



Legislative Assembly of Alberta

The 29th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Thursday, June 25, 2015
9 a.m.

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

Miller, Barb, Red Deer-South (ND), Chair
Nielsen, Christian E., Edmonton-Decore (ND), Deputy Chair

Cyr, Scott J., Bonnyville-Cold Lake (W)
Ellis, Mike, Calgary-West (PC)
Malkinson, Brian, Calgary-Currie (ND)
Miranda, Ricardo, Calgary-Cross (ND)
Piquette, Colin, Athabasca-Sturgeon-Redwater (ND)
Renaud, Marie F., St. Albert (ND)
Taylor, Wes, Battle River-Wainwright (W)

Office of the Auditor General Participants

Merwan Saher	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 Amato	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 <i>Alberta Hansard</i>

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

Participants

Ministry of Treasury Board and Finance

Rod Babineau, Manager, Portfolio Analysis, Capital Markets

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Stephen J. Thompson, Acting Executive Director, Capital Markets

Alberta Investment Management Corporation

Kelly Featherstone, Client Relations

Peter Pontikes, Senior Vice-president, Public Equities

9 a.m.

Thursday, June 25, 2015

[Ms Miller in the chair]

The Chair: Good morning. I'd like to call this meeting to order. It's 9 o'clock. The quorum for Legislative Assembly committees is one-third, including the chair. Seeing a quorum, I would like to call this meeting to order and welcome everybody to the first meeting of the 29th Legislature.

I am Barb Miller, the MLA for Red Deer-South. I'd now like to ask everyone at the table to introduce themselves, starting with the deputy chair.

Mr. Nielsen: Hi. Chris Nielsen, Edmonton-Decore. I'm the deputy chair of the committee.

Mr. Malkinson: Brian Malkinson, the MLA for Calgary-Currie.

Ms Sorensen: Rhonda Sorensen, manager of corporate communications and broadcast services.

Mr. Taylor: Wes Taylor, Battle River-Wainwright.

Mr. Cyr: Scott Cyr, Bonnyville-Cold Lake.

Mr. Piquette: Colin Piquette, Athabasca-Sturgeon-Redwater.

Mr. Ellis: Mike Ellis, Calgary-West.

Ms Featherstone: Kelly Featherstone, AIMCo.

Mr. Pontikes: Peter Pontikes from AIMCo.

Mr. Epp: Lowell Epp with the Department of Treasury Board and Finance.

Mr. Thompson: Steve Thompson with Treasury Board and Finance.

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

Mr. Sittler: Jeff Sittler with the office of the Auditor General.

Dr. Massolin: Good morning. Philip Massolin, manager of research services.

Ms Dean: Good morning. I'm Shannon Dean, Senior Parliamentary Counsel and director of House services.

Miranda: Good morning. Ricardo Miranda, MLA for Calgary-Cross.

Ms Renaud: Good morning. Marie Renaud, St. Albert.

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

The Chair: Okay. Before we turn to the business at hand, a few operational items. The microphones are operated by the wonderful people at the back, so we don't have to do anything. Please keep your cellphones off the table because they interfere with the audiofeed. 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's website.

Would a member like to move approval of the agenda for the Thursday, June 25, 2015, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund, that it be adopted as circulated? Would somebody move that?

Ms Renaud: Sure. I can move that.

The Chair: Okay. Marie. In committee no seconders are required for any motion. All in favour? Opposed? Carried.

Okay. The mandate, meeting schedule, meeting procedures, and committee support. The mandate of the heritage trust fund 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 was 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, approve the annual report, and to receive the quarterly reports, which usually means four meetings per year. Plus, the committee holds one annual public meeting in the fall.

Shannon, could you explain to the committee your role.

Ms Dean: Well, Madam Chair, I'm here in my capacity as Parliamentary Counsel, so if the need arises for the committee to have legal advice, I'm available.

The Chair: Corinne.

Mrs. Dacyshyn: As the committee clerk I'm the primary point of contact for the committee, so if you have any questions, you are welcome to ask me. I provide your administrative and procedural assistance and draft the committee's annual report. I've been here a long time, so if you have any questions, feel free to ask me.

The Chair: Rhonda.

Ms Sorensen: Thank you. Again, I'm the manager of corporate communications and broadcast services, so I'm here to support you in terms of any communication needs you have, particularly as it applies to the public meeting that is held annually.

The Chair: Philip.

Dr. Massolin: Thank you, Madam Chair. My role is to provide this committee with research support should that arise. Thank you.

The Chair: Okay. The committee relies on the technical expertise of Alberta Treasury Board and Finance officials, who administer the fund and complete the various plans and reports which the committee must review, and, of course, on Alberta Investment Management Corporation, AIMCo, officials, who make investment decisions on the fund and attend meetings to respond to questions. We will hear from them in a few minutes.

I'd like to invite a representative from the office of the Auditor General to explain the role of the Auditor General with respect to the fund.

