



Legislative Assembly of Alberta

The 27th Legislature
Fourth Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Tuesday, January 24, 2012
9:02 a.m.

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Fourth Session**

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

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

Allred, Ken, St. Albert (PC) *
Anderson, Rob, Airdrie-Chestermere (W)
DeLong, Alana, Calgary-Bow (PC)
Groeneveld, George, Highwood (PC)
Johnston, Art, Calgary-Hays (PC)
MacDonald, Hugh, Edmonton-Gold Bar (AL)
Quest, Dave, Strathcona (PC)
Taft, Dr. Kevin, Edmonton-Riverview (AL)

* substitution for George Groeneveld

Department of Finance Participants

Rod Babineau	Manager, Portfolio Analysis, Capital Markets
Tim Wiles	Deputy Minister

Alberta Investment Management Corporation Participants

Leo de Bever	Chief Executive Officer and Chief Investment Officer
Pine Pienaar	Senior Vice-president, Client Relations

Auditor General's Office Participants

Merwan Saher	Auditor General
Betty LaFave	Principal

Support Staff

W.J. David McNeil	Clerk
Shannon Dean	Senior Parliamentary Counsel/ Director of House Services
Robert H. Reynolds, QC	Law Clerk/Director of Interparliamentary Relations
Giovana Bianchi	Committee Clerk
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications and Broadcast Services
Melanie Friesacher	Communications Consultant
Tracey Sales	Communications Consultant
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Stephanie LeBlanc	Legal Research Officer
Rachel Stein	Research Officer
Liz Sim	Managing Editor of <i>Alberta Hansard</i>

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[Ms Tarchuk in the chair]

The Chair: Good morning, everyone. I will call this meeting to order and welcome everyone.

We do have, apparently, two members that will be calling in. They haven't as yet, so we'll introduce them as they call in. I would like to note that Mr. Allred is attending the meeting on behalf of George Groeneveld as his legal substitution.

I wonder if we can go around the table and introduce ourselves for the record. We'll start with you, Art.

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

Dr. Taft: Kevin Taft, Edmonton-Riverview.

Mr. Pienaar: Pine Pienaar, AIMCo.

Dr. de Bever: Leo de Bever, AIMCo.

Mr. Wiles: Tim Wiles, Alberta Finance.

Mr. Babineau: Rod Babineau, Alberta Finance.

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

Mr. Saher: Merwan Saher, Auditor General.

Ms Sales: Tracey Sales, communications services.

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

Mr. Allred: Ken Allred, St. Albert. I'm filling in for George Groeneveld.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Janis Tarchuk, MLA, Banff-Cochrane.

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

The Chair: Great. Thank you. Do we have someone that has called in? Not yet. Okay.

Everyone should have a copy of the agenda. I wonder if someone would like to move that we adopt the agenda of January 24 as circulated. Okay. Kevin. Is there any discussion? All those in favour? Any objections? Seeing none, that motion is carried.

We all should have copies of the minutes of September 19, 2011. Would someone like to move that we adopt those as circulated? Art. Any discussion? All those in favour? Any objections? Seeing none, that motion is carried.

At the last meeting Dr. Taft had asked Mr. Matheson if consideration would be given to including the per capita value of the Alberta heritage savings trust fund since its inception and future quarterly reports. Mr. Matheson advised that the issue would be reviewed and that he would report back to the committee. I believe that Mr. Wiles has a response for the committee, and maybe I could pass that over to you.

Mr. Wiles: Absolutely, Madam Chair. We've had an opportunity to brief the Minister of Finance and discuss this. Our view would be that we think there is value to putting this information in the annual reports because it is useful information. However, our view would be that putting it into the quarterly reports, which are more frequent and smaller reports, might not be necessary. This information

doesn't change much on a quarterly basis, so we'd be prepared to look at this to put it in our annual reports going forward.

The Chair: We're going to be looking at a notice of motion under other business. I guess, Kevin, I'd ask you: is it okay if we come back and revisit this discussion at that point in the agenda?

Dr. Taft: Yeah. Sure. Whatever is efficient. We can either do it now or do it at the end. I'd hate for it to fall off the end of the agenda if we run out of time.

The Chair: Well, you know what? Actually, I guess it doesn't make any sense. If nobody has any difficulties with this, let's just proceed with it now.

Dr. Taft: Sure. If I could just get one question for clarification.

The Chair: Sure. Yeah.

