



Legislative Assembly of Alberta

The 29th Legislature
Third Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Wednesday, March 8, 2017
7 p.m.

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

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

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

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Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance

Rod Babineau, Manager, Portfolio Analysis, Capital Markets

Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management

Lorna Rosen, Deputy Minister

Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation

Dale MacMaster, Chief Investment Officer

Mark Prefontaine, Senior Vice-president, Client Relations

Kevin Uebelein, Chief Executive Officer

7 p.m.

Wednesday, March 8, 2017

[Mr. Coolahan in the chair]

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

I'd like everyone around this very tight table to introduce themselves, please, starting on my right, for the record.

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

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

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

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

Mr. Robe-From: Nelson Robe-From with the Auditor General.

Mr. Ireland: Brad Ireland with the Auditor General's office.

Mr. Prefontaine: Mark Prefontaine, Alberta Investment Management Corporation.

Mr. MacMaster: Dale MacMaster, AIMCo.

Mr. Uebelein: Kevin Uebelein, AIMCo.

Ms Rosen: Lorna Rosen, Treasury Board and Finance.

Mr. Epp: Lowell Epp, Treasury Board and Finance.

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

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

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

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

Ms McKittrick: Good evening. Bonsoir. Annie McKittrick, Sherwood Park.

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

Dr. Massolin: Good evening. Philip Massolin, manager of research and committee services.

Mr. Roth: Good evening. Aaron Roth, committee clerk.

The Chair: Great. Thank you.

A few housekeeping items before we turn to the business at hand. The microphone consoles are operated by *Hansard* staff, so there's no need to touch the buttons. Please keep your phones on silent throughout the meeting. Audio of the committee proceedings is streamed live on the Internet and recorded by *Hansard*. Audio access and meeting transcripts can be found on the Legislative Assembly website.

The first thing on our agenda this evening is to approve tonight's agenda. Would anybody like to approve tonight's agenda? Ms McKittrick moved that the agenda for the March 8, 2017, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated.

Mr. Cyr: Mr. Chair, I have an item to add underneath other business for discussion.

The Chair: Okay. We can talk about that under other business. How's that?

Mr. Cyr: Thank you, Mr. Chair.

The Chair: Okay. I read that motion. Are we clear with that motion? All in favour of approving the agenda for this evening, say aye, please. Any objections? That motion is carried.

The next item is the minutes from the previous meeting. Were there any changes or omissions or deletions to be addressed? Seeing none, would somebody like to move that? Moved by Dr. Turner that the minutes of the January 11, 2017, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour? Any opposed? Seeing none, that motion is carried.

The Alberta heritage savings trust fund third-quarter report for 2016-2017 was released on February 23, 2017. Committee members were sent a notification of its release, and the report was posted to the committee's internal website. The Alberta Heritage Savings Trust Fund Act mandates that one of the functions of the committee is to receive and review quarterly reports on the operation and results of the heritage fund. We are pleased tonight to have Mr. Kevin Uebelein, Mr. Dale MacMaster, and Mr. Mark Prefontaine with AIMCo and Ms Lorna Rosen, Mr. Lowell Epp, and Mr. Stephen Thompson from Treasury Board and Finance here to assist us with our review.

I will now turn the floor over to Ms Rosen and then to Mr. Uebelein.

Ms Rosen: Thank you, Mr. Chair and members of the committee. Mr. Ceci is unable to make it tonight and certainly sends his regrets. I'm pleased to speak on behalf of the department and to have the opportunity to discuss with you Alberta's heritage fund, specifically the fund's 2016-17 third-quarter report. I'll spend a few minutes going over some of the highlights of the report and then ask my colleagues from AIMCo to speak to the fund's results from their perspective and in more detail.

The legislated objective for the heritage fund is to maximize the long-term investment returns for the fund within a prudent level of risk. Over the past five years the fund has earned an annualized return of 11.7 per cent. This seems like a pretty good rate of return, particularly given how low interest rates are these days, but does this return actually meet our expectations? We measure whether or not the fund's legislated objective is being met in two ways. First of all, we expect to earn a real return of 4.5 per cent annually. In other words, we expect to earn a return that is equal to the inflation rate plus 4.5 per cent. Secondly, we expect our investment manager, AIMCo, to add at least 100 basis points in value. These measures are best evaluated over a longer period – we've chosen five years – because investment returns are volatile, and a focus on shorter periods may result in different decisions and lower long-term returns.

I'm pleased to say that the heritage fund's investment returns have exceeded both measures. Over the past five years inflation has averaged approximately 1.5 per cent annually, which makes our target return for the fund over the past five years to be 6 per cent. The actual return is 11.7 per cent and is clearly well above our target.

AIMCo has also added value to the fund. Over the past five years our benchmark return, an estimate of what returns would have been without active management, averaged 10.7 per cent annually. The

actual results of the fund exceed the benchmark return by 1 per cent, which is our target for value added by AIMCo.

If we look at the returns of the fund over the current fiscal year to date, we see a slightly different picture. The fund earned a return of 7.4 per cent during the last nine months, with value added by AIMCo of 0.4 per cent. The fund earned a little more than \$1.6 billion during the first three quarters, of which \$159 million will be retained in the fund for inflation-proofing. The remaining \$1.4 billion is to be transferred to the province's general revenues to support the fiscal plan.

Finally, I would like to discuss the Alberta growth mandate. In Budget 2015 the government announced that 3 per cent of the heritage fund would be allocated to directly invest in Alberta growth. Since the announcement in October 2015, \$185.6 million has been invested across 11 separate investments, 66 investment opportunities have been presented, and 25 remain under review in various stages of due diligence. AIMCo expects to make additional investments that fit into this mandate and also meet the heritage fund's legislative requirement to maximize long-term investment returns. We will continue to provide the committee clerk with periodic reporting regarding investments made under this mandate as progress is made.

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

The Chair: Thank you, Ms Rosen.

Mr. Uebelein will give a presentation, and after that we'll open the floor to questions.

Mr. Uebelein: Yes. I'm really going to pass the baton to Dale, the chief investment officer, to talk about performance. I think that Lorna did a fine job of covering most of the bases in the report. I was going to also talk about one item that you've already discussed, which is to focus on the cash-flow implications of the work that we're doing. I know that in the first 60 days of this year \$700 million of cash was delivered into the general revenue fund, and before the end of March another \$600 million will be delivered into the general revenue fund. I think it's timely for us, in addition to all the reporting in the quarterly report, to focus on the cash-flow implications, it being a week and a day from the new budget. We're doing hard work to close that budget gap, and 1.3 is a good number.

I'd love to pass it to Dale at this point.

The Chair: Please, Mr. MacMaster.

Mr. MacMaster: Thank you. If it's agreeable with the chair and the committee, perhaps I'll speak to performance, talk a little bit about the investing landscape, the drivers of performance over the last year, and perhaps some forward-looking comments.

So a 7.4 per cent return for the nine months ended December 2016: a decent return in what has been, I would say, a very, very challenging investment year. There's been no shortage of issues, concerns, and surprises that we had to face in the market. If you recall, in the early part of the year the market stumbled out of the gate in early 2016 in what was the worst start in a very, very long time on the back of concerns about Chinese devaluation. We saw a decent sell-off on the Canadian dollar and oil hitting 13-year lows, and just as the markets were finding some semblance of balance, we hit the Brexit scenario in June. That was quite a shock for the market and sent bond yields tumbling and stock markets tumbling as well.

