



Legislative Assembly of Alberta

The 27th Legislature
Fourth Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, September 19, 2011
2 p.m.

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Fourth Session**

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

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

Boutilier, Guy C., Fort McMurray-Wood Buffalo (W) *
DeLong, Alana, Calgary-Bow (PC)
Forsyth, Heather, Calgary-Fish Creek (W)
Groeneveld, George, Highwood (PC)
Johnston, Art, Calgary-Hays (PC)
MacDonald, Hugh, Edmonton-Gold Bar (AL)
Quest, Dave, Strathcona (PC)
Taft, Dr. Kevin, Edmonton-Riverview (AL)

* substitution for Heather Forsyth

Department of Finance and Enterprise Participants

Aaron Brown	Director, Portfolio Management, Capital Markets
Kari-ann Kuperis	Acting Assistant Director, Communications
Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management

Alberta Investment Management Corporation Participants

Leo de Bever	Chief Executive Officer and Chief Investment Officer
Don Olsen	Vice-president, Client Relations

Auditor General's Office Participants

Merwan Saher	Auditor General
Brad Ireland	Assistant Auditor General

Support Staff

W.J. David McNeil	Clerk
Shannon Dean	Senior Parliamentary Counsel/ Director of House Services
Robert H. Reynolds, QC	Law Clerk/Director of Interparliamentary Relations
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
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Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

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Monday, September 19, 2011

[Mr. Elniski in the chair]

The Deputy Chair: I'd like to welcome everyone here this afternoon and call this meeting to order. I'm Doug Elniski, the deputy chair. I happen to be in the room today, but our chair, Janis Tarchuk, is participating by teleconference.

Let's go around the room, starting to my left, and introduce everybody.

Mrs. Dacyshyn: I'm Corinne Dacyshyn, the committee clerk.

Mr. MacDonald: Hugh MacDonald, Edmonton-Gold Bar. Good afternoon.

Mr. Saher: Merwan Saher, Auditor General.

Mr. Ireland: Brad Ireland, Assistant Auditor General.

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

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

Mr. Brown: Aaron Brown, Finance and Enterprise.

Mr. Matheson: Good afternoon. Rod Matheson with Finance and Enterprise.

Dr. de Bever: Leo de Bever, AIMCo.

Mr. Olsen: Don Olsen, AIMCo.

Dr. Taft: Kevin Taft, MLA, Edmonton-Riverview.

Mr. Boutilier: Guy Boutilier, MLA, Fort McMurray-Wood Buffalo, designated, filling in for Heather Forsyth, Calgary-Fish Creek, of the Wildrose caucus.

Mr. Groeneveld: George Groeneveld, Highwood.

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

The Deputy Chair: Wonderful. Thank you all very much.

Now I think we'll move forward. Oh, I'm sorry, Dave. I didn't see you come in.

Mr. Quest: Thank you, Mr. Chair. Dave Quest, MLA, Strathcona.

The Deputy Chair: Okay. Good. Thank you very much. Janis, would you like to say hello?

Ms Tarchuk: Thank you. Good afternoon, everyone. Janis Tarchuk, MLA for Banff-Cochrane. Thanks, Doug, for chairing.

The Deputy Chair: You're very welcome.

I would now entertain a motion to approve the agenda. Moved by Mr. Groeneveld that the agenda of the September 19 meeting be approved by the Standing Committee on the Alberta Heritage Savings Trust Fund as circulated. Good with that? Okay. No seconder is required. All in favour? Any objections?

Dr. Taft: Just a point of clarification, Mr. Chairman. If we do want to raise things under other business, we will have that opportunity?

The Deputy Chair: Well, the meeting is scheduled to run until 3 o'clock, so I don't see any reason why we wouldn't have the opportunity.

Dr. Taft: Okay. Thank you.

The Deputy Chair: Mr. MacDonald.

Mr. MacDonald: Yes. Thank you very much, Mr. Chairman. I would just like to bring your attention to the memorandum, please, dated September 14, 2011, in the top of your package. For the record it's a letter that was sent from the assistant deputy minister, Mr. Matheson, to the chair of the standing committee, and I would just like to have a correction made there, please.

The Deputy Chair: Okay. Do you want to do it now, or do you want to do it under other business?

Mr. MacDonald: We can do it now. You are a lot taller, a lot better looking, and a lot richer than the hon. member. I don't know how they could have gotten us confused, but they did, and I would like that to be corrected, please.

Dr. Taft: Oh, MLA, Edmonton-Calder.

Mr. MacDonald: Yeah. If you don't mind.

The Deputy Chair: Certainly not. But I'm looking at the letter, and I'm not seeing it. Could I just see your copy of it? I don't see it. I may be looking at the wrong letter.

Mr. MacDonald: Here's my copy. I just can't match up, you see.

The Deputy Chair: Oh, well, certainly. Yes. That's Rod Matheson, file reference AR30860. So noted, sir. Thank you.

Mr. MacDonald: Okay. Cool.

The Deputy Chair: Gold Bar is a fine constituency, but of course we know that it's all in Calder.

Mr. MacDonald: That's right.

The Deputy Chair: Are we good with that?

Mr. MacDonald: Yes.

Thank you very much for the information. It was interesting.

The Deputy Chair: Okay. All in favour? Perfect. Thank you.

Moving on to the minutes of the last meeting, which was June 22, 2011, you should have all gotten a copy of that in your package. I would entertain a motion to accept them as circulated. Thank you, Mr. Johnston. Anyone else? Questions?

Dr. Taft: I did want, just by way of a question and perhaps clarification – and maybe Corinne can help with this. Mr. Matheson had provided some very helpful information before this meeting in response to a question I had raised I think at the meeting in March perhaps. I'm wondering: procedurally, when administration or the staff provide memos and information to members of the committee, how do those become part of the official record? For example, should we be making note of those in the minutes or somewhere else?

Mrs. Dacyshyn: Thank you for the question. They are noted in the minutes. The follow-up items that were given out at the last meeting are noted, and they are attached to the minutes, and that's when they become part of the public record. Do you see them there? The ones that you asked for at the March meeting were discussed at the June meeting, and they would actually be attached. They're not attached for you in the minutes because

you've already got them as a committee member, but for the complete, correct record of the committee, yes, they are attached.

