Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Tuesday, June 12, 2012
9:31 a.m.

Transcript No. 28-1-1

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Alberta Heritage Savings Trust Fund

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Casey, Ron, Banff-Cochrane (PC)
Dorward, David C., Edmonton-Gold Bar (PC)
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Transcript produced by *Alberta Hansard*

Standing Committee on the
Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
- Rod Babineau, Manager, Portfolio Analysis, Capital Markets
- Aaron Brown, Director, Portfolio Management, Capital Markets
- Rod Matheson, Assistant Deputy Minister, Treasury and Risk Management

Alberta Investment Management Corporation
- Leo de Bever, Chief Executive Officer and Chief Investment Officer
- A.J. (Pine) Pienaar, Senior Vice-president, Client Relations

9:31 a.m. **Tuesday, June 12, 2012**

[Mr. Quest in the chair]

The Chair: Good morning, everybody. I'd like to call the meeting to order and welcome everybody to the first meeting with this new committee membership. My name is Dave Quest, MLA for Strathcona-Sherwood Park and chair of this committee.

I'd like all of our committee members, representatives from the Department of Treasury Board and Finance, AIMCo, office of the Auditor General, and Legislative Assembly Office to also introduce themselves, please, for the record. Why don't we start with Mrs. Jablonski to my right?

Mrs. Jablonski: Good morning, everyone. I'm very pleased to be here with you this morning. Mary Anne Jablonski, MLA, Red Deer-North.

Mr. Anderson: Rob Anderson, MLA, Airdrie.

Mr. Eggen: David Eggen, MLA for Edmonton-Calder.

Mr. Casey: Ron Casey, MLA, Banff-Cochrane.

Mr. Dorward: David Dorward, MLA, Edmonton-Gold Bar.

Mr. Pienaar: Pine Pienaar, AIMCo.

Dr. de Bever: Leo de Bever, AIMCo.

Mr. Matheson: Rod Matheson with Treasury Board and Finance.

Mr. Brown: Aaron Brown with Treasury Board and Finance.

Mr. Babineau: Rod Babineau with Treasury Board and Finance.

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

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

Dr. Massolin: Good morning. Philip Massolin, committee research co-ordinator.

Dr. Sherman: Good morning. Raj Sherman, Edmonton-Meadowlark.

Mr. Sandhu: Good morning. Peter Sandhu, MLA, Edmonton-Manning.

Ms Kubinec: Good morning. Maureen Kubinec, Barrhead-Morinville-Westlock.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Well, thanks again, everybody, for coming out. We're all relatively new. As a matter of fact, I am the only elected member that has sat on this committee previously, so we'll take things fairly slowly.

I would like to talk about participation in committee meetings by teleconference. Section 6 of the Legislative Assembly Act permits participation by committee members "by means of telephone or other communication facilities that permit all Members participating in the meeting to hear each other if all the members of the committee consent." Committee rooms are equipped to facilitate meeting participation by telephone. The committees have a choice of passing a motion, which needs to be passed unanimously by this group, to approve meeting attendance by telephone for the duration of the Legislature or the duration of the session. So we'll need a motion to approve teleconference attendance for the duration of the Legislature. It does not preclude the committee from determining that personal attendance at specific meetings is required. In those cases, a motion would be moved at the end of a particular meeting requesting the personal attendance of all members at a subsequent meeting.

If I could get a member to move that

> for the life of the 28th Legislature the Standing Committee on the Alberta Heritage Savings Trust Fund permit committee members to participate by teleconference, subject to the proviso that the committee may require members' attendance for a particular meeting upon passage of a motion to that effect.

So moved, Mr. Sandhu. We don't need a seconder, thanks, Raj. It has to have unanimous consent, so any opposed?

Mr. Dorward: Well, can we have a little bit of a discussion? Is there anybody on now? No? So everybody is in attendance that's on the committee?

The Chair: All present.

Mrs. Jablonski: Another question, Mr. Chair: are MLAs who are not members of the committee allowed to participate through teleconference?

The Chair: Good question.

Mrs. Dacyshyn: Well, Mr. Chair, that actually hasn't happened before, but I would say that if members are all allowed to participate in a meeting, then if a member who wasn't on this committee wanted to participate by teleconference, they could do so.

Mrs. Jablonski: Thank you for that clarification.

The Chair: All right. So, yes.

Okay. In that case, that's carried unanimously.

Before we turn to the business at hand, there are a few operational items. The microphone consoles are operated by the *Hansard* staff, so there's no need for members to touch them. Please keep cellphones, iPhones, and BlackBerrys off the table as they may interfere with the audio feed. The audio of the committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access to the meeting transcripts is attained via the Legislative Assembly website.

Everybody has a copy of the agenda? All right. I need a motion to accept that the agenda for the Tuesday, June 12, 2012, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. Ms Kubinec. Thank you. All in favour? Thank you. That's carried.

Okay. We're here for an orientation today, so we'll talk about the committee mandate and operation. The mandate is found in the Alberta Heritage Savings Trust Fund Act, a copy of which is available on the committee's internal website. A brief summary of the mandate is also covered in the e-mail from the committee clerk. As noted, the committee's primary functions are to review the overall performance of the fund, to approve the annual business plan and annual report, and to receive the quarterly reports. Further, the committee holds one public meeting annually in the fall.

The purpose of today's meeting is to receive an orientation about the committee and the reports the committee receives and approves, and I've got some introductory comments first. We have good support on this committee. A copy of the committee's budget was posted on the committee's internal website. The budget has already been approved by the Members' Services

Committee; therefore, this document is provided for information only.

Corinne Dacyshyn is the committee clerk assigned to this committee and does a fabulous job. She provides administrative and procedural assistance and drafts the committee's annual reports. She's the primary contact for committee business, so please direct any questions about the committee's activity to Corinne.

Tracey Sales, who introduced herself earlier, is the communications consultant with the Legislative Assembly Office and provides communications expertise and support to the public meeting. This primarily includes co-ordinating advertising and promotional initiatives. She also works closely with the communications staff from the Department of Treasury Board and Finance.

Shannon Dean is not with us this morning, but her role is Senior Parliamentary Counsel and director of House services from the Legislative Assembly Office. She may be called upon by this committee should issues arise which require some legal expertise.

Dr. Phil Massolin is the committee research co-ordinator, and his staff are available to provide research services to the entire committee as requested during meetings. Thanks, Phil.

The committee also relies on the technical expertise of the Alberta Treasury Board and Finance officials, who administer the fund and complete the various plans and reports which the committee must review.

Of course, the Alberta Investment Management Corporation, or AIMCo, officials, with us also this morning, make the investment decisions on the fund and attend the meetings to respond to questions. We'll hear from them in a few minutes.

We'll get Betty LaFave from the office of the Auditor General to explain the role of the Auditor General with respect to our fund. Thanks, Betty.

Ms LaFave: Do you want me to go first?

The Chair: Sure.

Ms LaFave: Okay. Well, the Auditor General is the auditor of the Alberta heritage savings trust fund. We audit the financial statements, we review the annual report, and we issue an opinion on the financial statements of the heritage fund. We also review the quarterly financial statements and the quarterly report of the fund. Of course, we are present at most of the standing committee meetings as well.

As you have already mentioned to the committee, the investments of the heritage fund are managed by AIMCo in accordance with investment policies and goals which are established by the Department of Finance. We provide audit opinions on the financial statements of most of AIMCo's other clients as well.