We saw a brief lull going into the Rio Olympics, which seems like a distant memory at this point. The market turned its attention to the U.S. election, which once again proved a very shocking result and surprise to the markets. Since November we've seen a

significant stock market rally, which we find somewhat troubling; nevertheless, that has continued into 2017. The market seems to be focused on the positive elements of the administration in the U.S.

7:10

All in all, a challenging year. As I usually mention when I come to these meetings and other meetings with clients, our focus at AIMCo is always the long-term results. If you turn to the bottom of page 1, the table that we have there, you can see the one-year, five-year, and 10-year performance. I think that from an absolute return point of view, you know, it's nice to have positive returns. They won't always be positive. But I think, importantly, too, AIMCo has shown its ability to add value over all periods. If you look at the five-year and – we don't show it here – the six-year and seven-year, these are the types of value-add performance that you see in top quartile management, so we're very pleased to be able to do that while maintaining a lower cost than the average manager as we measure ourselves against other global peers around the world doing a similar type of work and doing that all the time within the risk budget that's provided.

In terms of the drivers of performance in 2016 I think there were really two that certainly helped. Fixed income and money market had a great return, adding a hundred basis points over the benchmarks, and the other asset class that did quite well was global equities, returning 14.6 per cent, which is roughly 300 basis points over the benchmark, so that was pleasing to see.

When you're looking over the short term, there's always something in the portfolio that's struggling or behind, and in this case it was real estate, which was roughly a hundred basis points behind its benchmark, returning roughly 4 per cent, and that was largely due to the struggles in the real estate market in Alberta, in particular the Calgary office. But, as you know, AIMCo, together with our colleagues in Finance, construct diversified portfolios with numerous products and strategies so that we have enough working in the portfolio to continue to deliver absolute returns and relative returns that are consistent with the objectives.

Perhaps now just some forward-looking comments. As difficult as 2016 was, I don't expect 2017 to be any easier. You know, markets have been making new highs, as I pointed out, almost daily. Valuations are getting stretched. We're back to levels we haven't seen since 2004. Fund flows are very robust into ETFs. Retail money is moving into the market in a big way. There's a lot of momentum. There's a lot of exuberance. Valuations are stretched, and the Federal Reserve has embarked on a program of tightening.

There have been 13 cycles of tightening since World War II. Ten of those have resulted in recessions. We've only seen three soft landings, so as much as I'm optimistic that the Fed will be able to engineer a soft landing, we shouldn't count on it. It's always a dangerous thing for equity markets in particular when we have valuations where we are and we embark on a program of higher rates. Certainly, as much as that's a struggle for the equity markets, bond returns are expected to be low as well. When you have 10-year rates at 1.5 per cent, I think it's pretty, you know, plain to see that the sorts of absolute returns that we saw over six, seven, and eight years are going to be difficult to replicate.

Perhaps I'll leave it there and take questions.

The Chair: It's up to you, Mr. MacMaster. Thank you very much.

We will open the floor to questions for Treasury Board and Finance and AIMCo. I'll keep a list. Mr. Ellis.

Mr. Ellis: Thank you. I just want to say this. Thank you for what you're doing. You know, although I'm certainly the first to tell you that I don't have a financial background, these numbers look

phenomenal, so thank you very much on behalf of Albertans for continuing with the great work that you're doing.

One of the things I did note here has to do with that AIMCo made an investment with Savanna Energy of \$45.7 million. Can you maybe just elaborate on what made this energy corporation such a good investment for Albertans?

Thank you.

Mr. Uebelein: I'm going to give Dale time to go to his notes, but I will say that this investment is made by one of our equity teams called Conviction Equities. Conviction Equities is looking for deep value opportunities, meaning businesses that we think are well run, well managed but whose stock value is deeply depleted. I think, generally speaking, without going into the specifics of Savanna, that's the categorization that we found Savanna to be in. Thus far in the few months that we've held that investment, it's proven to be a good assessment.

If you want to go into the Savanna details.

Mr. MacMaster: Sure. For those who don't know, Savanna Energy is a global leader in energy services involved in drilling, well servicing, and oilfield rentals in the U.S., Australia, and Canada, founded in 1970 and one of North America's leanest and lowest cost structure drilling contractors.

There's been a theme for us in this space over the past six months, year, I would say, which is: capital has moved away from Alberta, in particular, bank financing. You know, we've been able to step in what we think are very attractive situations in structure transactions that consist of debt financing combined with warrants to offer us an upside as well, with the sort of returns one would normally see in equity exposure. This is, I think, a prime example, a perfect example of what AIMCo does well. As long-term investors, as patient capital we can step in in situations where others move away. And this is typical of banks when sectors of the economy like energy struggle.

In this case, in Savanna, there were three areas we were most attracted to. One of them is that this was a deeply discounted asset. It's current valuation at the time without the equity was trading at about 30 cents on the dollar, a deep discount to its intrinsic valuation. We have a high-quality management team in place, a favourable capital structure priority. Again, because of the dire situation in the oil patch we're able to finance attractive terms, you know, attractive to ourselves and beneficial to our clients, including the heritage fund, and future growth. This is a company that's been around since 1970, is positioned for the future, high-quality assets, high-quality management, and we expect very, very good things from this investment.

Mr. Ellis: Thank you, sir.

No follow-up questions, Chair. Thank you.

The Chair: Thank you.

Ms McKittrick.

Ms McKittrick: Thank you, Chair. I wanted to echo the comment from my colleague. It's always delightful to come here in this committee meeting and to hear about the work that you've been doing to grow the Alberta heritage fund. This fund benefits all Albertans. So I wanted to really thank you.

I realize, because I've been reading the news and listening to what's happening globally, that your staff must really be thinking strategically and reacting to what's happening worldwide and, I know, to the huge uncertainty in Asia and parts of Africa and in North America. The question that I wanted to ask is: can you provide some insights into the risk for the fund, especially with

growing protectionist sentiments in many countries – I mean, it's not only the U.S. that is becoming more protectionist but other countries around the world – and what that might mean in terms of the long-term results for the fund?

Mr. MacMaster: That's a great question. Personally I believe that free trade is a beneficial thing for global growth. It seems to make perfect sense to me. Unfortunately, there is this protectionist movement, populist movement under way not only in the U.S. but in other jurisdictions as well in Europe. What it means to me and for us at AIMCo, I think, is: should we continue to see more protectionism, more free trade agreements torn up and restructures with more restrictions, that should impact global growth. We should have lower global growth. That's a negative.

So what does that mean for markets? Well, it's probably not great for equities. It may mean lower rates for longer, and it may be behind the difficulty that the world is facing in terms of emerging from the credit crisis in 2008. Here we are, eight or nine years later and still well below global growth levels that we saw prior to the credit crisis.

Now, you know, it's not only about trade. There are a number of other factors at work. Another one is, obviously, demographics. The world is aging. The impact of technology on certain businesses: we hear every day of robotics taking over positions, so we have to deal with that. But certainly the addition of populism and anti free trade is not good for economics and for growth.

7:20

Ms McKittrick: Could I just ask a supplementary question?

Have you identified any areas of the fund that might be most affected by the protectionist elements?