Dr. Taft: Okay. That explains it. Thanks very much.

The Deputy Chair: Wonderful. Thank you very much.

Any further questions? Otherwise, all in favour? Thank you very much.

Okay. The next item on the agenda, item 4, is the Alberta heritage savings trust fund first quarterly update. As you know, the update was distributed to all members of this committee on the 17th of August. The Heritage Savings Trust Fund Act indicates that one of the functions of the committee is to review and receive quarterly reports of the operation and the results of the operation of the heritage fund, and we are pleased to have Mr. Rod Matheson, the assistant deputy minister of treasury and risk management, here to assist us in our review.

With that, Mr. Matheson, I'll turn it over to you.

Mr. Matheson: Thank you. Good afternoon to members of the committee. The minister sends his regrets on being unable to attend today.

I'm pleased to be here this afternoon to provide the committee with a very brief overview of how the heritage fund performed over the first quarter. It was a cautiously optimistic news story for the first quarter. In the context of all of the market uncertainty the fund still posted a positive return for the quarter; however, there's still a lot to be cautious about going forward.

The fund earned \$269 million for the first quarter of the 2011-12 fiscal year. Of this, \$85 million is expected to be retained in the fund for inflation-proofing while the remainder would be transferred to the general revenue fund. It was too early to make any substantial changes to the first-quarter budget forecast for the investment income for the fiscal year based on these results. The forecasted income was lowered by \$51 million only because of an increase to our forecasted exchange rates for the fiscal year.

The fund ended the quarter with a fair value of \$15.1 billion, down slightly from the fair value at March 31, 2011. The reason the fund went down but still made money was that the income we received outweighed the decrease in the fair value of the assets in the fund. This is a three-month return of 0.7 per cent versus a benchmark return of 0.5 per cent.

Overall, the returns for the heritage fund were modest across the board. Equities were down, with a negative 1.0 per cent return, while inflation-sensitive and alternatives returned 2.5 per cent. Fixed-income and money market investments returned 2.4 per cent. AIMCo's active management had a value-add of 0.2 per cent for the quarter. The strongest value-added areas were private equities and timberlands.

As I said earlier, looking ahead, there continues to be a lot of uncertainty in the market. The debt situation in some European countries such as Greece and Ireland continues to raise concerns. The recent credit rating downgrade for the U.S. has also created a lot of market uncertainty. Clearly, while the fund has had consecutive double-digit returns over the past two fiscal years, we're not forecasting or expecting those types of returns going forward. The heritage fund remains a globally diversified portfolio that is focused on long-term returns.

That brings to an end my short remarks, but we welcome any questions committee members may have.

The Deputy Chair: Questions from the committee? Mr. Boutilier.

Mr. Boutilier: Yeah. Thank you, Mr. Chair. To the assistant deputy minister: I know you brought regrets from your minister,

but are there any regrets from the deputy minister? I'm just trying to understand the hierarchy of this ministry.

Mr. Matheson: That's my oversight. I should have also added: the deputy minister sends his regrets for not being able to attend.

Mr. Boutilier: Okay. Good. I thought you may want to mention that. He would appreciate that.

That being the case, on your comments this afternoon: are these the minister's comments, or essentially is this the overview within the administrative bureaucracy of the ministry?

2:10

Mr. Matheson: The comments that I provided were meant to be just purely an overview of the results of the fund. They're not reflective of any particular views of the minister. They would be just an overview of the performance for the quarter.

Mr. Boutilier: Okay. Thank you.

The Deputy Chair: Mr. MacDonald.

Mr. MacDonald: Yes. Thank you very much. Mr. Matheson, you mentioned the change in the fair value between March 31 and June 30, 2011. You said that it was down slightly. My rough calculation is over \$160 million. Could you explain in more detail how the decline in the fair value was calculated, please?

Mr. Matheson: I'm looking on page 2 of the quarterly report. The fair value at March 31, 2011, was \$15,190,000,000, and it was \$15.125 billion at the end of the first quarter. So it's down \$65 million, the fair value itself.

Mr. MacDonald: Okay. I was looking at the summary of net assets on page 5 at June 30, 2011.

Mr. Matheson: Yeah. That table shows the same. The change in fair value would be the change from \$15.190 billion to \$15.125 billion.

Mr. MacDonald: Okay. But I'm looking at total investments, above that.

Mr. Matheson: Okay. I'm sorry. Total investment, yes: the difference would be the line below that, which is the payables. Effectively, what that is is that represents the income of the fund because that's to be transferred to the GRF. It hasn't actually been transferred in cash yet, so it's a payable of the heritage fund, but it will ultimately be transferred to the GRF, which will bring the value of the assets down correspondingly.

Mr. MacDonald: And that payable could change at the end of the year as economic conditions change, correct?

Mr. Matheson: That is correct. By the end of the fiscal year it will represent the actual income of the heritage fund to be transferred to the GRF. So that's the income less the amount that's held for inflation-proofing.

Mr. MacDonald: Thanks.

The Deputy Chair: Wonderful. Thank you very much.

Any other questions?

Dr. Taft: I should probably know this, but the previous exchange raised the question. How often does the heritage fund pay out to the general revenues? Is that quarterly or once a year?

Mr. Matheson: Well, the act requires it to be done at least annually, and then in practice it's varied over time. In part it depends on whether the province would need the cash, whether it's a better use of the cash to leave it invested as long as possible in the heritage fund. Ideally, it's going to earn more money in the heritage fund, so we're better off, all else being equal, to leave it in the fund as long as possible and, ideally, transfer the whole balance on March 31, the very last day of the year.

From a practical point of view, that doesn't necessarily make sense. If we have a year with large income, that would be a lot of money, from a cash management point of view, for AIMCo to manage in terms of making sure that the liquidity is there to move the money all on the last day. We work very closely with AIMCo, and we work out a schedule to try to smooth the transfer, but it's typically back-end loaded. It would be probably mostly in the fourth quarter of the fiscal year because we also want to make sure we have a good idea what the income is going to be.

Dr. Taft: Yeah. Sure. Okay. That makes sense. I appreciate that.

The Deputy Chair: Another question?

Dr. Taft: I have another question, but others may have one.

The Deputy Chair: Okay. Mr. Boutilier.

