

**Title: Tuesday, October 18, 2005 Heritage Savings Trust Fund Committee**

Date: 05/10/18

Time: 7:11 p.m.

**Annual Public Meeting – Calgary**

[Mr. Liepert in the chair]

**The Chair:** Good evening, folks, and thank you for your patience. We had some missing equipment that we had to retrieve, and judging by the screen, we're now ready to commence this evening.

I'd like to thank all of you for coming out. I am Ron Liepert. I'm the chair of the Heritage Savings Trust Fund Committee and the MLA for Calgary-West. I'm pleased that we chose the city of Calgary to hold our meeting tonight although I would have hoped for a little larger turnout. But we did what we could to get people to come out. Obviously by I guess their lack of interest people are satisfied that things are in good hands.

I hope that you have some questions tonight because we have with us five other members of our committee. I'd like to introduce them. The deputy chair is the MLA for Leduc-Beaumont-Devon, Mr. George Rogers, to my right. Next to George is the MLA for Little Bow, Barry McFarland. Next to Barry is Hugh MacDonald, the MLA for Edmonton-Gold Bar; Hector Goudreau, the MLA for Dunvegan-Central Peace; and Lloyd Snelgrove, the MLA for Vermilion-Lloydminster.

I'd be remiss if I didn't introduce Harry Chase, the MLA for Calgary-Varsity, who is also in our audience tonight.

There are also a few other people that I would like to introduce before we get down to business. Some of them you'll hear from later. Doug Stratton is the director of fund management, Alberta investment management, the guy who got the machine operational; Bob Howard, senior policy adviser, policy and strategic planning with the Ministry of Finance; Felix Choo, adviser on policy and strategic planning; and finally, from Finance Mike Berezowsky, communications officer with the communications branch.

We also have some staff from the Legislative Assembly office. Karen Sawchuk is our committee clerk, Rhonda Sorensen is our communications co-ordinator, and Heather McNeill and Janet Schwegel are editorial assistants with *Alberta Hansard*.

This meeting is being recorded by *Alberta Hansard*, and copies of the transcripts will be available online at the Assembly website, or you could also call the committee number, which is listed on the brochures that we have on the tables on the side.

For those of you who want to evaluate tonight's meeting, there are evaluation forms, and we'd appreciate if you took a few minutes to complete the form and return it to any one of those staff persons that I just introduced.

Our presentation this evening will be in two parts. First, members of the committee, George and I, will review some of the history, the mission, the structure, and the governance of the trust fund. Then the Ministry of Finance staff will talk for a few minutes about the performance of the fund. We'll have a question-and-answer session to follow, and we should be out of here in an hour, an hour and a half.

To start the presentation tonight, I'd like to just go through a bit of history of the heritage fund. It was started in 1976. It's been a unique aspect of Alberta's financial situation. No other province has such a fund. From 1976 to 1983 the fund grew with 30 per cent of the province's oil and gas revenues, and from 1984 to '86 the amount saved into the fund was reduced to 15 per cent of nonrenewable resource revenues due to the fiscal situation of the province, also the declining oil and gas prices.

Since 1987 additional savings have not been put into the fund on a regular basis except for some ad hoc inflation-proofing. However, this will change with the new access to the future fund, on which

we'll talk a little bit more a little later. From 1982 to last year all income, except for ad hoc amounts retained for inflation-proofing in 1997, '98, and 2000, earned from the fund has been transferred to the general revenue fund to meet the priorities of the province and also to pay off our debt. Starting this year, now that the debt is paid off, we will be inflation-proofing the fund on a regular basis.

The book value of the heritage fund peaked in 1985-86 at \$12.7 billion, and at the end of the last fiscal year the book value was \$11.4 billion. On average the heritage fund has earned almost \$1 billion per year since it was set up in 1976, for a contribution of about \$27.6 billion to Alberta's general revenues, which have been used for fiscal priorities. Investment income from the fund has been used to help pay for health care, education, social programs, infrastructure, and capital expenditures.

When Alberta's economy has struggled, income from the heritage fund has allowed the government to avoid deep cuts to important social programs and raising taxes any more than necessary. Also, the heritage fund has played a large role in helping the province become debt free if one thinks of the debt in 1993 being somewhere in the range of 20-some billion dollars and that some 27 billion dollars has been transferred from the heritage fund to general revenues.

I'd now like to call on the deputy chair of this committee, George Rogers, to say a few words as well about the fund.

**Mr. Rogers:** Thank you, Mr. Chairman. Just to carry on, income from the fund is for the present generation of Albertans. The capital of the fund is intended for future generations. The income transferred over the years to the general revenue fund does not include the impact of legacy investments, which continue to make social and economic contributions in Alberta.

Now, one example is the Alberta Heritage Foundation for Medical Research endowment fund. The medical fund was started in 1980 with a \$300 million contribution from the heritage fund. Throughout the years the medical fund has been instrumental in funding research and advances in medical science and has also provided a competitive edge in the biotechnology industry. In addition, the Alberta heritage scholarship fund was established with \$100 million transferred from the heritage fund in 1981. Each year millions of dollars of income earned from the scholarship fund help Albertans defray the cost of postsecondary education.

As a side note, the Access to the Future Act, passed by the Legislature in the past session, provides for an additional \$1 billion to be added from the general revenue fund to the scholarship fund over time to ensure the long-term sustainability of this important heritage fund legacy asset.

After extensive consultation the government decided that the mission of the fund would be to focus on maximizing financial return because this would allow current and future generations of Albertans to gain maximum benefit from the fund. The government made extensive changes to the fund to focus on this mission. It brought in, number one, new legislation, a new business plan for the fund, an improved government structure, sold old investments that had been made for reasons other than financial reasons, and an objective to manage the fund on the same basis as an institutional endowment fund.

The investment objective of the fund is to maximize long-term financial returns subject to an acceptable level of risk. The heritage fund's assets are invested around the world in a diversified portfolio of investments, which include stocks, bonds, and real estate.