9:40

The heritage fund invests in pools which are managed by AIMCo. The investments include fixed income, public equity, real estate, infrastructure, private, and alternative investments. So when we do our audits, we audit the investment pools, and we look at the controls which ensure that the investments exist and that the investments and the investment income are reported completely and accurately. We report the results of our audits to AIMCo's board of directors and also to the Deputy Minister of Finance.

We may issue recommendations to AIMCo's management or to the Department of Finance. Our recommendations are included in our annual or semiannual public reports. If you look at our last semiannual public report, which is on the website of the office of the Auditor General, there is a list of outstanding recommendations to AIMCo and to the Department of Finance.

Are there any questions?

The Chair: Nothing so far? Okay. Great. Thank you.

Let's talk about general meeting procedures. The meetings are held at the call of the chair, and generally Corinne will contact members to determine their availability for a number of different dates. Meeting notices are e-mailed to members once the meeting date and time are set. Briefing materials are posted on the committee's internal website approximately one week prior to the meeting.

The Alberta Heritage Savings Trust Fund Act indicates:

> the Standing Committee shall furnish copies of the report to all members of the Legislative Assembly and to the Clerk of the Legislative Assembly within 2 months after the conclusion of the quarter for which the quarterly report was prepared and on doing so shall make the report public.

Therefore, the schedule of the committee meetings tends to follow the annual reporting cycle of the fund, and meetings are generally held in December, March, June, and September. The public meeting has typically been held between September and October, before the fall sitting, based on members' schedules and venue availability.

During the meeting the chair keeps track of members wishing to ask questions, and every effort is made to ensure that all members have equal opportunity to participate in discussions and ask questions. Questions which require detailed responses may be read into the record, and a written response will be provided to the members through the chair.

We're going to have an orientation now from the Alberta Treasury Board and Finance officials. Officials from Treasury Board and Finance and AIMCo have a presentation, following which we will open up the floor to questions. So please jot those down, and we'll get to those after. Several previously reviewed reports were provided to you which may be referred to during some of the discussions today.

All right. Whenever you're ready.

Mr. Matheson: Thank you, Mr. Chair. Minister Horner and Deputy Minister Trimbee send their regrets. They are unable to attend the meeting today. We thank you for this opportunity. This is a first for us, to be able to provide the committee with this kind of an orientation, so we hope that we've hit the mark in terms of providing you with some useful information today.

First, let me just give some brief introductions. I'm Rod Matheson, the assistant deputy minister responsible, basically, for investments, treasury, and risk management for the province. Aaron Brown is our director of portfolio management, and I'm going to turn it over to him in a moment to make the actual presentation. Rod Babineau works with Aaron on a lot of heritage fund related matters.

We plan to provide a high-level overview today, give a little bit of brief historical and contextual background, and then spend some time providing an overview of how the fund is invested and managed and the role that the department plays in all of that. Then Leo de Bever, the CEO of AIMCo, will fill in the rest of the picture, talking about AIMCo and the important role that they play.

I'll turn it over to Aaron now and let him walk through the presentation that we have.

Mr. Brown: Thank you very much. I'll turn your attention to the slides. We have provided a few slides as framework, but there'll be some dialogue to fill in the spaces. The topics that Rod alluded to, that we want to hit today, are a bit of heritage fund background. We're going to talk about the roles and responsibilities of the Department of Treasury Board and Finance, what we do and how we interact with the fund. We're going to do a quick overview of some key documents. We're going to go quite in depth on the statement of investment principles and guidelines, which is one of our key government documents, but we'll talk about a couple of others as well and a little bit on how the fund is invested. As Rod mentioned, we'll turn it over to AIMCo to talk about what they do.

The first line there is lifted directly from the act. It's that

> the mission of the [Heritage] Fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.

That's the current mission.

The fund was actually created in 1976 through the Alberta Heritage Savings Trust Fund Act. Originally, at that time, 30 per cent of oil and gas revenues were deposited directly into the fund. This continued for a number of years, until 1984, when, you know, financial times in Alberta weren't as robust as they were when the fund was created, and the percentage was dropped to 15 per cent. That lasted for three years, and annual deposits were ceased in 1987. After that, the fund remained largely static over a number of years until the economy picked up again in the mid-2000s and the accumulated debt was paid off. Ad hoc deposits were made in '06-07 and '07-08. Additionally, a further billion was added to the fund to create the access to the future fund.

All income that the fund generates is transferred to the general revenue fund to support government spending. It's not directed towards anything in particular; it just goes into the general revenue fund except for a portion that is retained for inflation-proofing. We use a mechanism by which we calculate inflation for the year, and we keep back a portion of the income. The reason we do this is to protect the fund's real value from eroding.

The mission of the fund is to provide support for current and future generations of Albertans. The income that it generates every year supports current Albertans, but we do want to protect the purchasing power of the fund going into the future so that it benefits future Albertans. So legislative inflation-proofing began in '05-06, and to the end of the last fiscal year $1.5 billion in income has been retained in the fund.

Since inception the heritage fund has supported over $33 billion in government operational and capital spending. You can see the graph there. The red line is the cumulative; the bars are the year by year. In most years the heritage fund provided income. You can see the couple of gaps in the bars, most notably in 2009. That, of course, was the credit crisis, and the fund lost money that year, so no income was transferred.

Originally, when the fund was set up, it had multiple objectives. It was not the sort of purely commercial endowment that you see today. There was a capital projects division. It funded various projects around the province. One of the more notable, I suppose, is the Kananaskis Country development. The Alberta investment division made policy investments, so there was a stimulus economic growth mandate. There also was a division responsible for lending money to other provinces, and there always has been a small commercial investment portfolio.

In 1995 Albertans were surveyed, and the fund was restructured. The fund's mandate was changed in legislation, and those capital projects and the economic stimulus mandate are gone. We also dropped section 3(2) of the act, which deals with the mandate that "investments made under the endowment portfolio must be made with the objective of maximizing long-term financial returns."

Okay. That brings us to what we do here in the department. Under the heritage fund act the President of Treasury Board and Minister of Finance is responsible for investing the fund. Now, there are multiple groups that play into this, one of which is the department and another is AIMCo. We'll talk about what the department does. I listed some of our key roles and responsibilities for the fund: developing investment policy, portfolio research, preparing the fund's financial statements that then go to the Auditor General. We run an income forecast model to support the budgeting process, and then we also review the fund's performance.

The last three are pretty operational in nature, so the two that I really want to key on are the first two, the development of the investment policy and the portfolio research, because this is where we do most of our work and where we contribute to the fund.

The key document when it comes to investment policy is called a statement of investment policies and guidelines. This is an overarching document that sets out the fundamental principles by which the fund is invested. As the owner of the asset the province needs to decide, you know, how it wants the fund invested, what its risk tolerance is going to be, what the goal of the fund is in terms of generating income or looking at a long horizon.

9:50

Now, the government, obviously, has more funds than just the heritage fund, so we look at these things individually. Something like the Alberta heritage scholarship fund would have a slightly different SIP and G and set of fundamentals behind it than the heritage fund. Something like the sustainability fund, which is very short term, would be altogether completely different.

This document is not unique to government. You would see this in a typical investment manager-client relationship. So if you have, say, a regular pension plan like the Canadian Pacific Railway pension plan, they would have a SIP and G as well that would deal with, you know, the fundamental principles that they feel they need to set out for the pension plan. Then they communicate that to their investment manager.

