

**Title: Tuesday, June 13, 2006 Heritage Savings Trust Fund Committee**

Date: 06/06/13

Time: 1:03 p.m.

[Mr. Liepert in the chair]

**The Chair:** Okay. We'll call the meeting to order. Welcome, everybody. Before we get under way officially, we'll have everyone identify themselves for the record, but just before we do that, I'd like to welcome the newest member of our committee, the Member for Calgary-Hays, Mr. Johnston, replacing Barry McFarland. It's good to have you here, Art. So what we'll do is go that way.

[The following members introduced themselves: Mr. Goudreau, Mr. Johnston, Mr. Liepert, Mr. MacDonald, Mr. Pham, Mr. Rogers, and Mr. Snelgrove]

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

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

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

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

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

**The Chair:** Okay. I need a motion to approve the agenda for today's meeting. I think you all have the information. Mr. MacDonald. I need another motion to approve the minutes of the February 8 meeting. Mr. Goudreau. I think that in both cases I need to say that that was approved.

Before we move to the regular agenda, Rhonda Sorensen of our communications group has a family matter that she has to attend to and would like to move up on the agenda. So unless there's someone who objects, I would like to move I guess it's item 6 up to right now. Anybody have any objections? Rhonda, it's all yours.

**Ms Sorensen:** Thank you, Mr. Chair. This year our communications plan is taking a little bit of a turn from the previous years. We're working with a budget of \$44,000 this year.

Now, the first recommendation that we're making. In the past we've done omnibus polling as a part of the government-wide Focus Alberta. That has meant that we haven't actually had much input into the questions and have been late in getting the results, which is what we actually base the communications plan on. So what I'm suggesting is that instead of doing the omnibus poll, we do our own poll, which would allow us to ask about eight to 10 questions to Albertans. It would be a cross-section of a thousand Albertans, and we could make up our own questions. Based on that, as I say, the rest of our information follows.

The public meeting is another recommendation. Now, that is actually something that is legislated. Unfortunately, we don't normally have a high turnout to this, regardless of where we hold it. So in reviewing the omnibus poll results, 43.6 per cent of people were saying that they want to receive information by mail. Since we are legislated to hold the meeting in the public, what I'm suggesting is that we do a direct-mail campaign to the people in that community, wherever we determine the meeting will be held. That would essentially be a five point five inch by eight and a half inch card printed on both sides. One side would be an invitation to the public

meeting; the other side would have information about the heritage savings trust fund. The cost for that if it's a community with about 25,000 homes is \$7,000.

Another 20.6 per cent of respondents said that they want advertising in newspapers. So we're suggesting that we stick with that strategy and do advertise the public meeting in whichever community is chosen today for the public meeting.

Another thing that we're suggesting is a presentation enhancement. Traditionally the presentation that we do give at the public meeting is a lot of statistical information, which is very important, but what people are saying in the omnibus polling is that they want to know what the fund means to them, what it's providing to them. So we're suggesting maybe doing a slide show ahead of that that kind of shows the parks or wherever the money has gone, how this is actually going to benefit Albertans, and then get into the statistical information.

In the past we've also done a brochure. We still have brochures left, so there's no need to redo them. We will be updating the statistics card, however, at about a thousand dollars for 5,000 cards.

We'll also continue along with the media relations. Again, our communications group does the media relations only for this all-party committee. Finance communications handles the performance of the fund and media relations surrounding that. The heritage fund website is also handled by Finance. We're also suggesting a province-wide advertising campaign if we do in fact go with our own polling. Now, we've tried to do this in the past, but it hasn't worked because the omnibus poll doesn't allow us any time to know when it's going to be asked. If we do our own poll, then we can co-ordinate a province-wide advertising campaign with that so that we're raising awareness of the fund prior to the polling so that people are actually aware of the fund.

So essentially all of those recommendations come to \$43,800, which is under budget. I'd look for any comments or direction from the committee on how you'd like us to proceed.

**The Chair:** Well, why don't we take a few questions, if there are any, and then we'll decide on the next steps. Any members have any questions of Rhonda?

**Mr. Snelgrove:** Probably just a statement. It seems like we keep trying to get everybody interested in this, and people aren't that interested, so I wonder when we're finally going to just admit that that's the way it is and quit bugging them.

**Ms Sorensen:** I think that that's actually a good point. I can give you guys copies of the omnibus polling, and I'll get into it in a little bit more detail further down on the agenda. There are a great number of people saying that they don't want any information, and I think that actually bodes well for us because people generally are not interested in something unless it's not doing well. I think it's doing well, so people are just satisfied.