Dr. Taft: Thanks, Janis. That's great. I understand not doing it on a quarterly basis. Just to be clear, it's the inflation-adjusted per capita value of the fund.

Mr. Wiles: Yeah.

Dr. Taft: Okay. Because that's crucial. I'm pleased with that. I think it's just a healthy step in sharing valuable information with the citizens of Alberta. I look forward to that. Would that begin in the next annual report, then, I suppose?

Mr. Wiles: Yeah. We'll work towards that for the March 2012.

The Chair: Well, did you want to go ahead, Kevin, and actually make a motion?

Dr. Taft: Madam Chairman, this is a real highlight for an opposition member to make a motion and get it passed. I don't want to stumble on this. I would move that

the annual reports of the Alberta heritage savings trust fund include a reporting of the value of the fund showing trends from the establishment of the fund to the relevant date adjusted for inflation and population growth.

The Chair: Is there any discussion? No? All those in favour of that motion? Any objections? Seeing none, that motion has passed.

Dr. Taft: Thank you, everybody.

The Chair: It's been pointed out that I should say unanimously.

Dr. Taft: Double bonus. Thank you.

The Chair: The Alberta heritage savings trust fund second-quarter report was distributed to all members in November 2011. The Alberta Heritage Savings Trust Fund Act indicates that one of the functions of the committee is to receive and review quarterly reports on the operation and results of the operation of the heritage trust fund.

We are pleased to have Tim Wiles, deputy minister, here to assist us with our review. Maybe, Mr. Wiles, if you can make a few comments on it.

Mr. Wiles: Thank you, Madam Chair. I'm happy to be here on behalf of Minister Liepert this morning. He sends his regrets. I'd like to briefly provide the members with an overview of the fund's performance over the second quarter of 2011-12. As you all know, the European debt crisis was a major economic story during that period, and as concern about Europe grew, the effects started to be

felt here at home, with major stock indexes posting losses of more than 10 per cent. It's against this backdrop that I provide a review of the fund's second-quarter results.

Overall, the fund recorded a loss of \$403 million in the quarter, which eclipsed the \$269 million gain in the first quarter. I guess, to look at it another way, the fund's value decreased by \$134 million, or 2.3 per cent, over the first six months of the 2011-12 fiscal period. According to the second-quarter report the fund is expected this year to retain \$355 million of its income for inflation-proofing and transfer \$39 million to the general revenue fund to support priority programs like health and education.

I know that at the last meeting Dr. Taft had some questions about the timing of those transfers. During the second quarter we made no transfers of the income for practical reasons in light of their performance, but we'll continue to monitor that through the rest of the year.

The fund's value at September 30, 2011, was \$14.7 billion, it's fair value. The portfolio lost 3.6 per cent in the second quarter. Although this is a loss, the fund still beat its policy benchmark, which lost 5 per cent. On a year-to-date basis the fund lost 2.9 per cent versus the benchmark of 4.5 per cent. The difference between the fund's performance and the benchmark is the value added by the good work of AIMCo.

What is driving the fund's investment loss? The answer is, quite simply, the plunging equity markets around the world. The portfolio's equities slid 10.2 per cent. In comparison, the TSX went down by 16.5 per cent during the same period. When you stop to consider all the turmoil that took place during the second quarter, the fund's loss is unfortunate but not as bad as expected. We are beating the benchmarks and beating the market. But by being in the markets, the reality is that we will face volatility from time to time.

9:10

I thought it might be instructive to just look briefly back at the past to help put things in context. In '08-09 the fund lost almost \$2.6 billion following the stock market crash. In 2009-10 the fund earned just over \$2 billion, a record year for earnings for the fund. In 2010-11 the fund earned nearly a billion dollars. This year, of course, at this point we're losing just over \$134 million for the first six months. That's the dynamic of being invested in the market.

We need to continue our long-term approach to investing, adjusting along the way, of course, but not jumping ship when things get choppy. We need to make smart investment decisions and find ways to manage risk over the long haul.

Diversification within the investment classes has paid off and helped us to minimize our losses. Although equity has lost 10.2 per cent over the first six months, we saw gains in other investment classes like the money market and fixed income, which earned 6.5 per cent, and inflation-sensitive and alternative investments, which returned 4.3 per cent.

That's my brief overview, Madam Chair. We'd be happy to address any questions the committee has.

The Chair: Great. Thank you very much.

Just before we turn it over to questions, I would like to recognize that Rob Anderson, MLA for Airdrie-Chestermere, has joined us.

Good morning, Rob.

Mr. Anderson: Good morning.

