Legislative Assembly of Alberta

The 29th Legislature
Fourth Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Wednesday, June 20, 2018
1 p.m.

Transcript No. 29-4-2

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

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

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

Cyr, Scott J., Bonnyville-Cold Lake (UCP)
Dang, Thomas, Edmonton-South West (NDP)
Ellis, Mike, Calgary-West (UCP)
Horne, Trevor A.R., Spruce Grove-St. Albert (NDP)
Luff, Robyn, Calgary-East (NDP)
McKitrick, Annie, Sherwood Park (NDP)*
McPherson, Karen M., Calgary-Mackay-Nose Hill (AP)
Turner, Dr. A. Robert, Edmonton-Whitemud (NDP)

* substitution for Kim Schreiner

**Office of the Auditor General Participants**

| | |
|---|---|
| W. Doug Wylie | Auditor General |
| Brad Ireland | Assistant Auditor General |
| Nelson Robe-From | Principal |

**Support Staff**

| | |
|---|---|
| Robert H. Reynolds, QC | Clerk |
| Shannon Dean | Law Clerk and Director of House Services |
| Stephanie LeBlanc | Senior Parliamentary Counsel |
| Trafton Koenig | 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 |
| Jeanette Dotimas | Communications Consultant |
| Tracey Sales | Communications Consultant |
| Danielle Antoniuk | Communications Officer |
| Janet Schwegel | Managing Editor of *Alberta Hansard* |

**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

Alberta Investment Management Corporation
- Dale MacMaster, Chief Investment Officer
- Mark Prefontaine, Senior Vice-president, Client Relations

**1 p.m.** **Wednesday, June 20, 2018**

[Mr. Coolahan in the chair]

**The Chair:** Good afternoon, everyone. I'd like to call this meeting of the Alberta Heritage Savings Trust Fund Committee to order.

My name is Craig Coolahan. I am the MLA for Calgary-Klein and chair of this committee. We'll begin with introductions, first, at the table. Then I'll call your name on the phone, please, to avoid confusion. We'll start at my very far right, please.

**Mr. Prefontaine:** Mark Prefontaine, AIMCo.

**Mr. MacMaster:** Dale MacMaster, AIMCo.

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

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

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

**Mr. Wylie:** Doug Wylie, Auditor General.

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

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

**Mr. Dang:** Thomas Dang, Edmonton-South West.

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

**Ms Antoniuk:** Danielle Antoniuk, LAO communications.

**Mr. Koenig:** Good afternoon. I'm Trafton Koenig from the Parliamentary Counsel office.

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

**Mrs. Sawchuk:** Karen Sawchuk, committee clerk.

**The Chair:** Great. Thank you.

We'll go to the phones, starting with Mr. Ellis.

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

**The Chair:** Mr. Cyr.

**Mr. Cyr:** Scott Cyr, the MLA for Bonnyville-Cold Lake.

**The Chair:** Member McPherson.

**Ms McPherson:** Karen McPherson, MLA for Calgary-Mackay-Nose Hill.

**The Chair:** Ms Luff.

**Ms Luff:** Robyn Luff, MLA for Calgary-East.

**The Chair:** Ms McKitrick.

**Ms McKitrick:** Bon après-midi. Annie McKitrick, MLA, Sherwood Park.

**The Chair:** Great. For the record Ms McKitrick is the substitute for Mrs. Schreiner.

Before we begin the business at hand, a few operational items. Please note that the microphones are operated by *Hansard* and that the committee proceedings are being live streamed on the Internet and broadcast on Alberta Assembly TV. Please set your cellphones and all other devices to silent for the duration of this meeting.

The first item on the agenda is approval of the agenda. Would anyone like to move approval of the agenda?

**Mr. Horne:** I would so move.

**The Chair:** Okay. Dr. Turner.

**Mr. Horne:** I was before him.

**The Chair:** He had his hand up first.

Dr. Turner moves that the agenda for the June 20, 2018, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour in the room? Any opposed? On the phone? Any opposed? That motion is carried.

The next item is the approval of the minutes from March 21, 2018. Would anybody like to move that we accept these meeting minutes? Mr. Horne. Mr. Horne moves that the minutes for the March 21, 2018, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as circulated. All in favour? On the phone? Any opposed? Hearing none, that motion is carried.

The next item is the heart of the matter here today, I guess, the Alberta heritage savings trust fund draft annual report. Members, a revised draft of the 2017-2018 annual report of the Alberta heritage savings trust fund was distributed to committee members on June 19, 2018. Members are reminded that this draft report is confidential. Once it is approved by the committee, final copies will be printed by Treasury Board and Finance, and copies will be distributed to all MLAs by the chair. As per section 16(2) of the Alberta Heritage Savings Trust Fund Act the annual report must be approved by the committee and distributed to all members by June 30.

Now I would like to invite Lowell Epp and Rod Babineau, followed by Dale MacMaster and Mark Prefontaine, to provide an overview of the annual report, and then they will take questions. Who would like to start?

**Mr. Epp:** I will start. Thank you, Mr. Chair and members of the committee. Minister Ceci is unable to make it here today and sends his regrets. I'm pleased to speak on his behalf and on behalf of the department and to seek approval of the Alberta heritage savings trust fund 2017-18 annual report.

I will spend a few minutes going over some of the highlights of the report and then ask my colleagues from AIMCo to speak about the fund's results from their perspective and to provide some commentary on what they see happening in the markets.

As you all know, the legislated objective for the heritage fund is to maximize the long-term investment returns for the fund within a prudent level of risk. This past year the heritage fund provided a return of 8.5 per cent. The fund's equity investments, which make up approximately half of the fund's total investment, returned 8.7 per cent during the year. Inflation-sensitive assets returned 11 and a half per cent for the year, and fixed income returned 1.9 per cent.

The fund, which is evaluated on its achievement of long-term objectives, continues to exceed those objectives, with a five-year annualized rate of return of 10.4 per cent and a 10-year rate of return of 7.7 per cent. The objective of the fund is to earn a return equal to the consumer price index plus 4 and a half per cent. CPI plus 4 and a half per cent for the five- and 10-year periods was 6.1 per cent and 6.2 per cent respectively, which the fund outperformed. When measured against its investment benchmark, the fund outperformed by .9 per cent and .5 per cent for the five- and 10-year periods respectively. The goal is to outperform the benchmark by 1 per cent over the long run.

The heritage fund had a fair value of $17.4 billion as of March 31, 2018, and provided $1.8 billion in income to the province. Of that amount, $230 million was retained to inflation-proof the fund. Investment expenses for the year were $139 million.

As of March 31, 2018, the heritage fund's portfolio was allocated 42.8 per cent in equities, 37.6 per cent in inflation-sensitive and alternatives, 18.5 per cent in fixed income, and, finally, 1.1 per cent in overlays.

Finally, I would like to provide an update on 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 AIMCo has made investments in 20 separate companies, for a total of $362 million. AIMCo manages the day-to-day investment decisions of the heritage fund independent from government, and decisions about investments are made within that scope. Investments that fit into the Alberta growth mandate must also meet the heritage fund's legislated 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, Mr. Epp.

