

Title: Monday, March 5, 2007 Heritage Savings Trust Fund Committee

Date: 07/03/05

Time: 10:34 a.m.

[Mr. Rogers in the chair]

The Deputy Chair: Good morning, everyone. My name is George Rogers. I'm the vice-chair of this committee but acting as the chairman today. With the changes in government we've lost three members. I don't know if lost is the right word, but anyhow three members have moved on to cabinet and so won't be around this table anymore. The committee is in effect until the Legislature appoints new members. We will be getting new members, a new chairman after the session opens.

Meanwhile, we're going to have the best meeting we've probably ever had with the individuals that are here. Mr. Cao is unable to get out of Calgary this morning. I'm glad to see that Mr. Pham has joined us. I'm going to ask him to start the process by introducing himself. We'll go around the table all the way down and back around, introducing ourselves, and then we'll get going from there.

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

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

[The following staff of the Auditor General's office introduced herself: Ms LaFave]

[The following departmental support staff introduced themselves: Mr. Berezowsky, Mr. Bhatia, Mr. Epp, Mr. Hanson, Mrs. Hay, Mr. Matheson, Mr. Pappas, Mr. Parihar, Mr. Stratton, and Mr. Taylor]

Dr. Oberg: Lyle Oberg, Minister of Finance.

Ms Sorensen: Rhonda Sorensen, manager of communications with the Clerk's office.

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

The Deputy Chair: Thank you very much and welcome, Mr. Minister. We're expecting Mrs. Weslyn Mather as well, who will be joining us later. She's on her way.

Just a reminder that your packages were delivered, and I'm hoping that everyone has their material. I'm going to look for a motion to adopt the agenda. Mr. Johnston. Discussion? All in favour? That's carried. Thank you very much.

Okay. Item 3 is the adoption of the minutes. Did all members have a chance to review the minutes? Okay. Then I'd look for a motion to adopt the minutes as circulated. Mr. MacDonald, you're so inclined?

Mr. MacDonald: I could do that, sure.

The Deputy Chair: Thank you very much. Discussion on that motion? All in favour? That's carried. Thank you very much.

We go to item 4, Approved 2007-2008 Committee Budget Estimates. I emphasize the word "approved" there. The committee budget estimates were approved by the Members' Services Committee in December 2006. They're provided here for information purposes. There's no need for a motion. I guess that if there are any questions, I'll ask Corinne to respond.

For your information Karen Sawchuk would have been here, but she's had some personal issues to deal with. She wasn't able to be

with us, but we are certainly ably assisted today by Corinne Dacyshyn. Corinne, did you have any comments on the estimates?

Mrs. Dacyshyn: No, Mr. Chairman.

The Deputy Chair: Any questions from the members?

Rolling right along, then, I guess that I would just accept those estimates for information.

We'll move to item 5, the second- and third-quarter updates. As noted in the information included in your materials, the second-quarter update was released at the beginning of November 2006, and the third-quarter update was released on February 26.

At this point I'll turn it over to the hon. minister and his staff to address these two reports, and then I'll open the floor for questions. Mr. Minister.

Dr. Oberg: Thank you very much, Mr. Rogers. What I thought I would do is very quickly go over the second quarter and then move right into the third quarter. The second quarter covers the period from July 1, 2006, to September 30, 2006, and was released on November 15. The fund's fair value was \$15.4 billion at September 30. The net assets were up \$995 million in the quarter and up \$573 million since the beginning of the fiscal year. The quarter increase of \$995 million was due largely to inflation-proofing and deposits from the general revenue fund. There was \$400 million deposited during the second quarter as part of the \$1 billion budgeted commitment from '06-07 plus an additional \$250 million for the advanced education endowment within the fund.

At the last meeting Minister McClellan had talked about the unrealized capital loss in the first quarter. As noted on page 1 of the report, that was partly offset by unrealized gains in the second quarter. For the first six months of the fiscal year the net unrealized capital loss was \$219 million, an improvement over the quarter of \$274 million. In the third quarter this unrealized capital loss has now been fully offset by unrealized gains, but I will speak more to that when I do the third-quarter report.

