this, and if you wish to get back to us in writing on this question, I think it would be helpful. I don't know if we hold any shares in Air Canada or Canadian Airlines. If we do – and this is part of a larger question – in particular if they're voting shares, how do we exercise our right to vote in a matter such as this? Is there a public policy in place that determines how we approach these issues? I don't know.

MR. DAY: We do own shares in Air Canada and Canadian, I believe.

MR. PUGH: Well, obviously through the passive funds we will hold them.

MR. DOERKSEN: Through the passive funds?

MR. DAY: Our overall market fund.

MR. WARING: Yeah. We have indexed funds in the portfolios, so they would own shares in the TSE 300 on 300 securities which Air Canada would own.

MR. DOERKSEN: Does that give us the right to vote then?

MR. WARING: Yes, we would have the right to vote.

MR. DOERKSEN: Do we have a policy in place that tells how we approach where we cast our ballot?

MR. DAY: I don't believe there's a question before us right now; is there?

MR. PUGH: No, there isn't. If you're referring specifically to Air Canada . . .

MR. DOERKSEN: Yeah, the Air Canada situation is one that comes to mind right now because I think November 7 is when the Air Canada shareholders vote. It does beg the larger question: when we're faced with matters like this, how do we make the decisions?

MR. PUGH: Our decision is quite simple: whatever we think is in the best interest of the fund, we'll vote that way. Sometimes we'll vote with management, sometimes against management, but whatever looks like the best interest of the fund, we'll vote that way.

MR. DOERKSEN: Okay. Thank you.

THE CHAIRMAN: Ms Debby Carlson.

MS CARLSON: Thank you, Mr. Treasurer, for the good-news story. I just have a follow-up to Victor's question. In this case it appears to me that we may have somewhat of a small conflict. Onex, who is making the acquisition bid, is also connected to the heritage savings trust fund through Vencap. Do you see any conflict there, and what happens in that kind of a case?

MR. DAY: That's a good observation, and we have stated that publicly on a number of occasions. We were asked a couple of months ago on this. The heritage savings trust fund and its investment policies are for growth. It certainly is not an instrument of social policy, and our managers would quake, I think, if they thought it was. So we see no conflict whatsoever. The total list of companies in whom we are invested is available; I think it's something like 142 pages long. They are a small part of a very large fund, and we expect our managers to make all decisions based on a business evaluation. So, no, we see no conflict at all.

MS CARLSON: So just a follow-up to that then. In light of that proposal, would you see any expectation that you'd need any kind of an amendment to the repayment of the \$64 million that's sitting there in relation to Vencap?

MR. DAY: No. I appreciate the question, but it's a business arrangement that we have, and we are not in the business of breaking those arrangements. You should know that in terms of Vencap itself, the fund itself is on track, and repayment of the receivables on that fund was scheduled – there was to be an \$11.4 million payment in January 2001, and in fact under the terms of the agreement, on October 1 Vencap exercised their payment option there and prepaid that present value that was scheduled for January 2001. So it is not only on track; it is ahead of time. Again, that's by agreement. So, no, we would not want to be in a position of breaking a contractual agreement on a repayment because of their involvement in some other business. No, we wouldn't want to do that.

2:22

MS CARLSON: As long as there would be no expectation that their involvement in business would negatively impact the arrangement you have.

MR. DAY: Certainly. All decisions are made based on business valuations.

MS CARLSON: That's it for now. I have more questions. I'll get back on the list.

THE CHAIRMAN: Any other questions from other members of the committee? Debby, do you want to go for a while?

MS CARLSON: Okay. Yes, Mr. Treasurer, page 5 of the report. It looks to me like a \$17 million increase in accounts payable. Could you tell us what happened there?

MR. DAY: I'll check with the investment officer on that, on the accounts payable side, page 5. So you're reflecting March 31, '99, to June 30. From \$3 million to \$20 million is what you're talking about?

MS CARLSON: Right.

MS SIMARD: Both the accounts payable and the accounts receivable are primarily made up of unsettled trades, so you have a payable and a receivable because everything is recorded on trade date. So they haven't been settled yet.

MS CARLSON: So nothing unusual.

MS SIMARD: No.

MS CARLSON: Okay.

THE CHAIRMAN: Go ahead, Debby. Keep going.

MR. WARING: Just so you understand that it's just a technical point. When you buy and sell securities, there's a three-day settlement period. Periodically that will fall over a month or a reporting period, and that's why you will get these things. So it's a very normal thing to happen.

MS CARLSON: Okay. Great.