7:20

One of the principles of the governance of the heritage fund is, of course – and this is very important – transparency. A detailed business plan is developed every year and approved by the standing

committee, and that is this committee. The plan sets out specific investment objectives, goals, and strategies to achieve the heritage fund's objectives as expressed through legislation. The heritage fund annual report is prepared and published within three months of the end of the province's fiscal year, which is March 31. The annual report provides a comprehensive review of the activity and results of the fund for the year.

Every quarter an investment report is prepared for the heritage fund. The quarterly report provides information about the investments held by the fund, the performance of every investment sector, and an overall review of the fund. These documents are always available on our website, which is [www.albertaheritagefund.com](http://www.albertaheritagefund.com), and copies, of course, are available here tonight on the table to my right.

At this point back to you, Mr. Chairman.

**The Chair:** Another fundamental principle is accountability, and that's one of the reasons why we are here tonight. The performance of the fund is reviewed by the standing committee of the Legislative Assembly – as George says, that is this group – and by the public in annual meetings like the one we're having tonight.

The standing committee is created under section 6 of the heritage fund act and currently includes two of nine members that are not in the governing party. The duties of this committee are (a) to review and approve the business plan, (b) to receive and review quarterly reports, (c) to approve the annual report, (d) to review after each fiscal year-end the performance and report to the Legislature as to whether the mission of the heritage fund is being fulfilled, and finally, (e) to hold public meetings with Albertans on the investment activities and results of the heritage fund.

The Alberta Heritage Savings Trust Fund Act sets out a well-defined standard of care in the management of investments, that of "a reasonable and prudent person." We have clearly defined benchmarks against which to measure the performance of the fund. For example, we use the Scotia Capital universe bond index to measure the performance of the heritage fund's bond investments and the Standard & Poor's/TSX composite index to measure the performance of the fund's Canadian stocks.

The Minister of Finance is responsible for the day-to-day operation of the fund, and implementation of investment policy is charged to Alberta investment management, the investment operations group of Alberta Finance.

I'll now call on Doug Stratton from the Department of Finance to discuss some of the operations of the fund.

**Mr. Stratton:** Thank you, Mr. Chairman. We are going to change tack now and talk about the day-to-day management of the fund. The implementation of investment policy is assigned to AIM. What we want to do is give you a general overview of the fund.

Alberta's investment philosophy is to be risk aware, diversified, disciplined, focused on the long term, and cost-effective. First and foremost, Alberta's philosophy is to be risk aware. We pay very close attention to where we have invested the fund relative to its investment policy approved in the business plan. Risk is primarily managed through diversification. I will discuss diversification in more detail in a moment.

We consider ourselves to be disciplined investors. We look for strategies that can generate return on a consistent, repeatable basis. We look for opportunities to add value at the margin, where it makes sense. We take a long-term view and do not try to anticipate every gyrations in the market. We believe that cost matters. A clear competitive advantage is that we have economies of scale and can invest at very low cost. Finally, we don't try to do everything in-

house. About one-third of assets are managed outside of Alberta Finance.

There are other investment policies that we follow as well. We have policies with respect to hiring of external managers and the types of strategies used. We have limits on the quality of securities and how much of specific types of securities we hold. There are policies on how much discretion we allow managers in terms of executing transactions. Finally, our mandates have clearly defined benchmarks on which to monitor and measure performance.

The main point of diversification is to reduce risk rather than improve expected return. This chart is illustrative of diversification reducing risk. The standard deviation for our terms refers to risk. That's essentially the volatility of your portfolio, how much it might change from time to time. We've shown the number of assets increasing; i.e., the number of asset classes whether bonds, equities, real estate, et cetera. We've shown various relationships of one asset to another: the blue line, the top line, being one where the assets generally move in the same direction and the yellow line where they move in different directions generally. We can see that as we increase the number of assets, in all cases the amount of risk decreases.

This is simply illustrative of diversification as an opportunity to reduce risk. Essentially, a portfolio comprised of bonds and equities offers relatively lower volatility with competitive returns compared to a portfolio consisting entirely of stocks or entirely of bonds. With regard to the heritage fund, we look at the fund to make sure that we have a balanced exposure to asset class by geographic region, investment style, or industry.

Diversification is an important consideration in the decision to have half our equity exposure in non-Canadian markets. Canada represents only 3 per cent of the world equity market and has limited exposure in many key sectors. By increasing our non-Canadian exposure, we increase our overall diversification, and that helps us control investment risk.

This pie chart illustrates the policy asset mix of the fund. This is the asset mix that is detailed in the heritage fund's business plan and serves as a guide to the investment of the fund. Ranges are established for each asset class. This ensures that the fund will maintain exposure to each major asset class and limits the discretion of the manager. If market action results in a breach of limits, then a rebalancing procedure is initiated to bring actual weights in line with long-term asset mix policy.

The fund has significant investments in equities including foreign equities, meaning the U.S. and non-North American markets; is broadly diversified by country, industry sector, and company; and has significant components managed externally. The fund also has important allocations to real estate as well as allocations to absolute return funds and private investments.

The Canadian equity market has had strong investment returns for the fiscal year ended March 31, 2005. The S & P/TSX index, which measures the performance of Canada's largest public companies, reported an increase of 13.9 per cent compared to an increase of 37.7 per cent in the previous year. Higher personal consumption, lower interest rates, surging employment, strong exports, and rising disposable income contributed to a buoyant economy in Canada. The housing market in particular continued to be robust. Oil prices increased to record levels during the year before settling down somewhat by March. At the beginning of the year west Texas intermediate opened the year at \$35.78 U.S. per barrel and closed at \$55.41. The energy sector led all other sectors in the S & P/TSX index, returning 43.6 per cent over one year.

The U.S. equity market grew at a more modest pace than its

Canadian counterpart. The U.S. dollar has continued to slide against the Canadian dollar, which has had a negative impact on the heritage fund's Canadian dollar returns on its U.S. investments.

As a whole non North American markets performed well. Growth in demand from China continued to show considerable strength, keeping commodity prices firm. Growth in the eurozone remained more modest as the two larger economies, France and Germany, posted weak numbers in employment and for domestic and foreign demand.

