



Legislative Assembly of Alberta

The 27th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Tuesday, September 15, 2009
8:59 a.m.

Transcript No. 27-2-3

**Legislative Assembly of Alberta
The 27th Legislature
Second Session**

**Standing Committee on the
Alberta Heritage Savings Trust Fund**

Forsyth, Heather, Calgary-Fish Creek (PC), Chair
Elniski, Doug, Edmonton-Calder (PC), Deputy Chair

Blakeman, Laurie, Edmonton-Centre (AL)
Campbell, Robin, West Yellowhead (PC)
DeLong, Alana, Calgary-Bow (PC)
Denis, Jonathan, Calgary-Egmont (PC)
Johnston, Art, Calgary-Hays (PC)
Kang, Darshan S., Calgary-McCall (AL)
MacDonald, Hugh, Edmonton-Gold Bar (AL)

Department of Finance and Enterprise Participants

Hon. Iris Evans	Minister
Lowell Epp	Executive Director, Capital Markets, Treasury Management
Sandie Hay	Manager, Financial Accounting and Standards
Kari-ann Kuperis	Public Affairs Officer
Dave Pappas	Director, Investment and Debt Accounting
Tim Wiles	Deputy Minister

Alberta Investment Management Corporation Participants

Leo de Bever	Chief Executive Officer
Douglas Stratton	Senior Vice-President, Fund Management Group

Auditor General's Office Participant

Betty LaFave	Principal
--------------	-----------

Support Staff

W.J. David McNeil	Clerk
Louise J. Kamuchik	Clerk Assistant/Director of House Services
Micheline S. Gravel	Clerk of <i>Journals</i> /Table Research
Robert H. Reynolds, QC	Senior Parliamentary Counsel
Shannon Dean	Senior Parliamentary Counsel
Corinne Dacyshyn	Committee Clerk
Erin Norton	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Communications Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
Philip Massolin	Committee Research Co-ordinator
Stephanie LeBlanc	Legal Research Officer
Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

8:59 a.m.

Tuesday, September 15, 2009

[Mrs. Forsyth in the chair]

The Chair: Welcome this Tuesday, September 15, to the Standing Committee on the Alberta Heritage Savings Trust Fund. I understand that we do have quorum. We have two people on the phone.

Madam Minister, we want to welcome you on behalf of the committee and thank you for coming.

What I would like to do is introduce the committee, and we'll start with Robin.

Mr. Campbell: Robin Campbell, West Yellowhead.

Mr. Johnston: Art Johnston, Calgary-Hays. Good morning.

Mr. Elniski: Good morning. Doug Elniski, Edmonton-Calder.

The Chair: I'm Heather Forsyth, Calgary-Fish Creek.

Mrs. Sawchuk: Karen Sawchuk, committee clerk.

Ms Sales: Tracey Sales, communications services, Legislative Assembly Office.

Ms LaFave: Betty LaFave, office of the Auditor General.

Mr. Wiles: Tim Wiles, Deputy Minister of Finance and Enterprise.

Ms Evans: Iris Evans, Minister of Finance and Enterprise.

Dr. de Bever: Leo de Bever, CEO of AIMCo.

Mr. Stratton: Doug Stratton, AIMCo.

Mr. Epp: Lowell Epp, Department of Finance and Enterprise.

Ms Hay: Sandie Hay, Department of Finance and Enterprise.

Mr. Pappas: Dave Pappas, Finance and Enterprise.

Ms Kuperis: Kari-ann Kuperis, Finance and Enterprise.

The Chair: I don't want to forget my colleagues on the phone.

Mr. Denis: Jonathan Denis, Calgary-Egmont.

Ms DeLong: Hello. It's Alana DeLong.

The Chair: Okay. Thank you.

We were all sent an agenda. If I can have the agenda for the September 15, 2009, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund adopted as circulated. Robin. Thank you. All in favour? Any objections? The motion is carried.

The third item on the agenda is the minutes. If we could have someone move that the minutes of the June 15, 2009, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. Art. All in favour? Any objections? The motion is carried.