Mr. Boutilier: Thank you. You had mentioned briefly about a situation in the European market, your words. In doing so, you're kind of delivering on behalf of the ministry the actual to this standing committee, yet of course those who are managing the funds are another agency, so it puts you in a really interesting situation of being able to make comments.

The reason why the comments about Europe, about what's happening there – I mean, the Federal Reserve today is determining about the issue of bond issuance coming up. You've kind of opened the door a little bit there. I'd really like to understand from AIMCo, from their position, what they have said relative to the insight that perhaps you see that others haven't seen.

Mr. Matheson: Was that question directed to AIMCo?

Mr. Boutilier: Yeah. You can turf it over to them.

Dr. de Bever: Well, the last year or so I've made it quite clear that we're quite concerned about both bond and stock markets. Around the same time last year that concern about equity markets turned out to be premature. The market kept on running, but it sure made up for it in the last few months, and that demonstrates something else.

When I listened to the discussion about how much money we're going to transfer, this committee should keep in mind that the volatility in your fund is enormous. Any time you have a long-term investment policy, the short-term financial results can be quite different from what you expect to happen in the short term. On a really bad day in this fund it can go down by about a hundred million. On a really good day it could go up by a hundred million as well. So short-term fluctuations are a fact of life, and you shouldn't count your chickens before the end of the fiscal year because a lot can happen.

In terms of what's happening in the markets, right now they seem to take their cues from simple things like whether Merkel and Sarkozy are having breakfast or lunch or dinner together. It's a bizarre environment, where the perception of reality is changing much faster than the underlying reality, and unfortunately that

affects markets. Again, today we're down 2 per cent. Other days we've been up 2 per cent. There have been an enormous number of gyrations in the last few months.

Our sense is that the next few years are going to be very difficult no matter how you slice it, and the issues that really determine how this is going to play out are very difficult to deal with. Most governments in Europe but also in North America are struggling with the long-term need to make sure that taxes and government expenditures are balanced. In the short run you have to keep the machinery going. In other words, if you slam the brakes on, you may throw more people out of work, have lower growth, lower tax take-in. You may make the situation worse. So that is the dilemma we face as investment managers. Which one of those forces will dominate over any short-term period?

Mr. Boutilier: Mr. Chair, thanks. I don't want it to occupy all the time. A supplemental on the monetary policy implication that you just spoke of, that you made reference to: does the investment group you represent on behalf of the government have a position on monetary policy?

Dr. de Bever: The attempts to make monetary policy make a further contribution to economic growth by, for instance, Operation Twist or whatever they call it, QE3: I think monetary policy is tapped out.

Mr. Boutilier: Okay. Thanks.

Thank you, Mr. Chair.

The Deputy Chair: Okay. Thank you.

Dr. Taft.

Dr. Taft: Thanks, Mr. Chair. I just have some questions about the nature of reporting itself. These are useful reports. I value that. I don't have experience with what reporting is done by other large funds, pension funds, OMERS, you know, et cetera, et cetera. I have no idea how this compares to what they would be reporting back to their board of directors, as it were. I think of our shareholders, as it were, as the citizens of Alberta, and we're, in effect, their agents, each one of us as MLAs, and we delegate that to you folks. It gives me a sense of a wish to be able to report back the value of the share per shareholder.

That takes me back to the very helpful information you provided at my request in June or whenever that was. I for one am a big believer that the bigger the heritage fund gets, the better the future of Alberta is, and I think that we need to know the long-term trends. Where I'm really going is if it is possible or what it would take to have the value of the heritage fund per citizen of Alberta put into this report over the long term – and I would prefer from its beginning – essentially the information you or your department provided to the members of the committee in May or June, so that we can see – you know, I was a university student, I think, when the fund was set up. What's the value? What's my share of this fund worth today as opposed to 1977?

My question is: what would it take – maybe just a simple request, a suggestion like this, or a motion of the board – to have the value of the fund per Albertan, inflation-adjusted over the length of the fund, reported in the quarterly reports?

2:20

Mr. Matheson: Are you asking for that to be something that's added to each quarterly report on an ongoing basis, then?

Dr. Taft: Well, probably many of us have RRSP funds, and you track the value of your RRSP over time. Often it's not very

encouraging, but sometimes it is. Anyway, that's neither here nor there. What you want to know is: what's the value over time for me? Has the value risen or fallen or stayed stable? So, yes, in my ideal world there would be just an addition to this quarterly report of the value of the heritage fund per Albertan from the time of its inception. It's a simple line, and it's just a matter of disclosure, as it were, reporting back to the shareholders, the people of Alberta. Here's what your fund was worth for you last year, here's what it's worth this year, here's what it was worth 10 years ago, and so on.

Mr. Matheson: As far as including that in the quarterly reports, I mean, I'm not sure how to answer the part of your question about if it is a direction that comes formally from the committee. That would be something, I guess, for the committee to discuss. As far as a request back to the department to consider including that in the future quarterly reports, we're certainly happy to take that back and consider that as a potential addition to the quarterly reports. I won't commit that we'll include it yet.

Dr. Taft: No. I understand. It's probably something the committee should consider in addition to you. I mean, it would just be valuable. I'm just asking for a different way to look at the information, probably in a form that most people would understand fairly easily.

Mr. Matheson: Of course, we report two values for the heritage fund: the book value and the fair value, or the market value. The book value is going to go up by the amount of inflation because of the inflation-proofing, but other than that, the value is going to in real terms remain steady. The per capita value, then, from quarter to quarter isn't going to change except by changes in population. I would imagine it would be a pretty stable number on a per capita basis.

Dr. Taft: Still, there's certainly, I think, a debate that's come up, dare I say occasionally, in some of the leadership contests recently, a debate about the future of the heritage fund. How is Alberta going to manage its finances in the future? Do we want to grow it bigger? Do we not? It's just a piece of information that would help inform that debate and help the average shareholder, as it were, the average citizen of Alberta, understand what's going on.

The Deputy Chair: Would you entertain bringing a motion forward under other business, then, if you'd like to?

Dr. Taft: Sure, Mr. Chairman. That would be great.

The Deputy Chair: That would probably be good.
Seeing no other questions – sorry.

Mr. Groeneveld: I can't see us doing that. If you want to make it an agenda item somewhere down the road for discussion – I certainly wouldn't be prepared to come here now and make a snap decision like that.

