Legislative Assembly of Alberta

The 30th Legislature
First Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Thursday, February 6, 2020
1:30 p.m.

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Alberta Heritage Savings Trust Fund

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Getson, Shane C., Lac Ste. Anne-Parkland (UCP), Deputy Chair

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Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
Lowell Epp, Assistant Deputy Minister, Treasury and Risk Management
Brittany Jones, Acting Senior Manager, Portfolio Analytics and Research

Alberta Investment Management Corporation
Dale MacMaster, Chief Investment Officer
Mark Prefontaine, Chief Client and Stakeholder Relations Officer
Kevin Uebelein, Chief Executive Officer

1:30 p.m. **Thursday, February 6, 2020**

[Mr. Orr in the chair]

The Chair: Good afternoon, everybody. What better place to be on a winter's afternoon than here, eh? Good to see you all here. Since it seems like everybody is here, I'd like to call the meeting to order for this afternoon's Standing Committee on the Alberta Heritage Savings Trust Fund and welcome everybody in attendance.

My name is Ron Orr, the MLA for Lacombe-Ponoka and chair of the committee. I'll ask that the members and those joining the committee at the table introduce themselves first for the record, and then I'll go to the telephones after. I'd like to begin to my right, please.

Mr. Getson: Sure. Shane Getson, MLA, Lac Ste. Anne-Parkland.

Ms Glasgo: Michaela Glasgo, MLA, Brooks-Medicine Hat.

Mr. MacMaster: Dale MacMaster, AIMCo.

Mr. Uebelein: Kevin Uebelein, AIMCo.

Mr. Prefontaine: Mark Prefontaine, AIMCo.

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

Ms Jones: Brittany Jones, Treasury Board and Finance.

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

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

Ms Phillips: Shannon Phillips, MLA for Lethbridge-West.

Mr. Eggen: Good afternoon. My name is David Eggen, and I'm the MLA for Edmonton-North West.

Mr. Nielsen: Good afternoon, everyone. Chris Nielsen, MLA for Edmonton-Decore.

Ms Laurie: Janet Laurie, communications services with the LAO.

Dr. Massolin: Good afternoon. Philip Massolin, clerk of committees and research services.

Mr. Kulicki: Good afternoon. Michael Kulicki, committee clerk.

The Chair: And on the phone, please.

Mr. Singh: Good afternoon. Peter Singh, MLA for Calgary-East.

Mr. Jones: Good afternoon. Matt Jones, MLA, Calgary-South East.

Mrs. Allard: Good afternoon. Tracy Allard, MLA for Grande Prairie.

The Chair: I think that's it.

Just for the record I will note the following substitution: Shannon Phillips for Rod Loyola. Welcome, Shannon.

Just a few housekeeping items to keep in mind before we turn to our business. The microphones, of course, are operated by *Hansard*. You don't need to deal with that. Please make sure your cellphones and other things are set to silent. Committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and video stream as well as the transcripts of meetings can be accessed via the Legislative Assembly website. They're all there.

Let's move to the approval of the agenda. Are there any changes or additions to the draft agenda presented that anybody would like to make?

If not, can I invite someone to move that the agenda for the February 6, 2020, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as distributed? Member Glasgo. All in favour? On the phone? Any opposed anywhere? Thank you. That motion is carried.

We'll move on, then, to the approval of the minutes from the September 12, 2019, meeting. Are there any errors or omissions to note on those minutes as they were presented to you?

Mr. Getson: Just one question. I note on the minutes that they start on page 5. Is that a housekeeping item?

Mr. Kulicki: I can speak briefly to that.

The Chair: Please do.

Mr. Kulicki: Yeah. That's customary for the entire duration of a Legislature. The committee's minutes are numbered in that order.

Mr. Getson: Okay. Perfect.

The Chair: Okay. Thank you. Good question.

Any other questions or omissions to note? None?

If so, would somebody like to move that the minutes of the September 12, 2019, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved as distributed? Mr. Eggen. Thank you. All in favour? On the phone? Any opposed? Thank you. That motion is carried.

We'll move on, then, to the Alberta heritage savings trust fund's second-quarter report, which is one of the major orders of business today for us. The trust fund's second-quarter report for 2019-20 was released on December 20, 2019. Committee members were sent notification of its release and that it was posted on the committee's internal website. As committee members will be aware, the Alberta Heritage Savings Trust Fund Act mandates that one of the functions of this committee is to receive and review quarterly reports on the operation and results of the heritage trust fund.

I'm pleased to note that we have today with us, as introduced, Kevin Uebelein, Dale MacMaster, and Mark Prefontaine, all from AIMCo – welcome – and also Mr. Lowell Epp and Brittany Jones from Treasury Board and Finance to provide us with an overview and to report and answer any questions that we might have.

I guess what I'll do is that I'll turn it over to you. Who's going to go first here? Okay. Mr. Epp, please.

Mr. Epp: Thank you, Mr. Chair, and thank you to the committee members for allowing us to speak and bring the news on the heritage fund. Unfortunately, Minister Toews is unable to attend today, and he sends his regrets.

As we've talked about many times, the Alberta heritage savings trust fund has a goal of maximizing investment returns over the long term at a prudent level of risk. There are two important aspects in fulfilling this mandate: first, to set an investment policy and then to implement the policy. The investment policy sets out broad guidelines to be used when investing the fund, including the types of investments to make investments in. Currently the heritage fund's investment policy states that 50 per cent of the fund be invested in equities, 30 per cent in inflation-sensitive and alternative assets such as real estate, and 20 per cent in fixed income. That policy is set by the minister with support from the department.

The next step, of course, is to hand it to AIMCo for implementation. They certainly try to add value through asset selection and tactical asset allocation. The heritage fund's target is to earn 4 and a half per cent greater than the rate of inflation over a five-year period. A second target is that the investment manager, AIMCo, is to add value to the investment results for the fund. This target is to earn a return of 1 per cent over benchmark.

As of September 30 the heritage fund had a market value of $18 billion and has earned $943 million during the first six months of the year. Over the past five years the fund has earned a return of 8.5 per cent. This is 6.9 per cent more than the rate of inflation and certainly exceeds the target of beating inflation by 4 and a half per cent. Over these last five years the fund's policy benchmark has had a return of 7 and a half per cent. This means that the fund's actual returns were 1 per cent greater than the benchmark return. We would call that value-added by the manager, and it's right on the target of 1 per cent.