Mr. MacMaster: Well, I think it's fairly global and impacts, you know, all of the asset classes in some way.

Ms McKittrick: Okay. Thank you.

Mr. Uebelein: The only thing I would add is that as long-term investors we really are keying our investments off growth. Over megatrends it is underlying economic growth that will help most financial assets also rise in value but particularly equity. As Dale said, I think equity is at most risk over the very long term, but all these disruptive exercises also should logically bring more volatility to those markets. So this is the interesting twist. We will find some opportunities if we are nimble and smart in the short run because of assets that are mispriced just purely out of the volatility, but if you're thinking in terms of 10, 15, 20 years, if economic growth takes a hit because of these barriers to globalization, then that's not a good thing in the long run.

The Chair: Mr. Taylor.

Mr. Taylor: Yes. Thank you, Chair. You were mentioning that you are worried about the rapid rise, and you had a concern with that within the U.S. markets as a result of the new administration. Can you explain what you're talking about, what that problem might be, what you're doing to counter it? If you're worried about a market correction, again, how would you look at softening that?

Mr. MacMaster: Sure. To put that in context, you know, we've had an eight- or nine-year bull market in equities since the credit crisis, and the election of Trump in the U.S. seems to have fuelled, you know, an extra push. I think we're up about 8 or 9 per cent on the S&P since November. So that's one aspect of it. But there's a larger context here, and that is a somewhat tired bull market in equities. So you look at valuations, you look at sentiment, you look

at technicals, and, you know, then you look at the feds raising interest rates, and you look historically, and this tends to be a dangerous time in equity markets.

What do we do? Well, we're fully invested. You know, it's not a great idea for investors like us to time the market and sell all the equities and go into cash because – let's face it – I could be wrong. So what you do is that you tilt the portfolio a little bit more in your favour. What we're doing in equities is staying overweight only marginally where we might be more overweight, you know, if we were more bullish, okay? So we stay close to home in terms of our balance of stocks versus bonds. That's one thing.

Then within the equity portfolios we tend to be a little more defensively positioned, a little less tactical exposure in sectors in countries, more defensively positioned. So at the margins we're trying to protect the portfolio, but if we get a 30 or 40 per cent correction in the equity markets, I mean, we're not going to be immune. You know, you've got to ride through that. But AIMCo takes steps at the margin to protect and also take advantage of those situations. Where we tend to do the best is when other investors are running away, just as they did in the oil patch. If we get a big correction in the equity markets, retail will be selling, institutional investors will be selling in order to raise money to pay back investors. They want to get out of their funds. That, again, is where AIMCo steps in, makes investments, takes advantage of dislocation in the market to add value over the long term.

Mr. Taylor: Okay. Do you ever go short on the market?

Mr. MacMaster: We can be short. We can be underweight bonds versus equities. We don't feel we're there yet, but, you know, we can do that, yes.

Mr. Uebelein: There's a big distinction, though. Frequently when we use the term "short," it means that we are underweight the benchmark as opposed to actually completely short the market, meaning that we're only making money if the market goes down. So we will underweight our benchmark, and in so being, we will be short the benchmark.

Mr. Taylor: Okay. Thank you.

The Chair: Mr. Dang.

Mr. Dang: Thank you, Mr. Chair. I guess that was pretty comprehensive. It covered maybe some of what I was trying to ask here, but I'll get into it a little bit anyways. You're right. We keep reading about run-ups in the equity process, and it means valuations are getting a bit stressed. You did touch a bit about how we're performing above average and that this correction may be coming. I guess, for my own sake, how are you positioning the fund in terms of: do you believe there is a correction coming, and what are the risks of that, and what's the long-term strategy around that other than what you've just touched on?

Mr. MacMaster: Well, let me reframe this. I mean, corrections in the equity market are a regular part of what we do. You know, it's the landscape that we exist in. We feel that we should expect a correction, as I pointed out. We are taking steps, but we will be ready when the time comes, as I said, to put capital in the markets during a return and take advantage of dislocations that may occur.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. Thank you again for coming. I'd like to discuss Savanna a little further. If you go to their web page, it says that they rejected Total's "opportunistic" and "undervalued,"

hostile bid. Can you give me an idea of what played out? Did we swoop in and pay more than this company is worth?

Mr. Uebelein: I'll let Dale answer after I've started. First, we made the investment in Savanna before Total made their hostile offer. One, I think, very legitimate way of interpreting this is: we identified a company that was a deep value investment. We made the investment, and then others also saw value in the investment and tried to acquire it. Our investment predated that takeover bid. There is a so-called white knight bid that's being discussed. It's something that we really cannot discuss right now because it is a public company, but as Dale said, we expect very positive things. The fact that there are at least two if not more companies that are interested in acquiring Savanna: we think that that actually underscores the soundness of the investment.

The Chair: Please continue.

Mr. Cyr: Thank you, Mr. Chair. Do we have enough capital to direct management in operations?

Mr. Uebelein: I'm going to look at Dale. I think the answer to that is no, but we have some very strong rights in our investment position. As this takeover unfolds – and, again, I don't think that it would be appropriate for us to be discussing the details of the takeover or the competing offers – they will need our proxy vote in order to proceed.

Mr. MacMaster: Maybe I'll just add that when you enter these situations, it's with like-minded partners and management that we're aligned with, and exit strategies are discussed.

Mr. Cyr: You have the ability to affect operations through your purchase of capital. We've seen the government in the last throne speech say that they have had an increase of 50 per cent drilling within Alberta. Have you directed Savanna to do discount drilling or reduce its rates or go into any uncompetitive, I guess, if you will, practices?

Mr. Uebelein: No. Absolutely not. We study a company. We try to understand the strength of the management, the strength of their strategy, and within we invest in that company, hoping that good things will happen. But we are categorically not in the business of trying to direct management. We're not an oil and gas firm, and we wouldn't pretend to be one, so the short answer, sir, is no.

Mr. Cyr: One last question, Mr. Chair. Has Treasury contacted this company directly in any way?

Ms Rosen: No.

Mr. Cyr: Thank you.

The Chair: Thank you.

Any other questions this time?

7:30

Dr. Turner: Actually, just as a follow-up, because I think that this committee may need some education about how AIMCo actually works on these investments and in particular on the growth mandate, I wonder if you could give us sort of a high-level, big-picture update on that mandate. We heard a little bit about the actual figures, but where are we going to be going in the future?

Mr. Uebelein: Sure. I'll take a first crack at it, and then we'll tag-team, Dale and I. You know, the underlying thesis of the growth mandate is one where we've had a conversation with government,

who has asked us to allocate, from an asset allocation standpoint, an increase in Alberta investments, particularly ones that have certain characteristics.

Once that asset allocation decision is made, then it is AIMCo's absolute authority and prerogative to look for the best investments from a risk-return standpoint. Those can take a number of different directions. Again, to Mr. Cyr's question, what we're not doing is looking at investments that then we would in any way micromanage or try to manage towards other variables other than very strong investment returns. The range of those investments is typically going to be looking at strong companies or development opportunities here in Alberta where we think we can get an outsized return, and then we have a degree of confidence, or I might even say faith or hope, that while we're getting those good returns, other good things are going to be happening as a consequence.