Moving to the fourth item on the agenda, the Alberta heritage savings trust fund first-quarter update was distributed to all members of the Assembly on August 26. The Alberta Heritage Savings Trust Fund Act indicates that one of the functions of the committee is to

receive and review quarterly reports on the operation and the results of the operation of the heritage fund. We are pleased to have the Hon. Iris Evans, Minister of Finance and Enterprise, here to assist us with our review.

Ms Evans: Thank you very much, and good morning. I'm very pleased to see the members joining us at least from the government side today; I understand that members of the other parties are not in attendance. I have to say that as stewards of the public purse we all share the responsibility, so I am reflecting a bit of concern that they are not choosing to join us either by telephone or in any other fashion today.

I am also reflective of the *Hansard* that identifies the activities of the June meeting and note that you were in receipt of the writedowns that were the request of one of your members, that they were forwarded back as information for the committee. Hopefully, then, that completes the questions that might have come up that could be responded to.

To say that I am dancing in the street would be an exaggeration, but I have to say I'm thrilled, indeed, that with the leadership of Leo de Bever we have managed to see such outstanding results in our performance over this past quarter, and it's all the more remarkable because although some folks are saying that things are coming back – yes, our portfolios are coming back – they haven't come back to the extent that we have seen with AIMCo. So I'm particularly pleased to provide an overview of the heritage fund's results for this quarter.

In the context of this past year the good news, I think, is really very much valued. The fund had an impressive three months, returning \$1.1 billion on a fair value basis, largely due to the strong equity markets. That, of course, has been the experience of all of us over this first quarter: we expected and got larger returns from the equity markets. They're not going to sustain at the same rate over the balance of the year, but it enabled us, when we gave our first-quarter report, to talk about the influence of those equity markets and the fund's performance to give us a higher rate of return than we had expected for the heritage fund. Clearly, this year, when government is faced with some of the reductions from anticipated forecasts like natural gas, having higher than anticipated investment revenue is extremely valued. This for the quarter equates to an investment return of 7.6 per cent. There had been an anticipated 7.3, but we've exceeded that. Over the same period last year's performance at this time was 0.6 per cent. So it's a much brighter investment response.

Of the fund's investment income \$730 million will be transferred to the GRF, the general revenue fund, to support valued and needed government programs. The remaining \$328 million represents an increase in the unrealized portfolio gains, which, of course, rest within the asset mix, but if they were sold at their current worth, that's what they would be valued at. This amount retained will boost the overall value of the heritage fund to \$14.3 billion as of June 30, and of course we're reporting on that first quarter.

9:05

With the fund's performance over the first quarter, if you extend it for the full year, we're looking at nearly double the \$711 million in earnings that was originally forecast in the budget, or about \$1.3 billion. This quarter the fund exceeded its benchmarks in bonds, foreign equities, Canadian equities, hedge funds, and money market securities. So in almost every category that you might want to ask about relative to the asset mix – and I saw in *Hansard* that last time you had significant discussion about the asset mix and the performance and the valuation of various categories for the fund – clearly, the fund's performance should be very satisfying for all. The

Canadian equities in particular did very well at 22.9 per cent for the quarter. These types of equities make up about 16 per cent of the overall portfolio, and the fund still remains diversified. The heritage fund is diversified in investments, and this is a key part of its risk management strategy: not too heavily invested in any one area but making sure that we're not overly exposed to any particular market variance.

You know that the fund did take a hit last year when the stock market crashed but not nearly as bad as the fund from Norway. I've found that in the Legislative Assembly sometimes people would cherry-pick certain funds and say: well, why didn't you do as well as this one? I think New York City was cited. You have to talk about asset mix and a variety of other things to be comparing apples to apples.

We believe in this new business plan. The new asset mix is showing responsible, specific targets, responsible within the capacity in those ranges for minimum and maximum investments. We're very satisfied with the prudent management that's currently under way to make sure that we are prudent in the management of the funds in those targets. For example, equities can now comprise from 35 to 70 per cent of the fund's asset mix, not meaning that they have to or that they necessarily will. This looks at the discretionary evaluation of the professional staff within AIMCo and asks them to make the right choices, and I think that's a very important thing to do.

