



Legislative Assembly of Alberta

The 29th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, September 12, 2016
1 p.m.

Transcript No. 29-2-2

**Legislative Assembly of Alberta
The 29th Legislature
Second Session**

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

Coolahan, Craig, Calgary-Klein (ND), Chair
Schreiner, Kim, Red Deer-North (ND), Deputy Chair

Cyr, Scott J., Bonnyville-Cold Lake (W)
Dang, Thomas, Edmonton-South West (ND)
Ellis, Mike, Calgary-West (PC)
Horne, Trevor A.R., Spruce Grove-St. Albert (ND)
McKittrick, Annie, Sherwood Park (ND)
Taylor, Wes, Battle River-Wainwright (W)
Turner, Dr. A. Robert, Edmonton-Whitemud (ND)

Office of the Auditor General Participants

Merwan Saher	Auditor General
Brad Ireland	Assistant Auditor General
Nelson Robe-From	Principal

Support Staff

Robert H. Reynolds, QC	Clerk
Shannon Dean	Law Clerk and Director of House Services
Trafton Koenig	Parliamentary Counsel
Stephanie LeBlanc	Parliamentary Counsel
Philip Massolin	Manager of Research and Committee Services
Sarah Amato	Research Officer
Nancy Robert	Research Officer
Corinne Dacyshyn	Committee Clerk
Jody Rempel	Committee Clerk
Aaron Roth	Committee Clerk
Karen Sawchuk	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications and Broadcast Services
Jeanette Dotimas	Communications Consultant
Tracey Sales	Communications Consultant
Shannon Parke	Communications Officer
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

Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation

Dale MacMaster, Chief Investment Officer

Kevin Uebelein, Chief Executive Officer

1 p.m.

Monday, September 12, 2016

[Mr. Coolahan in the chair]

The Chair: Good afternoon, everyone. I'd like to call this meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order. My name is Craig Coolahan. I'm the MLA for Calgary-Klein and the chair of this committee.

I'd like to first go around the room and ask everyone at the table to introduce themselves for the record, and then we will have those on the phone introduce themselves, starting on my right.

Mrs. Schreiner: Kim Schreiner, MLA for Red Deer-North.

Mr. Ellis: Mike Ellis, MLA, Calgary-West.

Mr. Uebelein: Kevin Uebelein, AIMCo.

Mr. MacMaster: Dale MacMaster, AIMCo.

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

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

Mr. Ireland: Brad Ireland, office of the Auditor General.

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

Mr. Dang: Thomas Dang, MLA for Edmonton-South West.

Mr. Horne: Trevor Horne, MLA, Spruce Grove-St. Albert.

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

Ms McKittrick: Annie McKittrick, MLA, Sherwood Park.

Mrs. Parke: Shannon Parke, communications services for the Legislative Assembly Office.

Ms Dotimas: Jeanette Dotimas, communications services for LAO.

Mr. Roth: Aaron Roth, committee clerk.

The Chair: On the phone?

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

The Chair: Thank you.

A few housekeeping notes. The microphones are operated by *Hansard* staff, so no need to touch them. Please keep cellphones off the table as this may interfere with the audiofeed. Audio of committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts can be found on the Legislative Assembly website.

Number 2 on our agenda is the approval of the agenda. Can I have somebody move approval of the agenda?

Mr. Dang: I would so move.

The Chair: Let the record show that Mr. Dang moved that the agenda for September 12, 2016, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted. All in favour? Any objections? On the phone? That is carried.

Number 3 on the agenda is to approve the minutes from the June 20, 2016, meeting of this committee.

Dr. Turner: I so move.

The Chair: Let the record show that Dr. Turner moved that the minutes of the June 20, 2016, meeting of Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour? Any objections? On the phone? Thank you.

Number 4 on today's agenda. The Alberta heritage savings trust fund first-quarter report for 2016-2017 was released on August 23, 2016. Committee members were sent notification of its release, and the report was posted to the committee's internal website. The Alberta Heritage Savings Trust Fund Act mandates that one of the functions of the committee is to receive and review quarterly reports on the operation and results of the heritage fund. We are pleased today to have with us here Mr. Kevin Uebelein and Mr. Dale MacMaster of AIMCo and Mr. Stephen Thompson of Treasury Board and Finance to assist us with our review.

At this point we will turn the floor over to Mr. Thompson, and we can ask questions after this. Mr. Thompson.