The Deputy Chair: Then that's fine. That's kind of part of the decision process, I guess.

Do we have a motion to receive the report from someone, please? Okay. Mr. Quest. All in favour? Wonderful. Thank you.

Moving on to item 5, the draft 2010-2011 report of the standing committee, as the members are aware, this committee must report annually to the Legislature. A draft report was posted to the internal committee website. The report will be tabled by the chair

during the next session. You have a copy of the report. Does anyone have any comments? If not, would a member like to move adoption? Looking for comments, giving it a reasonable amount of time.

Dr. Taft: Mr. Chairman, if I could ask either Dr. de Bever or Mr. Matheson just how – I have to be honest. It strikes me as a pretty general report. There's not a lot in it. How does this compare to the reporting of other major similar funds, major pension funds or sovereign funds, on an annual report basis?

Mr. Matheson: I think we need to clarify. Is the committee not now discussing its annual report?

The Deputy Chair: Yeah. This is the committee's annual report, not the financial performance of the fund.

Dr. Taft: Okay. That's fine.

The Deputy Chair: Questions?

All right. I will entertain a motion to approve the draft 2010-2011 report of the committee as distributed. All in favour? Wonderful. Thank you.

Okay. Moving right along to item 6, which is the annual public meeting update for Edmonton, the communications action plan, as committee members will be aware and remember, the 2011 annual public meeting is scheduled to be held in Edmonton on the evening of Thursday, October 20. The location of the meeting is the Oasis Centre in the west end. That's on 177th Street and about 109th Avenue. In order to expand the reach of the public meeting province-wide and in the interest of keeping all Albertans informed about the fund, this public meeting will again be live broadcast on Shaw TV further to the committee's direction.

Tracey Sales will now take us through the communications action plan for the public meeting, keeping in mind that the communications plan was approved at the last meeting. Take it away.

Ms Sales: Thank you, Mr. Chair. Yes. You all should have a copy of the action plan and a draft ad. Basically, the action plan is a list itemizing the initiatives that are still outstanding as far as planning for the public meeting. It's just to give you an idea of the status, where we're at and what's left to accomplish. We're talking about different promotional items: advertising, media items, that sort of thing. If there are any questions?

The Deputy Chair: Any questions for Tracey? Members? Okay.

We've given the committee a draft advertisement. There are still, I understand, some details to be confirmed, and therefore we would ask the committee's agreement to allow the chair and the deputy chair to work with Tracey to refine the advertising materials and anything else that's outstanding in the action plan. Then I would ask for a motion.

Dr. Taft: I just have one other question.

The Deputy Chair: Certainly.

Dr. Taft: It follows up an earlier meeting that I attended many months ago, and it's simply: what's the budget now finalized for the public meeting? I don't need line-by-line detail.

Ms Sales: You're asking just the budget for the communications plan?

Dr. Taft: For the communications plan, the total.

Ms Sales: Okay. It was \$43,600. That's the estimated, yeah.

Dr. Taft: Okay. You will be working within that, then, I take it?

Ms Sales: That's actually the estimated budget for the plan. The budget that was allotted by the committee was actually much higher.

Dr. Taft: More than that, yeah.

Ms Sales: We're well within the budget.

Dr. Taft: Yes. Good. Thank you.

The Deputy Chair: Mr. Boutilier, do you have a question?

Mr. Boutilier: Yeah. Just one question. Just a follow-up: what is the outcome of the communications plan at 30,000 feet?

Ms Sales: I'm sorry?

Mr. Boutilier: What is the outcome of the allotted dollars, the \$43,000? The question is: what do the people of Alberta get?

Ms Sales: Do you mean: what is the goal?

Mr. Boutilier: The outcome of the budget: that's your word. What is the outcome of spending 40-some thousand dollars?

Ms Sales: Okay. What are we trying to achieve with the budget? Is that what you're asking me? I'm sorry.

Mr. Boutilier: Correct, yeah.

Ms Sales: Okay. Well, I mean, we definitely want to make sure that all Albertans are notified of the meeting so that they can attend or possibly watch it on TV or go online and participate in the online chat and interact with the committee. That's the ultimate goal, to make sure that the public is notified because this is their fund.

Mr. Boutilier: Okay. I appreciate that. Right now if it's a live stream, every Albertan that has Internet would get that, but just a live stream for that doesn't cost \$43,000, does it? That's the outcome you just stated.

Ms Sales: The communications plan includes many initiatives, some of which are things to do with the live stream, the TV broadcast, those sorts of overhead costs, but it also includes things like advertising in order to notify Albertans.

2:30

Ms Tarchuk: Actually, if I could interrupt here. Guy, we would be able to get the information to you from our last meeting, where we'd have that breakdown of costs.

Mr. Boutilier: That would be helpful.

Ms Tarchuk: Yeah. We can do that.

Mr. Boutilier: Okay. Thanks. Rather than waste the committee's time.

Ms Tarchuk: Yeah, we can send you that.

The Deputy Chair: Okay. Good.

We do have a couple of things here, so if I could have a motion that

the chair and the deputy chair of the Standing Committee on the Alberta Heritage Savings Trust Fund be authorized to work with the communications consultant and the clerk to put the finalized materials together.

Mr. Quest: Thank you. All in favour? Thank you very much.

I would also like to ask the committee members at this time whether or not you're planning to attend the meeting and whether you want to participate in the oral presentation as is our history. Wonderful.

Ms Tarchuk: That's yes and yes for me.

The Deputy Chair: Thank you, Janis.

Mr. MacDonald: I would certainly be delighted to attend again this year, but I would have to see what is expected of me in the oral presentation before I'm going to yea or nay that if you don't mind, Mr. Chairman.

The Deputy Chair: I have no objection at all, and certainly what I would have expected.

Mr. Boutilier: I think that would be a fair comment for Mrs. Forsyth as well.

The Deputy Chair: Okay. Thank you. Comment noted. Wonderful.

Dr. Taft: And for me, too.

The Deputy Chair: Oh, I'm sorry. Dr. Taft. Yes. Of course.

Dr. Taft: Could I get the chairman to declare that we won't be in an election on that date?

The Deputy Chair: It's not going to do you a lot of good if I do. I have no idea.