The heritage fund earned \$1.1 billion from its investments in fiscal 2004-2005. The fair value of the fund's net assets was \$12.2 billion as at March 31, 2005.

The performance of the heritage fund is measured over the long term. This chart outlines the historic performance of the fund over the last five years. During this period the fund generated an annualized return of 4.1 per cent.

The heritage fund is expected to generate a rate of return of 4.5 per cent above inflation at an acceptable level of risk over a moving five-year period. Over the last five years the annualized inflation rate was 2.4 per cent. Therefore, the fund was expected to generate a nominal annualized rate of return of about 6.9 per cent. As you can see, over the period the heritage fund returns were below this. This is because of returns from world equity markets that underperformed long-term average rates of return, and the heritage fund was not immune to this underperformance.

The chart also highlights the fact that investment returns are volatile. Losses in 2002-03 were followed by strong years of gains in 2003-04. For your interest we've shown here a list of the heritage fund's top 10 Canadian equity investments.

Mr. Chairman, I will let you continue from here.

7:30

**The Chair:** Thank you, Doug. The \$3 billion access to the future endowment is designed to ensure that there are better opportunities for access and affordability with regard to advanced education. Income from this endowment might be to finance new scholarships and bursaries, as an example. The 2005-06 budget provides for the transfer of \$250 million into the heritage fund on account of the access to the future fund. This transfer will be recorded in the heritage fund when it is received.

Starting in '05-06, the fund will keep enough investment income to offset inflation. Only investment income in excess of inflation will be transferred to the province's main operating fund. That's the general revenue fund. For the 2005-06 fiscal year an estimated \$226 million will be retained in the fund to protect it against inflation. We've already retained 56 and a half million in the fund for the quarter ended June 30, 2005. Future income levels will depend on future investment returns and growth in the capital of the heritage fund, but the heritage fund is positioned to continue contributing to the priorities of current and future generations of Albertans.

That concludes our formal presentation and a brief overview. I'd like to take a few minutes to acknowledge a few other people and a few thank yous before I open the floor to questions. On behalf of the committee we'd like to thank Mount Royal College for offering up this excellent facility; Sandra-Lee Scalia from the office of the vice-president for external relations for helping Karen organize the arrangements for this evening; also Doug, Bob, and Felix from Alberta Finance for all the work they put into the presentation and for all the answers they're going to present here shortly; and *Alberta Hansard* staff for recording, transcribing these proceedings.

I'd like to thank each of you for coming out tonight. These public meetings are intended to provide information on the fund and to let Albertans view the management of the fund through the Finance ministry and oversight of the fund's management, which falls to this

committee. As I said earlier, there are copies of the 2005 annual report on the fund, the '05-06 first-quarter report, and brochures providing general information on the Alberta heritage savings trust fund, and they're located on the side counters. If you need extra copies, you can ask Karen – she's sitting in the middle there – and she'll help you out.

What I'd like to do now is open the floor to questions. If you have questions, I'd like you to please go to the microphone, state your name, and we'll try to answer the best we can. As we said earlier, a transcript of this evening's event will be available on the Assembly website I guess at the end of this week. So with that, we'll open the floor and take the first question.

**Mr. Chase:** Thank you. Just by way of identification, Harry Chase, MLA for Calgary-Varsity, Liberal critic for Infrastructure and Transportation, parks and protected areas, and a member of the Public Accounts Committee. It's in the line of the Public Accounts Committee that I am going to make a very short comment tonight.

When we saw the first slide of the heritage trust fund, basically if it had been an electrocardiogram, the patient would be dead. We noticed it dipping off the end. "Dipping" is the word to use because the fund has not been allowed to grow over the last number of years because of constant dipping. For the same time frame Alaska's equivalent of the heritage trust fund is sitting currently in the area of \$40 billion. Norway, which has a very aggressive royalty rate, is sitting at the point of about \$194 billion. We have considerably more resource riches than Norway, but we haven't been taking advantage of them. We haven't been saving. We haven't been allowing the fund to grow.

I am grateful that finally this year the fund was inflation-proofed, but my comment would be that unless the caucus stops using this as their own behind-closed-doors cookie jar, there's going to be no more growth in the fund.

That's the warm-up for the question period. I look forward to seeing everybody mid-November.

**The Chair:** Well, just a very brief comment. I don't think there was a question in there, but I'll respond to the comment. There is no behind closed doors. The revenue from the fund has been transferred into general revenues for the last I believe about 15 years now. It has been an integral part in us paying off the debt. We could have left the revenue in the heritage fund and be sitting with a debt today of probably some 20 billion dollars. It's a policy decision, and every dollar that is spent out of the general revenue fund is debated in the Legislature. There's no secrecy here. It's all out in the open.

I'll go to the next question.

**Mr. Mitrovica:** Good evening. My name is Dervish Mitrovica. It could be assumed that the earlier speaker had some political reasons for asking his questions. Having said that, they were reasonable questions, and I'd like to follow up on it. I have never met the gentleman.

I'm going to read a brief letter that a fellow in Norway wrote. It has to date gone unanswered. I'm only going to read half of it.

Honourable Shirley McClellan,

I write to you as a resident of Alberta and a Graduate student researcher currently studying abroad at the law faculty, University of Oslo, Norway. I am conducting my thesis research on the following topic: Clarifying [terms] for Exclusion of Companies from Publicly Administered Investment Funds: Understanding the Legal Scope of "Complicity in Human Rights Violations."

As you are most probably aware, certain governments managing large public investment funds, such as the New Zealand Superannuation Fund and the Norwegian Government Petroleum Fund, have recently recognised and implemented standards in order

to avoid investments which constitute unacceptable risk of contributing to unethical acts, such as serious violations of human rights, violations of fundamental humanitarian principles, and severe environmental degradation. Strategies, including negative screening, divestment and active engagement, are being used by numerous publicly administered funds in order to avoid risk of association with companies involved in gross breaches of universally accepted standards under international law.

Here are the questions.

