

**Title:** Wednesday, February 8, 2006  
**Date:** 06/02/08

**Time:** 2:02 p.m.

[Mr. Liepert in the chair]

**The Chair:** All right. We'll call the meeting to order. We have a quorum.

Before we get into the business, I would have everyone introduce themselves for the record. My name is Ron Liepert. I'm the MLA for Calgary-West.

**Mrs. Sawchuk:** Karen Sawchuk, committee clerk.

[The following members introduced themselves: Mr. Goudreau, Mrs. Mather, and Mr. Pham]

[The following staff of the Auditor General's office introduced themselves: Mr. Arklie and Mr. Hug]

[The following departmental support staff introduced themselves: Mr. Berezowsky, Mrs. Hay, Mr. Howard, Mr. Pappas, Mr. Parihar, and Mr. Stratton]

**Ms Sales:** Tracey Sales, communications consultant with the Clerk's office.

**Ms Sorensen:** Rhonda Sorensen, communications co-ordinator with the Clerk's office.

**The Chair:** Thank you all. Good afternoon. We did deliver packages to the offices on Friday with the exception of the meeting minutes, which were sent out this past Monday. I trust that everyone has received them.

We'll move on to item 2, which is approval of the agenda. I would need a motion to approve the agenda for today.

**Mr. Pham:** So moved, Mr. Chair.

**The Chair:** We'll move on to item 3, which is the approval of the minutes from September 22. Can I get someone to move the approval of the minutes?

**Mr. Goudreau:** I'll so move, Mr. Chairman.

**The Chair:** Mr. Goudreau.

Did we have any questions? You had mentioned that you had a question, Weslyn. Not under this?

**Mrs. Mather:** Not under this.

**The Chair:** All right. Any other questions or comments?

If not, we'll move on to item 4, which is the approval of the committee budget estimates. As you can see, we're a pretty lean, mean machine. Our budget estimate for the coming fiscal year is very similar to the past year, with a slight increase in primarily labour costs. There is no motion required for this item, but I would open the floor to any member who may have a question regarding the budget, which I think is under tab 4.

**Mr. Goudreau:** Mr. Chairman, I'm just looking at the forecast for '05-06 at \$59,000. All of a sudden we go from \$59,000 to \$92,000. I'm wondering why there's just about a 100 per cent increase in the budget.

**Mrs. Sawchuk:** Mr. Chairman?

**The Chair:** Yes. Please, go ahead.

**Mrs. Sawchuk:** Mr. Chairman, normally what we do is a worst-case scenario: if all of our meetings were to be held outside of session, how much more it would cost, or if the committee decided to hold more than one public meeting or if a public meeting required an overnight stay and we had to pay for additional time, that kind of thing. We always budget for those possibilities, and lately we haven't had that. We've met in locations where we've had travel costs covered in another way and we've been able to make it back in the same day. So, you know, we have it there if we need it, and if we don't, it goes back into the pot.

**Mrs. Mather:** What I'm not clear on is: are these amounts that we're talking about paid to the committee or to the Endowment Fund Policy Committee? Like, how does that fit in?

**Mrs. Sawchuk:** It doesn't.

**Mrs. Mather:** It doesn't. It's separate completely?

**Mrs. Sawchuk:** Yes. That's a government committee. It's nothing to do with this committee at all.

**Mrs. Mather:** Okay.

**The Chair:** So if there's payment to that committee, I presume it's through the Finance department estimates, which would come before the House.

**Mrs. Sawchuk:** Alberta Finance. Yes.

**Mrs. Mather:** Then I did have a question about that committee, if that's all right.

**The Chair:** I think we'll deal with that just a little bit later on.

**Mrs. Mather:** Later? That's fine. Thanks.

**The Chair:** Okay. So with that, if there are no other questions, we'll move on to the second-quarter update. I will call on Mr. Parihar to give us an overview, and then we would be open to questions.

Do we need to do the motion first or after?

**Mrs. Sawchuk:** After.

**The Chair:** After. Right.

**Mr. Parihar:** Thank you, Mr. Chairman, and good afternoon, everyone. The minister sends her regrets that she's unable to attend today's meeting. She's in Victoria. She's attending a meeting of provincial ministers responsible for securities reform. Our deputy minister, Mr. Brian Manning, is also with her in Victoria.

On behalf of Alberta Finance I'm pleased to present the 2005-2006 second-quarter update and the draft 2006-2009 business plan for the heritage fund. The update covers the six months of the fiscal year up to September 30, 2005. This report was released to the public on November 16 of last year. The third-quarter report will be released later this month, and some of the numbers which I am presenting to you today will be updated in the third quarter.

