Legislative Assembly of Alberta

The 28th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Thursday, February 6, 2014
1:30 p.m.

Transcript No. 28-1-10

Legislative Assembly of Alberta
The 28th Legislature
First Session

Standing Committee on the
Alberta Heritage Savings Trust Fund

Khan, Stephen, St. Albert (PC), Chair
Jablonski, Mary Anne, Red Deer-North (PC), Deputy Chair

Amery, Moe, Calgary-East (PC)
Anderson, Rob, Airdrie (W)
Casey, Ron, Banff-Cochrane (PC)
Dorward, David C., Edmonton-Gold Bar (PC)
Eggen, David, Edmonton-Calder (ND)
Kubinec, Maureen, Barrhead-Morinville-Westlock (PC)
Sherman, Dr. Raj, Edmonton-Meadowlark (AL)

Office of the Auditor General Participants

Merwan Saher	Auditor General
Brad Ireland	Assistant Auditor General
Jeff Sittler	Principal

Support Staff

W.J. David McNeil	Clerk
Robert H. Reynolds, QC	Law Clerk/Director of Interparliamentary Relations
Shannon Dean	Senior Parliamentary Counsel/ Director of House Services
Philip Massolin	Manager of Research Services
Stephanie LeBlanc	Legal Research Officer
Sarah Leonard	Legal Research Officer
Nancy Zhang	Legislative Research Officer
Nancy Robert	Research Officer
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Karen Sawchuk	Committee Clerk
Christopher Tyrell	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications and Broadcast Services
Jeanette Dotimas	Communications Consultant
Tracey Sales	Communications Consultant
Janet Schwegel	Managing Editor of *Alberta Hansard*

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
Aaron Brown, Director, Portfolio Management, Capital Markets
Rod Matheson, Assistant Deputy Minister, Treasury and Risk Management
Darcy Scott, Public Affairs Officer

Alberta Investment Management Corporation
David Goerz, Executive Vice-president, Investment Strategy and Risk Management
Malcolm Mung, Assistant Vice-president, Client Relations

1:30 p.m. **Thursday, February 6, 2014**

[Mr. Khan in the chair]

The Chair: Well, we're going to start our meeting. I know we're into February, but there are a number of people here I haven't seen since our Christmas and New Year's break, so I'll start by wishing everyone a Happy New Year. Thank you very much for joining us.

We have quorum, so I'm going to call the meeting to order. I understand we will be joined a little bit later by one of our committee members. I believe Mr. Anderson and Mr. Casey will be dialing in at some juncture, so we'll anticipate that, but we're calling the meeting to order.

I'll ask committee members in the room who are here if you could be so kind to introduce yourselves. We'll start with our deputy chair, and perhaps we'll work around the table for the introductions.

Thank you.

Mrs. Jablonski: Good afternoon. Mary Anne Jablonski, Red Deer-North.

Mr. Amery: Good afternoon. Moe Amery, Calgary-East.

Mr. Eggen: Hi. I'm David Eggen. I'm the MLA for Edmonton-Calder.

Mr. Scott: Darcy Scott, communications branch, Treasury Board and Finance.

Mr. Mung: Malcolm Mung, client relations, Alberta Investment Management Corporation.

Mr. Goerz: Dave Goerz, Alberta Investment Management Corporation, EVP of investment strategy and risk.

Mr. Matheson: Good afternoon. Rod Matheson. I'm an assistant deputy minister with the Treasury Board and Finance department.

Mr. Babineau: Rod Babineau, Alberta Treasury Board and Finance.

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

Mr. Sittler: Jeff Sittler, principal with the Auditor General's office.

Mr. Ireland: Brad Ireland, Assistant Auditor General.

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

Ms Dotimas: Jeanette Dotimas, communications, Legislative Assembly Office.

Ms Dean: Shannon Dean, Senior Parliamentary Counsel and director of House services.

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: Fantastic. Thank you all very much for being here.

There's just a little bit of housekeeping here. The meeting materials were posted to the internal committee website last week. Just a couple of other items for everybody. I am sure you all aware, but it's worth repeating that the microphone consoles are operated by the *Hansard* staff. Please keep cellphones, iPhones, BlackBerrys off the table as they may interfere with the audio feedback. Audio of committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts are obtained via the Legislative Assembly website.

Moving right along with our agenda, we'll move to item 2.

Oh, we have another committee member who has arrived.

Ms Kubinec: Maureen Kubinec, MLA, Barrhead-Morinville-Westlock.

The Chair: Thank you for joining us, Maureen.

We're at item 2 of our agenda, approval of the agenda. I'm looking for a committee member for the following motion, that the agenda for the February 6, 2014, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. Mr. Amery has seconded. Thank you very much. All in favour? Any objections? That motion is carried.