Mr. Johnston: Maybe Janis has some information.

The Deputy Chair: Yeah. The regular chair might have.

Item 7, moving right along here, is the heritage savings trust fund public website and update on the web hits. You have a memo from the deputy minister, Tim Wiles, the information including an expanded analytical report. Does anybody have any questions for Kari-ann from Alberta Finance and Enterprise communications on this? Seeing none, okay. Thank you. We don't have to move this. This is strictly being received for information.

Okay. Item 8 is other business. You received a follow-up response from AIMCo with respect to some questions that were asked at the last meeting and the finance one with the correction noted with regard to Mr. MacDonald's constituency. Does anyone have any questions on this information?

Mr. MacDonald: Yes. First, I would like to say, Mr. Matheson, that I appreciate this research that you have provided to us in this schedule. I am surprised that when you compare the investments we have with the list of excluded companies from the Norway government fund, we would have well over \$200 million invested in the same sort of enterprises that they have said no to, including antipersonnel land mines, production of cluster munitions, production of nuclear arms, sales of weapons and military material to Burma, production of tobacco, and actions or omissions that constitute an unacceptable risk of the fund, human rights violations and environmental damages, et cetera. My first question would be: has there been any discussion internally with either

yourselves or in partnership with AIMCo to sell these investments from the heritage savings trust fund, get rid of them, period?

Mr. Matheson: I'll certainly invite Leo to comment, but I'd like to answer that specifically with respect to tobacco because we did provide direction, and AIMCo has now carried out the minister's direction to dispose of all direct holdings of tobacco. As of March 31 there were still some tobacco holdings, but that was only because there was a transition as AIMCo was implementing the direction that the ministry provided. So the direct holdings of tobacco are now out of the heritage fund. There would only be indirect holdings. In other words, if there is a product that has exposure to the entire stock index, if that index has exposure to that company, it would be in our investments, but it would only be through that very indirect exposure. We have no direct exposure to tobacco in the heritage fund.

Mr. MacDonald: Okay. I'm pleased to hear that, particularly since in 2009, I believe, in the Legislative Assembly we passed Bill 48, which was the Crown's Right of Recovery Act, to hopefully get a lot of money back from big tobacco for the health care costs over a number of years for Albertans who for one reason or another as a result of their tobacco consumption had to access the health care system.

But if I'm reading this correctly, I see the Norwegians, in their Ministry of Finance, were making decisions going back five, six years, sometimes as far back as 2002 to not invest in some of the same companies that we have. There has been a lot of time pass, and surely there were people within the ministry of finance who were aware of these investments. I can't understand why we would not have sold them off and followed the direction of the Norwegians.

Dr. de Bever: Can I take that?

Mr. MacDonald: Sure.

The Deputy Chair: Dr. de Bever, please.

Dr. de Bever: All right. Out of the \$228 million, which is one and a half per cent of the heritage fund, the bulk of the exposure, roughly \$140 million, is part of country indices. All right? So it's a passive exposure. That leaves about \$80 million or \$90 million. Most of that is in mining companies, and this points out an interesting dilemma. I doubt that you would get a consensus around this table that we should not be investing in mining companies because of their environmental implications. The problem we're raising here is that the standards of what you should or shouldn't do: reasonable people can agree or disagree on which companies that should include.

For instance, Barrick Gold is one of the big items in the list that we've provided you with. If I took a vote around this table, I'm not sure everybody would agree that we should exclude Barrick Gold from the portfolio of the heritage fund. Boeing, Airbus are in there. Both companies have very small military components, and here again you have a dilemma. Most of us would agree that countries have to provide for defence, but can you then be consistent and not invest in companies that provide the machinery to provide that defence?

Norway is not the absolute judge of what should be or shouldn't be in a portfolio. Go down the list. If there is anything that this committee wants to prevent me or prohibit me from investing in – but in most cases what you will see is that you can have a reasonable discussion as to whether these companies should be on that list.

The Deputy Chair: Thank you.

Mr. MacDonald: Well, that's an interesting commentary.

Mr. Chairman, at this time I would like to present a motion to the committee. I'm pleased that the tobacco investments are coming to an end. I would like to propose this motion at this time, Mr. Chairman, and it would be for the Alberta heritage savings trust fund to sell off as quickly as possible any investments we have in corporations that produce antipersonnel land mines, produce cluster munitions, produce nuclear arms, or sell weapons and military material to Burma.

The Deputy Chair: Certainly. Mr. MacDonald has made a motion. Is there any discussion? Mr. Boutilier.

Mr. Boutilier: I'm absorbing the motion. It's a form of a question just on the motion. You made reference earlier about when we go around this table, you'll quickly see that usually we'll never agree on most anything around this table, I can assure you of that. I think that might be for other reasons, so please don't feel there's any greater volatility than this committee.

2:40

Having said that, on the motion. I was wanting to ask the question of experts. As much as some of the commentary by your assistant deputy minister, which I appreciate – clearly, you can go on to any news station and what was said earlier pretty much and guess what? Sometimes I think the experts that are being quoted about investment opportunities: there's just no certainty. So my question to Dr. de Bever would be, first of all: do you see any experts out there dealing with how investments are being invested today with the incredible uncertainty and volatility that's taking place, really, geopolitically across the world?

Dr. de Bever: In terms of what? With regard to investing in these companies?

Mr. Boutilier: Yeah.

Dr. de Bever: I would say that Norway is probably at the extreme in terms of taking a stand. The dilemma is often the following. The reason a company like Boeing or Airbus is on this list is that they produce a lot of airplanes and somewhere, in some small subsidiary, they produce some military components. Now, should you therefore stay away from that whole company, or should you use your influence as an investor to maybe change the behaviour of that company?

Mr. Boutilier: My supplemental, Mr. Chair, would be this. This is the dilemma. My instinct to the member is that as far as mentioning one country – you know, Burma – some of that very investment could be actually made to help defend Canada as well. That's the dilemma I face.

Dr. de Bever: Yeah. I think that's the dilemma that most of us have.

We stay away from certain companies because it just makes good business sense. If you're despoiling the environment in an unusual way or you're doing some things that from any kind of social policy don't make any sense and that's a significant part of your business, that probably doesn't make your company a very good investment. But some of the companies on this list don't fall in that category.

Mr. Boutilier: Okay. Thank you.