Mr. Thompson: Thank you, Mr. Chair. Good afternoon to the members of the committee and guests. I'm here on behalf of Minister Ceci, who sends his regards. Before you is the 2016-17 first-quarter update for the Alberta heritage savings trust fund, which was released publicly, as you said, on August 23 as part of the government's first-quarter update. I'll go over briefly some of the highlights from the report, and then I'll turn it over to my colleagues from AIMCo for a report from our investment manager. Certainly, I'd be willing to take any questions after that.

I'd like to highlight just a few changes that you may have noticed from the reports. None of the information contained within the document is changed, but the format in which we have laid things out is different. We've tried to make the report look and feel a little more like the other publications we produce. The information is now laid out in columns with the most pertinent numbers at the top of the page.

For the three months ended June 30, 2016, the fund returned 1.6 per cent, which equates to a 6.4 per cent annualized rate of return, and achieved a market value of \$18 billion. As of the quarter end the fund had generated \$638 million in net income.

The fund, as you know and as we have discussed previously, transfers all realized accounting income to general revenues annually less an amount held back for inflation-proofing. The fund records market value gains and assets like 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. As always, please note that the income reported for the year will change based on market fluctuations before the final number is realized for the fiscal year.

The fund's return this quarter has primarily been driven by two factors. The first was a strong performance of 3.1 per cent in our fixed-income portfolio, where bond yields fell as investors sought out safe assets following the Brexit vote in the U.K. Secondly, overall equities performed well, returning 2 per cent, driven by strong returns in Canadian equities, which returned 4 and a half per cent. This was primarily due to the strong performance in the metals and mining sector as well as the energy sector.

While we are here to present the release of the first quarter's returns, it is important to remember that the mandate for the heritage fund is to invest in the long term. If we look to the longer term performance of the fund, we see that the five-year annualized rate of return as of June 30, 2016, was 10.7 per cent while the 10-year return was 7.4 per cent. These returns are well above the target rate of return for the fund of Canadian CPI plus 4 and a half per cent. The value added by AIMCo for these periods was 1.2 per cent and 0.5 per cent respectively.

I'd be happy to answer any of the questions the committee may have, or we can defer those till after we've heard from our colleagues from AIMCo.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Thompson.
Please proceed.

Mr. Uebelein: Yes. Mr. Chair, I want to thank you for allowing us to come and present to this committee. I'm going to respectfully defer any additional opening comments and allow Chief Investment Officer Dale MacMaster to address the committee.

Mr. MacMaster: Thanks. Perhaps what I'll do is make some opening comments about the performance and then just open it up for questions.

As pointed out, the return for three months was 1.6 per cent versus 1.9 for the benchmark. Again, you know, we're looking at the long-term performance. It's where we're focused. Performance over any short period, three months or six months, ends up being noise in the long run, but if you do look at the longer term performance, that's been quite good for an absolute return as well as a relative return. So one year would be 6 per cent; two years, 8; three years, 11; four years, 11 and a half; five years, 10; eight years, 7. We can see just from that that returns, mostly double-digit, have been very good. AIMCo's relative performance at adding value over those periods has been for the most part additive, which is encouraging and great for all Albertans.

The challenge to going forward, as you're probably all aware, is that interest rates are very low today. Ten-year rates are at 1 per cent. So in the traditional 60/40 portfolio of fixed income and equities, which the heritage fund is not because it does have a lot of alternative assets in real estate and infrastructure – the typical, you know, sort of old-fashioned portfolio would be really challenged to gain the same sorts of returns that the heritage fund has enjoyed over the last few years just by virtue of, number one, fixed-income rates being so low, 1 per cent on 10 years.

If you look at the other side of that equation, equities, it would require a very high double-digit return in order to have the same sort of return that we've enjoyed here with the heritage fund. When we look at equity markets, they're somewhat challenged as well. We've gone through a fairly lengthy bull market, evaluations look stretched – the price-earnings multiple, for example, is approaching 20 per cent when the long-term average is 15 – earnings have rolled over in the last five quarters. Some of the activities that have been driving equity performance around dividends and buybacks have also tapered off in the face of lower earnings.

And we still are faced with the same sort of risk that we've talked about here before: concerns around global growth, the Chinese economy, the fact that the Federal Reserve may be raising interest rates later this year. All of these, you know, including geopolitical risk, are still very much there. So as I've done before, I caution the committee that the go-forward returns will be challenged.

