Legislative Assembly of Alberta

The 27th Legislature
Fourth Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting, Edmonton

Thursday, October 20, 2011
7 p.m.

Transcript No. 27-4-4

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Standing Committee on the
Alberta Heritage Savings Trust Fund

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

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)
Xiao, David H., Edmonton-McClung (PC) *

* substitution for Alana DeLong

Also in Attendance

Allred, Ken, St. Albert (PC)

Department of Finance Participant

Rod Matheson	Assistant Deputy Minister, Treasury and Risk Management

Alberta Investment Management Corporation Participant

Leo de Bever	Chief Executive Officer and Chief Investment Officer

Public Participants

Robert (Bob) Ascah
David Despins
Sarah Hawkins
Simon LeBlanc
Muriel Stanley Venne
Ron Trant
Jim Wood

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Transcript produced by *Alberta Hansard*

7 p.m. **Thursday, October 20, 2011**

[Ms Tarchuk in the chair]

The Chair: Good evening. I'm Janis Tarchuk, MLA for Banff-Cochrane and chair of the Standing Committee on the Alberta Heritage Savings Trust Fund. I'd like to welcome all of you to the Alberta heritage savings trust fund 2011 annual public meeting.

I'd like to begin by introducing the members of our standing committee who are here tonight. To my right is Doug Elniski, deputy chair, MLA for Edmonton-Calder; Dave Quest, MLA for Strathcona; Hugh MacDonald, MLA for Edmonton-Gold Bar; and Art Johnston, MLA for Calgary-Hays. To my left we have George Groeneveld, MLA for Highwood; Dr. Kevin Taft, MLA for Edmonton-Riverview; and David Xiao, MLA for Edmonton-McClung, who is a temporary substitution this evening for Alana DeLong, MLA for Calgary-Bow.

At this point the committee deputy chair, who is also the MLA for this area, would like to bring some greetings.

Mr. Elniski: Thank you very much, Madam Chairman. Good evening, ladies and gentlemen, and welcome to the constituency of Edmonton-Calder. We have a slogan in our constituency, It's All in Calder. It pleases me, again, particularly, to welcome everyone in the studio audience here tonight as well as everybody who is going to be following us on Shaw TV as well as on the Internet. We have a substantial amount of information to review tonight, so again thank you very much for being here, and I think we should get down to it, Madam Chairman.

Thank you.

The Chair: Thank you, Doug.

Also joining us on stage this evening: from Alberta Finance Rod Matheson, assistant deputy minister, treasury and risk management, and Aaron Brown, director, portfolio management; from AIMCo Dr. Leo de Bever, chief executive officer and chief investment officer, and Pine Pienaar, senior vice-president of client relations.

As Doug mentioned, this year's meeting is being broadcast live on Shaw TV and webcast on the Assembly website. I'm really pleased to advise that Albertans can participate in tonight's discussion using online chat at www.assembly.ab.ca during the live broadcast. This is the very first time in history that any Legislative Assembly of Alberta standing committee has interacted with Albertans using online chat. So we'll see how that goes, but we're pretty excited about it. We do look forward to receiving your questions and comments, and the committee will try to address as many as possible during the course of this evening.

This meeting is also being recorded by *Alberta Hansard*. Copies of the transcripts from this meeting will be available online at the Assembly website or by calling the committee number listed on the brochures which were handed out as you came in this evening.

Tonight's presentation will cover the history, mission, and future of the heritage fund as well as long-term performance. The question-and-answer session will follow.

Right now we will start our presentation, and I will ask the committee deputy chair, Doug Elniski, to continue at this point.

Mr. Elniski: Thank you very much, Madam Chairman. I'll start with some background. The heritage fund was started in 1976 and has been a unique aspect of Alberta's finances for some 30 years. No other province has such a fund. From 1976 to 1983 the fund grew as 30 per cent of the province's oil and gas revenues went into the fund. From 1984 to 1986 the amount saved in the fund was reduced to 15 per cent of oil and gas revenues due to the increasingly difficult financial situation the province was facing at the time.

From 1982 onward 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 2000 totalling approximately $431 million. Since 2005 the government has been making legislated inflation-proofing contributions. There was no inflation-proofing contribution in 2008-2009 because the fund recorded negative income. There was also no inflation-proofing in 2009-10 because inflation was negative; 2010-2011 saw inflation-proofing of $360 million. This year inflation is forecasted, so money will be retained in the fund, provided the investment income is sufficient.

The value of the heritage fund is dependent on three things. It's dependent on the amounts 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 until recently. The fund had grown to $17 billion in 2008, its highest level ever, but was impacted quite significantly by the 2008 market crash.

On average the heritage fund has earned almost a billion dollars a year since it was set up in 1976. By law all realized investment income from the fund, less the amount set up to be retained for inflation-proofing, is transferred to the general revenue fund and is used to help pay for priorities such as health care, education, social programs, infrastructure, and capital expenditures. In 2010-11 strong performance allowed the fund to contribute $720 million after inflation-proofing to programs and services and to keep taxes low. It's important to note that the income from the fund is for the present generation of Albertans while the capital in the fund is for future generations.

Now I'll turn it over to Dave Quest.

Mr. Quest: Thanks, Doug. The heritage fund has helped to put the province in a solid fiscal position, and Albertans will continue to benefit from all those contributions. All of those billions shown on the last slide add up. During the fund's 30-year history the fund has provided a little over $33 billion for Albertans' priorities, including debt reduction, health care, education, social programs, infrastructure, and capital expenditures.

In addition to the $33 billion that I mentioned, there are additional endowment funds that make social and economic contributions in Alberta. The Alberta Heritage Foundation for Medical Research endowment fund was started in 1980 with a $300 million contribution from the heritage fund. The medical fund has been instrumental in the funding of research and advances in medical science and 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. 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 government revenues. This marked the highest relative contributions of the fund towards Albertans' priorities.

It was also during the 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, as Doug said, $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 of this portion of the heritage fund provide this funding.

One example is that this money is being used in the development of the Lois Hole Campus Alberta digital library. This digital library will allow postsecondary students and faculty across the province to access the digitized resources and the knowledge currently held in the individual libraries of the postsecondary institutions.

The access to the future endowment was created as part of the heritage fund rather than as a distinct endowment. One billion dollars of the deposits made to the fund in the last two years have been directed towards this new endowment.

I'll ask MLA Art Johnston now to continue.

Mr. Johnston: Thank you. In the early 1990s Albertans were concerned about the sustainability of investment income. Many Albertans were wondering whether the fund 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 returns 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 this mission. These changes included new legislation for the heritage fund and 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.

7:10

I'll discuss the governance in place to achieve this mission. One of the principles of 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 the legislation.

The heritage fund's 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 by the fund, the performance of every investment sector, and an overall review of the fund. These documents are always available on the website, which is www.albertaheritagefund.com.

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 at annual meetings like the one we're having tonight. The standing committee is required by law to review and approve the business plan, 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 hold public meetings with Albertans.

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, Standard & Poor's/TSX composite index is used to measure the performance of the fund's Canadian stocks.

I'll ask George Groeneveld, MLA, to take over from here.

Mr. Groeneveld: Thank you, Art. The legislation governing the heritage fund makes the Minister of Finance responsible for managing the money invested in the fund. This responsibility has three components: establishing investment objectives and policies under which the fund will be invested – this includes setting out the target asset allocation for the fund – 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.

In January 2008 the investment division of the Ministry of Finance became a Crown corporation called the Alberta Investment Management Corporation, or AIMCo. AIMCo is responsible for the day-to-day execution of the investment policies set out by the government. The responsibility for investment objectives and performance evaluation belongs to the Minister of Finance, who is supported by a team of professionals from Alberta Finance in meeting this responsibility.

The investment objective of the fund is to maximize long-term financial returns subject to an accepted 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. This widely diversified portfolio helps reduce risk but also enables the fund to earn higher returns than it normally 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 us, the taxpayers.

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 managers the freedom to take advantage of their expertise by increasing or decreasing holdings.

The fund has significant investments in equities, including foreign equities, U.S. and non North American. It 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 investments, which includes real estate and the infrastructure as well as allocations to hedge funds and private investments.

At this time I'd like to hand this over to David Xiao to take it from here.

Mr. Xiao: Thank you, George. Overall the fund had a very good return for 2010-2011, posting a 10.4 per cent return for the year ended March 31, 2011. This return was mostly due to continued strength in equity markets in 2010-2011 and a recovery in the real estate asset class. Across the board all the asset classes had positive returns for the fiscal year.

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 a five-year average annualized return of 3.5 per cent, down from the five-year average of 4.4 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 is 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 in 2008-2009 when there was no income that was able to be retained. In 2009-2010 there was no inflation, so no inflation-proofing was done. In 2010-2011 \$360 million was retained. Future inflation-proofing will depend on income and the level of inflation.

Including 2010-2011, the fund had accumulated \$1.92 billion in inflation-proofing to protect the fund against inflation, \$431 million prior to 2005 in ad hoc inflation-proofing and \$1.5 billion since 2005. Inflation-proofing will continue when required now that the accumulated debt has been repaid. In the future income from the heritage fund will depend on capital market returns and the amount of money invested in the heritage fund.