We'll move on to AIMCo.

**Mr. MacMaster:** Okay. I'll kick it off. Maybe I could ask you to turn your attention to page 14 of the report. I'll just go through some of the numbers. There are a couple of tables on that page that are useful for understanding the performance of the heritage fund. In the top table you can see the one-year, last year, and also the five-year and 10-year results.

There are a couple of observations I'd like to make. At the top left of that table you can see that the one-year return was 8 and a half compared to the benchmark return of 7.1 per cent, so that difference of 1.4 per cent was the value that AIMCo was able to achieve over and above the passive benchmark return. I would also point out that this is above the long-term target of the heritage fund, which is CPI plus 4 and a half. For the one-year period that was 6.6, so the 8 and a half per cent return was also above the active return of 1 per cent over the passive benchmark. In conclusion, this was a good year both in terms of absolute return and relative return.

As you move to the right in the table, you can see that the 2016-17 return was also strong and then, moving again to the right, the five- and 10-year returns, which I think are most important because you often hear us talk about being long-term investors, and certainly the objective of the heritage fund is for long-term positive returns. The five-year period return was 10.4 per cent versus the passive benchmark return of 9 and a half, again well above the long-term target of the fund of 6.1 per cent. The 10-year return, at the far right of the table, shows a similar sort of relative results in the fact that AIMCo was able to achieve returns above the target.

I think that what's most notable about the 10-year number, though, today is that it does include the dreadful effects of the credit crisis of 2008 and 2009, showing that over the 10-year period, looking back, we still achieved, you know, an absolute return and a positive relative return. I think it highlights a fundamental fact about investing that investors sometimes struggle with, and that is the fact that markets very often go up and down, sometimes in a quite volatile way that shakes investors' ability to focus on the long term. I think what we see here is a good example of setting a long-term asset mix and just letting it ride for the course of time, and the results speak to that.

***1:10***

If you can turn your attention for a moment to the bottom table, this table shows the relative return and absolute return of each of the products through the asset mix. I think what I'd leave you with here is that almost every product through the piece is at a value over the benchmark for all of these periods of time.

Maybe now I'll just make a few comments about the environment last year, the investing landscape. It was a surprisingly strong year for investment returns as equity markets continue to build on what has been one of the longest bull markets in history. Many equity markets around the world saw returns of 15 to 30 per cent while government bonds posted positive single-digit returns, and riskier segments of the fixed-income market also enjoyed positive returns.

Underpinning the strong investment returns in 2017 was a foundation of steadily improving global economic fundamentals. Growth improved in most countries around the world, and the labour situation improved as well in North America and Europe. Despite the improvement in fundamentals, inflation pressures for the most part remained largely absent from the picture although they are creeping up a little bit now, driven in part by wage pressures, since labour markets are so tight, especially in the U.S., where we now have the unemployment rate at about 3.8 per cent, which is the lowest in 20 years.

With global growth gaining momentum, central banks, of course, started the process of removing stimulus from the marketplace, and that process is ongoing. Both the U.S. Federal Reserve and the Bank of Canada have raised rates three times over the past fiscal year, and more rate increases are expected.

Rising global growth continued to lift some commodity prices, notably oil, and oil prices continue to recover, driven both by growth over the last couple of years and supply restrictions on the part of OPEC, lifting WTI to $65 a barrel by the end of the fiscal year. That's U.S. $65.

I think the other point I'd like to make about 2017: despite that it was a good year for investment, it was also notable for distinct lack of volatility, with markets generally not moving down by more than 1 per cent on any given day, and that's somewhat unusual. That changed this year in the first calendar quarter with a correction that we experienced in February, where equity markets corrected by over 10 per cent. This was driven by concerns about rising inflation and trade fears, with the growing concern about tariffs on aluminum and steel. Markets also reacted to privacy issues around Facebook and took the social media stocks down, which were, quite frankly, market darlings for several years now. I think that we should expect more of this kind of volatility as we move through the year.

Canada – I'll make a few comments there – unfortunately has lagged most developed equity markets in terms of performance over the last year. We saw equity markets in Canada up about 2 per cent for the year ended March 31, 2018, while global equities were up roughly 12 per cent. Part of the reason for that is just the sector representation in Canada, with a pretty heavy weight towards energy, which was down 9 per cent, and materials – that's gold – down 5 per cent. Financials were up about 5 per cent. That's also a fairly heavy weight. Those were all big sectors in the benchmark, and that was responsible for the lower returns.

The stock market also probably reflects, in part, some of the challenges that we face here in Canada. We have debt-to-income levels around 170 per cent, and consumers are stretched. The housing market has also become a larger share of GDP, and the government has successfully legislated changes that are slowing the market there. There are plenty of concerns around trade issues even beyond steel and aluminum. We have the prospect of auto tariffs, which could be a significant impact, especially in the east, perhaps as much as 1 per cent of GDP, with over 130,000 workers involved in the auto industry. We also have corporate tax rates which are no longer lower than they are in the U.S. after corporate tax rates were lowered there. We have some questionable trade missions that didn't go so well in China and India. Of course, we have the unrelenting opposition to the Trans Mountain pipeline, which has focused global attention on our mixed messages on energy policy, approvals, and investment.

Maybe some forward-looking comments. I think Ontario, in particular, in Canada faces some challenges with a significant amount of debt. The rating agencies have downgraded the debt there. It faces the likelihood of higher taxes. Also, the imposition of tariffs on auto could really hurt Ontario. Quebec is faced with potential dairy challenges around changes in tariffs there. With that backdrop, we expect the Bank of Canada probably to lag the U.S. in terms of rate increases.

Despite our apprehension around all that, we do think it's possible for equity markets to continue to make gains although we would highlight, just in closing, that the three main risks we see for the markets today are the valuations that we see; the prospect of rising interest rates – every single, you know, bull market in equities since World War II has usually ended with rates being increased, slowing the economy and oftentimes sending the economies into recession – and, finally, trade. Those are the three main components.

Perhaps I'll leave it at that and take questions.

**The Chair:** Sure. Thank you.

We'll take questions from the table here first, and then we'll go to the phone. Anybody want to open up the questioning? Mr. Horne.

**Mr. Horne:** Yeah. Thank you. You know, I continue to be impressed by the hard work of AIMCo and how well they've been performing. According to the draft annual report, as you were touching on a bit, the 10-year annualized rate of return increased from 6.8 per cent last year to 7.7 per cent this year. You touched a little bit on it, but could you perhaps expand on what factors contributed to that increase?

**Mr. MacMaster:** Sure. I would say that the last few years in general for total returns have been surprisingly good. You know, interest rates probably went lower than most people thought after the credit crisis, so that lifted the valuations of fixed income. Interest rate increases have been moderate so far, allowing equity markets to continue to go higher, a pretty good performance from equities. Also, with the low rates that we have, of course, the discount rates are lower, and discount rates are used to value things like infrastructure and real estate. We had really good returns in real estate, both on a total return and a relative return basis, and infrastructure as well and timberland. So really right across the piece, absolute returns have been surprisingly good.

