



Legislative Assembly of Alberta

The 27th Legislature  
Third Session

Standing Committee  
on the  
Alberta Heritage Savings Trust Fund

Annual Public Meeting, Lethbridge

Wednesday, October 20, 2010  
7 p.m.

Transcript No. 27-3-4

**Legislative Assembly of Alberta  
The 27th Legislature  
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)  
Pastoor, Bridget Brennan, Lethbridge-East (AL)\*  
Quest, Dave, Strathcona (PC)

\* substitution for Laurie Blakeman

**Also in Attendance**

Weadick, Greg, Lethbridge-West (PC)

**Department of Finance and Enterprise Participant**

Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management
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**Alberta Investment Management Corporation Participants**

Jagdeep Singh Bachher	Chief Operating Officer
Brian Gibson	Senior Vice-president, Public Equities

**Public Participants**

Bruce Elniski  
Timothy Elniski

**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	Law Clerk/Director of Interparliamentary Relations
Shannon Dean	Senior Parliamentary Counsel/Clerk of Committees
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications and Broadcast 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>

7 p.m.

Wednesday, October 20, 2010

[Ms Tarchuk in the chair]

**The Chair:** Well, good evening. I'm Janis Tarchuk, chair of the Standing Committee on the Alberta Heritage Savings Trust Fund and MLA for Banff-Cochrane. I welcome all of you to Lethbridge and to our 2010 annual public meeting on the heritage fund. We look forward to your questions and your comments later.

First, I'll start off by introducing the members of the standing committee and other participants this evening: to my right, Deputy Chair Doug Elniski, MLA for Edmonton-Calder. To Doug's right are Bridget Pastoor, MLA for Lethbridge-East; George Groeneveld, MLA for Highwood; Art Johnston, MLA for Calgary-Hays; and Heather Forsyth, MLA for Calgary-Fish Creek. To my left are Greg Weadick, MLA for Lethbridge-West; Alana DeLong, MLA for Calgary-Bow; Hugh MacDonald, MLA for Edmonton-Gold Bar; and Dave Quest, MLA for Strathcona.

The city of Lethbridge is lucky enough to have two MLAs, and we're very fortunate tonight to have both of them with us. I'd like to start by asking Greg if he could bring greetings.

**Mr. Weadick:** Well, thanks very much, Janis. It's indeed a pleasure to have the Standing Committee on the Heritage Savings Trust Fund here in Lethbridge. I know it's the first time that you've come to Lethbridge. This is such a critical issue to Albertans. This is our savings account for the future. To have you come here and have a chance for people in Lethbridge and across the province to see what's happening with our savings account, how it's being managed, I think is really critical. I'm very pleased to have you here. I want to welcome to Lethbridge all of the MLAs from across the province and all the people out there watching on television. Welcome to Lethbridge, and we hope you learn some really good things about the heritage trust fund.

Thank you.

**The Chair:** Thank you.

Next, Bridget, if I could ask you to say a few words of welcome.

**Ms Pastoor:** Yes. Thank you, Madam Chair. Certainly, it's my delight. It is Greg's and my honour to be able to host the Alberta heritage trust fund board. We don't often get this chance down in southern Alberta, and we just are thrilled that the rest of the province will find out that we're actually still here and giving our citizens a chance to be able to directly ask questions to this board. As Greg has pointed out, it is our savings trust fund and will stabilize our future.

Thank you very much to everyone, Shaw and certainly the government officials that have helped us put this board meeting on tonight.

Thank you very much.

**The Chair:** Thank you, Bridget.

There are a few other people I would like to introduce before we get down to business. Joining us from the Alberta Department of Finance and Enterprise – maybe they can just give us a wave down there – are Rod Matheson, assistant deputy minister, treasury and risk management, and Aaron Brown, director, portfolio management. Joining us from Alberta Investment Management Corporation, or AIMCo, are Jagdeep Singh Bachher, chief operating officer, and Brian Gibson, senior vice-president, public equities. I would also like to recognize the staff that are here tonight from Alberta Finance and Enterprise and the Legislative Assembly Office of Alberta.

As part of our ongoing mission to engage Albertans in a

discussion about their heritage fund, for the first time this year this meeting is being broadcast live across Alberta by Shaw TV. As well, this meeting is being video streamed live on the Legislative Assembly website, at [www.assembly.ab.ca](http://www.assembly.ab.ca). A special welcome to everyone who is here by either one of those outlets.

The meeting is also being recorded by *Alberta Hansard*. Copies of the transcript for this meeting will be available on the website or by calling the committee number listed on the brochures that were handed out when you came in this evening.