1:10

**The Chair:** Well, Lloyd, then, further comment?

**Mr. Snelgrove:** The heritage fund itself doesn't build parks, doesn't build hospitals. It's the fund. Those other departments have their responsibility to make people aware of where their funding might come from or not come from. Candidly, the only time I get questions on the heritage fund is after we put something in the paper, and then the newspaper reporter phones me. I have not had any people either write or stop me or request information about it. So I think you're right. I think they trust that the heritage fund is there, that it's

being managed. I just don't know if it's practical to be spending money doing it.

**The Chair:** Okay. We'll go to Mr. Johnston, Mr. MacDonald to follow.

**Mr. Johnston:** Thanks, Chair. I'm new at this. I see that the last meeting was in Calgary. The fact that we had 40 people or 20 people, whatever it was, is it because it's in a large centre? Should we be out to the smaller centres possibly?

**Ms Sorensen:** I've only been a part of this committee for three years and only a part of the public meeting for two. One was held in a rural area, and one was held in an urban area, and from what I understand from previous meetings, it really doesn't matter. It is legislated that we have to hold this public meeting, but we're asking people to come out at 7 or 8 o'clock at night to hear about something that they don't have a lot of interest in. It's not because they're not interested in the fund; it's because they're fine or they seem to be fine with what's happening. There's nothing controversial about it that they really want to explore. So it really hasn't mattered.

**Mr. Johnston:** Okay.

**The Chair:** Just before we proceed, I want to welcome the MLA for Calgary-Fort, Wayne Cao, and the MLA for Edmonton-Mill Woods, Weslyn Mather.

Mr. MacDonald, followed by Mr. Cao.

**Mr. MacDonald:** Yes. Thank you, Mr. Chairman. Certainly, I would like to remind members and the Member for Vermilion-Lloydminster that we have an obligation under section 6(4) to hold a public meeting with Albertans on the investment activities and the result of the heritage trust fund. That's, as you say, mandated by the act.

I think that in light of the fact that this fund has actually shrunk in size when you look at it over a period of time and with the increases in the consumer price index, the fact that we are now adding \$1.3 billion into it to at least partially inflation-proof it I think is very important, and it's very important to the constituents that I represent. They routinely come to the constituency office and ask for the investment strategy.

So in some parts of the province there may be little interest in it, but in other parts there is. I think that we should continue to have these public meetings, and I think that what you're doing to try to improve communication and interest in this meeting is worth while, and we should try it out.

**The Chair:** Mr. Cao.

**Mr. Cao:** Well, thank you, Mr. Chair. I just want to add to the communication part of it. People tend to go to the banks and financial institutions, where they see a lot of brochures, and I was wondering whether we can dovetail this with the ATB, the Royal Bank. They have those things. We just add a heritage savings for Alberta box in there. I don't think those corporations would mind. Then people see that, too, the sort of exposure to the finance. So that's just a suggestion.

**The Chair:** Okay. Rhonda did you want to make any comment on that or not?

**Ms Sorensen:** Yeah, just a brief comment. What we do with the brochures is provide them to MLAs – I believe it's about 50 to a hundred of them – and ask them to distribute them within their own constituencies however they best deem fit.

**The Chair:** I think that if I heard the member right, though, Rhonda, he was suggesting that you might want to look at a relationship with ATB or one of the other financial institutions where you would make that initiative on a province-wide basis.

**Ms Sorensen:** Okay. I will make note of that.

**The Chair:** So we'll leave that with you.  
Mr. Rogers.

**Mr. Rogers:** Thank you, Mr. Chairman. A lot of, I think, good comments have been made earlier. I would suggest that the efforts that we're making right now to inform the public, even though sometimes it seems like we're beating our heads against a wall, are certainly very important. I would follow up on Mr. MacDonald's points not just because of the statutory requirement but that it's important that we continue to remind Albertans what their fund is doing. I can assure you that should we cut back on these activities or try to pare them down, we would hear a lot from the public that would suggest that we're being secretive about their funds.

So I applaud the efforts, even though they seem futile, that we would continue. I think the price tag that Rhonda mentioned is fairly reasonable when you look at something spread across the entire province. I certainly wouldn't support any moves to crank up the process, to try to squeeze the interest out of the general public, so to speak, but I think what we're doing is quite reasonable, and it's a good thing. Let's not stop.

**The Chair:** Are there any other questions or comments?

All right. Then I think what we would be proposing to do is ask for approval by the committee for the communications plan, which would include the extra information and the polling that Rhonda outlined. I would be asking members of the committee if I could have a motion to approve the '06-07 communications plan as distributed.