I've cautioned you before and I'll caution you again today that the forward look is not as rosy, right? I mean, if you just look at where interest rates are today, 2, 3 per cent, with the prospect of going higher only slowly, you know, a 10-year return on a bond is not going to be very good. As we saw in February with the correction we saw, as we do increase the rates – we're long into this bull market; it's the second-longest in history – we should expect more volatility. Ultimately, the business cycle will take hold, and we'll have some kind of a correction. So we really caution folks on that. Then if you are lifting interest rates, of course, those discount rates, which raise the value of your liquids, will go the other way and hurt you a little bit. We're managing the portfolio in a cautious manner, trying to manage our risk very carefully.

**Mr. Horne:** Yeah, of course. I also noticed, looking at the highlights, that there's been a shift in the asset mix as compared to 2017, where there were more assets that were sensitive to inflation and alternative investments. Perhaps you could explain to us why that shift occurred.

**Mr. MacMaster:** You guys want to talk about asset mix?

**Mr. Babineau:** Yeah, I can take that. It's two factors. The first factor is the growth rate in the inflation-sensitive and alternative investments. They increased by 11.5 per cent.

The second factor is that at the end of the fiscal year, legislation requires the transfer of the income to the general revenue fund. We can't necessarily ask AIMCo to go out and sell, you know, a real estate property because that takes a long time, so what we do is that we sell what we consider liquid assets, fixed income and equities. That income that was transferred was generated by the sale of equities and fixed income, so that lowers their allocation and thus decreases the denominator. Just the simple math creates a larger portion in the inflation-sensitive and alternatives.

***1:20***

**Mr. Horne:** Okay. Thank you.

**The Chair:** Thank you.

Mr. Dang.

**Mr. Dang:** Thank you, Mr. Chair. Yeah. Just mirroring my comments on my colleague Mr. Horne here, I think you continue to impress us with how well AIMCo is able to manage these finances.

I have a few questions here on our relationship with the U.S. administration and some of how that affects our investments and trade. The first question I'd like to ask. The latest Scotiabank report states that if the United States breaks all trade ties with Canada and Mexico, the Canadian economy can contract by 2 per cent. Could you speak to perhaps how AIMCo and the investment community at large have been trying to respond or predict the unpredictability, I guess?

**Mr. MacMaster:** Sure. Yeah. That's a big impact. I mean, I didn't hear it was that great. You know, this increasing ongoing theme around protectionism is not good for global growth. You see this in port activity and the trade numbers. There's lots of excess capacity in ports and shipping. A further move around trade between our biggest trading partner, the U.S., would be negative, right? So the impact isn't on individual investments per se. I would say that it's more macro. What that means for Canada is slower growth. The pace of interest rates would be a lot less, maybe even requiring an ease if we tumble into recession should the worst case happen.

But that's also not our base case, right? I mean, we have to remember that this is a negotiation. I think there's lots of posturing, and there's lots of poker playing. I think we saw some of that at the G7. This will be resolved. It's in the interests of the U.S., and we may not be the target. The target may be more Mexico and the NAFTA arrangement and also China, which is a more delicate negotiation. We think these things will be resolved ultimately. Now, whether or not, in the NAFTA negotiations, we end up, you know, worse or way worse, I don't know. It's hard to imagine we'll end up better. I think everyone has resigned themselves to the fact that we might lose a little there, maybe on dairy, but they will be resolved, and I think it'll be great relief, too, to the markets.

Now, the reason why I hold that view is because if you look at the markets, the markets are reacting a little bit to these trade headlines when they come out, but they're not, you know, falling out of bed completely. I think the market understands – all-knowing, right? – what's going on here and that ultimately it's in the interest of all parties to have well-functioning trade arrangements.

**Mr. Dang:** Sure.
Mr. Chair, just to be clear, I can ask a few questions?

**The Chair:** Go ahead.

**Mr. Dang:** Sure. Thank you. I guess I have two questions that are sort of related to each other coming up here. Now, the American administration has clearly decided to import some duties and tariffs on Canadian goods such as steel and aluminum. Now, are our investments impacted by those in significant ways?

**Mr. MacMaster:** I wouldn't say that they're impacted in significant ways because of the great diversification we have in the portfolio. We are not concentrated in areas that would have a meaningful impact because of these tariffs. I think, again, the greater impact might be on Canada relative to the rest of the world. In fact, if you look at the Canadian market, it's actually done better in the last few months. This isn't a one-dimensional issue when it comes to markets, right? There are a lot of factors at play. I'd caution you on just drilling on that. There will be sectors that'll be hurt. For instance, if autos get impacted, you know, there are certain companies like Magna, Linamar, and Martinrea that would be impacted, but even if you look at those stocks, I mean, Magna is close to its high of the last eight years.

**Mr. Dang:** Right.
I guess, following up on that in the same vein, then, the Canadian government has indicated that they are going to be doing retaliatory duties and tariffs, everything from yogourt to tablecloths. Have you assessed how those – I think they spread to a much broader realm. Will those have more of an impact?

**Mr. MacMaster:** Well, I don't think on tablecloths. I mean, I think dairy comes up as a target, and that's largely Quebec. That is holy ground for the Liberals. I don't have to tell you guys how that works. They're going to have to try and defend that. But, you know, there could be some issues there. Again, the market is interpreting this as something that will be negotiated, right? That's been the past, and we'll look to that final solution, I guess.

**Mr. Dang:** Yeah. That's reassuring to hear.
I guess, in that case my next question is still on this U.S. issue. I've noted that in the draft annual report, I think, on page 20, compared to last year anyway, there's just a bit more currency exposure for the U.S. dollar and less for the Canadian dollar. Is that going to be impacted or are we impacted ongoing by protectionist trade policies on that issue?

**Mr. MacMaster:** Well, your foreign currency exposure is going to be largely dictated by your asset mix. We hedge in most of the portfolios like infrastructure and real estate, except for the foreign real estate, you know, other than equities, where you have some currency exposure there. So the shifts in currency will be largely dictated by the asset mix.
Now, at AIMCo we also take tactical bets on sector, country, and also currency, and we've been a little bit overweight U.S. versus Canada just because we think that the Canadian dollar is going to struggle, probably, as it has in the last few years, will continue to struggle, as I highlighted earlier: you know, slower growth trajectory than the U.S., these impacts on trade potentially.
But it's not only the trade; I mean, it's the fear, right? It's the lack of confidence on the part of businesses making capital investment that has an impact in the short term. That's an issue.
Also, we have the housing market, which I highlighted: 170 debt-to-income is a big number. That's impacted or front-run consumers' spending to a certain extent. So that's an issue. And then we've also seen the government take steps to slow the housing market, and that seems to be having an impact.
If you put all these things together, I guess there's no surprise that Canada is lagging a little bit to the U.S. So we think interest rates will rise more slowly, and therefore the interest rate differential will stay the same or grow larger. That's the single most important factor around the Canada-U.S. dollar relationship.

**Mr. Dang:** Yeah. Thank you.

**The Chair:** Thank you.
Okay. We'll go to the phone now, starting with Member McPherson.
I just want to quickly acknowledge that Ms McKitrick has left the airwaves and is at the table with us now.
Member McPherson.