Mr. Sittler: Sure. Under the act that you alluded to earlier, the Auditor General is the appointed auditor of the heritage fund, and that means that we provide a financial statement audit of the financial statements, which are in your draft annual report. Probably the most concise description I can give you of what we do with respect to the financial statements is described in the Auditor's report on page 21. In particular, there's a paragraph in the middle that starts with: "An audit involves performing procedures to obtain . . . evidence." Certainly, as time goes on, if you'd like us to elaborate and provide more information to you about what we do in the context of an audit, we can do that, but primarily we're here to, I guess, augment any questions you might have about the financial statements, how the accounting for financial instruments works, in addition to anything that management might have to say about it.

Again, happy to take your questions if you have any.

The Chair: Thank you.

Okay. General meeting procedures. Meetings are held at the call of the chair. Generally Corinne will contact members to determine the availability for a number of dates. Meeting notices are e-mailed to the members once a meeting date and time are set, and briefing materials are posted on the committee's internal website several days prior to the meeting.

The Alberta Heritage Savings Trust Fund Act indicates that the standing committee shall furnish copies of reports to all Members of the Legislative Assembly and to the Clerk of the Legislative Assembly within two 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 committee meetings tends to follow the annual reporting cycle of the fund, and meetings are generally held in March, June, September, and December. The public meeting has traditionally been held in October, before the fall sitting of the Legislature.

During meetings the chair will keep track of members wishing to ask questions, and every effort will be made to ensure that everybody gets their questions asked with time limits, especially today.

The committee has got a budget estimate for 2015 to 2016. Does everybody have a copy of it? It was e-mailed. It has already been approved, so that's for your reference.

Temporary substitutions, Standing Order 56(2.1). For your information, Standing Order 56(2.1) outlines the process for substitution of committee members.

56(2.1) 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 substitution occurs, it is the responsibility of the original committee member to ensure the substitute has been provided with the necessary meeting material. You are 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.

Okay. Participation in committee meetings by teleconference. Section 6 of the Legislative Assembly Act permits participation in a committee "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." The committee rooms are equipped to facilitate meeting participation by telephone. Committees have a choice of passing a motion, which needs to be passed unanimously, to approve meeting attendance by telephone for the duration of a Legislature or the duration of a session.

9:10

A motion to approve teleconference attendance for the duration of a Legislature 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.

Would a member like to move that

for the life of the 29th 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 at a particular meeting upon passage of a motion to that effect.

Mr. Taylor: I'll move it.

The Chair: Mr. Taylor. All in favour? Opposed? Carried unanimously.

The Alberta heritage savings trust fund draft annual report 2014-2015. The draft 2014-2015 annual report was posted on the internal website last week. Members are reminded that this draft report is confidential and that once approved by the committee, final copies will be printed by Alberta Treasury Board and Finance, and copies will be distributed to all MLAs by the chair, therefore making the report public. The annual report must be approved by the standing committee and distributed to all members by June 30. Due to timing constraints we weren't able to schedule an orientation with this committee and the officials from Alberta Treasury Board and Finance and AIMCo prior to this meeting, where we will be discussing and approving the draft report on the heritage fund. It is my intent to organize a longer orientation meeting in September.

That said, could I ask Mr. Epp to give us a review of the annual report.

Mr. Epp: Thank you, Madam Chair. Congratulations to all of you on being appointed to this committee. We welcome the opportunity to work with you over the next number of years.

I will go through the annual report. I will do so in a little more detail than I may otherwise have done because of the fact that the committee was only appointed last week and most of this is new. By all means, at some point you will have an opportunity to ask questions if you have any, and we're happy to take them.

I would have you turn to the first page, the highlights page, where most of the important information or, I guess, the high-level important information is contained. The Alberta heritage savings trust fund had a market value of \$17.9 billion at March 31, 2015. I recently had the opportunity to talk to my son's class – he's in grade 9 – about the heritage fund, and I told him that that's enough money to buy 225,000 copies or thereabouts of their favourite new video game. I also told them that that's about one year's spending on health care. So that gives some perspective on size. It's large but not overwhelmingly so.

During the last fiscal year the fund earned a return of 12 and a half per cent, which is a very good return but not as good as last year. We earned something like 16 per cent in the previous year. We've had a few very good years. Over the last 10 years the average rate of return on the fund was 8 per cent. That's a compound average rate of return. That includes one very bad year, 2008-09, where the fund lost 18 per cent or 18.1 per cent during the financial crisis. Over the long run – and that is what we manage the fund for – we have seen a very strong return, especially compared to interest rate levels and inflation levels over that period of time.

Last year the fund earned total income of \$1.468 billion. According to the act that governs the fund, the Alberta Heritage Savings Trust Fund Act, an amount necessary to preserve the fund's real value or protect it against inflation must be retained by the fund, and that amount was \$210 million. The remaining \$1.47 billion was transferred to the government's general revenue fund. It is important to note, and we have that at the bottom of the page, that since inception \$38.2 billion has been transferred either to the general revenue fund or to build capital or infrastructure projects around the province.