Tonight's presentation will cover the history, the mission, and the future of the heritage fund as well as long-term performance. A question-and-answer session will follow afterwards. I'd like to now start our presentation by turning over to Deputy Chair Doug Elniski, MLA for Edmonton-Calder.

**Mr. D. Elniski:** Thank you very much, Janis. I'd like to start with some background. The heritage fund originally was started in 1976 and is one of the unique aspects of Alberta finances for this past 30 years. No other province has such a fund. From 1976 until 1983 the fund grew as 30 per cent of the province's oil and gas revenues directly went into the fund. From '84 to '86 the amount saved into the fund was reduced to 15 per cent of oil and gas revenues due to the increasingly difficult fiscal situation that was facing Alberta at the time. From '82 onwards all income from the fund has been transferred to the general revenue fund to meet the priorities of the province except for some ad hoc inflation-proofing in 1997-1998 and in the year 2000, totalling about \$431 million.

Since 2005 the government has been making legislated inflation-proofing contributions. There was no inflation-proofing in the years 2008-2009 because the fund recorded negative income. There was also no inflation-proofing for the period of 2009-2010 because inflation was itself negative. This year inflation is forecast so that money will be retained in the fund provided investment income is sufficient.

The value of the heritage fund depends on three things. It depends on the amount deposited in the fund, the amounts taken out of the fund, and the investment earnings of the fund each year. Beginning in 1986 we started using the fund's income to meet spending priorities, leaving the fund's value relatively flat ever since. The fund now has grown to \$17 billion in 2008, its highest ever level, but was impacted by the 2008 market crash.

On average the heritage fund has earned almost \$1 billion per year since it was set up in 1976. By law all realized investment income from the fund less the amount retained for inflation-proofing is transferred to the general revenue fund to be used to help pay for such priorities as health care, education, social programs, infrastructure, and capital expenditures. In 2009 and 2010 a rather remarkable strong performance has allowed the fund to contribute \$2 billion to program services in addition to keeping taxes low. This is the largest transfer in the fund's history.

It's important to note that the income from the fund is for present generations of Alberta while the capital of the fund is for the future generations.

With that, I'd like to turn it over to George Groeneveld, the MLA for Highwood.

**Mr. Groeneveld:** Well, thank you very much, Doug. Ladies and gentlemen, the heritage fund certainly has helped put our province in a solid fiscal position, and Albertans will continue to benefit from the fund's contributions. All those billions shown on the last slide add up. During the fund's 30-year history the fund has provided a little over \$32 billion for Albertans' priorities, including debt reduction, health care, education, social programs, infrastructure, and capital expenditures.

In addition to the \$32 billion I mentioned, there are additional endowment funds that make social and economic contributions in Alberta. Two important endowment funds, the medical research fund and the scholarship fund, were funded from the heritage fund. The Alberta Heritage Foundation for Medical Research endowment fund was started in 1980 with a \$300 million contribution from the heritage fund. This medical fund has been instrumental in funding research and advances in medical science. It has also provided a competitive edge in the biotechnology industry. The medical research endowment fund now has a market value in excess of \$1.2 billion. The Alberta heritage scholarship fund was established with \$100 million transferred from the heritage fund in 1981. Each year millions of dollars of income earned from the scholarship fund help pay for Albertans' postsecondary education, and this fund now stands at over \$700 million.

When government first began to draw on the fund's income, it represented about 13 per cent of the government revenues. This marked the highest relative contribution of the fund towards Alberta's priorities. It was also during this period of about 1976 to 1982 that the fund saw the most active growth. As Alberta has grown over the years, the relative percentage of the fund's contribution has declined to about 3 per cent of government revenues, averaging about \$1 billion per year in investment income.

Part of the reason for the recent growth in the heritage fund was the creation of the access to the future endowment, established in 2005. The access to the future endowment was established to provide sustained funding for initiatives designed to enhance advanced education. The investment earnings portion of the heritage fund provided this funding. One example of how this money was being used is the development of the Lois Hole Campus Alberta digital library. The digital library will allow postsecondary students and faculty across the province to access digitized resources and knowledge currently held in individual libraries of postsecondary institutions. The access to the future endowment was created as part of the heritage fund rather than as a distinct fund. One billion dollars of deposits that were made to the fund in the last two years have been directed towards this new endowment.

At this time I'll ask Art Johnston, MLA for Calgary-Hays, to take over.

7:10

**Mr. Johnston:** Thank you, George. In the early 1990s Albertans were concerned about the sustainability of investment income. Many Albertans were wondering whether the funds should be sold off to pay down the debt of the province. In 1995 questionnaires were sent to Alberta households asking what to do with the heritage fund. After extensive consultation the government decided that the mission of the fund should be to focus on maximizing financial return to allow current and future generations of Albertans to gain maximum benefit from the fund. The Alberta Heritage Savings Trust Fund Act states that the mission of the fund is "to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns . . . for current and future generations of Albertans."

