



Legislative Assembly of Alberta

The 29th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting

Thursday, October 27, 2016
7 p.m.

Transcript No. 29-2-3

**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)
Dach, Lorne, Edmonton-McClung (ND)*
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)
Yao, Tany, Fort McMurray-Wood Buffalo (W)**

* substitution for Thomas Dang

** substitution for Wes Taylor

Also in Attendance

Hanson, David B., Lac La Biche-St. Paul-Two Hills (W)

Ministry of Treasury Board and Finance Participants

Rod Babineau	Manager, Portfolio Analysis, Capital Markets
Lorna Rosen	Deputy Minister

Alberta Investment Management Corporation Participants

Dale MacMaster	Chief Investment Officer
Kevin Uebelein	Chief Executive Officer

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
Janet Schwegel	Managing Editor of <i>Alberta Hansard</i>

Standing Committee on the Alberta Heritage Savings Trust Fund

Public Participants

Judy Houle
Rory Koopmans
Zeny Marte
Peter McCaffrey
Jeff Trainor
Justin Vung
Cliff Wilkinson

7 p.m.

Thursday, October 27, 2016

[Mr. Coolahan in the chair]

The Chair: Good evening, everyone. I'd like to call the 2016 public meeting of the Alberta heritage savings trust fund to order. My name is Craig Coolahan. I'm the MLA for Calgary-Klein and chair of the Standing Committee on the Alberta Heritage Savings Trust Fund.

We are pleased to be holding this meeting in the Federal building in Edmonton, Alberta. Holding a public meeting of the Alberta heritage savings trust fund is required as per the Alberta Heritage Savings Trust Fund Act. For your information, the nonpartisan staff of the Legislative Assembly arrange and promote these public meetings, and I'd like to thank all for making this important meeting possible.

The Alberta heritage savings trust fund is a large part of a better Alberta for tomorrow. The fund earned a net income of \$1.2 billion for the year ended March 31, 2016. This public meeting is an opportunity for Albertans to participate in a discussion about the status of the fund, what lies ahead for 2017, and how the fund will continue to provide a brighter future for our province in the years to come, and it's an opportunity to have this discussion with the investment professionals hired to get the best possible return for the fund.

I'd now like to ask members of the standing committee to introduce themselves, starting to my right.

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

Mr. Dach: Lorne Dach, MLA, Edmonton-McClung, substituting for Mr. Dang.

Mr. Yao: Tany Yao, Fort McMurray-Wood Buffalo, substituting for Mr. Taylor.

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

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

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

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

Ms McKittrick: Annie McKittrick, MLA, Sherwood Park.

Mr. Hanson: David Hanson, MLA, Lac La Biche-St. Paul-Two Hills.

The Chair: For the record Mr. Dach is substituting for Mr. Dang, and Mr. Yao is substituting for Mr. Taylor.

The Standing Committee on the Alberta Heritage Savings Trust Fund's mandate is to review and approve the performance of the fund and report back to Albertans and the Legislative Assembly. The President of Treasury Board and Minister of Finance is ultimately responsible for the fund and its investments. The department looks after setting the fund's long-term strategy, developing its investment policies, and monitoring the performance of its investments.

Joining us on the panel from Alberta Treasury Board and Finance are Ms Lorna Rosen, Deputy Minister of Treasury Board and Finance, and Mr. Rod Babineau, manager, portfolio analysis, treasury and risk management.

The Alberta Investment Management Corporation, or AIMCo, is responsible for making and managing investments in stocks and bonds and other investment instruments within the fund's portfolio.

Joining us today from AIMCo are Kevin Uebelein, chief executive officer, and Dale MacMaster, chief investment officer.

I'm happy to remind everyone that tonight's meeting is being broadcast live on Shaw TV and streamed on the Legislative Assembly website at assembly.ab.ca. I'd like to encourage everyone to join in the conversation and contribute to our discussion during the live broadcast. You can submit your questions via e-mail at committees@assembly.ab.ca or through the Legislative Assembly of Alberta social media, including Facebook, Twitter, or Instagram, using #abheritagefund. The contact information can be seen at the bottom of your screen. We will endeavour to respond to as many questions as time will allow during the question-and-answer segment of the meeting, which will immediately follow our panel presentation. Your input is important to us, and I encourage you to participate.

Please note that this meeting is being recorded by *Alberta Hansard*, and the transcripts from this meeting will be available online on the Assembly website.

By the end of this meeting we will have walked you through the history, mission, long-term performance, and future of the Alberta heritage savings trust fund.

With that, let's take a look at the following video on the Alberta heritage savings trust fund, followed by a presentation by Alberta Treasury Board and Finance.

[A video was shown from 7:04 p.m. to 7:10 p.m.]

The Chair: Great. I think I enjoy that video just a little more every time I see it.

I'd like now to invite Ms Rosen and Mr. Babineau from Alberta Treasury Board and Finance to present a financial update on the heritage fund, please.

Ms Rosen: Thank you, Mr. Chair and members of the committee. Minister Ceci is unable to make it tonight and would like to send his regards. I'm certainly pleased to be here to speak on behalf of the department and to have the opportunity to discuss with you Alberta's heritage fund and its recent performance.

To start, I want to talk a little bit about the investment philosophy of the fund and its basic objectives. The Alberta heritage savings trust fund was established, as the video informed us, in 1976, and it gets its mandate today from the Alberta Heritage Savings Trust Fund Act. This legislation sets out the investment objective for the fund, which is to maximize long-term financial returns for the fund subject to an acceptable level of risk. Based on this objective, the fund is invested with a long-term focus using strategies that can be expected to generate investment returns on a consistent basis. As such, the fund is invested in a well-diversified and global portfolio. This approach allows the fund to reduce risk while at the same time earning higher returns.

The heritage fund is invested in an efficient manner. Its investments are pooled with those of other AIMCo clients to provide cost-efficiency. The heritage fund is worth about \$18 billion, but if you factor in other endowment funds and pension funds, AIMCo has over \$90 billion under its management. This economy of scale helps to minimize investment management costs and provides AIMCo's clients an opportunity to participate in investment transactions that would not be available to smaller funds.

Under the legislation, the President of Treasury Board and Minister of Finance is responsible for investing the heritage fund. This responsibility includes establishing investment policies for the fund, and these policies guide how the fund is invested, its tolerance for risk, and the benchmark for evaluating investment

performance. This policy, called Statement of Investment Policy and Goals, can be found on the heritage fund's website at www.albertaheritagefund.com.

The investment policy establishes a target asset allocation for the fund. At the broadest level the fund has a target allocation of 50 per cent to equities, 30 per cent to inflation-sensitive and alternative investments, and 20 per cent to fixed income. But with those policy allocations there is a range that allows AIMCo the latitude to make investment decisions that may change the balance of the portfolio. The policy portfolio can be seen as an expression or one expression of the fund's risk tolerance.

The largest allocation in the fund is equities, which includes shares of both domestic companies and companies around the world. AIMCo invests on the fund's behalf in public stock markets as well as in private companies. Equities form the largest part of the portfolio because they can be expected over the long run to provide the highest returns. Equities are higher risk, but over the long term the fund as a patient investor should be rewarded for taking that risk in the form of higher returns.

Inflation-sensitive and alternative investments are intended to provide a combination of investment return and protection against inflation. Examples of these and the most prominent investments in this class are real estate and infrastructure investment, whose revenues can be expected to rise with inflation.

Fixed-income investments include the bonds and debts of governments and companies within the economy. The fund is invested in both publicly traded bonds and private market loans. This segment of the portfolio provides stability and has the lowest risk within the portfolio.

The current asset allocation as of March 31, 2016, was 47 per cent to equities, 33 per cent to inflation-sensitive and alternative investments, and 19 per cent to fixed income.

There is also a 1 per cent allocation to strategic opportunities. This special asset class allows AIMCo to find opportunities that wouldn't easily fit into one of the other three buckets. They are opportunities that try to achieve high levels of return at low levels of risk.

Since its creation in 1976 the heritage fund has contributed over \$39.2 billion in investment earnings to help government budgets and capital projects. In addition to the \$39.2 billion in investment earnings, two important endowment funds, the medical research fund and the scholarship fund, were funded from the heritage fund. Income generated by the fund has been an important part of the government's budget for a number of years. Net income earned by the fund's assets has helped support programs, services, and infrastructure or, depending on how you look at it, competitively lower taxes.

As I mentioned earlier, the heritage fund is invested to maximize returns over the long term. The historical performance of the fund is shown in the chart on the screen. Over the past five years the heritage fund has been very successful and has produced an average annual return of 10.5 per cent. Over the last 10 years the fund has earned a respectable rate of return of 7 per cent, which, by the way, includes the financial market crisis in 2008-09.