Now I will turn the table back to the chair.

The Chair: Thank you, David.

I would just like to mention that we've been joined here by another MLA. We have Ken Allred, MLA for St. Albert. Thank you for joining us, Ken.

Looking ahead, Alberta Finance officials continue to work with AIMCo to ensure that the heritage fund is being invested as best as it can be. A new investment policy has been approved for the fund, and it's now being implemented by AIMCo.

The committee members are really pleased to have Dr. Leo de Bever of the Alberta Investment Management Corporation here to talk to you about investments. Leo, if I could pass it over to you right now. Thank you.

7:20

Dr. de Bever: Thanks, Janis. Good evening. You saw some of the one-year and five-year results, and in order to give some perspective on where we might be heading in the next 10 years, which is really the kind of horizon I look at, I've got some slides here tonight that show where we've been and where we might be going.

First of all, as you saw in the asset mix, the bulk of the assets is either in equities, or stocks, or in bonds. If you look at the graph, you see that the '80s and '90s were an unusually productive period for being invested in stocks; in other words, the average return on stocks after inflation was about 6 per cent in North America. It's not quite as high in Europe, but in North America it was about 6 per cent. Then you see that in the last 10 years, between 2000 and 2010, the return dropped. Of course, the first aspect of that was the dot-com bubble that burst in 2000, and then we had the financial crisis in 2008 that brought equities down again.

So the question is: where is this going to be heading going forward? The problem with an answer to that question is that if we'd known how much return there was going to be in the stock market, I would have pulled you out of stocks in the period leading up to 2010. But the reason you get paid so well in the stock market, on average, is that in the short run the returns are completely unpredictable.

The asset mix still calls for a significant allocation to equities because we don't know whether the future is going to look like the last 10 years or like the 20 years preceding it. We think, on balance, that the returns on equities are going to be somewhat below the average that we've seen for the last 110 years, and the reason for that is that economic growth from this starting point is not expected to be very strong.

Now turning to bonds. We've been in a very unusual situation in that the real return on bonds, which is normally over long periods only 2 per cent after inflation or less, was incredibly high during the '80s, the '90s and even in the last 10 years, and I'll show you in a moment why that is. To show you how dramatic that is, if you had invested a dollar in the bond market in 1900, by 1980 you would have broken even after inflation. Most of the money or all of the money net that's been made in the bond market has been made in the last 30 years. If you had put in a dollar in 1980, it would have grown to \$9 last year after inflation.

Now, part of that is related to inflation. You see in the bottom of that panel that inflation rates have come down since the 1980s. Those of you who still remember the '70s know that it was a period of stagflation. In the early '80s Paul Volcker in the United States and John Crow in Canada started the attempts to reduce inflation, and that trend has continued.

We think that the returns on bonds going forward are going to be very small. Just because the past was so good for bonds doesn't mean that the future is going to be good. What I'm really saying is that it's very likely that, for a variety of reasons, interest rates are going to reverse course. The reason for that is very simple. If you look at the chart here that shows the reduction in interest rates since 1980, you can see that they peaked in 1980. I still remember my mortgage company saying in 1981 that if I hurried, I could still get a mortgage at 21 per cent. Of course, now interest rates, in general, are 2 or 3 per cent.

The reason that the returns on bonds were so high over the intervening period is that as interest rates drop, the old bonds you hold are more valuable because new bonds have a lower yield or lower coupon. It's always very hard for people to grasp, but a drop in interest rates means a high rate of return on the bonds you already hold and, of course, a lower rate of return on the new bonds that are being issued.

Now, when you look at economic growth in Canada since 1985, you can see that the longer term range has been sort of between 2 and a half and 3 per cent. The volatility around that is quite significant. We've been relatively shielded from some of the downdrafts that other countries have experienced, but you can see that since 2008 the growth has been rather subdued, and in part because global growth has been subdued, Canadian growth going forward will be less than what we would like it to be.

There's a demographic component to that. The average rate of growth of the labour force is not what it was in the last 20 years. That is contributing in part to the lower rate of growth, but it's mostly that when you look around the world, the private economy is not growing very fast in most countries and the public-sector economy is not in a position to enhance that very much because the capacity for fiscal expansion is no longer there, meaning governments don't have the money.

Looking forward, what does this all mean for the heritage fund? I think that because of problems that are particularly significant in Europe and the U.S., growth is going to be very subdued. In fact, one of my worries is that in an attempt to deal with long-term fiscal issues, a lot of countries are embarking on so much austerity that it's going to inhibit short-term economic growth, and the principal political issue that that leads to is a high rate of unemployment.

Again, Canada has done relatively well. I would say that Alberta has done much better than the rest of Canada, and the reason for that is very simple. The part of the world that's still growing very fast is Asia, and Alberta has a lot of the stuff that Asia wants: food, materials, energy. So if you have to be in Canada, you'd rather be in western Canada than eastern Canada because of that particular demand component.

Because of the global outlook for economic growth and the fact that our stocks are invested all over the world, the growth rate of the heritage fund from a return point of view is not going to be very high. It's going to be subdued because bonds are going to be subpar in terms of return and even equities are probably not – if we get lucky they will be average, but probably they will not be that high. But again, to reiterate, if you have to be any place in Canada, you might as well be in Alberta because, relatively speaking, we probably will do better than the rest of the country.

The Chair: Thank you.

That concludes the formal part of our presentation. I would like to thank a few people before we open it up for questions from the floor. On behalf of the committee I'd like to thank AIMCo for providing the market update. I would also like to thank the staff from Alberta Finance for providing all of the necessary information regarding the fund and for doing up our slide presentation tonight. Also, of course, thank you to all of the staff from the Legislative Assembly Office who provide administrative support for the committee.

I will now open the floor for questions. We do have two microphones: one to my right, one to my left here. For the record if you can state your name before you begin speaking, that would be great.

Do we have anybody that would like to lead off? Go ahead, sir. Your name?

Mr. Wood: My name is Jim Wood. I live at 181 and 76th Avenue. Mr. Xiao and I have had conversations.

You talked about the money into the trust fund and inflation-proofing. Now, is that new money? Me as a normal citizen: we're advised to put 8 to 10 per cent of our income into savings. That's what the RRSP guideline is, isn't it? Now, would the trust fund not be advised to do the same thing, or is the inflation-proofing 8 to 10 per cent? Should we not put 8 to 10 per cent of our nonrenewable into the trust fund so that after Fort McMurray is all in Texas – that's a different topic; don't go there – then we've still got some of it left here. If we're not putting in that 8 to 10 per cent, maybe we should reconsider.

Thank you.

The Chair: Thank you very much. Just with respect to where the dollars come from for the inflation-proofing, that comes out of the income earned off of the investment.

Maybe I could ask someone from Finance to further explain how the inflation-proofing works.

7:30

Mr. Matheson: I'd be happy to do that. As the chair said, with the current structure of the heritage fund all of the investment income that it earns in a year is transferred to the government's general revenue fund and used. It's another form of revenue to the province to fund program expenditures. It's the same as income taxes and royalties off nonrenewable resource revenues. It's another form of income.

The income from the heritage fund is transferred except that a portion of that income is left in the heritage fund to do the inflation-proofing that you were asking about, and the amount that's left in is based on the actual amount of inflation for the year. So if inflation for the year is 3 per cent, then 3 per cent of the balance of the heritage fund would be left behind, would be not transferred out. The balance of the income would be transferred.

The Chair: Great. Thank you.

Did anybody else want to comment on that?

Mr. Xiao: Can I just make a short comment? This is my constituent, you know. Jim, I want to clarify just one point. I think that from most people I talk to, it seems they are confused with our heritage fund and our sustainability fund. Tonight we're talking about the heritage fund, and by legislation nobody can use the money, but we do have a savings account, which is the sustainability fund. That's the money for the rainy day. I just wanted to clarify that.

Thank you for the question.

The Chair: Great. Thank you.

Mr. Elniski.

Mr. Elniski: Well, thank you. Just a couple of quick editorial comments.

Dr. de Bever, you'll be pleased to know that you've got some friends out there. A couple of people have commented here on the quality of the information that you've been providing. I just thought I'd mention that because they're coming in fast and furious here.

A couple of questions we'll pose. This one is from Paul – and I'll refer this back to my committee member MLAs – and the question is: "Will committee MLAs place pressure on the Alberta Government to reinvest earnings from the [heritage savings trust fund] rather than adding these to the general revenue, thereby allowing the fund to grow?" Anybody want to take that one?

Mr. Quest: Sure.

The Chair: Go ahead, Mr. Quest.

Mr. Quest: Well, I think we need to remember that the heritage trust fund is not the only place that we save money and not the only place that we invest money. I mean, that is, obviously, one option, that that would be the only savings or investment vehicle, but as David Xiao had said a little bit earlier, we have also accumulated at its peak about $17 billion in a separate sustainability fund. Now, it is principally a cash fund, and we have been drawing that down for about the last four years, since the recession hit, but it still has a very substantial value.