We're going to get into the document. The committee clerk provided our latest SIP and G, so we're actually going to go through some of the sections. That's a large part of the orientation today. Some of the key highlights here, you know, that you would see in this are the asset mix, performance targets and measures, the risk tolerances.

Now, we also use the SIP and G as a communication tool. While it's principally an internal document – you know, it reflects our beliefs and the policies that we develop for the minister – we do use it as a public facing document. So it's good information for this committee. We also publish it on the heritage fund website, so if an Albertan would like to know the key fundamental principles by which their fund is invested, they have access to that.

Okay. Flipping through, there are basically nine sections to the SIP and G. I'm not going to go through all of them because some are very administrative in nature, but I'll draw your attention to section 2, which starts on page 5. These are sort of the key 30,000-foot investment beliefs that have been developed for the fund. They're very key core concepts. For instance, the first bullet is: "The Heritage Fund is invested for the long-term." We are a long-term investor. It allows us to take on different types of risks than, say, the sustainability fund, which has a very short-term liquidity-based horizon.

The second bullet point. The entire concept is trading risk for return. What AIMCo tries to do on our behalf is generate return at a reasonable level of risk. So it's our job as the department, representing the asset owners, to develop what that risk tolerance actually looks like. You know, you can go through these and look at sort of the principles that are laid out. I won't go through them all.

Moving on, section 3 basically lays out the roles and responsibilities.

I'll move on to section 4. This is where we start getting into the actual management of the fund. In section 4 we determine what our investment target is. It's been determined that for this fund the policy target is a real 4 and a half per cent return, so 4 and a half plus the rate of Canadian inflation. Now, how this was determined: there's not a ton of science behind it, but it's generally accepted in the investment industry that this is a long-term sustainable rate of return. I think it's often referred to as the Harvard rule. Some of the endowments in the States were the leaders in this field in looking at what sort of long-term return is sustainable.

Is the fund going to hit 4 and half per cent plus inflation every year? No, it's not. There's too much volatility that comes from dealing with investing in things like equities that vary year by year. But over a long period of time – we're talking, you know, 10 to 15 years as it works through the ebbs and flows of the economic cycles – we believe that 4 and a half per cent plus inflation is reasonable. The reason it's plus inflation is that, again, we want to maintain that real value of the fund for future generations of Albertans.

In addition to the 4 and a half per cent, we also task AIMCo with generating another 1 per cent, annualized again on an average basis. Some years it will be more, some it will be less, but an extra 1 per cent through active management. What we mean by active management is how they select the stocks and bonds and how they pick the investments, buy buildings, pipelines, things like that, looking for superior investment returns in the market. But I'll let Dr. de Bever speak more to that.

The next section that we want to highlight is probably the most fundamental section of the statement of investment policies and guidelines, and that is section 5, the asset allocation. You can see the table in your document. Now, you have all of the asset classes listed on the left. You know, the Auditor General mentioned most of them in the introduction. We have things like fixed income, which are bonds. We have the longer bonds, mortgages, real estate, infrastructure. We develop allocations to each of those classes.

In the second column you'll see policy targets. We have basically consolidated asset classes into three broad categories: money market and fixed income, inflation sensitive and alternative, and equities, and we have allocations of 20, 30, and 50 per cent to those respectively.

Now, how we get to those is actually one of the key functions of the department. We do extensive modelling on determining what those asset allocations are going to be. Basically, we look at what we expect future returns to be. We also look at the interactions of asset classes with each other because not all asset classes move in the same way. We look for diversification manifests, we look for low correlations, and then we also look at the volatility of the asset classes because volatility in our models is sort of the key substitute or the key marker of risk. So we look for what is going to get us the return that we're looking for at the lowest level of risk.

The last time we did this asset mix study was about four years ago. There was a long process to get to the final SIP and G, which was approved in April of 2011. We look at these sort of things. They are supposed to stand the test of time, so we do look at them roughly every five years. We're due probably in the next one or two years to begin the modelling cycle again. We don't want to look at it every year; there is too much noise in the market, and there is too much year-by-year uncertainty. But over time outlooks change, the fundamentals change, and it's important to revisit it. As well, there are new elements to investing or advances in the modelling theory that we want to incorporate. So something that we constantly work on is reviewing this asset mix, how the asset mix is performing against our target as well as new ways of looking at the asset mix. That's one of our primary functions.

In addition, if you move next to the third and fourth columns, you'll see ranges around the asset classes. We don't give AIMCo a point estimate to work with; we give them a target. Then we provide significant latitude around the edges so that they have the ability to deal with some of the more short-term tactical in nature calls. So if something looks attractive or does not look attractive over three or six months, that would not be captured in our target policy, AIMCo has the ability to act on that in order to generate positive risk-adjusted returns. All right. That's about all I want to cover on that.

The next section I'll draw your attention to is section 6, and that is portfolio risk, again, probably the second most important or the co-most important section in the document. One of our fundamental jobs is to develop the province's risk tolerances, so our tolerance for volatility, things like that, you know, how much the portfolio could lose in any given year and how we can mitigate things on the downside to protect the portfolio. So there's both a quantitative and qualitative element to it. If you've read the SIP and G, there are a lot of terms, and we do a lot of rigorous modelling that can be quite complicated. So we do have that, but there is sort of a qualitative element to it as well that we discuss.

We do have extensive risk measures in place, as you can see from the document. Risk is really the priority focus for 2012-2013. AIMCo has just recently developed a new risk system. It's an enhancement of their old risk system. They've always had a risk system in place. They're going through an education process with us and with some of their other clients right now. If you've looked at the 2012-15 heritage fund business plan, our major research project for the year will be focused on the risk. We really see this as our number one responsibility in that it's very important to understand how the portfolio is invested, understand the things it's exposed to. Now, there are risks in the portfolio. You can't get away from that when you invest in long-term assets or equities. But we really do focus on mitigating that, especially looking at the downside.

10:00

So the last few sections: 7, 8, and 9. Section 7 details our performance measures, so it's how we benchmark the fund. Where we can, we use public market indices, so something like Canadian equities would be benchmarked against the S&P/TSX, which is the Canadian stock market. Sometimes it's a bit tricky to come up with benchmarks for some of the more esoteric in a liquid asset class like infrastructure, but we do use a market proxy where we can, and we try to get it as close as possible in terms of measurement. The last two sections are just basically administrative in nature and deal with sort of constraints in reporting and things like that.

Moving off the SIP and G, one of our other key responsibilities in the department is portfolio research. I mentioned some of the things we've looked at in the past. We look at better ways of developing the asset mix. We look at better ways of forecasting the income. We look at noninvestment ideas as well, so we look at best practices, governance of other funds. We've done a lot of work on Norway and Alaska, including meeting with those officials from time to time. We really try to develop that side of our research process as well to look at how things are done in the world. The investment management industry is huge, and there are lots of people doing very interesting things, so we try to stay on top of it.

I do want to highlight one research project that we're just nearing completion of to try to give you a little bit of a flavour of some of the things we look at that are different from what AIMCo looks at. They're very much focused on the individual securities: the stocks, the bonds, the buildings. In the last business plan, the '11-14 heritage fund business plan, we talked about doing an analysis of our currency exposure. If you've been through the documents, you'll see that the heritage fund is invested roughly 45 per cent in non-Canadian assets, and that number has actually grown over the last number of years. Why is it that way? Well, Canada only represents about 4 to 5 per cent of the world's capital markets. Therefore, in order to get the best opportunities, while some of the best companies in the world are Canadian or even Albertan, we do look outside our borders because that is where the opportunities lie.