A couple of other points. You'll see the market value of the fund, the trend over the last 10 or 12 years, at the bottom left of the page. You will see what happened between 2007-08 and 2008-09. It is important to note that while the fund transfers funds to the general revenue fund when there is income to be transferred, when there is a loss, those funds are not replaced. There is no transfer from the general revenue fund to cover the loss, so that's why in 2008-09 there was about a \$2 billion drop in the value of the fund. We're

now back above where the fund was at the end of 2007-08, and we've recovered that value from retaining a portion of the income of the fund.

The final thing I'll mention on this page is the asset mix of the fund's investments as of March 31 – and there's a typo on there. It says 2014. Primarily the fund is invested in equities across the world. Approximately 42 per cent of the fund is invested in global equities on a target basis, the remainder in Canadian equities. We have a target allocation of 50 per cent to equities. Right now, or as of the end of March, it sat at 51.4 per cent. AIMCo has the latitude to move to different asset classes when they think it is advantageous to do so.

The next largest portion of the fund is in what we call inflation-sensitive and alternative investments, primarily real estate and infrastructure assets. This is 29.7 per cent of the fund. There's 17.3 per cent of the fund in fixed income, loans and bonds primarily. In addition, 1.6 per cent of the fund is invested in what we call strategic opportunities, investments that don't go strictly into one of the other three categories. So that's a high-level overview of where the fund is, how it's invested right now, and what it's done over the last year.

I'm just going to page through. I'm certainly not going to read the report by any means, but I just wanted to give you an overview of what we're trying to do with the report and the sections that it contains. On pages 4 and 5 we give a brief history and what we call frequently asked questions about the fund, things like: what happens to the income earned by the fund? When was it established? Who's responsible? And it asks the question: are the heritage fund's investments secure? Well, they're not perfectly secure. The way we make money is to invest in risky assets, by all means, but we take a long-term view. Over the last 10 years, even with a serious economic and financial crisis, or whatever you want to call it, we've earned a strong, positive return over that period, and that's because we stick to that long-term plan when investing the fund.

If you turn the page to page 6, you will see that we talk about how the heritage fund is governed, including the role of the President of Treasury Board and the Minister of Finance, who is responsible for setting the investment policy and for investing the funds. In terms of what his officials and others do, largely speaking, the department looks after doing analysis about the portfolio itself. We work with AIMCo in developing the investment policy. There's a statement of investment policies and goals that's available on the heritage fund's website, and it's a public document that is approved by the minister. We will do a review roughly every four or five years. The last major changes were approved in April 2011, so we're getting ready to do a review of that in the next year or so.

9:20

AIMCo, of course, is responsible for the day-to-day investing of the fund, so the tactical decisions of which companies to buy or how much to hold in equities versus bonds or whatever investment decisions happen on a day-to-day basis. Those are AIMCo's responsibility, and the department does not get involved in it.

In terms of portfolio construction, which is described on page 7, I think the highlights, which are listed in the bullets at the bottom of the page, the key things, are that we have target allocations to three key sectors: equities are there to provide the best returns, inflation-sensitive assets are there to provide both diversification and also protection against inflation, and fixed income provides further diversification and stability to the year-over-year returns.

We have a global focus, and we have this intentionally. We've actually done quite well with this in recent years. One of the major changes that we implemented in 2011 was to move away from

Canadian equities towards a global focus. In the last six or eight months, as oil prices went down, we saw the Canadian dollar fall in value substantially. Well, the fund, since it has a large amount of investments outside of Canada, has benefited greatly from this, and that's intentional. We don't need our heritage fund portfolio to do well when oil is doing well; we need it to do better when oil is doing less well and our local economy is doing less well. Since 2011 we've been lucky, in a sense. I mean, we didn't plan it tactically. We didn't plan for the Canadian dollar to go down, but investing internationally has certainly benefited the fund.

The last focus is long term. We are a long-term investor. We're not day traders. We're not looking for a quick buck. We are investing for the long term, whether it be in equities and fixed income, which you can trade quite easily, or in real estate and other assets like infrastructure, which are more difficult to trade every day. We've certainly focused on the long run.

I'm not going to go into much detail on the rest of the review of what happened in the markets. Once you get to page 8, you're getting into the detail of what happened in markets and in specific parts of our portfolio. The year in review, you can summarize, I suppose, by saying that the U.S. did okay, the U.K. did okay, Europe and Canada and Japan did not so good. Oil fell, and interest rates fell even farther. But despite all that, which sounds pretty ho-hum, the markets actually provided a pretty good return.

On page 9 we talk about the investment income. As expected, equities were the primary contributor to our income this year, as they were last year. We show both the last two years there. That's why we hold them.