The heritage fund's long-term investment goal is to earn a return of 4.5 per cent plus inflation over a five-year period. This has been stated in our ministry's business plan for years. We also have a goal that AIMCo should add another 1 per cent, or 100 basis points, of return using their own expertise and the flexibility that we provide to them in the investment policy to earn additional returns. With inflation averaging 1 and a half per cent over the last five years and the 5.5 per cent we expect to earn above inflation, that makes 7 per cent the target for a return over the last five years. The five-year average annual return of 10.5 per cent is 3.5 per cent higher than

our target return, and the 10-year average annual return meets the target as well despite the bad year the fund had in 2008-2009 as a result of the global financial crisis.

Even though the primary focus of the fund is to deliver long-term results, we still look at shorter term numbers such as annual returns. During the fiscal year ended March 31, 2016, the heritage fund earned gross income of just over \$1.4 billion. After investment expenses of \$150 million, net income for the fund was \$1.24 billion for the '15-16 fiscal year. The strongest contributor to income was the equity segment of the fund, which generated \$710 million in gross income, as you can see on the chart. Global equities were the primary source as the returns on these investments benefited from the fall of the Canadian dollar.

Finally, by legislation a portion of the fund's earnings are retained in the fund to protect against inflation. This year \$209 million of the fund's earnings were retained in the fund to protect the fund's value against inflation. The remaining \$1.03 billion in net income was transferred to the government's general revenue fund to fund government programs and services.

In terms of performance, over the last year the fund earned a return of 4.7 per cent. One of the things we do is to measure year-by-year performance using a passive benchmark, how the fund would have done if it had been invested without the active management of AIMCo. This past year the passive benchmark earned a return of .4 per cent, which means that active management had a performance of 4.3 per cent. One thing about active management is that some years it's going to be good and some years it's going to be not as good, but over the long term we expect positive results. The chart shows the performance and benchmark returns for the various segments within the fund. As you can see, there were strong, positive returns for most areas within the portfolio.

It wasn't a great year for investment returns in the equity markets. Global equity markets were hampered by weak economic growth prospects, and Canadian equity markets suffered from continued fallout of weak energy prices.

The one large outlier, as you can see in performance for the year, was the infrastructure asset class, which saw the sale of the Chilean toll road the heritage fund had a stake in. It was sold for a huge gain, which was realized in January 2016.

7:20

Finally, looking forward for the fund, AIMCo is continuing its implementation of the Alberta growth mandate that was delivered with Budget 2015. So far AIMCo has invested just over \$100 million under this mandate in four different companies. This allocation is intended to encourage economic growth and diversification in Alberta. However, it is important to note that these investments in Alberta growth opportunities will be subject to the same legislative objective of maximizing the fund's long-term investment earnings at an acceptable level of risk. In other words, these investments will be sourced in Alberta for the benefit of Albertans but will be judged first and foremost by AIMCo on their investment merits.

Going forward, the department and AIMCo will be looking at a number of aspects of the fund and working on a number of projects together to ensure that the fund continues to be invested optimally for the province. These projects include evaluating the fund's risk tolerances and how those risk tolerances are measured to ensure the fund will continue to maximize investment returns at a prudent level of risk, developing strategies for minimizing downside risk, and analyzing the fund's asset allocation based on current and expected future market developments and trends.

That concludes my remarks, and I would pass it back to you, Mr. Chair. Thank you.

The Chair: Thank you, Ms Rosen.

Before I open the floor to your questions, I would like to remind everyone that you are welcome to join the conversation and submit your questions to the committee or our panel of experts. Once again, you can submit your questions via e-mail at committees@assembly.ab.ca or through the Legislative Assembly of Alberta social media – Facebook, Twitter, or Instagram – using #abheritagefund. As mentioned, your comments are important to us, and we will attempt to answer as many questions as possible during the meeting.

I will now open the floor to questions from our in-house audience. Please be sure to state your name for the record before you begin speaking. Would anybody like to ask a question? Make your way to the mike, sir, please.

Mr. Wilkinson: Good evening. My name is Cliff Wilkinson. The fund is now about 40 years old. One of its purposes was to diversify the economy or at least help to diversify the economy, but we've seen over the last year or two or three that as soon as the world price of oil goes down, Alberta suffers enormously in terms of unemployment and slow economic growth, if there's any growth at all. I'm just asking you to look back over the last 40 years and ask: has the fund really been that successful in diversifying the Alberta economy?

Thank you.

The Chair: Thank you, Mr. Wilkinson. That's a good question. Who would like to field that? Treasury Board?

Ms Rosen: Certainly, Mr. Chair.

The Chair: Thank you.

Ms Rosen: I think that what's important to actually understand is that while Alberta's economy does significantly depend on oil and the oil industry in Alberta, we actually do have a relatively diverse economy. It's just that the oil and gas sector is a very, very big part of that diverse economy. I do believe that with government policy at this point in time, as evidenced by its determination in looking at growth orientation, they are looking to leverage the heritage fund, an amount within the heritage fund, to promote growth and diversification in Alberta. I think that that's a reasonable approach from a perspective of what government can actually do to diversify the economy, to actually contribute in a way where they're going to earn the same returns as they would if they didn't invest within Alberta, to do that and to try and then generate some diversification.

The Chair: Thank you, Ms Rosen.

Another question from the gallery.

Mr. McCaffrey: Good evening. Peter McCaffrey from the Manning Centre in Calgary. One if not the key purpose of the Alberta heritage savings trust fund is to ensure that investments are made at an arm's-length distance from politicians, who may make investment decisions based on political expediency. Yet the most recent investments we saw were announced by a government minister through a press release. So I'm wondering: why were those investments announced by a government minister, who used the press release as an opportunity to promote particular party policies, and what policies does AIMCo have to protect against political interference of that sort?

The Chair: Mr. Uebelein.

Mr. Uebelein: Sure. I can certainly speak to the second part of your question, and perhaps I'll spend a moment to make a couple of

points about this 3 per cent allocation of the heritage fund. First, it's important, as Deputy Minister Rosen already described, to differentiate between the government's role as owners of the heritage fund and their ability to make asset-allocation or asset-mix decisions versus AIMCo's role, completely independent from government, in decision-making on the individual investment basis.

We have conversations with Mr. Babineau and others within government on a regular basis to discuss asset allocation; for instance, how much we would allocate to equities versus fixed income. The 3 per cent allocation to Alberta growth-related investments is really just one example of those sorts of decisions albeit a very high-profile example, to be sure. Once asset-allocation decisions are made, AIMCo is completely independent in its actual investment decisions, and as I would point out, this is a critical pillar and one of the things that we think makes AIMCo a very successful investment organization.

The second point that I'd make while I have the microphone on is that since the oil-driven economic downturn, AIMCo has been active in investing in Alberta on a scale and breadth that, frankly, is far greater than the highly touted 3 per cent allocation to the heritage fund. In the last 12 months AIMCo has increased its investment in Alberta by over \$1.1 billion overall; in other words, across all of our portfolios. This larger number reflects that we continue to see good investment opportunities here in Alberta across a whole range of asset classes and that these opportunities are suitable for a larger group of our clients, not simply the heritage fund.

The Chair: Mr. Dach, did you want to contribute to that response as well?

Mr. Dach: Yes. I'd like to take a moment to talk about the Alberta growth mandate that was announced in the October 2015 budget, in which the government directed AIMCo to invest 3 per cent of the heritage fund, \$540 million, in Alberta companies with strong growth potential. To that end, I have some questions. First of all, I'd like to ask if the officials from Treasury Board and Finance could outline the investment screen for the growth mandate. In other words, what types of investments qualify under this mandate?

Mr. Babineau: Certainly. I'd be happy to answer that. There are six criteria laid out in a document that AIMCo created along with us, and the six key items are: creates jobs in Alberta, builds new infrastructure in Alberta, diversifies Alberta's economy, supports Alberta's growth, connects Alberta companies to export markets, and develops subject matter expertise within Alberta. Those are the six criteria, and then AIMCo looks at those and makes their investment decisions based on those criteria.

Mr. Dach: Okay. Thank you for that clarification.

I'd like to further ask if officials from AIMCo and Treasury Board and Finance could discuss how investment decisions individually might be made. The Minister of Finance has stated repeatedly that there is no political interference whatsoever in the process. However, a recent column in the *Financial Post* suggested that this might not be the case. Now, I know our government believes that this is critical, that the independence of investment professionals is protected. Could you outline the steps you make when you make investment decisions?

Ms Rosen: Before Rod does that, I really do want to point out the differentiation between the responsibility for the investment management of the fund and the investment policy-setting of the fund, which actually belongs to the Minister of Finance and President of Treasury Board, Minister Ceci. What then gets entrusted to AIMCo to do is to actually make the project-by-project

investment decisions within that policy. The 3 per cent strategy, as it's sort of come to be known, is a policy decision. It's not an investment decision. It's a policy decision in terms of the allocation of investment funds in a particular way. Under the legislation, actually, that decision belongs to the minister, and that's the decision that has been made in this regard.

I'd just ask Mr. Babineau if he has any other comments.