Extensive changes were made to focus on the mission. These changes included new legislation for the heritage fund, an improved governance structure, and selling investments that had been made for other than financial reasons. Essentially, the fund is now managed on the same basis as an institutional endowment fund.

Another fundamental principle of the governance structure is accountability. The performance of the fund is reviewed by the standing committee of the Legislative Assembly and by the public in its annual meetings like the one we're having tonight. The standing

committee is required by law to review and approve the business plan, to receive and review quarterly reports, approve the annual report, review the performance of the heritage fund, report to the Legislature as to whether the mission of the heritage fund is being fulfilled, and to hold public meetings with Albertans.

I'll discuss the governance in place to achieve this mission. One of the principles of the governance for the heritage fund is transparency. A detailed business plan is developed every year and approved by the standing committee. The plan sets out specific investment objectives, goals, and strategies to achieve the heritage fund's objectives as expressed in legislation. The heritage fund annual report is prepared and published within three months of the end of the province's fiscal year, which is March 31. The annual report provides a comprehensive review of the activity and results of the fund for the year.

Every quarter an investment report is prepared for the heritage fund. This quarterly report provides information about the investments held, the performance of every investment sector, and an overall review of the fund. These documents are always available on the heritage fund's website, which is [www.albertaheritagefund.com](http://www.albertaheritagefund.com). Copies of the most recent annual and quarterly reports are also available at the registration desk.

The Alberta Heritage Savings Trust Fund Act sets out a well-defined standard of care in the management of investments, that of a reasonable and prudent person. Clearly defined benchmarks are also established to evaluate the performance of the fund's investments. For example, the Standard and Poor's/TSX composite index is used to measure the performance of the fund's Canadian stocks.

I'll ask Alana DeLong, MLA for Calgary-Bow, to continue.

**Ms DeLong:** Thanks very much, Art. The legislation governing the heritage fund makes the Minister of Finance and Enterprise responsible for managing the money invested in the fund. This responsibility has three key components: establishing investment objectives and policies under which the fund will be invested, including setting out the target asset allocation for the fund; number two, implementing the investment policy through day-to-day investment management; and evaluation of investment performance, including evaluation of the investment policies and the implementation of these policies.

Now, in January 2008 the investment division of the ministry of finance became a Crown corporation called the Alberta Investment Management Corporation, known as AIMCo. AIMCo is responsible for the day-to-day execution of the investment policy set by the government. This responsibility for investment objectives and performance evaluation belongs to the Minister of Finance and Enterprise, who is supported by a team of professionals from the Department of Finance and Enterprise in meeting this responsibility.

Now, the investment objective of the fund is to maximize long-term financial returns subject to an acceptable level of risk. The fund has a long-term view and tries to look past short-term market turmoil. Strategies are targeted that can generate return on a consistent, repeatable basis.

Meeting the investment objectives of the heritage fund requires a global outlook. Accordingly, the fund's assets are invested around the world in a diversified portfolio of investments which includes stocks, bonds, and real estate. The widely diversified portfolio helps reduce risk but also enables the fund to earn higher returns than it otherwise would.

Cost is an important issue for the fund. The heritage fund's investments are pooled with other AIMCo clients to provide investment efficiencies. As a result of having about \$70 billion

under management, AIMCo has a clear competitive advantage, resulting in lower investment management costs and higher net investment returns for taxpayers.

Now, this pie chart illustrates the policy asset mix of the fund. This is the asset mix shown in the heritage fund's business plan. The policy asset mix guides the investment of the fund. Ranges are established for each asset class. This ensures that the fund has investments in each major asset class but allows the manager the freedom to take advantage of their expertise by increasing or decreasing holdings.

The fund has significant investment in equities, including foreign equities – U.S. and non North American – is broadly diversified by country, industry sector, and company, and has a significant component that is managed externally. The fund also has an important allocation to inflation-sensitive and alternative investment, which includes real estate, infrastructure as well as allocations to hedge funds and private investments.

I'm now going to turn this presentation over to Dave Quest, MLA for Strathcona.

**Mr. Quest:** Well, thank you, Alana. Overall, the fund had strong, positive performance for 2009-2010, posting a 17.8 per cent return for the year ended March 31, 2010. The return was largely due to the rebound in equity markets from the previous year. Even though real estate has suffered in 2009-10, some of the weakness from 2008-2009 was captured in this year's return due to a lag in valuations typical of real estate investments. That being said, real estate has been the best-performing asset class over the last 10 years.