As you go farther, on page 10, I would highlight the two graphs. You can see the transfers from the fund to the general revenue fund and, at the bottom, the market value inflation adjusted per capita. That's the real value of the fund per person in Alberta. You can certainly see that it peaked in about 1982-83. Starting in that year, the fund stopped or reduced the amount of transfers from nonrenewable resource revenues. It had started at 30 per cent of all revenues going into the fund. In '82-83 it was reduced to 15 per cent, and in '87-88 it was reduced to nothing. There were some special deposits into the fund, and you will see some blips around 2005, '06, '07, where about \$3 billion was put into the fund from budget surpluses. Of course, in 2008-09 the value of the fund dropped, so the value per capita dropped. Since then the value per capita has largely remained the same. If you look really closely, you can probably see it falling a little bit because people keep moving here. They get their share, too, apparently.

There's some information on investment expenses. Note that the investment expenses over the last year went down from 94 basis points, or .94 per cent, to .82 per cent. A basis point is .01 per cent, and you'll often hear people like me talk about basis points. Part of the reason why those went down was because we didn't pay as much in performance fees. When funds do well, we pay the investment managers a bonus, and that bonus went down because even though we had a good year, it wasn't as good as last year.

You will see details on the asset mix and how it changed over the year. Again, I would highlight the policy range. You will see that AIMCo has a fair amount of range to implement different investment strategies, asset mixes. We hire them for their expertise, and we give them room to use it.

There's a typo at the top of page 12 where it says Investment Performance. We're not sure what that means, but we'll fix that. You can see details. Our long-term target for the fund is to earn a rate of return of about 4 and a half per cent plus inflation. Over the last 10 years the long-term target was 6.2 per cent. That's in about the fifth line. It says Long Term Return Target in the first table, CPI plus 4 and a half per cent. We also have a target for AIMCo to earn

1 per cent over that return. It's .9 in the 10-year return because at one point that target was .75 per cent. It's slowly being – every year we're removing that. So the total target return over the last 10 years was 7.1 per cent. Our total return over those years, as I said earlier, was 8 per cent, so the fund has exceeded its return objectives.

Other highlights. You can see some of the key holdings of the fund and the returns and performance of specific sections. The largest holding in Canada is Royal Bank, about \$75 million invested there. Apple is the largest global holding. It's the largest global company, so that shouldn't surprise. We have about \$106 million invested. We have some private equity. We don't list the values because those are confidential and could provide information to others that we don't want them to have.

You will see on page 16 that we have a lot of real estate holdings in Calgary, a number of towers. Now, it is important to note that these holdings are shared by some or all of the pension funds that AIMCo also manages: the local authorities, the public service pension plan, and so forth. They share the investment. The heritage fund owns a portion, they own a portion, and other investors may also own a portion. Those are some of our key holdings. We hold timberlands in Canada, Australia, and in New Zealand and Latin America, and we have infrastructure holdings, as I like to tell people, including a toll road in Chile and some others, the water system Thames Water in the U.K.

The final two pages of the first part. Page 18 lists some exposures to Alberta and some of our largest Alberta investments. On page 19 you will see a summary of operations since inception, including transfers to the fund and from the fund. The last half of the report, of course, is the financial statements. I'm not going to go through those in any detail because we've highlighted the key numbers already.

That brings to an end my comments. I will ask Peter from AIMCo to add some AIMCo perspective.

Mr. Pontikes: Thank you, Lowell, Madam Chair. On behalf of AIMCo I'd like to start off first by passing along the regrets of a few members that couldn't be here today. They had planned to be here last night for the meeting. Given the change that happened and some previous travel schedules that were already in place, Kevin Uebelein, our chief executive officer; Darren Baccus, our chief legal and client officer; and Dale MacMaster, our chief investment officer, couldn't be here today. I'm the senior vice-president of public equities. I look after about \$35 billion of public equity investments at AIMCo. Kelly Featherstone is an associate director in our client relations group. Between the two of us, hopefully, we can answer any questions that you have.

9:30

I'd like to thank Lowell for the report that he gave. I think he's covered all the material aspects of the report.

The only thing that I think I would highlight, that Lowell already has pointed out, is that, from AIMCo's perspective, one of the key advantages that the heritage fund has is its ability to think long term. You're very familiar with financial markets. If you have an investment account or an RSP and you get your quarterly statement, you know that financial markets can be very volatile. From AIMCo's point of view, given that the heritage fund is a long-term investor, we look through a lot of that volatility, and we can make investments with a five- or a 10- or a 20-year horizon. That, in effect, allows us to be paid for taking on that kind of a long-term risk, if you like.

There's a premium attached that we can earn by simply being a long-term investor, that a lot of people with a short-term horizon will not be able to take advantage of. We think that's a very strong

advantage that the heritage fund has. It's evident in the numbers that you see. Over five years I think our number was 11.7 per cent annualized, which means 11.7 per cent on average over each of the last five years. So it's a very strong return and something that we're quite proud of.

I just want to summarize, just very quickly. At AIMCo we're very proud to be working with the GOA, and we're very proud to manage the heritage fund.

With that, we're very happy to take any questions that you have.

Mr. Taylor: Okay. I have a question for you. I was just wondering about the \$147 million for expenses. What does that entail, that part?