7:30

Mr. Babineau: Yeah. Just as we make an asset allocation to global equities or to, you know, Canadian equities or any asset class around the world, we've decided that this 3 per cent is where we want to put 3 per cent of the funds. Then AIMCo takes that mandate, and they make the investment decisions.

As to when the investment decisions are made, we find out about the investment decisions when AIMCo makes a press release. We don't have any involvement whatsoever, on the investment decision part, in which company to invest in. We find out when everybody else finds out.

The Chair: Thank you.

Would you like to contribute to this discussion?

Mr. MacMaster: Sure. Maybe I'll add a couple of comments to that. First of all, I'd like to let people know that across all of our investments we currently have roughly \$8.7 billion exposure to Alberta. For the heritage fund, it represents about \$1.8 billion. AIMCo has always invested heavily in Alberta, and we continue to do that, and these investments we've made have simply followed that pattern.

You know, we are arm's length from government, governed by a board. Our mandate is clear. We're after investment returns, low costs, operating within a proper risk framework, and delivering investment services for our clients. In that way, our mandate really hasn't changed at all. It just so happens that, unfortunately, Alberta has fallen on hard times, and we're finding very attractive values in the market, particularly in the energy sector right now. But we are strictly economically driven.

The Chair: Thank you.

Deputy Chair Schreiner has informed me that we have a question via e-mail. Would you like to read that, please?

Mrs. Schreiner: Thank you, Mr. Chair. This is from Jim Storrie of Edmonton. The question is: "The market subjects us to a lot of unpredictable risks – not just volatility in the price of oil, but global events too like Brexit or the subprime mortgage crisis. How does the Alberta Heritage Trust Fund manage those risks?"

Mr. MacMaster: First of all, if you're investing, you're putting your money at risk. That's part of the game. There's no return without risk. That's first and foremost. We've got a diversified portfolio across many different asset classes. But the reality is that there are going to be times in the marketplace when political events, you know, various credit crises will strike, and that short-term volatility that one experiences, like we did in 2008, is the pain that one has to suffer to get a long-term return. It's that short-term volatility, particularly in equity markets, that you simply have to bear.

But as our colleagues from Finance pointed out, we're long-term investors. We're seeing through the noise that we see in the market, you know, the business cycle. We're seeing to the long term and always, at all times, looking for good value. In fact, these events like Brexit, potentially the U.S. election coming up, and the credit

crisis in '08 give long-term investors like ourselves the opportunity, when others are running from the market, to pick up high-quality assets at reasonable prices. It's just part of the landscape.

The Chair: Thank you, Mr. MacMaster.

Do we have any other online questions?

Mrs. Schreiner: Yes, we do.

The Chair: Okay. We'll take another one of those and go back to the gallery after that.

Mrs. Schreiner: Thank you, Mr. Chair. This question was received via e-mail from Craig Jarron of Edmonton. The question is: "How does the Alberta Heritage Trust Fund plan to make money on interest-bearing investments when the interest rate is almost zero in Canada, and in some places less than zero?"

Mr. MacMaster: A great question. Anybody have any suggestions?

Yeah. We live in a strange world, where interest rates in many countries around the world are actually below zero or negative. Roughly \$13 trillion of bonds now trade below zero. Luckily, Canada is one of the few countries that still has a triple-A rating, with interest rates trading above zero, so it is attractive to foreign investors, you know, putting money into Canada.

That said, today 10-year Canada bonds yield roughly 1.3 per cent. The long-term returns you've seen from the presentation earlier are challenged by the fact that rates are so low. If you own a bond that yields 1.3 per cent for 10 years and you hold it for 10 per cent, that's what you're going to get. A traditional mix of 60 per cent stocks or 40 per cent bonds is going to be challenged to earn the same sort of returns that the heritage fund has enjoyed in the past.

Now, what do we do with that? Well, that's a great question, but there's a reason why fixed income resides in the portfolio. It's a diversifier amongst all the other assets in the portfolio. It also provides liquidity when it's needed. The heritage fund, of course, takes out income every year into general revenue, so fixed-income investments are required for that. I would say that we're doing everything we can, including our colleagues at Finance, to diversify away from fixed income. There are very large holdings in the portfolio in alternative assets like infrastructure and real estate and private equity, and thankfully those investments in those areas of investing still offer good opportunities. But there's no getting around it: if you own fixed income, yields are low.

The Chair: Well, I think that was an equally good answer to a very good question. Thank you, Mr. MacMaster.

Do we have any questions from the gallery?

Mr. Vung: Yes. My name is Justin. My question is: when the fund invests in infrastructure, is this allocated to the general budget and then just earmarked for the infrastructure spending and then eventually returned to the fund, or is it invested in companies that build infrastructure? How is this money used for infrastructure?

The Chair: Can Treasury Board take that?

Mr. MacMaster: If I understand the question correctly, I think the questioner was asking whether there's a linkage between the infrastructure investing we do in the portfolio and infrastructure spending that might happen within government. They are completely independent. The heritage fund has a number of assets in the portfolio, including infrastructure. The infrastructure is invested globally around the world in many different jurisdictions, and that money continues to grow inside the portfolio and has nothing to do with infrastructure spending in Alberta per se.

Ms Rosen: If I could supplement, Mr. Chair.

The Chair: Please.

Ms Rosen: Where there would be spending on infrastructure may in fact be from, for example, this recent year, the \$1 billion that gets contributed to general revenue. As some of that money goes into the general revenue fund, some of the general revenue fund is used to fund capital expenditures for the province. That would be the way that you might actually see the returns from the heritage fund actually funding capital for the province.

The Chair: Thank you.
Questions from the gallery?

Mrs. Marte: Hi. My name is Zeny. I look at that you invest the money in the United States and Europe. Also, when you played this preview, like, there are future generations that are meant – this money that Peter Lougheed left to Albertans: is it for the future generations to use, like, in the future, or is it for keeping the money and growing our investments in other countries? Did he leave this money with a purpose, for a rainy day? I know he might have a purpose for why he did this. Is it for our future generations? If it's for future generations, what is it that you're going to give the future generations? Is it for education, or is it to help them create jobs? That's my question.

Ms Rosen: That's a great question. I think that when we talk about the purpose of the fund being future oriented, that is true, but we actually realize the benefit of it on an annual basis. The way that we actually enact that at this point in time is that we inflation-protect the principal, and we then use the returns on an annual basis to benefit Albertans every year going into the future. As long as we continue to inflation-protect the principal, then we will have a return, albeit sometimes exposed to different levels of risk, on an annual basis leading into the future. It actually, then, can make a contribution for many, many years to come if government determines that that's the best ongoing use of the money.

7:40

The Chair: Thank you.
Mrs. Schreiner, do we have any questions online?

Mrs. Schreiner: Yes, we do. Thank you, Mr. Chair. This comes from Twitter @SledgeBeefree of Edmonton. The question is: "Has any committee explored using heritage funds to develop a provincial high speed rail system?"

The Chair: Please, Ms Rosen.

Ms Rosen: Not to my knowledge. I guess that the way I would like to answer that question is that I think that what we try and do is that we separate the decisions that we make on the priorities government might have at any particular given point in time for infrastructure projects or, quite frankly, even for programs and services from the manner in which they're funded. If we go back to the answer that I just gave, what the heritage fund allows us to do is to add money into the general revenue that gets used for programs, services, and/or infrastructure. If government then determines that a high-speed rail project would be a priority from an infrastructure perspective, then it is possible that the contribution that the heritage fund makes to the general revenue fund might partially fund a project like that.

The Chair: Good. Thank you.
We have another question from online. Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. I have, actually, two questions that were received via e-mail from Duncan Kinney. The first question is: "How are climate risks taken into account when making investment decisions?"

Mr. Uebelein: Well, I would say that AIMCo has a very advanced environmental, social, and governance investment policy. It's one where we feel, frankly, that the longer our investment time horizon, the more aligned that sensitivity to well-governed companies, to management that takes into account changes in the environment and social needs and actually aligns with long-term investments. Having said that, we don't hold ourselves to a specific mandate, but we are constantly monitoring all of our investments to make sure that these are management teams that are sensitive to these issues.

The Chair: Thank you.
Another question?

Mrs. Schreiner: Thank you, Mr. Chair. Also from Duncan Kinney via e-mail, the question is: "How will emerging climate change regulations impact current investments? Particularly the Alberta Carbon levy?"

Mr. MacMaster: We have a team that's dedicated to ESG issues, a responsible investing team, and part of what they do is, you know, engage with other funds like ourselves and stay on top of these environmental, social, and governance issues as they evolve. As part of what they do, they publish an annual report. I have a copy right here. It's also available on our website.

This is an area that continues to evolve. Just to give you an example of that, recently we were asked, you know, a question around the heritage fund in terms of how green it is, so this team took it upon themselves to do an analysis of the carbon footprint of the heritage fund versus its benchmark. We were pleased to find that carbon emissions were significantly below that of the benchmark. This is just an example of how the world is changing, where there are going to be new measurements on climate change and carbon emissions that we'll be incorporating into our reporting to clients. This team, which reports, actually, directly to me, helps ensure that ESG issues are incorporated in the investing process.