I will start by giving an overview of the second-quarter update and update the performance of the fund for the quarter. I'll then follow with some comments on the heritage fund business plan. I'll take questions after that or, if you prefer, Mr. Chairman, or if the members prefer, I can be interrupted and I can answer questions if you so please.

**The Chair:** I think we'd like you to do your report, and then we'll ask the questions when you're done.

**Mr. Parihar:** Okay. Thank you, Mr. Chairman. If you go to page 1 of the report, on the chart you see that the fair value of the fund stood at \$12.6 billion at the end of September 2005, which is \$200 million more than the March 31, '04, fair value. The fund has grown from \$12.4 billion to \$12.6 billion, and that's the result of the strong equity markets. If you look at the market summary table on the same page, you see that the Canadian equity market for the quarter returned 11.6 per cent, which is a very strong performance. The U.S. market in U.S. dollars returned 3.8 per cent and in Canadian dollars returned minus 1.7 per cent. The non North American market returned 4.6 per cent. So if you look at the overall equity market, they did well, and the heritage fund did well this quarter.

2:10

On page 2, under Changes in Net Assets, the investment income on a cost basis for the six-month period was \$646 million, and the investment income on a fair value basis was \$842 million. The difference between the two numbers is that the fair value income includes the unrealized capital gains, and the cost basis includes only the realized capital gains or losses. That's the difference there. Further down on page 2 there's a breakdown of net investment income during the six months. On the first line fixed income returned \$173 million, equities were \$426 million, real estate was \$38 million, and others were \$9 million, for a total of \$646 million for the six months on a cost basis.

On page 4, under Business Plan Performance Measures, in the current quarter the fund returned 3.4 per cent, and for six months it was 6.9 per cent. The three-month return of 3.4 per cent was 40 basis points better than the policy benchmark, which returned 3 per cent.

I'm going a bit back and forth, but if you can go back to page 2, the forecast income for the year is \$1,128,000,000. That's on top of page 2 in the right-hand column there. That's an increase of \$444 million from the original budget estimate. Most of this increase is as a result of a strong equity market and good returns for the bond market.

Starting this year, the fund is being inflation-proofed. As you recall, the business plan for last year called for inflation-proofing of the fund this year, so the fund is being inflation-proofed. The inflation-proofing estimate for the current year is \$295 million, of which \$147.6 million has been accrued for the six-month period. As you will see in the business plan, that number is updated to \$345 million for the year. So starting this year, the fund is being inflation-proofed. One other point I'd like to note here, which is on page 8, is the transfer for the access to the future fund. The fund received \$750 million on account of the access to the future fund. The idea there is that 4.5 per cent of the market value of the fund, which is attributable to this \$750 million infusion into the fund, will be – first of all, all the income from the fund goes to the general revenue fund, and from that income, the income attributable to the \$750 million contribution to the fund on account of the access to the future fund, 4 and a half per cent of the market value will be transferred into the fund, which I believe is for the postsecondary education there.

That's the first time money has been received on that account, and my understanding is that the government is committed to put up to \$3 billion on that account. This is the first instalment of that.

Those are all the comments I have on the second-quarter update. I can stop here and take questions, Mr. Chairman, or I can proceed to do the business plan and then take questions, whichever is easier.

**The Chair:** Actually, let's do questions right now on the past, and then we'll go into the future.

I have Mr. Goudreau, Mr. Pham.

**Mr. Goudreau:** Thank you, Mr. Chairman. You just talked about the advanced education endowment fund of \$750 million. Would the same thing happen, or does the same system operate, or do you operate the same way for the \$250 million scholarship fund and the \$200 million for the medical research endowment fund and the \$100 million for the science and engineering research fund?

**Mr. Parihar:** No, Mr. Chairman. There are separate funds for the scholarships and medical research and the ingenuity fund. Any contributions to those funds are deposited directly into those funds. The scholarship fund would receive, like you suggested, \$250 million, so that goes into the scholarship fund. Similarly, the \$200 million which is being deposited into the medical research fund would go into that fund and the \$100 million into the ingenuity fund. As they are separate funds, the money goes directly into those funds and is invested.

The access to the future, if you will, is a subaccount of the heritage fund, so since there is no separate access to the future investment fund, the money on that account is deposited into the heritage fund, invested alongside the heritage fund in a similar way, and the income gets transferred to the general revenue fund. Of that, 4 and a half per cent of the market value of the subaccount, if you will, gets paid out to the access to the future fund and the programs.