10:40

Canadian stock markets represented by the S&P/TSX index increased 1.9 per cent during the second quarter and partially offset the first-quarter decreases of 3 and a half per cent. In the U.S. the S&P 1500 increased 4.9 per cent when converted to Canadian dollars. Outside North America the Morgan Stanley Capital International index for Europe, Australasia, and the Far East increased by 4 per cent in Canadian dollars.

After a difficult first quarter we started seeing some recovery in the second quarter. The rate of return was 4.1 per cent compared to a negative 2.2 per cent in the first quarter. This shows the importance of our long-term strategy to maximize returns for Albertans rather than reacting to short-term market fluctuations as everyone else does in their RRSPs.

Net investment income was \$503 million for the six months ending September 30, 2006. The department has increased investment income forecast to \$1.154 billion for the fiscal year, up \$237 million from the budget. All investment income earned by the fund minus the amount for inflation-proofing is transferred to the GRF. Inflation-proofing is forecast to be \$283.4 million, up \$41.4 million from the budget.

Now, the third quarter covers from December 31, 2006, and was released on February 26. The fund's fair value is now \$16.3 billion as of December 31, 2006. This is up \$1.5 billion from the beginning of the fiscal year. Three hundred and fifty million dollars was deposited in the third quarter as part of a \$1 billion commitment for '06-07, bringing the total to \$750 million so far.

A strong increase in world equity markets and real estate in the third quarter more than offset the unrealized loss in the first quarter. For the first nine months of the fiscal year the increase in unrealized capital gains was \$312 million. The S&P/TSX increased 10.4 per cent this quarter, a nine-month increase of 8.6 per cent. The S&P 1500 increased by 11.6 per cent in Canadian dollars. Outside North America the MSCI EAFE index increased 15.3 per cent in Canadian dollars.

The third quarter rate of return was 7.9 per cent, over nine months an overall return of 10 per cent compared to 10.3 per cent during the same period last year. The fund's net income was \$1.2 billion over the first nine months of '06-07. The net income forecast is revised to \$1.6 billion for the year, up \$685 million from the budget estimate of \$917 million. The forecast amount for inflation-proofing is lower at \$202 million, a \$40 million decrease from budget. One hundred and fifty-two million dollars has been accrued in the fund for inflation-proofing as of the end of the third quarter.

The fund's business plan has not changed significantly, and I guess that maybe we'll go through that the next time.

The Deputy Chair: Thank you, Mr. Minister. We'll look for any questions from the members.

Mr. MacDonald.

Mr. MacDonald: Yes. Thank you. Dr. Oberg, the timberland investment, which was put on the books about two years ago: who was the partnership with? I understand that the trust fund has an 85 per cent interest in this. Who has the remaining 15 per cent?

The Deputy Chair: Jai?

Mr. Parihar: Yes, I can answer that question. We have two partners there. One is Brascan, and the other one is BCIMC.

Mr. MacDonald: Thank you.

The Deputy Chair: We have a question from Mr. Johnston.

Mr. Johnston: Thank you, Chair. This is a fundamental question. I'm relatively new to this committee. Why do we report quarterly?

Dr. Oberg: Because it's part of our business planning process, and it is actually legislated that we report quarterly to this committee.

Mr. Johnston: Oh, it is legislated. Okay. Thank you, Minister.

The Deputy Chair: Other questions?

I think you're going to get off easy today, Mr. Minister. I thank you and your staff for that update.

We need a motion for the committee to receive the updates, and I guess that we should have a motion for each quarter, so I will look for a motion.

Mr. Pham: Second quarter.

The Deputy Chair: Mr. Pham moves the second-quarter updates for information. Just so that we're following process, I guess that the motion required is that

the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2006-07 second-quarter report on the Alberta heritage savings trust fund as presented.

Do I understand that to be your motion, Mr. Pham?

Mr. Pham: Exactly. You took the words right out of my mouth.