Of course, we want to focus on the long-term performance of the heritage fund. This chart outlines the historical performance of the fund over the last five years. As a result of last year's market crash the fund generated an average five-year annualized return of 4.4 per cent, up from the five-year average of 2.1 per cent last year. The heritage fund is expected to generate a rate of return of 4.5 per cent above inflation, at an acceptable level of risk, over a moving five-year period. Over the last five years inflation averaged 2.2 per cent.

It's critical that the fund grow with inflation to retain its ability to be a sustainable source of revenue. Since 2005 the fund has been protected against inflation. When inflation has occurred, money was retained in the fund to protect the real value of the fund. The only exception was 2008-09, when there was no income that was able to be retained. In 2010-11, depending on income and the level of inflation, money will be retained in the fund.

7:20

Prior to this year the fund had accumulated \$1.56 billion in inflation-proofing to protect the fund against inflation. Inflation-proofing will continue, when required, now that the accumulated debt has been repaid. In the future, income from the heritage trust fund will depend on capital market returns and the amount of money invested in the heritage fund.

I'll now turn the presentation back to the chair.

**The Chair:** Thank you, Dave. Looking ahead, Department of Finance and Enterprise officials continue to work with AIMCo to ensure that the heritage fund is being invested in the best way it can be. An extensive asset mix review has been completed, and work is under way to draft a new investment policy statement for the fund and for the minister's review.

The committee members are happy tonight to have Brian Gibson, senior vice-president, public equities, with us from the Alberta Investment Management Corporation. Brian, if I could ask you to say a few words about the markets.

**Mr. Gibson:** Thank you, Madam Chair. As we've heard from two of the committee members, the mandate of the fund is to take a long-term investment focus. I thought it would be useful this evening to highlight the recent results of the fund in the longer term historical context and also talk about how we see things going forward.

The first slide that I have shows the real returns of the stock market going back to the 1960s. The above chart shows the results for the S&P 500 stock index; that's the index for the U.S. stock market. We chose that simply because it's the biggest stock market in the world, and it gives a good idea of returns. We did it in real terms by subtracting inflation from the actual rate of return.

As you can see in the above chart, the decades of the '80s and the '90s were really exceptional in terms of stock market returns. Returns were well above the long-term average of 6 per cent, and in fact those two decades were the highest in over a hundred years. It didn't seem like that at the time. We thought it was normal, but history shows it was a very good period. Looking forward, it's very difficult to make forecasts, but we think that the markets will be more likely to be close to the long-term average than the high levels that we've seen recently.

The same observation holds true for the bond market. We did a similar kind of history for the bond market. Again, in the next slide the top chart, with the blue, is the real returns earned on bonds, which are the returns after subtracting inflation. This is even more dramatic. You can see how exceptionally good bond market returns were in the '80s and the '90s. Not only were they the best in the last hundred years; they were the best in recorded history that we know of. So very exceptional returns not likely to continue on at that pace. The long-term return on bonds is around 2 per cent, and our expectation in real terms – again, these are after inflation – will be a lot closer to 2 per cent than what we've enjoyed recently.

The next chart highlights what we all know, that interest rates have come down a long, long way since the 1980s. That's what drove such good returns in the bond market and such good returns in the stock market. But as you can see, interest rates are now at a fairly low level. There's not much room for them to go down further although the U.S. is trying to figure out how to have returns below zero. That's hard to do. The likelihood is that interest rates will probably trend up going forward. Again, we're looking over the next five or 10 years. Certainly, we're not going to see that kind of market again.

We also have to think about the economy when we're looking at investments. This current chart just shows the history of the return in terms of growth in the Canadian economy going back to about 1985. You can see that we've just had 10 really good years in the Canadian economy for reasons that we all know about, but we've also had quite a serious recession. The likelihood is that growth going forward for the next several years is going to be more normal. Normal is 2 or 3 per cent real growth, not the really high rates that we've had in the past 10 years. We're expecting constructive growth in the economy but very, very much below the boom times that we've had in recent years.

The question is: so what does all this mean? Well, I've mentioned that economic growth will be there but will likely be weak for several years. As I tried to highlight to you, we expect stock market and bond market returns will be modest over the next five or 10 years. That means that the heritage fund returns are likely to be lower than what we've seen in the last two decades, not because the investment portfolio has performed more poorly but just because the market returns themselves are likely to be less than they were in the past.

Having said that, I think we're quite fortunate to be here in Alberta – it's called the Alberta heritage savings fund – because the

economy here is in relatively good shape, and we expect the Alberta economy will do relatively better than average. So we're fairly constructive and positive.

Thank you.