**The Chair:** Mr. Pham.

**Mr. Pham:** Thank you. I would like bring your attention to page 4, where you say that "over the past five-year period, the fund generated a nominal annualized [rate of] return of 4.9%." I understand that it exceeded the benchmark that we set out for the fund, but a 4.9 per cent rate of return seems to be relatively low. If I recall properly, most of my personal investments that I do with the bank seemed to perform much better than 4.9 per cent over the last five years. Are you happy with that rate of return, or are you going to review the benchmark that we set out for the fund in the future?

**Mr. Parihar:** I'm never happy with the lower returns, but if you recall, that five-year period includes the period where the equity market dropped substantially, in 2001-2002. So the five-year period includes that. But if you look at the most recent period, like the last one year, the return has been 4.8 per cent, which I would say is pretty good.

**Mr. Pham:** So you are happy with the rate of return, and you are not going to revisit the benchmark at all in the future.

**Mr. Parihar:** Like I said, the policy asset mix of the portfolio, which we can discuss in the business plan, returned last year 12.9 per cent, and the fund returned 14.8 per cent for the year. So in my opinion the policy mix is working. The five years is a longer period, and obviously that includes the period when the equity market dropped substantially. When you average out for the five years, that

includes that period. When that drops out, you will see that the five-year return will look much better. I am satisfied that the policy asset mix is reasonable for the size of the fund and the risk profile I have for the fund.

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

**Mrs. Mather:** I'm not sure if I heard correctly. On page 2, the forecast investment income for the fiscal year, I thought you said "billion," but it's written "million." Which is it?

**Mr. Parihar:** It's \$1,128,000,000.

**Mrs. Mather:** Okay. All right. I was hoping that's what it was. Thank you.

2:20

**The Chair:** All right. If there are no more questions, then I need a motion that

we approve the second-quarter update as presented.

Mr. Goudreau. All in favour? Carried.

We'll now move on to item 6, which is the discussion of the business plan, and again I'll turn it over to Jai.

**Mr. Parihar:** In your binder there is a draft business plan for 2006-2009. What I'll do is try to highlight some of the changes from last year. As you recall, last year's business plan called for inflation-proofing of the fund, and that will continue for this year. For the planned period, for the three years, it is expected that \$667 million would be retained in the fund for inflation-proofing. Off is \$345 million for this year, and the other two years would have an amount depending on the inflation rate for those years, so the estimate for the three years is \$667 million.

Some of the changes made to the business plan. If you go to the bottom of page 4 – the table continues to page 5 – the major asset classes have been split into four parts. Cash and absolute return strategies is one section. Fixed income is another section. Then inflation sensitive, which includes real estate, is the third section, and the fourth one is equity. So these are the four broad categories of the assets.

The money market allocation has been reduced from 2 per cent to 1 per cent going forward, so we'll have less cash in the account, and we'll deploy that cash for other investments. Absolute return strategies have been capped at 5 per cent, so we're not going to increase those. Fixed income had been reduced to 29 per cent from 30.5 per cent, and a new timberland allocation has been targeted at 2 per cent. Private income and private equities – under Inflation Sensitive there's an asset class called private income, and under Equities there's a class called private equity – are going to have a 4 per cent each allocation. Most of the allocation is coming from reduction in the fixed income and partly from the reducing of the cash, so that's one change.

The other change is the policy benchmark – this is on page 4 – for absolute return strategies. We have incorporated a new benchmark: HFRX global investable index. That's the index for absolute return strategies. That's a market index. That replaces the old index of CPI plus 6 per cent.

Then we have updated the heritage fund income forecasts. That's on page 9. Page 10 has the asset mix assumptions and the capital market return assumptions there.

In terms of transfers, as you know, the heritage fund would retain the amount to inflation-proof, so after inflation-proofing, the amount which will be transferred to the general revenue fund for 2006-2007

would be \$617 million, 2007-2008 \$473 million, and 2008-2009 is \$483 million. Just to give you why the numbers are sort of declining. As I mentioned earlier, there's a difference between the market return for the fund and the return based on the cost. The cost estimates do not include the unrealized capital gains, so to the extent that the fund has unrealized capital gains, as we sell, the securities get realized and become income on a cost basis. Currently the fund has quite a bit of unrealized capital gain because the equity market has done so well. As we sell or transfer some of the assets from one equity asset class to the other, those get realized and trigger the capital gains. Therefore, the income goes up. So in earlier years return income is higher from that point of view.