**Mr. Rogers:** And amended by suggestion, Mr. Chairman.

**The Chair:** No, I don't think there's any amendment. The communications plan includes everything.

**Mr. Rogers:** Including the brochure suggestion of Mr. Cao.

**Ms Sorensen:** I can certainly look into that.

**The Chair:** Yeah. I'll let her look into that as an extra item, but I would like to have a motion to approve the communications plan as laid out before us.

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

**The Chair:** Thank you, Mr. Rogers.

All right. Now that we have a motion, is there any further discussion? All those in favour of the motion, which approves the 2006-07 communications plan as distributed, please raise your hands. Opposed? That's carried.

Rhonda, will you also be giving us a report on the omnibus poll in Mike's absence?

**Ms Sorensen:** Yes. Thank you, Mr. Chair. You are receiving copies of this right now. This is the package that we were presented after the omnibus polling. It did not provide a whole lot of information, but we were able to get the raw data from Environics, who does the polling. I'm just going to outline the four questions that were asked as well as some of the highlights of what people said. That is what the communications plan you just heard was based on.

The first question that was asked of Albertans was: "What have you heard about the Heritage Fund?" Twenty-nine point five per cent of people said that they'd heard nothing. The fact that government put surplus into it: 24 per cent had indicated that that was what they had heard. An additional 13.2 per cent said that they had heard that we use it when we need it, when the oil runs out, and it's a fund for rainy days. So that just gives you a little bit of perspective about what people are thinking the fund is for.

The second question was: "How satisfied are you with the information you are receiving about the Heritage Fund?" It was a 50-50 split, basically: 48.9 per cent of people are satisfied with the information they're receiving, and 45.6 per cent are dissatisfied. Where I would like to explore this a little further when we do our own poll is: why are people dissatisfied, and what can we do to improve that?

The third question did ask people what else they want to know. Twenty-three per cent of the people said that they don't want to know anything else, which I found kind of amusing; 33.8 per cent said that they want to know what the fund is being used for, how funds are allocated, and if there are any limits on how the fund can be used; 16.3 per cent said that they want to know how much is in the fund, which is something that we do try to communicate through the brochure and statistics card.

The fourth question that was asked is: "How would you prefer to receive information?" Now, this was what I found interesting: 43.6 per cent of people want to receive information through direct mail, 24.4 per cent through the newspaper, 20.6 per cent through the Internet, and 19.8 per cent through television. So that might be something we want to consider in the future too.

I don't have copies of this raw data for everybody but would certainly be happy to provide you with that if you want to go through it.

**1:20**

**The Chair:** Rhonda, if I could as chair, with all due respect, it's a pretty document, but it says nothing.

**Ms Sorensen:** Exactly.

**The Chair:** I will leave it there. You will need to provide members of this committee with not the detail but a breakdown of the questions and the survey results in two or three pages. Otherwise, it's not of any value to us.

I would also ask you that in future, one year from now, if the field dates are between February 21 and March 4 and we're on June 10, we need better service than that.

Any questions on the results that were verbally presented by Rhonda? It confirms what everybody believes? All right then. I don't think we need a motion for this, right? Okay. So that's just for information purposes only.

Finally, the third item under communications is the website. Again, Rhonda, for information purposes do you have anything to add?

**Ms Sorensen:** I have nothing to add on this.

**The Chair:** Other than what's in our binder.

**Ms Sorensen:** Exactly.

**The Chair:** Members, you have received in your information binder under tab 6(c) a two-page memorandum from Mike regarding the website. Does anyone have any questions?

**Mr. Snelgrove:** I think that is the future of information to get out, and we need to make sure that it is current. We can see from the number of hits that that's where the people are going, so that's where I would focus.

**The Chair:** The information that we mail to people should be driving them to the website, not providing them with a whole bunch of additional information.

Mr. MacDonald.

**Mr. MacDonald:** Yes. Rhonda, could you tell us at what point last year after we made the decision to hold the public meeting at the college in Calgary that that information was listed or posted on the website?

**Ms Sorensen:** On the website? I would have to look back at that, Mr. MacDonald. I believe – and I'm going strictly by memory here – the public meeting was held in October, so I'm guessing that the information would have gone up probably mid-September, but I would have to verify that for you.

**Mr. MacDonald:** Thanks.

**The Chair:** Any other questions on communications for Rhonda before we excuse her? Good.

Thanks, Rhonda.

**Ms Sorensen:** Thank you.

**The Chair:** Okay. We'll move back to the regular agenda then, and we'll go to item 4, which is our third-quarter update. I will ask Mr. Parihar to – we'll have the update first, and then we'll ask for a motion. That's the procedure. Right. Take it away.