The Deputy Chair: Absolutely. Couldn't have said it better.

So, now, with that motion on the floor I would ask for any discussion on the motion. Being none, all in favour? That's carried unanimously. Thank you very much.

I'd then look for a motion to accept the third-quarter update.

Mr. Johnston, I believe that you're hoping to move that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2006-07 third-quarter report on the Alberta heritage savings trust fund as presented.

Do I understand those to be your words, sir?

Mr. Johnston: That's it, Mr. Chair.

The Deputy Chair: I thank you very much, Mr. Johnston.

Discussion on the motion.

Mr. Pham: It's amazing, Mr. Chair. How can you read people's minds?

The Deputy Chair: Oh, it's unbelievable, I tell you. Looking forward to a great session too. Thank you.

Being none, then I'll call the question. All in favour? That is carried. Thank you very much.

Then we'll move to the business plan. You were going to give us some highlights of the business plan, Mr. Minister.

Dr. Oberg: Yes.

The Deputy Chair: Okay. Please. Thank you.

Dr. Oberg: Thank you. The fund's business plan has not changed significantly from the one approved by the committee last year. Rather than go through the plan point by point, I have a few comments. Then I would love to take some questions.

This is the third year the business plan has included inflation-proofing to preserve the value of the fund. The fund's legislation mandates that the government protect the fund from inflation once the debt is paid off.

In '05-06 \$382 million was retained for inflation-proofing. This fiscal year the budget estimated inflation-proofing at \$242 million. You probably noticed that the amount is now forecast at \$202 million. The GDP deflator produced by StatsCan for Canada is used to determine the amount for inflation-proofing. The forecast inflation for '06-07 decreased to 1 and a half per cent in the third quarter, down from 1.8 per cent at budget, accounting for the lower amount. I should add that the performance goals for the heritage fund align with the department goals.

If there are any questions at all, I'd be more than happy to take them.

The Deputy Chair: Questions? Any questions of the minister? Mr. MacDonald.

Mr. MacDonald: Yes. Dr. Oberg, on page 2 of the Alberta heritage savings trust fund business plan 2007 through '10, the draft document that I have here states that "Alberta Finance is currently in the process of converting Alberta Investment Management into a Provincial corporation," a Crown corporation. How is this process going to work?

Dr. Oberg: There will be legislation that will be brought before the

Assembly this spring, will be fully debated and brought forward. The AIMCO legislation is something that is coming forward after two or three years – AIMCO, Alberta investment management corporation.

Mr. MacDonald: AIMCO. Okay.

Dr. Oberg: Yeah. The acronym. Legislation will be brought forward after two or three years of full investigation. The rationale behind it is that we feel, as have other pension funds of other investment funds, that by going to a corporate board of governance, we can actually increase our gain by between 25 and 100 basis points. The initial study came in at 100 basis points, but that's probably overly optimistic.

Mr. MacDonald: So this will require a change to the statute.

Dr. Oberg: Yes.

The Deputy Chair: Mr. Pham.

Mr. Pham: Thank you, Mr. Chair. Mr. Minister, when I look at the equities allocation in Canadian, U.S., and non-North American markets, all three of them are above the long-term target for the fund. I understand that many experts on the market today predict that there will be a correction in the market. What is the reason for us to keep these allocations higher than the long-term target? Are we planning to scale them down this fiscal year?

Dr. Oberg: Yeah. We're trying to keep with the general target asset mix that we see there. For example, on timberland we've actually gone down for obvious reasons, and on some of the others we have gone down as well. The asset mix tends to be in a state of fluctuation. The actual target is simply that: a target. Typically, we go to one side or the other. By bringing the corporate governance, we feel that we will be able to capitalize on the asset mix and, subsequently, the returns to a much larger degree. So it's purely an element of time, and you will see some fluctuation in the asset mix.

Mr. Pham: Thank you.

10:50

The Deputy Chair: Thank you.

Other questions? Mr. MacDonald.