But we've been very clear – and I think we've been very forthright in our conversation with government – that what we won't do is to identify opportunities to try to necessarily maximize those secondary variables. Our first and only variable is risk-adjusted investment return. But if you invest in a really well-managed oil company or oil field services company with good technology, good management, a good research and development pipeline, if you invest in them at the right price and give them the capital cushion to survive through this cycle, then we think that positive things will happen both to our investment returns and to the company itself.

Dr. Turner: I just want to follow up on that. Actually, I'm really interested in what you are talking about in terms of your assessment of the management. That management, as I understand it, would be a very sophisticated group of individuals that has expertise in finance as well as in geophysics and probably in marketing and human relations and a whole bunch of things. Savanna has a board and a CEO and a president. Presumably, it does that managing. It's those folks that you are actually assessing, not what Savanna is doing at the coal face, right?

Mr. Uebelein: You know, we like to turn every stone over, so to a certain extent it is analyzing the balance sheet, the P&L, the cash flows, the quality of management. You have to appreciate that when we make these big, chunky investments in highly structured transactions with potentially limited liquidity, there's no stone that goes unturned. We may spend months and hundreds of thousands of dollars doing our due diligence before we make that commitment.

Dr. Turner: One final supplemental.

Mr. Uebelein: So it isn't an either/or; it's probably both.

Dr. Turner: Right. I understand that, but what I'm impressed with is that there are folks that the company has that would do the things that Mr. Cyr might have asked about there.

Can I just turn to maybe inquire about the other companies that you've invested in under the growth mandate? There's Calfrac and Savanna that I'm aware of that are in the drilling business, if you wish, the energy business. What about the other companies?

Mr. Uebelein: I will defer to my chief investment officer.

Mr. MacMaster: Yeah. There's Savanna Energy, Calfrac, Pine Cliff Energy, Journey. You know, similar theme again: good quality assets, good management, distressed prices, where it wouldn't take much for us to earn a significant return, and largely in the energy field in various ways. Some exploration, some drilling, some services:

that's the theme. I might suggest, if I might be so bold, that if you're that interested in drilling down on these companies to the level of interest that you have, we could bring our resident portfolio manager to discuss them at length if that's what you choose.

Dr. Turner: All right. Thank you very much. It's good information.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you. Was Savanna in insolvency when you had purchased the shares?

Mr. Uebelein: No, sir.

Mr. Cyr: Was, I guess, Savanna in creditor protection?

Mr. Uebelein: No, sir.

Mr. Cyr: Did we, out of this \$45.7 million, buy debt in that, or is that all shares?

Mr. Uebelein: No. These are structured transactions. What we're trying to construct, I think, as Dale intimated, are transactions which give AIMCo downside protection, to be sure – that's why debt rather than pure equity is one component of this – but with upside potential. Usually we call that an equity kicker or warrants that are attached to the debt. But the debt terms are also typically of a sort that do give the company and management enough breathing room, if you will, so that they can see through the cycle. It's a very considered structured transaction typically, like this, and that's doable because it's privately negotiated. This would not be the sort of security that you would ever find quoted on an exchange because it's very customized, but it is technically debt.

Mr. MacMaster: Sorry. I might just add, too, that in all these cases we're making these investments on behalf of all of our clients because they meet the criteria of highest risk-adjusted return that we see across the global landscape. In this case there was a \$45 million investment for the heritage fund, but it was \$220 million across all the assets, just as there is close to \$9 billion invested in Alberta across the \$95 billion that AIMCo manages on behalf of its clients. So it goes quite, you know, a ways beyond the 3 per cent that the heritage fund is allocated. I'd just like to remind . . .

Mr. Uebelein: There's a multiplier effect to this that is actually quite exciting.

Mr. MacMaster: Yeah.

The Chair: Mrs. Schreiner.

Mrs. Schreiner: Thank you, Mr. Chair. At a previous meeting of this committee we asked Mr. MacMaster to provide a sense of what's going on globally in the investment landscape, and I found his remarks very interesting. I'm wondering if Mr. MacMaster could update us on his outlook for North America, Europe, Asia, South America, and Africa. I realize that this might take a bit of time, but I think Albertans would like to hear from the chief investment officer on his view of the world.

Thank you.

Mr. MacMaster: If you could send me these questions in advance, that'd be great.

Well, I touched a little bit on this. Maybe I can elaborate a little bit more. You know, we're eight years post credit crisis. Let's start with North America. It's pretty clear that U.S. growth is gaining

momentum. We see and have seen the unemployment rate continue to drop for a number of years now, an average of somewhere around 200,000 new jobs per month. Housing prices are back to precrisis levels. Manufacturing, consumer confidence, retail sales, all the basic economic indicators are pointing to a fairly robust recovery. While it's been slow in coming, it seems to be gaining momentum, and this is why you see the U.S. Federal Reserve starting to put on the brakes and normalize rates and move interest rates higher. That's the landscape, in a nutshell, in the U.S.: a slow recovery but a more elongated recovery than we've seen in the post-Second World War period, but here we are.

7:40

For Canada it's a different dynamic. Canada has experienced much weaker growth, in part due to, you know, commodity prices, in particular energy, that have suffered the last couple of years. While the U.S. and Canadian monetary policies typically are linked, in this case they are diverging and will likely continue to diverge as Canada experiences slower economic growth than the U.S. In fact, the central bank in Canada has been talking about lowering rates. We've seen that in the last number of months. So I don't expect any interest rate increases in Canada this year while I expect one certainly this month in the U.S. and probably a couple more as we move through the rest of the year. What does that mean for markets? Well, it means bond yields will diverge somewhat, and that has implications for how we manage the portfolio.

I think the central bank in Canada has been most concerned with the lack of capital investment, investment in business, and that's been a factor in the U.S. that's been lagging as well. It seems like corporations have been slow to invest in their business because they've been uncertain about the economic future, and that continues to be the case in Canada, perhaps less so in the U.S.

So Canada and U.S., the message there: the economies are diverging; monetary policies are diverging as well. I am slightly more hopeful this year on Canada than last year in large part because energy prices have stabilized at higher prices than the \$30 we saw at the low, and that's good. Also, some of the other commodities have rebounded. Certainly, if the U.S. continues to grow, Canada should benefit somewhat from that, but it will be at a lower pace. So that's North America.

Europe, you know, was a couple of degrees behind North America, I think, in how it's moved through the credit crisis and the recovery. I think in Europe you'll continue to see the removal of stimulus there as their economy continues to grow. But there are a couple of uncertainties in Europe that we need to think about, and one of them is the lingering residue of Brexit and what that means. That has not resolved itself yet. It appears that Prime Minister May is taking a harder stance on that item, and there could be additional fallout. It's creating uncertainty in certain parts of the business climate in the U.K., so we'll watch that very carefully. The other part of that is: are there other countries in Europe that could potentially, you know, threaten to leave the EU? That's on the radar as well.

While we're hopeful for better economic growth than we've seen in Europe, there are definitely some risks on the horizon. We have a couple of key elections coming up – one of them is in France and in Germany as well – so we'll be watching those carefully.

When we get to the emerging markets, in general we're not too favourable on the emerging markets today. While they appear cheap, cheaper than they've been, there are a number of concerns. One of them is around, obviously, free trade. Emerging markets tend to depend quite heavily on a global trade system, and to the extent that we have more trade barriers, that should hurt them. Also, the U.S. dollar has been in a rising environment. It's raising interest

rates where everybody else has been easing, so, you know, funds are attracted to the U.S., driving the currency higher. That typically is not a good period for emerging markets, so we think they'll continue to struggle.