The Deputy Chair: Dr. Taft.

Dr. Taft: Thank you, Mr. Chairman. I appreciate the information that was provided, and I want to commend the fund and the minister and the department for extracting Albertans from investment in tobacco. I would say that if we can do it in tobacco, we can do it in other things. I have no doubt these are complicated issues, and they're worth at the minimum some more serious investigation, it seems to me.

I have done no research on this, but I believe there are actually international treaties on the prohibition of things like antipersonnel land mines and, I think, also on cluster munitions. I'm less certain of that second one, but I actually think Canada led the global process in developing treaties that control and, in fact, are aimed ultimately at eliminating things like antipersonnel land mines. The question of international law comes into this. I guess I would observe that if we can get out of tobacco, we can probably get out of land mines and cluster munitions as well.

I would actually support the motion from the Member for Edmonton-Gold Bar, and I would urge members of the committee to, you know, search their own consciences here. If we can't support the motion today, then perhaps we can direct some people to look into it further because I would bet you that if we put this out to the people of Alberta, our shareholders, a lot of them would be pretty uncomfortable. We wouldn't get perfect consensus, but I bet a lot of Albertans would not be pleased to learn that the heritage fund is investing in Singapore Technologies Engineering, which is a producer of antipersonnel land mines.

Dr. de Bever: But this is a passive investment through a corporate index. If you want to start excluding things from indexes, it gets very expensive very quickly, so bear that in mind. It depends what cost you're willing to bear to do this. I can manage to do anything. It's a matter of . . .

Dr. Taft: It would be interesting to know how expensive it would be, for example, to get out of Singapore Technologies Engineering. I have no idea. Is it a million dollars? Is it a thousand dollars? Is it however much? Perhaps the same argument could have been made about tobacco and could be made about many other kinds of things.

The Deputy Chair: Thank you, Dr. Taft.

Mr. MacDonald: I have questions, Mr. Chairman.

The Deputy Chair: Okay. Thank you.

I'm just taking a quick look here at the functions of the standing committee, and I'd just like to refresh our memories with respect to this particular motion on the direction the conversation that is going. That is, the function of the standing committee is to review and approve annually the business plan of the heritage fund, to receive and review quarterly reports on the operation and the results of the operation of the fund, to approve the annual report of the fund, to review after each fiscal year the performance of the heritage fund and report to the Legislature as to whether the mission of the heritage fund has been fulfilled, and to hold public meetings with Albertans on the investment activities and the results of the heritage fund.

As I read that, I am not finding the mandate of this particular committee to direct either the finance department or AIMCo to address this particular issue. I think that if we want to talk about this, we can maybe come back and have that conversation at some other time. But, very clearly, that doesn't look to me like it falls within the mandate of the committee.

Mr. MacDonald, if you'd like to carry on and ask your question.

Mr. MacDonald: Yes. Well, certainly the motion was accepted, and the motion is in order. This committee has, as do all legislative committees of the Assembly, a lot of latitude and a lot of scope in which to do our work. Certainly, even before we vote, I feel that you are trying to influence the committee members. I would, Mr. Chairman, like to caution you on that.

I have two questions for the officials at this time. The first is: was it early this year, 2011, or late 2010 when we in this province signed on to the UN declaration regarding ethical investments?

Dr. de Bever: It was late last year sometime.

Mr. MacDonald: It was late 2010. That's what I thought. Now, when we signed that agreement – does that agreement apply to these investments? Are there any rules or any policies regarding the investments that we're discussing here this afternoon in that declaration with the United Nations?

Dr. de Bever: No. We comply with all international agreements on that sort of thing. There are some restrictions on what you can and cannot do in that regard. It's a separate issue. It's a different issue. I think different organizations will come to different conclusions as to which companies they want to exclude for whatever reason. The UN ethical principles don't really talk about that.

Mr. MacDonald: The UN ethical principles: what do they say about investing in antipersonnel landmines, production of cluster munitions, or the production of nuclear arms? What do they say about that? What are their guidelines?

Dr. de Bever: It doesn't discuss that.

Mr. MacDonald: Wow. Okay.

Dr. de Bever: Well, look, the UN principles are not at that kind of level of detail. In your view they should be, but that's a view, okay? There are any number of countries around the world that rely for defence on nuclear weapons. Should that mean that there shouldn't be any people producing nuclear weapons? I mean, we can agree or disagree with that policy. I only find the world as it is. I don't try to redefine it as it should be in some sense. I fulfill all the requirements that I'm supposed to meet under law, but beyond that I don't have any particular mandate to impose my views or anybody else's on my investment portfolio. I stay away from companies that I think are not a good investment because of some bad business practices, but beyond that you have to be pretty careful what you do.

The Deputy Chair: Thank you very much.

Mr. Groeneveld.

Mr. Groeneveld: Thank you, Chair. I appreciate the explanation from down here. I also appreciate what you were trying to do, and I don't think that was trying to influence the decision on this particular motion. This type of motion coming out of the blue at a meeting like this is what I was talking about earlier on. It's very specific, I guess. I would certainly like to see us being given some warning for something like that, so we could look into it.

2:50

We hire these people to use their best judgment. Certainly, I think we keep them informed of where we're uncomfortable, and this might be one of them. Of course, they've reacted accordingly with tobacco, and I have no problem with that. But to do a specific motion like this at this particular time, the unintended consequences could be kind of shocking to me, I think. If you wouldn't

mind correcting me if I'm wrong, I suspect that if you put a microscope to every investment we have, there'd probably be something you'd be a little uncomfortable with.

Dr. de Bever: Okay. In a previous discussion I pointed out to a Canadian audience that if I set my mind to it, I could find a reason not to invest in every single Canadian TSX 300 company.

Mr. Groeneveld: That would be my fear. This is a very limiting motion. I'm totally against this motion. I guess if that's the route we have to go at this particular time, I couldn't support the motion like this.

The Deputy Chair: Mr. Quest.

Mr. Quest: Well, thank you, Mr. Chair. This is obviously a very interesting, important discussion, but I have to agree with Mr. Groeneveld. We just don't have anywhere close to the information we would need to make a decision on this today. I mean, because of the complex operations of any of these companies to try and support this motion today to me seems impossible. I don't know if we could consider a tabling or deferring until a lot more information was available. It would be a great deal of work to get that information.

