



Legislative Assembly of Alberta

The 27th Legislature
Third Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Tuesday, March 16, 2010
9 a.m.

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Third Session**

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

Tarchuk, Janis, Banff-Cochrane (PC), Chair
Elniski, Doug, Edmonton-Calder (PC), Deputy Chair

Blakeman, Laurie, Edmonton-Centre (AL)
DeLong, Alana, Calgary-Bow (PC)
Forsyth, Heather, Calgary-Fish Creek (WA)
Groeneveld, George, Highwood (PC)
Johnston, Art, Calgary-Hays (PC)
MacDonald, Hugh, Edmonton-Gold Bar (AL)
Quest, Dave, Strathcona (PC)

Department of Finance and Enterprise Participants

Aaron Brown	Director, Portfolio Management
Sandie Hay	Manager, Investment Accounting and Standards
Nick Kaczmarek	Public Affairs Officer
Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management
Dave Pappas	Director, Investment and Debt Accounting
Tim Wiles	Deputy Minister

Alberta Investment Management Corporation Participants

Leo de Bever	Chief Investment Officer
Douglas Stratton	Senior Vice-president, Fund Management Group

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
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Communications Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
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Stephanie LeBlanc	Legal Research Officer
Diana Staley	Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

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[Ms Tarchuk in the chair]

The Chair: Good morning, everyone. I'd like to call this meeting to order. First, I'll introduce myself. My name is Janis Tarchuk, MLA for Banff-Cochrane. I was recently appointed as chair of this committee and certainly look forward to my involvement with it.

If I could ask everyone around the table to introduce themselves for the record. We'll start with Doug.

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

Mr. Johnston: Art Johnston, Calgary-Hays.

Mr. Groeneveld: George Groeneveld, Highwood.

Ms Hay: Sandie Hay, Alberta Finance and Enterprise.

Mr. Pappas: Dave Pappas, Alberta Finance and Enterprise.

Mr. Kaczmarek: Nick Kaczmarek, Alberta Finance and Enterprise.

Mr. Stratton: Doug Stratton, AIMCo.

Dr. de Bever: Leo de Bever, AIMCo.

Mr. Wiles: Tim Wiles, Alberta Finance and Enterprise.

Mr. Matheson: Rod Matheson, Alberta Finance and Enterprise.

Mr. Brown: Aaron Brown, Alberta Finance and Enterprise.

Mrs. Forsyth: Hi, everybody. I'm Heather Forsyth, Calgary-Fish Creek.

Ms DeLong: Alana DeLong, Calgary-Bow.

Ms Rempel: Jody Rempel, committee clerk, Legislative Assembly Office.

The Chair: Thank you.

You all have a copy of the agenda. I wonder if someone could move that the agenda for the March 16, 2010, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated.

Mr. Groeneveld: So moved.

The Chair: George. Okay. All in favour? Any objections? That motion is carried.

Maybe, Hugh, if I can just for the record ask you to introduce yourself.

Mr. MacDonald: Good morning, Madam Chairperson. My name is Hugh MacDonald, Edmonton-Gold Bar.

The Chair: Thank you.

Mr. Quest: Good morning. Dave Quest, Strathcona.

The Chair: Thank you.

You all have copies of the minutes. I wonder if someone could move that the minutes of the January 27, 2010, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. Art. Okay. All those in favour? That motion is carried.

The purpose of this meeting is to receive and review the Alberta heritage savings trust fund 2009-10 third-quarter update. It has been released by the minister and distributed to all members of the Assembly by the chair on February 26, 2010. The deputy minister and departmental officials are in attendance to assist us with this review.

At this time if I could pass that over to you, Tim.

Mr. Wiles: Thank you, Madam Chair. I appreciate the opportunity to be here this morning and discuss with you the heritage fund's third-quarter update. Minister Morton regrets that his schedule did not allow him to attend this morning.

Although '08-09 was a challenging year for investments, things have been looking up for the fund over this fiscal year, and the third-quarter update highlights ongoing positive news. The heritage fund realized almost \$1.7 billion in investment income in the first three quarters of '09-10 primarily due to recovering equity markets and the recovery in the credit markets.

On a fair-value basis, including unrealized gains, the fund had income of \$2.1 billion. With higher than expected investment income for the first three quarters, the heritage fund is now forecast to realize \$2.1 billion in investment income in this fiscal year, as reported in the government's third-quarter fiscal update. The \$1.7 billion in realized investment income will be transferred to the general revenue fund to allow for continued low taxes and to support our priority programs and services.

Under the government's current policy not all realized investment income is retained in the heritage fund. The fund is intended to benefit both future generations of Albertans and Albertans today through the support of government programs. In specific circumstances money is retained in the fund. Legislation requires that the funds be retained in the fund to protect its value against inflation. Since inflation is forecast to be negative for '09-10, there will be no inflation-proofing for this fiscal year. However, about \$300 million is forecast to be retained for inflation-proofing in the '10-11 fiscal year, reflecting that our economy is beginning to recover from the recession.

You may have noted that the fund's fair value has dropped slightly to \$14.4 billion from the \$14.5 billion that was reported at second quarter. This represents a \$90 million drop in the fair value of the fund's unrealized gains. Unrealized gains represent the value of the fund's assets if they were to be sold at current market prices at that particular point in time. Therefore, there will be fluctuations as a result of market movements. As I said earlier, we're still forecasting an increase of \$2.1 billion in realized investment income for the fund for this year, up from the original budget forecast for this year of \$711 million.