Moving to item 3, review of our minutes, a motion for the minutes to be adopted. Looking for somebody to second that the minutes of the September 9, 2013, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. We have our deputy chair, Mary Anne Jablonski, seconding. All in favour? Any objections? Thank you very much.

We are moving right along. We come to item 4, which is our Alberta heritage savings trust fund second-quarter report for 2013-2014. The Alberta heritage savings trust fund second-quarter report was distributed to all members of the Assembly on November 26, 2013. As you know, the Alberta heritage savings trust fund indicates that one of the functions of our committee is to receive and review quarterly reports on operations and results of the operation of the heritage fund.

We are very pleased to have Rod Matheson, assistant deputy minister of treasury and risk management, and David Goerz, executive vice-president of investment strategy and risk management, here to assist us with our report and the review. Gentlemen, at this point in the meeting I would like to hand the ball to you for a review of the report. Thank you very much.

Mr. Matheson: Thank you, Mr. Chair, and good afternoon to members of the committee. I am here today on behalf of Minister Horner, who sends his regrets.

I am pleased to provide a brief overview of the heritage fund's second-quarter results. The fund's fair value at the end of the second quarter was $16.7 billion, up from $16.6 billion at the end of the first quarter. Over the first six months of the fiscal year 2013-14 the fund earned a 4.0 per cent return, earning $948 million in gross income. The fund's net income was $860 million after $88 million in expenses. Of this amount $134 million will be retained in the fund for inflation-proofing with the remaining $726 million being payable to the general revenue fund in accordance with the heritage fund act.

For the first six months of 2013-14 the fixed income portfolio was down .6 per cent, the inflation-sensitive and alternative investments were up 2.9 per cent, and the equity portfolio returned 6.4 per cent. The primary driver of the fund's investment returns was the fund's Canadian and global equity portfolios, which earned 3.3 per cent and 8.3 per cent respectively.

AIMCo, Alberta Investment Management Corporation, on behalf of the Alberta government continues to take a long-term, diversified global investment approach designed to maximize the fund's returns over the long term within a prudent level of risk.

I'm happy now to turn it over to David Goerz from AIMCo to provide some comments related to the markets. Then we would be happy to answer any questions from members of the committee.

Mr. Goerz: Thank you. The third quarter was a bit of an interesting one. It was quite volatile. There were a lot of exogenous geopolitical issues that were going on at the time. As we entered the fourth quarter, we were very constructive about what was likely to happen. As we look back over the last 12 months, I think generally the results have been very good.

One of the challenges as one manages both a combination of public and private investments is that oftentimes the public benchmarks can run ahead of the marks that we will actually see with respect to valuations of private or unlisted types of assets. You see that in some of the results in terms of what we're looking at in the third quarter. Real estate valuations, for example, come in once a year, and when we look at private equity and infrastructure and some of these other kinds of assets that we hold in the portfolio, they don't tend to get marked as frequently. So they tend to lag, it appears, in the context of public markets that trade on a daily basis and are marked day to day, particularly in upward trending markets such as we've seen and a very strong year overall that we observed in 2013.

As we look forward, we continue to observe a very challenging environment for fixed income in general. We continue to expect long-term interest rates. If one were to look at the 10-year government, it's headed towards about 5 per cent, potentially even higher if they overshoot, today trading at around 2 and a half per cent, so a pretty significant increase in yields is expected over the next two to three years.

As we look out longer term, we've just finished some work looking at our 10-year-out expectations for stocks and bonds. Equities are pretty much in line with what we've observed historically, between the 8 and 9 per cent kinds of rates of return, whereas bonds, particularly as one gets out to the longer end of the yield curve, longer duration, longer maturity, have inflation, if we're lucky, of about 2 and a half per cent but for longer duration maturities potentially even below inflation. So that's going to present some challenges for us as well as some opportunities as we look forward, thinking about how we might position the portfolio.

The other thing that we would observe is that as we go forward into 2014, one of the challenges for fixed-income investors as well has to do with the fact that credit spreads have tightened up tremendously. During 2013 we saw credit spreads tighten across the curve but particularly across different credit. This is true in Canada as well as around the world and particularly in the U.S. It was a year in which a lot of risks started to moderate. Investors started to reach out in terms of taking on more risk, and in so doing, they priced those assets closer to equilibrium.

1:40

As well, we've also seen on the equity side that the very compelling and below equilibrium earnings yield that we've observed – price-to-earnings ratios were cheap. We've seen a rerating of equity markets as risks have moderated. That's true not just in the U.S. but around the world and Canada. Consequently, as we look forward, some of the opportunity of revaluation has been extinguished.

We still believe that we can get some pretty good returns out of equities, in the 8 to 9 per cent kind of range, potentially higher if there is continued revaluation of the equity markets. From our positioning standpoint our preference is to be overweight equities, underweight bonds, shorter duration. We're beginning to unwind some of our overweight credit exposure but still overweight credit exposure.