Africa: I really don't have any comments there because we consider Africa a frontier market. We really don't invest there. We're looking for rule of law, a stable business environment, and that's probably a risk we're not considering today.

The Chair: Good. Thank you.

Are there any other questions at this time? Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. I'm back onto the Savanna website here. I see that they've actually got – I don't know. It looks like in western Canada we've got somewhere around a hundred rigs, something like that. Most of them look like they're probably centred in Alberta. My question is: according to this you made your purchase of the debt in December. Is that correct?

Mr. MacMaster: December 13.

Mr. Cyr: December 13.

Sorry. Mr. Chair, is it okay if I follow up?

The Chair: Yeah.

Mr. Cyr: I'm sure you must have known the rig count that was active before December 13. Can you tell me what it was before you purchased the debt and after you purchased the debt?

Mr. Uebelein: No. I'm afraid it's not top of mind. We can provide you with answers to that later. We bring a lot of stuff on our iPads, but that's not one them.

Mr. MacMaster: You probably know more, being on the website there, than I do what it is right now.

Mr. Uebelein: I apologize.

Mr. Cyr: I don't expect you to have all of the answers.

Now, I think it is a coincidence that we've got a new framework that is going to come out for drilling, and we suddenly invest a significant portion into a – is this a medium-sized company? I don't know what are a lot of rigs and not, unfortunately. But I do actually see that a lot of the rigs in my area aren't working. They're sitting in yards right now.

Mr. MacMaster: Is there a question?

Mr. Cyr: The question is: did the framework that came out influence the decision on purchasing this company?

Mr. MacMaster: Not as far as I know.

Mr. Uebelein: What I can tell you is that we don't have any inside information around when a framework is going to be made or when it may be changed. We try to take any information we have into account when we're evaluating what we think a company is worth in the future. So we wouldn't have ignored any of the recent legislation, but I can tell you categorically that we don't have any inside information. We use what's publicly available to make that determination.

Mr. MacMaster: On the thesis of that, too, let's remember, you know, that they're in Australia, they're in the U.S., they're in Canada. To the extent they're providing services and there's no drilling in Canada, well, shift the business to Australia.

Mr. Cyr: Thank you for that answer.

The Chair: Mr. Horne.

Mr. Horne: Yeah. I've been interested to see that several of the Canadian public investment agencies have been making a lot of movement into the infrastructure space. So I was wondering if AIMCo could provide some insight to the committee and to all Albertans about that strategy.

Mr. MacMaster: We've been very busy in infrastructure investing for a number of reasons. This is true for the heritage fund. It's true for the pension funds we manage money for. Infrastructure tends to be a very attractive asset for long-term clients who are looking for, you know, a risk in return that resides somewhere between fixed income and equities supported by good-quality assets. Our clients are very fond of the asset class. We are very fond of the asset class. As such, you know, our clients have been selling fixed-income and equity securities over the last number of years and moving to a greater degree into infrastructure.

When I started with AIMCo a number of years ago, we had less than a billion dollars. Today we have over 5 and half billion dollars, and that continues to grow. We're also adding resources to the team in order to look at more opportunities. Despite what you read in the paper about, you know, asset classes being frothy in terms of pricing, we have a well-established, experienced team that continues to source and find high-quality transactions that we think are supergreat for our clients. I can tell you that the pipeline is really robust, and we're seeing opportunities all around the world, but I would say more so in North America, which is a bit of a surprise because, like, 10 years ago we were looking at places like Chile and Spain. We're actually seeing a lot more opportunities in our own backyard, so we're pretty pleased.

Mr. Horne: Yeah. Is there any particular reason you believe that the infrastructure investments are doing so well right now?

Mr. MacMaster: Well, you know, let's face it. Part of the reason why all asset prices have moved higher is because of lower rates. When you lower the discount rate that's used to value any of these long-term assets that have cash flows, it inflates the asset value, right? So that's been part of it.

You know, when we target these types of investors, we're looking at 7, 8, 9 per cent returns. As long as we hold them, which might be 10, 20, 30 years, or forever, there could be mark to market pricing adjustments. But we feel quite assured that we'll get that 7 or 8 or 9 per cent return. In today's environment, with interest rates at 1 and one-half per cent and stock markets, as I mentioned earlier, being fully valued, we think that's a pretty good place to be.

7:50

Mr. Horne: Yeah. Definitely great numbers.

I was wondering, along similar lines, if you could perhaps shed a bit of light into the infrastructure deal, the recent one in Chile. I understand that it was rather positive.

Mr. MacMaster: You mean our sale last year of the Chilean toll road?

Mr. Horne: Yes.

Mr. MacMaster: Yeah. I don't have all the details in front of me. It was an asset we bought many, many years ago with a partner. We were happy to hold this asset for a long period of time. It was generating great income and great returns. But our partner wanted to gain control of the asset and paid a significant premium over what

we thought even that it was probably worth. So when we see that type of bid, then we're going to act on it. It was a great return for our clients. It was a great win.

Mr. Horne: Okay. Thank you.

The Chair: Thank you.

Mr. Taylor.

Mr. Taylor: Thank you, Chair. My question is with regard to real estate and the real estate in Calgary. As we know, there's been quite a substantial amount of vacancies in the commercial real estate market in Calgary. How exposed are you to the Calgary real estate market, and how is that affecting your overall portfolio, with the real estate?

Mr. MacMaster: I don't know off the top of my head what our exposure is in Alberta, but suffice to say that, you know, it impacted performance last year and particularly the Calgary office, where vacancy rates have increased. So there have been valuation adjustments there. But, again, capital has departed, valuations are lower, and we're actively looking for opportunities. We're developing some property in the north end of Calgary, lands that we bought many, many years ago, that we're now putting into development, in large part because the cost of bringing that on is cheaper because labour is cheaper and the labour is available.

We had been overweight in the portfolio, overweight in Alberta and underweight in Quebec. We have a Canadian real estate benchmark which is reflective of the real estate exposure across the country, and while Alberta was growing for many, many years, that was great. Quebec wasn't growing as much. So, you know, that worked until we hit this recession in Alberta. This is the kind of thing you face in a portfolio. We're long-term believers in Alberta, and we'll continue to invest here. This is part of the cycle.

Mr. Taylor: Thank you.

The Chair: Thank you.

Any other questions? It seems that my list is empty at this point.

If there are no other questions, then I'll ask if a member would like to move that the committee receive the report for 2016-2017.

Mr. Dang: I would so move.

The Chair: Okay. Moved by Mr. Dang that the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2016-2017 third-quarter report on the Alberta heritage savings trust fund.

All in favour? Any opposed? That motion is carried.

On to item 5. Hon. members, Standing Order 55 requires the Standing Committee on the Alberta Heritage Savings Trust Fund to report to the Legislative Assembly as prescribed in the Alberta Heritage Savings Trust Fund Act. Section 6(4) of the act lays out the functions of the committee. The last time the committee tabled a report of its activities in the Assembly was March 14, 2016. Last week the committee clerk posted a draft of the report on the committee's activities to the committee's internal website. This draft report covers the activities of the committee from December '15 through to December '16, including motions passed by the committee and information related to the 2016 public meeting.