The Chair: Thank you.
Any questions from the gallery at this time?
We do have more questions online. Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. I actually have two questions that were sent via e-mail from Lorraine Becker of Calgary. The first question is:

I notice that AIMCo has recently increased its investments in ExxonMobil. Does the Heritage Fund own Exxon and if so why and why would the investments be increased given the recent reports that Exxon may be facing "irreversible decline" as it fails to cope with low oil prices and mounting debt?

Mr. MacMaster: We do own Exxon. Just for the audience's information, Exxon is one of the largest companies in the world. It has a market cap of about \$360 billion. It's one of the largest stocks, one of the largest energy-related stocks, so that's a company we're going to own. As you probably noticed in the presentation earlier, there's, you know, a heritage fund investment policy which gives us guidelines on where and how to invest. There are benchmarks that we use: in Canada the TSX; in the U.S. it'd be the S&P 500. For AIMCo, our role there is to get low-cost access to market beta, so market exposure, and, beyond that, to try and add value over those benchmarks. In the case of Exxon, we do own it. We have a benchmark weight. We're neither overweight nor underweight, but

it is a large company, and you're going to own that. In Canada energy represents roughly 20 per cent of the benchmark. Again, we'll be slightly underweight or overweight depending on how we feel about the opportunities there, but you're going to have energy exposure.

In the case of Exxon specifically, they have taken steps towards addressing climate change, and from the responsible investing point of view, you know, we encourage voice over exit. In other words, if we think there's change to be had in a company, we would rather engage than sell the company, and we can do that through proxy voting or working with the company to encourage change. If you simply sell the stock, sell the company, you have no voice.

That said, we have supported climate change shareholder proposals at Exxon for the last three years, and in 2016 we did support three proposals specifically at Exxon related to climate change policy, disclosure of climate change risk, and hydraulic fracturing.

The Chair: Thank you.

Questions from the gallery at this time?

Mr. Koopmans: Yes. Thank you, Mr. Chair. My name is Rory Koopmans. I live here in Edmonton. My question is more political than anything else. I know the finance and treasury committees are chaired by an opposition member to ensure exact accountability. It's always been the way in every province and territory and federally. I would like to see – no offence to any deputy chair here – maybe a co-chair from the Wildrose side be given equal standing, and then that way, the financial decisions and the political machinations and the outreach for the committee would be exactly 50 per cent New Democrat and 50 per cent Wildrose, with no advantage for either side, and then transparency and fairness. I think that would make the committee much more accountable to the citizens of the great province of Alberta. What do the committee members and the administrators here think of that idea? It seems fair to me.

The Chair: Thank you. You're referring to this committee? Sorry. I missed that.

Mr. Koopmans: Yeah.

The Chair: We will take that under advisement. That would require a standing order change.

Mr. Koopmans: A supplemental, Mr. Chair. I'm only mentioning it because of the fact that the opposition is the committee chair for the finance committee, and since this is a supplemental of finance, giving equal standing to one of the Wildrose members would seem quite logical considering it was started up by a conservative party, and it would make it more balanced in terms of the overall financial contributions and machinations and ideas and potential higher interest rate returns or different plans. Maybe there are some investments that the Wildrose members would be interested in promoting that might get to the administration and Albertan Wildrose supporters that the New Democrats hadn't thought of and vice versa.

Thank you so much for your time.

The Chair: Yeah. Thank you for your question. I'm sure there are a few people sitting at the table who would agree with you.

Would you like to contribute to that, Mr. Cyr?

Mr. Cyr: Yes. Thank you, Mr. Koopmans. I do appreciate your avid support, but I do believe that this should be independent for making the decisions of the investments. I think we've put our faith

in AIMCo to make those decisions. I thank you for putting forward a suggestion to co-chair, but I don't believe that would ever go down the direction that you're looking to go to, which is to actually give investment advice. While I think that I'm very focused on the investment markets, I do believe leaving it to professionals is in all our best interests. But thank you very much.

7:50

The Chair: Yeah. Thank you, Mr. Cyr. I sincerely agree with you. We have another question online. Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This is the second question from Lorraine Becker of Calgary, that was received via e-mail. It's a three-part question.

- (a) How will the manager of the Heritage Fund respond to the forthcoming recommendations of the Financial Stability Board Task Force on Climate Related Disclosure? (b) What additional climate risk disclosures will be made on behalf of the Heritage Fund? (c) How exposed is the fund to climate risk?

Mr. MacMaster: Sure. Taking the first part of that question, I'd like to inform everyone here that AIMCo has been an active contributor to the FSB task force, and in fact our response to the recent consultation is posted on our website. We continue to discuss issues around disclosure of climate-related data with this group and with our peer group. Of course, one of the challenges around climate-related disclosure is the metrics that you're using. How robust are they, how are they audited, and are they consistent across various companies, investment managers, et cetera? So there's a lot of work to be done yet, but we are definitely part of this. We are a contributor. And, as I said, this response, which I sort of summarized, is on our website as well.

The second part of that question I believe was on disclosure. You know, as I highlighted earlier on the measuring of the carbon footprint, I think this is the sort of thing, as it evolves, that we'll include as part of our reporting. You know, right now we have a page dedicated to the activities and the responsible investing area, but as these metrics evolve, we will be reporting on them. They're very important to us.

The third part of that question I think was: how exposed are we to climate? I think my earlier comments on the measuring of the carbon footprint are an indication of that, however, you know, limited perhaps, showing that the heritage fund is sort of outperforming or in terms of the emissions is lower than benchmark.

Mr. Uebelein: I would just add one thing, which is that all long-term investors are exposed to climate risk. It is a reality. I think the question is: to what extent is that risk being analyzed and taken into account when one is making investments? This is another value-add that our responsible investment team brings to the table, and it's empowered us and allowed our teams, particularly our long-term investment teams, whether that's real estate or infrastructure, to factor into their multiyear models the potential impact of global warming and other climate risk on how our investments should perform. So I think that makes us better investors.

The Chair: Thank you, Mr. Uebelein.

A question from the gallery. Just state your name, please.

Mr. McCaffrey: Peter McCaffrey from the Manning Centre again. We've had a few questions about how exposed AIMCo and the heritage trust fund are to environmental risks. I'm wondering how exposed and how concerned AIMCo would be about the exposure that the trust fund has to, say, a collapse in the oil and gas industry in the province due to political reasons.

Mr. MacMaster: Sorry. The last part of that question: how exposed we would be to a collapse . . .

Mr. McCaffrey: You mentioned in your testimony earlier that AIMCo has greatly increased its investment in the oil and gas industry in Alberta at the moment, yet we're seeing some very troubling political circumstances for all those companies. Is there a risk to the trust fund based on political decisions that could be made that would affect the oil and gas industry in Alberta?

Mr. MacMaster: Right. Just to set the record straight, you know, the portfolio is roughly benchmark weight in terms of energy. As I highlighted earlier, you know, the Toronto Stock Exchange, the Canadian market, has roughly 20 per cent energy exposure, and our exposure is roughly in line with that. So in terms of what AIMCo can do, on a relative basis we're not overweight.

The broader, bigger question is: should something fundamentally happen to the energy industry, that would certainly affect, you know, Canada, I suppose, stranded assets, and that's why I think all of us are spending so much time on this question.

The Chair: Thank you, and thank you for your question.

We have a question coming from online. Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This next question was received via e-mail from Todd Tuckwell. The question is: "Can you give examples of infrastructure investments and how these investments can be converted to a cash value if required?"

Mr. MacMaster: I can give you a recent example. It was highlighted in the previous presentation. We owned a Chilean toll road for several years, and, you know, our partner in that investment wanted to take control of the investment and bid us a very attractive price. This is an asset like many in infrastructure that usually gives us a very nice income annually, but we're very pleased to sell if someone wants to pay a very attractive valuation, so this is what we did in this case. We are now redeploying those funds in other infrastructure investments.

The Chair: Thank you.

Any questions from the gallery at this time? Please.

Mr. Trainor: My name is Jeff Trainor. I'm from Edmonton, Alberta. Thank you very much for taking my question. As you were saying earlier, there's lots of money invested in opportune funds in oil sectors and things. Sorry; I don't usually speak in front of the microphone. I was also wondering if there are any sectors that are related to solar power, and if there are – I know that you have a specialized team for that – what criteria need to be met before the fund could invest in investments that are related to renewable energy?

The Chair: Thank you.

Mr. MacMaster: Good question. Well, the number one criteria for us is that it has to, you know, offer us a very attractive risk-adjusted return. The reality is that in the renewables space we are seeing those kinds of opportunities in wind and solar and hydro, and we've made several of those in infrastructure. A more recent example is a couple of fixed-income investments we made in the bond portfolio around solar bonds. We're starting to see more fixed-income issuance around the renewables space, but again it always has to be an attractive return for us compared to everything else we can do around the world.