What comes with that, of course, is that now you're invested in many different currencies, and that takes on its own, you know, sort of unique risk. We're working right now with State Street global associates – and AIMCo is also working through the International Forum of Sovereign Wealth Funds – to look at currency exposure for a fund on a balance sheet that is heavily commodity driven. If you looked at your stand-alone Canadian pension plan, it's a different view than something like the heritage fund, which is part of the province's balance sheet. That's the project that we're working on right now. We've been working on it for probably eight months, and we're just nearing completion on that. I believe it will be shared with the committee once we go through the process of finalizing the report.

That's just a flavour of what we do in the department and how we're working on the fund in order to improve it.

The last thing we wanted to talk about was a couple of the key documents. We dealt with the first one, the statement of investment principles and guidelines. Three other documents sort of make up the core of what this committee sees in terms of the heritage fund documentation. Really, these are all public, and they form the entire suite. We have the heritage fund annual report. The committee has a meeting next week where it will review and approve the 2012 annual report. We also have quarterly updates and a heritage fund business plan, which sort of details our goals for the year and the projects that we work on and which is also approved by this committee.

We included in the package – this ended up seven days before your meeting on this year's annual report, so there are just a few sections in last year's annual report, which I believe you were provided with, that I just want to provide some context around. If you looked at past annual reports, we did a major revision of the annual report for last year. We wanted to provide something that was much more engaging and readable for Albertans. It had over years gotten very technical in nature, and we wanted to take a step back and tell more of a heritage fund story in order to communicate better with Albertans.

Basically, the report now is – there are no hard divisions – really comprised of three sections targeting different audiences. If you go to page 1, the financial highlights, there is everything you need to know about the fund, everything that an Albertan who's just picking this, who is interested in the fund, can be determine from this page. It deals with, basically, how it's invested. You'll see the three broad asset classes I talked about in the SIP and G discussion. It has the value of the fund, the fund performance, and how the fund has changed in value over time. It hits the highlights. It hits the key initiatives. If that's all you're going to look at for the fund, then you get it right there.

The next sort of eight to 10 pages deal with telling that heritage fund story. We have some background, we have details on the governance highlighting what we do and, also, this committee and the role that it plays, and we get into some market commentary, a year in review. If you want to dig a little bit deeper, you can go through the next sort of eight to 10 pages and get a much more complete story.

The last section, the remaining part of the report and leading into the financial statements, is the really heavy-duty analysis. So if you're very, very interested in the nuts and bolts of the portfolio, your top 10 holdings, things like that, that is there for you as well. Some of you might find this interesting. We actually do get a number of requests, I would say somewhere in the range of 12 to 18 a year, from research groups, universities from around the world who are doing research on the Alberta heritage fund in the context of it being a sovereign wealth fund. There definitely are people out there who make it all the way to the back pages of the annual report.

Just dealing with the annual report, I'm not going to delve into it for too much time because, obviously, most of the meeting next week is devoted to this year's. We want to illustrate a few things in it. One is on page 1, the asset mix. That is how the fund is actually invested at a high level between the three. Now, if you compare that to the policy asset mix – and I believe there is a comparison later on in the document – you'll see that we're somewhat underweight, our inflation sense to an alternative category. The reason is that when the new asset mix was put in, it takes some time for AIMCo to fill those allocations.

Something like public equities, which are readily available and can be created either by buying them in the market or through derivatives: those allocations can be filled very quickly. However, Leo and his team want to take a lot of time to pick the best infrastructure investments and the best real estate investments. It's not something you want to go out and rush to fill, so it's going to take some time. We're basically on a five-year transition plan. You'll see in this annual report that we're sort of in year 1 of that, and you'll see the allocations increase. Will it take exactly five years? That is undetermined. The allocations will be filled as AIMCo finds the best deals out there for us.

The other thing that we want to draw your attention to is the performance table. If you look at total performance on page 13, we look at the performance of the fund over a number of different time horizons. This is very important because, as I mentioned, in any given year there can be quite a lot of volatility in the fund. Now, it's important to review the performance on a year-by-year basis. It does give you an idea of how the fund is doing, and of course we would like to see – in 2011 the performance at 10.4 per cent was very good. It beat its benchmark by 1 per cent, also very good.

We do tend to try and focus more on the longer period of time. If you look at 2011 and 2010, they look fantastic. You add in 2009, not so good. The fund had quite a large loss there. It's very descriptive of how we need to look over a long period of time because in any given year there's quite a lot of volatility. If you look at the 10-year number, that's the kind of time horizon that it's important to judge the fund over and measure against our targets, over a long horizon as it gets through the ebbs and flows of the marketplace.

10:10

We also included the quarterly reports. I'll just speak briefly to those. We included the latest quarterly report for your review, which was the fiscal Q2. I believe at the next committee meeting we'll also be dealing with the Q3 quarterly report. The timing was off with the election. That's why the committee could not meet to deal with the previous version. They're very much a snapshot in time. They're a much more scaled-down document. They don't have the kind of history and the kind of, you know, background. They're mostly just dealing with performance and the asset mix.

That brings us to the last topic – then we'll segue over to AIMCo – and that is to deal with how the fund is invested. You can see that this was listed in the Q2 quarterly report. The bars on the left show our asset mix against our policy and how it's evolved over time. So you can see the middle column, March 31, 2011 – that's where it ended last year – and then September 30, 2011, timing of the report. You can see that we have been moving more into inflation-sensitive and alternative investments. There are also some tactical calls by AIMCo here. You know, in September they were at 1 and a half per cent over the target weight in equities, a conscious decision by AIMCo to do that. While we're waiting for the allocations to be filled in things like real estate and infrastructure, that money is not just left in cash or sitting on the sidelines; it is invested in a combination of equities and bonds to keep generating the higher end returns.

Then you can see from the pies on the right that we break down the fund into its more base components. Within inflation-sensitive investments and alternatives at the top we have real estate; infrastructure; timberland, which is a growing asset class; and private debt. The blue is the fixed income. You can see the split between bonds and mortgages. Private mortgages are added to the pool to generate returns. Then our equity portfolio is very well diversified. You can see the global number is 69 per cent there. Emerging markets are obviously not Canadian as well. We still do have a good chunk of Canadian equities, certainly more than the world market cap but probably smaller than if you saw some of our colleagues in the market, other funds. That's got to do with the nature of our fund being a commodity-based fund and not having pension liabilities, things like that. Definitely, from an opportunity perspective AIMCo is not restricted from investing in Canada by any means, but they do have a global palette with which to work.

That covers what we wanted to cover from the department's standpoint. So I will turn it over to Leo to talk a little bit about AIMCo.

Dr. de Bever: Hello. I'm Leo de Bever. I'm the CEO of AIMCo. For those of you who are new to the Legislature, AIMCo was created in 2008. It was the third attempt to create an organization like this. The philosophy behind it is that an investment organization should be separated as much as possible from the political process. Within government risk is a bad thing; you try and kill it. In investment management you have to take risk to make money. So the cultural divide is fairly significant, and you want to have as little as possible of deemed political interference in the decisions that you make with provincial assets.

We manage about $70 billion. The heritage fund is part of a group of six endowment funds that we manage money for, about $20 billion, and there's $35 billion in pension assets for about eight pension funds. They deal with DB pension plans that have been set up for a variety of people that work in the broader public sector, including judges, people who work for government, and then farm and health care workers. There's a wide range of quasi-public organization employees.