At this time I would like to open the floor to members that have any questions or comments about the draft report.

Apparently, you guys did a really good job. Thank you.

With that said, I would ask for somebody to move that we accept that report. Moved by Mr. Horne that

the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft report of the committee's activities for the period of December 2015 to December 2016.

All in favour? Any opposed? That is carried.

We will move on to other business. Mr. Cyr.

Mr. Cyr: Thank you, Mr. Chair. I'd like to move a motion. I have 10 copies for the committee if I can get them handed out so that everybody has them.

The Chair: Let's just carry on with this. Mr. Cyr, sorry. We're just discussing whether or not this committee has the authority to ask for that information from the Treasury Board. We can certainly ask questions here. We have Treasury Board here. We can also have a written submission, and they will provide a written answer.

Mr. Cyr: Well, I'd like to read this into the record, and then I will give an explanation of what I'm trying to do. Then can we do a discussion from that point? Would you be open to that?

The Chair: Well, it's not going to be read as a motion, though. That's what I'm telling you.

Mr. Cyr: We can read it in as a motion, though, and you can reject the motion, no?

The Chair: Yeah. Okay, Mr. Cyr. Go ahead. Read it as you'd like.

Mr. Cyr: I move that

the Standing Committee on the Alberta Heritage Savings Trust Savings Trust Fund request all documents from the Ministry of Treasury Board and Finance pertaining to the Minister of Finance's decision to repeal section 5 and section 6 of the Alberta Investment Management Corporation regulation and that the minister further provide the committee a written explanation of how this decision is to the benefit of Albertans and the heritage savings trust fund.

The Chair: Okay. I would like the opportunity for the Treasury Board to speak to this a bit. I know what you're asking for here, Mr. Cyr, but you're asking for a lot of documentation that I don't think is in scope within this committee at this time. In terms of the actual repealing of those sections, I would ask that the Treasury Board speak to that a bit.

Mr. Cyr: Do we not usually get a chance to at least explain what we're trying to intend? I believe that this motion does say a lot, but it would be nice to at least explain beyond what I'm trying to achieve here.

The Chair: Okay. Go ahead.

Mr. Cyr: Thank you, Mr. Chair. The Minister of Finance is headed down a path of breaching section 3(2) within the Alberta Heritage Savings Trust Fund Act.

3(2) When making investments, the Minister shall adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return that will enable the Heritage Fund to meet its objectives.

8:00

The repeal of sections 5 and 6 means that the Minister of Finance has removed the qualifications and, additionally, has effectively removed the ability for AIMCo to effectively manage the Alberta heritage trust fund. It appears that this entity is now under complete direction of the minister and can no longer call itself arm's length.

We have had many failed Alberta ventures in the past and ignored arm's length before that are now attributed to some of Alberta's worst failures.

Thank you, Mr. Chair.

The Chair: Okay. Thank you, Mr. Cyr. I do appreciate some of the clarification, and actually just letting people know what those sections were is helpful.

I'm going to ask for a five-minute break. Can we have somebody – yeah. All agreed for a five-minute break. We're just going to see if this is in scope, Mr. Cyr. That's all. We'll take five minutes. All agreed for a five-minute break? Thank you.

[The committee adjourned from 8:01 p.m. to 8:07 p.m.]

The Chair: I think we're back here. Thank you.

Mr. Cyr, we've had an opportunity to discuss this a bit, and I do not believe that your motion is within the scope of this committee. The reason why is that what you're – and I know that at the bottom of this motion it says, you know, how these decisions benefit the heritage savings trust fund. That's fine. But the core of this is that the decision is being made by the Treasury Board to AIMCo. I think that's what you're getting at. So I want to give you the opportunity to withdraw this motion and ask questions here of the Treasury Board about what you're asking in the motion. Also, you could ask for a written response.

Mr. Cyr: May I respond?

The Chair: Yes. Go ahead.

Mr. Cyr: I guess I disagree that this isn't in the mandate. If we go to the Alberta Heritage Savings Trust Fund Act and if we go to section 6:

- (c) to review after each fiscal year end the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled.

Are you there?

The Chair: Yeah. I'm reading it along with you, yeah.

Mr. Cyr: Okay. So by changing AIMCo's ability to manage the fund, we are no longer going to be able to move forward with the mission that has been given.

The Chair: Okay. I don't believe that's occurred, that it's changed the ability for AIMCo to manage it. I mean, where do you see that?

Mr. Cyr: Through repealing sections 5 and 6, which brought the ability for us to know that qualified people were managing our fund.

The Chair: Okay. The mission of the heritage fund, as told by AIMCo earlier, was to reach a certain target on our investments, and I think traditionally that's how that has been interpreted.

Mr. Cyr: Mr. Chair, I'm not understanding how there's any rationale to remove people with qualifications as a requirement to manage \$19 billion. How does that not affect the mission?

Mr. Dang: Mr. Chair, if I may.

The Chair: Go, Mr. Dang.

Mr. Dang: Thank you, Mr. Chair. I think I get the intent of Mr. Cyr's question here, and I'd be happy to say that maybe these questions should have been brought up earlier, when the opportunity to question Treasury Board and AIMCo officials was

open. I'd be perfectly open to saying that right now Mr. Cyr could also ask those questions to the officials that are with us today.

But I think there should be a ruling here on whether this motion is in or out of order at this point. In my opinion, Mr. Chair, I don't think it is in order. I think it is out of scope, and I think that we should move forward with that.

The Chair: All right. Mr. Dang, I do agree with that, and that is where I am heading with this.

That's why I gave you the opportunity to withdraw, Mr. Cyr. You have the opportunity – you have the Treasury Board right in front of you – to ask some questions. I don't believe that this motion is in scope. I am going to rule that it is out of scope at this point, and we will not be moving forward.

Mr. Cyr: Okay. Mr. Chair, can we ask if the Treasury would volunteer these documents to the committee, then?

The Chair: Well, I think you can ask questions, and they will respond. They can respond orally right now, or I'm sure they'll be more than happy to oblige you with a written response.

I don't want to put words in your mouth, but I'm sure that's fine.

Ms Rosen: We would be pleased to answer questions now and in writing if so desired.

Mr. Cyr: At this point I am very distressed to see that our Minister of Finance has made the decision of removing a nomination committee and qualification requirements to run a \$19 billion fund. Now, I would like to see what the Treasury Board has come up with for information or briefings, if you will, that they would provide to a minister to actually make that decision. This seems to be radical. In the end, we've seen this government starting to impose restrictions on where they can invest money, and now we're seeing them dictating who they want on the board of directors. So how can you maintain, Deputy Minister, that this is a third party, if you will, or an independent party?

Ms Rosen: I'd be pleased to respond to those questions. Section 5 that was removed from the act on qualifications and section 6 on the nominating committee were removed because they were redundant once the guidelines for public agency recruitment were actually resolved and made public. The qualifications piece that was removed spoke to the need for individuals appointed to the board having proven and demonstrable experience and expertise. The government of Alberta's agency recruitment and appointments principles at this point of time speak to competency and say that "selection is based on a skill set that meets the needs and nature of the organization" so that the agency has directors who together have "the competencies to implement good governance practices and meet the . . . agency's mandate."