The question would be: should the heritage savings trust fund be the only place that we save and invest? My submission would be that, no, we also need to invest in our infrastructures: our schools, our hospitals, our roads. Those are also investments in our future, so I think we need to put it in context.

Mr. MacDonald: May I say something, please?

The Chair: Sure. Go ahead.

Mr. MacDonald: Yes. Thank you. Hugh MacDonald, Edmonton-Gold Bar. Information that was provided to this committee, I believe, by Alberta Finance recently suggested that if we had inflation-proofed the heritage fund since 1976, it would be worth well over $32 billion. Unfortunately, that did not occur. If we are to maintain low taxes for both individuals and corporations in our province and if we are to maintain a high standard of living with fine public services, at some point we're going to have to make a real disciplined effort to increase substantially the size of our heritage savings trust fund before our oil royalties, whether they're conventional or bitumen or natural gas, decline significantly.

Thank you.

The Chair: Thank you.

Dr. Taft: Well, I would just echo the view that I think the province needs a really good, healthy debate about increasing investment and contributions to the heritage fund. The sustainability fund, as my colleagues from the government side have pointed out, is very important. It's played a crucial role in helping the Alberta government weather the recession the last couple of years, but it's a short-term fund. As I think David or somebody said, it's a rainy-day fund. As an Albertan I'm also interested in what is, in effect, an RRSP, the heritage fund, something that's permanent and there long term.

I thought Mr. Wood kind of captured something very well when he spoke about contributing to the heritage fund as if it were an RRSP for the whole province. I for one really encourage the government to contribute a larger amount to the heritage fund, and I'll continue to do that.

Mr. Wood: Just some rough information here. Seventeen billion: that's 17 followed by nine zeros, right? Yeah? Okay. Three million people in the province, right? I'm not a math teacher; I'm an art teacher. Anyway, you stroke off a bunch of zeros, and you're left with $17,000 divided by three. That's $5,000.

Now, this has been in operation since 1976. I started teaching in 1968, and since 1968 I have accumulated in personal wealth RRSPs of $200,000 plus a home that's worth $400,000. In the same time that the heritage trust fund has given me $5,000, I have personally accumulated $600,000.

The Chair: Thank you very much.

I should make a point right now, though. Part of what's really important tonight is that I don't think anybody up here doubts that sometime in the near future we will be having a pretty serious discussion and broad consultation across this province in terms of a savings policy. We have heard discussions over the last several months and some commitments from a new Premier, a new minister that wants to take a look at this fund, wants to take a look at different options.

The point that I want to make at the outset here is that this discussion is really important, and none of your ideas, including yours, Mr. Wood, in terms of 8 to 10 per cent, whatever – it's all very valuable information for us, and I don't think anybody up here would disagree. I see that a lot of the comments coming online are also about just the discussion of whether or not we should grow this fund. Obviously, with that come some significant choices we have to make.

Anyway, I do encourage you to continue with the ideas that you have and know that they will not only be heard by us but also by Finance and will be passed on to the minister for discussions in the future.

Thank you, Mr. Wood.

Mr. Elniski: Madam Chairman, we have a couple of different trends that we're following here tonight. We have a group of people who are having a significant conversation amongst themselves with respect to fixed percentages and contributions in increasing the overall value of the fund.

Then there is a question from Ash which I'd like to pose to the committee. The question is: "The Heritage Fund is to be saved and used for Rainy Days. When is it considered a Rainy Day? When, where, and how would the funds be used . . . and especially [in what] areas?"

We have a strong commitment from people in terms of the savings component, and we have someone here who'd like to know a little bit about what the spending policies are. If anybody wants to pick that one up.

Mr. Groeneveld: Well, I guess that once again maybe we're showing a little bit of confusion between the heritage fund and the sustainability fund. Whereas the sustainability fund certainly is to be used for a rainy day, the heritage fund is more long term and has never been intended to be used unless there are extreme circumstances, and there certainly have been some extreme circumstances.

Having said that, the sustainability fund certainly has helped us through the last couple of years, as Dr. Taft has mentioned. From my way of thinking, the first thing we have to do is build the sustainability fund back up to a point where we're comfortable, and then we start to look at the heritage fund again. Certainly, there is no one sitting up here, I'm sure, or out there that doesn't want to build up the heritage fund, but we have to do it in the proper order.

7:40

The Chair: Thank you.

Go ahead, sir.

Mr. LeBlanc: Simon LeBlanc. I want to run a poll of the eight representatives because I'd like to know where you all stand on the purpose of the fund and where it should go. I think that is the primary discussion tonight, from my understanding. It's not percentages of in or out; it's the purpose.

I thought it had to do with something along the Norwegian lines of an endowment fund like some universities, let's say, where you put in a certain amount. You might grow the principal, but the principal stays there, and you spend the return on an annual basis. Maybe that's the idea. I don't know. I personally don't have a concrete position on it myself, on what is the right and the wrong of it. Personally, you could give me the five grand, and I might be happy to just walk away today, and like Alaska, every year you could give me, you know, my $1,000 or whatever the amount is.

I'm interested to know. Of the eight representatives, do any of you have a firm policy yourself as to what we should do with the heritage trust fund, whether we add more, hold the principal, an endowment fund? I'd like to hear your opinions on this.

The Chair: Okay. Well, who would like to start?

Dr. Taft.

Dr. Taft: Sure. I'll jump in there. There's a lot of confusion around the fund, but I think we need to bring that to an end. My sense of the heritage fund is that it's essentially a way of converting our oil and gas wealth into something permanent, into a financial asset.

My position, a position, certainly, that I've encouraged the Alberta Liberal caucus to take, is to work towards contributing 30 per cent of nonrenewable resource revenues into the fund every year, which is actually where it started in 1976. Don't put a cap on how big it gets, but live off the earnings. If it earns a billion dollars, put that into the treasury. It allows us to keep our taxes low and our services of a good quality, and it would allow us to do that permanently. It would be an escape from the wild swings of oil and gas revenues and sooner or later from the decline of that flow of wealth.

Now, I'll just finish off by saying that I was just at a symposium the other day where a paper was presented on different models of managing funds like this, and there are several different ways to do it, some that are better than others. While I've got a clear position – I think the Alberta Liberal caucus generally does – we should listen to the real experts on it.

Clearly, in sum, we need to contribute substantially more than we are to the heritage fund, I believe, and use it, essentially, as an income fund to offset taxes and the cost of quality services so that we can have the Alberta advantage, as it were, forever.

The Chair: Mr. Elniski.

Mr. Elniski: Thank you very much. First of all, I'm quite interested in the question, and I was quite interested in Dr. Taft's response as well. I'm also a strong believer that the net value of the fund should be allowed to continue to grow. I don't think that's ever been a particular issue. It is tomorrow's money. It is, as has been described this evening, your RRSP, and the revenue from that, whether it should roll back into the fund or not, depends on a whole bunch of different factors.

The practical reality on the ground, though, is that as you make the decision to save, you have to make the decision to reduce spending in other areas.

Dr. Taft: Or increase taxes.

Mr. Elniski: Well, I'm not with you on increasing taxes at all.

You have to do one of the two things. You have to make conscious and structural decisions with respect to whatever you want your financial world or your financial vision to be. I mean, we have a fund that has now a value of some $15 billion, which is a very, very significant amount of money. It's allowed people, as a result of it being there, to have some security in terms of things like being the only province that does not have a provincial sales tax, allowing people to accumulate wealth in terms of their home ownership and security of tenure and security of employment.

It's been a pretty good fund. I don't think you can ever get a fund like that that's too large. But, you know, you always have to balance the two things off. I mean, it's a little bit of: how large a fund do you want, and how wide do you want the freeway to be? It's always going to be a compromise in that respect.

The Chair: If I can just add to that, I agree. It really is about: what are we willing to give up, or what are we willing to do differently? Right now we are governed by legislation that says that the purpose of this fund is twofold. First, it has to benefit the present generation and, secondly, that the capital is there for future generations. So on an annual basis we take that income, inflation-proof it, and the rest of it goes into general revenues, as we mentioned, and allows us to keep our taxes low and to pay for programs and whatnot.

I do look forward – I think Albertans are ready for this discussion. We had also heard, I think from Mr. Quest, that on average it's a billion dollars that this contributes to our budget, so the big challenge is: what are we willing to do differently to allow that money to be reinvested?

Mr. Groeneveld: I think it's a pretty consistent message that you'll probably hear from all of us. We heard, probably largely through the leadership campaigns of the various parties, how we might do this. As you know, there's one party out there right now that is advocating that we grow the fund quite large but cut taxes at the same time. I'm not going to make fun of Dr. Taft, because he's absolutely right. Another alternative is that we have to have more taxes if we're going to do that. There's going to be some suffering out there with some of the programs, probably a lot of the social programs, because most of the other ones are pretty much cut to the bare bones right now.

It's an interesting debate. We'd all like to see the fund grow. Just exactly how we're going to get there is a little bit of a head-scratcher.

The Chair: Go ahead, sir.