The Chair: I also want to say that Mr. Anderson is replacing Heather Forsyth. Welcome, Rob, as a new member.

I would put on the record that we should thank Heather Forsyth for many years of good service to this committee.

Mr. Anderson: Thank you, Janis.

The Chair: Rob, we're at item 4 on the agenda. We've just had an overview of the second-quarter report.

Are there any questions for Mr. Wiles?

Seeing none, would someone like to move that we receive the report as presented?

Mr. Allred. All those in favour? Any objections? Okay. That motion is carried.

Now we're moving on to item 5. The draft business plan was posted on the internal website. The plan must be approved by the standing committee. I guess at this point I'll just turn it over to any questions.

Actually, Mr. Wiles, did you want to make a few comments on the business plan?

Mr. Wiles: I can if that's the committee's pleasure.

The Chair: Okay.

Mr. Wiles: Okay. So you have before you the draft plan. It's very similar to last year's plan. The goals are unchanged. Goal 1, on page 2, is to maximize the long-term returns at a prudent level of risk. As you know, this goal is the primary goal for the heritage fund. It contributes to the fund's mission, which is outlined in the act, that reads in part "providing the greatest financial returns on those savings for current and future generations of Albertans."

Goal 2, on page 3, is unchanged as well, and that reads: "Ensure the Heritage Fund aligns with the fiscal goals of the Province." This goal speaks to the importance of viewing the heritage fund within the broader context of the province's balance sheet rather than as a stand-alone investment fund. This includes, for instance, ongoing work by my department to evaluate currency exposure of the heritage fund within the context of the province's U.S. dollar revenue sources and things of that nature.

While the plan is much the same as last year, you'll notice on page 3 a couple of new initiatives that support goal 2. These include to develop a risk measurement system that monitors the risk characteristics of the fund and also to monitor and measure the risks faced by the fund in the government. Other than that, the business plan before you follows a similar path to last year's.

The Chair: Are there any questions? Go ahead, Kevin.

Dr. Taft: I appreciate it's sort of a steady-as-you-go approach here, and obviously given the mission of the fund, which is very long term, that's appropriate. This may be too hypothetical, but I find myself wondering: what are some of the factors or considerations that might come into play to cause a shift of some note in the business plan? I mean, is there reason to anticipate that the business plan won't remain pretty much as it is indefinitely? Maybe Dr. de Bever would like to comment as well. I don't know.

Mr. Wiles: Well, you know, the investment policy that we've landed on with the mix of equities, inflation-sensitive, and money debt instruments I think is relatively stable. We've given some fairly wide ranges for AIMCo to take advantage of opportunities within the different investment categories. So I don't see that as something that would change dramatically year over year, but I think it's something we continue to monitor and assess and react to. From that perspective I wouldn't expect it to change significantly year over year.

I think it's important to note that the Premier has given the Minister of Finance as part of his mandate letter to develop and

implement a renewed fiscal policy and savings strategy to reduce dependence on nonrenewable resource revenue and seek Albertans' input on the future of the Alberta heritage savings trust fund. As that process unfolds, that may have some implications for the plan, but I can't say one way or the other at this juncture.

The Chair: Dr. de Bever, did you want to add something?

Dr. de Bever: Sure. I guess the only thing to add is that within the framework that has been fairly consistent over the last few years, the opportunities, that may change. The turmoil in Europe last year and markets moving in unison regardless of what stock you held has created some opportunities because of mispricing. The abandonment of some submarkets by banks, particularly in Europe, is creating opportunities for institutions like us to fill that void and to make an attractive return on it, so we're seeing some opportunities we wouldn't have seen two or three years ago because of that. I think we have discussed this with Finance. We intend to take advantage of them.

Dr. Taft: That's fine. Thanks.

The Chair: Thank you.

Mr. Allred: Just further to that, Dr. de Bever, you said the volatility in Europe last year. Do you not think that's going to continue this year as well as perhaps some further currency problems between Europe and the U.S. and China?

Dr. de Bever: Volatility is a fact of life. Right? I mean, things never stay the same. Yes, it will continue, and of course the crucial decision is: will Europe hang together as a currency area? My best guess is that it will because the cost of the alternative is so horrendous that I think people would be wise to swallow hard and try and fix what's wrong with what's going on in Europe. So, yes, it will likely continue. But, again, I guess in some way it causes a lot of heartburn because as we saw in the numbers, the aggregate market behaviour has not been particularly helpful. We do intend to take advantage of the opportunities it creates.