We want to avoid commodities. Gold has had a terrible run. Oil prices are coming off. We are starting to become concerned about oil prices, headed back down towards $80, which may well be more of an equilibrium as we think about it going forward. The marginal cost of production for incremental barrels of oil in the world today is somewhere around $70 plus some geopolitical risk premium that ought to be in the WTI curve. Commodities generally aren't necessarily a place where we're going to get a lot of juice in the portfolio, so our last hope is to really focus on equities, underweight bonds, and look for opportunities to add value through security selection.

I'll just finish with the headline from our latest investment commentary: Great Inflection Points. This is a year of great inflection. There are a lot of different and important inflection points that we observe around the world, but the most important is the inflection point in interest rates. As the Fed has started to ease its quantitative easing program and begins to look forward to hiking interest rates, the U.S. treasury curve will drive interest rates around the world. Spreads off of that will be very important for Canada as well as Europe and indeed Japan.

North America is growing faster than the rest of the developed world, almost twice as fast in real terms. I think that's going to provide a significant advantage for North American markets relative to Europe and Japan. As a result, those markets have been priced cheaper, so we have to balance between valuation and what's happening in terms of economic growth and ultimately earnings, which drive overall performance of equities.

We've also seen the bias of investors, another important inflection point, to prefer income-oriented strategies and bonds in general. Companies have issued into that demand, so there potentially is an oversurplus of credit in the world. The question will be: how will that all be placed? That will put upside pressure on bond yields or downside pressure on returns for bonds as well as where we believe that they ought to be from a valuation standpoint.

The last important inflection point. We've been in what we call a global synchronized recovery from 2009 to probably mid-2012. I think this is very interesting from a standpoint of resetting one's portfolio and thinking about where the opportunities are going forward. We're evolving now into clearly an asynchronous global expansion, changes in risk as a result of the inflection point of interest rates, and countries continuing to pursue their own agendas more so than they have in the past, central banks no longer aligned in terms of their overall policies and objectives. As we look forward, we're very interested to see how this asynchronous global expansion actually plays out.

When we look at our economic forecast for next year, we're starting to see above potential or above long-run average kinds of rates of global growth, particularly in the U.S. Europe will be moving, quarter to quarter, out of seemingly flirting with recession. Japan is probably a little bit stronger but still also below its potential. But generally, overall, emerging markets are starting to accelerate as well, so overall global growth is probably right around potential to slightly above potential. That's an important inflection point, I think, for investors as we look forward.

With that, I'd be happy to answer any questions.

The Chair: Thank you very much, Mr. Goerz. Are there any additional comments from our table of experts?

Excellent. We do have a couple of questions from our committee. I'll start with our deputy chair, Mary Anne Jablonski. Actually, sorry, Mary Anne.

Mrs. Jablonski: Sure.

The Chair: Before we get to that point, we did have, I believe, Mr. Anderson dialed in. I'm not certain if he's still on the line. Mr. Anderson is not on the line at the current moment.

We do have another member of our committee that has joined us. I'll ask him to introduce himself.

Mr. Dorward: Mr. Chair, I apologize for being late. Gentlemen, I apologize for that. My name is David Dorward. I'm the MLA for Edmonton-Gold Bar.

The Chair: Apology accepted. Thank you, sir.

With that, we'll move on to some questions. Mrs. Jablonski.

Mrs. Jablonski: Thank you very much, Stephen. Thank you very much for that brief overview. I always find it fascinating. I would appreciate it if you could explain what you meant by an . . .

Mr. Goerz: Asynchronous global expansion.

Mrs. Jablonski: That's it. I can't even say it. Could you say that again and then explain what it is, please?

Mr. Goerz: Yes. An asynchronous global expansion. It was a catchy phrase at the time.

Walking back to 2009 to 2012, this idea of a global synchronized recovery was really the result of central banks aligning themselves and governments, from a fiscal standpoint, aligning themselves in terms of trying to stimulate economic growth around the world as a result of the financial crisis. Interest rates dropped to very low levels, below what they normally would be given the economic conditions that existed in 2009 to 2012. As a result, what you saw was high correlation, or markets moving together, around the world. When you looked at Europe versus North America versus Japan versus emerging markets, the correlation between those markets was very high, so the returns were very synchronized with one another.

What we've seen from mid-2012 going forward is that, particularly as Europe started to focus on austerity measures and as other countries started to diverge from one another in what we've called a multispeed world, some governments around the world are doing better than others. Either because of competitive advantage, because of the policies that they put in place years before, because of their industrial complex and certain industries that they were exposed to or not exposed to, we started to see them diverge. That's the notion of asynchronous, basically, that they no longer are necessarily aligned.