Mr. Trant: Good evening, ladies and gentlemen. My name is Ron Trant, and I would like to direct a question. I'm not sure who's going to answer it. To what extent is there political direction given to AIMCo, through whatever mechanism, as to what would be an ethical investment? The reason I'm asking that is that the financial annual report talks about the investment policy, which is asset class, diversification, et cetera.

I heard on the radio today that many government departments, including the heritage trust fund, have been ordered to divest themselves of tobacco manufacturers, which may in fact be a very profitable investment, so that the Alberta government can turn around and sue tobacco companies, and it would be a bit of an embarrassment if they were suing a company which they owned. I would like to know how political direction is given to AIMCo as to who they can and can't invest in.

The Chair: Okay. I think maybe we'll approach this two ways. Mr. Matheson, I wonder if you could start. Because Alberta Finance is responsible for investment policy, maybe we could start with you and then go to Dr. de Bever to talk about the day-to-day management and decisions they make with respect to ethical investing.

Mr. Matheson: Certainly. Yes, the framework is such that the Minister of Finance provides to AIMCo broad investment policies through a statement of investment policies, and that does include, as you said, information around the asset allocation and how much should be invested in stocks and bonds and real estate and infrastructure.

With respect to the government's policy on ethical investing basically in the direction the government provides to AIMCo, the objective is to earn the highest rate of return subject to appropriate risks. To do that, AIMCo needs the latitude to make the investments. The government is basically comfortable giving that discretion to AIMCo with a few broad parameters. Clearly, investments should be legal in Canada. We don't want AIMCo breaking the law. The government wants AIMCo to make the highest possible return. Perhaps Leo will comment on this. There's often good correlation between the rate of return you earn and good governance and good business anyway, so good, ethical investments usually are the ones that have the higher rate of return. From that point on, then, basically we ask AIMCo to carry that out.

I don't know if you'd like to go from there.

7:50

Dr. de Bever: Yeah. The only formal direction we have is with regard to tobacco. The point that Rod made about ethics and investing is an important one. I would say that 80 per cent of the investments that could be remotely seen as unethical would fall out of the investment process because they are not good business risks. If I invest in a company that is likely to incur liability – and tobacco is a good example – in the future, then investing in it now is probably not going to have the highest long-term returns.

The universe of stocks that is by anybody's standards unethical is pretty small, actually. It's only about 2 per cent of the outstanding stocks in the market, but I would say that the fundamental protection against anything remotely unethical is the fact that from an investment point of view it doesn't make any sense. But I would like to point out that what is unethical in one country may not be seen quite the same way in another, and that's why it's so difficult for the government or anybody else to set general rules that I can live by to decide what I should and should not invest in.

I'll give you an example. In some countries Barrick Gold is seen as an unethical investment while in Alberta that wouldn't be the agreement. In some countries pretty soon they may forbid investment in the oil sands. We certainly don't see it that way.

Ethics is all about whose particular point of view you respect. When you are in the position of the government, you have to pick a definition of ethical that is widely shared by Albertans, and that is a very, very difficult thing to do. I would say that even in countries where they do have strict rules, I sometimes wonder about the consistency of those rules.

For instance, there is one country that doesn't like their oil and gas fund to invest in certain companies that make aircraft, but they buy those aircraft from those same companies, so that is not terribly consistent. If you're going to be virtuous, I think you have to be consistent in how you express your virtue. If you don't like the company, then don't buy the product.

We've come across a number of cases where that is not the case, where on the one hand they buy the products and on the other hand they say that the company is an unethical structure. That's where ethics gets very dicey. But, again, I want to reiterate that most of the decisions about ethical or unethical flow out of the normal investment process because you don't want to be invested in anything that from a return point of view is not going to be there because it engages in activities that most people would consider to be unacceptable.

The Chair: We have a question here online from Cathy Hamilton, which may have already been answered fully. Dr. de Bever, you can tell me if you have anything to add to this. Cathy says, "I've heard that the Fund is no longer being invested in tobacco companies for legal reasons – is any consideration being given to focusing on ethical investments?" I think that ties in very much with what you just finished describing. Is there anything you'd add?

Dr. de Bever: In other words, other ethical investments? Oh, I see. Is she asking whether we would put more money in ventures that would be considered very ethical? Is that the nature of the question?

The Chair: Yeah. I guess we're not clear, but I would assume so.

Dr. de Bever: Well, again, that's the flip side of what I just said. If you have a company that makes a very good product with a good social value that's likely to acquire a broad constituency, it's likely to be profitable, so you would have a good investment in that.

It's kind of interesting. When the government told us some time ago – it was about a year ago, and we implemented it over time – to divest of tobacco companies, we only had $24 million or $12 million in direct investments in tobacco companies. It comes back to what I said before. Because of the liabilities or potential liabilities of tobacco companies they don't make for good investments.

The Chair: Great. Thank you. I'll go to the right mike now.

Mr. LeBlanc: Hello. Simon LeBlanc. I'm a bit shocked. Apparently, no one within the Legislature as represented by the eight of you would even consider ending the heritage trust fund and giving me my $5,000 back. Is this, in fact, true that there is not one person in the Legislature who is a libertarian, I would call him or describe that person, who would say: "Why in the heck do we have this fund? Give me my money back." Is there no one in the Legislature that advocates this kind of a position, or is it automatically, like God, that we must have a heritage trust fund?

The Chair: Dr. Taft cannot wait to answer this.

Dr. Taft: Well, I would really take issue with that policy, with that idea. I would oppose it actively. Our wealth in this province, our petroleum wealth, comes from a resource that we own as a government and as a society. That was a decision that was made. You can go through the history of Canada and the history of Alberta. We as a society collectively own that resource. I, for one, and I think most MLAs – I won't speak for others – and most Albertans understand that that collective wealth should be used to the benefit of all of us, including future generations. To just hand out cheques, as Alaska does, is I think laden with social, moral, and ethical challenges.

Frankly, when you speak to experts on the Alaska fund, it hasn't done a whole lot for Alaska other than to generate annual sales at Walmart and Crate and Barrel that correspond exactly with when the cheques are issued. It hasn't done much for their universities. It hasn't done much for their infrastructure. You can be sure that I would oppose the idea you're bringing forward.

The Chair: Did anybody else want to comment on that before we go to the next mike?

Mr. Xiao: I would like to make a very brief comment on this issue. You know, probably you will all remember in the last leg of former Premier Ralph Klein's era the way everybody received $400, right? That money is gone. We wish we could have that money to help carry us through this difficulty. That's just a short period, though.

I think, you know, as the current generation we have already benefited a lot from our natural resources: jobs, for example, and also good income. As a government we collect a lot of tax revenues from individual income taxes and from business income taxes.

Just to answer your first question, Jim. You know, I have a dream that someday we can put all the revenue into savings for future generations. Because when we run out of all the resources, there will be no jobs left for them in this sector. So what do they do? We've got to save the money for the future generations, and the key is to diversify our economy. We can grow the pie and grow the economy. I think that's the solution. It's not just to enjoy and have an overnight party.

The Chair: Thank you.
We'll go over to this mike.

Ms Stanley Venne: Good evening, lady and gentlemen. My name is Muriel Stanley Venne. I want to ask a simple question that perhaps other people will be asking, and that is: what is the cost of administering this fund?

The Chair: Thank you very much.
Who would like to answer that down there?

Dr. de Bever: It's about .4 per cent of the value of the assets. By standards of asset management that is pretty low. In fact, one of the reasons for creating AIMCo is that if you have a very large pile of money – and it's not just the heritage fund; you have the $15 billion plus $55 billion in the sustainability fund and the pension funds that we manage – it significantly reduces the costs of managing money. The fact that we are able to attract very competent managers ourselves at a much lower cost than we could contract the same job for externally keeps the costs down. So .4 per cent of the assets of the fund is required to run it.

If you as an individual were to invest in an electronically traded fund, which is to retail investors the cheapest way you could invest, the money wouldn't be much less than that. In fact, depending on what you invest in, it could be higher. The alternative, in terms of an indexed investment, would be somewhere around .3 per cent.

The Chair: Did you have another question, Muriel?

Ms Stanley Venne: Well, yes. Just hoping for a simpler answer in real numbers. You're using percentages, and people get paid very well for the work they do in regard to this fund. For all the other Albertans that are listening, could you put it in real dollars?

8:00

Mr. Matheson: Yeah. I'm looking at the financial statements for the heritage fund for the year ended 2011. The total investment expenses for the heritage fund were $72 million, which, as Leo said, translates to about .48 basis points, or .48 per cent.

Ms Stanley Venne: And it is in this report?

Mr. Matheson: It is on page 33 of that annual report.

Ms Stanley Venne: I didn't have a chance to review it, but I would appreciate that point to be made with the people who, like me and like all Albertans, pay a lot of taxes.

The Chair: Thank you.

Mr. Wood: There's no page 33. Page 16 is the end of the book.

Mr. Matheson: Sorry. That's page 33 of the annual report.

The Chair: Yeah, that's in the annual report, sir.
We'll go over to this mike. Thanks.