The key objective in setting up AIMCo was to arrive at a better long-term return. There are tremendous economies of scale in asset management. So you can run a $70 billion fund for a lot less in terms of basis points, or percentage of assets, than, say, a $5 billion or $2 billion fund. Part of the way that's done is to rely less on external managers.

The financial sector in most countries in the world has roughly doubled in size relative to GDP over the last 20 years. We are part of an effort to stem that tide. Organizations like AIMCo can do asset management at a substantially lower cost than some of the external parties we used to rely on. The reason for that is pretty simple. Our marketing cost is really pretty small. It's really the marketing to our clients or the information function to our clients. We don't have the overhead of a corporate structure where the partners want to get paid for the work that's being done on behalf of clients. Take equities: we can probably do that for .15 per cent, including all costs, on an annual basis. If you did that externally, we'd be double or more. As you go to the more sophisticated asset classes, that difference in cost gets much bigger. The ratio gets to be 5 to 1.

When I came to AIMCo when it was first set up, 80 per cent of its costs came from 20 per cent of the assets, and that reflects the internal-external split. The 20 per cent was the externally managed piece. Now we're down to 60 per cent on 15 per cent of the assets. What's happened in the meantime is that we've been able to attract a lot more talent to AIMCo to do the management internally. We've gone from 130, 150 employees to a little under 300 in the process because of bringing that expertise to Alberta.

The next slide, investment philosophy. Aaron has gone through some of the aspects of it, and some of it may be a little technical or geeky, whatever you want to call it. We see ourselves as risk managers. I mean, we have $70 billion – that's a given – but the amount of risk we can take on that $70 billion is limited by what our clients tell us. The heritage fund has set a limit – well, they don't want us to lose – on how much they are prepared to lose in an extreme event. That's our measure of risk. In other words, if you invest in the stock market, as an example, 1 year in 100 you might lose somewhere in the order of 40 per cent of that. Now, it's not that you set out to lose that much money, but when you're investing in equities, you have to factor in that that might happen to you. Something like 2008 was a 1-in-40-year event – it wasn't 1 in 100 – and it seemed pretty painful at that.

Risk is real, but you have to take risks to make money. It's our scarce resource, so we're trying to allocate it in the best way possible. Now, the problem is that we can measure risk with reasonable accuracy. In other words, we can look at history and say: how bad did things get in the bond market or the stock market over long periods of time? That gives you the measure of risk as I just defined it: how much could you lose? What is much harder to predict is how much you're going to gain. The current environment is an example of that. We've had 30 years of very good returns in bond markets, but now interest rates are down to a level where the likelihood of that continuing is very, very low. So we know the risk, but we don't know what the return is going to be.

The same with equities. Equities in the '80s and '90s had a terrific run. In the last 10 years it hasn't been so great. So now the question is: what are the next 10 years going to be like? Our estimate is that it probably will be better than the last 10 years but probably not as good as, say, the '90s and the '80s.

We have a long-term perspective, but I must tell you that when the results come in, that's often forgotten. A lot of our clients want to be long-term investors as long as it makes money in the short run. Obviously, that doesn't work because some of the positions we take are very long term in nature. I'll give you an example. If you take listed equities, they have a certain expected return. But our strength is really that we can commit in the long run, so our strength is that we have a lot of cash and a lot of patience. That's the theory.

Now, if you go into private equity, you accept in most cases somewhat lower returns in the short run to capture much bigger returns in the long run. Again, the long run may be 10 years, and the negative or the lower return you accept might run for three or four years. So that's been one of our challenges. I think the department with the heritage fund has quite rightly tried to put a larger fraction in these unlisted asset classes, but to varying degrees they all have that phenomenon that I just described, that in the short run you're giving up some return to capture more of it down the line. So risk is our scarce resource. We try to redeploy it as much as we can in the best way possible.

The other thing that you have to realize is that the market teaches you humility. Humility is one of our corporate values, and it's there for a reason. Anybody who thinks they can predict the stock market over the next six months or one year has a much-exaggerated notion of his capabilities. I don't think anybody can really do it. The track record of doing that is pretty low.

10:20

You should understand that the total return that was presented in the annual report in most cases reflects to 70 or 80 per cent, sometimes even more. When returns are very high, it reflects the behaviour of markets. We have data on how markets behaved over the last 150 years, 200 years in some cases, and the only consistent variable there is human nature and our tendency to vacillate between fear and greed. That's what drives returns because people tend to swing from one to the other, and that's what creates the volatility in markets as much as technology. In fact, technology over the last 150 years has changed dramatically, but the behaviour of stock and bond markets has remained remarkably the same.

Now, active management can add value, and the reason for that is that there are some persistent anomalies. I mean, I already gave you one reason why you can make value-added. That is by accepting illiquidity risk, and we're doing that in private equity and infrastructure, in asset classes like that. But in, say, listed equities you can make extra money because the market as a whole is heavily weighted to the most highly priced assets, and almost by definition they're overpriced. What that implies is that the riskiness of the individual stocks doesn't always get compensated for in returns. In fact, that's a persistent anomaly, that over time less risky stocks tend to have a higher return rather than higher ones, and to the degree that certain stocks go from being undervalued to overvalued, you can make extra value-added by security selection, meaning the ones where you can reasonably expect returns to be a better reward for risk than others.

The other fundamental belief that we have – and we're going through a restructure at AIMCo to emphasize that even more – is that the best opportunities are not in the traditional asset classes. If you can calculate the return to five decimals and the risk to two decimals, the excess return is probably gone because it's been worked over really badly.

What we find is that if you find something between stock markets and bond markets, something that does somewhat look like an equity, somewhat like a bond, often those opportunities are unusual, but they tend to have a higher return. If you have good expertise internally to evaluate them, that's where you make the money. We call that investing between the cracks. It requires a management style that is hard to deal with. I mean, investment managers like to have a territory that's well defined, and if the good opportunities are in between those territories, then that gives you a management challenge. That's what we're trying to deal with at AIMCo.

Page 4, which is the next one, is a bit artistic, but what it really tries to depict is how you go from an inner core of stocks and bonds to the more esoteric opportunities that are less familiar, like hedge funds, emerging markets, global equities, private equity. On the outer edge are the ones that are illiquid. Timberland: one of the interesting aspects of that is that timber is one of the commodities that over time hasn't lost any real value. In most commodity asset classes you lose value over time. In other words, the price of oil – and this may surprise you – is in real terms probably lower now than it was 150 years ago whereas in most other commodities that's not the case. The reason is that timber isn't tremendously volatile. For instance, in the last 10 years the demand for newsprint has gone down, but the demand for timberland as a biomass source has gone up. So you find that the uses of timberland change over time, and its real returns have been very good.

On the infrastructure side we look for social infrastructure. Again, those tend to be regulated assets, meaning that to protect consumers and investors, there's a regulatory body that sets an appropriate rate of return, not tremendously high but high enough to attract the capital. Basically, you're not guaranteed, but you're going to realize that return if you manage the assets properly. I don't know if most of you are familiar with real return bonds, but they give you a return that's measured as CPI plus. By the way, Aaron mentioned that the four-year target for the heritage fund is CPI plus 4 and a half. You should look upon that as an aspirational target because I can guarantee you that if you look at the range of outcomes – if you start with $100 and you invest it the way the heritage fund is invested, after four years if you use CPI plus 4 and a half, you end up with $125 if that expectation is fulfilled. But the range of outcomes around that $125 is from $50 to $200 on that four-year horizon. So the volatility of outcomes in the market is just absolutely enormous.

