



Legislative Assembly of Alberta

The 29th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Wednesday, March 2, 2016
1 p.m.

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

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Nielsen, Christian E., Edmonton-Decore (ND), Deputy Chair

Carson, Jonathon, Edmonton-Meadowlark (ND)*
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Ellis, Mike, Calgary-West (PC)
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Sucha, Graham, Calgary-Shaw (ND)
Taylor, Wes, Battle River-Wainwright (W)
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Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance

Aaron Brown, Director, Portfolio Management, Capital Markets
Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation

Dale MacMaster, Chief Investment Officer
Kevin Uebelein, Chief Executive Officer

1 p.m.

Wednesday, March 2, 2016

[Ms Miller in the chair]

The Chair: Okay. It's 1 o'clock, and I'd like to call this meeting to order. Welcome, everyone. My name is Barb Miller. I'm the chair of this committee, and I'm the MLA for Red Deer-South.

I'm going to ask the person on my right to introduce himself, and then we'll go around the room.

Mr. Nielsen: Chris Nielsen, MLA for Edmonton-Decore and deputy chair of the heritage trust committee.

Mr. Carson: Jon Carson, MLA for Edmonton-Meadowlark, substituting for Ms Renaud.

Ms McKittrick: Annie McKittrick, MLA for Sherwood Park. Bonjour.

Dr. Turner: Bob Turner, MLA, Edmonton-Whitemud.

Mr. Uebelein: Kevin Uebelein, CEO of AIMCo.

Mr. MacMaster: Dale MacMaster, CIO, AIMCo.

Mr. Thompson: Steve Thompson. I'm the executive director of capital markets for treasury and risk management.

Mr. Brown: Aaron Brown, director of portfolio management for treasury and risk management.

Mr. Robe-From: Nelson Robe-From, principal with the office of the Auditor General.

Ms Dotimas: Jeanette Dotimas, communications branch with the LAO.

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

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

Mrs. Dacyshyn: Corinne Dacyshyn, committee clerk.

The Chair: On the phone, if you could introduce yourselves.

Mr. Sucha: Graham Sucha, MLA for Calgary-Shaw.

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

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

Mr. Ellis: Mike Ellis, Calgary-West.

The Chair: Thank you.

The meeting materials were posted to the internal committee website last week.

A few housekeeping items to address before we turn to the business at hand. Microphone consoles are operated by the *Hansard* staff. Please keep cellphones, iPhones, and BlackBerrys muted or off the table as these may 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 website.

Does everybody have a copy of the agenda? Okay. I need a motion from somebody for approval of the agenda.

Dr. Turner: I so move.

The Chair: Dr. Turner. All in favour? Any opposed? Carried.

Okay. Approval of the minutes for the meeting of September 22, 2015. Has everybody had a chance to look at the minutes? Could I get a mover for approval of the minutes? MLA McKittrick. All in favour? Any opposed? Carried.

As you know, the Alberta Heritage Savings Trust Fund Act indicates that one of the functions of the committee is to receive and review quarterly reports on the operation and results of the operation of the heritage trust fund. We are pleased to have Aaron Brown and Stephen Thompson from Alberta Treasury Board and Finance and Kevin Uebelein and Dale MacMaster from AIMCo here to assist us with our reviews of both reports.

Would the gentlemen from AIMCo like to start?

Mr. Thompson: Typically we would start.

Mr. Uebelein: I defer to Finance.

The Chair: Okay. Finance would like to start.

Mr. Thompson: Thank you to my colleagues from AIMCo. Thank you, Madam Chair, and good afternoon to all the members of the committee. I'm here on behalf of Minister Ceci, who sends his regrets.

Before you you should have the second- and third-quarter updates of 2015-16 for the Alberta heritage savings trust fund. I'd like to highlight a few key numbers from the second-quarter report first. For the first six months, ended September 30, 2015, the fund returned 0.0 per cent and had a market value of \$17.4 billion. At that point the fund had generated \$646 million in net income. Markets can and have been volatile, as you will see. The remainder of my comments will be directed towards the third-quarter report, ended December 31, 2015. However, we are happy to answer questions on either report.

The fund's fair value as of December 31, 2015, was \$18.2 billion, up from \$17.9 billion at the end of the previous fiscal year. The fund had earned \$1 billion in net income at December 31, 2015, fairly strong earnings in a difficult period.

The fund, as you know, transfers all realized accounting income to general revenue, less an amount held back for inflation-proofing. The fund records market value gains in assets such as real estate and infrastructure but will not realize the majority of the income from these gains until the assets are in fact sold. Therefore, the fund's income will benefit this year from asset gains made in prior years. Please note that the income reported will change based on market fluctuations before the final number is realized for 2015-16.

The fund has returned 6.1 per cent for the nine months ended December 31, 2015, versus a policy benchmark of 2.0 per cent. The return has been primarily driven by two factors. The first is a strong performance for real estate and infrastructure assets, which have returned 9.2 per cent and 16.8 per cent respectively for those nine months. In this past quarter AIMCo has completed the sale of the heritage fund's and other clients' stake in Autopista Central, a toll road in Santiago, Chile. At the time the Autopista investment was one of the largest single investments held in the heritage fund. The Autopista investment performed quite well for the fund, but I will let Mr. Uebelein and Mr. MacMaster speak to that in their comments.

The second significant driver of investment performance has been our currency returns. In 2012 the Department of Treasury Board and Finance conducted a study which examined the structure of the fund's currency exposures given the significance of the province's exposure to commodity prices. That study recommended that whenever prudent, the heritage fund should seek foreign currency denominated assets, which would provide some

countercyclical protection from the possibility of falling commodity prices and the Canadian dollar. As we have seen that scenario unfold, the fund's currency positions have generated over \$1 billion in gains in the past 18 months. While it is important to note these short-term numbers, it is also important to remember that the heritage fund is invested for the long run.