The Chair: Thank you, Mr. MacMaster.

We're just waiting for some online questions to come in. Anything from the gallery at this time?

Mr. McCaffrey: Peter McCaffrey from the Manning Centre. One final follow-up question. We heard earlier that there are the six criteria for determining the types of investment, but then it's up to AIMCo to make the final decision on the exact investments that are done. How does that align with the description of the organization being done at arm's length from the government when the criteria are being set by the government but only the investment in the specific companies is being decided by AIMCo? That doesn't sound like a traditional arm's-length investment vehicle. The New Zealand investment fund, for example, is fully independent and is able to invest in any industry or sector or section, and it sets its own criteria as a fully arm's-length organization. It sounds like this is more like a kind of finger's-length decision-making process.

Mr. Uebelein: I'll take that.

The Chair: Sure.

Mr. Uebelein: As I described earlier, we have regular conversations around asset mix and asset allocation. To be sure, a classic conversation along those lines would have to do with an allocation to infrastructure, an allocation to equities versus bonds, et cetera, et cetera. In this case, it was an allocation to a certain kind of investments in Alberta that might have along with it certain criteria.

Beyond that, in fact, how AIMCo judges whether those criteria are met and how they are met is completely within our purview. There is zero engagement or involvement between AIMCo beyond that asset allocation discussion, the definition of those variables. So I would respectfully argue that it is still very much arm's length. It is a more articulated asset-mix clarification, but beyond that, it's no different at all.

8:00

The Chair: Thank you.

Would anybody else like to contribute to that response?

Okay. Mrs. Schreiner, we have some online questions.

Mrs. Schreiner: Thank you, Mr. Chair. This next question was received via Twitter from @deankurjuweit from St. Albert. There are actually three questions. The first one is: "Any consideration of using the fund to end homelessness?" As well: "Will the fund be used to pay down debt?" And: "How does the fund help the average Albertan?"

Ms Rosen: Mr. Chair, I'd be pleased to try and answer that question.

The Chair: Sure. Please, Ms Rosen.

Ms Rosen: Just as with the question with respect to high-speed rail, government makes its decisions with respect to where its priorities for programs, services, and infrastructure are. What the heritage fund or the returns from the heritage fund that get put into the general revenue account on an annual basis allow is for some of those programs and services to in fact be funded. But I think that those decisions are not driven by the availability of the heritage fund; those decisions are driven based on the priorities that government has for the people of Alberta. If we didn't have the heritage fund at all and those were still priorities, we'd still have to find ways to fund.

Maybe just to put it into perspective, Alberta's expenditure budget on an annual basis is about \$45 billion, of which the heritage fund contributes about a billion dollars. So it is a significant piece of our funding going forward.

I apologize. I can't remember what the other two questions were.

The Chair: Ending homelessness.

Ms Rosen: That was the first one.

Mrs. Schreiner: "Will the fund be used to pay down debt?" And: "How does the fund help the average Albertan?"

Ms Rosen: If you use the fund to pay down debt, then it's not very future oriented because you would be using the money all at once for that one particular purpose as opposed to having that future focus whereby, if you protect the principal, it actually then gives you a return in perpetuity. Given the low cost of debt right now it really probably works out better in the long run to keep investing the money and taking a return into the general revenue fund.

How it actually benefits Albertans is that if we were to take the assumption that we would be having the same level of expenditure regardless, then if it weren't for the billion dollars that would be coming in from the fund, that money would have to come from somewhere. The programs and services that the province provides do benefit all Albertans on a regular basis, and part of that is funded by the heritage savings trust fund.

The Chair: Thank you. Did we get all three pieces of that? I think we did. Thank you.

It looks like we have a question from the gallery. Please go ahead.

Mrs. Marte: Hi. Again, my name is Zeny. I know that we're probably getting too close. I do know that we have almost \$18 billion in money set aside, and we don't know how long that money will be sitting there because of the oil and also the economy is really going down. We don't see anything going up.

But I'm just wondering. Like, Peter Lougheed pondered this money. If it comes to the worst and we have to use this money and it's probably going to disappear because it is needed for Alberta to keep the economy going, do you guys have a plan to put up a monument to Peter Lougheed? This money started with him. Also, for every penny that's been used – for example, for health care, education – I would like to see it in the monument, that it was spent that way. If the money is gone, at least we have something to look at, even on a wall or anywhere, that we remember him, that he put the money in for Alberta.

Thank you.

The Chair: Thank you.

Would you like to try that, Ms Rosen?

Ms Rosen: I don't believe that there's any plan at this point in time to actually spend all of the heritage trust fund.

With regard to the idea of a monument, I really don't have any comment on that.

The Chair: Thank you. Thank you for your question.

We have a question online. Mrs. Schreiner, would you like to read that, please?

Mrs. Schreiner: Thank you, Mr. Chair. This question was received via e-mail from Stan of Lloydminster. The question is: "I believe in the past, the Heritage Trust Fund has made loans to jurisdictions across Canada as an investment vehicle. (a) Have these loans been repaid? (b) Is there a delinquency outstanding?"

Mr. Babineau: I'll take that one. Back between 1977 and 1982 the heritage fund made loans to other provinces at a preferential interest rate. The interest rate was still very high because interest rates in 1982 were very high. As of 2000 all of those loans had been paid without any delinquencies. I wish we still had some of those loans outstanding because the interest rates were very high. Yeah, absolutely, they were all paid back.

The Chair: Thank you. Thank you for the question.

Anyone in the gallery at this time? Please go ahead.

Mr. Trainor: This is just a follow-up question. You said that you would invest if the rate of return was comparable. On the solar energy criteria, if the rate of return was comparable to other rates outside that element, would you consider investing in that? Just to confirm.

Mr. MacMaster: Sure. I mean, there are a number of factors that go into every investment decision: for a bond investment its liquidity, its term, how it fits into the portfolio. I would say that, all things being equal, if we can support ESG and solar bond, you know, that's attractive to us.

Mr. Trainor: Would they look at business cases with a hopeful benchmark to meet your criteria, perhaps like a loan vehicle for solar panels in the context of thinking of the future? From my understanding, the fund is directed to the future. I was just wondering: if people could get together and create a business case to make that type of return, would this fund be open to those types of business cases?

Mr. MacMaster: Well, given how you described it, I'm not entirely sure what the business case is. But we look across the world, you know, across geographies and sectors for the best risk-adjusted return, so should your proposed business case meet the criteria and satisfy all of our due diligence that we do for all our investing, by all means.

Mr. Uebelein: I might just add one thing. I know you talked about renewables, but you focus mostly on solar. We have made just in the last 12 months a \$200 million investment here in Alberta in renewable energy. It happened to be mostly wind and hydro, water and wind as opposed to sun, but also a perfect example of what Dale was referring to: a great company with good technology and a price that, we felt, meant that over the long term we would achieve returns that our clients were expecting.

Mr. Trainor: That was in Alberta, sir?

Mr. Uebelein: It was in Alberta. Many of the hydro and wind farms – not all of them but many of them – are here in Alberta, and the company itself is TransAlta, located and headquartered right here in Alberta.

8:10

Mr. Trainor: When you assessed the rates of return, was solar ever on the table at all? At some point that must have come off the table, I'm assuming.

Mr. Uebelein: I think that in TransAlta Renewables' particular case the technology that they pursue tends to be hydro – in other words, rivers turning turbines – or wind, again, turbine related as opposed to solar. But I bring it up as an example of a viable renewable investment, not only that but one that's headquartered and managed right here in Alberta. I don't think that their particular – that company's strategy does not include solar.

Mr. Trainor: Okay. Thank you.

The Chair: Sorry, sir. I can't remember. Did you state your name at the beginning there?

Mr. Trainor: My name is Jeff Trainor from Edmonton.

The Chair: Jeff Trainor. Thank you.

Mr. Trainor: Thank you for answering my question.

The Chair: Mrs. Schreiner, we have some online questions.

Mrs. Schreiner: Thank you, Mr. Chair. This was received via e-mail from Todd Tuckwell. The question is: "I'm pleased with what I'm hearing but why can't we divert more money into the fund to offset inflation and create greater returns for the future?"

The Chair: Are you guys fighting over this one?

Mr. MacMaster: Yeah. Well, maybe I'll give it a stab, and anyone else can join in. If I understand the question, it was around inflation and returns, investing to offset the ravages of inflation. Is that . . .

The Chair: "Why can't we divert more money into the fund to offset inflation and create greater returns for the future?"

Mr. Uebelein: Diverting more money into the fund might be your question.

Ms Rosen: At this point in time there really isn't a source of revenue for investing additional funds in the heritage savings trust fund given that our resource revenue is actually quite low, at historic lows, in fact, right now. I would suggest that our approach at this point in time as a government is to maintain the fund, and I'm sure that the government will assess its ability to put more money into the fund when circumstances are appropriate for that.

The Chair: Thank you.

Anyone from the gallery at this time? We do have another online question.