In fact, you're starting to see countries move up when other countries are moving down. You're seeing competitive advantages starting to develop between countries around the world. In this kind of world central banks start to respond to differences in inflation and growth, and so now you're starting to talk about interest rates starting to rise in the U.S. while they probably won't rise in Europe for two more years. They probably won't rise in Japan for three or more years. This asynchronous or pulling apart of the economic cycle between countries around the world is this notion of asynchronous global expansion.

The expansion part is subject to some debate, certainly, within circles. We tend to be on the more constructive side of what we're seeing. With high profit margins in North America, better earnings growth, we're inclined to believe that the world, as we see it, will probably be brighter and rosier than otherwise it might be in some of the other areas.

Does that help?

Mrs. Jablonski: Thank you. It helps a lot. You mentioned that you thought the interest rates would go up in the United States but not in Europe, in Japan. You didn't mention Canada.

Mr. Goerz: Canada will probably follow closely with regard to the U.S. Right now interest rates in Canada are about 75 basis points higher on the short end than they are in the U.S., so there's some room for the U.S. to move. The long end of the curve is actually below the U.S., so the U.S. seems to be pricing in a potential interest rate hike before we see one in Canada. But with the Bank of Canada basically moving to the sidelines and not having a tightening bias at this point, we think they're largely waiting for signs of inflation to be concerning before they move to start raising interest rates.

If you look back historically over the last 30 to 50 years, inflation cycles have been very much in sync. Average inflation rates are very similar between the U.S. and Canada. In part that has obviously a lot to do with the trade back and forth between the two countries and the integration between the two economies. Typically rates tend to be very synchronized, and right now Canada has opened up a spread relative the U.S., but we imagine that will close in the next year.

1:50

Mrs. Jablonski: Thank you.

The Chair: Thank you very much, Mr. Goerz, for those answers to Mrs. Jablonski's questions.

I believe we have a question from Mr. David Eggen.

Mr. Eggen: Yes. Thanks, Mr. Chair. And thanks for your presentation.

I have a few questions or points of clarification perhaps, the first of which being your mentioning the price of oil and the projection of where the price of oil might be going over these next few months. You said something about $80, right? I just was looking for some context in regard to that. First of all, what oil price are you talking about, and second of all, how far down the road is that projection?

Mr. Goerz: Western oil can diverge a lot from WTI, west Texas. West Texas is kind of a benchmark that I think about, so when I talk about $80 oil, I'm talking about west Texas intermediate as a benchmark for thinking about it.

I think it's very interesting in terms of thinking about where the positive and negative drivers are in terms of what's happening to oil. If we think about conservation, substitution, and innovation that are going on with respect to energy around the world, the U.S. has pushed very hard, with the current administration, in terms of pushing up EPA standards. That will drive about a 30 per cent efficiency gain in terms of transportation in the United States over the next 10 years.

We're also seeing a lot of research and innovation developing in terms of getting more out of a barrel of oil. We're also driving the conservation side in terms of buildings, heating, and other sources of energy. So as we press forward, we're actually seeing overall consumption or demand in developed markets fall for the first time in a very, very long time. Meanwhile we're seeing an expansion of supply, as drilling and other kinds of innovative techniques are being applied, that's reducing the cost in terms of lifting oil and finding alternative energy sources. There's a push to alternatives as well. So all of these are competing for the pool of needed energy around the world.

Now, we all have our cellphones and computers and electronics. I just came through the airport the other day, and I just stopped and wondered as I saw everybody plugged into the wall, trying to charge up their laptops and their iPads and their iPods and phones. There's certainly electricity demand, and to some degree there's some substitution going on. Natural gas is at a very low price relative to oil if one looks at the substitutable BTU. One looks at what's happening in terms of the growth in electric cars and hybrids as well.

As we look forward, we're conscious of the idea that there's downside risk to oil, that oil has enjoyed a geopolitical risk premium that's been at least $20 in terms of its price. OPEC obviously has something to do with that in terms of its cartel behaviour. Generally, as we look forward, I think that as geopolitical risks moderate, that risk premium comes down, and oil prices come down with it.

If we wanted to add a barrel of oil in this world today, it would cost about $70 to do that. Some argue that it may be as low as $60 to do that. So the marginal cost of production has to be a baseline for any commodity. One looks at silver, one looks at gold, one looks at any of the raw materials: there is a baseline for what it costs to find an additional increment of that commodity. So commodities are very hard to predict. We don't try and get into the game of making very narrow predictions between plus or minus $5 on WTI and worry about that, but when we see a big dislocation, we start to worry about the downside potential of that and what impact that might have.

Mr. Eggen: Yes. Absolutely. Thank you.

I guess, conversely though, the downward price of oil and the increase in production and capacity in the United States to meet their own domestic energy needs have an overall positive effect on the growth of the economy because, of course, that high price, the premium, that oil had been taking out of the totality of the economy has gone down a little bit, and like I say the domestic source of oil for the large economy to the south of us is more insured.