Luckily, the heritage fund, like other advanced pension funds, has made a move into the illiquid side of things early, so there's a large proportion of assets in real estate and infrastructure. Although those assets would be hurt by a large move in interest rates, they at least offer rising income streams as those assets are very often attached to CPI or are CPI linked and, therefore, higher rents and tolls can offset those valuation impacts.

Perhaps I'll leave it at that and take questions if there are any.

1:10

The Chair: Okay. Thank you, Mr. Thompson and Mr. MacMaster.
I will open up the floor for questions.

Just ahead of that, though, Mr. Cyr, for the record, can you introduce yourself?

Mr. Cyr: Thank you, Mr. Chair. Scott Cyr, the MLA for Bonnyville-Cold Lake.

The Chair: Thank you.
We will take questions. MLA Schreiner.

Mrs. Schreiner: Thank you, Chair. I'd like to thank Treasury Board and Finance and AIMCo for their remarks on the first-quarter results. As you already alluded to and as we all know, the heritage fund by design is invested for a long term. Over the long term the fund is performing well above benchmark in what can only be described as a very challenging investment climate.

I have a question for AIMCo. Could you give us some details about how the fund is managing long-term investment risk, please?

Mr. MacMaster: Sure. That part could be broken down in two ways. I'll let our colleagues from Finance jump in. There are two components to that. One of them is your asset mix, which contains, you know, the limits around each of the assets, first of all, the assets that the heritage fund is invested in in terms of stocks, bonds, real estate, infrastructure, and so on. The first step in risk management and objective-setting is the process around developing that, and I'll let these gentlemen speak to that. Then perhaps I'll talk about how we manage the interpretation of that, the investment of that, and then the active risk that AIMCo takes in terms of adding value on top of that.

Mr. Babineau: Thank you. When we set our asset mix, we take into account a number of different asset classes, and we want to diversify within those asset classes because we don't want to put all our eggs in one basket. We tend to look for places to put our investments. Bonds typically rise in value when stocks fall; when stocks go up, bonds fall. So you're kind of offsetting, and over the long term that diversification usually yields positive results. That's sort of the first step for handling long-term risk.

Then the second is kind of by the individual securities, which AIMCo kind of handles for us.

Mr. MacMaster: Maybe I'll just add to that. Once the asset mix is set, AIMCo invests in those asset classes, and then what AIMCo tries to do is add value over the benchmarks for each of those. Each of those assets will have a market type of benchmark to measure return and risk, and AIMCo attempts to add value over that benchmark. What we do is to look at what a top quartile, a top manager would earn in terms of setting a return target, and then we say: well, what sort of risk budget would we need in order to achieve that? So we have a return budget and a risk budget. We go to work, operate within that, and then attempt to add some value over the benchmark returns, which I alluded to earlier in my comments. You know, we've been successful over the long term with doing that.

Mrs. Schreiner: Thank you.

Can you discuss further what the prospects are for continuing to achieve the benchmark rate of return in a world of negative interest rates?

Mr. Uebelein: I will fill the void of silence. First, MLA Schreiner, I wanted to come back to your first question and just thank you for it and use it as an opportunity to reinforce some terminology that you will see over the quarters between investment risk, which really tries to measure the entire degree of riskiness that the portfolio has,

and the second term, which Dale next to me referred to, which is active risk.

Investment risk includes whether or not stocks or bonds are volatile, the degree to which they are moving around in the marketplace, and that's the sort of risk that the heritage fund and all of our clients accept and try to understand and try to mitigate with portfolio theory in order to achieve the returns that we look for. So that's the total amount of bouncing around a risk that's in a forward-looking investment portfolio.

The active risk is when Dale says: rather than just buying the benchmark, we want to try to beat the benchmark, which, by the way, AIMCo has been successful in doing over the long run, not every quarter but in the long run. So by taking positions that do not mimic the benchmark, we try to add value, and the difference between that portfolio and the benchmark portfolio was called active risk.

So as you look at these reports, as you hear over the coming quarters and years, keep an ear out for those two terms because they're very different.

With regard to the second question, I think Dale made reference to the fact that low-interest rates, even when they're positive, act as a very meaningful anchor, if you will, on total return expectations. That's because every portfolio has an allocation to fixed income, and in many regards other asset returns can sometimes be seen as linked to fixed income. People talk about the equity premium as a premium above fixed income, that can be expected by taking equity risk as opposed to debt risk. So when we see 10-year Canadian rates at 1 per cent or in other parts of the world fixed income being zero or even negative, it clearly makes reaching our long-term return hurdles more challenging.