Mr. Epp: That would entail all the expenses of running AIMCo, including the heritage fund's portion of salaries and other expenses. It would include whatever fees and transaction costs that are incurred by the fund, the fund's share. It would include performance payments. We have a number of external managers that implement mandates that AIMCo does not have the ability to do, so those contracts would have performance fees attached to them. Clearly, the salaries and the pay system for AIMCo employees include performance pay as well.

Mr. Pontikes: I'd also add to that. AIMCo's business model, if you like, is cost recovery. So all of our expenses are charged back to our client funds, including the heritage fund and all the other funds that we manage. We don't actually get any other money from the government through any payment from the government. It's strictly cost recovery, and all expenses are charged back to the funds.

Ms Renaud: You said that 2011 was the last review of setting investment policy. I'm just wondering what that process is exactly.

Mr. Epp: We will take a look at what the goals for the fund are. Right now that is set out in legislation: to maximize long-term returns within a prudent level of risk. We will do internal projections and the use of experts to project future returns and risk levels for various types of investments. We will do some mathematical analysis as well as other types of analysis to look at what percentages those should be and how those will help. Our long-term return goal is 4 and a half per cent plus inflation. So how do we meet that goal at the lowest possible risk? What mix of assets will allow us to do that?

We will also look at new asset classes that we may not be invested in right now and consider those. Again, we do all of this by relying on AIMCo's expertise.

I mentioned that we moved away from Canadian equities to global equities last time. We also put more money into real estate and infrastructure because of their inflation-protection properties. Clearly, one of the key goals of the fund, since it retains income for inflation-proofing, is to protect against inflation. Those are the sorts of things that we do. We will look at, you know: what does the investment world look like going forward? We take a very long-term view.

By no means are we trying to predict because if I could predict the future, I'd own an island or something, right? That's not the goal. It's to try to understand what those various asset classes are likely to return, what risk levels they're likely to have, and get out of that a diversified portfolio that can produce the return at the lowest risk possible.

Ms Renaud: Thank you.

The Chair: Any other questions?

Mr. Taylor: Yeah. I was kind of curious about the timberlands. It performed quite poorly compared to the rest of the sector: 4.8 per cent on what you have invested according to this, and 16.2 per cent is the benchmark for that one. That's on page 17. I see that the timber is in Australia, New Zealand, Latin America. Have you done this in the past, and has it been successful? Is this something that's fairly new to you, or is this something you're going to continue using?

Mr. Epp: AIMCo always evaluates the quality of the actual investments. As an asset class we'll certainly continue to look at that going forward. Timberlands has done quite well in some years. The trouble with comparing timberlands to a benchmark – and I'm not trying to hedge because the benchmark is and the underperformance is what we say it is, right? It's a long-term asset, and year over year the sort of return calculation can vary widely with the benchmark. A benchmark for the stock exchange is something like the S&P 500 or the TSX index. These trade daily, and you have a very good idea of what the return should be. For timberlands there is no good benchmark. Timberlands aren't traded on a public exchange, so we use what we think is a good proxy. I'm not even sure . . .

Mr. Babineau: It's the S&P global infrastructure index.

Mr. Epp: It's the S&P global infrastructure index. So it's not really a good match to the asset class.

Mr. Taylor: Are they traded on, like, futures?

Mr. Epp: No. These are private deals.

Mr. Taylor: Okay.

Mr. Epp: We own a large amount of timberland on Vancouver Island. That was bought probably 10 years ago at least. In the early years it had fantastic returns. The returns are largely an estimate because you have to figure out what you think we could sell it for today, but we're not planning on selling it. It's a very complicated sort of thing. We do our best to estimate. AIMCo does the estimates and all those sorts of things.

I take your point. Certainly, there's a concern, and absolutely we will be looking at that. The one-year return is not what we will base our decision on. It's more of a five- or even a 10-year return.

Mr. Taylor: Okay. I had another question if I could. On page 10 – and I was just trying to go over this math here – you said “per capita value.” We have probably 4 million people, roughly, in Alberta, and it says “\$1,120 per Albertan.” Well, your per capita value based on that would be – I'd have to do the math. That's going to be less than \$5 billion. Shouldn't that number be more like 4 and a half to get up to that \$18 billion? The fair value is \$17.9 billion.

Mr. Epp: Yeah. That makes sense to me.

Mr. Babineau: That's inflation adjusted, so back to 1977 dollars. It's an inflation-adjusted number.

Mr. Epp: We will look at that.

Mr. Taylor: Okay. Yeah. It just didn't seem to make sense to me. The numbers didn't add up to that \$17.9 billion if you take the roughly 4 million people that are living in Alberta.

Mr. Epp: Eighteen billion divided by 4 million, which would be 4,500, right?

Mr. Babineau: But then just to add to that, inflation has gone up four times since the fund has been inception.

Mr. Taylor: I didn't read it as that being part. I just read it as per capita and not as inflation based.

Mr. Babineau: Yeah. We'll take a look at that and make the clarification.