**Ms McPherson:** Thank you, Mr. Chair, and thank you to all of you for coming to answer some questions for us today. Really appreciated. I know that if my RSP was getting that kind of a return, I'd be pretty happy.
But I do have some questions. First of all, I'd like to understand: is there anything that's preventing investment in Alberta's renewable energy sector?

**Mr. MacMaster:** I think the question was: is there anything restricting us from investing us in renewables? The answer is no. We've expanded our investments in renewables, primarily in the infrastructure portfolio, where we've done a number of investments, including right here in Alberta in a wind transaction. We have wind and solar and other renewables, and we continue to look for additional opportunities in the renewable space in infrastructure. The challenge in infrastructure is similar to what we're seeing in other illiquid asset classes, private equity and real estate as well, that it's very, very competitive and prices are pretty rich. It's really challenging for us to find investments that meet our criteria for risk-adjusted returns. But, no, no restrictions.

**Ms McPherson:** Okay. Great. I'm happy to hear about the infrastructure investments.
Now, in terms of what is being invested in, I know that on page 8 there are some principles for the mandate to follow. Are we going to see or when might we see another investment that meets principle (c), diversifying Alberta's economy?

**Mr. MacMaster:** Yeah. I mean, that is ongoing, actually. I know that Lowell mentioned a number, 360. We've got an updated number, 460. We've done six recent transactions: Enerflex; Five Corners residential, which is a real estate transaction; Razor Energy, a follow-on investment; Journey Energy, which is another follow-on investment that we made earlier; and Wolf Midstream as well. So, yeah, we made six new investments, and we continue to look for other opportunities.

***1:30***

**Ms McPherson:** Great. Thanks.
On page 9 it says that on June 9 of last year there was a commitment to Kinder Morgan for $29.1 million in a credit facility. Was that part of the Trans Mountain pipeline project, and are we still committed? What will happen to that when the pipeline changes ownership later on this year?

**Mr. MacMaster:** Right. Good question. That was a credit facility that we established with Kinder Morgan. Since the federal government bought out the pipeline, we have since been paid out, so we earned $1 million on that investment for essentially doing nothing. We did not forward any funds.

**Ms McPherson:** You've got to like that.

**Mr. MacMaster:** I wish it was always that easy.

**Ms McPherson:** I just have one last question. On page 11 it looks like equities earned just over $1 billion, and that's about a third less than last year. Are there going to be any investment adjustments to equity investments as a result of that?

**Mr. MacMaster:** Not because of that. There might be adjustments to the equity weight in the portfolio because of other factors, other assets going up and down in value, which is going to change the relative weight of all the assets in the mix, or potential changes coming from our colleagues in Finance, who may want to, you know, shift the asset mix for the long-term objectives of the fund.

**The Chair:** Great. We'll move on to other people on the phone, please. Mr. Cyr, do you have any questions?

**Mr. Ellis:** Mike Ellis here as well, Chair.

**The Chair:** Sure. Who wants to go first? How about you go first, Mr. Ellis?

**Mr. Ellis:** Well, thank you very much, Chair, and thank you, everybody, for being there. A couple of questions. I guess we'll start with a very simple one first. Mr. MacMaster, how has the purchase of that pipeline by the Canadian government positively or negatively impacted your portfolio, obviously, for the heritage trust fund?

**Mr. MacMaster:** I can't say that it's had any impact on the fund at all.

**Mr. Ellis:** Or oil and gas investments that you have? Have there been any positive or negative outlooks that you've pulled out or closed down or invested more?

**Mr. MacMaster:** No. Those investments tend to fluctuate more with the direction of the commodity price, either oil or gas, or the anticipated direction of those prices. Most recently – well, first of all, 2014 was dreadful for energy. Things have recovered, and I talked about WTI hitting $65 U.S. More recently there's been a little bit of I don't want to say a correction, but prices have generally drifted lower in the oil and gas sector in part because there's an OPEC meeting coming up. It's expected that they will lift production, for very good reason, with sanctions now on Iran. Iran represents about 3 million barrels per day. They use about a million barrels per day in-house in Iran, so that's 2 million barrels, you know, potentially for export that will no longer be on the market. There actually could be a risk of a shortage here, so you'll probably see OPEC relax the supply. That's driving energy, not the pipeline, as far as I can tell.

**Mr. Ellis:** Okay. Just one follow-up if I could, Chair?

**The Chair:** Yeah.

**Mr. Ellis:** AIMCo has had a history, at least from what I've seen, of investing in infrastructure. I mean, I remember the Chilean toll road, the airport in London. Obviously, with the federal government's purchase of the pipeline in the multibillion dollars, the number of suitors is fairly limited. Is this something that AIMCo might be interested in purchasing or making some sort of investment in in the future? If so, have you been approached by the federal government in order to invest?

**Mr. MacMaster:** Well, first of all, I think it's well known that Greenhill, the investment dealer, has approached a number of people, looking to sell the pipeline, so, you know, they would cover the waterfront on that. If you look at this transaction, it's 4 and a half billion dollars in existing plus $8 billion to $10 billion to construct, so you're talking about 14 and a half billion dollars. Our cheque size is $200 million to $500 million, maybe a billion. As you've probably heard me say, our preference is for brownfield types of transactions, where something is already in existence and we come in and purchase it, like a toll road that's already been derisked and built as opposed to the construction of that. So that's where that is.
Did you have any follow-up comments?

**Mr. Prefontaine:** Well, the only thing I would add is that AIMCo's investments in infrastructure and other asset classes are a function of our clients' direction, in that clients set the asset allocation at the strategic level. So our continued interest in infrastructure assets or any other is going to be driven by a client's continued interest and their needs in that space.

**The Chair:** Good. Thank you.

**Mr. Ellis:** But have you been approached by the federal government, sir?

**Mr. MacMaster:** No. We have seen the Greenhill e-mail which, you know, kind of went out to everybody, looking for a response. We probably know as much as you do from reading the press. Probably the best thing for this would be for the federal government to see it through to its completion, to derisk it, and then I think there would be a lot more interest in it. I think it speaks volumes that Kinder Morgan, who is closest to the asset and actually owns the existing pipeline and had done all the negotiations with the stakeholders and First Nations and governments, despite having indemnity around delays, still walked away. So the question is: who would step into that risk?

**The Chair:** Great. Thank you.

**Mr. Ellis:** Thank you, sir. Thank you, Chair.

**The Chair:** Thank you.
We're going to go to the table with Mr. Dang, and then we'll go to Mr. Cyr on the phone next.

**Mr. Dang:** Thank you, Mr. Chair. I've just got a couple of questions left here. I guess I'm still on this U.S. trade thing. From the perspective of managing the fund, have we seen circumstances in the past, especially around this increased protectionism, similar to what we're seeing now, and if so, were there any opportunities identified last time and can we, perhaps, looking forward identify some of those opportunities for us?