Mr. MacMaster: Just further to that, at AIMCo we have no control over the returns on these assets. Ultimately, the stock markets and bond markets will determine that. So these asset mixes are set based on, you know, long-term return and risk expectations, but there's an element of hope to that, too, isn't there? AIMCo tries to add value over the benchmarks, but we really can't control the benchmark returns. Again, as I said earlier, it appears that after a very, very long period of above-average returns, starting back in the early '80s for equities and bonds, the future definitely looks challenging.

Mrs. Schreiner: Thank you.

The Chair: Thank you.

Any other questions? Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair, and thank you, all, for being here today. Since the Brexit vote I've got a few questions on what's happening over in Britain right now. Your point 2 within the 2016-17 first quarter, page 1: how exactly do we have strong returns of 3.1 per cent when bond yields fell? Can you explain that to me?

Mr. MacMaster: Sure. Bond returns – well, let me take a step back. Interest rates have been falling consistently since 1980. Even though rates are low, if rates continue to fall, you'll get a capital gain. It's just the way the bond math works. If you buy a 10-year bond today at 1 per cent, you're guaranteed to have a 1 per cent return if you hold that bond for 10 years. The way that the bond math works is that if you buy a 1 per cent yielding bond today and interest rates drop by 50 basis points, the value of that bond will go up, but if you hold it to maturity, you're assured of a 1 per cent return. So it's a function of the bond math. As long as rates keep going down, you'll get a valuation increase, but what we're saying

is that with rates at zero in many parts of the world and below that – there's \$13 trillion of bonds now that are trading below zero – you're guaranteed a negative return if you hold those to maturity in today's world.

So if you ask why people are buying bonds with a negative return, there are a number of reasons. One of them is speculation, that rates will go further negative and therefore continue to get capital gains. Another one is that central banks are buying each other's bonds. Central banks around the world own \$24 trillion worth of bonds today. That's up from about \$12 trillion coming out of the crisis in 2008.

1:20

The other reason is that pension funds and endowment funds continue to hold fixed income almost in a case of inertia. Long-term asset mixes don't change that much from year to year, but luckily in Canada some of our pension funds and certainly this endowment fund have been forward thinking in moving away from fixed income into the illiquid assets base.

Mr. Cyr: But aren't those bonds held in British pounds sterling, or are they in Canadian dollars? I understand that maybe there's an increased demand for these bonds. That's kind of what I understood. So we've got a drop if they're sitting in British pounds sterling, significantly, but the demand is going up. You're saying that the demand for that bond went up higher than the actual drop in the currency rate?

Mr. Thompson: It's not just a function of the demand. As bond yields fall, there is an inverse relation with the price. It's basic bond mechanics. So as rates fall, the price of a bond increases. That's where these returns are.

With respect to currency I'll let Dale speak a little as to how they hitch that. But when we buy assets denominated in British pounds sterling, we don't necessarily take on risk to the currency as well. We can hedge out that risk at the time that we buy those bonds. So we'll have the same return in Canadian dollars irrespective of the level of the British pound sterling.

Mr. MacMaster: Sorry. I didn't read the point. This isn't the case of us owning U.K. bonds per se. This is just the fact that that whole Brexit situation caused a bit of panic in the market because it was a surprise vote. What happens when the market is hit with crisis or uncertainty: typically stocks sell off and bond yields come down. That's exactly what happened here, giving a lift to bond markets all around the world, including the holdings in the heritage fund, which are largely Canadian.

The Chair: Do you have one more follow-up, Mr. Cyr?

Mr. Cyr: Just with regard to Brexit if that's fine.

The Chair: Okay. Go ahead.

Mr. Cyr: I understand that AIMCo bought a stake in London City Airport, in the docklands of London. Of all the funds under the management of AIMCo, what portion of the heritage trust fund owns this asset?

Mr. Uebelein: We will get back to you with the specifics. With regard to an investment like London City Airport, you know, one of the things that we constantly are calculating is making sure that we have sufficient diversification. So the answer is going to be sort of: probably whatever allocation the heritage fund is in the illiquid infrastructure investment commingled pool; that's probably going to be in the 30 per cent range overall, so 30 per cent of that. We'll get

back to you with the specifics. I apologize that we can't do that sort of – well, it ought to be a simple calculation off the top of our heads.