Seeing none, Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This next question was sent via e-mail from Mark Pearson. The question is:

The Trust Fund was set up as a savings account but has saved nothing since the 1980's. Norway modeled their sovereign fund on Alberta's in the eighties and now have near a trillion dollars by saving and investing. Instead of planning how to spend it why not return the Fund to a saving fund and grow it with what little royalties we now receive and fund our province on proper taxation?

Ms Rosen: First, I think that it is really not a great comparison to compare Alberta and its resource-based industry to Norway. One is a province; the other is a country. One is landlocked with limited access to other markets, and Norway, of course, has got an offshore oil industry. There are a number of other differences as well between our environments, our circumstances, so I think that it would probably be more appropriate to judge Alberta and its fund within Canada and to say: how have we done as a province within this country? By anybody's judgment we've done very, very well.

The Chair: Thank you.

Anyone from the gallery at this time?

We do have what could be a controversial question here, Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This question was sent via e-mail from Tom. "Would you make an investment in the Oilers from the Heritage Fund?"

Mr. MacMaster: I'd buy tickets.

Mr. Uebelein: I don't think they're for sale. They're on the upswing.

The Chair: That's right.

Okay. If there are no questions from the gallery – it seems to be slowing down a bit here on social media – would any of the committee members like to ask some questions at this time? Mr. Yao.

Mr. Yao: Thank you very much. My question revolves around comparing our heritage savings trust fund to the private sector. I recognize that there may be a lot of variables around the comparison and that it might be unfair to compare, but I'm looking for your best answer. There are three parts to my question. First off, do you consider our returns to be comparable to other funds? Secondly, are the costs associated with running our funds comparable to the private sector? Thirdly, you stated that you actually manage as much as \$90 billion in assets for various provincial pensions. How does the size of the fund that you manage compare to, again, other comparables? I guess that ultimately I'm just asking: how do we rank our fund in comparison to others?

Mr. Uebelein: I'll take a first crack at that, and perhaps Dale will want to add. First, I would say that I think that AIMCo's returns to all of its clients stack up and compare extremely favourably against the for-profit universe of asset management. There are a few reasons for that, and you actually touched on them. One is because of our scale, at \$91 billion, that makes AIMCo the sixth-largest institutional investor in Canada and somewhere around 50 or 60 on a global basis. This gives us the scale to create investment capability in-house on a not-for-profit basis, and that allows us to keep the cost for investing in very specific and very refined types of investment like infrastructure, like private equity, like real estate on a unit cost basis very low.

As Deputy Minister Rosen said, we manage in aggregate a little over \$91 billion. The heritage fund, at \$18 billion, is actually the second largest of our 31 clients. All 31 of our clients are Alberta-based public entities. Our largest client is actually one of the pension fund clients that we serve, the local authorities pension plan, and it's about \$37 billion in size. If you take all of our pension fund clients that we serve together, that represents a little over 60 per cent of our assets, or \$55 billion, that we manage for them. I do believe that because of a handful of attributes that AIMCo enjoys and that we enjoy because it was well structured when it was designed and created in 2008, we are quite competitive.

Those attributes: I've touched on a couple, but I'll bring it on home; I'll nail all of them. The first is that we have a governance structure that we think is as good as any, second to none. It really starts – the cornerstone is a professional board, a board of directors that's selected based on its skills, its experience, its dedication, and its training.

The second is our ability to attract world-class talent and to retain and train those people for the benefit of Albertans.

The third, as I said, is that we benefit greatly from our scale.

The fourth is that we benefit from the independence that we have from government in our investment decision-making. We've already spoken to that earlier.

Finally, we benefit from being truly long-term investors. This allows us to hopefully avoid the pitfalls that many other investors

step right into, which are chasing momentum and, ultimately, buying high and selling low.

Those are the pillars that we hope we're building a really good investment manager upon.

Mr. Babineau: If I could just add to that. Being one of those 31 clients, the heritage fund – you know, we look back at the presentation that Lorna gave. We had that rate of return for the last five years of 10.5 per cent – and that's after fees; that's after AIMCo has paid all its expenses – and our passive benchmark for those five years was 9.2 per cent, so AIMCo added value of 1.3 per cent on \$17 billion, \$18 billion. We're looking at an extra value-add from AIMCo of, approximately, I guess that would be about \$170 million. So just in having AIMCo investing for us, we've added an extra \$170 million a year over those last five years just to the heritage fund.

8:20

Mr. Uebelein: Net of expenses.

Mr. Babineau: Net of expenses. Exactly.

The Chair: Okay. Thank you.

Other committee members with questions this evening? Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. As one of the questions that came up from the gallery, I am curious about the six criteria that Treasury had brought forward for AIMCo. Can we revisit those six again, please?

Mr. Babineau: Sure. I'll pull that information up. On the heritage fund website there's a document called the Alberta Growth Mandate, that was produced by AIMCo in conjunction with us. It has the six criteria that are required. In addition to satisfying the legislative mandate of maximizing long-term financial returns, the investments must have at least one of the following characteristics:

- (a) Creates jobs in Alberta
- (b) Builds new infrastructure in Alberta
- (c) Diversifies Alberta's economy
- (d) Supports Alberta's growth
- (e) Connects Alberta's companies to export markets
- (f) Develops subject matter expertise within Alberta.

Those are the six criteria in addition to maximizing long-term financial returns.

Mr. Cyr: Does that preclude anybody? These are pretty general, all six of these, so I'm asking: is there value to putting six criteria that they must follow that don't look like they actually disqualify any investment, with this 3 per cent that they need to put forward?

Ms Rosen: Mr. Chair, if I might.

The Chair: Please.

Ms Rosen: We actually believe that these criteria help to – even though, as Mr. MacMaster stated, the heritage fund is already significantly invested in Alberta, we believe that this sharpens the focus on growth in Alberta, because if you look at the six criteria, they're all about either diversification or elements of growth, and in focusing on growth, particularly growth in Alberta at this time, we think that that does generate additional benefit to the province beyond what the actual investment brings. Because the legislation always has to be satisfied about long-term returns, what we then actually get in addition to that is – we hope and we trust – growth in Alberta that actually then benefits the economy overall. So I believe that while the criteria are high level, which they need to be in order to have them differentiate on an allocation basis as opposed

to providing too much specificity in terms of the actual investment approach, I do think that what they all have in common is that they sharpen that focus on growth.

The Chair: Thank you.

Do we have any questions from the gallery at this time?

Okay. We've had one more question come in online.

Mrs. Schreiner: Thank you, Mr. Chair. This was sent via e-mail from Brian in Okotoks.

I remember Peter Lougheed setting up this fund knowing full well Alberta could not survive being a one trick pony relying solely on oil... Could you please give specific examples, not generalities, as to how the Heritage Trust Fund has diversified Alberta's economy?

The Chair: Thank you.

Ms Rosen: I think that I would encourage perhaps Mr. Uebelein or Mr. MacMaster to talk a little bit more about the \$200 million investment in renewable energy that they discussed with regard to TransAlta because that's an investment in Alberta that actually helps to diversify us into the renewable energy market as opposed to the traditional oil and gas market. I don't know if they have any other comments that they might want to add to that.

Mr. Uebelein: I can hopefully rely on Dale to dive a little deeper into a specific investment, but I'd rather approach an answer to that question in a slightly different way. When AIMCo invests the 18-plus billion dollars of the heritage fund in diversified investments around the globe – and, to be sure, we have almost 10 per cent still invested in Alberta, so we're investing in Alberta. But by diversifying by country, by industry, and by asset class and then driving the between 1 and 1 and a half billion dollars of revenue for the general account each year, we are in that sense diversifying Alberta's source of revenue. I think that's a legitimate and important way of looking at the good work that the heritage fund does and AIMCo's role in providing that diversification.

Now, within that 9.9 per cent that's invested in Alberta, some of those investments will be in energy companies, some of them will be in real estate investments that drive new growth across the industry, and some of them will be in interesting new industries and companies like the renewable energy company of TransAlta Renewables. Over long periods of time these will reap that sort of second level of rewards for Alberta, we're quite sure, but AIMCo's job, frankly, is to drive the first-order rewards, which is outsized investment returns on a diversified basis.

Mr. MacMaster: I'll just add to that by saying that I agree that TransAlta Renewables is a good example but also some of the real estate investment we make in the province developing properties, buying land, and providing jobs that way in various industries. You know, we have looked at other investments in Alberta in industries outside of energy that we are very much interested in but that have slipped through our fingers because they're attractive to others who have ended up winning, but we continue to examine every opportunity we can in Alberta and in other sectors.

The Chair: Okay. Thank you.

Dr. Turner, you had a question?

Dr. Turner: Yes. Thank you, Mr. Chair, and thank you very much to the AIMCo management as well as Treasury Board and Finance. It's been very reassuring to hear this, and in particular it's great to hear that Alberta is still a great place to invest. I think that's

something that we really need to celebrate, particularly when you look around the world at other areas.