Mr. MacDonald: Yes. I have another question in regard to AIMCO, the proposed Crown corporation. I think the Alberta Finance officials have done an excellent job over the years of managing this fund. I wish my own personal finances were as well managed.

Dr. Oberg: As do all of us.

Mr. MacDonald: Yeah. You know, they've had the odd bad year, but I mean that's not their fault really. They've done an excellent job. So how can you explain that there will be an increased return on investments as a result of this Crown corporation being struck?

Dr. Oberg: First of all, as I mentioned earlier, Hugh, when you take a look at the funds across Canada, they've all gone to the corporate governance model. We had a study done about a year ago, I believe, which asked the question whether or not we should change the governance structure in keeping with a lot of the large funds. They

felt that by getting the expertise, by allowing the people to come in with the expertise, we would realize gains of 25 to 100 basis points. Actually, what they said was 100. When you're dealing with close to \$70 billion, I think that you have to take into account the 25 to 100 basis points. That's a lot of dollars that potentially we could be gaining, and not all of the funds can be wrong in that, for example OMERS, the Ontario teachers. All of the large funds in Canada are corporately governed as well.

So I think it's a good way to do it. It does allow potentially a little more flexibility. It opens up some doors that we may not have opened up before. Overall, I think it's going to be a very positive step in a direction that will realize increased profits for the province of Alberta.

Mr. MacDonald: So will this Crown corporation report to the citizens through the standing committee, the same way as the staff from Alberta Finance do? How are they going to report?

Mr. Bhatia: Maybe I could answer that at least in part although, obviously, the details will come with the legislation and so on. The purpose of the corporation is to carry out the day-to-day investment management operation, the investment policy, including the business plan of the heritage fund and so on. There's no proposed change to that process. That process will carry on through the committee. The corporation which carries out the day-to-day management will report, like other provincial corporations, to the Minister of Finance.

Dr. Oberg: And subsequently on. So the process from the Legislature point of view will not be changed.

The Deputy Chair: Thank you.

If I could just remind everyone around the table: please don't touch the mikes. They've all been preprogrammed by the staff of *Hansard*, and when we touch them, we mess with the work. So they've asked us just to remind you: please don't touch the mikes.

A follow-up, Mr. MacDonald?

Mr. MacDonald: Yes. Now, the structure of this new AIMCO – I'm looking now at page 7 of the draft business plan for 2007 through '10 and the direct management costs, which I can only assume are Alberta Finance: the increases there are very modest. They seem to be doing very well with the money they use for administrative costs. Not only in these two quarterly reports but since I have had the privilege of sitting on this committee, I have seen a significant increase in the amount of administrative costs for externally managed investment pools. I see in this report on page 7, again, that there's going to be a significant increase in the amount of money in administrative costs externally. Is that a result of this anticipated move to this Crown corporation?

Dr. Oberg: No. Typically what you see is that the externally managed pools are going to be increasing purely from the costs that they're having. By having AIMCO, we hope to net out – and I am speaking in net terms, okay? – as I mentioned, between 25 and 100 basis points, so what we're going to see is an increase in that. May we see some increased costs? There is that possibility, but the netting out effect is going to be higher than it is now.

Mr. Pham: Mr. Minister, when I invest my personal money, I look more to the net effect. As long as the fund manager makes me money at the end of the year, then I'm happy. Is that the same philosophy that you're looking at with this new corporation?

Dr. Oberg: That's exactly the philosophy. What we're looking at is to get the net. Realistically, if their expenses go up, which we're hoping they won't and expenses will be limited – if the profits go up even higher, then that, obviously, is a good position. We will have a lot of performance indicators, things like that, that will govern expenses. But the bottom line is: we hope to see a net increase over what we can presently do.

Mr. Pham: Thank you.

The Deputy Chair: Thank you, Mr. Minister. I had myself on the list, Mr. MacDonald, if I may. Typically the chairman isn't participating, but we're a small group here today.