Now, the next page is pretty pictures of investments that you can actually touch or visualize. Most of what we do is actually pretty boring. It's slugging it out with fundamental or quantitative assessment on stocks and bonds. The pretty pictures revolve around things in venture capital. For instance, on the top left, Bloom Energy is a company we invested in, and it distributes electricity from natural gas produced close to the location where it's being consumed. It's an up-and-coming company, and it's been very good to us in terms of return.

You may have heard about our involvement in Viterra, on the right-hand side. That's part of what we call relationship investing. It's a way that we can add value by providing not just capital but our expertise in helping companies restructure their capital structure and helping them through periods of expansion. In the case of Viterra we tried to help Viterra grow into a global grain-trading company, and we were stopped out by the clock. Other people had the same idea, and there was a bid for Viterra that was very attractive. Given my fiduciary obligation to generate very long-term high returns, I couldn't turn that down.

Timberlands, in the bottom left. We own 2,500 square kilometres of timberland in Australia in six states, 640 different properties. We bought it at a bankruptcy. The reason that it was attractive to us is that we have the patience to sort out very complex bankruptcy situations, and we figure it's going to take us five years to do that.

Infrastructure, in the middle there on the bottom. Autopista Central is a toll road in Santiago. Chile needs a lot of infrastructure capital. It's created a regime that is very reliable, and Canadian pension plans have found Chile to be very hospitable in that context.

Then, of course, we invest in real estate. Real estate is probably the most common alternative to listed asset classes. We have about $7 billion of the $70 billion in real estate. That picture is one of a building that we just completed, which is Eighth Avenue Place in Calgary.

That gives you a flavour of the kind of assets we're involved in. I must assure you that the people who invested in these pictures get most of the billing, but most of the hard work is done by the 90 or 80 per cent of the assets that are much less glamorous but just as important to the overall outcome for the heritage fund.

Mr. Chairman, I'd like to leave it at that. If there are any questions, I'd be pleased to answer them.

The Chair: Thank you, all of you. I'm sure there will be questions.

I would just like to welcome Shannon Dean, Senior Parliamentary Counsel and director of House services, Legislative Assembly Office, who popped in here right after the beginning of the first presentation, so she's been here for some time. Welcome, Shannon.

Now, that was a lot of information. Thank you, gentlemen.

Questions for Dr. de Bever or Mr. Brown or any of our officials? Ms Kubinec.

Ms Kubinec: Yes. I have a question. Could you give us an example of investing between the cracks?

Dr. de Bever: Okay. Actually, the Australian timberland investment is a good example of that. In Australia, unlike Canada, because of the different climate timberland can be redeployed into agriculture, in cropland, or for development of subdivisions or vacation homes or whatever. That last part you find to some degree in some of our forest land. So this thing: is it timberland? Yeah, it is, but if economics change, we can turn it into something else. Again, it's because in Australia eucalyptus trees grow in 15 years and pine trees in 30 whereas in Canada it'd be 60 or 80 years in many cases. So the versatility of that particular asset is one example of investing between the cracks.

10:30

Another example would be, say, a real estate project that really has aspects of private equity to it. You often find that outside of Canada. For instance, in Brazil we find that it's often hard to characterize assets. Whether it's infrastructure or private equity or even real estate, it's sometimes hard to figure out because the rules are not quite as easily set. You get compensated for taking that extra risk. In general we don't care what an asset is called. As long as we can figure out what the risk is, and if we have a reasonable expectation of what the return would be, that is really what we focus on and why we think that having rigid asset silos is not the most productive way of managing assets.

Ms Kubinec: Thank you.

The Chair: Thank you.

Mr. Eggen, followed by Mr. Dorward, please.

Mr. Eggen: Thanks very much, and thanks for the presentations. They were quite edifying, to say the least, lots of information. I was curious. You're saying that the heritage fund is maintained sort of with this philosophy of inflation-proofing, right? So I just wanted to know what year or at what place you have a benchmark so as to say that you've maintained the fund at a certain level. Where have you sort of set the bottom end of it?

Mr. Matheson: There isn't really a bottom end because the inflation-proofing is established in the legislation. The act says that the inflation-proofing wouldn't start until after the government eliminated all of its accumulated debt. As I think Aaron said in his presentation, we only started formally inflation-proofing the fund in 2005-06. Is that right? So it's simply now a matter that every year we preserve that year's real value based on that year's inflation. We're not trying to go back and re-establish a base on some benchmark or some base level.

Mr. Eggen: So the base level varies from year to year, I guess. But I guess you could potentially have a diminishing return on the original capital investment, and then each of those inflation-proofing mechanisms is protecting a smaller number at the end of the day, right?

Mr. Matheson: Yeah. I think an example would be 2008. The heritage fund had a loss for the year. There was no income, so there was no ability to retain income for purposes of inflation-proofing. So in 2008 effectively the heritage fund would have lost some real value.

Mr. Eggen: Thanks.

The Chair: Very good.

Mr. Dorward, followed by Mr. Anderson.

Mr. Dorward: A couple of questions, Mr. Chair, and thank you. Maybe I'll ask a couple of questions and then transfer it to somebody else, and if there are no questions, I'll come back to another question. The question I will not ask is if we shorted Facebook shares.

I'm intrigued by the infrastructure. By the way, being that you are a separate body looking after investments for us, I'm sure that there are times when we may ask a question which is one where you may say: that's not really something in the public domain. Would we or have we looked at investing in something like the Anthony Henday, which is a P3 investment, for example, in infrastructure?

Dr. de Bever: In a previous life I did, for another organization. In principle, in most slides where I talk about AIMCo, there's usually a slide that says: to be or not to be in Alberta? It's a quandary for us because whenever we do something in Alberta, people go: oh, come on; the government must have put you up to this. I must tell you that one of the very positive developments over the last four years that I've been here is that the government has been very true to its original commitment to keep this an arm's-length organization and not to get involved in our investment decisions.

Now, the question you ask is: would you consider an infrastructure investment in Alberta appropriate for what we're doing? And the answer is: if the return is there, yes, we would. But I always apply a second level of due diligence, and that's sort of a *Calgary Herald* or *Edmonton Journal* risk. If this were to hit the press, how would this be perceived? In other words, when we did our first big transaction that was a bit out of the ordinary, Precision Drilling, the press sort of made it out like Ed Stelmach bought himself a drilling company, which was not true at all. The government didn't even know we were doing this.

Maintaining that arm's-length relationship and always making sure that we're fulfilling our prime fiduciary obligation, which is to invest for the highest return, is always what we apply, but that doesn't prevent us from investing in Alberta.

Mr. Dorward: All right. Thank you. The second one is a bit of a comment, but it could be answered somewhat now, perhaps, both by the Department of Finance and yourself and AIMCo. We on this committee as MLAs want to be of substance to something, I think, more than just reviewing these bits of information and approving them. Over time, maybe as a philosophy – I can say this for myself anyway – I think we would appreciate both from the Department of Finance and yourself how we might best guide the ship or assist where we could in terms of going back to the Legislative Assembly with legislative changes if necessary.

I would particularly like to have a forum whereby you get a chance to tell us those kinds of things. Is there something that you sit back in your offices and say, "Dang, if we could only do this"? It might be helpful to us in our mandate. I for one would like to have an open dialogue somewhat about that so that we know. You could guide us as to things that we might be able to do to assist you to do your jobs better, which you do very, very well, by the way. Thank you for that. Are there any comments on that now, or is that kind of just a philosophy statement?