Ms Hawkins: Good evening. My name is Sarah Hawkins, and I'm here today representing the Canadian Cancer Society. On behalf of the Canadian Cancer Society and several of our partners within the health community I'm just here to applaud the government of Alberta and AIMCo for your leadership throughout the country, really, in choosing to divest tobacco industry stocks from the government's investment portfolio. We believe that the government should not be investing in companies whose products have such a negative impact on our quality of life, on our health care system, and, in the end, on our economy. So thank you for taking leadership in this regard.

The Chair: Thank you, Sarah.

Mr. Elniski: We'll take a look at a couple of questions online, and then we'll come to you, David. Okay? You don't mind? Thanks.

We have two questions here with respect to both the Norway and the Alaska funds. Mike and Paul are both asking about the long-term strategy for Alberta and whether or not it, in fact, would follow the Norway or the Alaska fund. Would someone have a response to that? Maybe Mr. Quest? Thank you.

Mr. Quest: Sure. Thanks, Doug. It's always difficult to make comparisons with other jurisdictions or other countries. I always find this question interesting, but just as Dr. Taft was saying earlier, I don't think it's really benefited Alaska, the way they've handled theirs. They have a much smaller population than we do. They still seem to be able to manage to run periodic deficit budgets and so on.

The Norway example, I think, is the one that we hear the most of. We're a province and they're a country, so they're not operating within a federal system like we are. Our transfer payments out of this province into the federal system are anywhere from about $8 billion a year to $20 billion a year that leave Alberta. If you multiply that over a number of years, you can see where – and it's difficult to make comparisons. Our province was about $20 billion in debt in 1994. Since that time, we've not only come out of debt – there is no debt in Alberta – but we've actually accumulated about $25 billion in savings between the sustainability, heritage, and endowment funds. So we're up about $45 billion in the last 17 years.

Norway has a 25 per cent sales tax. In Alberta we have, well, 5 per cent if we count the federal GST. Norway has a 1 per cent asset tax. We can go back to the gentleman – even if the only asset you had was your house, you'd be writing a cheque to the federal government every year in Norway for $4,000. They have amongst the highest corporate and personal income taxes in the world. We cap out in Alberta at 39 per cent, between combined federal and provincial. Norway is 50.

They are entirely different scenarios between what happens in Alberta and what happens in Norway. Also, Norway's accumulated savings include some of their pension funds and other assets, which would be more comparable to what AIMCo is managing for us in Alberta at $70 billion.

So, again, I always find that comparison interesting, but there's no way you can really compare what we're doing in Alberta, except our saving strategy, with a country like Norway or a state like Alaska.

The Chair: I'll just add to that. I think the other comparison that is worth thinking about is that Norway is quite an established country, and we're quite a young province with some high infrastructure needs. As Mr. Quest pointed out, there is a lot of information that has to be considered when we're not really comparing similar funds here.

Anyway, why don't we go to the left mike here.

Mr. Despins: My name is David Despins. I'm a resident here in Edmonton, also in the home constituency of Edmonton-Calder. First of all, I'd like to applaud the management team of the fund, who provide a competitive rate of return for Albertans. Through my own personal portfolio, it seems that we've done quite well given the circumstances.

My question, in particular, is one of policy in regard to real estate allocations for investments. The fund has an international outlook and a global context and real estate holdings across Canada. I was thinking in terms of the outlook going forward in Alberta, when we expect a build-up period when the development of the oil sands gets into full swing in the coming decades, that real estate will likely appreciate in Alberta as well and more so in the Edmonton-Calgary corridor. Given that the fund's outlook is also for the long-term needs of Albertans, could some of that asset allocation in real estate be considered bringing home those dollars for investment in some strategic long-term strategies to help enhance quality of life for Albertans, perhaps a transportation corridor for high-speed rail or something?

Anyway, that's just my thinking.

The Chair: Does anybody want to comment on that?

Okay. Have you got another question here?

Mr. Elniski: Well, we certainly do. We have a question that comes in from Richard, and Richard's question is: "Why doesn't AIMCo come up with a formal policy about what is and isn't considered to be ethical to guide them? That way these decisions would be consistent on what can and can't be invested in." The reason I would like this question talked about a little bit tonight is because I think there's a little bit of confusion about what AIMCo's role is in the grand scheme of things.

We should pass it on down to the Finance ministry, perhaps, to talk about this?

Mr. Matheson: Well, I mean, I think I'd probably refer this to Leo. The question was about AIMCo and whether they have policies. As I said, the policy that the government delivers to AIMCo is still at a very broad level. Then AIMCo establishes what they think are good, worthwhile investments.

Dr. de Bever: Our governance follows what is called a prudent-man rule, which means: what would a reasonable person invest in if it were his own money? That's sort of the notion.

The ethics question in that context is a bit different because what we individually might think of as being ethical or not really is not what I can take guidance from. I mean, I will up to a point, of course. I will not knowingly invest in something that by any standard is unethical. But basically we are not issued with any restrictions other than: if doesn't pass the smell test or the *Edmonton Journal* test or the *Calgary Herald* test, then you probably should stay away from it.

The Chair: Okay.

Dr. Taft would like to comment on this.

Dr. Taft: Sure, just ever so briefly. To those in the audience and anybody watching, I think it would be interesting to hear your feedback on guidelines that this committee, which is the legislative committee on the heritage trust fund, might want to provide on ethical investing. This issue came up at the last heritage fund meeting we had, and I do want to congratulate Dr. de Bever on, after that meeting, pulling the fund out of some other investments that included war materials and other nonethical funds.

It's a difficult issue. What is ethical? What are our ethics versus other people's ethics? This committee, I think, could have the mandate of reviewing that, but really I think we would be driven largely by the views of the people of Alberta. I would encourage you to let us know what you think. Where do you feel this province should be on ethical investing, frankly, if anywhere? Maybe you don't think it should be considered.

The Chair: Thank you.

Mr. Wood: Are we finished the topic of ethics?

The Chair: Oh, we might get back to a few more questions regarding that.

8:10

Mr. Wood: We might come back. Okay.

I'm going to carry on. Mr. Xiao and I have had this discussion before. Alaska has the north shore. Norway has the North Sea. Alberta has Fort McMurray. Newfoundland has Hibernia. Where did Newfoundland come from? Well, Newfoundland has a brand new lady Premier. I, unfortunately, forgot her name, and somebody with a computer over there can google it for me in an awful hurry. Anyway, what's that lady doing? That lady is spending Hibernia to build a new hydroelectric dam up at Churchill Falls, another one. What for? Because in 10 years, 20 years Hibernia is gone; Churchill Falls will last. Who knows?

The heritage trust fund provides for the future. This lady is taking that money and putting it into hard assets. Now, this is a political decision; it's not a bureaucratic decision. Do any of the politicians have enough vision, enough forethought? Franklin Delano Roosevelt built the Hoover dam. What was the southwestern United States before the Hoover dam? Nothing. Now I can holiday in Arizona. Saskatchewan before Tommy Douglas. Winnipeg before Duff Roblin. Winnipeg before Duff Roblin was a slough. I'm talking about politicians who have vision for the future.

Alberta, I think, should have some hard assets. Liquid assets are fine. Mr. Bureaucrat, Mr. Politician, hard assets give income well into the future because they keep giving. They keep giving. They keep giving instead of Alaska with $400. Has anybody ever thought of these hard assets?

Mr. Xiao, we've had this conversation. I have letters for you, and I will ask you to deliver them for me after the meeting.

Thank you very much.

The Chair: Does anybody want to comment on that? No?

Okay. Let's go over to this mike.

Dr. Ascah: Madam Chairman, my name is Robert Ascah. I'm the director of the Institute for Public Economics at the University of Alberta, so I follow this subject matter quite closely. Dr. Kevin Taft was mentioning a symposium we organized last week at the University of Alberta.

I'll just maybe make some reflections and make some comments. The first comment is on the nature of nonrenewable resource revenue, which initially seeded the heritage fund. As the Emerson report talked about, this is very different than ordinary tax revenues. Once you sell the quarter section, it's gone, and you can't sell it again. That is, I think, one of the fundamental reasons for a savings plan and a plan that does acknowledge that we have children.

The second kind of comment I would make is whether in our overall budgeting system – and I know this isn't the province of the heritage fund committee – they need to think about: after a year has gone by and we've had a bonanza on oil and gas revenue or not, then we can maybe decide on spending the money. I think it is very important that we think about paying ourselves first. That's that *The Wealthy Barber* issue, putting money aside before it's committed.

Another comment that was made by one of the MLAs was about investments in schools, universities, roads, and so on. One of the things, though, that we need to be clear on is that investments of certain types, like hospitals, are a kind of negative annuity, which means that you build a $300 million hospital, and you're going to be spending $30 million or $40 million a year. You need to know how you're going to fund that over the long period of time.

Another comment I would make. I'd be interested in Rod's or Leo's view. The transformation from kind of a fund that was focused more on Alberta to a fund that's more of an endowment focus over the long term – you've had a lot of volatility in investment revenue. I think that it's important, again, to think about whether we need to smooth that investment revenue with downturns in the stock market, in particular.