Before I end my comments today, I would like to touch briefly on recent legislative changes that have affected the heritage fund. The Fiscal Planning and Transparency Act, which received royal assent on December 11, 2015, contained within it a number of consequential amendments to the Alberta Heritage Savings Trust Fund Act. Firstly, the act re-established the requirement that all realized accounting income be transferred to general revenues, with an amount held back for inflation-proofing. Additionally, the President of Treasury Board and Minister of Finance was made responsible for making public the heritage fund quarterly updates and providing these to the standing committee rather than having the standing committee make public these reports. This action aligned the legislation with practical operational considerations as the committee was often unable to meet prior to the report being made public within the 60 days required by legislation. The standing committee remains responsible for approving the annual report and making it public June 30 every year.

Thank you, Madam Chair. I would be happy to answer any questions at this time or defer them till after the AIMCo chiefs have spoken.

The Chair: Okay. Thank you.

If the gentlemen from AIMCo would like to do their report.

Mr. Uebelein: Sure, Madam Chair. Thank you very much. It's our pleasure to be here. We're happy to be able to report the third-quarter numbers. I think Stephen did a fine job of doing that.

I wanted to spend perhaps a moment adding some additional perspective. While we are here reporting on nine months – so three quarters of numbers for the heritage fund – because the heritage fund has a fiscal year-end of March 31, most of AIMCo's clients and indeed AIMCo itself report on a calendar year-end.

1:10

In just a few weeks you will no doubt be hearing our press release and some ample coverage, we hope, in the press on AIMCo's 12-month returns as of December 31. I know that with the uneven fiscal years it can be quite confusing if you've just heard nine-month figures and then you see a press release about what AIMCo has done as of the same date but for 12 months.

At the risk of confusing you more, I wanted to give you a snapshot of how the heritage fund has done for the 12 months ended December 31. For the 12 months ended December 31, the heritage fund total return net of fees was around 12.55 per cent. If you'll note, as Stephen said, the nine-month figures were 6.1 per cent, so you can do the sums. The first quarter of 2015 was a very strong quarter in terms of returns.

The performance above the policy return: that 12.55 per cent compared to the policy return represents about 4.3 per cent over performance, so that's roughly in line with the nine-month numbers. Again, to put this into perspective, the policy return is meant to calculate what the theoretical return would be if the heritage fund was invested in the policy mix in a fairly passive way, meaning the costs of AIMCo were eliminated. Our goal every quarter and for the long run is to beat the policy mix by working our tails off. That's a technical term.

For the calendar year of 2015 we're very pleased with the outcome, both for the heritage fund as well as for the rest of our

clients. To put some dollar numbers around that – again, we're talking about the 12-month period, not the nine-month – our value-added performance in dollar terms for the heritage fund was about \$714 million. So, roughly speaking, \$700 million more cash could be contributed to the general fund to help close that budget gap. We're, frankly, tickled with the year that we had in 2015. We announce this with humility because we know the markets can move against us just as quickly as they move for us, but we're happy to make that announcement. Probably before the end of March we will be making a more public announcement regarding the year that we had.

I hope that's helpful, and we're happy to answer any additional questions you have at this time.

The Chair: Thank you.

Any questions? MLA Turner.

Dr. Turner: Thank you, Chairwoman Miller. I have a question and a couple of follow-ups if I may. For the first three quarters and for the first nine months, ended December 31, the fund has returned 6.1 per cent in a very difficult market. The two quarterly reports speak to some of the drivers of this return; namely, the sale of the toll road in Santiago, Chile; the real estate portfolio; and currency fluctuations. Can you provide some more information as to the rationale behind the fund's current strategy and how that will integrate with the fund's investments going forward?

Mr. MacMaster: Sure. Maybe I'll start by saying that the past year and certainly the past nine months were somewhat unusual in the high returns that the fund earned, both in a high absolute return and also the relative return, so I would just caution everyone that the go-forward numbers probably aren't likely to be, you know, as great. We'd love them to be, but adding 3 or 4 per cent of value over and above the passive benchmark is really quite a feat. It's terrific, but it in part is due to a couple of factors, and maybe I'll touch on them.

One of them is the infrastructure portfolio. We had the divestment of the Chilean toll road, which was a terrific investment for us. We had a 50 per cent interest in the road, and we earned an additional value over and above our cost of roughly \$500 million, so it was a terrific investment. One of the reasons why there was such a gain in the last quarter as well was for illiquid assets. We typically bring a finely sharpened pencil to those assets, you know, once a year. So we did get a lift on the entire infrastructure portfolio, which I think speaks to the team's underwriting ability. Again, that 16 per cent return is quite a high one. I would expect that to moderate in the future.

I'll touch on real estate for a minute as well. That one was particularly pleasing for us because we did have an overweight in real estate in Alberta, and as you are all well aware, Alberta is certainly going through difficult markets. Despite the turmoil, though, the team was able to outperform its benchmark and deliver a solid absolute return and a relative return. In this particular report on page 2, if you look at the table that's included in the report, you'll find that every single asset class outperformed its benchmark, which, again, is unusual. There are a few unusual things: the high absolute return, the degree to which AIMCo outperformed, and the fact that every asset class outperformed. There is one that shows a lag, and that's real estate, earning 9.2 per cent versus 9.5 per cent for the benchmark, but that was only because our benchmark lagged – we didn't have the results at the time of printing, but at this time I can tell you that the real estate portfolio outperformed its benchmark as well. I'm quite pleased with the degree that AIMCo was able to add value in the last year.

Now, to speak to your question about strategy generally, I'll make a few comments. Certainly, you know, the past year has been a very difficult year. We had to deal with the issues around Greece and the potential default there, followed by concerns around global growth, in particular China. We had a collapse in commodity prices, including oil, which is very near and dear to our hearts here, and we also had to deal with the evolution or transition to higher rates in the U.S., which the market became quite concerned about in the last part of the year. So there were a lot of curveballs thrown at us in terms of the markets, and I feel quite good that our strategy was able to withstand that.