For the year to date, six months in, the heritage fund has earned a return of 3.1 per cent while the benchmark has been 2.9 per cent. Fixed income has earned 3.8 per cent so far this year, the leading asset class; equities have earned 3.1 per cent; and inflation-sensitive and alternative investments have made 2.9 per cent, so similar returns in all asset classes so far. As I said earlier, the fund has earned $943 million so far this year in net income. If markets continue to co-operate and we don't have large negative returns or some market event that would cause negative returns, the heritage fund's net income for the year should exceed the Budget '19 target of $1.3 billion in net income.

That concludes my remarks. Thank you.

The Chair: Thank you, Mr. Epp.

We'll move on, then, to AIMCo, please.

Mr. Prefontaine: Thank you, Mr. Chair. Members of the committee and for those that may be following online, on behalf of Kevin, Dale, and I it's a pleasure to be here today to speak to the second-quarter results for the heritage fund and talk about investment performance in general.

As you heard Mr. Epp just talk about, the long-term performance of the heritage savings trust fund has been very positive, including the net of fees value-add that AIMCo has delivered. In just a minute I'm going to turn it over to Mr. MacMaster, our chief investment officer at AIMCo, to talk about market conditions, the global economic environment, and other factors that are impacting investment performance for both the heritage fund and investments in general.

1:40

However, before I do turn it over to him and before we get into what is always a very interesting Q and A session, there are just a few comments I'd like to make about AIMCo in general. At AIMCo currently we manage the assets for 30 clients, totalling approximately $120 billion. It's a distinct privilege that we take very seriously, and these clients range from public-sector pension plans, including the local authorities pension plan, the special forces pension plan; government endowments like the heritage fund, which is the largest of that particular bucket; as well as the assets of provincial related entities such as the crop insurance fund for the Agriculture Financial Services Corporation. At the end of the day, AIMCo recognizes that what we do has a direct and indirect impact on all Albertans, and it's a role that we take very seriously as Alberta's investment manager.

As a result of some recent policy decisions made by the government of Alberta, we're working really hard at the moment, jointly with the boards and management of the Alberta teachers' retirement fund, the Workers' Compensation Board, and Alberta Health Services, to transition the management of their investment assets onto the AIMCo platform. We're really quite humbled by the confidence the government has shown in AIMCo to take on these responsibilities, and we're working hard with them to build those relationships while we're continuing to ensure that we're delivering on the commitments to our existing clients. Bringing together what really is the best of the multiple investment platforms that are transitioning will put us in the best position to create success for all into the long term.

Now, in the meantime those of you that have been around this table have heard us speak before. We really like to draw people's attention to the critical success factors for an institutional asset manager such as AIMCo. I'll speak to a few of them although certainly the list is not to be exhaustive.

The first is scale. Being able to access global markets and establish a global presence and open up opportunity sets that would not be available to an asset manager that doesn't have an appropriate level of scale is one of the things that contributes to our success and therefore the success of our clients.

The next is taking risk responsibly. You heard Mr. Epp talk about investment performance being measured not only by returns but also by the amount of risk that's being taken. Our clients ask us to take on an appropriate amount of risk, and we do so in situations where we really feel that we're being compensated and that our clients are being compensated for that risk. We do that responsibly. The long-term, patient capital like a defined benefit pension plan, that the public-sector plans are, or the heritage fund, which is there for the long term for all Albertans: that long-term view, both by the client and us as the investment manager, really allows us to embrace market volatility rather than fear it, to find the opportunities in that short-term volatility with the long-term view. In order to do that, we need to be able to attract and retain quality people to deliver on those commitments. That's both attracting and retaining and giving them the tools to actually do that.

Lastly, I'll speak to what is a very important piece of this fabric, and that's our rigorous governance framework. Having a rigorous governance framework such as we have and what we enjoy now certainly guides our decision-making process, but it also gives our clients the confidence that we're acting in their best interests in doing what we do. To that end, part of that rigorous governance framework is the arm's-length relationship we currently have with the shareholder, the government of Alberta. A big part of that arm's-length relationship is our independent investment decision-making process. From the AIMCo board, which has investment decision-making responsibilities, to Mr. MacMaster as our chief investment officer right down to a portfolio manager within AIMCo, we take the independent investment decision-making process and framework very seriously, and we will absolutely assert that that has benefited our clients, including the government of Alberta through the heritage fund.

Recently there have been those that have questioned the level of that independence, either the current state or into the future, and really this is not a new phenomenon. We've seen this question come up under previous governments, plural. But if you take a look at the AIMCo Act, the Alberta Investment Management Corporation Act, what you will see is that there is an explicit obligation that is laid at the feet of AIMCo to act in the best interests of our clients.

Specifically, if you're so inclined, you will see that the act requires – not suggests, not recommends but absolutely requires – that we have their interests in mind. To quote section 2(2.1), for those that are as interested in that kind of thing as I am:

> In providing investment management services to designated entities [read "clients"], the Corporation shall act in the best interests of the designated entities [read "clients"].

The AIMCo board and management take this responsibility extremely seriously, and it drives our investment decision-making. I certainly wanted to make sure we talked a little bit about that.

With that, I'll now pass the mic to Mr. MacMaster, as our lead investment manager, to talk about exactly how we do that.

Mr. MacMaster: Thanks, Mark. We were very pleased to report positive total returns over the second quarter, ending September 2019. More important perhaps are the longer term performance results that we have continued to build on, which are in the table at the bottom of page 1 of the quarterly report should you care to have a look. The table shows positive results over all time periods, with total returns exceeding the policy benchmark and inflation target of CPI plus 4 and a half. AIMCo was also able to meet or exceed the policy benchmark stretch target of 1 per cent over the five- and 10-year periods. It's very satisfying for us to report these results, that ultimately benefit all Albertans.

However, I do caution that future returns may be more modest. The bull market that we've experienced is one of the longest in history, and interest rates are quite low while equity markets have some headwinds to contend with, including reduced earnings. The ability to add value in the market over benchmarks is also a challenge these days as the number of sectors and stocks outperforming major indexes has narrowed substantially.

As we look back on 2019, it was trade and technology tensions between the U.S. and China that dominated market news headlines throughout the year. These tensions, combined with fears of higher interest rates, boiled over in the last quarter of 2018, causing a 20 per cent correction. Central banks responded by cutting interest rates and set the stage for a brilliant recovery in 2019 that saw the S&P 500 up 30 per cent on the year, which is a pretty significant return.

As we look forward in 2020, many of the major risks that influenced investors during 2019 have receded. Trade tensions between the U.S. and China have eased, and the risk of a disorderly Brexit has also been eliminated although new trade arrangements will have to be negotiated with the EU, and that's no easy task.