If you actually look at the publicly available guidebook for appointments to Alberta's public agencies with respect to the nominating committee, it actually replicates to a great extent what was in section 6 of the regulation. So the whole reason that sections 5 and 6 were removed was because they became redundant with the new Public Agency Secretariat approach to appointments for public agencies that now apply not only just for AIMCo but for all public agencies. It was done solely so that there would not be confusion with respect to having, I guess, these guidelines in more than one place.

So anybody who believes that the standard has been lowered, I would suggest that you can actually go to the province's website, go to public agencies, go to governance, and look at the guidelines and the principles around recruitment and appointments. You will

find that competency is the first thing that is talked about and that it is absolutely required.

8:15

With respect to the comment about government having an impact on investment decisions, I can only assume, members here, that you're actually talking about the Alberta growth mandate. As Mr. Uebelein indicated strongly, the first principle with respect to fulfilling that mandate still remains what's in the best long-term interests of the fund from a return perspective, and then emphasizes, secondarily, what can be done in Alberta.

The principle that AIMCo is a Crown corporation who has operational independence as it relates to investments has not changed one iota. The practical application with respect to recruitment and selection has not changed either. The guidelines are just showing up in a different space. That was done, quite frankly, more to promote consistent practice for all public agencies than it was to do with AIMCo. I'd be pleased to provide you with the guideline documents, et cetera. But the only documentation with respect to removing these is the actual piece that went to cabinet because it was a cabinet decision to rescind these two clauses, and the discussion just centred around and rationale provided was just about redundancy.

The Chair: Mr. Cyr.

Mr. Cyr: Thank you. I watch the orders go through very closely. You can correct me if I'm wrong, but isn't AIMCo the only one that you had repealed sections of the act?

Ms Rosen: We were the only one that had these specific sections in their regulation.

Mr. Uebelein: May I speak to this topic?

The Chair: Absolutely.

Mr. Uebelein: Thank you, Chair. I'd just like to say that these recent changes to the AIMCo regulation actually did come as a surprise to us and, frankly, not a welcome surprise. I should preface what I'm saying by saying that I have a huge respect for Lorna and her staff. We have an excellent working relationship, and we're working through this. This is not a difference that I have with Lorna or her hard-working staff. But I would like to say that AIMCo takes intense pride in what we're doing and on two cornerstone elements of what we're doing, and that is, as we've talked about in many of these quarterly meetings, our independence of decision-making, operational independence, and the second is that we believe that we have, really, a best-in-class governance structure.

When we look at the changes that are reflected by eliminating sections 5 and 6, we respectfully disagree that this is an improvement in our governance. We think we have a really good governance structure. I've voiced this opinion with Lorna. Lorna and I continue to talk about it. My chair and our board are talking about it with the minister. So we continue to have this conversation. This is something that we don't take lightly. But I do want to reinforce that at present our independence in investment decision-making, as I think I reassure you at every quarterly meeting, has not been encumbered in any way. But we view these two as sort of sacred cornerstones in how we do our business. We continue to have dialogue.

The Chair: Dr. Turner.

Dr. Turner: Thank you, Chair. You know, I've been listening to this, and I think that what needs to be re-emphasized – certainly, I

don't need to have it re-emphasized to me – is that there is a distinction between the Treasury Board and AIMCo here. This committee and Treasury Board have mandated AIMCo on behalf of the heritage trust fund to manage our money to get a certain return. We rely on the very competent individuals that are here as well as all the staff of the investment board of AIMCo to do that.

I think what might be important is to have some sort of comments, maybe, just on two recent appointments to the board, which I've been very impressed with. One of them is Ms Phyllis Clark, who was the vice-president, finance, of the University of Alberta. She's on the board of the Bank of Canada as well as several other entities, a very competent board member.

Then I wonder if you'd talk about and maybe give us some idea of the competence of Dr. Kroner from BlackRock investments, who, I understand, has a major Alberta connection and has agreed to join the board. He's one of the top investment analyst managers in the world.

Mr. Uebelein: Dr. Kroner grew up in Sherwood Park. He hasn't lived there in a while. He calls San Francisco home now.

We are very proud of our entire board, including the latest two additions to the board. I think the simple point that I wanted to make was that we believe fervently that our process, that is the process that led us to both Phyllis and Ken Kroner, is not broken and is not being improved upon. We're having just an open, honest conversation about that with government. We understand that there may be other ABCs that vitally needed to have enhanced guidelines, and we, respectfully, don't think that we're one of them.

Dr. Turner: If I might suggest that I think we should get a report on this maybe six months from now to see how things are going rather than going on a fishing expedition right now.

Mr. Uebelein: I would just like to leave you with one anecdote because at a recent ICD conference – ICD is the Institute of Corporate Directors – Mark Wiseman, while he was still the CEO of CPPIB, speaking about the importance of governance, actually went on record as saying that he felt that the board of AIMCo was probably the best-quality board of all of the peers in Canada, so that includes CPPIB, Ontario Teachers', OMERS, et cetera, et cetera. We wore that comment like a badge of honour, and we're so proud of that. That's why a surprise like this is something that we have to discuss seriously.

But I want to just be on the record as saying that it has not impinged on our investment decision-making autonomy.

The Chair: Mr. Ellis.

Mr. Ellis: Thank you, Chair. Just a question here. The appointment of Ms Clark and Dr. Kroner, as noted by Dr. Turner: were these appointments made prior to the legislative change or after the legislative change?

Ms Rosen: I think the thing that was most important previously and now is who makes those appointments, and that hasn't changed at all because the person who makes those appointments or recommends those appointments to cabinet is the minister. The section that was removed, section 6, basically said that the minister shall establish a nominating committee. So it's actually just about what the minister's responsibilities are with respect to the recruitment and appointment of people to the AIMCo board, and government has chosen to take it out of this regulation and to put it into a different place.

I understand Mr. Uebelein's reservations with respect to how that new process will work for them when they had a process, a long-

standing process, in regulation that worked very well for them. And it worked very well for them because the minister was actually invested in recommending to cabinet the best possible candidates that were brought forward by AIMCo. He's still invested in that.

But, certainly, we can provide any other information that you might like to have.

8:25

The Chair: Thank you.

Mr. Taylor.

Mr. Taylor: Yeah. Thank you, Mr. Chair. I have a question for you. Basically, I have to ask a question first. You said that competency is a requirement. It had a metric in there before that showed what that competency level was, and it seems to have gone out with this new regulation. You also said that you have a document that says that nothing in the mandate has changed. Can you provide us with that document?

Ms Rosen: Nothing in the mandate? I apologize. I'm not sure that that's what I said, Mr. Taylor.

Mr. Taylor: Okay. How about: nothing in AIMCo's ability to do their job has changed.

Ms Rosen: I would stand by that.

Mr. Taylor: If you have a document that says that, can you provide that document?

Ms Rosen: You can get it off the government's website, or, yes, I can provide it to the committee. That would be no problem at all, in terms of the recruitment process if that's what we're discussing.

Mr. Taylor: Yeah. If you could provide it to the committee, yes.

Ms Rosen: To the committee? I'd be pleased to do that.

The Chair: That would be great. Thank you.

Dr. Turner.

Dr. Turner: Thank you. I actually think it was Mr. Uebelein that said that nothing had changed in the mandate, as I recall.