Finally, the statement of investment policies. I assume that that's public? It is. That's maybe something that's important for Albertans to be educated a little bit more on because, again, I think one of the functions of these forums – it's important to have the dialogue with the public on what, in fact, we're trying to accomplish through an investment policy.

I don't know if there are any questions in there. I just wanted to make a few observations.

The Chair: Great. Thank you very much.

Did anybody want to comment on that? Okay. Go ahead, Mr. Matheson.

Mr. Matheson: To answer the one question that you did have, the statement of investment policies for the heritage fund is a public document, and it is posted on the website for the heritage fund.

Dr. de Bever: On the question of the volatility of revenues, clearly, if you go for a higher return asset mix, that brings in the volatility. The solution to that in terms of how you deal with that in the long run is to – I think it's something Dr. Taft mentioned. The way you usually work an endowment is that you let the thing accumulate, and you draw a fixed percentage or a semi-fixed percentage of the total amount every year. That's how you smooth the revenue flows that go to whatever application you decide on. I think the answer is not to smooth revenues from a standpoint of smoothing return because that would likely be a much lower return. So that's the way I would answer that question.

The Chair: Great. Thank you.

Mr. MacDonald has a question or a comment.

Mr. MacDonald: Yes, I do. Thank you, Madam Chair. This is the detailed list of investments from the heritage savings trust fund that is on the Internet. I believe, through my research, that it's there going back to 2006, and I would encourage each and every one of you to check out the detailed list of investments and the various schedules. That gives you the information on where we hold the investments.

Certainly, I have a question for the AIMCo officials regarding private real estate, the schedule of the detailed list of investments. There are many, but one in particular, WAM Development – going back to 2006 the heritage savings trust fund held $26 million worth of investments through private real estate in WAM. It went up, and by 2009 we had $101 million in investments. It's gone down this year, the year ended March 31, 2011, to a little over $80 million.

WAM Development purchased in June of 2009 two properties located in downtown Edmonton for $30 million. These properties potentially could be used for the development of the proposed downtown arena. My question would be to the AIMCo officials. What are these private real estate holdings that are held in WAM Development in the Alberta heritage savings trust fund, and was any of the $80 million held in the year ended March 31, 2011, used to finance the lands that are being considered for the proposed downtown arena?

Dr. de Bever: The plans for the downtown arena seem to be shifting quite rapidly, so we can't really play a role in that in the way you mention it. That's not the purpose of why we're holding those assets. There is some land that is in the same area that has been discussed with the University of Alberta as a potential site for a downtown campus. But the particular investment you're talking about, I don't know exactly.

The value goes up and down not just because of the fixed stock of investments; it goes up and down by buying and selling various components. I hope you'll forgive me that I don't know the details of 1 out of 3,000 or 4,000 different holdings we have, but if you're interested, I can give you more information on that off-line.

Mr. MacDonald: I certainly would appreciate that.

If I could go back on the list, Madam Chair, I have other questions as well.

8:20

The Chair: Mr. Elniski.

Mr. Elniski: Thank you. Our next question will come from Ash, and I'll put this to the folks from AIMCo. Essentially, they're asking if the other funds that are under AIMCo administration – and I realize that this takes us a little bit away from the purpose of the meeting tonight – are in fact performing as well as the Alberta heritage savings trust fund, if there is some consistency there.

Dr. de Bever: The performance of any specific fund will depend on the instructions that they issue for us on what to invest in. For instance, the heritage fund has for a long period been involved in things like private equity, which over longer periods of time tends to work well. Certain other pension plans have not, or they got involved late in the game, and lately the returns on that asset class haven't been great. I think that most of the pension plans have a very good allocation to real estate, which has been the best performing asset class over the last 10 years. So the answer to the question depends very much on the specific allocations that the funds have given us.

Generally speaking, the heritage fund is in the nature of a balanced fund, meaning that the allocation is roughly, give or take, 60 per cent equities or stocks and 40 per cent fixed income or bonds. The returns have been similar but not identical because of the details in specific allocations. Some pension funds might have a larger allocation to the stocks in some country rather than another, or they might have a bigger allocation to government bonds rather than to corporate bonds. So those differences will at certain times cause a certain divergence of results. Generally speaking, over time the results tend to be very similar.

Mr. Elniski: Thank you very much.

If I can take you back to the questions that have just come in here. Richard asks if it is possible for us to know, for example, with most of the companies that we invest in, that we are not in fact investing in things like land mine production and stuff. Would that in fact be a trigger for us not to invest in a particular organization? How far away from that organization would we go in terms of that investment?

Dr. de Bever: As I mentioned before, the unethical components, broadly defined, are only 2 per cent of the outstanding listed stocks in the market. So it's pretty small. You can look up the specific listings that Mr. MacDonald was referring to, but you have to again be very careful how you treat that. Say you consider a certain company unethical. Does that mean that the bank that is supplying that company with credit is unethical, too? So where you draw the line on this gets very, very tricky. The listing is in the annual report, but I think too much is made of this issue in the sense that it is easy to spend a great amount of time on what effectively is a relatively minor problem.

In fact, the reason I divested of the things that were mentioned in the heritage fund meeting last time, altogether amounting to something like $20 million: I didn't do it particularly because I agreed with the assessment of what was ethical, but if I spend 5 per cent of my time on .001 per cent of the assets, that's not a good use of AIMCo time or AIMCo management time.

The Chair: Thank you.

I should say that there are some comments here. It appears that ethical investment has been of high interest, but there are comments here that they're really appreciating the information they're getting tonight in that area from both Finance and AIMCo.

Hugh, did you want to go back to a question?

Mr. MacDonald: Yes. Thank you. Many of you don't probably realize that AIMCo is exempt from the Lobbyists Act. I sit on a committee that's reviewing the Lobbyists Act. Whether the $70 billion pool of investment income for the government and for various pension funds is exempt from the Lobbyists Act is a good thing or a bad thing, that's debatable. For that reason I think these public meetings, like the one that you were kind enough to take time out and come to tonight, are very, very important. As an opposition member I feel I also have the right to ask questions to the treasury officials and to the officials from AIMCo.

My next question would be around, again, enterprises or corporations like WAM Development. How does the process work for an enterprise to approach AIMCo to possibly get them interested in one of their projects or potential investments? How does that process work?

Dr. de Bever: There is no fixed process. Sometimes opportunities come to us by people who say: "Look. I've got this opportunity. Would you like to take a look at it?" Sometimes we see certain opportunities and approach companies or organizations. But the process that follows that is always the same. We go through the investment merits, and we say: "All right. What is the potential return? What are the risks? What is the downside?" In other words, in certain jurisdictions it is more difficult to invest or more dangerous to invest than others. At the end there is a decision framework within AIMCo, and if the amount is large enough, at the AIMCo board level, to decide whether to proceed with this investment. So there is a very firm process.

To suggest, as you did a minute ago, that for some reason we should be registered as lobbyists, it's kind of hard to conceive in what sense we are acting as lobbyists. We're acting as any other investor that takes advantage of opportunities in the market. I don't think we're lobbying anyone to do anything.

Mr. MacDonald: I'm not suggesting that you are. But there are people, obviously, that approach your organization, your Crown corporation, with suggestions. Do pensioners and taxpayers have a right to know who approaches you?

Dr. de Bever: Well, I don't know whether every approach needs to be recorded. I must tell you that the reason I took this position is that the segmentation between what is political and what is commercial was made very clear, and the AIMCo model is among the best in the world in that regard. I must tell you that under no circumstances has anyone in government or anyone connected to government or anyone who sought a favour from government sought to influence me in terms of making a decision. I get lots of e-mails from people who tell me that if I don't invest in their stuff, they're going to tell the Premier on me, but that's not lobbying, okay? I ignore that.

The Chair: Mr. Elniski has a question.

Mr. Elniski: That's a very good segue, Leo. I appreciate that.

One of the things that we commonly hear from constituents and from organizations has to do with: how does the heritage fund and how does the heritage fund policy actually impact the diversification of the Alberta economy? Do we have a policy around that?

Dr. de Bever: When I give presentations, there's usually one slide in there that says: to be or not to be in Alberta. What I mean by that is that when we see an opportunity in Alberta that on commercial terms makes sense to invest in, we will invest. If we see an opportunity somewhere else, we will invest there. But under no circumstances will we make an investment in Alberta if the return is not commensurate with what we could earn for the heritage fund or for the pension funds anywhere else.

Now, if the province has a policy of making it attractive to do certain things, it could do that. Ontario does that as well. Right now, for instance, Ontario has a policy of investing in certain green energy projects. You factor that in in the total return. In other words, you look at the total return, including the incentive, and if it makes sense, you do it. Otherwise, you don't.

We don't do what's starting to happen in a number of American states, for instance in California, where some pension funds are basically being asked to invest in certain projects on concessionary terms. That's in conflict with my prime objective. Both the pension funds and the heritage fund ask me to invest for the highest possible long-term, risk-adjusted return, and that's all I'm sticking to.

Mr. Elniski: Thank you very much.