A few weeks ago I would have said that, based on these positive developments, the chance of a recession in 2020 was pretty low. Unfortunately, the sudden appearance of the coronavirus has spooked markets and raised the probability of a more pronounced global slowdown. Experience with the SARS and Ebola viruses suggests that there will be an economic impact and a market impact but that we should ultimately experience a V-shaped recovery once peak infections have passed.

Despite the coronavirus and geopolitical risks such as the heightened Middle East tensions, we remain cautiously optimistic on risk assets such as equities. With equity evaluations near long-term averages and central banks having eased substantially, we see positive global equity market returns in 2020 although those are likely to be in the mid to high single digits as opposed to the very strong returns we saw in 2019.

Within fixed-income markets global bond yields should be range bound with an upside bias over 2020, thus limiting returns. In private markets such as private equity, infrastructure, and real estate we expect to deliver attractive, risk-adjusted returns while continuing to enhance overall portfolio diversification.

With that, I'll end my comments and take questions. Thank you.

The Chair: Okay. Wonderful. Thank you, gentlemen, for your contributions this afternoon.

As suggested, we'll move to a question-and-answer period. For any members that have questions, now is your opportunity. Member Phillips, please.

1:50

Ms Phillips: Thank you, Mr. Chair, and thank you, everyone, for joining us today. Thank you for this report on Q2 results. I'd like to take an opportunity to talk a little bit about ESG strategies and how that relates to investment performance and your risk-adjusted return expectations. We've seen a considerable shift in global markets over the last few years and even in the last few weeks, with a greater focus on ESG factors. So I'd like to talk a little bit about the E in ESG. Can you share with the committee how AIMCo considers the environmental factors in its investing approach, why you think it's important, and how you've built those decisions and over how long a period you've built some of those frameworks into your decision-making and your governance structure?

Mr. Uebelein: Sure. Well, it's a topic that we can talk about a long time, but let me try to be as concise as possible. AIMCo's responsible investing team has been one that has been in place now for almost a decade, and the journey that we're on is one that many of our peers are on, which is to take the concept of responsible investing as a separate risk management silo, if you will, and begin to aggressively integrate the thought of responsible investing into the actual warp and weave of every single asset class that we invest in. That's something that we've been doing now for several years, and I'm very pleased to say that in many cases – I couldn't hold my hand over my heart and say in every case but in most cases – each one of our asset classes is thinking actively about ES and G factors when they're making those decisions as opposed to a separate team on the side with an overlay.

You're absolutely right. All of these things have a heightened degree of public interest and perception, but the environmental, the E of ES and G, seem to have really exploded in the last year, even in the last few quarters. Even within the E it is the impacts of global warming that I think have caught the attention of many people around the world. Larry Fink, who is the CEO of BlackRock – and when Larry Fink writes a letter to CEOs, people tend to listen – wrote a letter just in the last few weeks. In it he basically turned a corner as BlackRock in terms of saying that this is a topic that investment managers need to take into account in their investment decision-making. Therefore, the companies that institutional investors like BlackRock, like AIMCo invest in need to lean into this issue more than ever.

I'm pleased to say that the corner that Larry Fink and BlackRock turned in 2020 is a corner that AIMCo turned in 2017 or 2018. I would really encourage all of you here and those that are listening in to look at AIMCo's responsible investing annual report, which we've put out every year. For the last two years running, we have led by example – for instance, in terms of measuring our portfolio's carbon footprint – and in the most recent year, 2018-2019, and in the 2020 report we're measuring it along the lines of the TCFD guidelines, which are the guidelines that are now starting to be the recommended guidelines across the industry. I won't get too nerdy on you, but something called weighted average capital intensity is the process by which we are now measuring our footprint.

So how are we integrating those issues into our investment decision-making? First off, when we are in dialogue with companies, whether that's through a more traditional proxy relationship or as a more personal dialogue with the management of companies, we are strongly encouraging them as long-term managers, managers in businesses that we want to see thrive over the long run, to pay more and more attention to the environmental impact of what they're doing, to scenario-test what their companies are going to look like under different scenarios, including the 2 per cent scenario of the Paris accord. We are strongly encouraging them, through the influence that we have in our investee companies, to disclose their carbon footprint as well.

I think those of you who've been on this committee have heard me wax on and on about how proud we are of our responsible investing, so you'll know that one of the foundation stones of that is that we believe strongly in voice over exit. What does that mean? It means that we think we can make more influence on our investing companies and we can make more money on behalf of our clients by having dialogue with our investing companies about change as opposed to hitting the exit doors and selling our stock or blackballing any issues or industries. We've seen that work over and over, and it's only in rare instances where we would deviate from voice over exit.

The Chair: Very good. Thank you for a fulsome answer.
I believe Member Glasgo has a question.

Ms Glasgo: Thank you, Mr. Chair. Thank you, all, for being here today and for providing us with all of this information as well. On page 1 of the second-quarter report for the heritage trust fund under the quarterly highlights it's mentioned that as of September 30, 2019, the fund had $18 billion in net assets on a fair-value basis. That's down $244 million from March 31, 2019. Can you just elaborate on why we are seeing a decrease in unrealized portfolio gains, and then also – I'll just give you the second question now so that you can answer them both at the same time – how can we maximize our returns in these portfolios going forward?

Ms Jones: Hi. I'll take this one. We do expect this to fluctuate. This is something where over time – and you'll see it in the annual report as well – the net assets have grown, but I wouldn't say that this is something to worry about at all. You will see it grow. There's actually been, if you look at September last year, I think it was, close to a $900 million increase, so it is good to look at things over longer time periods.

Mr. Epp: If I could, I would add that one of the reasons you see higher income this year is because some of those gains have been realized.

The Chair: Thank you very much.
My apologies. I skipped over – I believe there was a follow-up. Do you want to do it or pick it up later?

Ms Phillips: I can do it now.

The Chair: Yeah. You might as well. Sorry. I missed you for a follow-up.

Ms Phillips: All good. Thank you.
Mr. Uebelein, you did discuss the CEO of BlackRock. Of course, I think that caught a lot of people's eyes; $7 trillion in assets tends to do that for people. But, you know, they've put ESG, in particular climate change, at the heart of their investment strategy. I'm wondering if you can provide some comment on what that means for future capital flows. Will this be an enduring part of the investment landscape in perpetuity, or are investors sort of following fads or the flavour of the month here?

Mr. Uebelein: Well, I don't think that anything in ESG is a fad. I think that these are enduring risk factors that long-term investors should be taking into account. I do think that the rapid evolution of the environmental risk factor is one where it will be interesting to see whether or not we can extrapolate the rate of change and attitude on that particular variable within responsible investing forever and ever, but I don't see anything about that as being short term in nature.