With respect to the committee's mandate, I don't know, can our legislative counsel give us an opinion on whether this is inside or outside our mandate?

The Deputy Chair: Yes, we could certainly ask them this.

Mr. Quest: I think that might be more appropriate at this stage anyway.

The Deputy Chair: Okay. Any further questions?

We have on the floor before us now a motion that in approximation says that the Alberta heritage savings trust fund sell off as quickly as possible any investments in land mines, munitions, nuclear arms, tobacco, or those companies who sell these items to Burma. Is that pretty close, Mr. MacDonald?

Mr. MacDonald: I don't think so. I think you've added some things.

The Deputy Chair: In any event, was it land mines, munitions, and nuclear arms?

Mr. MacDonald:

Corporations involved in the production of antipersonnel land mines, production of cluster munitions, production of nuclear arms, and the sale of weapons and military material to Burma.

The Deputy Chair: Okay. *Hansard* has captured that? We have a nodding head at the back of the room. I would then put it to the question. All in favour? Opposed? Motion is defeated.

Moving right along. Now we should, however, I think ask also for

a legal opinion with respect to whether or not this motion falls within the mandate of this particular committee.

Can I have someone make a motion to that effect, please? Mr. Johnston. Okay. All in favour? Opposed?

Mr. Groeneveld: Just a comment to the motion. I think we'd be dealing with this every meeting if we don't.

The Deputy Chair: Okay. That's fine. Thank you very much.

Okay, we have one other item that had come up. Dr. Taft, you had . . .

Mr. MacDonald: I would like to be on record as being opposed to that last motion, please.

The Deputy Chair: My humble apologies for failing to recognize that.

Dr. Taft: Well, we supported the motion, actually.

Mr. MacDonald: Yes, but the motion to refer this to a legal opinion.

The Deputy Chair: Okay. All right. We've got you.

Dr. Taft: Should we go back and have recorded votes on those two motions? Would people prefer that?

The Deputy Chair: If you want, we can do that, but I think other than with respect to yourselves and the dissenting votes, we've captured the other votes.

Dr. Taft: Because we're being recorded in *Hansard*, I just want to be clear that I supported the motion by Mr. MacDonald, the one that was defeated.

The Deputy Chair: Okay. Thank you.

Mr. Boutillier: Mr. Chair, just on that point, I perhaps didn't catch your eye. I wanted to amend his motion to the fact that based on the tone of the discussion on some of the outstanding information, we actually voted on some questions that we still are not even sure of. I haven't got the answers to the points raised earlier. Number one, is this within the mandate? Before you usually vote, you get an answer to that question. Second of all, on the amendment as much as in spirit we like the idea of investigating what the intent of the motion is, I certainly, as Dr. Taft and I were chatting, would welcome more information on the details of all of that before I would be prepared to call for a vote on it. At this point I voted against the motion until I get some of those questions answered.

The Deputy Chair: Okay. Well, that particular vote has already been taken.

Moving right along, I guess, as they say. Any other new business? Dr. Taft, you had one item to raise.

Dr. Taft: Yes. I think we could all agree that it's within the parameters of this committee to set the agenda for the annual meeting. The clerk, Corinne, might be able to refresh us on the exact wording, but I think one of the items was: reporting to the public on an annual basis to receive or report on activities concerning investment. What was the exact phrasing, please?

Mrs. Dacyshyn: Yes. That's section 6(4)(e) of the Alberta Heritage Savings Trust Fund Act. One of the functions of the committee is "to hold public meetings with Albertans on the investment activities and results of the Heritage Fund."

Dr. Taft: Mr. Chairman, what I'd do then, out of respect to everybody on the previous discussion, under that section of the act would be to propose a motion that at the upcoming annual public meeting we actually put the issue of investments in the corporations that are listed in the attachment provided by Mr. Matheson in his September 14 memo as an agenda item to the public on the annual meeting. That would be within the committee's parameters. Let's seek the opinion of our voters on these activities. My motion would be to put this item on the annual meeting agenda coming up in October. It might stir up a little interest, too, because otherwise they're pretty sleepy.

The Deputy Chair: Is this then a supplementary request to your initial request with regard to the contents of the report?

Dr. Taft: Well, we voted on the contents of the report, so we'll perhaps get information later on for the contents of next year's report because we've already set this year's report. What this specific motion is is citing the section of the Legislation that the clerk cited, under the issue of investment activities of the fund to consult the public on the items in the memo dated September 14 from Mr. Matheson to the chair of this committee.

The Deputy Chair: I'm a little bit confused. Are you suggesting that it be in the notes that are read out to the members, that it be a discussion? What picture do you have in mind?

Dr. Taft: On the agenda for the annual public meeting on October 20 I'm suggesting that an agenda item for discussing this memo would be helpful. Let's hear from the people of Alberta. Let's stir up some interest in this fund because, my goodness, it doesn't get a whole lot of interest. Let's see what people think.

The Deputy Chair: Okay. Specifically, then, you want to talk about the September 14 AIMCo letter to the chair of the committee with regard to the invested funds. I'm trying to narrow this down. You're quite broad at this point.

Dr. Taft: Let me try to come at this more succinctly, then. Fair enough. I would move that at the upcoming annual public meeting of the heritage trust fund committee we put a particular item on the agenda for the public to discuss the September 14, 2011, memo from Mr. Matheson to Ms Tarchuk as presented to the committee.

3:00

The Deputy Chair: Just a couple of points if you could maybe help the clerk out. Do you want this in the discussion topics at the meeting? Do we need to advertise ahead of time that we're covering this?

Dr. Taft: I would like to see it advertised ahead of time. I think we should be open and unafraid of our voters. Then it should be on the agenda. It's surely within our purview to set our own agenda. The legislation makes that clear. This is an investment activity.

Mr. Groeneveld: Well, I certainly would require a little bit more detail on this motion, where we intend to take it. If AIMCo is underperforming terribly, I'd say, yeah, maybe we'd better start to look at this. Explain this to me. Are you suggesting that before they invest money, the public should be consulted on who they invest with? Is that the intent?