**Mr. MacMaster:** Well, you know, probably the most frequent one you see is on lumber. From time to time there's a dispute, so the tariffs are put in place. The government very often steps in and helps out, then appeals, wins the appeal. It's reversed, and on we go, right? Actually, the equity prices don't move much. Again, it's because the market tends to see through these things for what they are.

**Mr. Dang:** For sure.
Well, I guess, then, my next and final question. We recently saw the Bank of Montreal release an analysis on a worst-case scenario

in the case that NAFTA negotiations weren't favourable and we would revert to WTO rules. Have we given some thought, then, in terms of – I know you've just spoken and said that typically the markets see through these issues, but have we mitigated the risks in terms of the future in a worst-case scenario?

**Mr. MacMaster:** If you went to the WTO, it would actually be beneficial in many cases. I think we're, you know, hoping that worse things don't happen. I mean, look, we're long-term investors. We can't afford, really, to go out and buy insurance on a portfolio. I mean, we could. There are things we could do that cost money and cost return for an outcome that's really uncertain, right? As I pointed out earlier in my presentation, we really need to be thinking long term and not get too fussed about these wrinkles that happen from time to time, whether it's geopolitical or trade or even interest rates. You deal with it and make subtle moves in the portfolio to adjust, but focus on the long term.

In terms of how we're set up, I think we are fairly well set up in terms of negative outcomes. In other words, we're positively positioned in equities in terms of being tilted towards quality and value and not the junkier aspects of the market, say, like cryptocurrency or many other fads, cannabis, right?

*1:40*

Then on fixed income, you know, we're actually pretty close to home in duration and light on credit. Our credit exposure is really at the short end of the curve. So we would probably, from a tactical point of view, actually like to see a shakeout in the market, give us an opportunity to pick up some high-quality companies and assets at discounted prices. This is particularly true on the illiquid side. You know, a good shakeout in the market would be good for us, to reposition like we did in 2008, you know. That's the way long-term investors think: I want to have a fire sale so that I can position the portfolio for the next 10 years, right?

**Mr. Dang:** Perfect. Thank you.

**The Chair:** Excellent. We'll go to the phone. Mr. Cyr.

**Mr. Cyr:** Thank you, Mr. Chair. I've got a few questions. One of my questions follows up on my colleague Mr. Ellis's. Has AIMCo been approached by the provincial government to have any stake in the Kinder Morgan pipeline?

**Mr. Prefontaine:** If I understand the question correctly, have we been approached to take a position, like, actually invest in the pipeline?

**Mr. Cyr:** That is correct.

**Mr. Prefontaine:** No. Just echoing Dale's comments earlier, we've been approached, broadly speaking, about our interest in the long term.

**Mr. Cyr:** But you haven't been directly approached by the Treasury department or the Energy department – sorry; ministries – to investigate an investment?

**Mr. Prefontaine:** To take a position? No.

**Mr. Cyr:** That's very clear. Thank you very much.

I'd like to ask some questions about how exactly it is that you make decisions on purchasing in certain countries. How do you rate them, like, a country? You must do a score or a letter grade or a high risk or low risk. What process do you use? I'm sure that you must rate all the countries in the world. Is that the case, or just the ones you're interested in? How does that work?

**Mr. MacMaster:** Well, it really varies from asset class to asset class. For instance, in fixed income we're largely based in Canada for cash positions but take derivative positions in other G10 markets. You know, that's essentially the U.S., Canada, Europe, in highly developed markets.

In equities it's really driven by the makeup of the benchmarks that our clients pick for us in terms of their asset mix. So if we have an emerging market portfolio, which we do, we have an emerging market benchmark, and we would be investing relative to that benchmark and underweighting or overweighting countries depending on our viewpoint.

But I would add in that that this is not where AIMCo really adds its value. We've never made really big bets in either sector or country. Our skill is really in security selection. That's where we really excel. So there are equities and fixed income.

Now, on the real estate side this is a little bit unique, too. Like many real estate investors, we kind of grew up in Canada and did Canada first and then broadened out into the U.S. and Europe. These are all highly developed markets that, you know, I don't think anyone has any concerns about. But we still have our economics and fund strategy group run country reports and entertain that.

When you get into infrastructure, we do have some assets in places like, you know, Chile, and we're looking at investments in Brazil. So the country risk is just one of many, many other risks that we have to address in our due diligence. We would definitely, of course, look at the country risk, the political risk, the headline risk there and adjust for interest rate differentials and currency and all that. But we don't have a rating system per se.

**Mr. Cyr:** To follow up here, let's say, for instance, that instability with the government in Chile happened. If you rated that as a stable country, but suddenly it wasn't stable any further, what would you do? Your file or your decision on that country: how is that based? I'm just trying to figure out how that all works.

**Mr. MacMaster:** Well, before we make an investment, you know, we're doing exhaustive research on the jurisdiction we're in. You know, Chile has been a very attractive place to invest for many years. Things can happen, though. It's a hypothetical. It really depends on the situation. What we find even with changes in government in places like Brazil, which, I would argue, is a little more risky than, certainly, Chile or Colombia, where we've been as well: you know, you need to anticipate that before you make the investment. Very often the investments we're making in roads and utilities are fundamental to the safe operation of the country, so they're usually left untouched.

Let's keep in mind, too, that it's very important for these countries to be able to attract foreign capital like ourselves, so they're very sensitive to that. If you burn an AIMCo in Brazil, well, then you lose Ontario Teachers', CPP, and tens and tens of billions in investment. So, you know, there's that to keep in mind, too.

**Mr. Prefontaine:** I would just add to that that one of the reasons we look at countries like Chile and Brazil and others is our clients' interest in the emerging market space. You know, starting with that the clients are driving that strategic asset allocation, we're then obligated to be looking at those countries.

**Mr. Cyr:** Thank you.

**The Chair:** Okay. Great.

We'll go to Mr. Horne now.

**Mr. Horne:** Thank you, Chair. I've got a few more questions, comparing the previous annual report to the most recent one. Through the Alberta growth mandate, comparing it to last year, I had noticed there had been three more transactions. Could you explain a bit about what those three transactions are and the decision-making process behind them?

**Mr. MacMaster:** Sorry. Which three were you referring to?

**Mr. Horne:** I would have to double-check that, but I can move on. I'll find that and come back to it.

**Mr. MacMaster:** Okay. Yeah, I mean, the Five Corners residential project is a real estate project located in downtown Edmonton, bordered by Jasper and 95th Street. It's a $35 million development project that aims to participate in the urban revitalization process. The heritage fund investment was $10 million there.

**Mr. Prefontaine:** I just want to clarify the question. Since the last annual report there would have been further transactions, more than three.

**Mr. Horne:** Okay.

**Mr. Prefontaine:** Just looking at this draft annual report, going back to May 2017, we've got – since the last quarterly report, certainly . . .

**Mr. Horne:** Yeah.

**Mr. Prefontaine:** If I understand, then, you're wanting to understand the transactions since the last quarterly report or update?

**Mr. Horne:** Yes.

**Mr. Prefontaine:** That would be Razor Energy, Journey Energy, and Wolf Midstream.

**Mr. MacMaster:** Razor Energy and Journey are follow-on investments. Razor Energy was an additional $3 million in private debt as a follow-on investment and in the case of Journey Energy, again, a follow-on investment of debt of $4 million.
What was the third?