On a go-forward basis I would say that the consensus view that you read about in the paper or in the marketplace generally is one of, you know, concern and bearishness and probably negative sentiment. There are concerns around global growth. There are concerns around China. There are concerns around commodity prices, high debt levels. In terms of AIMCo's view I think we're a little more optimistic about things. We have seen a turn in commodity prices in the last month. In January virtually every commodity made gains. Oil looks like it might have hit bottom and is rallying. Japan and Europe have come out and included new stimulus plans to stimulate their economy, and I think it's safe to say that at this point the Fed interest rate hikes are off the table.

We're quite optimistic that we will likely see single-digit returns in equities. Fixed income, like the last few years, is probably not a great place to invest, with interest rates so low. We see good opportunities in the illiquid assets base. In real estate and foreign real estate and in infrastructure, where we did so well last year, we think there are going to be opportunities there, and perhaps even in our own backyard. We're actively looking for midstream assets potentially in Alberta.

We're confident, although we've come through a difficult period, that 2016 may be better. We expect volatility, certainly. It's been a long bull market. We had a significant correction in equity markets, with Canada down probably 20 per cent from peak to trough and the U.S. market down 15 per cent from peak to trough, which is a pretty significant bear market, you know, pretty typical, though, in the postwar period. Markets love to price bad news in first and ask questions later, so with that behind us, we're a little more optimistic. We'll see volatility, but hopefully by year-end we'll see commodity prices a little higher, oil perhaps a little higher, and equity markets a little higher and, in fact, maybe even Canada outperforming after five years of underperforming the U.S. market.

Dr. Turner: Thank you very much for that comprehensive answer. I'm not sure that my supplementals actually are going to add much to that.

A couple of things. The real estate portfolio really has done very, very well. You know, it's exciting to hear that, and I hope that it does continue. How do you decide where and when to invest in real estate? I have a specific question around whether you invest in farmland as part of that real estate portfolio.

1:20

Mr. MacMaster: Great question. Maybe I'll take the second question first. We've only recently started to look at agriculture in a more in-depth way as a subportfolio of our timber portfolio, actually. We've invested in timber for a number of years. It's very hard to find large tracts of good quality timber at attractive prices, so it's a relatively small portfolio. In the last couple of years we've been looking more intently at agriculture opportunities, so that's probably where that would fit in terms of where it resides in the portfolio.

We haven't typically on the real estate side, you know, invested in farmland. Usually what we're looking for there is – well, there are three strategies essentially. One is what we would call core, which would be a fully leased-out apartment building, multifamily home fully rented out, pretty conservative. The second would be what we call value-add, where perhaps we buy a property, fix it up, reposition it, potentially sell it or re-lease it. Finally, the third is what I would call more opportunistic in terms of maybe buying raw land and developing a building or completely repositioning a property. So those are the three sort of strategies in a nutshell.

How we decide where to place money really depends on a number of variables. We're really looking around the world for the best opportunities, and as you know, real estate is very local, so it really all depends. There are multisector investments involved in real estate, from multifamily to housing to office, of course, and industrial. So we look across various sectors, countries, regions to find the best opportunities and have the right balance of risk and return embedded in the portfolio.

Dr. Turner: Thank you very much.

Mr. Uebelein: One thing that I just would add while we're talking about real estate – and it's a message that we're reminding all of our clients of – is that real estate has performed really well. In particular, our exposure to Alberta real estate has performed very well through a long, multiyear cycle. That's exactly how diversification works. You know, while we have defensively restructured our exposure to Alberta real estate, we reckon that it is not going to lead the charge in terms of our returns through the remaining portion of this cycle. As I say, that's exactly how diversification works. We've moved our position as much as we could in anticipation of this downturn towards more prime and A-quality real estate, particularly in Calgary, because it's the most defensive position you can be in while still owning real estate in a downturn.

Dr. Turner: Thank you.

The Chair: Okay. MLA McKittrick.

Ms McKittrick: Thank you very much. You've alluded a little bit to the global commodity price decline in your previous comments. I was wondering if you could elaborate a little bit more on how you're managing this decline and especially how you're approaching it from the point of view of a long-term investment.

Mr. MacMaster: Sure. Commodities is a difficult area to invest in. I would say that in most of our strategies, especially on the illiquid side – so in that category I would include real estate, private equity, infrastructure, and timber – we really try to avoid commodities because of their boom-and-bust nature. They're very, very difficult to predict, so we're often looking for assets that don't have those qualities, that have long-term, stable income returns, largely predictable, which are ideal for our pension and, of course, endowment funds. We're really cautious around commodities generally. That's how we would handle it.

I would say that the public side, so fixed income, really isn't exposed to commodities directly, and with equities it's a similar approach. Equities, by virtue of the fact that they've had such a difficult time, have become a smaller weight in the benchmark indexes. If you look at Canada, for instance, where we have a lot of commodity exposure, those have diminished as prices have come down. But in my earlier comments I did speak to the fact that more recently we've seen a bit of an uplift there. In fact, Teck Resources, which is kind of Canada's bellwether in mining, is up over a hundred per cent since it bottomed in early January, so that's a fairly

substantial increase, you know, in this year. So that, perhaps, is a glimmer of hope in commodities.

Ms McKittrick: Thank you very much.

The Chair: Okay. Are there any questions on the phone?

Mr. Taylor: Yes. I have a couple of questions for you, well, a question, anyways, with a couple of follow-ups if I could. On page 12 of both the second-quarter and third-quarter reports, you indicate the use of derivative contracts. Some investment commentators are going on about a giant derivative bubble. Should Albertans be worried about the use of derivative contracts with the Alberta heritage fund, or are we going to make a record return when the derivative bubble bursts?