The Chair: Okay. Thank you very much.
Anyone else?

Ms Phillips: Yeah. We can go back and forth with the government side if they have more, or we have more, too.

The Chair: Go ahead if you're ready.

Mr. Eggen: Okay. Thank you. I appreciate the report both from TBF and AIMCo here this afternoon. I can't help but notice that in the first six months of the year the fund was returning about $800 million . . .

Ms Phillips: It's $943 million now.

Mr. Eggen: Yeah. It's up to $943 million. That's what we just heard, right?
. . . to the general revenue fund. Notwithstanding the enormous increases in equity values that we've seen recently, the fund is already on track to return even more than was estimated for the budget for the full fiscal year. I'm just curious to know if TBF – I'll perhaps direct the question to TBF. Have you made a change in your formula for your expectations around returns? If so, what is that, and why might you have done so?

Mr. Epp: We have not made a change in our formula. The way we project investment income is to assume that markets are normal. We assume in every period going forward – and we update this every month – that equities, for example, will earn a long-term return of I believe it is 7 per cent. We have long-term return assumptions, which our friends at AIMCo certainly helped us to come by, that guide that forecast. It's a market-neutral forecast. We're not trying to call markets with our forecast. We're trying to normalize the earnings. All we know for sure is when it's wrong.

2:00

Mr. Eggen: Yes. Well, perhaps that helps with my supplemental, then. You know, having a lowball number there, it artificially does increase the deficit, and at the end of the year it allows the government to move those numbers back and then defeat their deficit target. I'm just concerned about that because, of course, it has implications around other cuts that this government is starting to make, right? By having the investment return lowballed and then suddenly coming up with a much bigger number, as you've agreed to and I can see on the paper here, it actually creates an artificial increase in the deficit, which makes it easier to perhaps justify cuts. Then, of course, the government at the end of the fiscal year can bring that money forward and say: everything is great; we've exceeded our expectations. I think our caucus is concerned about that. Is there any plan to perhaps adjust that formula to be more realistic and transparent to Albertans?

Mr. Epp: There are no plans to change it. We believe it is the most realistic forecast. We've been using that method for at least a decade. Like I say, the only thing we know for sure is when it's wrong. A number of years ago somebody at AIMCo did a study comparing five years of investment forecasts, and they found that after five years they're exactly right on with the total over five years, but they never came close in any one of those five years. It's intended to mimic the long-term returns.

Mr. Eggen: Thank you.

The Chair: Okay. Thank you very much.
I believe Member Allard, on the phone, has a question.

Mrs. Allard: Yes. Thank you, Chair. Good morning, everyone. I apologize that I can't be there in person. I just have a couple of questions if you will permit. I just wanted to follow up on comments that were made originally about Brexit and just confirm that that would be considered a macro factor in the planning of fund investment but that at this time you don't see any threats. Is that correct? Am I understanding that correctly?

Mr. MacMaster: Yes. We would consider Brexit a macroeconomic factor that would go into our planning and thinking about tactically positioning the fund and our investment activities. Yes. That's quite right.

Mrs. Allard: Perfect. Okay. Then I'll segue into a different question, specifically with respect to the ATRF. I'm wondering what preparations and impact on the fund you're expecting with the addition of the ATRF pension fund?

Mr. Prefontaine: If I understand the question, what preparation is going into the transition?

Mrs. Allard: Yeah. And then the impact expected on the fund overall.

Mr. Prefontaine: I'll speak to the first part. It's very, as you might understand, early stages. I talked in my opening comments about working with the board and management of not just the ATRF but the Workers' Compensation Board and AHS as well. Those are at very early stages, so they're, as you might imagine for a transition of this magnitude, both measured by assets and people involved. Lots of internal planning is going on as well as joint discussions with those respective teams. It's early stages, but I would frame it as going well at the moment.

With respect to longer term impacts, I'll reiterate comments that I made earlier as well. The focus here, from an AIMCo perspective, is: how can bringing together the best of our respective platforms, which include people, strategies, and assets, add value for everyone in the long run? So looking at the particular situation of the ATRF, that means: what things are they doing well – because they are doing a number of things extremely well; they've got some really smart people there – and how can we add that to the AIMCo fabric and benefit all? We can't speak to specifics at the moment because that's off in the future and there's no certainty on what that might look like, but that's the thesis that we're working with.

The Chair: Okay. Wonderful. Thank you very much.
Anyone else? Member Phillips.

Ms Phillips: Sure. Thank you, Mr. Chair. We've gone a little bit into budget forecasting. We might go back there, but I want to go back to ESG for a little bit. I've read the Responsible Investment Report, so I'm among the thousands of people who have read it. In fact, I actually believe that there are. It does describe in some detail how you made those decisions, and I want to thank you for that. I've been following this since 2015, when I know a number of different changes were made, scenario mapping for two degrees and so on and emissions intensity. So that's good. One of the things that caught my eye is that you don't just look at firm-level policies, disclosures, decisions, but you also look at the jurisdictional level when it comes to the ESG factors. If you can just explain it to me a little bit. Maybe this is a better question for Dale; I don't know. That notwithstanding, you've got individual decisions at the firm level, but then you also consider what governments are doing from a policy perspective when making investment decisions.

Mr. MacMaster: You know, I think that could also pertain to how we review ESG standards. For instance, when we're reviewing all of our investments within all of the asset classes, we have the ESG. The responsible investing team is part of the due diligence process. We have questionnaires, we sit down with management, we go through everything they do, but we have to make adjustments, for instance, when we're in emerging markets, you know, where they may not be up to the same standards as we are. Of course, there are lines we won't cross, but you can't expect, going into some of these emerging markets, that they would have exactly the same standards that we do in North America. But I would say that because of the pressure being applied not only by investors but by companies and regulators around the world, everybody is upping their game.

Ms Phillips: So if a jurisdiction increases either its stringency around pricing, its price coverage, or its regulatory approaches to emissions, and some of the transparency, the monitoring, reporting, verification parts of emissions policy, if it increases its level of ambition, then that is something that you would look at if a firm is operating in country X. Conversely, if a country decreases its level of ambition, particularly around meeting two degrees Celsius through benchmark policies, you would then take that into consideration when you make investment decisions.

Mr. MacMaster: All things being equal, yes, that's true. One of the things we're going to be working on quite actively this year is on getting better metrics and measures of CO_2 emissions and carbon footprint and, you know, ESG heat maps, for instance. What we're finding, as this is relatively new, is that the standards around reporting are still developing. So while it's great to see ambition, what we want to get to is a place where we can actually measure this and screen our investments through actual quantitative metrics, and that will be coming.