The short answer to your question is that volatility is going to continue. The nature of the volatility may change. I mean, last year it was basically all driven by politics. If Merkel and Sarkozy seemed to have had a good meeting, the market was up, and if they didn't, the market was down. It's a very difficult environment to invest in.

We're trying our best. We're winning more often than we're losing, and that's all you can do in this game.

Mr. Allred: Thank you.

9:20

The Chair: Are there any other questions?

Okay. Would someone like to move that we approve the 2012-15 business plan as circulated?
Kevin?

Dr. Taft: Sure. I will.

The Chair: All those in favour? Opposed? Okay. That motion is carried.

Welcome, Alana. It sounds like Alana DeLong has joined us from Calgary-Bow.

We're now moving on to item 6 on the agenda, communications update.

Maybe, Tracey, if you just want to recap the Edmonton public meeting. Thank you.

Ms Sales: Absolutely. Thank you, Ms Chair. I'll start with the online matrix. The hits on the heritage site for October 20, which was the public meeting date, were approximately 60. For the live stream video chat participation we recorded around 43 as the peak viewers. Chat participants were about eight.

Chat specifics. The first chat from the public came in at around 7:16 p.m.; 43 comments or questions were passed on to the chair, and seven questions or comments were actually dealt with during the public meeting.

Live audience. There were around 20 to 25. There were seven public questions. TV viewership was 5,000.

Media coverage. We had real-time tweet coverage, actually, during the meeting from Karen Kleiss with the *Edmonton Journal*. As well, she wrote an article about the meeting the following day.

As far as feedback from the public we received seven surveys.

Newspapers. Five of the seven said that that was how they heard about the meeting, one heard from their MLA, and one noted that online was how they heard about the meeting. Overall feedback was positive with five to seven saying that the meeting was informative.

There were a few challenges. The audio online was a little bit choppy. The chatter did comment on the audio being slightly choppy from time to time; however, that didn't prevent them from staying on and listening to the meeting and participating. All in all, I think that it was effective and successful.

The Chair: Does anybody have any comments or feedback? I mean, that was the first time that we had tried that kind of format.

Dr. Taft: I thought there was something to build on there. I really liked the interactive nature, the fact that the chair and vice-chair were able to be plugged in electronically to the chat. Actually, now that I think of it, it might be nice for all of the members of the committee to have that capacity. I don't know if that's possible or not.

I have a couple of comments. In terms of cost benefit the cost is pretty high for the exposure we're getting. At least it strikes me. That was around a \$50,000 meeting or something. Wasn't it in that range?

Ms Sales: I can tell you what the communications costs were specifically.

Dr. Taft: Okay.

Ms Sales: Okay. So that would comprise the advertising, the stat cards that we handed out, the broadcast, and the live stream that was the online component. The advertising was \$25,931. The stat cards were \$1,352. The broadcast was \$3,349.50. The live stream was just over \$1,100. So the total was \$31,730.84, well below the budget.

When we look at the audience – the 20 live, 43 online, and 5,000 TV – we say that we reached about 5,063 people. If you divide the two, we spent around \$6.27 per participant is sort of the way that I've put it together.

Dr. Taft: Yeah. Sure. I think we should look for ways to build on this. I don't think we should abandon what we're doing there or abandon the live stream and so on but look for ways to build on it to get better value for the cost.

My second point really reflects on that, and I must credit the member from Edmonton-McClung with this. He was sitting beside me at the public meeting we're discussing. As he and I looked out at the room with many, many, many empty chairs and about 20 people, he turned to me, and he suggested: you know, we should take \$5,000 out of the advertising and buy food and offer people a buffet dinner, you know, just line up at the buffet and load up a plate

of whatever it is. He predicted we'd attract a lot more people. Actually, I think that's worth serious consideration. Certainly, the facility we were in would have accommodated that. It doesn't have to be anything expensive. In fact, I'd encourage it not to be, you know, like takeout Chinese food or something like that.

As I thought about it, I thought: you know, that's a pretty insightful comment. I would suggest that next year – I won't be here, but maybe I'll go for a free supper – the committee and the communications staff, in particular, look seriously at alternate ways to attract people to come out to the meeting and maybe reallocate the budget for that sort of an idea.

Ms Sales: Well, I think those are all really good suggestions, and we'll look into it, keeping in mind, though, that we have to have a way to tell people that there is food at the meeting if that is the strategy.

Dr. Taft: Yes.