**The Chair:** Thank you.

Well, that concludes the formal presentation this evening, so we will now open the floor for questions. We have two microphones, one to the right and one to the left. I would just ask that if anyone does have a question, approach the microphone nearest you. Before asking your question, if you could just state your name for the record, that would be great.

The microphone to the right.

**Mr. B. Elniski:** My question is directed to Brian from AIMCo. As a taxpayer I have never heard of AIMCo before, and I think I'm a fairly informed Alberta citizen. It's a Crown corporation of Alberta. Now, there's been a lot of talk in the paper the last couple of years about, I would say, the integrity of how large amounts of capital are managed, and a lot of people in the public are very disillusioned with how – for example, we hear about the Wall Street bonuses, the huge amount of money that has gone to the financial sector. We've seen the results. Our fund has dropped 2 and a half billion dollars in one year. That was fairly consistent around financial circles everywhere. We're supposed to be focusing on transparent management of the fund, so my question would be: in our management of this fund are we paying as taxpayers any of these Wall Street style bonuses and this kind of compensation? The compensation that we're paying for the management of our fund: how would you rate that?

**Mr. Gibson:** Before I answer your question, I have to give a bit of background. Part of the reason and the rationale for privatizing or making AIMCo a Crown corporation was so that all of the assets would be managed to the highest and best standards. One of the nice things about taking a fresh look at things is that you can do things to current best practices. That's been the philosophy the government has had, and it's been our philosophy. We disclose our compensation in the AIMCo annual report, and if you get a chance to look at that, which is available online, you'll see that our compensation arrangements are very modest by Wall Street or Bay Street standards.

Much more importantly, our compensation is almost entirely based on delivering consistent long-term results for the fund. We can't have a good year and collect a big bonus and let the fund fall the next year. We have to maintain those kinds of consistent results.

In terms of how we're paid, we're paid to do exactly what's in the best interest of the fund and of Albertans; i.e., to deliver consistent good results.

The other thing we've been working hard on, which was also part of the strategy for the Crown corporation, is to reduce costs. The fund was paying very substantial fees to some of these Wall Street type firms that you refer to to manage money for the fund. We have done a substantial reorganization. We've brought in-house a lot of investments, and of the ones that are managed outside, we renegotiated substantially lower investment costs. We're starting to deliver the returns that we deliver at far, far less cost, not just in terms of salaries but in terms of all costs, including outside fees paid to those managers.

**Mr. B. Elniski:** Okay. I think I like that answer mostly, but I would just have to say as a voter and a taxpayer that it's a big concern, I think, for a lot of people what the compensation levels are of fund managers, of stockbrokers. It's a big pool of money.

Just another question: what's the total annual budget of Alberta, and how big a chunk is the heritage trust fund compared to that? I mean, how quickly could we spend it?

**Mr. Gibson:** I'll leave that to the chair. We just earn the money.

**The Chair:** Go ahead.

7:30

**Mr. D. Elniski:** Okay. I think the overall provincial budget, if that's kind of the question, is about \$32 billion a year, round numbers.

**Mr. B. Elniski:** So Alberta spends about \$32 billion a year, and our savings are about a half year's expense, basically?

**Mr. D. Elniski:** Roughly, yeah.

**Mr. B. Elniski:** Okay. Good. Thank you very much.

**The Chair:** Thank you.

Are there any other questions?

**Mr. MacDonald:** Can I ask some questions, please?

**The Chair:** Hugh.

**Mr. MacDonald:** Yes. My first question is to you, Madam Chair. My colleague Alana DeLong indicated that the Minister of Finance and Enterprise is responsible for the fund. He is, unfortunately, not available tonight here at this public meeting. In other years the finance minister has been able to attend. Who do we direct our questions to if we have any? Is it to Mr. Gibson or to Mr. Matheson?

**The Chair:** Well, I think you can direct it to me, and I'll pass it on to, most likely, Rod.

**Mr. MacDonald:** Okay.

**The Chair:** I should say that, unfortunately, the minister wasn't able to be with us tonight.

**Mr. MacDonald:** Okay. I appreciate that.

**The Chair:** And certainly we'll pass on anything that is forwarded to us tonight to him.

**Mr. MacDonald:** To the gentleman in the crowd: this year's anticipated budget is \$39 billion, and we're anticipating a significant deficit in the billions of dollars.

My question is a follow-up to the member from the audience, and it's around investment expenses. The total investment expenses – and this is on page 28 of the annual report for 2010 – was \$71 million. In the previous year, when we lost \$2.5 billion, it was \$73 million. So given that some of this money is for performance and incentive-based fees, my question, I guess, would be directed to Mr. Gibson. Is it possible to have a breakdown in those payments for fees, a breakdown of the regular management fees and the performance-based fees?