Ms Phillips: And that's where the development of offset markets is also helpful . . .

Mr. MacMaster: Yes.

Ms Phillips: . . . because it does have an MRV sort of baked into it.
Can you tell me a little bit, then: when you assess policy shifts from a government level, what are the most important pieces that you might take into consideration there?

Mr. MacMaster: Well, I think, for us, we have a number of areas of focus where the weight has been front and centre for responsible investing. Obviously, worker safety is important, board diversity, and climate change is emerging. We have areas of focus that are most important to us. So if we saw, you know, developments in a positive direction in those sorts of policies, either at the country level or at the company level, that's a positive for us.

Ms Phillips: Okay. Great.

The Chair: You're done?

Ms Phillips: Yeah. I mean, I'll turn it back over, and then I'll take another turn.

The Chair: I do believe that Member Jones, on the phone, has a question.

Mr. Jones: Yes. Thank you. I apologize that I couldn't be there in person.

I was wondering if AIMCo could comment on their recent investment in TC Energy's Coastal GasLink Pipeline project. Your mandate is to maximize return, pre-empting risk. Can you talk about that in relation to this particular project? Also, from the ESG side I see it as a big win to promote getting our LNG to market, especially to Asia so that they can reduce their reliance on worse energy sources.

2:10

Mr. MacMaster: Sure. I mean, I think you're absolutely right. This is a win-win-win. It's a very important project for B.C. and Alberta. The B.C. government is very supportive whereas – let's face it – they weren't always supportive of all projects in energy. It's a very attractive project in terms of returns. It hits all of the buttons for us, including the potential for First Nations participation in the transaction, which is still to be determined but is available, and strong indigenous support. This actually may provide the model for future projects of this nature in Canada, so we're pretty pleased and proud to be part of it.

The Chair: A follow-up, Mr. Jones?

Mr. Jones: No. That covers it. I agree with you. I think it's a win-win-win, and I'm excited. Hopefully, there will be more of these projects going forward.

The Chair: Okay. Thank you.

Mr. Jones: Thank you, Mr. Chair.

The Chair: We'll go back and forth.

Ms Phillips: Okay. I do have another question that is Brexit related. We've seen some movement there. Obviously, the negotiation of an EU trade deal and a U.S. trade deal will mean potentially some turbulence to come, that they have maybe pushed out into the future. One of the things that will definitely be affected by Brexit is people coming and going. AIMCo owns a large stake of the London City Airport. Can you tell me a little bit about how you account for geopolitical risk and what kinds of risks there might be to that investment?

Mr. MacMaster: With respect to Brexit itself?

Ms Phillips: Yeah, and with that investment specifically.

Mr. MacMaster: Yeah. Sure. The biggest impact, I would say, from the entire Brexit event, that started a few years ago, was really the impact on psychology and investor psychology and growth in the U.K., which suffered as a result mostly of the uncertainty around it: would it be a graceful exit or a hard Brexit with unknown consequences? I think that had a pretty big impact from a lack of investment in new projects in real estate and infrastructure. Nonetheless, if you look at the last couple of years, despite all that, the U.K. has grown at or around 2 per cent, so they've managed it pretty well.

What we have now is a relief around not having a hard Brexit, a more graceful exit. Yes, we still have to negotiate bilateral trade agreements or trade agreements with the EU, and those won't be easy. The press has been saying that the U.K. is in a difficult bargaining position, but in fact most of the EU countries have a trade surplus with the U.K. and need access to that market. So it's balanced, and we'll see how it goes. It might be ambitious for it to occur before the year-end, but I think it's very easy for them to kick this down the road a little bit and give themselves more time to negotiate a deal. I think you can see the impact on markets. The stock market is up. The pound has recovered somewhat, not to where it was, but there's a sense of relief, and we're seeing more investment there.

What does that mean for London City Airport? We hope it translates into higher volumes. There's no question that volumes were a little lighter in the last couple of years as business travel suffered; perhaps tourist travel to the region suffered as well. It's primarily a business enterprise. It suffered a little bit, but we expect that to pick up. As you're probably aware, it's very difficult to increase capacity at the airports in the U.K. It remains a very, very vital financial centre and business centre in Europe.

Ms Phillips: Thank you.

The Chair: Thank you.

I think I heard Mr. Singh trying to break in on the phone. Is that correct? Member Singh, are you there?

Mr. Singh: Yeah. I'm here.

The Chair: Please go ahead.

Mr. Singh: Thank you, Mr. Chair. It's related to the asset allocations in the second-quarter report. I see that the quarterly report mentions that the allocation of equities continues to be lower than the long-term target of 50 per cent, and the allocation of inflation sensitive and alternatives remains above the long-term target of 30 per cent. Can you explain as to why we are seeing a lower allocation of equities from a long-term target of 50 per cent, and also can some insight be provided as to how we are maintaining the allocation to inflation sensitive and alternatives above 30 per cent?

Ms Jones: I can take it first.

The Chair: Please, Ms Jones.

Ms Jones: Hello. Thank you for the question. When the investment policy statement is set out, there are long-term targets, and AIMCo does their best to manage to those targets. This does get a little bit more granular as you look onto the next page of the report. As these asset classes change in value, what we were just reading, their place within the portfolio will also change. Recently – and I might look to AIMCo to help me on this one – you have seen the inflation-sensitive and alternative asset class perform very well. For that reason, there hasn't been a large urgency to reduce those allocations. Some of the best performing asset classes are some of their renewable resources and real estate assets, and those are more difficult and chunky to sell as well. These are targets, and we're meant to manage to the target but not exactly at that target. Right now we're seeing a lot of value being added to the portfolio in areas that you see a little bit of an overweight. Overall the heritage fund is benefiting from these portfolio decisions.

The Chair: Okay. Thank you very much.

Anyone else?

Mr. Singh: Chair?

The Chair: I'm sorry. A follow-up, please, if you want one.

Mr. Singh: No. Thank you very much for the answer, and thank you, Mr. Chair.

The Chair: Member Phillips, I guess you're on again.

Ms Phillips: Yeah. I want to talk just a little bit about the TCFD because it does now inform a lot of your decision-making. The Task Force on Climate-related Financial Disclosures: is this the initiative that was led by Mr. Carney from the Bank of England or at least announced by him and somehow sort of moved along by him?

Mr. Uebelein: He was engaged in the original group that then charged another group with coming up with the TCFD, so yes. He's in that plot line. It's an alphabet soup of different organizations, but yes, short answer.