That's an interesting investment, though, because we saw that an election was going to be coming up as we evaluated that investment. We did a full econometrics sort of scenario analysis on: how do we think that investment would change in value if there was a negative Brexit vote? Frankly, we knew that it would have an adverse impact but one of around 75 basis points; in other words, three-quarters of 1 per cent negative return if it happens. We felt that, on balance, we were getting paid sufficiently to take that, if you will, downside risk.

Dale and I talked for hours after that surprise vote. We were both surprised, and we wish there had been a different outcome. But as long-term investors, investors who still see Great Britain as being a very strong, buoyant economy regardless of whether they're in the EC or not, we regret that they voted that way, but we haven't lost any sleep over the quality of our portfolio as a result of that.

Mr. MacMaster: If you do want to stump us at any particular meeting, just ask us any given security of how much we own of the heritage fund. Given all the papers I have, that's one I don't have, but it's probably in the order of \$200 million or \$300 million, I'm going to guess off the top of my head. We can get you that number.

Mr. Uebelein: Yeah. I was thinking the same, around \$200 million. So if you did that math, you know, you're talking about less than 1 per cent. It's chunky, but it's very manageable.

Mr. Cyr: Thank you.

The Chair: Thank you.

Dr. Turner.

Dr. Turner: Thank you. I'd like to focus my questions on the Alberta growth mandate and the process by which AIMCo is going to fulfill this mandate. As the President of Treasury Board and Minister of Finance, Minister Ceci, has made clear, all investment decisions made under the growth mandate are being executed by the investment professionals at AIMCo. At a previous meeting of this committee AIMCo provided some information on the due diligence process that goes into these investment decisions. The first-quarter report indicates that AIMCo has reviewed 32 investment proposals and consummated three of them. My first question is: can you shed some additional light on how AIMCo goes about reviewing its investment proposals and does its due diligence?

Mr. MacMaster: First of all, there are listed assets, and then there are unlisted assets, private assets. The due diligence can sometimes be different, but in terms of deal flow that comes to our attention, it could be driven by AIMCo and its portfolio managers in the course of their constant looking for investment opportunities. Another way is that they can be brought to our attention through the dealer community through, you know, our contacts. Also, just by virtue of all Albertans, I think, being aware of this program, that has generated a lot of interest, so we receive telephone calls and e-mail interest. Those are all, you know, managed and logged and followed up, each single one, to determine its investment value because, as you know, despite this program our mandate is very firmly in the area of economic return and adding value, and our focus is global as well, so it has to meet a pretty high standard.

Once an investment comes to our attention, there's a whole triage of activities that happen to evaluate an investment, from first researching it, the industry, evaluating management, looking at the details of the deal, creating a model to stress test the thesis. We

bring in our risk people, our compliance folks, our operations. We have to make sure that as an organization we're able to handle these investments in terms of reporting them from an accounting point of view, from a risk management point of view, from an evaluations point of view. From every aspect we have to be able to make sure that we can manage this. So there is a whole process of a number of different things that have to go through. It's a lengthy process, but if you're going to invest successfully, it can't be ignored.

Mr. Uebelein: I'm going to pile on just for a moment. Dr. Turner, I think Dale and his entire team are doing, frankly, a terrific job of responding to those opportunities, and he's done a good job of describing the process. While I'm, you know, frankly, hopeful and confident that the investments that we have made will result in success for all the stakeholders, beyond that sort of heads-down, hard-working, stick-to-our-mandate investing I have continued to ask: is there anything more that AIMCo could be doing while remaining true to both our legislated mandate and what our core strengths are?

One response to this question that we have taken is for AIMCo to start taking more proactive steps to be better engaged, connected, and transparent with what I'm going to call the rest of the Alberta capital investment ecosystem. You know, this ecosystem ranges across the spectrum of capital, from angel investors at one end to, you know, secondary issues in the public market for mature organizations. It ranges on the balance sheet from working capital to common equity. AIMCo plays a role in many but certainly by no means all of those segments of the marketplace. We've been able to provide value-add over the benchmark by knowing which of those segments we are going to do a good job at and, frankly, not doing the ones that historically we've done a poor job at.

1:30

By being more engaged and connected with the rest of that ecosystem, we think that we can accomplish a few things. First, as Dale said, that triage process that we do, I think, is going to be done better. In other words, for the 30 of 34 that we don't invest in, rather than saying, "Sorry, you're not our cup of tea," at the very least we can say, "You're not our cup of tea, but have you talked to these people who are serving the point in your needs better than we will?"