Those are all the comments I have, Mr. Chairman. I can answer any questions.

**The Chair:** Any questions from members?

**Mr. Goudreau:** Maybe more of a comment rather than a question. Two things. One is on the Canadian equities. We're looking at going from 20.4 per cent to 15 per cent, and I realize that on the previous documents, for that particular one Standard & Poor's had provided probably a negative return. Is that why we would be moving from the 20 to 15 per cent?

**Mr. Parihar:** No, that's not the reason. This is a long-term asset mix, so the asset mix in the business plan is for a longer period. We believe that the Canadian equity markets on a global basis are only 2 per cent of the global economy, so to have a substantially higher allocation of Canadian equity on a longer term is not prudent. We want to keep it in line with the other markets.

Fortunately, we had a higher actual allocation of current equity last year, and then last year the market did very well, so it may be time to sort of realize some of the profit. But the primary reason for having a Canadian equity allocation of 15 per cent is for the longer term because we want to sort of keep a balance between various markets. We don't want to have too much allocation to a relatively smaller market when you look at it in a global context.

**Mr. Goudreau:** Maybe the other one is that we had talked at a previous meeting about investments and moving slowly towards more ethical types of groups or companies or investments. Is there some movement in that particular direction?

**Mr. Parihar:** If you look at page 5, there is a bullet there which we have. This is below the table. It says: "Continue to practice responsible investing by investing in companies that operate legally and in countries that maintain normal trade relations with Canada." So the current policy of the fund is to invest in companies which are legal, obviously, and operate in the countries which Canada has as a trade relation. We don't make a distinction. We purely invest money based on a risk/return trade-off where we feel that if the returns are commensurate with the risk, we make the investment. The idea here is to get the best return for the fund. As long as those companies are legal and operate in the countries with which Canada has trade relations, we invest in those companies.

**The Chair:** Other questions?

**Mr. Snelgrove:** The timberland fund: where primarily would that investment be? In what countries? Are there some in Canada and the United States? I would presume, but where is the bulk of the investment in the timberland?

**Mr. Parihar:** We just have one investment currently. That's on

Vancouver Island.

2:30

**Mr. Snelgrove:** And it's privately owned?

**Mr. Parihar:** It's privately owned.

**Mr. Pham:** In your business plan you refer to the Endowment Fund Policy Committee and its roles and responsibilities. It doesn't approve anything. It just makes recommendations – right? – to the minister if I read it correctly.

**Mr. Parihar:** They advise the minister, yes.

**Mr. Pham:** A lot of the things that it reviews and makes recommendations to the minister on are the things that we have to look at and we have to approve as well.

I wonder, Mr. Chair, if it is beneficial for us, if we can have a joint meeting with those people, listen to their advice and listen to their debate to have in-depth knowledge of the fund and how the investment policies are being formed and recommended and to hear their expert opinion on the quarterly report and the year-end report. Because they provide that advice to the minister and to the department staff, maybe we can get some benefit out of that advice too.

**The Chair:** Any comment, Mr. Parihar?

**Mr. Parihar:** Mr. Chairman, this is an advisory committee to the minister. In that sense, the advice to the minister is privileged advice. The advice is given to the minister, which in some way the minister may or may not accept. So this is advice given to the minister, and that advice is incorporated in the business plan here. I don't know if the minister would agree to have an adviser come to this committee. I don't know. That's a decision I cannot make.

**The Chair:** Well, I guess my comment would be that because it is the minister's advisory committee, which she has appointed, the call would be up to her. I don't think the committee has any legal ability to demand, as an example, that they come here, but I think it would be worth pursuing with the minister and seeing what her thoughts would be. The tradition has been that she would speak at this committee on behalf of anyone who is giving her policy advice, but if she didn't have a problem with it, I would follow up and discuss it with her.

**Mr. Pham:** One particular area, the investment policy, I think it would be very interesting to hear because their expertise will certainly provide a lot of background information as to why they think that the fund should go in a certain direction.

**The Chair:** Yeah. I think the only sort of caveat on that is: it is advisory. As Mr. Parihar has mentioned, the minister may or may not take the advice. The advice of the policy committee would be one part of the decision-making process, and the fear might be that you would only hear at this committee one particular avenue of advice rather than all of them together. But I'll have a discussion with the minister, and we'll see what her view would be for the next meeting.

Any other questions on the business plan? Okay. With that, then, I would accept a motion that

we approve the '07 to '09 business plan as circulated.

Can I have someone move that? Ms Mather? All in favour? Approved.