Mr. MacMaster: I would say that in general when we read the press, we often hear comments about derivatives, you know, similar theme and nature. I would say that the derivative markets we're involved in are highly developed and regulated, and our exposure is really quite small. We actually use derivatives primarily as risk reducers. They provide useful tools for us to actually lower our risk. For instance, probably our largest use of derivatives is in the area of currency hedging where we need to do it, so we're using currency forwards and options to hedge currencies to mitigate risks where we need to. I would say that in general across the portfolio the primary use of derivatives, whether it's futures or swaps, is to hedge risk, so I'm very, very sanguine, or unconcerned, about our exposure in derivatives. Actually, if you netted all of AIMCo's derivatives, not just for the heritage fund but across all of our portfolios, netted them out in terms of what we're on the hook for in terms of a debacle, it's very small, a tiny amount, usually in the order of \$25 million to \$100 million across \$90 billion. It's really, really quite manageable.

The steps that the regulators have taken in the past five years to oversee the use of derivatives are a positive in the sense that a lot of the excesses you may have heard about in the press coming out of the credit crisis have been resolved and settled. There's a tremendous amount of oversight by regulators and auditors around the use of derivatives and around risk-taking generally, especially in the banking system. That's why I would say that in this correction we've seen in the last year, where people were making comparisons to 2008, for instance, I would strongly oppose that view in large part because the banks and the financial system have been cleaned up and become highly regulated.

Mr. Taylor: You don't think there's a derivative bubble?

Mr. MacMaster: No, I don't believe there's a derivative bubble. No.

Mr. Uebelein: Mr. Taylor, I appreciate your question. I think it's actually a good one. The thing that I would add is that, certainly, a year ago AIMCo was beginning to use some derivatives for speculative purposes, and since joining, working with Dale, we've repositioned that so that our use of derivatives is almost entirely – dare I say “entirely,” as Dale says – as a risk mitigant.

I think, secondarily, that derivatives is such a big basket. You know, it includes very basic, building-block, highly liquid derivatives as well as some quite arcane, complex ones. Once again, we have taken a step in the direction of really working only in the area of these very liquid, fundamental building blocks, where the valuation of the derivatives, the counterparty risk involved with the derivatives, and the liquidity of those derivatives are very strong.

Mr. Taylor: Okay. So would you say that you're satisfied that the Auditor General's office has the expertise and technical capability to audit your derivatives portfolio as it is?

Mr. Uebelein: Well, as in many things, you know, our Auditor General relies on expertise both within and from outside. I'll defer to the representative from the Auditor General, but I'm very comfortable that they have the expertise.

Mr. Robe-From: Yeah. I would concur with what Kevin is saying. A lot of the derivatives that AIMCo is into are traded in public markets, and it's very easy to value them. We definitely feel that we have the expertise to value those.

1:30

Mr. Taylor: Okay. Thank you.

Mr. Ellis: Chair, I have a question as well.

The Chair: Okay. Go ahead.

Mr. Ellis: Thank you very much. Gentlemen, I just want to say thank you very much and excellent work. If we could just look at that third-quarter report presented by AIMCo there, at the bottom of page 2, under Alberta growth mandate, I just have a question here. In light of AIMCo's \$46 million investment in TransAlta Renewables as part of the government's Alberta growth mandate, at the December public hearing AIMCo indicated that it was waiting for Treasury Board and Finance to provide details before proceeding with this budget direction. Has the ministry given you any parameters surrounding this approximately \$540 million investment, and if so, can the committee obtain a copy of those parameters?

Mr. Brown: Yeah. We've been working collaboratively with AIMCo on that to develop a framework, I guess, on how this is to be implemented. We really want to defer to AIMCo's expertise in selecting investments. Obviously, what was delivered in the budget speech around the mandate: we've tried to put a little more context around that in terms of what that might look like and specifically how we measure it, and we do report on it on a monthly basis. So I think we can definitely put something together for you that would satisfy your question, and we'll deliver that to the committee via the committee clerk. Give us a few days to get it into communication shape. But, yeah, we can definitely provide that.

Mr. Ellis: That's excellent. Thank you very much.

Just a follow-up question here. Obviously, you've invested the \$46 million. Do you have any indication when you might be expecting to invest the other approximately \$500 million, and if so, are you guys just still looking, I guess, for investments?

Mr. MacMaster: There's no timetable on making good investments, I suppose. Investing done properly for economic return, which is what we're mandated to do, can't be rushed. So we are actively looking at investments, and we'll continue to do so. You know, the phone lines are open. We've had some incoming inquiries, and we continue to search. All of our asset managers are well aware of this. We continue to see opportunity, and I can tell you that we're actively looking at a couple right now.

Unfortunately, the nature of our business, too, is that it's competitive. You know, I'm kind of hoping that with the volatility we've seen in the markets in the last year and six months, some of that will go away, especially the illiquid assets, where despite all the negative news you hear, things are quite competitive. There's a lot of money out there chasing good-quality assets. We've worked

on a number of transactions in the past where we didn't ultimately win. I'm hoping that with this volatility and some of the large pools of money perhaps backing away, we'll see more of that.

I can tell you that we're actively looking at this, but I can't promise you when we'll see more.

Mr. Ellis: Yeah. Just one more follow-up question here if you don't mind. You just touched on it in regard to your mandate, you know, regarding economic return. Your investment in TransAlta Renewables: would you say that that is an investment that is really the best return for Albertans in this heritage trust fund?