Back when Shirley McClellan was in the position of minister of the Treasury Board, she had noted quite properly that if we entrusted professionals in an arm's-length organization to make qualified and professional choices for asset mix, they would work 24/7, 365 days a year to make sure that it's managed within the range of possibilities, and we would not be hamstringing them with any judgments that might not take into account the fluctuations in the markets. And those fluctuations, as we've seen in this last year, have certainly given us pause for reflection. So it enables AIMCo to move more quickly to increase, ultimately, the fund's bottom line, and we're seeing evidence of that right away.

Briefly, because of the conversation last time, I'll speak to inflation-proofing. There is no need to inflation-proof when the investment income is going to be transferred to general revenue. The forecast is currently negative for the year, so under those circumstances no need to inflation-proof in 2009-10, but hopefully as we start seeing earnings again, we'll be able to make other choices, and we'll be in a position to inflation-proof and perhaps consider other options.

Now, for members of the government party I would note that there have been many discussions, not the least of which we had in late May, with a number of Albertans about the opportunities for us to look at different kinds of savings approaches with the heritage fund in the future, and we look forward to those kinds of discussions as we see an increase in our investment income.

So with that and having the benefit of our staff here and Leo and the staff from AIMCo, we look forward to your questions once again.

The Chair: Thank you, Madam Minister.

I'll take questions from the floor from anyone and from those on the phone.

Ms Evans: Pretty straightforward when you bring good news, isn't it?

The Chair: Yes. And I guess it doesn't sound like we have any questions from the floor.

Mr. Denis: Actually, I have one question, Madam Chair, if I may.

The Chair: Yes. Go ahead.

Mr. Denis: Just to the minister. You mentioned that, obviously, the projected rate of return for the balance of this year is not going to be the same as we have experienced in the prior part of this year, and being an investor, I would agree with that. My question, though, is: what, if any, shifts in the fund's asset mix are planned to plan for that over the next few months?

Ms Evans: Well, first of all – and I will let Leo respond – I know who you are, but would you mind stating your name for the record so that I can hear it and we know who we're responding to?

Mr. Denis: It's Jonathan from Calgary-Egmont.

Ms Evans: Right. Thank you, Jonathan. You know that the government, the minister, takes responsibility to identify in consultation both with the folks from AIMCo and with the ministry staff the prudent management and establishment of asset mixes, and that becomes part of their commitment, to work within those ranges. That was done this year. That was part of our business planning, and that was part of how we identified for the heritage fund what the range would be. So within that range they function accordingly.

For the balance of the year the actual activity within AIMCo to manage, to make sure that they take advantage of the best possible investment strategies, I'll defer to Leo.

Dr. de Bever: Thank you, Madam Minister. Just as an update, I mean, the markets have continued to be very positive over the last three months. We're almost at the end of the second quarter, and we're almost at 12 per cent return for the year. Now, as I said, that's mostly because of equity markets and fixed-income markets becoming more buoyant. In fixed income, interest rate spreads are getting more narrow, which means that the value of any corporate bonds that we hold is improving.

Of course, we've already commented on how equity markets have moved ahead. In fact, there's a little nervousness in the market that maybe it has gotten ahead of itself. From the bottom in March equities have gone up 40 or 50 per cent. You don't know me well enough yet, but I'm not going to take credit for what the markets will deliver me any more than I'm going to take punishment for what they will take away from me.

What's particularly gratifying is that our strategy has been positive in that it has been able to do better than market, and it's, again, the inverse of what happened last year. Last year AIMCo had a large position in corporate bonds. Because of spread widening, that cost us a lot of money. That loss was not crystallized, but just on a mark-to-market basis we took a hit. This year that's all coming back, and we expect, in fact, that over the next two or three years all of the money lost in fixed income will come back.

Equities are a little harder to predict. You know that a bond will eventually mature at par, unless there's a bankruptcy, but in equities it's a bit more challenging. So we are exposed to equities more or less in line with the policy that we're implementing, and we're taking advantage of opportunities to pick up assets that haven't quite benefited from the general increase in value.

The Chair: Thank you, Leo.

Any other questions? It doesn't look like we have any other questions, Madam Minister.

I would like to just make a comment, not a question. I want to thank you, Madam Minister and Leo, if I may, and your group that have worked so hard to sit here proudly after our last fiscal update and have one of the only things that made some money, so congratulations. I know you've done a fabulous job. Just congratulations.