**Mr. Prefontaine:** Razor, Journey, and Wolf Midstream.

**Mr. MacMaster:** Wolf Midstream, yes. Wolf Midstream was a secured credit facility, much like we did with Kinder Morgan. This was, I believe, $8 million for the heritage fund. This was done at CDOR plus 275, so a very secure investment.

**Mr. Horne:** Okay. Thanks.

**The Chair:** We'll go back to the phones. Member McPherson.

**Ms McPherson:** Thank you, Mr. Chair. I want to refer to page 13. Under Investment Expenses it says: "The Heritage Fund's investment expenses were $139 million for the year ended March 31, 2018, $5 million more than the previous year. The expenses for the year were $14 million more than projected in Budget 2017." I'm wondering: do you have any insight into why the investment expenses increased?

**Mr. MacMaster:** Yes. I was just going to say, without getting into too much detail, that typically when we do well – in other words, when we're adding value – that means our costs are going up, because whatever external managers we're paying likely also did well, and that means there are performance fees. Performance fees externally and internally tend to drive that the most. So it's almost a good-news story when you see that.

***1:50***

**Mr. Prefontaine:** The other thing I'll add, too – and this goes back to the earlier question about asset allocation and seeing more of a tilt towards the illiquid space – is that those assets just tend to be more expensive to manage and invest in than, for example, the fixed income, money market type assets.

**Ms McPherson:** Great. Thanks very much.

**The Chair:** Great. Thank you.
Dr. Turner.

**Dr. Turner:** Thank you, Chair, and thank you again to AIMCo and to the ministry for being here today and reassuring us. One thing that I mention quite often in these meetings is that it isn't just the Alberta heritage trust fund that Albertans are concerned about. AIMCo has billions of dollars under management that underpin our pension system in this province, and as a pensioner I know that a lot of my constituents are vitally concerned about the safety of their pensions. It sounds as though those investments are just as safe and well managed as the Alberta heritage trust fund. So, anyways, congratulations.

**Mr. MacMaster:** By the way, we agree with you.

**Dr. Turner:** I'd like to go to page 10 of the draft annual report. You say that "after robust growth throughout most of 2017, global equity markets experienced bouts of volatility in the first quarter of 2018." I know you're government guys, and, you know, that's really an understatement. I mean, speaking as an avid observer of the equity markets and the world markets in general, the first three months of 2018 were really a concern to me. I'd like to hear what your thinking at AIMCo is on the main cause behind that volatility and what your projection is for the last nine months of 2018.

**Mr. MacMaster:** Well, it's a good question. You know, it was over a 10 per cent correction in equity markets. To be perfectly honest, this is to be expected. This is normal. If that's making you feel anxious, then you'd best prepare yourself for 50 per cent because we had three in the last 20 years, right? A 25 or 30 per cent correction is not unusual. You can go back and see just how many of these there have been. If you're in the equity markets, you have to gird yourself for that. Again, we appreciate that there are risks, but the return is worth it. Study after study has shown that being a long-term investor in the equity markets allows you to harvest the risk premium, and that is an attractive thing. So you have to discipline or prepare yourself to weather those storms.

You know, I highlighted in my opening comments the 10-year return despite the credit crisis in '08-09, which was the worst crisis in financial markets since the Great Depression. I mean, as someone who invested through that period, it felt like the financial markets were coming apart at the seams. So to see over 10 years, including that, a 7.7 per cent return and some value added, it feels pretty good. But it highlights this notion that you really have to set the asset mix, have confidence in it, revisit it from time to time and make sure it still aligns with your objectives, and try not to bother yourself with these corrections. They're going to happen. If they didn't happen, you wouldn't be harvesting the risk premium. If there was no risk, there would be no premium.

**Dr. Turner:** Well, thank you.

**Mr. MacMaster:** And the second part of that question I'll try and address as well.

**Dr. Turner:** Okay.

**Mr. MacMaster:** I think the point on that one is that we should expect more. We are at the tail end of an expansion. It's the second-longest since, you know, the Second World War, and it could end the usual way: central banks raise rates, they make a policy mistake, they tip it over too much, economies fall into recession, and markets sniff it out and correct, right? But that's not the intent here from the central banks. The central banks are trying to normalize rates and still get the growth, but they're walking a tightrope. What I'm saying is that with the valuations we have today, the risk of higher rates, the concern around trade, it presents a number of hurdles for the market, and we won't even talk about geopolitical risk. Look, it could be coming, so be ready. We're ready.

**Dr. Turner:** As I said, I'm glad that I've got a pension from you guys because I'm not going to necessarily count on my own investment expertise there.

My second question is a little bit different. I want to focus on Alberta's economy. I mean, Alberta's economy is doing well. We're leading the nation, or at least last year led the nation, and we're among the leading provinces this year. You know, jobs are up, and the price of oil is slowly climbing a little. I'd like to see it climbing faster, I guess. Do you anticipate that improved economic circumstances are going to make opportunities to invest in Alberta more attractive?

**Mr. MacMaster:** Well, I agree with you that, you know, Alberta seemed to have done pretty well through this rough period, and you're right about it leading provincial growth last year. Yes, I think there will be opportunities. As you well know, Alberta is largely tilted towards energy, and there have been some changes in that sector that have caused foreign capital to depart in many ways. So it's left to the locals, I guess – the Suncors, the CNQs, and others – which isn't a bad thing. But I think there's going to be opportunity. I don't know where oil prices are going – that's a difficult one to say – but I'm hopeful about the province and the outlook.

**Dr. Turner:** Thank you.

My final question relates to something that has been discussed a little bit here before, and that's, you know, recent events in politics in Ontario. One of the first things that the new government in Ontario has done is say that it wants to cancel the cap and trade arrangements that had been made. It's my understanding that that's a very disruptive process for the businesses in Ontario that have basically counted on the cap and trade. I just heard news that the state of California and another state that had been involved in that cap and trade – maybe it was B.C., actually, that had been involved in those cap and trade arrangements with Ontario – are basically going to sue the Ontario government over this. What is our exposure to the companies that are involved in the cap and trade, and what do you think the impact of that sort of dissolution of that policy is going to be?

**Mr. MacMaster:** Yeah. I couldn't tell you, to be honest. I'm not seeing it on my radar as a major . . .

**Dr. Turner:** So it's not a concern. Is that what you're saying?

**Mr. MacMaster:** I'm not seeing it as one.

**Dr. Turner:** The reason I'm asking is that when I'm reading things like the *New York Times* and the *Washington Post*, that media is quite concerned about the disruption of that integrated trading process in green credits and . . .

**Mr. MacMaster:** Yeah. I mean, it's a good point. I think that one of the issues, though, that is a bigger issue to us and what we focus on more, is: what is the impact of governments changing, this wave of populism, for instance? You have a province on the one hand that approves some project, and another one comes in and says: well, that's not on. The same thing can happen in a number of different policy areas, right? That is the broader issue. It's not just one; it's many. That's a geopolitical risk that's hard to quantify or deal with in many ways.