Mr. Minister, recognizing that the legislation will be debated fully in the House before we have a final decision, is it safe to say that this process is looking at increasing the efficiency of the fund in terms of returns yet keeping the same oversight? I think that's what I'm hearing.

Dr. Oberg: The same oversight is certainly there. Keep in mind that ultimately the policy is still arrived at by this table, so there's no difference there. Efficiency is a tough word to describe. Net return is probably a better way to put it.

The Deputy Chair: Results. That's what I had in mind.

Dr. Oberg: Results. What we are is very results oriented, and everything is pointing us in that direction.

The Deputy Chair: Thank you very much.
Mr. MacDonald.

Mr. MacDonald: Yes. Dr. Oberg, is it possible, please, to get a copy for each member of the committee of the report that you referred to that was done to initiate this AIMCO corporate structure?

Dr. Oberg: Certainly. Actually, maybe what I will do is table it in the Legislature when I do the legislation, but we can certainly provide it to you earlier if you'd like.

Mr. MacDonald: Earlier would be better. We're very busy. If you could do that through the clerk to all members, it'd be just great.

The Deputy Chair: Absolutely. Mr. Minister, if you make that commitment, then we'll make sure that it's distributed through the clerk to all the members.

Dr. Oberg: Certainly.

The Deputy Chair: That will include all of the members that are not here as well. Thank you very much.
Other questions? Mr. Johnston.

Mr. Johnston: Thank you, Chair. This is not regarding AIMCO. It's concerning the federal government. The recent decision on the income trusts: does that affect our heritage savings trust fund at all?

Dr. Oberg: No. It affects it only for those dollars that were actually in the income trust, where we saw the decreased dollar amount go in. I can't say exactly how much it would have cost us. How many dollars did we have in income trusts, Jai?

Mr. Parihar: I don't have the number in front of me. But the

market value you see here at the end of December reflects any change in the income trust, so these are the actual assets that we had at the end of December.

Dr. Oberg: Keep in mind that in the third quarter we actually saw a very large increase in the asset value in the heritage trust fund. So despite the fact that there was a drop in the income trust, we actually did see a significant increase in the dollar amount.

Mr. Johnston: So it impacts it minimally. Is that safe to say?

Dr. Oberg: As much as any mutual fund.

The Deputy Chair: Thank you very much.
One final question, Mr. MacDonald?

Mr. MacDonald: One final question on AIMCO if you don't mind, Dr. Oberg. For this new corporate structure, Crown corporation, would the FOIP, freedom of information, laws still be applicable?

Dr. Oberg: Yes.

Mr. MacDonald: Okay. Thank you.

The Deputy Chair: Oversight. Still good.
Okay. With that, then, I would look for a motion to approve the Alberta heritage savings trust fund 2007-2010 business plan as circulated.

Mr. Pham is willing to make that motion. Discussion on the motion? Are you ready to vote? I'll call the question, then. All in favour? Opposed? Mr. MacDonald is opposed. Carried. Thank you very much.

11:00

Okay. We will move on, then, to item 7, business arising. We have the report of the 2006 annual public meeting. Just to speak to this item – and then I'll let other members comment – I would say that attendance at this meeting was much higher than the meeting of the previous year. From a personal standpoint I was very pleased to see the level of interest: a very small community compared to our last meeting in Calgary but certainly a very robust audience and some good questions. I think it's really great. It's very important that we take these meetings out to the community.

The staff from Alberta Finance did a great job, I think, of answering the questions, and again I'd like to thank the staff who prepared the PowerPoint presentation for the evening and the committee staff that attended from the Leg. Assembly as well. Just from my point of view, an exceptional meeting.

I guess I'd look for any other comments from members, any others that were in attendance. Mr. MacDonald, you were certainly there. Any comments, thoughts?

Mr. MacDonald: I would certainly agree with you. It was an excellent meeting, and I counted 42 people there, which was a significant increase from other years.

The Deputy Chair: Absolutely. I think it tells us that we're doing something right, and certainly it's great that we get out to these smaller centres. I mean, it's their fund as well as the fund of the people of the larger centres.