**Mr. Gibson:** Okay. Thank you for your question. I don't have that number in my head. We're quite happy to provide Finance and

Enterprise with whatever information they would like, and I'd be happy to pass this on when I get back to the office tomorrow.

I can comment a bit on the overall number that you saw for last year. It was during the course of the year that we were doing this restructuring that I referred to, where we were reducing a lot of our management costs and management fees, and that kind of happened during the course of the year, so we didn't see a full-year impact last year. The amount did not include very much last year for performance fees because very few of these outside managers generated a performance. We did have a few, so there would be a small portion that was paid for performance.

But to go back to the point I made earlier, for the managers that we've kept, we've renegotiated all of those arrangements to make them much more fair and balanced so that we're not paying bonuses and fees and not getting the performance. That was quite a challenge last year to do that, but we just pointed out to people that the world has changed, and the only way we can do our jobs on behalf of the heritage fund is to make sure we're not paying people fees unless they generate performance. In the arrangements we now have, they're much better balanced in terms of the best interests of the fund, and the costs overall are down, and you'll start to see that as the numbers roll forward.

**Mr. MacDonald:** Can I ask a follow-up to that, please?

**The Chair:** Sure.

**Mr. MacDonald:** Thank you, Madam Chair. Again to Mr. Gibson: now, does the \$71 million that's listed here on page 28 include investment service fees provided by external managers as well?

**Mr. Gibson:** Yes, it does. We include all those costs so that they're as transparent as possible. In reality, some of those fees are charged to funds, but when we report the costs for the annual report, we break it out. So that \$71 million would be the heritage fund portion of all of the investment fees paid to any investment managers plus all the costs of operating the AIMCo office.

**The Chair:** Thank you.

**Mr. MacDonald:** Thank you.

**The Chair:** Are there any other questions? I'll ask one more time. Any other questions?

**Mr. MacDonald:** I have another question, please.

**The Chair:** Go ahead, Hugh.

**Mr. MacDonald:** I guess we can go to page 3 of the annual report, and I will quote. I believe it would be Mr. Matheson we could direct this question to. On page 3 it is indicated that "over 10 years, the [Heritage Savings Trust] Fund earned an annualized return of 4.3% per annum compared to its long-term business plan investment goal of 7.2% per annum." Given that the heritage fund has in two years because of external market conditions lost close to \$3 billion in value, when will we see, in your opinion, a return to this long-term business plan investment goal of a 7.2 per cent per annum return?

**Mr. Matheson:** Well, just a bit of background. The 7.2 per cent long-term return, as one of the committee members referenced, would be our long-term target of inflation plus 4.5 per cent. The 2008 performance really brought down the performance over a 10-

year period. If you were to go back to prior to 2008 and look at the performance in the annual report for 2007-08, the five-year returns for the heritage fund were 11.1 per cent, so that significantly exceeded annualized inflation plus 4.5 per cent.

Certainly, with the way the assets are invested, the asset mix as was described, we believe that that is the right asset mix, that in the long term it will provide the long-term expected returns of achieving at least inflation plus 4.5 per cent. In terms of getting long periods of time, five and 10 years, it will probably take until the 2008 results drop out of those numbers before we may see that again.

**Mr. MacDonald:** Thank you.

**The Chair:** Great. Thank you.

Do I have another question there?

**Mr. T. Elniski:** Yes. My name is Timothy. I have a question for the honoured members. The numbers shown earlier: are they in nominal terms, especially regarding, as you said, a billion dollars per year? Is that nominal based on the year, or is that weighted or deflated based on, say, 1950 dollars?

**The Chair:** Did you want to go ahead, Rod, and tell how that works?

**Mr. Matheson:** I think you're referring to the statistic that said that on average it has produced a billion dollars of income. That would be nominal dollars.

**Mr. T. Elniski:** Okay. Thank you.

**Mr. MacDonald:** Could I ask another question?

**The Chair:** Do we have any other questions? No? Go ahead, Hugh.

**Mr. MacDonald:** All right. Thank you very much. I believe this question would be again directed to Mr. Gibson. On page 15 of the annual report there is a detailed breakdown of the investment expenses, and there is an indication that internal audits are included in this amount, but as it is broken down in the annual report, I don't see an amount set aside for internal audits. Could you offer us an explanation, please, as to why there is no amount for internal audits listed?

**Mr. Gibson:** The internal audits: the way we do the accounting at AIMCo is that all of the support costs are billed to the different asset classes. For example, in the equities portfolio a portion of our audit costs would get charged to the equities line, and they'll be apportioned to the other asset classes. It would be the same thing, for example, for our CEO's salary; it's allocated to the different asset classes. So we try to do it in a fair way based on how many of these kinds of services are being used by which asset class. In fact, we do have an internal audit department, and they've been pretty thorough.