**Dr. Turner:** Okay. Thank you.

**The Chair:** Thank you.

Ms McKitrick.

**Ms McKitrick:** Thank you. I'm glad to be substituting back here on the committee. I always find that your discussion on how you've invested the heritage trust fund is a very calming influence on how jittery I feel sometimes about geopolitical events and stuff in the world. You seem to maintain a very calm demeanour around the things that create, I think, lots of angst for many investors. So this is also a way to keep thanking you for how well you take care of the money invested for Albertans.

***2:00***

I always like to go back to the Alberta growth mandate, probably because I think it's important for Albertans to just know the importance of that policy in terms of the investments in Alberta. As I understand it, I think we've invested about $362 million in Alberta, and in terms of creating economic spinoff – and I understand that your primary responsibility is for long-term investment, but sometimes I have a lot of questions from Alberta companies or constituents – I was wondering if you could talk a little bit about some of the economic spinoff that you have seen through your investment in Alberta companies. I know we have the list. I think it's on page 8. You know, you've talked a little bit about making $1 million, I think, on the Kinder Morgan transaction, but I was wondering if there's any other spinoff that you've seen in terms of employment.

**Mr. MacMaster:** Well, let me try to answer the question, and then I'll let Mark weigh in. I mean, first of all, there's return on the investments themselves. I think somebody asked the question here. I'm not sure if I was at the meeting. I think we came back and said that it was around 30 per cent or a little over 30 per cent for the portfolio as a whole. Many of the investments have done really well. You know, you can't possibly ask us how many jobs were created – we have no idea – but I think a reasonable person would say that the investments we've made here have helped the province in the ways that the policy is stated: helping with growth, helping with jobs. Can we quantify it? No.

But I can tell you this. You know, this is an area that I talk about every time I come here. One of the areas of focus of this was that coming out of 2014 and the collapse in energy prices, we were able to step in in many situations – Journey Energy, Calfrac, Savanna, Ikkuma, all through the list – and we made many, many investments here in debt and warrants, debt and equity investments at a time when capital was completely evaporating. We were buying assets below scrap value in many cases, and that's why these returns have been so good. That's got to be a positive thing. When I say that foreign capital has left Alberta, left the energy patch for a number of reasons – ESG, a confusing energy policy, whatever, off to greener pastures – that leaves an opportunity for others, Canadians and Albertans, perhaps, and maybe even ourselves. We'll look to continue to do that where we see the opportunity.

**Ms McKitrick:** If I understand rightly, you were able to invest in Alberta-based companies just at the time where they needed the capital and needed the investment and so kept those companies alive and able to continue. Is that fair?

**Mr. MacMaster:** Yeah. I mean, you know, I'm not going to say whether they were going to live or die, but we were there, and we were interested investors, right? And that's not in all the cases. I mean, the investment we made in TransAlta Renewables as a listed company: we just felt that that was tremendously undervalued at $9, which is approximately where we bought it. It went up to $16, and we exited our position. It helped the company, it helped us, and everybody is a winner. That's the best kind of situation.

**Ms McKitrick:** I know that you're still looking for new investment. I guess you have a special division – is this how this works within AIMCo? – that looks at this.

**Mr. MacMaster:** I would no longer say that it's a special division; I think it's in our DNA now, that all portfolio managers are attuned to this. We talk about this and discuss this regularly and look for opportunities and handle opportunities as they come in the door.

**Ms McKitrick:** I was wondering: in what areas are you looking at investing in, for the Alberta growth mandate of your portfolio, in the next little while?

**Mr. MacMaster:** Well, all asset classes: real estate, infrastructure, equities, private debt, private equity, right through the piece.

**Mr. Prefontaine:** One of the tremendous advantages that we have in this space is that AIMCo has traditionally been quite overweight Alberta if you look at what normal index weights would indicate. You know, we've been upwards of close to 10 per cent of total portfolio. It's a little bit less than that now, and that's in excess of $100 billion. We've been typically overweight Alberta. The advantages were here. Dale talks about it being part of the DNA. Our investment management teams are continually looking to source deals. No better place than your backyard, quite often.

As a function of the Alberta growth mandate and the way in which we structure the investments within AIMCo, that $360 million total that you've seen committed to the Alberta growth mandate translates into in excess of $1.7 billion across the portfolio. That doesn't begin to include those investments that we've made into Alberta that either have not been as part of the heritage savings trust fund and therefore not part of the growth mandate or just didn't meet the specific criteria or principles for the Alberta growth mandate but are still germane to Alberta.

**Ms McKitrick:** So it appears that that policy, that was passed by the government to set directions for you, has had benefits, not just around the heritage trust fund but in, possibly, other areas as you've done your investment.

**Mr. Prefontaine:** I would frame it that as a function of the asset allocation decision that was made vis-à-vis the investment policy for the heritage savings trust fund and the process by which Dale and his team source and analyze and investigate potential investment opportunities, our clients have broadly been able to benefit from that.

**Ms McKitrick:** Thank you.
Thanks very much.

**The Chair:** Thank you.
Is there anybody on the phone that has any further questions?

**Mr. Cyr:** I do.

**The Chair:** Sure. Go ahead, Mr. Cyr.

**Mr. Cyr:** Thank you, Mr. Chair. I want to continue going down the line of questioning I had before about how you rate countries. Now, from what I understand – and I don't mean to put words in your mouth – you do research into a country and make sure it's stable, and then you build your plan about the investment you're making based on what you see and what you speculate is the future. Now, we had a very interesting discussion by Member McKitrick, saying that the growth mandate was something that influenced, potentially, your investment in Alberta. Have you built in a risk component that you need to see because of the decisions that this NDP government has made and, potentially, the federal Liberal government on top of us in Canada?

**Mr. MacMaster:** I think I'd like to just go back to your opening comments because I don't think you quite have it in terms of how we invest. We're not top down. You know, I don't look around the world and say, "Well, Venezuela is a great place to invest today" and then build a portfolio around that. It's very different across the asset mix. We start with the asset mix that my heritage fund colleagues and Finance deliver to us. That sets out how much in equities, how much in fixed income, how much in infrastructure, and so on. We start with that, and then within equity markets we're in Canada and we're in global. For our clients, most of them have some asset-mix decisions to make around that. Then we go about investing. I just want to dispel this notion that we're somehow top down. There are sector/country BATs, primarily in the equity portfolio, where we're most diversified and most global, but those are relatively small. I want to emphasize that we really add value in securities selection – in sector/country, not so much, but we do have some tilts – and in currency as well.

I'd like you to know, too, that, you know, I'm the first line in terms of investing and managing risk, but we have a risk team of 30 people who do nothing but pore through the portfolio as a second line of defence and challenge us, like: "Do you really want to be in Chile? What's your rationale for that?" They'll dig through all that. It's a very good system, with some independence built in, in addition to all of the oversight we have, not only from the Auditor General. All of our clients: each has a board. We have the standing committee here, but every other pension fund also has a board along with external consultants, and we have our own internal audit as well and our own board. So the level of scrutiny and oversight is really quite tremendous and, I hope, will give you some confidence.