**Mr. Parihar:** Thank you, Mr. Chairman, and good afternoon, everyone. The minister sends her regrets that she's unable to attend today. She's in Toronto attending a meeting of securities regulatory reform ministers there. She would have liked to be here, but unfortunately there was a conflict, so I'm going to represent Alberta Finance today.

I'll be presenting to you the 2005-2006 third-quarter update and the 2006 annual report for the Alberta heritage savings trust fund. The update covers the first nine months of the fiscal year, up to December 31, 2005. This report was released to the public on February 27 of this year. I will start by giving an overview of the numbers in the third-quarter report and the performance for the fund for the third quarter of the 2005-2006 fiscal year. Then I will provide some comments on the annual report. What I'll do is that, first, I'm going to talk about the third-quarter report and then invite any questions you have on that. Then I'm going to talk about the annual report, and you can ask me any questions you wish to ask.

**The Chair:** Okay. If members could keep that in mind, that we'll deal first with the third quarter, and then we'll move on to the annual report.

**Mr. Parihar:** If I can just draw your attention to the table on page 2 of the third-quarter update. There's a table entitled Changes in Net Assets on the left-hand side, the middle portion of the column there. The fair value of the fund stood at \$13.6 billion, the precise number is \$13,579,000,000, which is an increase of about a billion from the end of the second quarter. If I can just run through the numbers in this column here, which is headed 3 Months ended Dec 31, 2005, the investment income for the quarter was \$268 million, and for nine months it was \$914 million. This is based on a cost basis. The amount retained for inflation-proofing in the quarter was \$111 million; for nine months it was \$258 million. When I talk about the annual report, I'll update these numbers for the year.

The billion dollar increase from the end of the second quarter to the end of the third quarter was largely due to a transfer from the GRF of \$750 million on account of the access to the future fund. There was a change in unrealized gains of \$153 million. So the increase in assets was about a billion dollars from the second quarter.

Of the \$268 million of income during the quarter and the \$914 million for the year the breakdown is provided on the bottom of this page under Net Investment Income. For the nine months the \$914 million was made up of \$234 million fixed income, \$574 million equity, \$67 million real estate, and there was other income of \$39 million, so a total of \$914 million.

On page 3 under Asset Mix what we have here is the long-term policy asset mix, which is the first column. Then there are changes from the last year with the asset mix. The major change is that if you look at the absolute return strategies, the number reduced from 7.5 to 6 per cent, the private equities were reduced from 5 per cent to 4 per cent, and a new asset class of timberland was added at 2 per cent. In the same table there is the actual asset mix as to where we stood on December 31, 2005.

I also want to draw your attention to the forecast investment income, again on page 2, the second column. The income forecast for 2005-2006 was \$1,212,000,000, an increase of \$528 million from the original budget estimate of \$684 million. Again, I'll update that when I get to the annual report.

Page 4 of the report, the business plan performance measures. During the quarter the fund returned 3.2 per cent, which is 10 basis points better than the policy benchmark. For nine months the fund returned 10.3 per cent.

In the rest of the report are the details about the various asset classes, and I don't propose to go through that unless you want me to.

At this stage I'll take any questions for the third-quarter report.

**The Chair:** Well, it seems like we have the next quarter and the whole year wrapped up in the next report. I'm just wondering if we shouldn't do the annual report and take questions on all of it because there may be the possibility that some of the questions that are going to be asked are actually going to be covered in the annual report. Would members want to do it that way, or do we want to take questions on the third quarter? I think I'd prefer if you just go ahead, do the annual report, and then, really, the questions will be on the annual report.

1:30

**Mr. Parihar:** I'm happy to do that, Mr. Chairman.

**The Chair:** Okay. Let's do it that way.

**Mr. Parihar:** Mr. Chairman, the minister will release the year-end details of the heritage fund in the 2006 annual report later this month. The committee's approval is required for this one. The

update was for the committee's information, but the annual report needs to be approved by this committee before the minister can release it publicly.

**The Chair:** Okay.

**Mr. Parihar:** Let me give you a bit of context on the year as a whole. If you look at page 6 there, it lists the returns for various equity markets. We are talking about the annual report, and I'm on page 6. If you look at various equity markets, as you can see, equity markets did very well in the 2005-2006 fiscal year. The Canadian equity market returned 28.4 per cent compared to 13.9 per cent the previous year. The U.S. market returned, in U.S. dollars, 13 per cent for 2006 compared to 7.2 per cent for 2005. Because the Canadian dollar appreciated during this period, the return in Canadian dollars for the U.S. equity market was 9.1 per cent. The non-North American market returned 20 per cent, and the bond market returned 4.9 per cent. So you can see that the equity market did well, and even the bond market did not too bad.