Mr. Taylor: Okay. Thank you.

Mr. Epp: That's a good point. Thank you.

9:40

The Chair: Any more questions?

Mr. Ellis: With Alberta, perceptually by some, being tipped on the brink of a possible recession, what's your vision going forward in regard to that? Is it more investment within Alberta or outside of Alberta?

Mr. Epp: I'll take the first stab, and then Peter can add to this. Certainly, the fund is not oriented to address local economic issues. From the department's perspective or the minister's perspective we're not going to direct AIMCo to invest more or less in Alberta as a result. The job of the fund is to maximize long-term financial returns. Nowhere in the legislation does it have a mandate to address local issues.

Mr. Pontikes: You know, I'll just to add to that. As Lowell says, the mandate is to maximize investment returns subject to prudent risk management. Now, the way we approach it is that Alberta is part of the investment universe, and in order to maximize investment returns, if we see opportunities in Alberta that we think are appropriate, we will take those. But it's not within the mandate to either invest strictly only in Alberta or not in Alberta.

Mr. Ellis: Okay. Thank you.

I have another question if I could, please?

The Chair: Go ahead.

Mr. Ellis: Forgive me. I'm certainly not educated in finance like you folks here. I'm just a simple investigator. But you said that \$32 billion had been transferred to general revenues to help build projects for infrastructure amongst various other things. I'm sorry, but I didn't quite catch: is that since the inception of it?

Mr. Epp: Since inception, yeah. If you look at page 19, you will see that there are two columns in whatever colour that is, orange or something. The first column under Transfers from the Fund says \$34.4 billion. Those are transfers to the general revenue fund. The next column, capital project expenditures, were projects of either economic diversification or what were called quality-of-life investments made by the heritage fund prior to '95. Somewhere around 1995 the government did a survey of Albertans and changed the mandate of the fund to be what it is now, to maximize long-term returns. Before that the mandate of the fund included economic development and quality-of-life investments in Alberta.

Those numbers in that second column, which total about 3 and a half billion dollars, include things like Kananaskis. They include the University hospital here in town, the cancer centre in Calgary. A number of those social housing investments would be included. There were a number of capital projects along those lines. So when I'm talking about capital projects, that's what I'm referring to.

Mr. Ellis: Yeah. That's what I figured.

The Chair: Any more questions? Go ahead.

Mr. Cyr: You created a special column, other transfers, on that same report. What's in that \$255 million?

Mr. Epp: During 2014-15 we transferred money. There was legislation that had money transferred from the heritage fund to the Alberta scholarship fund. Alberta has four endowments. The scholarship fund was provided with this money in order to give scholarships for job skills training, trades sort of training. I think that's all of it. I think that's all of that money.

Mr. Babineau: Yeah, \$200 million was transferred to the scholarship fund, and there was a \$52 million transfer to the access to the future fund, and then there was a \$3 million transfer to the now, I think, cancelled agriculture and food innovation endowment that was created with legislation last year and then repealed. You can see the actual details of the transfers on the statement of cash flows on page 25.

Mr. Cyr: Okay. But why was a special column made in this report for that? Why wasn't it just put into the investment income transfers?

Mr. Epp: Because they weren't transfers to the general fund. They were transfers to other purposes.

Mr. Cyr: So separate funds altogether.
Why the change in direction?

Mr. Epp: Government legislation. You would have to ask, well, I guess, the former government. These were directed by past legislation.

Mr. Cyr: Okay. Is this a practice that we're going to be continuing? Are we going to be seeing this going forward, or is this like a one-time thing? I'm sorry, but I'm new to this.

Mr. Epp: No, no. That's a political decision.

Mr. Cyr: Not for us.

Mr. Epp: You would have to ask our minister or others. We follow directions of the Legislature on these sorts of things.

Mr. Taylor: You had directions. When did you get those directions, so we can find out from *Hansard*, you know, what those directions were?

Mr. Epp: I don't have the details. I believe that the transfer to the scholarship fund was contained in the budget, same with agriculture. So it would have been in the appropriation bills.

Mr. Babineau: It was part of the Savings Management Act, which was passed with Budget 2014 and then subsequently repealed in December of this last year. But these transfers had already been made, so we couldn't call them back. They had already gone through. So just creating the column for other transfers defined it differently than these other regular transfers that occur.

Mr. Epp: The transfers to the access to the future: there's an Access to the Future Act that directs those payments.

Mr. Malkinson: Just following up on what you said, I believe it was the \$3 million to the access fund, that that particular fund got collapsed. What happened to that money? Did it come back into the heritage trust fund, or did it go somewhere, not the heritage trust fund?

Mr. Epp: We had a Savings Management Act that created three new endowments within the heritage fund. One was for agriculture, so there was this notional amount of money, if you will, set aside to provide for projects administered by the department of agriculture. I'm not sure what their official name is. It was going to be a \$9 million transfer, according to the legislation, over the course of the year. The \$3 million was transferred early on, and that money was spent by the department. It did not come back to the heritage fund. But in December the Savings Management Act was repealed, and all three of those endowments that were created and the program spending that went with them were eliminated. I shouldn't say the program spending, necessarily. The funding that came from the heritage fund was eliminated. Whether or not the spending continued, I don't know.