**Mr. MacDonald:** So would I find that total amount that was spent on internal audits in the annual report of Alberta finance through the AIMCo section?

**Mr. Gibson:** I'm not sure where that would show up. I don't think I've seen a financial statement where the audit costs are specifically itemized.

**Mr. MacDonald:** But there is an audit being conducted.

**Mr. Gibson:** Yes. We have an internal audit department. We also have the Auditor General, and the Auditor General's staff do an audit as well.

7:40

**The Chair:** Jagdeep, did you want to add to that?

**Mr. Bachher:** Sure. The office of the Auditor General: we don't pay the costs for that. The internal audit team at AIMCo is two individuals, so very small in terms of real dollar costs. Our annual report will disclose the breakdown of the various costs of managing AIMCo on a day-to-day basis. I'd like to add for the esteemed member of the public that certainly our website at [www.aimco.ab.ca](http://www.aimco.ab.ca) is an excellent source for transparency on how we manage your funds.

To add to that, in total our operating budget historically has been about 75 per cent in externally managed costs and 25 per cent in internal management. We've been driving that external management number lower in the last three years, and our goal is to go closer to \$100 million from \$175 million in terms of what we pay to external management costs. So, overall, the trend at AIMCo is to be more efficient by taking advantage of the economies of scale and reducing our overall costs and making sure that we still can run a world-class, best-in-class asset management firm.

**The Chair:** Thank you.  
Bridget.

**Ms Pastoor:** Yes. Thank you, Madam Chair. Something that MLA Groeneveld referred to is the money that has been changed to the additional endowment funds, the Alberta Heritage Foundation for Medical Research and the Alberta heritage scholarship fund. Who would be responsible for actually finding out how that money was spent, and is there some sort of performance measure that they would have to be responsible to the administration? I'm going to direct this to Brian, but if someone else is the more appropriate person, that's fine.

**Mr. Gibson:** I think probably Rod could answer that question better than me.

**Mr. Matheson:** Yeah. I'd be happy to answer that. Both of those endowment funds were started with money that was initially from the heritage fund, and as was discussed, they've grown significantly in size. Those funds both have purposes. The medical research endowment: the income that's generated is allocated by the Minister of Advanced Education and Technology to be put towards medical research projects. The income that's generated from the scholarship endowment is, I guess, also ultimately the responsibility of the Minister of Advanced Education and Technology for scholarships.

**Ms Pastoor:** Do they actually then have to report back to you, that this scholarship fund has created so many dollars, but here's where it has gone to and how it has actually been used?

**Mr. Matheson:** Yeah. Sorry. The management of the pots of money, of the assets, are actually the responsibility of the Minister of Finance and Enterprise. They are managed just like the heritage fund. The minister of finance will set the appropriate investment policy, and the folks at AIMCo are responsible for investing those endowments, very similarly to the way the heritage fund is invested.

**Ms Pastoor:** Thank you.

**The Chair:** I just want to point out to the audience that the purpose of the annual public meeting really is for this committee to be able to hear any comments or questions that you have, and it's only in the absence of anybody at the mics right now that I'm going to committee members. I should also let you know that the kinds of questions that are being asked by some of the committee members are the kind of detail and analysis that we get to do as a committee on a regular basis, and that is the kind of information that we are able to get out of Finance and Enterprise and AIMCo at any point. So we're not ignoring the audience here – you are our priority – but until someone comes up to the mics.

Why don't you go ahead, sir?

**Mr. B. Elniski:** I'm representing the Alberta taxpayers again. They say you're supposed to speak truth to power, right? All of this power in front of me, and I have no truth.

My question. As I read this document here, we have all this money in the heritage trust fund, \$14 billion roughly, but we're not actually adding any to it, are we? Like, we just get some amount of money, and it's out there earning a return. Whatever it earns as a return goes into general revenue, and it stays pretty flat, right? We're not taking any oil and gas money and putting it into it every year, though? I don't know who to ask the question to.

**The Chair:** Go ahead, Alana.

**Ms DeLong:** Yes. Recently we haven't. We've had some other priorities that we have been putting the oil and gas money into. First of all, what we did was pay down the debt, which was over \$20 billion when we started. That was our first priority, to pay down the debt. It's wonderful to have savings, but if you've got a big debt, then it makes sense to pay off the debt before you keep adding more to your savings.

After that, what we did was say: hey, we know that this economy, our oil and gas economy, is one that goes up and down. You know, we just know it is. Things were going very, very well, but we knew that there would come a time when our economy would go down, so we wanted to be prepared for that. What we did was put money into the sustainability fund.