Mr. MacMaster: Absolutely. We think this is a really high-quality asset. You know, touching on my previous comments, we have developed a relationship with this company and management that goes back many, many years. There were different opportunities to do various things, and we didn't feel the timing was just quite right, but all of a sudden it was. That speaks to the potential return we saw in the assets and the pricing we saw, so that's when we stepped in. This asset is already up significantly from where we bought it. I'm not going to tell you exactly what it is, but I think it's in the order of 15 to 20 per cent already. So for an infrastructure asset where we're looking for high single-digit returns, this has already done quite well for us. There may be potential down the road for other partnerships like this and even other potential opportunities with this company.

So, yes, we believe this was a terrific opportunity for the heritage fund.

Mr. Ellis: Thank you very much, gentlemen, and thank you, Chair.

The Chair: Thank you.

The next person with a question is MLA Nielsen.

Mr. Nielsen: Thank you, Madam Chair. It would seem Mr. Ellis and I have a similar interest in this part. I guess with regard to our annual public meeting, you know, we did allude to the government's Budget 2015 commitment to allocate up to about 3 per cent of the fund to be invested more in Alberta's growth, obviously, as you've just been speaking about with regard to TransAlta. For that money that you've now invested, what type of stake did we get, then, in that company?

Mr. MacMaster: It was roughly an 8 per cent stake.

Mr. Uebelein: It was between 8 and 9 per cent.

Mr. MacMaster: Yeah.

Mr. Nielsen: Okay.

Mr. Uebelein: That was for the entire investment. This is an interesting point that, I suppose, needs to be made more broadly. Opportunities like TransAlta, which we think are excellent investment opportunities, will also fit the appetite and needs of some of our other clients; our pension clients, for instance. Our total investment in TransAlta far exceeded the roughly \$46 million that the heritage fund made. It was about a \$200 million investment, in return for which we have, I think, just short of 9 per cent. That's actually really good news because if this committee is wanting to invest and is willing to put in a 3 per cent allocation in terms of investing in Alberta, that has a multiplier effect when we find transactions that, for fairness purposes, should be allocated to our other clients as well. So when you think about TransAlta, don't think of it as \$46 million; think of it as \$200 million because it's all being invested in this Alberta company that we like very much.

Mr. Nielsen: Okay. I guess with regard to those interests was there anything else about TransAlta, other than what you've mentioned, that you feel put that company on your radar?

Mr. Uebelein: The business that they're in is something that we think is a good business provided that it's supported by a strong management team and that it's at the right price. This is a renewables energy business. They develop, own, and operate power generation through renewable energy. They have 34 or 35 different sites, most of which are in Canada, and within Canada well over half of them are in Alberta, powered by hydro, so water, as well as wind. This is a business that we like, as I said, provided it's well managed and is at the right price, and that's exactly the triad of variables that we found with TransAlta.

Mr. Nielsen: Fantastic.

I know you had already alluded to this part with regard to some of the criteria that were going to be coming forward. Have there been expanded criteria put in place? Just to clarify, I wasn't quite sure if you had answered that.

Mr. Brown: Sure. In our discussions with AIMCo and I think in our interpretation of how this mandate is supposed to be executed, we didn't create a laundry list of: green energy is in but manufacturing is out. Basically, we looked at sort of guiding principles that we thought would fit, so the idea that an investment would lead to job growth, that there would be some added benefit to Albertans, which seemed to fit what was announced in the budget speech.

1:40

We have a one-page document that has what I would call the more guiding principles or an overarching philosophy to what would be in and out. Then we work with AIMCo when investments come along. We meet quite regularly on this. So they would have something and say that this particular investment, I think, fits for this and this reason. We have a discussion about it, and if we do think that that sort of satisfies the mandate, then we'll send it up to our deputy minister.

If you're looking for specifics, we didn't go that route. We felt that that would actually tie AIMCo's hands and really not work in the spirit of what we were trying to accomplish. So it is more of an overarching guiding principle, and I will definitely share that with the committee shortly.

Mr. Nielsen: Fantastic. Thank you for that.

I guess just one follow-up with regard, again, to the 3 per cent allocation for growth opportunities: do you have something that you're planning in terms of how that will be presented in the future to us?

Mr. Brown: Yeah, absolutely. The quarterly updates are meant to be sort of quick and fast and give a highlight of the fund because the markets are very transient. So even our return numbers, our income numbers – at nine months we have a good idea of what the year is going to end up like, but our annual report is much more fulsome. It's 50 pages compared to the 12 or 15 that you have in front of you. We're working right now on how to communicate that, but there will be a major section of the annual report dedicated to that mandate. So it will be reported, it'll be up front, and it'll be clear. If Albertans want to see the progress of that mandate, it will be in the annual report.

Mr. Nielsen: Okay. Good. I think Albertans will be interested in how we are doing with that additional 3 per cent investment here.

Thank you, gentlemen. I appreciate it.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you. It's always a pleasure talking with you gentlemen. To get back to the 3 per cent mandate we got from the Finance minister – I really like the line of questioning the vice-chair was going down – is there somewhere in this report where it shows where we sit on that 3 per cent threshold? Do we sit at 2 per cent? Do we sit at 3.1 per cent?

Mr. Brown: No. Other than that small section which talks about the initial investment, we didn't incorporate any formal reporting into this report. We will be incorporating much more detailed reporting into the annual report. Then depending, actually, largely on feedback from the committee as well as from the minister, we'll see how we can incorporate that into future quarterly reports going forward.

Mr. Cyr: So with the direction that the minister has chosen, are we going to be adding a new note stating where we sit and our plan on how to meet that target someday?

Mr. Brown: That's a good question. So a note – I mean, you're speaking specifically to the financial statements?

Mr. Cyr: Yeah.

Mr. Brown: If I can draw your attention to page 3, there's an asset mix table there. When we put forward a change to the SIP&G that incorporated – so it's a 3 per cent allocation that goes directly into that asset mix table. In fact, we took it out of global developed equity, so that target there would be reduced by 3 per cent, and it would go right in there. In the context of that table you'll see what our weighting is, you'll see what the target is, and then we'll have text around it discussing what investments have been made towards it.