This is the context there. As you know, the bulk of the return for the fund would come from the market returns. I'm going to talk about the performance later, but you might want to keep that in mind when we talk about the performance.

If I can draw your attention to the next page, page 7. Again, there is the change in net assets table there. The fund at March 31, 2006, was \$14.8 billion compared to \$12.2 billion at the end of the previous year. There are three main things here I'd like to draw your attention to. If you look at the table, there's a transfer from the GRF of \$1.75 billion. So \$750 million of that \$1.75 billion is on account of the access to the future fund and a billion which was deposited into the fund on December 31, 2005. The billion dollars was added to the fund towards the end of the fiscal year. So that's \$1.75 billion.

Also, now that the provincial debt is paid off, there was inflation-proofing for the fund in the order of \$382 million. So that's the \$382 million there.

In terms of investment income the fund recorded a net income of \$1,397,000,000 compared to \$1,092,000,000 the previous year. What we've got here is – this is on page 7 again – the comparison of budgeted income to the actual income. If you look at the budgeted income, if you do it cumulatively for the last five years, it was \$2.936 billion, and the actual came to \$2,935,000,000 very close to budgeted. I couldn't have planned better. No. It just turned out the way it turned out to be.

So the point here is that from year to year income will fluctuate, but over a longer period of time the income will be based on what the market returned, and the number will be very close to what you might want to budget.

At the bottom of the same page – that's page 7 – the net income, as I've pointed out, was \$1.397 billion. A billion was transferred to the general revenue fund during the year, \$382 million was kept in the fund for inflation-proofing, and accounts payable to GRF is \$77.7 million, which is carried forward in this year. The fund owes to the GRF \$77.7 million.

On page 8 again we show the asset mix policy of the fund. If you look at the asset mix policy, there are a few small changes which I'd like to point out. There is a decrease of 2.5 per cent on the fixed income side, so from 32.5 to 30 per cent. There is no change in the public equities; no change in real estate. The absolute return strategies were reduced from 7.5 to 5 per cent. Five per cent of private equity was redistributed. Four per cent to private equities and 4 per cent to private income. A new asset class was added during the year, the timberland of 2 per cent, and then I also provided the actual asset mix at the end of March 31.

**Mr. Rogers:** Mr. Chairman, if I may just get a clarification. Could you just tell us: what is timberland?

**Mr. Parihar:** Timberland, basically, like the name implies, is trees. The heritage fund has made an investment in timber on Vancouver Island.

**Mr. Rogers:** Thank you.

**Mr. Parihar:** Okay. On page 9 is performance for the fund. The fund returned 15.2 per cent during the year compared to the policy benchmark of 13.8 per cent. First of all, 15.2 per cent. Like I pointed out earlier, returns are based on what the market would provide, and given that the market did very well, the heritage fund did well too. The difference between 15.2 per cent compared to the policy benchmark of 13.8 per cent is 1.4 per cent. That's the value-added which the Alberta investment management was able to generate for the fund over and above the policy benchmark.

The other criteria is how the fund has done over the five years. The way it is judged is that the fund has to generate 4 and a half per cent above inflation over the five-year period. Over the five-year period the expected return – that's the consumer price index plus 4 and a half per cent – was 6.7 per cent, and the fund returned 7.1 per cent.

From there on there are details about various asset classes, and again I'll be happy to take questions once we get there.

I'd like to point out a few other things. On page 15 there's a table which shows the transfers to the general revenue fund since the inception of the fund. Since 1976 \$28.6 billion was transferred from the heritage fund to the general revenue fund. Budget 2006 allocates another billion dollars from the estimated surplus to the heritage fund. That's not shown in this report. It will be shown on the next report, when the funds are transferred, but it's budgeted to be another billion dollars.

Now if I can draw your attention to some key performance measures for this fund on page 4, in the goals and performance measures there are two main goals. "Preserve the real value of the assets." This is to inflation-proof the fund. As you can see, this year \$382 million was retained in the fund on account of inflation-proofing there.

Also, like I pointed out, over the longer term, which is five years, we want to make sure that the fund is generating a real rate of return of 4 and a half per cent. That's 4 and a half per cent above inflation. If you take the 4 and a half per cent and inflation during this period, that would be 6.7 per cent, and the fund returned 7.1 per cent, so it met its longer term real return expectations there.

**1:40**

The next goal is to "achieve budgeted cumulative income forecasts during a 5-year . . . horizon." Like I pointed out earlier, the budgeted income was \$2,936,000,000 and the actual income was \$2,935,000,000 so very close to the budget.

The other measure is how well management is doing in terms of adding value to the fund. The target is to have 50 basis points. It says that 50 basis points is half a per cent above the policy benchmark. Management was able to add 140 basis points. That's 1.4 per cent above the policy benchmark.