The Chair: Just to make a couple of points. One, the comment about 5,000 TV viewers: if I'm not mistaken, Tracey, that was just in Calgary and Edmonton because Shaw was unable to determine viewers outside of that. Is that right?

Ms Sales: That is correct. The other thing to take into account is that the TV viewership was a little bit down from last year, but Shaw also had satellite disruption, so they weren't able to tell me how many viewers would have been affected. They did say that because there was a problem with the satellite, they didn't reach as many viewers as last year either. So those are other things to take into consideration.

The Chair: Kevin, I think your points are really good. I think the most important words there are "building on." When you think that it was only two years ago that we ended a long stretch of having public meetings that consisted of a dozen people in a room somewhere in the province and that was it in terms of the exposure that we had, then a year and a half ago engaging Shaw for the first time and then in the past year including the online, it looks like maybe we've made great strides in the last two years, and I think we just keep figuring out ways that we can increase the exposure.

Ken.

Mr. Allred: Thanks, Chair. Tracey, I think you indicated that the advertising cost was \$25,000, which is the big item in the program. Would you have had to do the advertising regardless of the format of the session, even a regular annual meeting here?

Ms Sales: Right. Absolutely. Actually, the advertising did comprise online as well as paper advertising. We didn't just advertise in newspapers. Even the online audience needs to have a way of finding out about your meeting, so you have to advertise. There's no way of getting around it.

Mr. Allred: I guess maybe my question should be: was there any special advertising required because of the format, or was it the normal budget for advertising?

Ms Sales: Actually, it was very much the same as in previous years. The only thing, I think, that I reallocated slightly was that I included more online advertising because there was an online component. Because we're trying to target online users, I wanted to ensure that I did a little bit more of the online advertising.

The Chair: Okay. Thanks.

Are there any other questions for Tracey?

Okay. If we move on to item (b), the department provided a memo on the number of website hits on the external heritage fund

site. Are there any questions about that? If not, that has just been shared for information.

Okay. Seeing no questions, we'll move on to item 7. At the last meeting a legal opinion was requested. We have the opinion, which was delivered to all committee members. Shannon Dean, Senior Parliamentary Counsel and director of House services, is here to respond to questions. Maybe, Shannon, if you can just kind of give us a brief overview of your comments that you've provided.

9:30

Ms Dean: Thank you, Madam Chair. In brief, the issue was whether a motion that had been moved and voted upon by the committee was in keeping with its mandate as prescribed by the legislation. In my view the intent of the motion is in keeping with the mandate of the committee, but the wording of that motion could have been improved in the sense that the role of this committee is to report to the Assembly with respect to whether the mission of the fund is being fulfilled as opposed to directing the investments. That falls to the minister.

At the end of the day, the spirit of the motion I think is in keeping with the mandate of the committee; however, the wording of the motion could have been improved.

The Chair: Okay. We'll just take a short, two-minute recess here.

[The committee adjourned from 9:31 a.m. to 9:32 a.m.]

The Chair: Okay. Thank you. Do we have any questions for Shannon? Kevin.

Dr. Taft: Thanks, Madam Chairman. I appreciate the advice from Parliamentary Counsel. I've looked through this, and I thought you delicately worded things, that "the wording of the motion could have been improved," something to that effect. I might be missing it in the opinion, but I didn't see you actually give us a specific wording that would have made it a better motion. My reason for asking this would be for future use, particularly if the clerk were to keep sort of a format that we might be able to draw on from time to time to say: well, you know, that wording, Member So-and-so, could be improved if we just did X, Y, Z. What would that improvement look like, Parliamentary Counsel?

Ms Dean: I would suggest wording to the effect that Mr. MacDonald's motion could have said something like: be it resolved that the committee recommend to the Assembly that the heritage fund sell off any investments, et cetera, et cetera.

Dr. Taft: Okay. As simple as that. Thank you very much.

The Chair: I think it is actually very helpful to have a process that we can move forward with.

Are there any other questions for Shannon? Seeing none, thank you very much, Shannon. We appreciate that.

Is there any other business arising?

Mr. Allred: Do you need a motion?

The Chair: No, we don't. It will be included in our minutes.

Okay. Well, thank you. The next meeting will be required following the release of the third quarter. We could have that as soon as, I guess, the end of February, and it will be at the call of the chair.

Would someone like to move that we adjourn the meeting? Art. Okay. Any discussion? All those in favour? That motion is carried.

Thank you very much.

[The committee adjourned at 9:34 a.m.]