It's as though we're kind of in – this doesn't just affect the heritage trust fund but our overall economy by being overexposed to a single, you know, sort of type of energy economy and by a lack of diversification. While the overall world economy or the North American economy might grow, we are, in fact, in a more precarious state, right? I mean, we can change our investments through AIMCo to mitigate that, but the big economy that's actually feeding the heritage trust fund is actually in a more precarious position as a result of our overreliance on the export of raw energies.

Mr. Goerz: And, obviously, the Keystone pipeline is going to play a very important role as we think about what's going to happen over the next six months.

Mr. Eggen: Right.

The Chair: Thank you, Mr. Goerz.

Moving on with some additional questions, in my lineup of questions I have MLA Amery next.

Mr. Amery: Thank you, Mr. Chairman, and thank you for your presence here and your opening . . .

The Chair: Sorry, Moe. I hate to interrupt you, but I should go back.

Mr. Anderson, do we still have you on the line?

Mr. Anderson: Yes. Yes, we do. I'm here.

The Chair: Terrific. It sounds like you've had a couple of technical challenges. We're very happy to have you join us. Rob, we're at item 4 of our agenda and we're asking some questions of Mr. Matheson and Mr. Goerz, who have presented the second-quarter update. I'll just flip it to you for a brief introduction, and then we'll resume with our questions.

Mr. Anderson: Okay. Rob Anderson, Airdrie MLA, and I'd like to get on the list for questions when I can. Thanks.

The Chair: Okay. Thank you.

Mr. Amery, thank you for your patience. The floor is yours.

Mr. Amery: Now I forgot my question. Thank you.

In the report that we have here, it shows that for the fiscal year to date the heritage trust fund gained 4 per cent, almost a billion dollars. Over the last, maybe, couple of years the markets have been doing very, very well. Lately what we have been hearing from analysts is that the market is going to correct itself, and what we have seen over the last couple of weeks – we see the stock market is going up and down. It goes up by 70, 80 points, and the next day it goes down by 200 points. I think you also mentioned – I don't know if I got you correctly – that we expect a return on investment of 8 to 10 per cent, and you're going to stay away from commodities, avoid commodities, and focus on equities. With the fluctuations that we are seeing in the market today, do you still see this kind of return?

Mr. Goerz: Eight to 10 is our 10-year projection for equities.

Mr. Amery: Okay. All right.

Mr. Goerz: For bonds our eight- to 10-year projection is 2 per cent. For a balanced portfolio we think a reasonable expectation might be in the 5 to 6 per cent range, with a 50-50 split between the two of those. So I think the important conclusion of that is that rates of return will be a little bit lower than they have been in the last four years.

Mr. Amery: Okay. Thank you.

The Chair: Thank you, Mr. Amery.

2:00

Mr. Dorward: I apologize if you had a chance to talk about the U.S. exchange situation, but the Canadian dollar took about a 60-point bump recently due to, from what I'm reading, a couple of things: one, a little bit of a positive Keystone announcement, but also the growth in the Canadian economy announcement is probably a little bit better. You might have some comments on why that would have happened.

What is our portfolio on a percentage basis in U.S. dollars? That's not a fair question to ask like this, so I certainly don't mind a rough approximation of that. Is there an opportunity for some income-taking there at all on the U.S. dollar, as we might see even further announcements on Keystone strengthen the U.S. dollar relative to the Canadian? I know that we don't have a short-term portfolio, but do you have an income-taking strategy in that regard?

Mr. Goerz: First of all, in terms of the Canadian dollar during 2013 we'd had a negative bias on the Canadian dollar and generally been underweight relative to our benchmark. We're starting to position ourselves to think about getting back to more of a neutral position, probably in the next two to three months if not sooner. I think an important issue is what happens with Keystone. Obviously, if there were signs of the likelihood of it going through and the Obama administration approving it, indeed it could have a positive lift even though it may take a little while for oil to start to actually flow. That would be constructive for thinking about the Canadian dollar going forward.

To us, from a longer term perspective, interest rate differentials are very important. As the U.S. certainly moves towards cutting off quantitative easing so they don't have this constant drain of so-called printing money but expanding the Fed's balance sheet and certainly thinking about starting to hike interest rates, we would look for a similar matched move relative to the Bank of Canada, at least in terms of starting to think about moving towards a tightening bias. At that point we think that the Canadian dollar probably could lock into a narrow range relative to the U.S. dollar.

What's interesting about the Canadian dollar, obviously to the extent that it does tend to be more tied to the U.S. dollar, is: what happens to the trade-weighted index in general? What happens to Canada as it ships commodities and products around the world? If the dollar is in more of a strengthening mode over the next three to five years, that could be as much of a force to consider as we go forward, even despite some ebbs and flows, in terms of the U.S.-Canadian dollar exchange rate. That's the way we think about the exchange rate.

In terms of thinking about overall exposure . . .

Mr. Matheson: I've got the numbers here.