So that's all I've got, Mr. Chairman. I'll be happy to take any questions.

**The Chair:** Well, it was a good year to be chair of the Heritage Savings Trust Fund Committee.

I will entertain questions. Mr. Goudreau.

**Mr. Goudreau:** Well, thank you, Mr. Chairman. I've got a couple of questions. The first one is the impact of the changing value of the Canadian dollar and how significant that is vis-à-vis the value of our fund. You know, certainly as the Canadian dollar strengthens, no doubt our investment, especially in the U.S., would take a lesser value. I'm just wondering about that particular impact.

The other one is one of clarification, I think. On page 15 it just sort of shows the value of net assets at cost of the fund at \$13.495 billion, and I'm trying to relate that back, then, to page 7, where it says that our net assets at the end of the year are \$14.82 billion. So when I go to my constituents, what value do I tell them the heritage savings trust fund is at?

Then the third question that I would have is on page 24 in terms of percentage ownership. You know, there are some where we have a hundred per cent ownership. Are we exposing ourselves to greater risk by owning a full pool, for instance, or even those that are at 80, 85 per cent? I'm just wondering about our risk exposure at that particular level of investment.

**The Chair:** Okay. Did you get all three of those?

**Mr. Parihar:** Yes. I'd like to answer in a reverse order so I can remember them all. On page 24 I believe the question was under percentage ownership, and this is private equity pool 98 at 100 per cent. Let me just explain what a private equity pool is. The fund invests in a limited partnership, which then invests into a private company. So what the fund does is it engages managers who manage its money on behalf of the partnership, and they actually make investment into a private company. The 98 stands for the vintage year. Every few years these closed-end funds are created, and once the funds in that closed-end investment vehicle are invested, then a new vintage year is created. So this is private equity pool 98, and the heritage fund was the only participant in that pool in that vintage year. That's why it's 100 per cent. As you can see, for other vintage years – private equity pool 2002, private equity pool 2004 – it's less than 100 per cent because some of the pension funds are also participating in those private equity pools.

I believe the second question was the difference between page 15 and page 7. Mr. Chairman, the table on page 15, the last column, net assets at cost, that's the book value in a way, whereas the number \$14.8 billion is the market value of the fund. So one is at cost; the other one is at market value. So if the fund were to be dissolved today, the realized value would be \$14.8 billion. The cost is \$13.495 billion.

**The Chair:** There was a first question.

**Mr. Goudreau:** The value of the Canadian dollar and the impact.

**Mr. Parihar:** Yeah. I'll come to that. I just want to make sure that the member understands my answer.

**Mr. Goudreau:** I can follow that, yeah.

**Mr. Parihar:** So if you go to page 6 there, you can see that in the United States the S & P 1500 index U.S. dollar return was 13.0 per cent and the Canadian dollar return was 9.1 per cent, so a difference of roughly 4 per cent. That was due to appreciation of the Canadian dollar. To the extent that the fund had investment in the U.S. dollar, it will have a lower return because of the appreciation in the Canadian dollar. The fund had at the end of March 31, 2006, 16.8 per cent of the fund assets in the U.S. equity market.

**The Chair:** Okay. Mr. Cao, followed by Mr. MacDonald.

**Mr. Cao:** Thank you, Mr. Chair. Real estate is hot these days – right? – in Alberta particularly, even in the U.S.A. and Canada-wide. On page 6 there we're talking about real estate investment, and there are a few terms: private real estate pool and foreign private real estate pool. There's a paragraph on page 6, at the bottom there. It's in the third-quarter update.

**Mr. Parihar:** Okay. This is on page 13 of the annual report. I can answer the same question you have.

**Mr. Cao:** Okay. Sure. I'm looking at particularly just the real estate side. Could you help me? What is the sort of mechanism of investment? Do you buy the building or rent it out?

**Mr. Parihar:** Yes. The fund, along with other assets we manage on behalf of pension funds – there's a private real estate pool, and this pool makes investments in office buildings, shopping centres, industrial properties, some residential properties, and where we see they reported it. So we might buy some land and build a building and lease it out to the tenant. If you look at page 13 of the annual report, it shows the geographic distribution of those assets. So 61 per cent of the assets are in Ontario; 28 per cent are in Alberta; 9 per cent, Quebec; and 2 per cent, British Columbia. These are the asset types. What we have tried to do is to have a variety of assets, not just office buildings but shopping centres, industrial properties, and also spread across the country so that we are diversified, that the fund doesn't take concentration risks.