Ridley Grain. Can you give us an update on what's happening there? Is there going to be any kind of an impact on the rates of returns in the transition portfolio with the deferral of the interest payment?

MR. DAY: I think we can expect that. You know, we had noticed that the throughputs are certainly down and that they were experiencing some significant challenge there. The throughputs for '98-99 have decreased from about 4.2 million tonnes in '97-98 to about 1.2 million in '98-99, so definitely a significant downturn there.

As you know, the agreement itself is based on throughputs, and just by way of reminder PRG pays on that heritage fund loan at 11 percent per annum and also repays a principal of \$4.25 million per annum. Of course that's subject to the cash flow. Any unpaid interest gets capitalized, and the total principal outstanding is due on maturity, at 2015. We do think that there will be somewhat of a reduction that will minimally, in terms of the overall fund, have an effect. We have received indication that as of October, I think, they were scheduled to reopen again. So there will be something less than the full amount. How much exactly at this time may be difficult to say.

PRG did make its full interest on the heritage fund loan, which was approximately \$16 million last year, and has made partial or full payments every year annually for each of the last nine years. So, again, once they get the final numbers in on the throughput side, there may be some reduction there, and in terms of the overall fund that would have a minimal diminishing effect.

MS CARLSON: Okay. It's my understanding that until the debt is eliminated, inflation-proofing on this fund after the '99 fiscal year is no longer required. What's your position on that?

MR. DAY: To review it and even have the committee's input on that review annually, look at what inflation is doing and make a decision whether there needs to be an inflation factor put in there. Inflation based on GDP numbers – some of the last couple of years have been almost negative and some years negative. We use the GDP numbers rather than CPI, but that's something that is reviewed in an ongoing way.

MS CARLSON: You said that the review process would include this committee. What other processes would you use to make that decision?

MR. DAY: I'd have to check the legislation, but I think there would be discussion in the Legislature. I think people would want to be involved in that discussion now. So it's subject to the legislation and definitely something that's reviewed, and we address it on an annual basis.

MS CARLSON: And tell me one more time when you would expect that discussion to occur.

MR. DAY: In the Legislature? There's heritage savings trust fund reporting in the Legislature, and it'll go through a full analysis in that process. I'll look forward to your input and advice on that, as I always do.

MS CARLSON: Right.

Can you tell us about Nova Chemical? What's happening with that \$8 million there?

MR. DAY: With Nova Chemical?

MS CARLSON: Uh-huh.

MR. DAY: No, I can't, but maybe Paul can.

MS CARLSON: Page 17. It talked about disposing of the \$8 million in interest for Nova Chemical.

MR. PUGH: These are the public shares. They were disposed of. We do not own any more of Nova in the transition portfolio. We sold those out at – I think the average price was about \$30 or \$31.

MS CARLSON: Okay.

MR. DAY: Make any money on that one?

MS CARLSON: Not me.

THE CHAIRMAN: Any other questions from committee members? Mr. Glen Clegg.

MR. CLEGG: Well, thanks, Mr. Chairman. I also worry about Ridley Grain. I don't know, Mr. Treasurer, if you could possibly put any pressure on the federal government and the Canadian Wheat Board because they are fighting everything in their power, both of them, that no grain goes to Prince Rupert. Obviously they are doing that because it's political. They always say that it costs \$4 a tonne more to ship to Prince Rupert, and they're right, but they never tell you it costs \$6 more to get it to the St. Lawrence than it does to Prince Rupert. They never tell you the whole story.

So I wonder if you could put some pressure on them, because if we're fighting the federal government and the Canadian Wheat Board, we're going to be in deep trouble with Ridley. I'm request-

ing you to give them their fair shakedown and look at the whole broad picture. It's without a doubt the best board in Canada, but we're fighting the political scene, and we're also fighting the Canadian Wheat Board to get grain up there.

MR. DAY: Well, I'll take that and indicate to the member that there are ongoing discussions, primarily through our minister of agriculture and to a degree Economic Development, with the feds on that. I share the same concerns. It's bad enough that Ridley has to look at a smaller crop year. As you know, in '98 we were looking at 45 million tonnes versus a five-year average of 53 million. It's bad enough fighting the natural flow of things without also having to deal with the politics of it. But you're quite right. There are significant politics involved, and we will continue that arm-wrestling match. Move it up to leg wrestling. It's a significant concern. You've rightly identified it.

THE CHAIRMAN: Any other questions from committee members? Mr. Bill Bonner.

MR. BONNER: Yes. I was wondering if you could give us an overview on the portfolios managed by external managers and specifically how much the endowment portfolio was managed by external managers as of June 30, 1999.