Ms Phillips: How long has AIMCo been involved with the development of what is required in financial disclosures and the task force?

Mr. Uebelein: Well, as I said, I know for a fact that in our last two responsible investing annual reports we measured our own carbon footprint, and in the most recent one we expanded so that we included the weighted average capital intensity, which is what is recommended by the TCFD, the task force, for carbon financial disclosure. This is a bit of a global, I would call it, group grope to try to find a single means by which we can be measuring what the greenhouse gas emission or carbon footprint is around the world. There are many, many different competing forms of disclosure.

All of us who are investors know intellectually that carbon is something that there should be a cost or price attached to. Put another way, it is a risk that investors need to be mindful of, yet it's not yet determined how to measure or put a price on that risk. We've seen on a global basis governments being put under severe stress as they try to grapple with attaching a price. The yellow vest movement was really born out of the French trying to attach a price through petrol at the pump on carbon. As just sort of humble investors we also want to know as much as we can through disclosure what the carbon footprint is of all the companies that we're investing in because there's eventually going to be this price attached to it. We've been engaged for three or four years. We're trying to lead by example by measuring our own carbon footprint, and we've done that now for two years running and will continue to do so.

2:20

Ms Phillips: So the TCFD, then: does that emanate from sort of an international consensus, North American, or is it sort of a European agenda? Where does it have its, I guess, genesis, and where is it being taken up now? Is it being taken up everywhere, or are there certain geographic places?

Mr. Uebelein: Well, you know, it's certainly something that is picking up pace, but at the risk of oversimplifying, Europe is ahead, North America is behind Europe, and most of the other parts of the world are still reading about it and mulling it over and not doing much about it. But as we've already spoken to this afternoon, the slope of change in this space is very steep, so watch this space.

The Chair: Thank you very much.

I think Member Getson has a question.

Mr. Getson: Yeah. Perfect. Thank you very much for the great report. Mine is kind of around the environmental governance as well as Asia. I've got an attention deficit. I've been storing them up as the other folks have been talking here, so it's leading into some good dialogue.

Again, building on the Coastal GasLink: is there some environmental governance around trying to meet the Paris accord's article 54 by potentially off-setting some of the carbon outputs by using cleaner energies, fuels, et cetera? In our case we're giving them really good clean energy. We can get it to them. They can get off some of the tech that they're using. Of course, Asia, China specifically, is one of the largest polluters in the world. Does that formulate into the plans of how you're looking at it?

Mr. MacMaster: Well, I think it absolutely does. You know, there's a desire on the part of most people to reduce coal emissions. To the extent that we can convert to gas is great, and there's a market for that. For us to be able to get, you know, Canadian gas into an LNG format and off to other markets is important. It's important for the environment, and it's important for Canada. It's important for everyone.

Mr. Getson: Perfect. To that point as well, I mean, some of the transfer of carbon credits: do you also take into consideration in your environmental lens the sequestration of it, so enhanced oil recovery? You know, like, Alberta, again, is building up potentially the largest in the world at 600 klicks a pipe. That's going to gather all the gases that we have and put it downhole again. Is that part of the equation as well?

Mr. MacMaster: It certainly will be. I think that's still relatively new technology. It's very exciting for us.

Mr. Getson: Perfect.

Mr. MacMaster: I think it's an example as well where Canadians in the energy sector have been pretty innovative, but I don't think the story has gotten out. You hear these reports about heading towards zero emissions and they're met with some question marks, but I think it's an important initiative. Canada is doing, you know, amazing things there.

Mr. Getson: Yeah. I'd really like to hear that as a part of the equation, when we often sell ourselves short on what we contribute. You know, sometimes the measurements are taken out at the end of the tailpipe, so to speak, but not, you know, like, Genesee, that's going to be grabbing the carbon nanotubes and scrubbing it and using it for multipurpose and those types of things. So it would be nice to hear if that somehow gets part of that global dialogue, all the good innovations that we're doing when we bring our products to market and when we're participating.

Now, if I can just jump to Asia. I mean, back on the radar it was one of those big deals. Now we have that nice deal signed with the U.S. and China. We have the coronavirus. You touched on it a bit. I've got a couple of ones in there. Do we still have external managers that are over, boots on the ground, in China?

Mr. MacMaster: We do, and we're increasing our exposure to Asia. We think it's an important growth area. We've made a number of initiatives. In 2019 in infrastructure we participated in an industrial gas company in Korea. We've just committed to a hedge fund manager focused on China, and we've also partnered with HSBC to do direct lending in club deals in middle market loans in the Asian region. So it's an important growth area. China is still, you know, a leading economy. Even with this virus it'll slow below 6 per cent, but it's growing at a very large clip. It'll likely be the largest economy in the world someday, and that's going to drive development in the surrounding countries in the region. It's very important for us to expand our geographic footprint so we can have better diversification on behalf of our clients and better investment opportunities. It'll likely mean a foreign office in the region at some point, and we're laying the plans and the groundwork for that this year.

Mr. Uebelein: One thing. If you think of our third-party managers in Asia as part of our supply chain, if you will, I can also tell you that they remain functional and safe for now, and unlike a traditional supply chain – I think many of us have read that one of the Korean automakers has had to cease production because they can't find the parts that are usually sourced in China because of the problems with the coronavirus in the short term – we don't have that constraint because this is a virtual supply chain. As long as the Internet is still working, we can rely on them.

Mr. Getson: I guess the other thing, just staying in that vein, is the belt and road project that China is really taking part of. I'm not sure if this is part of that process or not, but I was really pleased to hear recently that China is considering putting plants in southern Alberta on the ag side of the thing, so the value-added food chain, where Canada has a great reputation globally on our products that we produce, you know, on the raw goods. But now they're starting to lean more towards also making sure that it's packaged within 150 klicks of source, so I was very pleased to hear that. I'm not sure if your folks on the ground are hearing it. They have a big symposium that takes place on food supply. I think it's been delayed due to the virus outbreak, unfortunately. But those are some of the pendulum shifts. It would be really interesting to see if your folks are hearing something similar or stirring up that side of the ag, of us having those value-added products back here.

Mr. MacMaster: That's good news to hear. As you know, relations with China have been strained in the last year, so to the extent that there is more capital coming into Canada if we step our projects is great.

Mr. Getson: Okay. Perfect.
I'll let it go to someone else.

The Chair: Member Phillips.

Ms Phillips: Thank you, Mr. Chair. I wanted to go back to the responsible investing report for a minute. I noticed that there is a new metric. There's just overall emissions, but then there's also water risk being taken into account around the E, and that's sort of a new thing. Can you talk a little bit about that and what that means for some of the risk around climate adaptation for your real estate investments?