**Mr. Cao:** Okay. May I have a supplemental, sir? When you talk about the acquisition of let's say a shopping centre, it's not that the government owns it, right? It just invests in the pool that owns the real estate asset.

**Mr. Parihar:** Actually, the funds own it.

**Mr. Cao:** The funds own it. I see.

**Mr. Parihar:** Of course, to the extent that the fund is owned by the government, the government owns it. So the pool, for example, will have held this fund as one of the parts in the pool along with the pension funds. Combining that, they will actually go and own the property.

**Mr. Cao:** So dovetailed with that. Let's say that they change hands or liquidate the property or sell it to another owner and back and forth, so you've got the rental payment as well as the capital at times too.

1:50

**Mr. Parihar:** Yeah. The idea here is that the heritage fund and the other funds are long-term investors. They need long-term cash flows, and these are the properties which can provide a steady cash flow over a long period of time.

**Mr. Cao:** Well, thank you, Mr. Chair.

**The Chair:** Mr. MacDonald.

**Mr. MacDonald:** Yes. Thank you, Mr. Chair. The first thing I would like to say is that I would certainly like to express my gratitude to the Minister of Finance and the Department of Finance

for their efforts. Last year we had a discussion around the amounts that were held by the fund in the Alberta Social Housing Corporation. This spring in the budget that was tabled in the Assembly and debated and passed, there were significant changes made to those outstanding amounts that were owed, and I would like to express my appreciation to the department and the minister again for going in that direction. I think it was the right thing to do.

**Mr. Parihar:** I'd like to say thank you on behalf of our minister.

**Mr. MacDonald:** Now, I have a question, and this is on page 14 of the draft annual report. I see where the administrative expenses, the external fees for investment pools, have increased from last year to this year by over \$10 million. I was wondering if I could have an explanation as to why there was this increase. What do other funds charge for external management fees? How is our fee structure competitive when you compare them? If I could have a breakdown of those external fees, I would be very grateful.

**Mr. Parihar:** Mr. Chairman, let me just give you a bit of background. The \$14.8 billion in assets are not all managed by Alberta investment internally. What we do is we engage external managers to manage part of the assets where we believe either that we do not have the expertise to manage here or that some external managers have an advantage because they also manage assets of other entities. So what we do is we find a balance where we manage internally the assets we can manage efficiently and cheaply, and we engage external managers to manage part of the money when we believe they can do a better job at it. Generally, the external managers are more expensive than internal managers, and also they manage the asset classes which are more expensive to manage.

The reasons that external manager costs are higher are threefold. One is that our assets have grown over the period. Obviously, they charge fees at a percentage of the assets. So in absolute dollars the fees have increased because the assets have grown. That's one reason.

The second reason is that the assets they manage are more expensive assets. The assets, like we pointed out here, absolute return strategies, private equities, private income, and timberland are more expensive assets to manage compared to public bonds, public equity, which are not as expensive to manage. So that's the second reason.

The third reason, of course, is that the external managers have a motive to make some money. They have a profit element in there, so their fees tend to be higher than internal management.

**The Chair:** Go ahead.

**Mr. MacDonald:** So could you please provide us with who these external managers are? If this requires an answer in writing, certainly through the committee clerk to all members, please, as to who they are, which assets are managed externally, a complete list, and the fee structure. How does this compare with other funds?

**Mr. Parihar:** Yeah, Mr. Chairman, I think we can answer the first two questions. The third question is the fees. These are the contracts we have with the external managers. Again, I can check that, but these are commercial arrangements, and I may not be able to disclose the fees there. But I'd be happy to provide the names of the managers and the assets managed by the managers.

**The Chair:** Okay. So there is an undertaking that that will be provided then?

**Mr. Parihar:** Yes.

**The Chair:** Okay. Thank you. It will come from the minister through the clerk.

Other questions? Everybody is happy? All right.

Mr. MacDonald?

**Mr. MacDonald:** Yes. One more item. On page 38 of the report we can phone any time to 427-5364 and get the detailed list of all of the investments, right?

**Mrs. Sawchuk:** Under Other Business, Mr. Chairman.

**The Chair:** Okay. We'll come back to that.

**Mr. MacDonald:** Okay.

**The Chair:** All right. With that in mind, we need two motions then. I would ask for a motion to move that the committee receive the third-quarter update as distributed.

**Mr. Rogers:** So moved.

**The Chair:** Mr. Rogers. All in agreement? Agreed.

Then I need a motion to

approve the draft annual report as distributed.

Mr. Cao. Everyone in agreement? Agreed. So moved.

Okay. I guess that carries us through to the annual public meeting now that we've gone past the communications. I think Mr. Snelgrove has something he would like to say.