In terms of a go-forward strategy, we don't always speak to that in our reports, but if it's something that the committee feels is important, I think we can incorporate that in there as well, in the text. It will be in our asset mix table. It'll be in that front pie chart on the highlights page. We'll probably have it in there because we know the profile that the members want to put on it. So it will definitely be up front. We're just working out how best to do that to make sure that it's communicated properly.

Mr. Cyr: So right now we're not meeting that 3 per cent. Is that correct?

Mr. Brown: No. The idea is to deploy the capital over a period of time. I'm sure our colleagues from AIMCo could go out and put 3 per cent into the market tomorrow, but it would not be in the best interests of the fund or Albertans, right? It's easy to make bad investments. There's an investment process to go through to make good investments.

We do report on it monthly, so it's not something that's sort of kicked down the road. It's definitely – there's a focus on it, but it will take time, especially when you're looking at, you know, some of the things that AIMCo invests in on the illiquid side, like an infrastructure investment. An Alberta infrastructure investment would absolutely be a viable candidate for this target. These things take a long time to negotiate and finish off, so it's not something where it's \$500 million that goes right into the market. I think that that would not really achieve the goals that the minister was looking for.

Mr. Cyr: I believe I heard that we had just sold off a Chile project for a toll. Have we considered P3 projects through the Alberta heritage trust fund?

Mr. Brown: I'll turn that over to AIMCo.

Mr. MacMaster: Yeah, sure. We look at P3 projects. In fact, we've invested in P3s before, including the Alberta ring road, by the way. We are a participant in that. The interesting thing about P3s from our perspective is that they're not really the private infrastructure that we invest in. P3s are typically done with a very large public debt component, quite frankly, which is usually 80 or 90 per cent, and it's issued in the public market. It's purchased by our fixed-income team at a spread which is comparable to other corporate bonds of a similar rating, and they're typically rated at or just below the province or government jurisdiction that is involved. The remaining piece tends to be equity, which is retained by the stakeholders, construction companies, you know, to incent them and keep their involvement lined up with the project. So it really doesn't dovetail very well with private infrastructure.

These are also greenfield developments as well, where you're building a road or a bridge or potentially a high-tech hospital. What we're investing in at AIMCo, typically, is more brownfield, existing infrastructure that we go and purchase, because if there's no construction involved, there's less risk. That's what we're really about, a flow of income that's highly stable, you know, to provide for our clients.

Mr. Cyr: Okay. So we have no P3s currently on the books with Alberta heritage trust fund? Is that what I'm hearing right now?

Mr. MacMaster: I don't know, off the top of my head, if we have any P3 bonds in the fixed-income portfolio, which is the only place it would be. I just don't have that information.

Mr. Uebelein: You know, we can get back to you with a definitive answer on that.

I was talking to someone last week about P3s, and it echoes somewhat what Dale was saying. What I said was: in one sense, when AIMCo does not invest in a P3, particularly one in our own backyard, because we see all of them, it's actually a compliment. It means that these transactions have attracted the most aggressive capital from around the world. It's priced very well. In other words, you've driven a good bargain for attracting capital from all around the world. We like to invest where we see good value, so if we don't invest in these bonds, it probably means you got a very good price. If you follow my logic, it's actually a backhanded compliment. If we start investing in a lot of Alberta P3s, it means that we see good value. Maybe they're not structured as well as we would like, as Albertans would like.

Mr. Cyr: So it's really hard to unilaterally just say, "Three per cent of all of the fund should go towards Alberta projects," because there's no opportunity here. Is this kind of what I'm hearing?

Mr. Uebelein: I think you're on to something, but I think we need to be very careful about it. I think what we are saying is that in many cases there's a free flow of capital all around the world. There are no walls in Alberta. There are investors other than AIMCo who are eager to find good value in companies or infrastructure or other investments in Alberta. If AIMCo can be a part of that and actually help drive prices up and somebody else beats us for a price that we don't like, I think we're all winners.

I do think that now is the right time for us to take instruction from this committee and from the heritage fund to look for good values in Alberta. Do I think we're going to find good values in Alberta because Alberta's economy is suffering and there is some capital that's leaving Alberta? The answer is absolutely yes. But we want to take our time; we want to do this very carefully. As I said, if there

are other buyers for certain projects or certain investments that are willing to take a lower return than we are, then Alberta is still having that investment capital flow in. It's a very nuanced answer.

I still think that the 3 per cent is a good idea. We are dedicated to doing it, but we're not going to just, as Aaron said, push it out the door. That would be easy for us in one sense, but it wouldn't, I think, fulfill the objectives of this committee.

1:50

Mr. Brown: If I might add, the fund already has roughly 9 and a half per cent of its value invested in Alberta. You know, it's been that way either through the Canadian equity portfolio or through real estate, things like that. The 3 per cent was meant to be an additional 3 per cent, and it also has a nuanced mandate, right? There are goals outside of just owning an Alberta business that are trying to be achieved here. That's why it takes a little bit longer to deploy, because we want to find assets that match that. I think it would be extremely cynical to just pick at random five Alberta companies and invest a hundred million dollars in their stock. That's not the intent of the mandate at any level. Because there is that added nuance to it and because we want to combine both the goal of the mandate as well as matching up with excellent investments, it takes a little bit more time to deploy that properly.

Mr. Cyr: The fund itself – and I'm sorry, Madam Chair – the whole fund is 9 per cent, but the Alberta heritage trust fund part of it is way less than that. Is that not correct?

Mr. Brown: No. What I'm saying is that about 9 per cent of the Alberta heritage savings trust fund is invested currently in Alberta, either through public or whether it's through bonds – most of it's through the real estate side, through, you know, Calgary and Edmonton office towers and things like that. It's been like that. There's never been a specific direction. That's just through AIMCo's natural investment process. I think, as Dale said during his talk when discussing the real estate portfolio, that real estate expertise can be very local, so naturally we would end up with a lot of Calgary and Edmonton buildings. The 3 per cent was not business-as-usual investing; it was an additional investment.