The Chair: Mr. Groeneveld.

Mr. Groeneveld: Thank you, Madam Chair. Personally, Dr. de Bever, I congratulate you and AIMCo for what you've managed to accomplish in the last few years during the downturn in the economy where we still managed to hold our own or, indeed, sometimes managed to get a decent return on our investment.

8:30

I would like you to touch just a little bit – and I know you use a different term than I do. I would call it a mixed portfolio. But when we get back to the ethical part of some of our investments – I think I know the answer to this question because I've asked it before – if you really dug deep into our mixed portfolios, I'd say that we would probably come up with a very small portion of funds that couldn't be debated as to whether they're ethical or not. I know you have a different term for that, but I'd just like you to comment on that a little bit.

Dr. de Bever: Well, the component is very, very small. Right now it primarily arises because sometimes investments are bundled in what are called market index funds, or, if you're a retail investor, ETFs. You buy a whole market with one transaction. So there's a little bit in there, but it's very, very small.

I'd like to see the offset to that. Maybe it comes back to the question someone else asked a little earlier. Do we invest in things that are particularly laudable? Well, we do but not because they're particularly laudable. That's not our sole objective. If it's laudable but not profitable, I still can't do it.

We are invested in a number of companies that in the long run we feel might provide a solution to some of the energy issues we have; for instance, one company that produces synthetic oil out of biomass, which becomes carbon neutral. We invest in some forests that produce wood pellets that are burned with coal in coal plants to make part of the fuel carbon neutral. So there are things that are on the other side of the ledger if you have to think in pluses and minuses.

The negative or unethical part or whatever you want to call it is really minuscule. It's not that I say that we shouldn't discuss it. I think that if the province of Alberta or the population of Alberta can come up with a consistent view of how to interpret ethical, I'm quite willing to manage to that, but without that, I must use some broader rules and make an assessment as to where to draw the line. I would say that if you were to look at our portfolio, there is very little in there that would by any stretch of the imagination cross the line.

The Chair: Thank you.
Mr. Elniski.

Mr. Elniski: Yeah. One of the commentaries that comes across here from some of the folks that are online is a very interesting comment that has been made a couple of times now, and that has to do with whether or not we would consider a review of the royalty regime to in fact be part of the public policy question on the investment strategies for the fund.

I'm not sure who down at that end of the table would like to comment on that, but I'm sure people would be quite interested in hearing.

Dr. de Bever: Can you repeat the question?

Mr. Elniski: Yes. Essentially, the question being asked here is that people are wondering whether or not, in fact, a review of the royalty regime for oil and gas would be part of the public discussion on the long-term investment strategy, well, in this case for this particular fund.

The Chair: That might be a political question. Does someone on this side want to answer that question? No comment? Okay.
Hugh, you've got another question?

Mr. MacDonald: Yes, I do if you don't mind. Thank you.

I'm again going back to the detailed list of investments from March 31, 2011. On the first page are the schedules for each asset class. I notice that whenever I compare this year's list with the year ended March 31, 2010, there's a new schedule created in inflation-sensitive and alternative investments. It's called private debt and loans. It's schedule L, and it has a cost of $75 million.

Dr. de Bever: It has a fair value of $75 million.

Mr. MacDonald: A fair value, yes. On the back page of schedule L, page 103, I see a partnership listed there, a numbered Alberta company, 1535145 Alberta Ltd., with a description of 53-plus million dollars. Can you explain that, why we started that this year? What's that all about?

Dr. de Bever: Yeah. In terms of the details you and I should have lunch, and I'll be glad to walk you through some of the details.

The reason that that category shows up is that every five or seven years there's a period of about two or three years where private debt, which backs, say, private equity transactions, is particularly lucrative from a risk/reward point of view. We have established a capacity to access that particular area, and we will probably do so for the next two or three years, which we expect to be the current cycle where that investment makes a lot of sense. That's in broad terms what the asset class is all about, the specifics.

We work with two or three companies, and sometimes for a variety of reasons, including protection against the extra-territoriality of U.S. legislation, we park these things in numbered companies to prevent any kind of implications for the rest of the portfolio should these investments be questioned under foreign tax jurisdictions.

Mr. MacDonald: Who owns and controls the numbered company?

Dr. de Bever: We do.

The Chair: Thank you.
Mr. Elniski.

Mr. Elniski: Good. A question has come up twice, and I'll put this down to the folks in Finance. This is EduAFF asking the question, and the question is: "What was the rationale for 'suspending' the Access to the Future fund held within the [heritage savings trust fund] if our rate of return was so good?"

Mr. Matheson: I'm not sure of the question because I'm not aware of any suspension of the access to the future fund.

There was a billion dollars injected into the heritage fund, which forms the principal, if you like, for the access to the future fund, and a portion of the income out of the heritage fund equal to 4 and a half per cent of the original billion dollars is still taken out every year and provided to the access to the future fund for purposes of meeting the objectives of that fund. I'm not sure what the suspension part is.

The Chair: Actually, we need some clarification on information on that question, so I would encourage that person to contact us, and we could get more information.

Mr. Elniski: We could use some technical support from over there right now, too, please.

The Chair: Yeah. We just lost some contact.
Is there anyone out here that would like to come up and ask anything?

Mr. Allred: I'd just like to make a comment and then a question. Some of the questions have sort of implied that maybe we should have more rules on our ethical investment. One of the worst things government does is set a whole bunch of rules and ends up with our bureaucracy making stupid decisions because they follow those rules to the letter. I'm a firm believer in hiring very competent people and giving them the discretion to make the best judgment that the particular case requires. I think that's what's happening, and I salute Dr. de Bever for his response to that.

My question is with regard to the original concept of the heritage fund. I think Dr. Taft mentioned that it was intended to put 30 per cent away. I believe there were four principles to the heritage fund. One was for a long-term investment for the future, when our nonrenewable resources are no longer providing any revenue. The second was to diversify the Alberta economy. The third, I believe, was to create some investments in things like I believe it's called the Alberta medical trust, under something like that, things of major value to Albertans. The fourth and a very small part of the intent of the heritage fund was as a rainy-day fund. I think that it was less than 10 per cent.

I guess my question is: has the select committee ever recommended to the Legislative Assembly that we move back towards those founding principles of the heritage fund?

Thank you.

8:40

The Chair: Okay. Would anyone like to comment on that? Go ahead, Dr. Taft.

Dr. Taft: I don't want to hog the mike here.

Good points, Ken. Speaking personally, I wouldn't want to go back to all four of those principles. I mean, it's kind of interesting that you opened your comments by being concerned about too many rules on investors. If we were to start giving them goals of diversifying the Alberta economy, quickly we're into, wow, you know, a whole lot of complication. I would support going back to the notion of investing 30 per cent of our nonrenewable resource revenues into that fund, with the long-term security of the province financially being the goal.

The Chair: Thank you.

Mr. Groeneveld: Well, Ken, I think that we have to define the role of this committee. This committee isn't really set up as such to advise the government on how to invest money. We are more of an overseer to see how Finance and, indeed, AIMCo are performing with the fund. Certainly, we do have discussions on that, and from that I'm sure some of the discussions move off to the ministries.

But this board on its own: I don't think the intent of this board is to make decisions on where we fund. We get into some pretty interesting discussions with some of our friends from the Liberal Party sometimes, but usually at the end of the day we see the same light at the end of the tunnel. I think that maybe you're getting a little bit confused about the role of the board.

The Chair: Dr. Taft, did you have a question?

Dr. Taft: Sure. Just to take it in a little different direction, this would be for, I suppose, Dr. de Bever. It seems to me that if we're managing a big, $70 billion fund here and AIMCo is developing resources in Alberta, largely in their office in Edmonton, as I understand it, it's a wonderful pool of expertise. I'm wondering if there's any move afoot, given that the University of Alberta is in my constituency, to share that expertise. Are there graduate students or students in finance who get, you know, shown some of the inside ropes at AIMCo? Is there some way that we can take that expertise you're building here in Edmonton and partner with some of our postsecondary institutions so that we can keep growing this financial services industry?

Dr. de Bever: That's actually a good question. As we mentioned in our annual report, because of the way AIMCo is now working, a lot more of the management is done within Alberta. That's added about $30 million to the provincial economy and about 250 extra jobs that weren't there before.

The challenge I faced initially is that I had to bring in senior expertise from elsewhere because it was not readily available within Alberta. There is no organization like AIMCo. I mean, in Ontario you have OMERS; you have OTPP, the Ontario teachers. In Quebec you have CDP. So there are other organizations in eastern Canada that have that expertise. I have brought back a number of senior Albertans that moved abroad because there was no company like AIMCo, and I'm employing them now.

What we have done to build from the bottom up, which takes longer, is work with both the University of Alberta and the University of Calgary to build more expertise. We funded a special program where every year we fund three scholarships at either university to do research in an area that is of interest to the problems we're trying to solve.

For instance, we also funded a course at the University of Alberta in the management of infrastructure because that's one of the expansion areas that we face. We have access to the best and the brightest at both universities, and we make every effort in our hiring to bring them in, not just in business schools but in other areas of expertise as well.