My question really relates to that, but maybe before that, I'll also say that besides the Alberta heritage trust fund you are responsible, as we've heard, for investments in very important pension funds. That's a future-oriented business as well. It protects the security of people like me, who have pensions that you're managing, and I really appreciate that. I appreciate that we're looking at growth of those pensions rather than just trying to maintain them with the very low bond rates that we can get.

There is a very precarious global situation these days: Brexit, the emerging markets situation, the threat of war in the Middle East. When one looks at investing as an individual, it's certainly daunting, and I'm glad we've got experts like you to help us with this. I'd like to ask, really, what your assessment of the global investment landscape is and about the opportunities and challenges that face the fund, both over the short term, which would be a year, I guess, and longer, five to 10 years. What are the big macro trends that you're looking at?

Mr. MacMaster: Sure. I'll try that one. I would say that probably the biggest challenge facing investors today is the low level of interest rates, and that's a phenomenon of the last 35 years. Interest rates peaked in 1980 and have fallen ever since. No one thought they would go to zero or even below, to negative interest rates.

That's had an effect on assets all around the world by driving the values of bonds up, particularly long-duration bonds, and all long-duration assets, including real estate and infrastructure and particularly equities. The value of any asset is its discounted cash flows, discounted to the present value. If you lower the discount rate, the value goes up. This has been a phenomena of the last 35 years, and it's driven returns on all assets such that returns in the '80s, '90s, and even into today have been the highest in the last hundred years.

8:30

Interest rates have reached probably their peak. They can't go any lower than here before people start filling their mattresses. We've reached peak monetary stimulus, so bonds as an investment are a poor area.

In the shorter term, medium-term equities are also looking challenged. We're eight years into a bull market, the second longest in history. Bull markets don't tend to die of old age, but there are some concerns. Earnings are rolling over in the U.S. Evaluations are up. Typical long-term price earnings, multiples, on the S&P 500 are 15 or 16. We're broaching 20 now. Buybacks have been a significant part of the market landscape, where companies borrow to buy back. We only borrow at a low rate, buy back your stock, increase your dividends. That's also fading at this point.

Let's face it. We're at the tail end of a decent bull market in equities. Who knows when it's going to end, but we can't run around any longer and say, "Stocks are cheap," which is what, you know, we did a few years ago up until recently. Stocks and bonds look challenged.

The alternative asset classes are looking a little better, and thankfully our clients here in Alberta, including the pension funds but also the heritage fund, were forward thinking in making significant allocations to real estate and infrastructure, timber, and private equity, and that's helped to drive returns. We continue to see opportunities there even though valuations are stretched in some of those areas. We think that if we can get exposure to rising income streams in those private assets such that should interest rates rise or inflation, although it will have a valuation impact, at least we'll be exposed to rising income streams. That's one area of our thinking.

Another is exposure to short-duration assets. In bonds we're moving into more private, fixed-income assets and mortgages, where we can earn a little more incremental yield.

Then absolute returns, I would say, is the third area of our focus, and that tends to be hedge funds, absolute returns. Hedge funds have returned on average 4 to 5 per cent over the last four or five years. Given the other asset choices on offer, that looks pretty attractive to us.

Those are three strategies we're focused on.

The Chair: Good. Thank you.

Mrs. Schreiner, we have an online question.

Mrs. Schreiner: Thank you, Mr. Chair. This one was sent via e-mail from Tom. "Was your value add primarily the toll road?" and "Would it not be cheaper to use exchange traded funds and AIMCo just manage the mix for a small fee. Studies show active management can beat 'buying the index'?"

Mr. MacMaster: On the ETF question: actually, ETFs have fees, and our fees tend to be lower. You know, fees on exchange-traded funds can be anywhere from a handful of basis points to more actively managed ETFs that can be well over 1 per cent. Our costs tend to be much lower. You know, managing the illiquid assets – the infrastructure, real estate, timber, and so on – are much, much higher. Those typically aren't available as ETFs anyway, and if they were, they'd be very expensive. We're able to do that more economically as well.

The other part of that question?

Mr. Uebelein: The outperformance. Certainly, the outperformance from the infrastructure asset class was overwhelmed by the sale of that one asset, the Chilean toll road, but we generated value-add across almost the entire range of other asset classes: public equities, private equity, fixed income. By no means did the one home run – that wasn't the only way we scored last year.

The Chair: Thank you.

We have one more online question.

Mrs. Schreiner: Thank you, Mr. Chair. This was sent via e-mail from Mark Pearson. "Why don't we return the Fund to a savings and investment account and start living on proper taxation until it reaches a substantial size?"

The Chair: I'm not sure how you would answer that, but if you'd like to try.

Ms. Rosen: I guess that all I can do, Mr. Chair, is to reiterate that the purpose of this fund at this time is to earn a long-term return for government to actually then provide a benefit to all Albertans that doesn't rely on taxation. All of the decisions that we make in funding the services and programs for Albertans are about balance and trade-offs. So at this particular time we are very fortunate that we have this resource that actually helps to contribute to funding for programs and services for Alberta on an annual basis.

The Chair: Thank you.

We have another online question. Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This was sent via e-mail from Tom. The question is: "How exposed is the fund to bail in exposure to world banks. Please explain the bail in laws in transparent terms. Also, how exposed is the fund in derivatives if a European bank fails?"

Mr. MacMaster: I'll attempt to answer those questions. You know, it's always challenging when you're managing \$90 billion worth of funds. When someone comes in asking questions about a specific investment sector – there are thousands of investments in the portfolio. On the first part of that question – I think it was bail-in issues around global banks. This could be difficult to explain, but essentially there have been a number of securities issued in the last few years as noncontingent capital. "Cocos" they are called in jargon terms. But essentially what they are is debtlike instruments, preferred securities typically, that in times of crisis can be converted to equities, so they're called bail-in. As a fixed-income investor or a preferred-share investor you may think you want a debt security until, you know, it gets tricky and banks get into trouble. Then you're converted, you're converted to real equity.

In the case more recently of Deutsche Bank, for instance, which has come under some scrutiny in terms of its viability – those types of securities came under a lot of pressure and came down in value. To my knowledge, we don't have exposure to cocos, noncontingent capital.

Mr. Uebelein: So no exposure to the bail-ins?

Mr. MacMaster: No exposure to the bail-ins. The other part of that question, I think . . .

Mr. Uebelein: Or to derivative exposure to banks that may fail?

Mr. MacMaster: Right. Well, there are two types of exposure that we would have: credit exposure, which is the debt of any corporation, including banks, which we have exposure to; and then there is derivative exposure that we might have through counterparty exposure. The derivative exposure actually tends to be quite low, you know, when you look at net market value. The notional amounts of those securities can be high, but the actual money at risk is quite low.

Our exposure on the credit side – traditional bond investing, corporate bonds of banks – tends to be mostly domestically oriented. The Canadian major banks, which are among the stalwarts, you know, in banking around the world, obviously held up very well in the credit crisis. That's where exposure is. It's managed. We're very comfortable with that. It's monitored constantly, not only by the investors, who are the first line of risk, but by our risk team, which provides a second set of eyes and reports directly to the CEO.

The Chair: Okay. Thank you.

Ms McKittrick, I have you on the speakers list. Go ahead.

Ms McKittrick: First of all, I really felt truly good tonight about hearing all the questions around your environmentally sustainable investment and how the public in Alberta is becoming aware of the directions that you've given in new investment around ensuring that the issues of climate change and environmental sustainability and so on are part of your investment decisions. So I really appreciate that.

But, I have a question that is different around that although I would love to pursue some of those conversations. There has been a lot of discussion in the media about sovereign wealth funds and large public-sector pension funds and the asset classes they are investing in. From what I've been reading, one of the big advantages of investment managers like AIMCo is your ability to get directly into the infrastructure space. I'm wondering if you can discuss how AIMCo goes about investing in hard infrastructure and how you balance regional risk.

8:40

Mr. MacMaster: Like any investment, including infrastructure, we have a long list of due diligence that's required before we make an investment. Typically this takes weeks and months and involves not only a deep dive into, you know, the business case for the investment but everyone associated with it, the financials, all manner of risk we have to take into account. That's similar to any investment.

In terms of how we come across these, well, our people are plugged into the global markets, including infrastructure, and we hear of infrastructure assets coming up for sale that we have the potential to bid on, or these opportunities more typically come through our partners, where we've already made investments, and they have additional infrastructure investments for us to make.

There's a whole host of criteria that we have to go through. Unfortunately, sometimes we do a lot of work and end up not winning that investment, you know, more recently because the price has been bid up, and we need to stick to our discipline in order to earn these returns and, unfortunately, will not chase after assets if the return isn't there.

Mr. Uebelein: This is fresh on Dale's mind. I'll add a little more. It's fresh on Dale's mind because just today we learned that a large infrastructure transaction which we were pursuing and we really liked – and, in fact, we were partnering with two other sovereign wealth funds on a global basis – we lost. We lost because we think that we were maintaining exactly that price discipline that we think is critically important. It kind of stings because the diligence process is months with if not a dozen, at least six to 10 different forms of expert due diligence, who come help us analyze these projects to see if they're exactly what we want to get into. It's fresh on our minds.