Secondly, we hope that it drives more of the right kind of transactions our way and, frankly, keeps people from bothering us that are needing capital that we're just not well suited for or that fit outside of our mandate.

Then, thirdly, it will, I think, allow us to minimize potential gaps in that ecosystem. There's been a lot of talk about whether or not there's a gap across Canada in capital, after early venture funding but before more mature funding, whether there's this capital gap. I'm still, frankly, on a learning curve. I'm a little dubious as to whether that gap really exists or whether it's a pricing gap, but I think that being engaged with all the players in that ecosystem is going to allow us to have a much better idea.

Dale and his people are going to keep doing what they do well, and we hope that that pays off not only for our investment portfolio but for all of Alberta. Meanwhile we're going to be out and about quite a bit more.

Thank you.

Dr. Turner: Thanks, Mr. Chair, and thank you very much for those comments. They're very reassuring about the future of the growth mandate, and I think that all Albertans are appreciative of what AIMCo and the other pension investors have been doing for all Albertans.

Can you provide, basically, a high-level overview of the type of in-house infrastructure that AIMCo has deployed to proactively work to achieve the growth mandate in a prudent fashion?

Mr. MacMaster: In terms of just the pure investing side of things it was, I think, fairly easy to do because our current infrastructure is designed to look at investments all over the world, including Alberta, so strictly from a process management point of view, in terms of assessing investments, you know, that meet the required criteria, there wasn't an issue there.

The real impact, I think, has been on focusing the entire team on this new approach, this new change with the heritage fund. Kevin and myself have done a lot of work just working with our teams to make sure that that's front and centre. I think the major change was in assigning people to process each incoming request, and as you can imagine, the public nature of this did generate a lot of interest. So we dedicated some people to just managing that process and getting the incoming to the right portfolio manager in order to assess this. Then, you know, internally we also created a portfolio manager position and dedicated an individual to looking at these opportunities as well. So a number of changes, but if you just think in terms of how we look at investing, we didn't need to move a lot on that one.

Dr. Turner: Thanks.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. I do have some concerns that I will follow up with Member Turner on when it comes to the Alberta growth mandate. I find it strange – and you can correct me if I'm wrong. As I go through the notes, you would think that there would be a note specifically addressing this mandate put on the Alberta heritage trust fund dictating exactly how much would be inside of it right now and whether it's making money or not as this was something specifically brought to the government.

I believe I mentioned this the last time we had quarterly. I guess it saddens me that we don't see it here again this time. There's no real clarity. I'd like to know: how much do we have invested into this mandate? Was it 3 per cent of the Alberta heritage trust fund? Was that what it was supposed to be? So we're supposed to be at something like \$540 million? We don't know if you're meeting this mandate or where you're at with this mandate. It seems strange to have, in my opinion, such a large hole in these financial statements. It's not even, not that I can see, mentioned in the notes here.

Mr. Babineau: On page 1, if you'll look under Alberta Growth Mandate, it has a point there that \$88 million has been invested of the 3 per cent that was allocated. As AIMCo has alluded to, these investments take time to implement. There's just not a store you can go to and buy these off the shelf. These are individual private investments that take time to analyze and invest in. This was introduced last year. We're about 20 per cent of the way there. It just takes time to get these invested.

I do understand your one point on whether they're making money or not, but these investments have just been made, and they're invested for the long term, so commenting on performance over such a short period of time didn't seem prudent at this time.

Mr. Cyr: Okay.

Mr. Uebelein: I might just chime in, MLA Cyr. This has been one of the most important but also difficult elements of this 3 per cent allocation. When we have dialogue between AIMCo and government or the managers of the heritage fund, it has to do with

the fact that if we are going to be – and we will be – adherents to our long-term mandate of maximizing investment return, we cannot have a forced march in terms of the pace of this investment. I wish it were otherwise. I know how satisfying it would be if we said, "If this is the third quarter, thou shalt have 75 per cent of this invested," but that is a recipe for suboptimal returns. We give you our word that we are doing everything that we think is feasible and reasonable to try to make the best possible investments in Alberta, but we have been forthright in resisting that pressure to sort of put a quota or a timeline on the investment of that.

Mr. Cyr: Thank you.

Through you, Mr. Chair, I have spoken that I don't believe that these mandates are productive, so it's not that I'm questioning whether you're going to achieve it or not. I would like to see some optic.

Specifically, there are two things I'd like to mention here. It's unbelievable that we're getting into well servicing – that's what Calfrac is – when that industry seems to be on the edge of failing. Secondly, I'd like to know: has there been any discussions on purchasing or being part of ATB phasing into private with the Alberta heritage trust fund?