**Mr. Cyr:** Okay. But to get to the second part of my question, have you built in a risk adjustment for purchasing Alberta companies?

**Mr. MacMaster:** Well, yes. Each of our securities that we purchase needs to be risk modelled by our risk team. We have a return budget that's set every year, and based on that return budget, that will determine the amount of active risk that we can take. Long story short, you know, our risk team models every single security with a risk factor and accumulates that. If we're making new investments in Alberta that are risky, that will show up on the radar, and we only have so much budget for that. We could take risk in credit, in interest rates, in securities selection, in volatility – there are many ways – but this is all budgeted and reviewed and limited. So, yes.

*2:10*

**Mr. Cyr:** So we are seeing that you are adding a risk component in order to invest in Alberta companies, which makes sense with all of the foreign investment leaving or fleeing our province. Now, do you believe that it's your responsibility to save Alberta companies because you've got Alberta in the title of your name?

**Mr. MacMaster:** No. My mandate is very clear and very much in line with my clients. It's really the active return. It's the active return that I chase. It's not in my mandate whatsoever to save companies. I'm not a white knight here. That's not my role.

**Mr. Cyr:** Okay. It sure sounded like Member McKitrick was almost putting that on the record, that you're the white knight that goes in and saves all these companies from going broke and that nobody would have replaced that investment had you not. Just for the record the job growth mandate is for investment purposes and has very little impact on job growth in Alberta.

**The Chair:** Okay. I think we have heard this question before, so maybe we'll . . .

**Mr. MacMaster:** Well, was there a question there?

**The Chair:** I'm not sure there was either.
Mr. Cyr, do you have another question?

**Mr. Cyr:** I do actually have one final one, that is a little bit on a different path. On the list of companies that you provided for the Alberta growth mandate, one of the companies is called "withheld." Is that the name of the company, or have you withheld the name? If so, if you withheld the real name of the company, why have you suppressed it, and would you be willing to give us the name of the company at this meeting?

**Mr. MacMaster:** That would have been withheld because of requirements under an NDA, so by regulatory standards we wouldn't be able to make that public.

**Mr. Cyr:** So we're putting debt into companies now from the Alberta heritage trust fund that we can't disclose to Albertans. Is that what you're putting on the record, sir?

**Mr. MacMaster:** Well, we are required by regulatory standards, if we're involved in a transaction for any one of a number of reasons – it could be private – if we sign an NDA, to keep that private for obvious reasons. But that's only for a time. When the NDA is lifted, when it expires – and they have a time limit on them – that would become known.

**Mr. Cyr:** Did you request this NDA be put in place, sir?

**Mr. MacMaster:** I did not, no.

**Mr. Cyr:** It's just really strange that we're putting – what is it? – $12.3 million of debt out there, and Albertans don't know who we're lending money to.

**Mr. MacMaster:** Look, I'll tell you what I'll do. I mean, we can go back. This could be dated. The report could be dated, and maybe the NDA is up. Maybe we can, you know, release that name. We'll see.

**Mr. Cyr:** Thank you, sir.
Thank you, Chair.

**The Chair:** Okay. We do need to move on with the agenda, but I'll take a final question or two for AIMCo or Treasury Board. Mr. Horne.

**Mr. Horne:** Yeah. Thank you. Looking at page 12 – and you also mentioned a bit on page 4 – the transfer to the general revenue fund, I was wondering if you would consider a $1.6 billion transfer a positive result.

**Mr. Epp:** Generally I think it would be what we budgeted for, so that's a positive result.

**Mr. Horne:** Okay. That's good to hear.
Also on page 12 I notice you have the history of transfers going back to – well, transfers begin in 1982, but the history of the fund goes back to '78. Just for clarity, is that graph adjusted to 2018 dollars, or is that . . .

**Mr. Epp:** No. Those are current dollars.

**Mr. Horne:** Okay. Thank you.

**The Chair:** Anybody on the phone?
Okay. Hearing none, we will move on.
First, would a member like to move that the report be approved as circulated? Dr. Turner. Thank you. Dr. Turner moves that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2017-2018 Alberta heritage savings trust fund annual report as circulated.

All in favour? On the phone? Any opposed? Hearing none,

> that is carried.

The next item is discussion around the annual public meeting and particularly the communications plan. As you may remember, Members, the committee decided to hold the annual heritage savings trust fund public meeting on Thursday, October 25, 2018, from 7 p.m. to 9 p.m. Planning for the public meeting includes inviting participation of all Albertans, and at our March 21, 2018, meeting the committee directed LAO communications to prepare a draft communications plan in support of the public meeting.
At this point I'd like to turn the floor over to Ms Antoniuk to give us an overview of the draft communications plan. Please go ahead.

**Ms Antoniuk:** Thank you, Mr. Chair. The recommended strategies in the communications plan outline a holistic plan to engage the audience of the public meeting, including those that attend in person and those that watch online and through Assembly TV. The communications plan before the committee focuses on initiatives we found to be successful in the past, which include a mix of print advertising in local newspapers, province-wide dailies, radio advertisements as well as social media to promote viewership and online engagement.
The committee members may recall that last year one of the initiatives we invested in was improving the introductory video. We do want to build on the work from last year, and within the plan it includes online video ads to promote the public meeting and to educate Albertans about the fund.
One final change I'd like to highlight is that this year we will be moving to electronic stats cards in lieu of the printed copies. The cards will be sent to members, and we'd ask them to distribute them and encourage constituents as well as their extended networks to take part in the meeting.

**The Chair:** Are there any questions for Ms Antoniuk about the communications plan? On the phone?

It would appear that you've done a fantastic job. That's great.

With no questions, is a member prepared to move a motion to approve? Mr. Dang. Mr. Dang moves that

> the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft communications plan in support of the 2018 public meeting as circulated.

All in favour? On the phone? Any opposed?

> That motion is carried.

At this time I'd also like to call for a motion that authorizes the chair and the deputy chair to approve the advertisements as per the communications plan. Mr. Horne. Mr. Horne moves that

> the Standing Committee on the Alberta Heritage Savings Trust Fund authorize the chair and the deputy chair to approve the advertisements and other documents as required in preparation for the 2018 public meeting.

Is there any discussion on that motion?

Hearing none, all in favour? On the phone? Any opposed?

> That motion is carried.

***2:20***

Members, over the next few months we will send you updated information about the public meeting arrangements. In the meantime, of course, as always, I strongly recommend that all committee members plan on attending this meeting in person.

Now we will move on to other business. For the record I'd first like to note that AIMCo provided a written response to questions raised at the March 21, 2018, committee meeting, and this information was distributed to committee members in April.

With that said, are there any other items for other business today?

Seeing none, the next meeting will be at the call of the chair.

At this time I would like to call for a motion to adjourn. Mr. Horne. Moved by Mr. Horne that this meeting be adjourned. All in favour? On the phone? Any opposed? Hearing none, that motion is carried, and this meeting is adjourned.

Thank you.

[The committee adjourned at 2:21 p.m.]

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