Okay, we'll go back to the agenda, then, and move on to item number 7, which is the business arising from the previous meetings. As you know, we had our annual public meeting in Calgary at Mount Royal College on October 18. We advertised it quite extensively and promoted it as best we could. Even though the folks from Alberta Finance tried their very best, we couldn't scare up a lot of enthusiasm, so on behalf of Mr. Pham and I, who are Calgary MLAs, we'll take responsibility for not having a big crowd. I would ask, though, that if there are any comments from members regarding the annual public meeting or the concept of the annual public meeting going forward, we have a couple of minutes on that. Mr. Rogers?

**Mr. Rogers:** Thank you, Mr. Chairman. First of all, my apologies for being late. I had another engagement before this one.

I just would like to say that this was, of course, my first time at one of these public meetings either as a member of the public or as an elected member. Even though, as you mentioned, the crowds were small, I found it a very interesting process. I was very impressed with the quality of the questions. The people that were there that asked questions certainly knew what – you know, their interest was clear. I think it's a great opportunity. Even though the numbers were that small, I certainly hope that it's something we continue. I think there's great value in that. This is the people's fund, and it's important that we give the people the opportunity to come out and find out what their fund has been up to over the last year and ask some tough questions, if they have to, about the people that manage the fund and us as the elected representatives, the stewards on their behalf. So I thought it was a great experience.

**The Chair:** Okay. We'll move on to 7(b). This is for information purposes only. It was requested by one of the members at a previous meeting, so we've included it as part of the materials that you have today.

Mr. Parihar, did you have any comments on it, or should we simply leave it for information purposes, and if any members have any questions, this is the time?

**Mr. Parihar:** Yeah. This is for information only.

**The Chair:** All right. No questions?

We will move on, then, to item 7(c). This is a similar situation, where a member had asked for information relating to what we sort of just finished talking about. Unless there are any questions on this, I've made the commitment to the Member for Calgary-Montrose that I would discuss it with the minister going forward prior to the next committee meeting.

**Mrs. Mather:** My only suggestion with the Endowment Fund Policy Committee is that perhaps there should be all-party representation. I don't see that at the present time.

**The Chair:** My understanding is that this is primarily a committee of persons who are nonelected. My understanding, reading the appendix, page 2, is that it's one to two MLAs, and one has already been appointed.

It will be reflected in the minutes. I can't make any more comment than that.

**Mrs. Mather:** Thank you.

**The Chair:** Okay, we'll move on to item 8, communications. Mike, did you want to carry this, or is it Rhonda?

**Mr. Berezowsky:** No. That would be me.

**The Chair:** Okay.

**Mr. Berezowsky:** The questions are the same as last year. If you want more detail on them, I can provide that, or it's also in the results that all the committee members received on last year's poll. The details would be in that.

I was able to get a little bit more information on when the poll is expected to take place. They're targeting February 22 to March 1 and hope to have results by March 15.

**The Chair:** Any questions? This is an annual thing.

**Mr. Berezowsky:** Yes.

**The Chair:** Did anyone have any questions regarding the omnibus survey that will be taking place shortly? No? All right.

Rhonda, did you want to talk a bit about the year-end update?

**2:40**

**Ms Sorensen:** Sure. Thank you, Mr. Chair. I'm happy to report that all of the strategies outlined in the 2005-2006 communications report are complete with the exception of a province-wide advertising campaign. The intent of this campaign is to raise awareness prior to the omnibus polling. Because we just found out that the polling is scheduled to take place February 22 to March 1, we would essentially need to run this advertisement this week in the weekly newspapers. Karen is distributing a copy of the ad, and if we can gain approval on it, we can run that this week in weeklies across Alberta.

**The Chair:** Any objection? All approve?

**Hon. Members:** Agreed.

**The Chair:** You've got the go-ahead.

**Ms Sorensen:** Thank you.

**The Chair:** And then the website. I guess, Mike, you're responsible for that?

**Mr. Berezowsky:** Yeah. That's pretty self-explanatory. If anybody has any questions, feel free to ask.

**The Chair:** The information is in the binder under 8(c). Do any members have any questions regarding the website? No? All right. The information is there.

That moves us on to Other Business. Do any members have any other business?

If not, before I move adjournment, we will need to meet again as a committee in June. We'll try and give members as much notice as we possibly can in polling for a date, and hopefully we'll have a little better turnout than we did today.

With that, I'd ask for a motion for adjournment.

**Mr. Pham:** So moved.

**The Chair:** Mr. Pham. We're adjourned. Thank you.

[The committee adjourned at 2:42 p.m.]