Mr. MacMaster: Let me take a crack at the first one.

Mr. Uebelein: And I'll take the leftovers.

Mr. MacMaster: Calfrac. There have been four tranches of investments in this 3 per cent: TransAlta Renewables, Calfrac. There were two pieces of that transaction. The most recent one is Pine Cliff. The question is that Calfrac seems to be a distressed industry. You know, why make an investment there? That's exactly what we want to do. This is what we do. We're long-term capital. We're long-term investors. When the foreign capital moves out and leaves good-quality assets and management teams in place at distressed prices, that's the opportunity to make an outsized return. That's what we do best.

1:40

There's no question that everyone around this table knows the difficulty that the energy sector has experienced in probably what is the worst downturn in 30 or 40 years. So this particular investment fit the bill, and to a certain extent TransAlta Renewables did as well if you look at the share price of TransAlta and the difficulties it's had.

There's a bit of a trend here when we look at investments. You know, call us value investors. These are the kinds of opportunities we're looking for: a good management team, good-quality assets, a bright future. The energy sector goes in cycles, and these are the times when you want to be buying. The difference this time is that we see so much, you know, foreign capital moving out, but that provides opportunity for us. So we're very enthused about the investment. The investment has already moved up substantially for us, just as TransAlta Renewables has, and while it would be interesting to diversify away from that – and we were looking at other investments for this part of the mandate – the reality is that a good part of Alberta's economy is based on this, and this is where the opportunities are. So don't be surprised if you see other ones as well.

Mr. Cyr: At ATB?

Mr. Uebelein: With regard to ATB we have had some early conversations, Dale and I did, with senior ATB executives. We're aware of what they are putting together with regard to a private

equity in Alberta initiative, and we have had very early discussions about the possibility of co-investing with them in that fund.

Frankly speaking, the advantage of doing that would be that it clearly eliminates the chance of us going and trying to do the same thing two different ways. In other words, it would eliminate the risk of duplications or needless competition. Another possible advantage is that it could show AIMCo as doing something that a lot of people would like us to be doing. But the honest truth – and here I'm just being completely frank with the committee – is that we're not sure that by combining forces with ATB, we make that effort any better. That is a corner of investing, very small-scale private equity, that AIMCo historically has not been an active player in, and if ATB has sufficient capital to do that and they have the right people to do it well, then it might be a divide-and-conquer as opposed to combined forces. In other words, the outcome is unlikely to be better.

That's sort of where we're trending right now. We haven't said it that frankly to ATB, so I would appreciate that you let us send that message first-hand.

Mr. Ellis: It's on the air.

Mr. Uebelein: It's on the air. Sorry about that, folks.

The Chair: Thank you.

In the interests of time, as we have a couple of other agenda items to get through, I'd like to ask if a member would like to move that the committee receive the report. Ms McKittrick. It was moved by Ms McKittrick that

the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2016-2017 first-quarter report on the Alberta heritage savings trust fund.

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

Hon. members, on to item 5 here. As you know, the public meeting of the heritage savings trust fund was set at the June 20, 2016, meeting of the committee and will be held at the Edmonton Federal building on October 27 from 7 p.m. to 9 p.m. The final logistic details are being put into place for this meeting, and I would like to ask the committee clerk to provide the committee with a brief update on the preparations for the meeting.

Just before we do that, Clerk, I just want to thank everyone from AIMCo and the Treasury Board for coming. You are welcome to stay for this portion because it does concern you, but you can also leave as well. Thank you.

Please proceed.

Mr. Roth: Thank you, Mr. Chair. I won't take up too much of the committee's time. I just wanted to give you a very high-level view because the public meeting is a little bit different than other meetings of the committees. Just to let everybody know, for the public meeting on October 27 from 7 to 9, as the committee had directed and decided, of course, security will be in place and will be ready to receive members of the public who may be wishing to attend. There will be signage in place, just in case members were wondering, both outside and inside the building, directing people that are coming to the meeting to let them know where they're headed. At the end of the public meeting, which was also done last year, there's also a small reception for members of the public and members of the committee to chat.

I just wanted to let you know that those pieces are under way and, as the chair said, the other logistical pieces as well. Thank you.

The Chair: Okay. Thank you.

Also, we'll ask for a communications update from Ms Dotimas on the public meeting communications plan. Thank you.