**Mr. Snelgrove:** I think we need to move it back out to rural Alberta and find out if there is interest out there, Mr. Chairman, so I would move that we hold the annual meeting in Vermilion on Tuesday, November 7. We will try and shake up some interest up there and make sure that all of our money is being well spent on advertising.

**The Chair:** Okay. We have a motion by Mr. Snelgrove that the annual public meeting be held in Vermilion on Tuesday, November 7.

Any discussion?

**Mr. MacDonald:** Mr. Chairman, could you clarify for me, please? Last year we held it in Calgary. The year before we held it in Redwater.

**The Chair:** And Grande Prairie and Olds.

**Mrs. Sawchuk:** And Whitecourt before that.

**Mr. MacDonald:** Okay. I think it's really time for the capital city to have that meeting held here. The last time it was held here, I attended, and it was I think a well-attended meeting. There was interest, certainly. It was held at Grant MacEwan probably six, seven years ago, as I recall.

**The Chair:** Could I suggest that we put you on the list for next year?

**Mr. MacDonald:** Could you go over the list again? There was Calgary last year.

**The Chair:** Yes, it was Calgary. The year previous was Redwater. My recollection is that before that it was Grande Prairie and, before that, Olds.

**Mr. Snelgrove:** I think historically we go city, rural, city, rural.

**The Chair:** The motion is to have it in Vermilion this year. You can vote against that if you like. You've made your point that it should be in Edmonton. I would suggest that we could clearly look at that as an option for 2007.

Any other discussion about Vermilion as the site for the 2006 annual public meeting?

Can I have a show of hands to support that motion? Any opposed? Thank you.

So Mr. Snelgrove is responsible for that meeting.

**Mr. Snelgrove:** I'll be painting the signs immediately, Mr. Chairman.

**The Chair:** And we will duly note that there is an offer on the table by Mr. MacDonald to host the meeting in Edmonton the following year.

All right. We have one other small item under Other Business, and that is the detailed list of investments that everyone will have distributed for bedtime reading tonight. Have fun.

Is there any other business?

**Mr. MacDonald:** One other item of business, Mr. Chairman, is the Endowment Fund Policy Committee.

2:00

**The Chair:** Oh, okay. Sorry. I haven't had the opportunity to directly meet with the Senior Parliamentary Counsel to obtain advice on this matter. I propose to do so and bring a proposal to the next meeting of the committee regarding the appropriateness of doing so, the appropriateness of having members of the Endowment Fund Policy Committee appear before this committee. If you would give me the chance to sit down with Senior Parliamentary Counsel to ensure that we are following tradition or legal precedents, then I will report back to the next meeting, and if that works, then we'll go from there.

**Mr. MacDonald:** Okay. I really appreciate that. I think we should meet with the Endowment Fund Policy Committee in light of the fact that two members of that committee are Members of the Legislative Assembly in good standing, and any Member of the Legislative Assembly can attend any of these committee meetings; they just cannot vote. It shouldn't be that much of a problem, particularly to Mr. Knight and Ms Haley.

**The Chair:** I'm of that same belief, but I want to ensure that we're doing it by legal precedence. So I would like to have that meeting, and I don't anticipate that, going forward, we would have a great deal of resistance. So I would propose that at the next meeting we take the next steps if everything appears to be in order.

**Mr. MacDonald:** Yes.

Now, my question to you, Mr. Chairman, was the fact that this committee meets – and it's noted on page 3 of the annual report – “at least quarterly to review performance and fund management.” Since the establishment of this committee in 2003 I don't think it has had any direct correspondence with this committee. I'm wondering if it's possible that the minutes of those quarterly meetings be given to us.

**The Chair:** Jai, did you want to make a comment before I say anything?

**Mr. Parihar:** Yes, Mr. Chairman. I believe the issue was raised at one of the previous meetings, and the answer that the minister gave or the answer that I might have given on her behalf was that this is an advisory committee to the minister. The minister feels that she's accountable to this committee. She can receive advice from her advisory committee, which she may or may not accept. In the end she's accountable to this committee and to this Legislature, so she would not provide the minutes of the meeting of this advisory committee.

**The Chair:** That was my recollection as well, and I have no reason to believe that that has changed. But I will endeavour to follow up with respect to taking steps to possibly have representatives of that

committee meet with us to in a general way give us indications of how they form conclusions on how best to advise the minister. Okay?

Any other business?

Just before we conclude, we will have our next meeting at the call of the chair. I will attempt with proper notice to ensure that the date meets everyone's schedule.

With that, I would ask for a motion to adjourn. Mr. Johnston.

Thank you.

Have a good summer, everyone.

[The committee adjourned at 2:05 p.m.]