You know, I think we're spending a lot of time talking about this, and I think it would be useful to have – we've talked about the qualifications of the two most recent appointees, whose terms, I believe, are several years long, so it'll be some time before they're replaced. Perhaps you could list the other members of the board and their terms, and I have their names here if you need some help. Give us some idea about the terms of appointment of these folks. Mac Van Wielingen is the chair. Jim Prieur, Harold Roozen, Andrea Rosen, Helen Kearns, Tom Woods: is that a comprehensive list?

Mr. Uebelein: We have 11 in total now. I won't be able to be absolutely precise, but I'll be pretty close.

Dr. Turner: Right. Give me some ballpark figures on it.

Mr. Uebelein: Two of our founding members of the board are Mac Van Wielingen, who's the chair, and Andrea Rosen, who's currently the chair of our Governance Committee and whose final term with no further renewals – that basically means nine-plus years of service – will be completed later this year. Those are two that will be rolling off and that we are actively working on finding replacements for.

We have four further board members whose three-year or, in one case, one-and-a-half-year terms are coming up this calendar year

and with whom we will need to go through a process of either renewing or not renewing. That really leaves us to the need, depending on how you think about renewals, for either two or six board seats in the remainder of this calendar year. Those four are Ross Grieve, who's the current chair of our Human Resources and Compensation Committee; Tom Woods, who only had a one-and-a-half-year initial term and who sits on our Audit Committee but is not the chair; Richard Bird, who is the chair of the Audit Committee, which, by the way, I think is one of the hardest committees to chair, maybe second only to the Investment Committee; and I think the fourth is Harold Roozen, who also sits on the Audit Committee and on the Governance Committee but doesn't chair any of those.

Dr. Turner: I would go back to my previous suggestion that we might revisit this at a subsequent meeting of this committee to see how this process has gone. As I understand it, there are ongoing discussions between the ministry and your office, Mr. Uebelein. I think that might be the best outcome of this discussion tonight.

The Chair: Dr. Turner, I'm just going to interject here for a second. We are almost out of time here. It's 8:30 now – we are out of time – so in order to go forward, we need to vote on extending past 8:30. All in favour? Any opposed? Okay. We will continue.

If we can get back to focus on the fund, that would be very helpful. I do agree with Dr. Turner in some degree here that, you know, these things can be answered later through written responses as well. It is very new at this point as well. There have been a lot of good points on both sides. I absolutely agree.

Mr. Ellis, we had Mr. Dang first.

Mr. Ellis: Sure.

Mr. Dang: Thank you, Mr. Chair. I guess, back to Dr. Turner's point a little bit, I'm wondering if perhaps the officials or the deputy minister could give us – the seven names that Dr. Turner listed off, I believe, were all appointments and/or reappointments done under this government. I was just wondering whether you could list some of the credentials that these people have, whether you could explain how they may or may not be qualified for these roles and whether those qualifications contribute to the board as a whole.

Ms Rosen: I cannot provide that degree of detail with respect to the board members, but I'm sure that Mr. Uebelein could.

Mr. Uebelein: I'm mindful of the fact that we're out of time, but I could wax lyrical on my board for quite some time.

Mr. Dang: Sorry. I guess I . . .

The Chair: Is that something that you're seeking an answer on this evening?

Mr. Dang: Yeah, perhaps back in writing. But I guess just briefly between us today maybe you could just – you have full confidence in all of them?

Mr. Uebelein: Well, first off, to save time, we are an extremely transparent organization. I would invite you to visit the AIMCo website, where there are biographies of every one of our board members. I am extremely proud of the calibre of every one of them.

Mr. Dang: For sure. I guess my question would just be, then: could we get that back in writing, perhaps just a simple printout for all of the members on this committee, for their benefit?

Thank you.

The Chair: Thank you.

We had Mr. Ellis.

Mr. Ellis: Thank you, Chair. I think to your point, because you had previously mentioned that there are good points on both sides, you know, I think it's certainly worth further discussion. Would it be possible to ask the minister to attend here to explain the rationale for the decision-making regarding the removal of sections 5 and 6?

The Chair: So the question . . .

Mr. Ellis: As an invitation?

The Chair: He has a standing invitation here, I believe. We can try to . . .

Mr. Ellis: Could we make a personal request?

The Chair: Am I incorrect to say that he has a standing . . .

Mr. Roth: It's to the ministry.

The Chair: It's to the ministry.

Okay. We could direct an invitation. Absolutely.

Mr. Ellis: Thank you.

The Chair: Ms McKitrick.

Ms McKitrick: Well, thank you, Mr. Chair. So I did go. I took the time, and I did go to your website, and I did look up the biographies of all the appointments that have been made and so on. I have to say that it's really, really impressive. I really appreciate the fact that you have a number of women on the board – that shows leadership – and your commitment to diversity.

Dr. Turner: On International Women's Day.

Ms McKitrick: Yeah, on International Women's Day. I knew I had to put it somewhere in this meeting.

Also, the diversity of experience. I noticed you have some people in banking and others that have run their own companies and so on. When I look at this, I'm starting to understand, you know, that you have not only incredibly capable staff, but you also have a board that brings a wealth of experience to AIMCo. I would like to encourage everyone, the members or people listening to us or watching us on the website or whatever, to go to the website of AIMCo and to look at it to see who is on your board and who is your senior manager. I think you have an impressive number of persons.

Thank you.

Mr. Uebelein: Thank you.

The Chair: Are there any other questions at this time? Okay. We've got Mr. Cyr, followed by Mr. Taylor.

Mr. Cyr: Okay. I'd be interested, from AIMCo's point of view, in the differences between the two systems that you are using to get your candidates now or your nominees. Could you submit that in . . .

The Chair: Mr. Cyr, can we direct this towards the heritage savings trust fund? I'm sorry. It's getting late, and that is absolutely the mandate of this committee, the heritage savings trust fund. If you could at least frame it to get it towards the heritage savings trust fund, I'd really appreciate that.

Mr. Cyr: So when you are getting direction from your board of directors, I would like to understand exactly how it is that you searched for your board before and after.

8:35

An Hon. Member: Relevance?

Mr. Cyr: It's absolutely relevant. This is \$19 billion that we're talking about.

The Chair: Absolutely. Your question was about the search for the board members before and after the changes to the regulations?

Mr. Cyr: When they repealed sections 5 and 6.

Mr. Uebelein: This may be something that's better for us to compose something written.

I would just say that the repeal was on February 15, so there have been no . . .

The Chair: Well, that was going to be my point, too. I mean, it's been five minutes, really, Mr. Cyr.

Mr. Uebelein: So there have been no new board members since February 15. But I think a more measured response, that we might jointly prepare, might be – I defer to the chair.

The Chair: Yeah. I agree with you. Would a written response suffice for you?

Mr. Cyr: That's what I was asking for, Mr. Chair.

The Chair: Okay. Thank you.

Mr. Taylor: I'm sorry. My question would probably be towards what you're asking us not to direct it at right now. I must say that I am disappointed with this direction. I can go on record for that, but I'll leave it at that.

The Chair: Thank you.

Okay. For the date of the next meeting we'll send out a poll to all the committee members.

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

Mr. Dang: I would so move.

The Chair: Mr. Dang moved that the March 8, 2017, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adjourned. All in favour? Any opposed?

Thank you. Meeting adjourned.

[The committee adjourned at 8:37 p.m.]