Mr. MacMaster: Yeah. I believe that we identified water risk as an emerging risk we have to focus on. I would have to say that climate risk and emissions have sort of superseded that, but increasingly water risk will be an issue. I don't know exactly how that would impact our real estate investments, which I think is the second part of your question.

Ms Phillips: Well, or if it does, if that's part of why you're taking into account water risk; for example, rising sea levels for some asset classes, availability of water for those assets to continue to do value-added agricultural processing or whatever the case may be or ability of infrastructure to handle water and actually have more frequent and severe weather events to overwhelm that asset, whatever it is.

Mr. Uebelein: That's very helpful because as we integrate the scenario testing into our investment decision-making and our due diligence, then factors like what the world will potentially look like in a three-degree scenario, et cetera, what the weather patterns will potentially be and how that might impact infrastructure – bridges, roads, and real estate – those are things that we do have to take more into account. When you referenced real estate, I was thinking that you were tracking in a different direction. When we're trying to make improvements in our own efficiency, we find some of the lowest hanging fruit to be in the efficiency of our owned real estate portfolio. We can find that with a not unsubstantial but with a very quick payback, we can make investments in the efficiency of many of our buildings in water usage but also electrical efficiency. That has a very rapid payback and is also improving our own carbon footprint. Interestingly, increasingly our tenants will pay for that greener domicile, if you will.

Ms Phillips: Okay. I've got lots more, but go ahead.

The Chair: Thank you very much.
I believe Member Getson would like to ask a question.

Mr. Getson: I'm just full of questions today, guys. I'm really sorry about that. It seemed like there was a pleasant windfall regarding the softwood tariffs that recently happened. How does that potentially affect our timberland portfolio? I think we have 3.1 per cent of our portfolio in there. Are we going to see any windfall from that, too, potentially?

2:30

Mr. MacMaster: Well, you know, there's a wrinkle with the timber in that we weren't impacted because they're treated as logs, different from the softwood lumber issue. So we were less impacted by that. We have sold some assets recently on the west coast as well.

Mr. Getson: Okay. Just as a follow-up, too, on that pine beetle side of things: any impacts on our properties there that we're experiencing since they're out in that B.C. territory?

Mr. MacMaster: There have been, but our logs, again, tend not to be those that are affected by the pine beetle, which is more pine. We were more Douglas fir and other species that were less impacted by the pine beetle.

Mr. Getson: I appreciate it. Thank you.

The Chair: Okay. Member Phillips, please.

Ms Phillips: Thank you, Mr. Chair. I want to pivot now a little bit to talk about the pension management issue and ask a couple of questions on that. Mr. Prefontaine, you talked about it a little bit, but what is the state of the conversation, the consultation with people who are invested in – members, I'm talking about, and representatives of those members as well – the ATRF, the LAPP? I guess those are the two. And the special forces, I suppose, is also affected and the PSPP. Can you tell me a little bit about that, about the nature of those conversations, how well developed they are, and if there's sort of a plan, going forward, in terms of communication with membership? There's a lot of information out there. I'll put it that way.

Mr. Prefontaine: Yeah. I'll be able to address some of the question only because AIMCo, as the investment manager for those pension plans, has a particular role to play in the fabric of the public-sector pension plan environment. When it comes to engaging individual members and helping address concerns of those individual members, AIMCo is very interested. We're having discussions with and working collaboratively with the pension corporations – the boards and the management teams – to help address concerns, misconceptions, untruths, and to just temper down some of the concerns that people have. When they read about this, the immediate response is that their pension is going to be adversely affected in some form or fashion, and we're very cognizant that there's some of that messaging that's out there. Our role as AIMCo will be to work, again, collaboratively with those pension boards to help address some of those concerns.

What we're attempting to do – and this is absolutely in our purview – is make more clear the value that AIMCo brings to that environment and to our clients. We know that we've been, for better or for worse, thrust into a far greater light, if you will, in a new environment. We're embracing that, but it will take some time to actually be able to go out to a broader audience, you know, than might be tuned in to this conversation online to tell the AIMCo story.

The Chair: Okay. A follow-up?

Ms Phillips: Sure. Yeah.

The Chair: Okay.

Ms Phillips: I'm wondering if you can maybe provide a few more details around pension governance and what those kinds of changes will mean for an ordinary person who is getting close to retirement and what they can expect over the next 10 or so years from their pension being managed by AIMCo. If they're, for example, a teacher who is 55 right now, what material difference will they see? Can you talk a little bit about the kinds of changes that they can expect, if any?

Mr. Prefontaine: I will speak far less to the broader pension governance component of the question, only because, again, AIMCo has got a particular role to play in this environment, and talk more about: what is our hypothesis, moving forward, in working with the board and management of the ATRF to integrate these investment platforms, and what opportunities would that bring? It would be more about what we can do with the best of those platforms brought together and the opportunities that it sets up for us for success into the future.

Now, in terms of investment performance, et cetera, we can't provide any certainty to that, but we can tell you that with the ongoing complexity and all the issues that you've appropriately drawn up in your various questions, whether it be Brexit or climate change or others, our world – and you've noticed that Mr. MacMaster and Mr. Uebelein have been answering these questions extremely well – is highly complex, and to be able to integrate these investment platforms will give us all a better chance of being able to take on the challenges in that growing, complex world. The end result on the pension plan, Member: you know, we'll continue to do our part, but that's really the type of conversation where we want to work with those pension boards, the ATRF included, to address those concerns.

The Chair: I think Mr. Jones has signalled interest in a question. Mr. Jones.

Mr. Jones: Yeah. Thank you. I just was wondering if you could highlight any of the more successful investments you've seen in Alberta in your portfolio, and what do you expect for the Alberta market going forward and for your investments?

Mr. MacMaster: That's a tough question. You know, I would say that in terms of Alberta, as you all know, it's been a challenging environment for investing in energy, but this downturn first started in 2014. We really upped the level of investments in energy, which were quite successful, in 2015, '16, '17. It was a little harder last year for us, with some obvious challenges, but we've been very successful there.

I would say also that in our real estate portfolio we had some challenges with offices in Calgary, like anyone who had office space there, but we fully leased our building because it was an A-class building. It was really the B and C properties that became, you know, essentially evacuated and moved into the better quality property, so we were fortunate there. But more recently we've pivoted to multifamily and rental, which has been very successful. With the cost of owning a house much greater today, the rental market is growing across Canada, and we've been very successful in that. We're picking our spots. Alberta is a challenging economy, as you all know, but I think we're managing pretty well.