In terms of other highlights from the third-quarter update, in the first nine months of the fiscal year the heritage fund's investments earned a return of 15.2 per cent compared to a loss of 15.1 per cent for the same period last year. During this period the fund outperformed its benchmarks in Canadian securities, global equities, hedge funds, bonds, and money market securities. Canadian and global securities, which comprise 50 per cent of the fund's investment portfolio, had the highest return of all asset classes.

The benchmark return noted on pages 3 and 5 of the report is 14.2 per cent and is based on the fund's asset-mix policy. The asset-mix

policy provides ranges for various asset classes. For example, equities will be between 35 per cent and 70 per cent of the fund's holdings. Having these ranges gives AIMCo the flexibility it needs to select the investments that will provide the most benefit to Albertans. The fund outperformed its benchmark by 1 per cent during this period.

With that, Madam Chair, I'll cut my comments short and would be pleased to take any questions.

The Chair: Thank you.

Are there any questions? Alana.

Ms DeLong: Yeah. I'm looking at comments just on this report. I find it interesting that when it comes to the benchmarks for timberland and for private income and for private equities, they're actually quite high: consumer price index plus 4, plus 6, and plus 8 per cent. How were those arrived at?

Dr. de Bever: It's actually a subject of some debate. These kinds of CPI benchmarks are not related to market movements and are very difficult to manage. They're not unreasonable in the sense that other people wrestle with the same issue. It's inherently difficult to have totally objective benchmarks for unlisted asset classes because there are only two prices that matter for unlisted asset classes, the price you buy at and the price you sell at. Anything in the middle is, you know, an element of conjecture. But these benchmarks are a subject of discussion. For instance, the one for private equity is probably higher than you can expect on average.

Ms DeLong: Thank you.

The Chair: Hugh.

Mr. MacDonald: My question has been answered. Thank you.

The Chair: Thank you.

Dave.

Mr. Quest: Thank you, Madam Chair. Of course, this is the first few minutes of my first meeting, so probably a fairly basic question. I'm just wondering. The fund was valued at the end of December '09 at \$14.4 billion, and \$1.7 billion is going to be transferred to general revenue. Is that accrued for already, and is the \$14.4 billion a net number? How is that accounted for?

Mr. Wiles: The short answer is that it's accrued for already. It's a little bit confusing because for accounting purposes we don't fully record the fair value in the government's books, but for reporting for the heritage fund itself we report that fair value as well as the cost value. I don't know if that confuses.

Mr. Quest: I'll just read between now and the next meeting. Thank you.

The Chair: Any other questions?

Seeing none, if I could have someone move that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2009-10 third-quarter report on the Alberta heritage savings trust fund as presented.

George. All those in favour? Any objections? That motion is approved.

Has everyone had a chance to review the memo from the Minister of Finance and Enterprise on the number of website hits on the

heritage fund section of their website? Do you have any questions regarding that? Heather.

Mrs. Forsyth: Thanks, Madam Chair. I find the measuring of hits interesting. From what I'm reading – and maybe you can help me – we're down until the end of March. Is that correct? Oh, I guess that is because it's only March now.

The Chair: Yeah. It's only as of March 8.

Mrs. Forsyth: Okay. I've been sick; excuse me. I'll withdraw that very dumb question.

9:10

The Chair: There's never a dumb question. Any other questions?

Mr. MacDonald: You know, you're correct. When you look at it year over year between 2007 and 2009, there's been a significant drop in interest.

Mrs. Forsyth: I was going on the 2010 numbers.

Mr. Quest: It has been dropping every year the last three years.

Mrs. Forsyth: Yes. We knew it was dropping, but we knew that last year.

The Chair: Is there any other business that members would like to raise?

Mr. Groeneveld: Just on this, that's an interesting statistic, but has it got any relevance? The hits, the visits, whatever the case may be: does it tell us anything?

The Chair: Nick, did you want to comment?

Mr. Kaczmarek: It measures the hits. I mean, I'm not really sure what else to say about that one.

Mr. Groeneveld: Right. So it's not really a trend that you go to to watch. It's just an interest.

Mr. Kaczmarek: It's an indicator, I would say.

Mr. Groeneveld: Okay. Now you've piqued my interest. It's an indicator of what? Up or down? What does that tell you?

Mr. Kaczmarek: Well, just sort of the presence on the web, I guess I would say, or the interest that the website has.

Mrs. Forsyth: I would like to comment on that, colleague, because we had some discussion about this over the last two years. What they've determined on the number of hits is how Albertans feel about the Alberta heritage savings trust fund and, quite frankly, how dear it is to their hearts. So they're watching it.

Mr. Quest: But they're watching it less.

Mr. Groeneveld: Well, obviously, I'm kind of like Dave. This is my first meeting here. I've got to find a question to ask. You threw something out here, so I had to ask the question.

Mr. Quest: They're probably like the rest of us, George. They don't want to open their statement. They know it's not good.

Mr. Groeneveld: Exactly. I don't open mine.

The Chair: Any other questions on the hits?

Okay. I had asked the question if there was any other business any member would like to raise. Seeing none, the date of the next meeting. It'll be at the call of the chair. The purpose of the next

meeting will be twofold: one, to discuss the location for this year's public meeting and, as well, to approve the annual report. That annual report has to be approved by the end of June, so likely we'll get together sometime close to the beginning of June.

Could I have a motion that the meeting be adjourned? Art. All those in favour? That motion is carried. Thank you very much.

[The committee adjourned at 9:13 a.m.]