Mr. Goerz: Oh, do you?

Mr. Matheson: From note 4 to the financials in the quarterly report, the heritage fund has 24 per cent exposure to the U.S. dollar.

Mr. Goerz: So that's basically half of the global equity portfolio. That's basically where that comes from. Everything else is pretty much hedged on the bond side and with the private investments.

Mr. Dorward: Good.

Thanks, Mr. Chair.

The Chair: Thank you, Mr. Dorward.

Mr. Anderson, you're next on our list for questions.

Mr. Anderson: Thank you very much. I'd like to go back a little bit to the oil price again. I was having, like you said, technical difficulties with the pass code and a couple of other things, so I might have missed this, and if I have, I apologize. You seemed to be talking about a forecast of $80-a-barrel WTI. The first question – and you may have answered this – is that for one year, what you're looking for next year, what you're looking for in the next couple of years, three years, five years, or 10 years?

More importantly, can you give sort of a short- and a long-term projection of what you're working with there for, say, one year, five years, 10 years when you're looking out? Does the differential play into AIMCo's investments in any way, or is that just completely something that we have to deal with on a local basis here, obviously with royalties and collection of royalties and so forth? Does the differential impact your investments in commodities at all in AIMCo, or is that kind of a separate issue?

If you could answer those questions.

Mr. Goerz: Sure. Thank you for the questions. I appreciate them.

First of all, let me make it clear that the $80 that I throw out is basically a fair value estimate for what we think oil is worth. That isn't necessarily a forecast of what we think one, three, five, seven years out. I just want to throw out, as sitting here at $95 or so for WTI, that there's a downside risk that we see in terms of thinking about the fundamental drivers of the oil market that could place downward pressure on the oil prices. I don't think it's necessarily imminent that we go there. There are still a lot of issues in the Middle East.

That being said, I think it's a downside risk that we need to be concerned about. How it affects our investments is in thinking about: what kinds of technologies, what kind of companies do we want to invest in? When you think about what drives profit margins of a particular company or enterprise or business or sector or industry that you may want to invest in, it's important to recognize: what is the energy intensity, and how do we think about that going forward? What are the dynamics within an overall market, and how is that likely to be affected by the cost of goods sold? Energy can be more or less but certainly an important part of that equation.

There are obviously second-order derivative effects that are related to: what is the cost of energy? Your competitors bear that same cost, obviously, but to the extent that you can offer or provide innovation that helps you defray some of that cost of energy or take advantage of that cost of energy, we look for investments that, based on where we think things are going in general, can benefit from that.

In terms of thinking about our future themes, energy will continue to be an important future theme for us as we think about a world in which technology has moved from being a really interesting investment that can make us money to something that's actually becoming ingrained in the fabric of productivity and profit margins and actually driving innovation and labour in general.

All of these things become important in terms of thinking about before we substitute capital for labour, and now we substitute capital plus energy for labour. I think that's an important inflection point and an important distinction as we move forward because what you are finding is that the onshoring trends that you're finding are all about automation, and automation is investment plus energy consumption. So to the degree that an offset to this energy decline of a significant increase in transportation fuel economy is that if economies start to grow in excess of potential, then you could start to reverse a little bit of this downside demand that you might see in oil prices.

Hopefully, that helps frame this idea of $80. I don't want to put it out there and read on the front page tomorrow: AIMCo is projecting $80 oil. That's not what I'm trying to say.

Mr. Eggen: Page 4.

Mr. Goerz: Yeah. I'll probably get back in the obituaries.

In terms of thinking about oil prices, I really want to frame this as a downside risk that we need to be very conscious of. It affects what we do from an investment standpoint and how we think about the kinds of tilts that we make from an active perspective in the portfolio, but certainly it has a very important impact in terms of the income that the heritage fund would realize, obviously, coming from the leases.

Mr. Anderson: Sure. I agree. Thank you for clarifying that. I think we'd all do well to realize that downside risk as we move forward with our budgeting and that sort of thing because it is clearly out there that it is a possible risk that it will be following.

Sorry, but you didn't answer a question. It was probably just an oversight on your part. Does the differential have any effect on AIMCo's investments, or is that just not something that kind of factors in because your investments are outside of Alberta and in the energy sector primarily?

Mr. Goerz: The differential in oil or the differential in the Canadian dollar?

Mr. Anderson: Oil.

Mr. Goerz: In oil. As I said, it's really a derivative of thinking about it. We don't do a lot in terms of commodities. We'll certainly own companies in the material sector and in the energy sector. Certain companies in the energy sector are going to be affected differentially by whether oil prices are more likely to go up or down, but as we think about how we place our investments, a lot of this is really a second-order effect in terms of the primary business of a company and how it's valued, how we think about its growth trends. It's competitive forces that factor into the company that are probably more important than just thinking about oil prices. It has an impact, but it's one of 10 things that we worry about.