I would like to know to what extent the Alberta Heritage Fund has discussed and considered implementing similar standards to those implemented by other governments for their equities investments? The Alberta Heritage Savings Trust Fund: Business Plan 2005-2008, gives little indication that this is an issue which has been strongly considered by the Heritage Fund. If this is not the case, I would like to know what you see as the major obstacles in creating such standards? Are there major procedural obstacles you foresee in the management of a fund with such a screening/divestment strategy? Has there been any dialogue, or consideration of dialogue, with other governments on potentially developing such standards?

That's the only portion of the letter I will read. It will be sent again to the standing committee, and we hope that we can receive some answers at least tonight. Then I'm going to be asking, after several other people ask their questions, several questions on my own behalf.

Thank you.

**The Chair:** I'll try my best to give you an answer to that, and I would ask those who actually do the investing to make a comment as well.

It's been discussed at this committee; it's been raised at this committee. The issue of ethical investing is a difficult one because everyone has their own opinion on what is ethical and what is not. It's a difficult decision to agree on social, political, and moral issues, so we have attempted to meet the mandate of the heritage savings trust fund, which is to provide the greatest returns on investment for current and future Albertans.

Maybe with that, I'd ask Doug or one of the other fellows to make a comment if there's anything you would like to add.

7:40

**Mr. Stratton:** Yes. The investments are done with companies that operate on a legal basis in Canada and countries that have normal trade relations with Canada and with policies that are similar to other large investment funds in Canada, such as the CPP.

**The Chair:** Okay. I don't want to turn this into a debate, but I have been asked by one of the members of the committee to make a brief comment, and I'm going to allow a brief comment.

**Mr. MacDonald:** Well, Mr. Chairman, this is a public meeting, and as a member of this committee I think it is appropriate that we be allowed to participate in the exchange and the dialogue.

I would just like to – sir, I've forgotten your name.

**Mr. Mitrovica:** Dervish Mitrovica.

**Mr. MacDonald:** Okay.

I brought this up before the committee in the middle of March this year, and I received a response from the hon. Minister of Finance. I have a copy of it here, and I would be delighted to share it with you. I think we should have a policy for responsible investment. It has been brought up in the past by other members of this committee in other terms, and so far to date there has been, in my view, in my personal view, no political will to change the investment strategy of this fund like others, and you mentioned the Norwegian fund.

I will certainly give you a copy of this, and you're welcome to keep it. Thank you.

**The Chair:** All right. I'll take the next question.

**Mr. Fech:** My name is Oscar Fech. I've lived in Calgary since 1952. Premier Peter Lougheed created the heritage fund in the late '70s. It was worth \$18 or \$20 billion. All of a sudden it went down to \$10 billion, \$12 billion. Now it's up to \$12 billion. What bothers me is that governments are not accountable. That's what it looks like. But look at Alaska. They gave every year \$5,000 to \$6,000 to each person. This year they're only giving \$800, yet the oil has gone up so much in the last couple of years. Who's spinning who?

There's so much money in the governments. Why are we creating these illusions that there's no money and then six months later we hear that the governments have billions in the kitty, which they always had? Why aren't we honest with the taxpayers?

I study world history. I travelled to over 50 countries. I'm not trying to be smart, but it's frightening that there's no accountability, whether it's the city or the province or federal. Look at all the bribes that are going on. It's everywhere. I ran as a mayoralty candidate. I couldn't get anywhere. I just came from a city hall meeting. They're going to spend \$2.4 billion on infrastructure, nothing for the schools, nothing for the kids. I mean, what the heck is going on? Are we building a monument and then it's all going to implode?

**The Chair:** Okay. Oscar, I'm going to try to answer your question briefly. I'm going to ask Doug, but it is not my recollection that the heritage fund ever reached \$20 billion. Is that correct?

**Mr. Fech:** Eighteen billion or \$20 billion it was.

**The Chair:** The records in the presentation, Oscar, were that it peaked in 1985-86 at \$12.7 billion. I only have to go by – that's my recollection. That's the information that we have. So I'm not going to debate that.

With respect to your other comments, Oscar, as you well know, we've met on many podiums in the past, and I've heard you say many of the same things you've said again tonight. You as an individual are entitled to your opinion, and we don't necessarily agree with you on that issue about government not being accountable. One of the reasons we're here tonight is because as a Legislature we are accountable for the fund. You're open to ask any questions you want, Oscar, so if you have another question, I'd be happy to take it, but please ask a question.

**Mr. Fech:** Okay. One more question. It seems like the city of Calgary is creating their own audit committee. It's not being audited by any outsider. It seems like all governments are doing it, and this is part of the whole problem. All accounts should be audited. That's why the federal government, the provincial government, and the city have problems.

I went to the audit committee meeting at city hall. They got mad at me because I said that we needed an outside audit committee to analyze the finances. They just laugh at you.

**The Chair:** Well, Oscar, I sympathize with your views about city council, but we really have no mandate over city council.

Doug, I'd just ask you to comment on the auditing of our investments in our fund.

**Mr. Stratton:** Well, I would have to think that in the province of Alberta we have the Auditor General and his reports.

**Mr. Howard:** The Auditor General of Alberta is the auditor of the heritage fund. The heritage fund is audited annually as part of the audit of the government of Alberta.

**The Chair:** Okay. I'll take the next question.

**Ms Jonsson:** My name is Anita Jonsson. My question is just in regard to the transcript that will be available on the website that was mentioned. I was wondering if the slides that were presented will be on the website. Also, I'm very interested in the letter that was written. I would really hope that that letter would be part of that transcript. Also, I'm interested in the answer that was given in that letter that Mr. MacDonald presented and whether or not that could be possibly part of the transcript.

**The Chair:** Okay. I can't answer your question about the slides. I don't know if they're on the website or not, but if you wanted to leave your name and mailing address, we are more than happy to provide them to you. I cannot comment on the letter that was referred to tonight by the questioner, if he's prepared to make that available. We're more than happy to provide it to you. I guess the third one is that you were looking for Shirley McClellan's letter. Is that what you were looking for?