Mr. Cyr: So we've got a mandate from the Finance minister that has no optics to be able to say if we're meeting that or not. I guess that's my concern in all of this. Like, I know that it was 3 per cent extra, but this is a moving target, I guess you would say. Are we placing 12 per cent as the target, or are we just going to say: we're going to put a billion dollars additional into it and just let it roll? Is this kind of where it is? I'm sorry. I'm trying to understand here.

Mr. Thompson: No. The 9 per cent has naturally occurred in the heritage fund as AIMCo has followed the various mandates that they have. There's been no specificity around that 9 per cent being a requirement. That has just naturally been good investments that AIMCo has valued and deemed worthy of being included in the fund. The 3 per cent has specificity that it be attached to Alberta-based investments. That's the only difference. The 9 per cent at some point could be sold to zero as they realize gains or could grow as the investments grow. The 3 per cent is a very specific mandate that's directed towards Alberta-based investments.

Mr. Brown: As I mentioned, there are some guidelines around that. We report monthly on it. We will be reporting specifically on that 3 per cent. I suppose there is a scenario where AIMCo makes an investment in an Alberta-based company that doesn't actually match the mandate of the 3 per cent. I can see that it would be a little complicated.

There's a communication challenge here – and that's probably one of the reasons why we didn't rush to put it into this report – also timing issues. You know, this is exactly – we really appreciate this feedback. We do want to communicate clearly on it, on what's trying to be achieved. We don't want to give the impression that it was just lip service and it's not going to be filled because that is definitely not the intent either. Therefore, you know, for the annual report, the next time we're in front of you, we want to make sure that this communication is crisp so that it's pretty clear to understand what is trying to be achieved and how it's going to be achieved.

Mr. Cyr: Thank you. Thank you very much. Excellent.

The Chair: Thank you.

Any other questions on the phone?

Mr. Taylor: I have a question, Madam Chair. On page 13 of the Q2 and Q3 reports strategic, tactical, and currency investments were relatively flat in the second quarter in comparison to March 15, 2015. They then jump to \$738 million in Q3. There were some big moves here. Can you tell us what happened with these investments? Did it have anything to do with the currency market?

Mr. Uebelein: You're saying that this is in note 4 on page 13?

Mr. Taylor: Yes.

Mr. Uebelein: And you're seeing a 700 number? I apologize. We're not tracking with your question.

Mr. MacMaster: I see 236.

Mr. Taylor: Using your two separate numbers. If you're looking at the equities, you'll see there's \$9,409,000,000.

Mr. Uebelein: Yes.

Mr. Taylor: In September it's \$8,887,000, so there's a difference between the two of \$738 million. What did you do to make these changes, the asset mix change?

Mr. MacMaster: In general the asset mixes are fluctuating daily, so if we did absolutely nothing to the portfolio, the market pricing would move the asset mix around. Of course, the last year has been quite volatile, so equities are moving up and down with the markets, as are all the other pieces. In fact, when we move the illiquid prices, you know, when we get those prices in, that in addition moves things around. In addition to that, we're also buying and selling securities in line with the strategies that we're using – we could be funding external managers, taking other mandates in-house – so this is a very dynamic, moving target of asset mixes, okay?

Mr. Uebelein: First off, I apologize for being slow on the uptake with regard to the question. I think the other moving part that we don't talk about but drives the total asset number is the fact that currently one hundred per cent or nearly one hundred per cent of the income that we derive from the heritage fund is pulled out of the heritage fund in order to help supplement the current budget of Alberta. My figures, again for the 12 months through December 31, are that about \$1.5 billion was drawn out of the heritage fund. That becomes cash available for the current budget of Alberta. That's one driver. If you think of the heritage fund as being, hopefully, a bunch of inflows from our income matched over time almost exactly by outflows, from quarter to quarter we may have more outflows from basically reaping the profits of previous periods.

Mr. Taylor: Did it have anything to do with the currency market, that change?

Mr. MacMaster: Currencies would play somewhat of a role, potentially, because these are all reported, you know, converted back to Canadian dollars.

Mr. Taylor: Okay. Yeah.

Mr. MacMaster: Currency movements would have helped you this year. A lot of your assets would have been in the equities in U.S.

Mr. Taylor: Again on the same page, can you tell me: is the Alberta heritage fund holding any provincial government bonds such as Nova Scotia, Quebec, Newfoundland? Any other sovereign or subsovereign jurisdiction bonds being held here?

Mr. MacMaster: Yes. The bond portfolio does hold provincial bonds, mostly Ontario's.

Mr. Taylor: Okay. Thank you.

2:00

The Chair: Okay. Thank you.

In the interest of time I'm going to end questioning here; we've still got quite a bit of our agenda to cover. I'd like to thank you, gentlemen, for answering our questions and giving us such a great amount of feedback.

Okay. Now I need a member to make a motion that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2015-2016 second- and third-quarter reports on the Alberta heritage savings trust fund as presented.

MLA McKittrick. All in favour? On the phone? Any opposed? Carried.

Okay. Our next item on the agenda is our 2015 public meeting review. Before I ask our communications department of the LAO to bring us up to speed on everything, I would like to thank them and all the staff for the hard work they put into our annual public meeting. You guys went above and beyond and did an amazing job. Thank you.

Saying that, I would like to invite Ms Sorensen or Ms Dotimas to give us the report.

Ms Dotimas: Sure. Thank you, Ms Miller. The objective of the 2015 communications plan was to map out how we would provide support to the committee in promoting the annual public meeting. The goal was to reach Albertans in order to provide a status report on the heritage savings trust fund and to give them an opportunity to learn more about how the fund's investments and proceeds are being managed. The committee wanted to cast a wide net to reach the general population. Albertans were encouraged to attend in person or to watch the broadcast of the meeting on television or online. Notices were placed in traditional advertising such as radio and print media and supplemented with free or low-cost initiatives as well such as social media and media relations.