Ms Dotimas: Thank you, Chair. The co-ordination of the annual public meeting is well under way, as Aaron mentioned. The live stream of the meeting is being co-ordinated as approved by the committee. The logistics here will be handled by the LAO broadcast services and LAO IT services, and the live broadcast on television will air on Shaw TV as planned. The live stream will be recorded and made available for the public on the Assembly website following the meeting as well.

Information about the upcoming meeting is also now available to the public on the committee website. We have the updates to the introductory video that we play prior to the meeting commencing, and they're completed, so it's ready for the committee's review as well.

Between the last week of September and the first week of October we have a news release slated to go out. The statistics card, which includes information about the public meeting as well, will be mailed to constituency offices across Alberta. The social media strategy for the meeting will be initiated as well. During mid-October and two weeks prior to the October 27 meeting the radio advertising and print advertising will also be activated, and a final invitation via media advisory will also be distributed.

That's it for me.

The Chair: Okay. Thank you.

Are there any questions regarding the public meeting? Mr. Dang.

Mr. Dang: Thank you, Mr. Chair. Back in June one of the recommended strategies was the purchase of social media advertising on Facebook and Twitter in order to generate interest and allow Albertans to comment on the fund. I believe that recommendation was actually made so the committee could gather insight on what Albertans were going to be thinking. Could you please update the committee on the level of engagement that has been received and the types of comments that individuals have been leaving on social media?

Ms Dotimas: Thank you, Mr. Dang, for the question.

May I answer him directly?

The Chair: Through the chair.

Ms Dotimas: Okay. The social media strategy doesn't get under way for about six weeks or five weeks ahead of the meeting just so that the information doesn't get stale-dated. We're in the middle of also initiating two or three other committee feedback reviews at the moment, so hoping not to saturate, if you will, the same audiences, we have a social media strategy that has not yet been initiated.

Mr. Dang: So we'll have updates, and they'll start in about two weeks. Is that correct?

Ms Dotimas: We actually have it starting October 13, between the 13th and the 17th, about a two-week period before.

Mr. Dang: Okay.

Ms Dotimas: This is sort of the six-week period, so we started providing public information; the website, for example, is the first.

Mr. Dang: Okay.

Ms Dotimas: Is that sufficient?

Mr. Dang: Yeah. I guess, you also previously have mentioned that the LAO accounts have large social media followings.

Ms Dotimas: Uh-huh.

Mr. Dang: Has there been any interest at all in this committee through that following or activity around that?

Ms Dotimas: I don't have any information on that as yet. I think that once the information is initiated through social media, we'll definitely get a lot more feedback, but we're hoping to stagger all of the committee work right now just to make sure that we don't saturate the audience. But, definitely, the chair will receive updates throughout the duration of the advertising strategy campaign.

Mr. Dang: Sure. Thank you.

The Chair: Any other questions on the public meeting?

Ms McKittrick: I'm wondering if before the public meeting and during the public meeting there are strategies in place so we have an idea as to where the interest is in the province so after the meeting and the following year we can evaluate to see which parts of the province we may be reaching or which parts of the province we're not reaching. We may need something different as a strategy.

1:50

Ms Dotimas: We do keep the metrics, and we do look at that information. For Shaw TV, for example, we do get the reports in terms of the concentration of viewership. In terms of the social media, of course, provided that people are honest about where they're from, we will be able to take a report in terms of where they're coming from and respond if they do. During the meeting itself, of course, if there are questions, we typically look it up and allow the committee to broadcast that. If someone on Twitter, for

example, asks a question, they're pretty honest about where they're from – they're e-mailing us from Calgary and whatnot – so we do take a tally of that, and it becomes part of the public record as well.

Ms McKittrick: Thank you.

The Chair: Thank you.

Any other questions? On the phone?

Mr. Taylor: No. Thank you.

The Chair: Thank you.

Seeing no other questions, I will make the comment that I suggest that the committee members review the introductory video that Ms Dotimas just mentioned. It will be posted on the committee's internal website. Following that viewing, if you have any comments or concerns, please have those addressed to the committee clerk by September 19, which is this coming Monday.

Any other business arising? I am seeing none.

The next meeting will be the public meeting, that we were just discussing, which is October 27, 2016, from 7 p.m. to 9 p.m., and details will follow.

With that said, can I call for a motion to adjourn? Dr. Turner moved that the September 12, 2016, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adjourned. All in favour? Any opposed? Carried.

Thank you.

[The committee adjourned at 1:52 p.m.]