MR. DAY: In terms of external managers themselves we have 18 managers that deal with a number of mandates. It might be easier, Mr. Chairman, if I could provide the list to you, but there are 18 managers. The Canadian small cap equity is dealt with by five managers: AMI, Bissett, Montrusco Boltan, Mawer, and Van Berkom. The large cap Canadian equity is Standard Life, Bissett, and Guardian. Our U.S. active equity mandate is GE Investment, JP Morgan, and Stein Roe. The international equity is Baring, JP Morgan, and Pyrford. The European equity is ABN AMRO, Morgan Grenfell, and Philips & Drew. Pacific basin equity, two managers there: Bankers Trust and Jardine Fleming. The emerging markets equity is JP Morgan and Morgan Grenfell. On the passive side, U.S. and the international equity, State Street Global Advisors. So 18 managers managing 23 separate mandates, and overall that represents about 23 and a half percent of the fund, Bill.

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MR. BONNER: How much of the endowment portfolio is managed by external managers?

MR. DAY: I think that breaks out to about 23 percent, between 23 and 24 percent.

MR. BONNER: Good.

What rate of return over the benchmark is required in order for these external managers to access performance-based fee schedules?

MR. DAY: It would depend on which one they're being subject to, and Laurence might be able to give more detail on that.

MR. WARING: There are only two managers that have true performance-based fees. The standard in the industry is actually to pay your fees based on a percentage of assets under management, and as the amount of assets increase, what you pay decreases. Each manager has a different arrangement. There's no standard. There's a base fee that they would earn, and then as they earn more relative to outperforming their benchmark, they would receive an incentive base.

MR. DAY: And to give him some context, what's paid is paid on a sliding scale of assets that are under management. We pay 45 basis points on the first \$100 million – that's on the international mandate – and 20 to 25 basis points for assets above \$100 million, and some are based on a performance fee.

THE CHAIRMAN: My understanding is that the Provincial Treasurer has to be out of here by 2:30. However, I will ask him to stay for five more minutes.

MR. BONNER: I won't be that long.

THE CHAIRMAN: Okay.

MS CARLSON: And I have one quick question.

THE CHAIRMAN: Yes. Get to your question quickly, and please keep the answer short as well.

MS CARLSON: He's deferring to me. Thanks. On that point, then, maybe I misunderstood the administrative expenses on page 12, where I see in note 7 that externally managed pools' administrative expenses have gone up substantially. So if I understood your answer right now, then we should have seen a substantive return. If you could answer that.

MR. DAY: Part of it – and I'll ask Laurence or Paul to give more detail. You recall that we are moving significant amounts of funds from the transition portfolio to the endowment portfolio.

MS CARLSON: Right.

MR. DAY: When that happens, that requires hands-on external management. They actually then go to the decision-making process and where these funds should be moved and where they should be invested. So as that actual hands-on happens, it moves over here, boom, they're involved. Then that is where that fee comes in. As the fund continues to move over and finally is totally established on the endowment side, you'll see that decrease considerably on the active management part.

MS CARLSON: Okay.

MR. WARING: So basically, as the Treasurer has pointed out, it's more than doubled in the last two years. Actually the last increase almost tripled what we have with external managers. The dollar value has gone up, so the fees will go up.

MS CARLSON: Okay. I have a few more questions, but we could submit them in writing in the near future and get those answers back accordingly in the interests of time.

MR. DAY: Sure.

THE CHAIRMAN: Thank you.

If other members have any other questions that they would like the Provincial Treasurer to answer and don't have the time to ask the question now, they can always submit them in writing either directly to the Provincial Treasurer or through myself, and then when I get the answer back, I will make sure that they're being distributed to all members of the committee.

Thank you, Mr. Treasurer.

MR. DAY: Thank you, Mr. Chairman. Thank you, members, for

your ongoing diligence with this fund, and we'll see you after the next quarter, if not earlier.

THE CHAIRMAN: I need a motion to receive the first quarter investment report as distributed.

MR. CLEGG: I so move it.

THE CHAIRMAN: So moved by Mr. Glen Clegg that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the first quarter investment report as distributed.

HON. MEMBERS: Agreed.

THE CHAIRMAN: Any opposed? It is carried.

I would like to have a motion to adjourn the meeting. Moved by Mr. Shiraz Shariff that we adjourn the meeting. Agreed?

HON. MEMBERS: Agreed.

THE CHAIRMAN: Opposed? The meeting is now adjourned.

[The committee adjourned at 2:36 p.m.]