The meeting was held here on Thursday, November 26 between 7 and 9 p.m. in the Federal building. Efforts were made to leverage the newly opened Legislative Assembly Visitor Centre, downstairs, and the Borealis Gallery's exhibition of the Magna Carta in order to attract attendees to the venue and to the meeting. The heritage fund video, which reflected most of the recent changes to the fund at the time, was shown at the beginning of the meeting, and an abbreviated form of the video was made available on YouTube as well as our social media accounts.

In the report I have provided a chart of the five-year summary of attendance and viewership for the public meeting. I do have one

correction to make, however. We didn't have the information for the online viewership at the time of the report, so it's been adjusted, and it's now just below the chart as well.

The live television broadcast on November 26 was between 7 and 9 p.m., and it reached a total of 2,000 households in Alberta. The repeat broadcast of the program was between 9 and 11 that same evening and reached an audience of approximately 6,000 households in Edmonton only.

The summary report includes a number of statistics as well from that meeting, including the number of questions that were posed to the committee and the panel. As well, we asked the audience how they received the notices in order to know that the meeting would take place.

That's the summary report for the 2015 public meeting. Thank you.

The Chair: Thank you.

Does anyone have any comments? Mr. Nielsen.

Mr. Nielsen: Thank you, Madam Chair. One quick question with regard to the cost of that event: what was that?

The Chair: I'll defer to the committee clerk.

Mr. Nielsen: Thank you.

Mrs. Dacyshyn: Okay. The cost, most of which was for communications initiatives, was just under \$25,000 this year. For members' interest that was about half of what was spent last year, due in part to holding the meeting here in this venue. So we saved costs there, and different methods of promoting the meeting this year also saved quite a few dollars. We spent about half of what we spent last year.

Mr. Nielsen: Fantastic. Thank you so much for that given, you know, some of the constraints that we're facing. I appreciate your hard work.

The Chair: Any other comments? Ms McKittrick.

Ms McKittrick: Thank you, Madam Chair. I want to echo the comments of the chair and the vice-chair about, you know, the work that was done. It was really a great evening, and of course it's a great building.

Since this was an attempt to have a provincial viewing audience and to connect provincially with people through social media, I was wondering if you had any data on the people who asked questions or who watched through Facebook or Twitter as to where they were located in the province.

Ms Dotimas: Sorry. I just need to clarify your question, Ms McKittrick. Is it the people who came to the audience or online specifically?

Ms McKittrick: No. Online. The people who watched online and also the questions. We answered questions from Twitter and Facebook, and I was wondering if we knew where people who either watched or interacted with the committee and asked questions came from.

Ms Dotimas: I do know that on that evening we had folks from Calgary and Edmonton, so the majority of them came from the urban centres. In terms of social media it's a little difficult because we didn't advertise through social media; it was simply posting. It was not one of our recommendations at the time to engage in paid advertising for social media.

Ms McKitrick: The questions through Twitter and Facebook: we don't know where the people were located?

Ms Dotimas: I had at least one in Calgary and one in Edmonton at that time.

Ms McKitrick: Okay. Thank you.

The Chair: Okay. Any other comments? On the phone?

Based on the fact that there's substantial cost savings to using this facility – saving on staff, travel, and venue charges – would the committee be in favour of using this venue again for the annual meeting this coming November? If so, could I get someone to . . .

An Hon. Member: I think you have a question.

The Chair: I didn't see you.

Mr. Cyr: Sorry, Madam Chair. Before we commit to doing the same thing, I was just wondering what the staff's thoughts were on how well this worked. Comparative to other years do they see that we got about the same results?

Ms Sorensen: I can answer that, Madam Chair. I guess it's a little difficult to answer right now because it was the first year that we've done it here, so we don't really have a measurement to go by on the success of this building from year to year. I think the cost saving is something that's quite extraordinary that allows us to perhaps get the message out. We're not always going to get a very high return on the public meeting anyway, so to be able to do it without expending a lot of money, I think, is a benefit to the committee.

Mr. Cyr: Fair enough. Thank you very much.

The Chair: Okay. Could I get a member to move that the 2016 annual public meeting be held in the Edmonton Federal building at a date to be determined.

Dr. Turner: I so move.

The Chair: All in favour? On the phone? Any opposed? Carried. Thank you.

I'd like to thank the Treasury Board and AIMCo people for sticking around for this. You're free to stay if you wish, but if you have other places to go, don't feel that you have to stick around.

Mrs. Dacyshyn: They might want to stay for the coffee.

2:10

The Chair: Unless you want to stay for coffee.

Okay. We'll need a second motion that

LAO communications be directed to draft a communications plan outlining options for the 2016 public meeting for approval at the June 2016 committee meeting.

Could I get a mover, please? MLA McKitrick. All in favour? On the phone? Opposed? Carried.

There was a report posted, the draft standing committee report on 2014-2015 activities, that should have been posted as pre-election and postelection, so we are correcting it, splitting the report in half or in its sections. We will need someone to make the motion that the standing committee's report to the Legislature be divided into the 28th Legislature activities and the 29th Legislature activities and that the chair be delegated authority to approve and table these reports.

Mr. Cyr moves. All in favour? On the phone? Opposed? Carried.

Other business. Do members have any items of other business? Okay.

The date of the next meeting. The next meeting will be held at the call of the chair in mid-June for approval of the annual report on the Alberta heritage savings trust fund.

Could I get someone to move that the meeting be adjourned? MLA Turner. All in favour? On the phone? Opposed? Carried. Thank you.

[The committee adjourned at 2:13 p.m.]