The other thing we also knew was that when we did end up in a down period, we didn't want to have to come to a screeching halt when it came to our capital spending. What we did was put approximately \$17 billion aside in sustainability and capital funds. That's why, you know, as a province we haven't had to cut drastically even though economically we have been going through a period when we haven't had that many royalties.

Essentially, the savings have gone into sustainability and capital. Recently it went into paying off the debt. Where we go from now is something that we're going to be asking Albertans about.

**Mr. B. Elniski:** Okay. Just so I understand it, we're basically debt free as a province. We have the heritage trust fund at \$14 billion, roughly, and our annual expenditures are about \$32 billion as it sits right now, right?

**Mr. MacDonald:** Thirty-nine billion.

**Mr. B. Elniski:** Thirty-nine. Okay. Just to get a snapshot of that. That's good.

The other question I have: is this the committee, then, that would



decide, “Well, okay; now we can afford to put some more into the heritage trust fund,” or how is that decision made?

**The Chair:** No. But I should comment. You’ve likely heard Minister Morton in recent months talk about in the near future wanting to have a savings policy. That discussion certainly would be held with Albertans. Your question is very appropriate, and I think lots of people ask that question. Many people are interested in taking a look at what the future savings policy of this government and this province is going to be. I think it’s a very timely issue and one that you’ll be hearing more about sooner than later.

**Mr. B. Elniski:** Okay. Well, thank you.

**Mr. MacDonald:** If I could add, please, Madam Chair. Over the years, sir, investment revenue of over \$30 billion that was created, or generated, by the heritage savings trust fund has gone into general revenue, and it’s been used for everything from roads to schools to bridges. However, we used to set aside 30 per cent of nonrenewable resource royalty revenue in the heritage savings trust fund. We have not done that.

To put this into perspective, in 1990, 20 years ago, Norway – and it’s a sovereign country; it’s different from us as a province in the dominion of Canada. But they started in 1990. They have over \$400 billion in their savings fund now. We started ours 34 years ago, and we have \$14 billion. We’ve got to recognize that we’re a province in a country and that Norway is a separate, sovereign state. But do the math. We have to save for future generations a lot more than we have currently been doing.

**Mr. B. Elniski:** Has anyone been over to Norway to find out how they’re doing it?

**Mr. MacDonald:** Yes, they have, actually.

**The Chair:** Well, actually, if I could comment on that, I think that that kind of information will be really relevant when we have the discussion on savings. I don’t have a lot of information with me on Norway, but when we talk about the comparisons, it’s really quite different because the jurisdictions are quite different. My understanding is that Norway deposits almost all of its resource revenues into its fund, yet they have a sales tax that’s up to 25 per cent. They also have exceptionally high personal income taxes. It’s valuable, you know, to have that kind of information when you’re trying to make those comparisons.

I think the other obvious point to make is that Norway is a very

established country. We’re significantly younger, with some pretty significant infrastructure needs. Again, that kind of information very useful to have when we want to take a serious look at what we want to do with our savings.

**Mr. B. Elniski:** Okay. Thank you.

**The Chair:** Is there anyone else out there that has a question?

7:50

**Mr. Quest:** I think one thing to add to that, just to put things in perspective, the difference between how a province and a country accumulate their savings and what they do with their money. Last year alone in equalization, \$21 billion, in one year, net contribution of Alberta to the federal system. We need to put that into perspective. You do the math on that: \$21 billion in just one year. So it’s almost impossible to make comparisons between Alberta and Norway.

**Mr. MacDonald:** I would disagree with that.

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

**Mr. B. Elniski:** While I have this opportunity, I’d just like to throw out that I’m an Albertan, but I certainly do not mind supporting all of Canada. I mean, we are Canadians first, in my view, and Albertans second. You’ll hear a lot of people in Alberta say: well, it’s our oil; it’s our tar sands. But from this Canadian, at least, it belongs to all of Canada. Those equalization payments help other parts of the nation. They help us at times, too. So I just want you to hear from at least one taxpayer that I certainly do not mind supporting the rest of this country. That’s a very important thing.

**The Chair:** Okay. Thank you for that comment.

Are there any other questions from our audience?

Seeing that we have none, on behalf of the committee I would really like to thank Shaw TV for this evening’s live broadcast. I’d also like to thank the Yates Memorial Centre here in Lethbridge for hosting us and thank our audience. A transcript and video of tonight’s proceedings will be available, like I said earlier, on the Legislative Assembly’s website at [www.assembly.ab.ca](http://www.assembly.ab.ca). On behalf of the committee I’d like to thank all of you for coming. We certainly appreciate your participation.

Thank you.

[The committee adjourned at 7:52 p.m.]