The Chair: Thank you.

Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. Talking about environment stewardship here, I was interested on one of the resolutions you supported with Exxon, the one regarding fracking. Can you be specific on the resolution? I've got a question to follow up with that.

Mr. Uebelein: While I'm giving Dale some time to try to give you a detailed answer – it's very difficult sometimes to give such detailed answers on the spot, but I will, rather than specifically address your question, talk a little bit about our ESG proxy voting process and how it has behaved over the last year. We try very hard to look at every environmental shareholder proposal, social shareholder proposal, and governance shareholder proposal. We try not to ever robovote. We try to take advice when we need it and then actively vote on those proposals. We think that's one of the value-adds of active management as opposed to passive management.

In 2015-16 we voted in favour of about 44 per cent of environmental shareholder proposals, so that means that after looking at the preponderance of evidence, pro and con – and each one of these would be very different – we voted a little less than half of the time in favour of those environmental proposals. When it came to social shareholder proposals, a little over 50 per cent, 52 per cent to be precise. Then in terms of governance proposals – again, there's a wide gamut of those types of proxy proposals – 52 per cent of the time we would vote in favour of those proposals.

I think what's important to understand, though, is that as a corporate citizen who's trying to encourage through engagement companies to think in a professional manner about these issues, we take every single proxy vote very seriously.

Mr. MacMaster: Thanks for that preamble, Kevin. It gave us time to . . .

Mr. Uebelein: I've done enough soft-shoe, and now we can get a real answer.

Mr. MacMaster: Keep in mind, folks, that I think there are, like, 25,000 resolutions that we vote on. This particular one reads: shareholders request the board of directors report to shareholders using quantitative indicators by December 31, 2016, and annually thereafter the results of company policies and practices above and beyond regulatory requirements to minimize the adverse environmental and community impacts from the company's hydraulic fracturing operations associated with shale formations; such a report should be prepared at a reasonable cost, omitting confidential information. Our position on this was that best practice aligns with long-term shareholder value.

Mr. Cyr: Going back to the Alberta growth mandate, we see that we've invested in Calfrac Well Services. Is that a fracking company, and if so, does it not seem that what you are proxy voting for is counterintuitive to the big investment that you just put into this company?

Mr. MacMaster: Well, I would disagree. Calfrac is a world leader in fracking, best class management, world-class assets, and a real leader in environmental, going above and beyond, so we consider it, you know, in perfect alignment with our views, both as a high-quality investment at a very attractive price and meeting our ESG hurdles.

Mr. Uebelein: Just for clarification, our vote with Exxon was not against fracking. It was for best practices when they do employ fracking. We're not taking a position that fracking is bad; no one should do fracking. If that was our position with Exxon, then you're absolutely right that our investment in Calfrac would have been duplicitous.

Mr. Cyr: Thank you for the answer, sir.

The Chair: Thank you.

We do have another question online. It looks like you guys, AIMCo, have answered this to some degree before, but we'll ask it again just for the participant. Please go ahead, Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This was sent via e-mail from Claire of Edmonton. "How do AIMCO and the Government of Alberta ensure that the international investments made using the Heritage Fund are ethical and support the values of Albertans?"

Mr. Uebelein: Well, I share MLA McKittrick's excitement that we've had as many questions about this. It's clearly on everyone's mind, and at the risk of being redundant, I would repeat that what we're trying to do is be mindful of the issues that we think will drive both – and it's important here – positive, long-term returns and positive responsibility towards these issues of environment, social, and governance. We think that when you're a day trader, which we are not, if you're just trying to flip a stock in one day, one really doesn't need to pay much attention to these issues. If, like AIMCo and like our clients, we're interested in what's going to happen in 10 years or 20 years or 30 years, then management teams who think proactively about social issues, good governance issues, and the environment, we think, will be net winners. They will succeed more often than management teams that don't think about these things. That's really the essence of our philosophy.

8:50

One of the metrics that I increasingly look at is the degree to which our actual investment teams are actively engaged as opposed to just our responsible investing team. Now, our responsible investing team reports directly to the chief investment officer, but there's no denying that engagement by the actual portfolio managers who make those buy-and-sell decisions will have a greater impact on those management teams than anyone else making those calls and having those conversations.

I hope that's helpful to the questioner.

The Chair: Thank you.

We have one more question online. Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. This question was sent via e-mail from Brian of Okotoks. When it comes to diversifying Alberta's economy, do you feel that you have met Mr. Lougheed's goal? Not how you have diversified the investments.

Ms Rosen: Maybe I can take a stab at that. I'm not sure that there was what I would call a specifically articulated goal. We're talking about something that was a very unique idea and approach 40 years ago. If we want to look at whether or not we've been successful, well, here we are, 40 years later, having gone through some very significant ups and downs in terms of our economy, and we still have a very substantive fund that is working every day to improve, to diversify the economy, and to support Albertans. So I would suggest to you that, yes, we have met maybe the intent of what was contemplated 40 years ago.

The Chair: Thank you.

I'll just ask one more time if there are any more questions from the gallery.

Mrs. Marte: Hi again. My name is Zeny. I'm going to ask you a question. The heritage fund: is this for Albertans? Yes or no. Like, that money is for Albertans? Okay. My question: when it comes to investment, nobody predicts that – when we invest, we don't know. We might lose; we might gain. Do you involve Albertans when you want to invest a big amount of money before you release the funds? Do you call a meeting like this to ask them if it's – like, we're going to put \$17 billion in this industry. Do you have people to agree to that, or do you guys do it yourselves? Because I know that when something goes wrong: well, we asked you guys; you let us do it. And then if you don't ask the public, who's to blame? Like, we don't know after that. The money's gone because we invested it. We should all be involved, the standing committee and also the public. I don't know if you guys do that or not. That's my question.

Ms Rosen: I wouldn't mind taking a stab at that, actually.

The Chair: Please.

Ms Rosen: I think that it's because we are very concerned about the risk inherent in investment that we actually turn this over to a professional investment arm such as AIMCo, so that we actually get the best possible advice, thereby, to whatever degree is possible, mitigating risk and helping us to ensure that those funds actually do continue to earn a return that's available to future Albertans.

Mr. Uebelein: The only thing I would add is that I can testify that the 375-plus employees of AIMCo are absolutely, passionately dedicated to trying to do our best for Albertans and for the roughly 375,000 Albertans whose pensions we are going to help make viable. But when it comes to the investment decisions, we've been

defined and empowered through legislation, and then we've been created, and we have a very articulated investment cascading decision-making authority. So we do make those investments on our own, and we live or die by them.

The Chair: Thank you.

Looks like we have a question in the gallery. Please state your name for the record.

Ms Houle: My name is Judy Houle, and I walked in late, so I just have a couple of specific questions. It might be off topic, but I guess I'm curious as to: is fracking still being considered for Alberta, like with the oil companies and stuff, or is that still going on? From various paperwork, information, outside agendas, whatever, the information that I've gotten is that if fracking is not allowed in other countries, then why is Canada allowing that?

The Chair: Ma'am, I don't think that's quite an appropriate question for this committee at the time.

Ms Houle: And why is that?

The Chair: Because we're dealing with how the heritage savings trust fund is invested. If you can relate that to the investment portion of it, then . . .

Ms Houle: So that's not part of the oil industry as far as what they are doing out there?

The Chair: Similar to Mr. Cyr's question I think you are asking. Would you like to take a stab at that?

Mr. MacMaster: Sure. Fracking is an industry-accepted practice for extraction of oil and gas. You know, fracking does happen in Alberta, as it does in the U.S. and other jurisdictions. It's by no means illegal.

Ms Houle: Okay. Well, I'm not saying that it's illegal. It's just that in various articles that I have read, other countries do not just go ahead with that method in the oil companies. So I am concerned as far as being born and raised in Alberta and being a Canadian, I guess, a true Canadian. Why would that be allowed in Canada?

The Chair: Unfortunately, ma'am – I'm sorry – we have run out of time, and we will be shut down at the 9 o'clock mark.

Before I close, I would like to sincerely thank all of you for your participation tonight. I think I can speak on behalf of the entire committee when I say that we have enjoyed spending the evening with you and engaging in conversation about your Alberta heritage savings trust fund. In turn, we hope you found the meeting informative and valuable. We tried to address as many questions and comments as possible in the time allocated for tonight's meeting. For those of you who would like to offer feedback on our meeting, please go to www.assembly.ab.ca and answer our short survey. To our TV and online viewers, thanks so much for tuning in. To those of you who made it here tonight, we really appreciate you taking the time to be here as part of our live audience.

More information about this committee and its mandate can be found at www.assembly.ab.ca/committees/abheritagetrustfund. I can't believe you made me say that whole thing.

Thank you. The meeting is now adjourned.

[The committee adjourned at 8:58 p.m.]