The next item of business is the questionnaire that was handed out by the LAO communications staff to attendees at the public meeting to get some of their feedback. At this point I'd ask Rhonda to just sort of give us an overview. Rhonda.

Ms Sorensen: Thank you, Mr. Chair. Yeah, the questionnaire is handed out to participants who come to the public meeting in order to give us a better understanding of how they want to receive information in the future. I think that this questionnaire, although returned only by 12 people, did tell us that direct mail, newspaper advertising, and MLA contact is how they want to get the information.

I think what's also interesting and what this committee will be interested in is question 2, which clearly shows that people are satisfied with what's happening. You have no dissatisfaction at all, so I think you should all give yourselves a round of applause for that. All of the rest of the information is just there. If you have any questions, I'd be happy to answer them.

The Deputy Chair: Any questions?

Dr. Oberg: I've just got one. I have to do this. How can you formulate those opinions on 12 questionnaires?

Ms Sorensen: Precisely. What we do is we hand these out to the people at the meeting. Our next item of business is a more in-depth poll that will have a broader focus.

The Deputy Chair: Any other questions? Okay. This is for information purposes only, so we need no motions.

Now, we'll move on to the Communications Update, item 8, and again we're going to talk about the polling. This will tell us maybe a little bit more on how we try to get some better information from our public.

Rhonda.

Ms Sorensen: Yes. This actually is exactly what Dr. Oberg was referring to. This will survey a cross-section of rural and urban people. I believe they do a test of 1,000 people, and they ask the 10 questions that we've formulated here. What this does, based on those results again, is help us plan next year how to reach the people, so we have formulated some questions for you to look at. Let us know if you have any changes before we do the polling, which we're hoping to do mid to late March.

In conjunction with that, I'll just touch on the next one. We want to do a province-wide ad campaign in the rural communities that draws people to the website. That's just to gain a better understanding of what the fund does. Based on last year's polling, the rural areas weren't as aware of the fund as the urban areas were, so that's why we're focusing in those areas.

The Deputy Chair: Thank you. I guess you might as well go on and

talk about the website as well, Rhonda, and then maybe we'll just do questions on the whole thing at the end.

Ms Sorensen: Okay. I actually don't have information on the website, but I'll pass it over to Mike, who does.

The Deputy Chair: Were there any questions before we move to the website information? Okay.

Mike, item (c).

Mr. Berezowsky: I'm sure that one of these days they'll come up with a lot to say about the memo, but it pretty much speaks for itself. I'm just actually looking forward to seeing the results of the advertising campaign. It'll be interesting to see how the web hits respond to that.

The Deputy Chair: Thanks, Mike.

Any comments or questions? Again, I just think it's important that we continue to interact with our public and get as much feedback as possible. I know that, you know, sometimes the numbers seem quite small, but we keep making the effort. It's important that we have that dialogue with Albertans. This is a very significant fund. It's their fund, and I guess we keep reminding them about our efforts. I thank you for that. That was all just for information, then.

We move to item 9, Other Business. I neglected to mention that we did have another item under Other Business. Corinne is going to distribute the notes on the evolution of the heritage fund, and this was based on a request by Mrs. Mather at the September meeting of the committee. These notes were prepared by staff from Alberta Finance. Those are being distributed as we speak. This is just information. It's sort of a bit of a history of the evolution of the fund. Unfortunately, Mrs. Mather isn't here, and at the pace we're going, I suspect we'll be finished before she arrives.

Any questions from anyone? This was just information that was asked to be provided at the last meeting, so it's just here for your reading pleasure.

The date of the next meeting. This will be at the call of the chair. Again, once the session has started and we've gone through the committee appointments, we will have a new committee, so there will be a meeting at the call of the new chair.

At this point I'd look for a motion to adjourn. Mr. Pham. Discussion? All in favour? Unanimously we're adjourned.

Thank you very much, ladies and gentlemen. Mr. Minister, thank you and your staff. We will see you at the next meeting.

[The committee adjourned at 11:07 a.m.]