2:10

Mr. Anderson: Thank you.

The Chair: Do we have any more questions, any further questions from the floor? Okay. Then thank you very much.

What we'll proceed with, then, is a motion reflecting that

> the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2013-14 second-quarter report on the Alberta heritage savings trust fund.

Ms Kubinec: I will make that motion.

The Chair: Thank you. All in favour? Any opposed? That motion is carried.

Moving on in our agenda to item 5, our communications update, we're going to start with our public meeting review. This being our first meeting since our 2013 public meeting, held last October, I thought it was important to take time to review the meeting process and results. Tracey Sales will review the results. In your information briefings you've also been provided with the public meeting wrap-up documents to follow along with Tracey's presentation.

Ms Sales.

Ms Sales: Thank you, Mr. Chair. Actually, Jeanette will be presenting those items.

The Chair: Very good. Jeanette Dotimas will be making that presentation.

Ms Dotimas: Thank you, Tracey. Thank you, Mr. Chair. The objective of the 2013 communications plan for the heritage fund meeting was to further Albertans' knowledge of the fund by creating educational opportunities. We fulfilled this goal in a number of ways.

The first was the introduction of the educational video, which was presented to the committee and then presented at the public meeting, with an abbreviated version that was streamed on YouTube, and through the sharing of the heritage fund facts and trivia, which were shared through our social media accounts in the weeks leading up to the public meeting as well. The public meeting was once again broadcast live on Shaw TV, reaching over 7,000 Albertans, and was streamed live online as well via the Legislative Assembly website.

The media coverage following the 2013 meeting included coverage in the *Edmonton Sun*, the *St. Albert Gazette*, the Grande Prairie *Daily Herald-Tribune*, and City TV. Global TV also streamed the meeting online and provided postmeeting coverage as well. Finally, the public meeting was once again rebroadcast on Shaw TV following the live broadcast.

The online statistics from the public meeting include webcast viewership, which peaked at 40. Engagement on Twitter was successful. There were nine questions posed to the committee that night, with 30 additional comments made by the public.

Our Livestream, or chat, component yielded four questions and three comments to the meeting. The Alberta Heritage Savings Trust Fund Committee website also had over 200 visits. We had 60 page views on the day of the meeting. The tables on pages 1 and 2 of the document that you would have received illustrate the increased activity on the committee page for that day. In terms of the audience reached, as a summary we have 7,000 Albertans that tuned into the TV broadcast, the 40 individuals from the online broadcast, and the 33 that attended the meeting in person.

Some of the highlights from the feedback that we received included that the traditional advertising method is still a preference. We had over 50 per cent of the respondents report having heard of the meeting through some form of advertising and 25 per cent citing newspapers, with television at 17 per cent. An invite from their MLA as well was one of the responses, and 33 per cent of the respondents reported having heard about the meeting through their MLA and the others mentioning that signage and word of mouth were responsible for providing them notice for the meeting.

That concludes the overview for the communications report for the 2013 meeting. Thank you.

The Chair: Thank you very much, Ms Dotimas.

Before I turn toward the committee for some questions, I just want to take this opportunity to thank Ms Sales and Ms Dotimas and the staff that worked so very hard to make our public meeting the success that it was. Thank you very much. Thank you also for the innovation in regard to the video, that I know was very well received.

Are there any questions of Ms Dotimas from the floor in regard to our past meeting?

Seeing no questions, I'm just going to make a brief comment in regard to some of my observations as chair. As encouraging as it is to see how broad of an outreach we were able to reach through the broadcast on television and through our interaction using social media and despite some very, very hard work from the talented folks who helped co-ordinate this meeting, I'm hoping that in future meetings we can improve on our live numbers for reaching people on the floor. I think in our last meeting the numbers were 33, which though not an abundance, was an improvement over the previous year's meeting. So in some regard I feel in the current format and the current location we're doing about as good as we can. We've plateaued to some degree.

I've had an opportunity to speak with almost all of the committee members in regard to just some new ideas in terms of location and where we hold and host this meeting and what time, perhaps, we host this meeting. A few of the ideas that have been exchanged come back, you know, to the analogy – I'm going to sound like a farmer here, and I'm not a farmer – that if you're going to go duck hunting, you should go where the ducks are. Some of the ideas that have been shared with me are that perhaps we change the time of the meeting to an afternoon time, perhaps we look at locations where there are people in abundance during the afternoon, and perhaps that'd be a campus location. Here in Edmonton we have a number of postsecondary facilities where we might be able to host this meeting. There's a downtown location that we could consider. I'm just putting that to the floor.

I've spent some time as chair exploring cursorily some of these ideas with Ms Sales and Ms Dotimas and Ms Dean, and I believe there's an appetite to explore, perhaps, changing just how and where we do that meeting. Just in consideration as we move this forward, perhaps I should ask for some feedback on some of my comments from committee members.