So, yes, this is sort of a hobby horse of mine. The future belongs to the people who not just do good capital formation but also good human capital formation. We're very much interested in working with the university, and I'm on a number of institutes and boards at the university to help that along.

The Chair: Great. Thank you.

Mr. Groeneveld: If I could just ask for supplementation on that from the Finance people? In my notes, you may remember, I had read that "the responsibility for investment objectives and performance evaluation belongs to the Minister of Finance, who is supported by a team of professionals from Alberta Finance in meeting this responsibility." So I wonder if the Finance department could just have a little bit of a discussion on that. I think Dr. de Bever answered it from their point, but where do you draw your wealth of support from besides your own department?

Mr. Matheson: The team of professionals that that speaks of: you probably have about two-thirds of that team sitting in front of you right now. Within the Finance department we do have a very small operation, but we certainly do support the universities. Many of our hires have come from universities, from the University of Alberta and from the University of Calgary. We're not large enough to have the kind of formal programs that AIMCo is able to build or take advantage of. It's just on much more of an ad hoc basis.

The Chair: Mr. Elniski.

Mr. Elniski: Thank you very much. We'll go back to the online Skype stuff here tonight. Mike had asked a question in follow-up after MLA Allred had had his question. Essentially, Mike's question was: if this particular committee is not set up to advise the government, who is then? I'll answer the question on behalf of everyone here.

The Minister of Finance is responsible for the management and the investments overall in terms of the Alberta heritage savings trust fund. Alberta Finance is responsible itself for the development of the policy, setting risk tolerances, those types of things. AIMCo, the Alberta Investment Management Corporation, is ultimately responsible for the day-to-day management of the fund.

This committee's responsibilities are primarily oversight with respect to the activities of those organizations with particular emphasis on the review and the approval of the fund's performance, its business plans, and its annual reports. We receive and review quarterly reports on the fund's operation results. That, of course, is all public documentation. We hold this particular public meeting with Albertans, which has been really quite interesting tonight the way it has been unfolding. Then, ultimately, we report back to the Legislature on whether or not the mission of the fund is actually being fulfilled.

Is there any comment from anybody at Finance or AIMCo on whether or not I missed anything, or did I get that kind of covered off?

Mr. Matheson: The only thing I guess I would add is that you talked about the minister's responsibility, and under the legislation things like the business plan for the heritage fund and the annual report for the heritage fund are also reviewed and approved by the Treasury Board.

The Chair: I would just add to that that it's all rather fluid. While we may oversee the management of the fund, it's not that we can't give advice. I mean, certainly we have some interesting debate and get lots of information to discuss, but we're doing that with AIMCo and with Finance, so nothing here works in isolation. Anything we discuss around our table definitely is known by the minister, by Finance, by AIMCo. So it works quite well.

Okay. Did you have another question, Mr. Groeneveld?

Mr. Groeneveld: I guess maybe something that certainly affects us in government as well as AIMCo – and I would be kind of interested to hear from both AIMCo and the Finance people. I guess the interest rate is quite self-explanatory, what it does to us, but the value of the Canadian dollar is something that we haven't discussed here, and I know it has quite a profound effect on government. So would you like to please comment on that?

8:50

Dr. de Bever: This is the one trillion dollar question sometimes. It's difficult to forecast where interest rates and stock markets are going. Exchange rates tend to be even more difficult to forecast, particularly in the very short run. So the question arises whether you should hedge your foreign exposure because that ultimately determines the value of the assets in Canadian dollars.

A lot of very smart academics have toiled away at that question. There is really no one definitive answer. It seems to be true that in the long run currency is neutral in terms of valuation of your portfolio, but in the short run it can make an enormous difference. So for an institution like the heritage fund spending too much time on hedging, in the minds of some academics, may not be particularly useful. The problem with hedging is that it can cost money and it involves operational risks that you don't have if you leave it unhedged.

Having said that, I've looked at this question a number of times. I don't think there is a single good answer. I can manage to anything the government deems appropriate. A number of pension plans essentially have adopted a rule of hedging half of their exposure more from a standpoint of a measure of ignorance rather than any particular skill in knowing whether that's appropriate or not.

There's one reason why you may not want to hedge, and that's important in particular for pension assets but also for endowment assets. At a time when the Canadian economy has a high inflation rate, the dollar tends to be particularly weak – or when growth is slow, the dollar tends to be weak – and that provides a natural hedge against the goal that you're trying to achieve over the long run. So for that reason, a number of pension funds just don't hedge at all because they feel there is a natural hedge against liabilities.

Now, the endowment funds have no particular liability in mind when they give us instructions, but implicitly you would think that their desire is to have not just a good real growth but also to recover inflation. Because of that you might argue that hedging is not particularly a high priority. The main issue, from a political point of view, is that if the short-term variability in returns becomes an issue, then that is an argument for hedging.

The Chair: Thank you.

Mr. Elniski has an online question.

Mr. Elniski: Great. EduAFF has come back with another question, which is specifically to you, Dr. de Bever. It has to do with your comment that said that there was really no other province that had an organizational structure like AIMCo. The question here is: what about British Columbia, what they believe is called – the acronym is BCIMC, which I'm going to assume stands for the British Columbia Investment Management Corporation?

Dr. de Bever: I either misspoke or I was misinterpreted. What I said was that there is no other organization in Alberta from which I can draw the expertise that I need to run AIMCo. It is true and I think I mentioned that other provinces have organizations like that, like BCIMC, Ontario Teachers', OMERS, CPP, CDP. Other provinces have these organizations, but so far not Alberta. There are investment organizations in Alberta, but they tend to operate in a slightly different field and with very different objectives.

The Chair: Thank you.

Mr. Xiao.

Mr. Xiao: Thank you, Madam Chair. Given the current economic situation in Europe and the potential in the United States, my question to AIMCo or the Finance department is: do you have any concrete plans in terms of reshaping or restructuring the way we invest our heritage fund? Can you explain to Albertans, you know, what you plan to do in terms of dealing with the potential international economic crisis?

Dr. de Bever: That's a policy issue.

Mr. Matheson: Oh, okay. I interpreted the question to be more around just tactically what the plans are with respect to the turmoil in Europe and the U.S., in those economies. Is that the question?

Mr. Xiao: Yeah.

Dr. de Bever: Well, it is actually the most important question facing us. As you know, in Europe there are several economies that have run into trouble in terms of having a debt to GDP that has become so large that it's become difficult to finance. It is actually causing enough turbulence that it may cause the third financial crisis in about 10 years.

I'm really afraid that there is not enough cohesion in Europe to avoid that from happening. We're keeping our fingers crossed that there will be some solution found to the fact that you need to balance two things: you need to resolve the fiscal inconsistency in the long run, but you can't do it in a way that destroys economic growth in the short run because, particularly in southern Europe, that would have devastating consequences and in the long run might even aggravate their structural issues.

Now, what can we do about that? All we can do is watch and try and position ourselves conservatively; in other words, we have no exposure to European bonds. There was a time that Italian bonds were deemed to be risk free because they were issued by the state of Italy. I think there has been a shift in the notion as to what is risk free these days. In fact, some corporates both in Canada and elsewhere have now a higher credit rating than a lot of governments.

The fundamental issue we face is how you position yourself against the possibility that a fundamental breakdown of the financial system in Europe will spill over to North America and cause North America and Europe to go through a sustained period of either low or negative growth, which would aggravate the structural unemployment we already face. That's the issue we're trying to address.

Do we have any good solutions? To be honest, if I had the perfect answer to that question, I would be incredibly rich. It's very difficult. All you can do as an investor is sort of hedge your bets and make sure that no matter what happens, you don't get hit too badly.

Mr. Elniski: Very quickly, Dr. de Bever, if I might, before we close. What's the impact – and certainly, I think, there are a number of people who have asked about this over time – of the value of the Canadian dollar, and where do you see that heading? What's it doing to the fund?

Dr. de Bever: What is it doing to the fund? In a year like last year it helped because the Canadian dollar declined, so our foreign assets in Canadian dollars increased. So it sort of dampened the impact of some other stuff that was going on. It is important, but as I said, you can't let it dominate your thinking because in the long run currency tends to be neutral.

I came to Canada as an immigrant in 1975. The dollar was at parity. It's been downhill ever since until recently. I hope that was spurious correlation. The point is that we're right back where we started. So over a 35-year period currency has had no impact net-net, but over shorter periods it can have a dramatic impact on the net return.

The Chair: Great. Thank you very much.

Well, I would certainly like to thank everyone for your participation tonight, everyone that's here in the audience as well as those watching from home and those who have participated in the online chat. We really thank you for your questions and your comments and have tried to address as many as possible in the time that was allocated this evening.

For any more information that you would like or require regarding the committee or the fund, you can go to our website. Certainly, as always, if you have any comments or suggestions, you can either forward them to us or forward them to your own MLA.

On behalf of all of us we thank you very much. Good night.

[The committee adjourned at 8:59 p.m.]

Published under the Authority of the Speaker
of the Legislative Assembly of Alberta