Dr. de Bever: Well, can I give you a general statement? You know, I've been at these hearings now for four years, and it comes back to the long-term, short-term kind of thing. Occasionally you get into discussions like: "Well, why in the heck did you guys not hedge your Canadian dollars? I mean, it was obvious that you should have done that." Well, often short-term movements in currency or any other market are not that obvious. So I would say: resist the temptation to second-guess very short-term movements in the market or in the performance of the fund that reflect the market or even our own short-term value-added.

Over the time that I've been here, we've added about 5 per cent to the value of this fund, when you accumulate it, since 2009. That's not insignificant, but it's not consistent. As Aaron pointed out, the volatility of markets is high, but the volatility of active returns is high, too. Even if I set myself up and say, "Okay; what would it look like to be a top quartile manager, to be better than 75 per cent of my peers?" I still will have a 40 per cent chance in any given year of not having done better than the markets. So the volatility of markets is enormous.

In our business – and you wouldn't want to run an airline this way – if we get it right 60 per cent of the time, we're absolute giants in our field. In other words, that still leaves 40 per cent of the decisions being wrong to some degree. It doesn't mean they have to be wrong in that we lose an absolute enormous amount of money but that they didn't make any money. So I would say: look at the reports you get from a longer term perspective and try to resist the temptation to second-guess individual or very detailed results.

Mr. Dorward: Anything from Finance at all?

Mr. Matheson: I think I would characterize it, as you said, as a philosophical question that we will take back and reflect on and, certainly, pass that on in our discussions with the minister.

Mr. Dorward: Thank you.

The Chair: Thank you.

Now, we've got a bit of a list here, so if we can keep our questions and answers concise, that would be great. Mr. Anderson, followed by Mr. Casey.

Mr. Anderson: Sure. Thanks for the report. It's very detailed and helpful. I have three quick questions. One of the questions I have is looking at some of the assets or percentages of assets that we have. What is our exposure right now with regard to the EU sovereign debt crisis? Is this something that we can easily hedge against or get out of before it starts to turn into a major loss?

Also, I see that 23 per cent or 25 per cent is in private mortgages. Where are those assets mostly located? Are we heavily exposed to the mortgage crisis in the U.S. in particular?

What is our exposure to asset-backed commercial paper? Is there any significant exposure to that field?

10:40

The Chair: Sorry. I'm going to interject just for a minute. For subsequent questions maybe some of these more detailed ones could wait till we have our next meeting and accept the next quarterly report.

Please go ahead.

Dr. de Bever: Well, in brief, we don't have much in the way of asset-backed commercial paper.

The mortgages: most of that is in Canada. The U.S. situation, actually, now that it has happened, is an opportunity for us because a lot of the providers of mortgages are out of the market, so there is disintermediation, and we are finding some very attractive risk-reward conditions in the U.S. They are a very small part of what we hold, but it is definitely an opportunity for us.

On the euro the question is: well, if you can tell me what's going to happen, I'll tell you how I'm going to hedge my exposure. That's the big issue, right? We don't know how it's going to work out. We have lightened our exposure to southern European financial entities because they are, obviously, under a lot of pressure. But Europe is not one entity. Northern Europe has a lot of good companies, and we probably are overweighted to that part of Europe. Trying to pull out of 20 per cent of the global equity market, even in this environment, is very, very dangerous because we don't know how it's going to play out. If Europe solves its problems, you could have a huge relieve rally, and you would come to me and say: well, why weren't you positioned to take advantage of that?

Now, the other side of the coin may happen, too, that Europe doesn't sort out its issues, and then the market craters some more. If I knew the answer to that question – and it's what keeps me awake at night – I could make you incredibly rich.

The Chair: All right. Thank you.

Mr. Casey, followed by Mrs. Jablonski.

Mr. Casey: Thank you, Mr. Chair. I'd like to go back to the policy and goals document if we could just for a minute. Under 9.2 we talk about portfolio restrictions and limitations. I realize this isn't a comprehensive list, so I guess it's more a question of what is not on the list. Given these are public funds, I don't see anything listed here that would restrict our investment based on environmental or even human rights standards for the investments we are going forward with. I'd like to know what guides that. What do you use as a guide when you are investing to ensure that environmental standards and human rights standards are in fact being met, you know, to be consistent with the expectations of Albertans?

Mr. Matheson: I'll just make a very quick comment and then pass it over to Leo. You're right in observing that there isn't anything specific in the statement of investment policies under that banner or that heading. We in turn rely on AIMCo, and they do have very good policies in place with respect to their approach to I guess what you'd call socially responsible investing.

Maybe I'll just ask Leo to comment.

Dr. de Bever: Well, this has come up in this committee before, and 80 per cent of the answer to your question is common sense.

What I mean by that is that it's just bad business to have bad labour practices and to have bad environmental practices and so on. But there can be a difference of opinion. I'll give you an example. Some countries prevent their pension plans from investing in the oil sands because they consider that to be an unacceptable investment. We would say: "Well, yeah, okay. Mining is never pretty, and, yeah, we can improve our performance there, but it's not an immoral, unethical, or whatever investment." In terms of human rights that's often pretty straightforward. I mean, you try and stay away from situations where human rights are being violated.

But there are a lot of situations where people who have thought about these issues basically don't have a unanimous conclusion. Often we apply standards. For instance, child labour. In most developing economies children contribute significantly to the income of the family just by way of practice. If you think that's unusual, I grew up in a society in the Netherlands where 14-year-olds went to work – that was just the way it was – and that was only 40 years ago or 50 years ago. So there are a lot of sort of borderline conditions where judgment is required to decide how you're going to come out. But I guess the general principle that we pay attention to is justified. We subscribe to a number of protocols that lay out standards for how you invest, but sometimes it's very hard to have an unambiguous conclusion.

Mr. Casey: So just as a clarification there is no government policy on it, and we depend on your policy internally. Is there any government oversight, then, of that policy or approval of that policy? Again, I go back to the point that these are public funds and need to be managed in a way that meets our expectations in Alberta. That may be different than those principles and values that a company making money is looking at.

Dr. de Bever: That's a fair comment, but so far I think the government has been satisfied with the standards we apply. I can manage to any policy that you give me, but you have to accept the consequences of subscribing to that policy.

Mr. Casey: Okay. Thank you.

The Chair: Dr. de Bever, if I may, I'm just looking back to a memo from Mr. Matheson to the former chair last June about the United Nations principles for responsible investing. Do we follow those guidelines? Actually, why don't you just send us a copy of that through the chair?

Dr. de Bever: Yeah, we can do that.

The Chair: Has anything changed since then? That was last year.

Dr. de Bever: No, it hasn't.

The Chair: Okay, then the clerk actually has that information already. We'll distribute that to all the members just to kind of clarify that.

All right. Mrs. Jablonski, followed by Dr. Sherman.

Mrs. Jablonski: Thank you, Mr. Chair. First of all, I'd like to say thank you very much for this orientation. I'm fascinated. Even though you thought that some of this information might be dry, I can tell you that it's very interesting.

You know, the heritage savings trust fund is of very high interest among most Albertans. I find there's a very high degree of misunderstanding about the heritage savings trust fund, so I believe it's very important that Albertans are given the opportunity to be informed just as we were informed this morning. I believe there's one public meeting a year where people can participate through a live audience, through TV viewership, through live-stream video, and through real-time tweet coverage. I understand that last time there were about 5,063 people who were able to participate through all of these venues, the biggest one being the TV viewership.