**Ms Jonsson:** The letter that was provided.

**Mr. MacDonald:** Excuse me. If I could speak again, please.

**The Chair:** Well, just let me finish, please.  
We can get you a copy of that as well.

**Ms Jonsson:** The one thing I would like to say is that I appreciate your being willing to get me a copy, and I will leave my address, but I do think that other citizens would be well informed if they had access to that also. I think that I speak for other Calgarians and that they'd want to know that exact information. I do think it needs to be part of the transcript as it was information that was offered and suggested.

**The Chair:** Okay. I'll take that as advice, and we'll see what we can do.

**Ms Jonsson:** Thanks so much.

**The Chair:** Mr. MacDonald, do you want to make a brief comment?

**Mr. MacDonald:** Yes, Mr. Chairman. I have another copy of this memorandum that was presented to all committee members, and I would be delighted to present it now to Ms Jonsson.

**The Chair:** Feel free.  
Do we have any other questions?

**Mr. Taffs:** Hello. My name is Craig.

**The Chair:** Can I get your full name, sir?

**Mr. Taffs:** Craig Taffs. I'd like to thank the standing committee for coming because it is important. Even though the turnout is sparse – you outnumber us – I'm still appreciative. I mean, this is a good thing, so thank you.

I was a little bit foggy on the business plan. Somebody mentioned

that it's only three years. I mean, we just finished a hundred years of Alberta. Why not a 100-year business plan for the Alberta heritage fund?

**The Chair:** No. The three-year business plan is the next three years. It's a projection for the next three years.

**Mr. Taffs:** Okay. I can't remember what the slide said but something about stewardship of something or other or whatever. It just seemed a little bit vague. I'm just wondering if there is a big-picture plan for the heritage fund.

**The Chair:** The business plan is available.

7:50

**Mr. Stratton:** If you like, I can comment somewhat on the investment policy. The investment policy takes a long-term view with maybe asset expectations going out at least 10 years. We did comment on risk in the presentation. Generally speaking, the longer your investment horizon the more likely your returns move towards sort of a central tendency, if you will. So if that's the type of long term you were thinking about, then that deals with the investment policy.

**Mr. Mitrovica:** Hello, again. Yes, it's my own question. Again, my name is Dervish Mitrovica. I'm a graduate of the London Business School in the U.K., and I would like to ask a question about risk. I think it's critical. But before I say that, I would like to respond to the chairman's comments about debate. On the contrary, I think we should encourage it. In the theatre of democracy debate is crucial; it's not an inconvenience.

My question has to do with risk actually. I have two very brief questions. You make a very good point, Mr. Stratton, about risk and diversification of portfolio. If we consider the members of the standing committee and the advisers, if that's the correct term, the second group listed, we should also assume that diversity is valuable within these groups. I would like to know why there appears in my brief summary only one woman or two, and one of them is the MLA, the Hon. Shirley McClellan. As the chairman earlier suggested about assumptions, should we be making the assumption that Alberta women have nothing valuable to contribute to this discussion? Why are there no women? Why are there only two women, and one of them is an MLA?

The second question is this: how does this fund compare to CPP in its return on investment? But I'm more curious about the former question: women.

**The Chair:** Well, I will try to answer that question. I'm not sure in what context you're referring to a lack of women. We have elected people. There are 83 of us. We have a general election roughly every four years. There are no rules that prohibit any gender from running. Those who are successful and win become MLAs, and various MLAs are placed on various committees. This particular committee doesn't happen to have any women. I can't speak for the Premier when he appointed the various committees, but it has nothing to do with gender. Our Deputy Premier is a lady.

**Mr. MacDonald:** Weslyn Mather is on our committee.

**The Chair:** I'm sorry, Hugh. That's right. Weslyn is on our committee. So one of the opposition members is a female.

If you're referring to the people doing the investing, we have a

number of civil servants that are both male and female. I'm just not sure where you're going with that question, so I don't know how I could answer it any better than that.

I'll turn it over to Doug with respect to the second question.

**Mr. Mitrovica:** Well, let me just respond to the first part. Mr. Stratton talked about diversification of portfolio and its implications for risk. That's where I'm trying to get to. If we are to assume that the portfolio funds have something to do with the mitigation of a risk, then we should also consider, in my humble opinion, the constituent parts of this portfolio, the standing committee, and the policy committee. Again, there are maybe two or three out of 18 who are women.

More to the point, in the spirit of transparency, how are the members of the endowment fund policy committee, indeed the standing committee, chosen? In the spirit of transparency, we ought to know how they're chosen. What are the criteria? Are they clear and transparent and available to the general public to make their own judgments? I think these are fair and pretty clear questions.

**The Chair:** Just for clarification, are you asking how this particular committee is chosen? If you are, it's chosen by the Legislative Assembly, by the elected people of Alberta.

**Mr. Mitrovica:** I'm asking: what are the criteria we use to populate the standing committee and the policy committee? I would like to know: what are the criteria?

**The Chair:** We are the standing committee. We set policy for the heritage savings trust fund, and we are elected by the people of Alberta. The elected people of Alberta, 83 members of the Legislature, approve the various standing policy committees of the Legislature, one of which is this committee.

**Mr. Mitrovica:** You haven't answered my question.

**The Chair:** I'm having trouble identifying exactly what your question is, sir.

**Mr. Mitrovica:** There are an awful lot of MLAs. Therefore, we have a choice in how we choose the members. I'm only asking: what are the criteria used to choose them? That's pretty simple and clear, I think.

**The Chair:** I will make sure that your views are expressed to the Legislature when the next committee is appointed.

**Mr. Mitrovica:** Will my question be answered?

**The Chair:** I've answered your question.

**Mr. Mitrovica:** Will the criteria used to populate the committees be given to me?

**The Chair:** The criteria is: elected officials. Period.

**Mr. Mitrovica:** Thank you for your answer.

**The Chair:** Thank you for the question.

**Mr. Mitrovica:** You're very welcome. I'd like to ask, please, about the comparison between this fund and the CPP. How well are we doing?