Before we move on, I just have to make one comment, Minister, and I have to get it on the record. It's to mention that Hugh MacDonald, who is a committee member, and Fred Dunn, actually the Auditor General, are co-hosting the CCPAC conference, so that is one of the reasons why both Hugh and Mr. Dunn are not here.

Ms Evans: I appreciate that clarification.

Just one other question before we leave and the committee considers its business. There is a meeting on the 24th, I believe, that you're expecting us to be at in Calgary, correct?

The Chair: That is correct, yes, at the Carriage House on Thursday, September 24, at 7 o'clock.

Ms Evans: We look forward to it. Thank you very much.

9:15

The Chair: If I could have one of the members move that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2009-10 first-quarter report of the Alberta heritage savings trust fund as presented.

Robin. Thank you. Any objections? It's carried.

Thank you, Madam Minister, for coming.

Moving on to item 5. As committee members are aware, the committee's 2009 annual public meeting is scheduled to be held in Calgary on the evening of Thursday, September 24. We'll be meeting at the Carriage House Inn, which is located in Jonathan Denis's riding of Calgary-Egmont. The committee had initially agreed to hold the public meeting in the Calgary-Hays riding; however, we were unable to secure appropriate meeting facilities within our schedule. An itinerary, maps, and other related information will be distributed to committee members by the end of the week.

Item 6. I'm going to ask Kari-ann to speak on the website hit memo.

Ms Kuperis: I don't have anything to add unless there are some questions.

The Chair: Any questions in regard to all the hits that we're getting? No.

Then we'll move to Tracey to review the work completed in preparation for the annual public meeting in keeping with the approved communication action plan.

Ms Sales: Thank you. The approved action plan has been put in place, and everything is booked and on course for the public meeting. The MLA packages that contained the stat cards as well as posters for those within Calgary and surrounding area were distributed the last week of August. The advertising is beginning this week and will wrap up early next week. The news release will be distributed on Wednesday. Everything else is on course, and I believe that we're ready for the public meeting. So unless there are any other questions . . .

The Chair: Are there any questions to Tracey?

Tracey, I can at least speak personally, and I'm sure Jonathan and some of my other Calgary colleagues – we've also advertised in our own community newsletters, so hopefully that'll get some response.

Mr. Denis: I've also sent out quite a number of letters, Madam Chair.

The Chair: Good. Thank you.

Item 7. As members are aware, the committee must report annually to the Legislature. A draft report was posted to the internal committee website last Thursday. This report will be tabled by the chair in the Legislature during the next session. Does anyone have any comments?

Seeing none, I would have someone move that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft 2009 report of the Standing Committee on the Alberta Heritage Savings Trust Fund as distributed.

Ms DeLong: I so move.

The Chair: Okay. Thank you, Alana.

Is there any other business that someone would like to discuss?

Mr. Johnston: I don't know if it fits under other business, but I just wanted to say thank you to Jonathan for taking up the slack. In my enthusiasm I wanted to have it in my riding of Calgary-Hays, but our second hotel, that I thought would have lots of space, apparently didn't work or was full to capacity. Sorry to the committee, but thanks to Jonathan.

The Chair: I can tell you, Art, that the committee worked really hard trying to find space in your riding. Jonathan, we're looking forward to having it in your riding, and I'm sure you're going to get thousands of people out for us.

Mr. Denis: Subtract a zero from that. We'll do our best. You'll all be welcome in beautiful Calgary-Egmont.

The Chair: Before we close this meeting, Karen is going to read something into the record.

Mrs. Sawchuk: Thank you, Madam Chair. We do have one memo that was received this morning from the minister referring to an issue that was brought up at the June 15 meeting on currency sensitivities within the fund, so I'll be distributing that to the committee.

Thank you.

The Chair: As discussed, the next meeting is the public meeting, which is scheduled for September 24, 2009. We will meet following the release of the second-quarter update on the fund.

Before I call for adjournment, I again want to thank the staff that have done such a wonderful job helping me and the committee through this process. Karen is just with us a short time, I understand. We've worked well. And Tracey. Thank you so much.

Can I have someone move that we adjourn the meeting, please? Art. Thank you. Anybody? We're done.

[The committee adjourned at 9:20 a.m.]