Mr. Malkinson: Okay. So we'd have to follow up with the appropriate department.

Mr. Epp: Yes.

Mr. Malkinson: Okay.

The Chair: Any more questions?

Mr. Piquette: I just have a quick question. In your equity pools is there any consideration or anything under legislation for ethical funds? Are those vetted in any way for that?

Mr. Epp: I think I'll pass this one to Peter.

Mr. Pontikes: No. Strictly speaking, there is nothing in the statement of investment policy and goals that would tell us to invest in ethical funds. The way we approach it at AIMCo is that we don't think of it in terms of ethical funds necessarily because my ethics are different than your ethics, and at AIMCo we're not going to impose our ethics on everybody. But we do take an approach of what we think of as responsible investing, so we do take into account factors around environmental, social, governance issues. We think that over the long term taking those sorts of factors into account will lead us to better risk-adjusted returns.

I can give you a couple of examples. One would be, if you recall, that a couple of years ago in Indonesia there was a factory fire and collapse of a factory that resulted in the deaths of about 1,100 people, primarily women that worked in garment manufacturing.

9:50

Mr. Piquette: That was Joe Fresh, wasn't it?

Mr. Pontikes: Yeah. Loblaws' Joe Fresh brand was involved in that.

At AIMCo we collaborated with a number of our peers in Canada, and we advocated to Loblaws and to about 20 other companies that we could identify that were involved in manufacturing in Indonesia. Our approach was this. We thought: you know, these jobs are important in Indonesia. So we didn't want to advocate that these companies should be pulling out of Indonesia or not manufacturing overseas, but if they're going to do it overseas, they should be responsible for the types of facilities that they're operating.

Quite often what happens is that they will just sublease or lease facilities that are managed by somebody else in Indonesia. The quality of those facilities in terms of inspections and fire hazards and things like that is not up to speed, not up to code. We've engaged with companies like Loblaws, and Loblaws has been very responsive. They are now on the ground and actually inspecting these facilities and making sure that they are safe for employees

there. So that's the type of engagement that we've been involved with.

Other types of things. For example, in our real estate portfolio we do look at buildings that have LEED certification. These are environmental certifications. These buildings are more efficient. They're better for people to work in. They attract higher quality tenants, and they attract higher quality rents. So we think that having that kind of a view of, you know, wanting to be in a LEED building complements the goal of trying to maximize investment returns.

Those are the sorts of factors that we look at and take into consideration. Strictly speaking, it's not mandated to us, but we think that from the point of view of investing it's a smart way to go.

Mr. Piquette: So prudent is how you . . .

Mr. Pontikes: Yes. Absolutely.

The Chair: Any other questions?

Mr. Piquette: I just have one more quick question. I know that during the meltdown in the States there, when they had the subprime mortgage collapse, one of the things was that the rating agencies, you know, were giving triple-A ratings to subprime products. I see that you guys still seem to be dependent on – I'm hoping not. Like, is it a Standard & Poor's rating? What kind of diligence are you doing to make sure that the rating agencies are providing you with accurate numbers?

Mr. Pontikes: That's a good question. We do still rely on some of the rating agencies. You know, we have to. I mean, they provide information. But we also have a credit group in-house. When we look to buy a corporate bond, for example, our credit group will look at that bond, look at that company, and assess the creditworthiness of that company.

Mr. Piquette: Oh, independently.

Mr. Pontikes: Yes. We have a compliance group that monitors our exposure to different credit ratings. It's part of our risk management process.

Mr. Epp: In response to the timberlands question that was posed earlier on returns, Peter has provided a little information, shown it to me. Over four years the timberlands investments returned about 11.6 per cent against a benchmark of 11.4 over that same period. So while not a good year, a reasonably good four years.

Mr. Taylor: Yes. That was part of my original question, too, so thank you.

An Hon. Member: Shouldn't that be in the report?

Mr. Taylor: That might be a good idea.

Mr. Babineau: Actually, if you look on page 12 of the report, you can see the five-year return, which shows timberland at 11.2 per cent versus a 10.3 per cent benchmark. So we do show longer term numbers just to give an indication of our long-term view on some of those asset classes.

The Chair: Okay. I'd like to call for a motion that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2014-2015 Alberta heritage savings trust fund annual report with the corrections noted.

Mr. Malkinson. All in favour? Any opposed? Carried.

The next item on the agenda is our 2015 annual public meeting. Under the Alberta Heritage Savings Trust Fund Act this committee is required to hold a public meeting informing Albertans of the status of the fund. Usually this meeting is held in October, prior to the fall legislative session, although this does not have to be the case. For the past five years the committee has chosen to have the public meeting broadcast live to Albertans via television. In almost all of these instances, however, the committee was of the opinion that the amount of work and expense that was invested in co-ordinating these broadcasts did not yield the viewership and participation they were hoping for.