**Mr. Stratton:** The question is the comparison returns between the heritage fund and the CPP, meaning the Canada Pension Plan. I actually don't have the CPP numbers in front of me, so I can't compare them. One always has to be cautious with comparison when you have to look at risk-adjusted returns and the objectives.

This is an endowment fund. We have to look very carefully at the mission statement of the fund in the act, and it's the act that we have to follow.

A pension plan such as the CPP, which, I will add, is a more complex fund because of the history of it and its direction, would have different objectives. For example, the CPP has a significant position in provincial bonds, which are a legacy asset, and they're transitioning it into a more traditional pension fund. I put quotes around traditional because, actually, I'm not privy to the strategies of the CPP. They've recently had a change in management, and they're restructuring internally, so there are substantive changes at the CPP at the management level.

**The Chair:** I think we could get that information as well, though, could we?

**Mr. Howard:** Yes, we can.

**The Chair:** Okay. Thank you.

**Mr. Henderson:** Mr. Chairman, my name is Don Henderson. My wife and I live in Calgary-West. I have a question and a recommendation. First of all, the question. A lot of people aren't very sure about the heritage fund. The \$11 billion, \$12 billion I would presume is in liquid funds. We're not talking about that amount of money being in railway grain cars. That's another asset that has been spent. Is that correct?

**Mr. Stratton:** That's correct.

**Mr. Henderson:** Of the \$27 billion or so that's been spent, that has gone into other assets.

**Mr. Stratton:** Yeah. Actually, in the March 31, 2005, financial statements, page 22, there's a pretty good breakdown of the fund showing market value and fair market value across all the asset classes.

**Mr. Henderson:** So it would be useful, I guess, if we knew more – and maybe it's our fault that we don't do that – where we can look and say: all right, of that \$27 billion that went out, some of it was spent on programs and some of it very well went into longer term assets.

**Mr. Stratton:** Well, the act of the heritage fund is that the income is transferred into the GRF, general revenue fund. So, again, on the March 31, 2005, financial statements there's a good breakdown of the history of the fund, its book value, and the transfers to the GRF by year. We alluded a little bit to inflation-proofing the fund at various points in time, so it also shows retentions. But as you know, the policy has been to push the income out of the fund for a period of time.

The summation of that to March 31, '05, was \$27 billion, leaving, again, a book value at March 31 of \$11.3 billion in the fund.

**The Chair:** I do want to make one comment. Just so that it's understood, the \$27 billion over the 15 years, or whatever the time frame is, that has been transferred as revenue from the heritage fund into the general revenue of the province funds absolutely a portion

of everything that the government pays for from health care to education to roads to paying down the debt. So it would be impossible to itemize specifically where that money actually went. It's part of the general revenue fund, which is everything the government spends on behalf of all Albertans.

8:00

**Mr. Henderson:** Some of the things have been identified; like, the railway grain cars have had Alberta heritage trust fund. Then in some of the records that you have here, they talk about hospitals and that. When you're identifying those, then, at least that's a longer term asset. Is that not correct?

**The Chair:** Well, if I'm not mistaken, that's the former capital part of the heritage fund, which no longer exists. Am I not correct?

**Mr. Stratton:** Yeah. You're testing my memory and also my seniority in the organization, going back a few years. I believe that those were part of the capital assets which are no longer, you know, recognized as such.

**Mr. Howard:** The heritage fund started transitioning out of what we would perhaps call legacy assets in 1995, and it's completely divested itself of all the old investments that were made for purposes other than maximizing financial returns for Albertans.

**Mr. Henderson:** Somewhere I read that the Ridley Grain elevator was mentioned, but that's not part of the fund at all.

**Mr. Choo:** Actually, that one still is on the books of the fund. The Ridley Grain elevators still show up in the accounts of the fund.

**Mr. Henderson:** In Vencap, the investment account?

**Mr. Choo:** Vencap was liquidated around 1995, I believe. It was sold out of the fund. Yeah, '97. Okay.

What happened was that previously the heritage fund had a different mandate. There were the liquid assets, of course, and it had a capital projects division. In around I believe '95 or '96 Premier Klein initiated a consultation process with Albertans, a big household survey. You probably remember that. That was before my time, actually, here in Alberta.

**Mr. Henderson:** Within my time.

**Mr. Choo:** Yeah. It was determined from, you know, the results of that survey that the heritage fund should concentrate on liquid assets, maximizing financial returns so that the income from those financial returns would go to the general revenue fund and pay for Albertans' priorities that way. So a lot of those legacy-type capital projects – you know, parks, hospitals, and so forth – went in a different direction. Since 1997 the heritage fund is completely focused on liquid assets and maximizing financial returns.

**Mr. Henderson:** Thank you.

A comment, Mr. Chairman. The fund's mission in this year of our 100th anniversary is not very inspiring; I have to tell you. As a businessperson I read that it could mean almost anything, and as an endowment fund I think that right now it looks like we're taking care of the present. I think that if we were to make this more specific, a lot of taxpayers and a lot of citizens in the province might feel a lot warmer to how this is being managed.

When I say that, I think that with things like education, which you've mentioned earlier, most of us look at that as the future, and certainly the medical research fund I think is a wonderful thing, and

there are other things, like the ingenuity fund, which I'm not sure whether it comes out of this. But I guess my suggestion is that there should be something a little bit more specific in the mission statement because this basically leaves it open to all kinds of questions, to other people saying: well, what are you doing with this thing? Like, is this just another area that you can dip into, or is this something more inspiring, that Albertans, you know, can really feel very positive about this fund?

**Mr. Fech:** I just want to make one quick comment.

**The Chair:** Just one second, Oscar.

Did you want to make a comment on that?

**Mr. Howard:** Yes. It took a few minutes for the penny to drop, but we do remember the Ridley Grain terminal. The heritage fund has been transitioning out of these legacy assets for the last 10 years or so, but we still have a little under 1 per cent of the assets, basically, in the grain terminal loan, and that will be gone after a while.

**The Chair:** Thank you.

Go ahead, Oscar.