Mr. Eggen.

Mr. Eggen: Well, thanks, Mr. Chair. I concur. I think it's a useful exercise for us to consider different venues, different ways of presenting this information, opening up the interaction with the audience. It's probably really incumbent upon us to really do that. It's part of our responsibility.

Not to suggest that the Oasis and the format that we've used the last couple of years has not been okay, but I think it would just be more vital and educative to take it to a campus, of which we have many to choose from.

The Chair: Thank you for those comments.

Any other comments from the floor? Mrs. Jablonski.

Mrs. Jablonski: Thank you. I agree that it might be a good idea to change the format or the venue at this time. Certainly, leaving it in Edmonton for a while is okay with me although, you know, eventually I would like to see if we can overcome the cost and the logistics concerns that we have as a committee. I'd like to see it in Red Deer, at our campus, Red Deer College. That would be good.

The Chair: Sure. Thank you for those comments.

MLA Kubinec.

Ms Kubinec: Yes. I concur that we should look at that, and when we look at the in-person audience, 25 per cent were in the 18 to 34 age group. I think we could really increase that if we had it on a campus where they are. We'll go to them.

The Chair: Okay. Fantastic.

My deputy chair brought up a really strong and valid point about outreach and looking at, perhaps, spots other than Edmonton. Red Deer, of course, would be a marvellous location.

My thought in just speaking with the team – and I want to make the committee aware – is that we do have some budget limitations that we need to be aware of, and as this is sort of, if you will, a little bit of a trial for us in terms of maybe considering a campus as a spot, my prerogative would be to carry forward in Edmonton. It would help us, certainly, manage our costs, and from a logistic standpoint – I know from working closely with the team – it would certainly be an enormous benefit. Once we've had an opportunity to perhaps have this public meeting at a campus here in Edmonton and we've worked out and ironed out some of those logistics and we've made the machine, then I think it would be a tremendous idea to see if we can afford as a committee to take the show on the road, as it were.

2:20

So with that said, I'd like to see if we can get a motion that

> the 2014 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Edmonton at a location and date to be determined.

Could I have somebody please carry that motion forward? Our deputy chair, Mary Anne Jablonski.

Mrs. Jablonski: I would be pleased to make that motion, Mr. Chair.

The Chair: Thank you. All in favour? Any opposed? Thank you kindly. That motion is carried.

Moving right along, we're coming to our Alberta heritage savings trust fund public website update. The department has provided a memo on the number of website hits on the external heritage fund site. Are there any questions? If not, this item is strictly for information purposes. Do I see any questions from the floor?

Mr. Anderson, any questions about the website?

Mr. Anderson: None at all.

The Chair: Well, thank you, sir.

Then we can move along to item 6, which is other business. Do members of the committee have any other items or business we'd like to discuss at this time?

Hearing none, we shall move along to the date of our next meeting. I think the date of our next meeting will be required to approve the communications plan for the 2014 public meeting and for the third-quarter report. I think that given some of our discussion it looks like our team has a little bit of work ahead of them. Just for everybody's schedule, we don't have a concrete date, but it will very likely be held sometime in April. Any issues with that date? I'm not seeing anything or any concerns regarding that date.

Mr. Dorward: Which date? April?

The Chair: April, a date in April. You have an issue with April, sir?

Mr. Dorward: Yeah. I can't meet in April.

The Chair: Okay.

Mr. Eggen: Sorry. Just for clarification, you're talking about our next meeting?

The Chair: Our next meeting.

Mr. Eggen: Oh, yes. Okay. But then this public meeting that we're planning into the future would be sometime in October like we did before.

The Chair: Thank you for the clarification, Mr. Eggen. Our next meeting to review a communications plan would be in April. Our public meeting very likely will be along the timeline that we've had in the past, which was early October, this past meeting in consideration for our municipal elections. Just our preliminary discussions would indicate that it will probably be likely sometime in the second half of October.

Mr. Eggen: Yes. That's a good idea. Just to get a suggestion in before we close off, if we have enough lead time for whatever campus we're choosing to use or, you know, are reaching out to all of the campuses where students are studying something that might be relevant to the heritage trust fund, then professors and schools can actually build it into their curriculum to some degree, right? Then you're guaranteed to get a full house because the kids have to come.

The Chair: Excellent suggestion, and duly noted. Thank you, sir.

Mr. Dorward: Have it just before a basketball game.

The Chair: Or before a basketball game, certainly. Always thinking basketball, aren't you, MLA Dorward?

Do I see any further comments or issues to discuss in terms of business? Fantastic. Then I would look to see a motion of adjournment. Anybody? Mr. Dorward.

I'd just like to wrap up by thanking our guests and presenters today. Thank you very much for your time and fulsome comments. Our meeting is adjourned.

[The committee adjourned at 2:25 p.m.]

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