Meetings have in the past been held in other towns and cities. However, the previous committee largely felt that holding the meeting outside of the Edmonton region did not provide greater participation for the time and expense invested in the arrangements. The deputy chair and I met with the Legislative Assembly staff, and I'm comfortable making this recommendation.

Now that the refurbished Edmonton Federal building is open for use, I would like to explore the possibility of using this venue for the 2015 public meeting. We will have to confirm that there is sufficient technology in the committee rooms that will enable us to still deliver a live web stream of the meeting across Alberta, as has been done in the past. Using the committee rooms will enable us to save the cost of renting an outside venue, and we can also maximize the use of the state-of-the-art committee facility.

When it comes to reaching Albertans and making them aware of the public meeting, in the past the committee has also felt that greater use of social media for advertising would be a better use of committee funds rather than traditional newspaper advertising. While I believe that the use of social media can certainly be enhanced, I would still task our communications support to explore a strategic approach to targeting the many Albertans who still receive their information through small community newspapers.

Rhonda Sorensen from the Legislative Assembly Office, communications, may have other information.

Ms Sorensen: Thank you. Based on what the chair has described, our goal here today is to find out if you're in agreement with that. Then we would put together a communications plan that would outline the social media initiative, the advertising initiatives, likely streaming as opposed to broadcasting, and incorporating some sort of interactive social media component to that. Our goal here today is to find out what your direction is so that we can come back to you with a strategic plan within the budget, that outlines what we hope will be the best bang for your buck.

The Chair: Does anyone have any questions?

Ms Renaud: I attended last year's event.

Ms Sorensen: I remember you.

Ms Renaud: It was exciting. It was really good. The interactive piece, where people could ask questions, I thought was quite good. And people were engaged.

Ms Sorensen: Thank you. I think what's always one of the best parts of the public meeting, both for the people who sit on the panel as well as people in the audience, is to have that interaction and have their questions answered in a live venue.

The Chair: Any other questions?

Miranda: What would be the cost of actually going back to print media as opposed to just concentrating solely on social media?

Ms Sorensen: There's always a higher cost with print media, of course, because you have to pay the newspapers to actually run the advertising in it. With social media, of course, we don't really have much of an overhead at all on that. However, it really depends on what your objectives are. A lot of the people who are interested in the Alberta heritage savings trust fund are the senior population, who tend to look at the community newspapers more than the social media. So what we try to do is vary the social media and the traditional media so that everything is leading back to the website, so that they're gaining as much information as possible regardless of what age they are or if they're in a rural or urban municipality.

Miranda: Do you have an estimate of how much it would be approximately?

Ms Sorensen: For, like, province-wide advertising?

Mrs. Dacyshyn: I have it.

Ms Sorensen: Oh, you have the actual numbers?

Mrs. Dacyshyn: I do. Last year the committee spent just a little over \$33,000 on paper advertising.

Ms Sorensen: Of course, that's a moving scale. You can take out a smaller ad, a larger ad. It really depends.

The Chair: Okay. Any other questions or thoughts?

10:00

Mr. Malkinson: I was just going to say that I think it would make sense for this committee to – my recommendation would be to keep some paper advertising because the point is, I think, to maximize, you know, the accessibility to this event for those who would want to attend. That would be my thought on the matter.

The Chair: Chris.

Mr. Nielsen: Thank you, Madam Chair. Again, we got a little bit of a briefing before on the attendance of the event. Rhonda, maybe

for the benefit of everybody else, because I directly asked you during that meeting as well: exactly what was our physical attendance at these things?

Ms Renaud: It was 36?

Ms Sorensen: Yeah. You're pretty much bang on.

Traditionally, regardless of what we've chosen to do – whether it's been in a small community, if it's been in a large venue, whether it's been broadcast, web streamed – the attendance is low. People's time, I think, is very limited, so you really have to entice them in order to get them to participate in extracurricular activities. So in order to try and engage as many people as possible without expending a lot of dollars, we find that the web streaming and the social media aspects certainly get that done for us. My own personal view is that I think it shows that the people seem to be quite happy with the way that the fund is managed, because it's not controversial. If it was controversial, they'd be out in droves, I can guarantee you.

The Chair: Okay. Seeing no other questions, I'd like a member to move that

the 2015 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be held in Edmonton at a date to be determined.

Okay. Ricardo Miranda. All in favour? Opposed? Carried.

Okay. Jeanette or Rhonda will have a draft communications plan for the committee's consideration at the September meeting.

Does anyone have any other items of business to raise?

Okay. The next meeting will be scheduled in September. We don't have a date yet, but a poll will be sent out to everyone.

I'd like to call for a motion to adjourn.

Mr. Taylor: I move for adjournment.

The Chair: All in favour? Opposed? Carried.

Thank you, all.

[The committee adjourned at 10:03 a.m.]