**Mr. Fech:** Yeah. I just want to make a comment. Norway has \$190 billion. Alberta has a lot of money. What we should do is like Alaska is doing: give it to the people. Then, at least, they can appreciate it. It seems like the more money that governments have, the more they create illusions: create another fund, another fund. I'm not knocking you or anybody; it's the way the system is created. Let's give some to the people. Ralph should give each person \$5,000 this year, and they would be so happy. They have money coming out of their ears. That was a good election platform.

Thank you.

**The Chair:** Oscar, if I can just kind of try to draw a picture. This year we will take a billion dollars out of the heritage fund, it will go into the general revenue fund, and out of our surplus we're going to rebate back to Albertans \$1.4 billion. So in essence we're doing exactly what you asked for.

**Mr. Fech:** We should give more.

**The Chair:** Maybe next year we will.

**Ms Wilkinson:** Mr. Chairman, can you please re-explain for me how many heritage funds there are under the heritage trust fund? There's the medical research. There's the new access. In other words, can you help me connect the dots?

**The Chair:** Okay. I'm going to refer to notes here a little bit, and I'm going to ask our experts to correct me if I'm wrong. My information is that we have the medical research foundation, which has a value as of March 31, 2005, of \$868 million, and we have committed an additional \$500 million in the future. That, of course, as was mentioned a little earlier, is to support medical research.

There is the ingenuity fund, which has a value, March 31, 2005, of \$537 million, and again the government has committed an additional \$500 million in future funding. That's for engineering and technology research.

This year we announced the access to the future fund – actually, there's one more: there's the scholarship fund. This one I might need a little help with. Is the access to the future part of this?

**Mr. Howard:** No. They're two separate funds.

**The Chair:** That's separate. Okay. So we have the scholarship fund, which as of March 31 is \$249 million, plus an additional \$1 billion additional funding commitment for education purposes.

Those three funds in total as of March 31 are now valued at \$1.66 billion, with additional funding commitments of \$2 billion.

Then, of course, we have the access to the future fund, which we have committed to. That was \$250 million this year?

**Mr. Howard:** It's \$3 billion, and we're putting \$250 million in this year.

**The Chair:** That's right; \$3 billion.

So that's a breakdown of the four different funds that exist under the umbrella of the heritage savings trust fund.

**Ms Jonsson:** I really appreciate all the work that has gone into producing this report. In trying to understand the information that you're presenting tonight, more questions come to mind; for instance, when the chart was shown that was showing the investment returns and how volatile they are and that in 2002-2003 it was a negative per cent, then questions came to my mind. It was a succinct answer and explanation as we went through because it was necessary just to cover all the information. I understand that. What that led me to think is that information is put together depending on the framework or the structure that you impose upon it, and then the information that is considered important in that structure is put within the document.

Then I started thinking: okay, well, I really want to understand in more detail about 2002-2003 and then, you know, over time what has been going on. So my question is: what documents has the government produced that analyze and set the framework? For instance, in the five-year period this is what the heritage fund has been doing; this is how we can understand it. Has there been an analysis, reports, books, whatever, generated by the government from its inception to present? The framework that you impose upon information being considered changes the insights and conclusions that are reached. I was just wondering what documents I should go to to learn more and where they're listed, who's authored them, whether they're available to everyone, et cetera.

8:10

**The Chair:** Well, let me try and answer just briefly part of your question, which is around the 2002-2003 loss of the fund. If you, like me, had any money in the stock market during those years, you'll know why the heritage trust fund lost money. That loss, combined with the gains over the other four years, is the average of 4.1 per cent that was detailed earlier in the report.

I'll maybe ask the gentleman: beyond the heritage trust fund annual reports, is there anything specific that we could refer this lady to?

**Mr. Stratton:** Well, that's correct on the explanation of the returns.

The fund produces quarterly reports, and in the front section of that is sort of a management discussion. What I would suggest is that for an explanation of that particular fiscal year, go to the March 31 report of that year, and that should give, you know, a reasonably good discussion of it at that time. So it has a long history of reporting on a quarterly basis and giving full disclosure.

As far as a set pattern of disclosure: absolutely. The financial statements are set by accounting standards to be a very structured statement and following certain rules. They get audited by the Auditor General and signed off. So the much more structured section is sitting at the back in the financial statements.

**Ms Jonsson:** I appreciate that answer, and now I know one of the

steps that I need to take to understand more about what is here. However, what we're doing in that kind of an answer, or way of looking at solving my problem, is going further in narrowing how the analysis was done over a shorter, shorter period of time. What I'm looking for: a lot of times, you know, in hindsight, in having a greater, longer period of time that we're looking at, different conclusions are arrived at. I'm just wondering if the government does that and if they produce those documents and learn from them and provide them to the public.

**The Chair:** I'll ask one of our members, Mr. McFarland, to make a brief comment on that.

**Mr. McFarland:** I know that you're probably very aware, Anita, that Alberta has probably got one of the best records of reporting its financial information of any of the jurisdictions in North America. I'm not saying that to blow smoke anywhere, but you can go onto the website virtually at any time and pick up a quarterly report not just from the Alberta heritage savings trust fund but the entire government budget. The business plans are available for each of the departments, you know, as you come down through the system. Probably a lot of the reporting is done even before the Auditor General comes out with his annual report.

Really, there's probably more accounting reporting as well as public accounts that are available for virtually all aspects of government, which is something that you can access as a member of the general public. Most of it, as I said before, can be referenced – I'm not into computers, but get on a website, and you can scroll in and pick off many of these reports for your evening pleasure.

**Ms Jonsson:** I apologize if it seems that I'm questioning the integrity or the vigilance in government reporting. That's not what I was saying.

**Mr. McFarland:** No, no. I was just trying to point out the different ones.

**Ms Jonsson:** What I'm saying is that when you refer back to the quarterly or the yearly, we learn certain things from looking at things in those time frames. What I'm looking for is a wider analysis, a more aerial view, and if that kind of analysis is used in decision-making. Is that information available to the public when decisions are made, when committees, you know, get together and they discuss what needs to be done and what we're going to learn from the experience of the past and how we're going to change those things? There's got to be some kind of thing, I would think.