I think that these documents are great documents, and I think they are designed so that we can understand some of the things that we need to understand about the heritage savings trust fund. I don't know if this is directed to Tracey Sales or not, but my question is: have you considered delivering a very clear, colourful, and concise householder so that every Albertan with a household has a chance to review the financial highlights of the fund, just as you've pointed out in the first page, as well as some of the investment opportunities that we see here? The reason I ask the question is because I am always asked the question by a number of Albertans who are very interested in our heritage savings trust fund. Have we considered a householder?

Ms Sales: Thank you very much for that question. That's a very good question. We work within the constraints of the budget that we're given. Mail-outs can be very costly. We have done mail-outs before to the area around where the actual meeting will be, but as far as throughout the province, we have never done anything like that. If you like, I can look into it, and I can definitely find the costs on something like that and include it just for information purposes with my communications plan when I present that. But, no, we've never tried to do a province-wide mail-out, just very specific areas as far as promoting the public meeting. As far as province-wide we've relied mostly, I would say, on online information.

10:50

Mrs. Jablonski: Tracey, thank you very much for the suggestion that you review that and provide us with the numbers because I would say to you that there are a huge number of Albertans who are interested in this information. Simply for us to reach a comfort level with the constituents that we represent, I certainly would like to know what it would cost to do a householder. I know that the government has done that in the past with other things. I think this is a very important area – all Albertans are interested in it – so I sure would like to know what those numbers are. Thank you for that.

The Chair: I'll bring that up for a discussion item at the next meeting.

Dr. Sherman.

Dr. Sherman: Thank you, Mr. Chair. I'd like to thank you all for your presentation, and thank you for managing Alberta's wealth. I acknowledge it's been challenging for fund managers across the planet as of recently.

I have a few questions. Of the $70 billion in assets, how much is invested in Alberta? I hear we have a good investment climate here with low taxation and good incentives.

Secondly, as you are a Crown corporation, what are your thoughts of investing in the oil sands and competing against other private investors from across the planet who are currently considering investing here?

Lastly, your mission statement. I feel for you. As part of being a fund investor we should have more investments put into your fund on a regular basis. We haven't had any savings from our nonrenewable resources for 25 years, and that's an absolute tragedy. What are the policies of other nation states who have funds that I'm sure you'd love to manage, who have funds of half a trillion dollars and then some? What are their government policies that have allowed them to put that much nonrenewable resource revenue into their funds for their fund managers to manage?

Dr. de Bever: Let me take your questions in order. I think our investments in Alberta are about between 8 and 10 per cent, somewhere in that range, depending. It differs by the type of fund we manage. Yes, Alberta has a good investment climate. Something is important, though, that Aaron pointed out, and that is that the assets we manage for the province are in part designed to diversify the risks the province already has. If we start investing in the oil sands, we're doubling up on the risk the government already has. So it's not a question that it's not a good investment. We do have investments in the oil sands, by the way, simply by the nature of being invested in general Canadian stocks. Part of the objective of the heritage fund is to diversify the exposure that we have, and I think Aaron pointed that out in the context of foreign exchange, but it's more generally true. In other words, the inherent exposure to oil and gas is already very high, so by us not investing there, we provide diversification to the balance sheet.

The oil sands as an investment. We play a bit of a role in there in that external sovereign wealth funds and pension plans tend to come to us and say: hey, what is it like to invest in the oil sands? So for them the oil sands provide diversification from whatever their basic risks are.

In terms of how funds like this are managed elsewhere, I mean, that's a policy question. I know you have views on there, and I may have them, too, but my views don't matter. I mean, it's what the Legislature decides. The decision basically comes back to: are you managing these funds for the future because at some point you're not going to have the energy revenues, or are you trying to maximize the benefit for current Albertans or put in place the conditions for growth in the Alberta economy? That's the policy question, and that's not my question to answer.

In terms of how other countries manage it, there's a wide range. I would say that in most cases the size of these funds relative to the local economy is much bigger than it is in Alberta's case. For instance, Norway is a good one. Right? Norway has a very tiny population, and it's got this enormous wealth from oil and gas. They're basically using it to run their equivalent of the CPP. Is that an appropriate use of the money? Well, they've decided it's appropriate, so who are we to decide? In the Middle East you have a very tiny population and an enormous size. It tends to be run as an endowment, meaning that they draw down a percentage every year. They know that their resources are finite as well, so at some point they want to draw it down or use it as a way to fund their expenditures on the government side. There's a wide range of how people do this.

Your basic question, "How should we do it?" is a policy question. That's not for me to answer. There are a number of different answers you could give to that, including saying: if we deploy the money in capital, that allows the province to grow fast now and diversify itself now, that's as good as potting the money up and at some point in the future spending it to effect diversification at that point. But that's not a question for me to decide. I'm just giving you what the options are.

Dr. Sherman: Thank you.

The Chair: Thank you.

Mr. Matheson: Could I just supplement very briefly in terms from the policy perspective? As all committee members would know, the government did say in the budget that was released earlier this year that we will be undertaking a review of the province's savings framework and savings policies, so that will be a comprehensive look at things like the heritage fund.

The Chair: We'll look forward to that.

Thank you to all of you for outstanding presentations for our new members here.

Dr. de Bever: If any of you have questions that you didn't think of or are going to think of later on or didn't want to ask here, please, you know where to find me. We're quite happy to sit down with you either alone or in a couple and go into more detail than we've provided here.

The Chair: Okay. Thank you for that.

All right. In other business, temporary substitutions, Standing Order 56(2.1) outlines the process for substitutions for committee members.

> A temporary substitution in the membership of a standing or special committee may be made upon written notification signed by the original Member and filed with the Clerk and Committee Chair, provided such notice is given not less than 24 hours prior to the meeting.

The committee clerk has a template available upon request. When substitutions occur, it's the responsibility of the original committee member to ensure the substitute has been provided with all necessary meeting material. Be reminded that Members of the Legislative Assembly who are not committee members or official substitutions may still attend and participate in the meetings, but they may not move motions or vote.

Any other business to raise? Very good.

Then the next meeting has been scheduled for Wednesday, June 20, to receive the third-quarter report – and you can ask more questions then – approve the annual report, and decide on the public meeting location.

Mrs. Jablonski: May I ask a question?

The Chair: I'm sorry. A question, Mrs. Jablonski.

Mrs. Jablonski: Thanks very much, Mr. Chair. I didn't get my question in fast enough to you. I noticed in the last report for the last meeting that there was a question of process whereby the annual reports have to be released to the members of the Legislature first before they're released publicly. That was raised in the meeting, and I just was wondering if that had been dealt with.

The Chair: Yeah, we have dealt with that. I'm going to actually defer to the Finance officials to respond to that.

Mr. Matheson: Sure. Be happy to. It will require a little bit of finessing, but we think, working with Parliamentary Counsel and Corinne, that we found a way that we can satisfy the requirements in the legislation with respect to the release of quarterly reports and the annual report and still try to stay in sync with the release of all the government publications like quarterly reports and annual reports. We think we've found an elegant way that we can comply with the legislation.

Mrs. Jablonski: Thank you.

The Chair: Great. Thank you for that.

All right. Motion to adjourn. Mr. Eggen. All in favour? Thank you, everybody. We'll see you on the 20th.

[The committee adjourned at 10:59 a.m.]

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