Dr. Taft: The intent would be to invite the public to comment on the broad parameters and the ethical issues concerning the heritage fund being invested in the companies listed in the September 14 memo. It's a pretty simple request, folks. I'm just saying: let's put this on the agenda and let the public have a discussion. The public may come back and say: we don't want to talk about it. But let's be open here.

The Deputy Chair: We've got a motion on the floor. Janis, did you want to say something?

Ms Tarchuk: I just wanted to give some clarification. The memo from Rod to myself is regarding the per capita value. It's the

AIMCo letter from Leo to myself that talks about the exclusion list, that kind of concern there.

But, secondly, if we are talking about the investments – and I'm just listening to the discussion – a couple of things we have questions about, our mandate and having this discussion. I think the points that were raised about understanding the implications – I think the discussion would be very interesting. Are we prepared to have it at the public meeting? I doubt it.

I think the comments about making sure that we fully understand the implications of any investment exclusion to the extent that we do it and also understanding unintended consequences are really good questions as well as the question that we have said that we're going to put forward to our legal adviser. I think the motion is wrong the way it was stated, but if it is to talk about excluded companies in the public meeting, my sense is that we're not prepared at this point to have that discussion in a two-hour public meeting.

Now, the question has come up in the past and likely will again from the public about what kinds of companies we invest in and the kinds of guidelines or policies that guide that. But beyond that, to advertise that we're going to have this discussion: I don't think we're there.

Dr. Taft: My apologies, Janis. You're quite right. I had two memos dated September 14, and I was referring to the incorrect one. I stand corrected, and I apologize for that. I was meaning the September 14 one from Dr. de Bever to you. My apologies on that.

Ms Tarchuk: Okay. No problem.

The Deputy Chair: Okay. Somewhere out there we have a motion that we have captured that

the committee advertise and include as part of its agenda a discussion at the October 20 public meeting of the broad parameters and ethical issues of the companies listed in the AIMCo memo of September 14.

Mr. Boutilier: A question, Mr. Chair, just on it. I, of course, am a designate today, but I know that earlier the topic of tobacco was brought up, and I understand there have been some changes to that issue. I was just wondering if you can enlighten me ever so briefly on the process that was uncovered to get to that outcome that took place there. It would be very insightful for me depending upon – it sounds like that could be round 2.

Dr. de Bever: The province came to us and said: look, we'd rather not have you investing in tobacco. We said: okay; the simple way is to exclude all exposure that's active exposure as opposed to index exposure. It took us a while to ferret out all the pieces where that happened. That process is over. We have no active exposure to tobacco. That's roughly how that went. I think the reasoning was that if we were to sell off the rest of it, the ongoing operational costs would not be worth the benefit from doing it. That was the discussion.

The Deputy Chair: Good. Thank you. We'll just carry on with this.

Mr. MacDonald: I have one more item, sir.

The Deputy Chair: Okay. I'd just like to advise before you proceed, please, that the time is now 3:05, which is actually five minutes past the original planned ending time of the meeting. So if we could be very, very concise because I know that people have other things to do.

Please, Mr. MacDonald.

Mr. MacDonald: Yes.

Dr. Taft: Did we have a vote on mine?

The Deputy Chair: We haven't voted on this yet, no.

Dr. Taft: Okay. Does your comment relate to this?

Mr. MacDonald: No.

The Deputy Chair: Okay. It's not related?

Mr. MacDonald: No.

The Deputy Chair: Okay. I'll call the question. All in favour of the motion? Opposed? Okay. The motion is defeated.

Dr. Taft: Could we have a recorded vote on that?

The Deputy Chair: Yes, you can.

[For the motion: Mr. Boutilier, Mr. MacDonald, and Dr. Taft]

[Against the motion: Mr. Groeneveld, Mr. Johnston, Mr. Quest, and Ms Tarchuk]

Mr. MacDonald: I regret not bringing this up previously, and I appreciate your patience with me, Mr. Chair. In the annual report last year in the top 10 global equity pool holdings Viterra Inc. was 4 per cent. Could you tell me how much that is in real value instead of a percentage, please, if you have a schedule there, the detailed schedule of investments?

My second question would be: if the Canadian Wheat Board is eliminated by the federal Parliament, what would that do to a company such as this, that sources and markets grain delivery to customers in over 50 countries, with revenues of over \$8 billion? Will it increase significantly in value if there's no longer a Wheat Board? What's your opinion on that?

Dr. de Bever: On the first question you asked, 4 per cent of roughly \$15 billion is about \$600 million.

Mr. MacDonald: Wow. Okay.

Dr. de Bever: There are three themes that we play in our investment policy: food, energy, materials. Viterra, clearly, is on the food theme. Viterra, partially with our capital, has become a

much more internationally diversified company. It's operating not just in Canada but also in Australia. We helped it buy out one of its Australian competitors. We think that with the demise of the Wheat Board companies like Viterra should do better in terms of there being fewer restrictions on how they can operate their business. But I think the main reason for investing in Viterra is the one I mentioned earlier, that grain as an international commodity is going to assume a bigger role as Asian countries are becoming higher consumers of protein.

Mr. MacDonald: One follow-up to that. You said that we helped it out, meaning Viterra to buy its competitor. Do you mean AIMCo did that?

Dr. de Bever: Yes. We are a significant investor in Viterra, and when Viterra took over one of its Australian competitors, we provided the capital to do that. That's part of our exposure in Viterra. That's our business.

Mr. MacDonald: Thank you.

The Deputy Chair: Thank you very much, Dr. de Bever.

Ladies and gentlemen, we are sensitive to time. We're now 10 minutes past. As we discussed earlier, the date of the next meeting is scheduled for October 20, and after that we'll be meeting in December, following the second quarterly update of the report.

Mr. Matheson: Sorry, Mr. Chair. I just want to come back quickly to the question about the specific value of the investment in Viterra. The table you're looking at in the annual report says that Viterra is 4 per cent of the total global equity portfolio, which over in the paragraph beside it is about 5 and a half billion dollars. So 4 per cent of 5 and a half billion dollars would be just over \$200 million.

Mr. MacDonald: Thank you.

The Deputy Chair: Thank you, Mr. MacDonald.

Thank you very much, gentlemen.

I would entertain a motion to adjourn. Thank you, Mr. Quest. Thank you very much, ladies and gentlemen. It's been a pleasure.

[The committee adjourned at 3:10 p.m.]