**The Chair:** I've got two committee members that would like to comment, first Mr. MacDonald and then Mr. Snelgrove.

**Mr. MacDonald:** Yes. Thank you, Mr. Chairman. In preparation for this meeting here tonight in Calgary I thought the committee had decided that the detailed list of the investments that we hold in the heritage savings trust fund was going to be made available publicly. That's the list that I asked for from the administrators of the fund and did receive at a previous meeting. I think that in the future – it's obviously too late tonight – members of the public should be able to receive on that counter there the detailed list of investments that we hold on their behalf.

Thank you.

**The Chair:** Okay. I think that's a fair comment, and I see no reason why that can't be done next year. If it's produced for our committee purposes, I see no reason why it can't be available at the public



meeting, provided that it's within reasonable amounts. I'm not sure that we can break it down to every finite investment, but we can certainly give an overview of it for next year.

**Mr. Snelgrove:** If I understand your question, I think that's what our job is as committee members. We don't do the individual investments. We don't look at opportunities or risk per se. We go through the reports they bring us as the professional investors or advisers, as it were, and we question. How are they performing? Are they aware of the risk the insurance industry might be facing? Are world trends in markets something to be concerned with? That's what we do as the appointed members of the board.

We're not involved in the actual, if I can say, day-to-day investment decisions that the people make. I think you're questioning: who does that? It's our job to question: are policies relevant? Even to the gentleman who talked about the ethical funds and other emerging stuff: that's our job, I believe, as a committee. We constantly question the staff that come to the meetings about the relevance and the performance and their futuristic look. I think that's what the committee does.

**Ms Jonsson:** I appreciate that answer. That adds more insight. It makes me wonder then: is that information, those discussions before the actual decisions are made, summarized and accounted for that say that we as a committee have discussed, that these are the things we have unearthed, that these are the things we think are important, that we are going to make decisions, that these are the reasons that justify our decisions and therefore we go forth? Then that's still on a yearly basis?

**Mr. Snelgrove:** Okay. All of the meetings, of course, are recorded by *Hansard*, and our policies that govern the actions of the investment portfolio are absolutely public. But I think you would probably agree that it wouldn't be in the best interests of any investor to put all of the cards on the table about what their investment strategy might be, the policies that govern it. I think that if we went out and said that we're going to buy all the shares in the rubber trees, that might not be a wise financial choice. All of the minutes of the questioning are in *Hansard*, probably available online. All of the policies that drive how we run it are published in all of our reports. I don't think you could have much more disclosure except in a reporting factor, as we do quarterly down the road.

8:20

**Ms Jonsson:** I really appreciate that insight. That is an excellent comment, and I appreciate that.

The one thing in terms of dollars that it would cost: since this is billions of dollars we're talking about, wouldn't it be an excellent investment – I know that I'd give my \$400 towards it – to have a little bit of money put aside so that we could have an analysis of what we've done? Yes, of course, maybe it has to be vetted so that we don't give information away and therefore, you know, hamper our position. Still, as an Albertan I think that we really need to be understanding what we're doing and be able to be part of the process and communicate with our elected officials. But if we don't really understand it and we're not having that communicated in a way that makes such a complex process understandable, then it's hard to hold ourselves accountable.

Thank you very much. I appreciate that.

**The Chair:** Okay. I think we've heard your position and will take that into account. We will be winding down here in a little while, but the committee members will be around for a few minutes

afterward, so if you want to pursue that a little further, you're certainly free to do so.

Next question.

**Mr. Henderson:** Mr. Chairman, a question on the general revenue fund. I guess that I'm not sure. If this is to be an endowment fund, why would this go into general revenue funds? The reason I ask that question is because now you're in yearly, year after year, looking at spending, where if you have a longer term plan, if it was a rolling five-year plan or something like that – but when it goes into general revenue funds, once again it's debated, and it can be spent that year unless there's something more specific.

**The Chair:** Just for clarification, the interest from the heritage savings trust fund is the money that is transferred to the general revenue fund. It's my understanding that the interest from the endowment funds is what is used for the various reasons that they were established. In other words, the interest from the medical research foundation is used specifically for medical research and is not part of what is transferred into general revenue.

**Mr. Henderson:** Okay. That I understand, but I'm going that one step further. If the heritage trust fund is to be an endowment itself which, in turn, goes to other endowments like medical research – I guess that's my question: why does this money have to go through? Is there a requirement? Is that a statute of the province with respect to the finances?

**The Chair:** I guess it goes back to the time in the province of \$7 oil. There was a view that on this side you've got expenditure pressures on an annual basis that are pushing us into debt, and on this side you've got the heritage fund, that is generating interest and sitting there. It was a decision of the government of the day at that time to start to use the interest only of the heritage fund to help pay for health care, education, all those other things.

**Mr. Henderson:** I understand. That was then, and I appreciate it. I guess my question, going forward as you look at this thing, is to say: hey, maybe there's a better way with respect to the future of the fund, that it goes into a fund that, once again, supports medical research or new, identified things that you're looking at.

**The Chair:** I think that's the kind of discussion that we have in caucus on a regular basis in terms of assessing whether or not what we're doing today is still the right thing to be doing today. Now that the debt is paid off, I think that's a discussion caucus needs to have: whether or not that money should continue to flow into general revenue and, you know, be part of a \$6 billion or \$8 billion surplus. That is a valid discussion point, and I think I can assure you that as long as a few of us on this committee are sitting in caucus, it'll be had.

**Mr. Henderson:** Thank you very much.

**The Chair:** Okay. I think that with that, I would like to adjourn the meeting. We will be around for a little bit – most of us have to travel to Edmonton yet tonight – so I'd ask you to grab a cup of coffee. If there are any other questions or explanations you'd want to have of either the investment experts or those of us who are not experts, please feel free to do so.

I thank you for coming out tonight. I thank all of those who helped organize this event. With that, we'll adjourn. Thank you.

[The committee adjourned at 8:25 p.m.]