The Chair: A follow-up?

Mr. Jones: As a follow-up, active returns are seemingly harder to come by in the last 10 years, in my opinion. How would you say that you're doing in that area, and how will you be trying to achieve a higher active return?

Mr. MacMaster: Well, in terms of the active return, as I laid out in my opening statement, we did hit that 100 basis points, which I think is really challenging. Again, I would caution about the continued strong returns on the relative piece even. But on the total return, which I think was part of your question, that's also a challenge. Interest rates are low, you know, in the area of 1 to 2 per cent and in some cases below zero. It's a really challenged market and asset environment in fixed income. In equities, we just had 11 years of terrific returns in equities, including last year, and I think the best we could hope for there is mid to high single digits. If you put the 60-40 portfolio together, you're probably mid single digits, a little higher. Even in real estate and infrastructure those asset classes are challenged, with a lot of dry powder going to work. Investors are very enthused about those asset classes, and returns are likely to be a little lower, too.

To answer your question, I think it's going to be more modest than we've had in the last few years, but let's face it: we've had great years. This doesn't pertain so much to the heritage fund, which has done quite well, I think. But, you know, for our pension clients, as we talked about earlier, and what's expected there, many of those have reached funded status, where they were underfunded for years. I think they're in a good place to provide for their stakeholders, so I'm pleased with that.

Mr. Uebelein: I would add maybe a couple of things. You know, the challenge for active management ebbs and flows, and it depends on the time series that you're looking at. The equities market: you're absolutely right. More recently the breadth of the market – in other words, the number of either companies or sectors within the public market that are outperforming – keeps getting narrower and narrower. You can intellectually appreciate, then, that being able to actively select those assets to be an overperformer in periods in which the breadth of the overperformance is narrow or narrower, a handful of stocks, becomes extremely challenging. But this, too, will pass, and we're very long-term investors. Our long-term ability to select securities and actively beat the market has been strong, but in periods like we've experienced over the last couple of quarters, the last few quarters, that gets to be really, really difficult. You need a really big crystal ball to nail that one, and we see that across the whole equities industry.

2:40

With regard to these other asset classes, you know, active management of illiquid assets is all about how you risk-underwrite and how you maintain your discipline during the cost cycle and then holding them for long periods of time. We've just seen over and over that if we keep our discipline both in terms of underwriting the risk and not chasing transactions at the wrong price, then good things always happen.

The Chair: Very good. Thank you.

Mr. Jones: Thank you.

The Chair: Anyone else?

Ms Phillips: Thank you, Mr. Chair. I just want to go back to a couple of points that you just made about sort of longer term investments and pensions. Now that you are managing the ATRF and the LAPP and the other two for the long term, I'm wondering, I guess: what are the main factors in you being able to deliver those returns to your clients and to be able to do the work of being a patient, long-term investor? I'm going to assume that having new entrants into the pension fund helps. I'm going to assume that having relatively young people paying into the pension fund helps in terms of funds being funded. Are there any other factors that you look for as the investment manager for those large pools of other people's money?

Mr. Uebelein: You'll have to forgive me if some of this is borrowing from messages that Mark or others have said. As we are an aggregator of assets from different discrete pension plans – the pension plans themselves aren't merging, but the assets and the management of those assets by AIMCo will be integrated – we believe that we will be able to create this rather rare combination of a stronger platform. Again, I don't want to repeat Mark, but we really believe, because the ATRF and also the workers' compensation branch have some talented people and have done some very successful things, that by working carefully to create a stronger, combined capability, we will have a stronger platform for continuing to be long-term investors. We'll be able to do that because of the larger scale, about a 25 per cent increase in AIMCo's assets under management, from roughly $120 billion to $150 billion, a larger denominator, lower unit costs.

This isn't all about driving costs down, and I want to be very careful and go on record as saying that this is not just cost management. But I will also say that every dollar of costs is a dollar that you have to make up in gross investment return in order to achieve the net investment return that is necessary to make sure that everyone's pensions are safe in the long run. If we are – and I believe we can be – successful in achieving a stronger platform and at lower unit costs, then we really believe that the pensioners, whether they're from our existing clients that we've had since day one of AIMCo, which includes the members in LAPP, the members in PSPP, MEPP, special forces, and so on and so forth, will enjoy the prospects of better returns.

It's wrong for us to try to say that because we'll be stronger at lower costs someday, contributions could go down, but contributions could go down if we do this right and if the markets treat us well. We need to be very careful, very humble never to promise things like that. But that's the goal in mind, to be better at what we do, and if we're better at what we do, better results should happen. The fundamentals of being a long-term investor: that's exactly what the ATRF has been doing, so we're in close alignment with what they've already been doing and what we will be doing as we integrate with them.

Mr. Prefontaine: I'll just add to that. You, MLA Phillips, raised very good points about what I'll just call the demographics and other factors around pension plans. This is why, when I talk about how important it is to build the relationships with our new clients and to continue to build our relationship with our existing clients, they're the ones that have to think about all of those factors that you referred to. Our being able to understand their needs, their risk tolerances, their objectives, what they're seeking to accomplish on behalf of their members helps us, then, you know, develop the products and strategies that will help them meet those needs.

Ms Phillips: Just a really quick follow-up on that: any moves to limit the number of new entrants would then have an effect on overall returns over time?

Mr. Prefontaine: You would have to go back to the beginning and follow the plot line. If there are changes in the demographics of a pension plan – call it a vanilla pension plan – that may have an impact, depending on other factors, on the risk tolerances, the profiles, the end objectives. What we're seeing broadly in defined benefit pension plan space is that they're on a maturity curve, and they're all at different points of that maturity curve, measured by a number of different waves. Within that, as pension boards and management teams they have to decide what their risk tolerances are. That will then drive their strategic asset allocation, which we will then take and implement as their investment manager, just as we do with the heritage fund with our friends to our right here, helping the minister think through the asset allocation for the heritage fund, and then we implement that.

The Chair: Okay. Thank you.

Watching the clock here a little bit, I've been monitoring our questions. I think I'll give an opportunity if there is one more question from the government caucus. I gave multiple ones to the opposition caucus earlier. Mr. Getson, if you want to ask, go ahead. Then we'll have to move on, looking at the clock.

Thank you.

Mr. Getson: Mine again is about how the – if you can just kind of wrap that up, because you had some great words. You explained it very well, but I'm a little bit slower on the uptake, so I apologize. When you're managing a big portfolio within an organization, you have different clients, which is great. You have this breadth of exposure by managing over $120 billion in assets. Now we've added the pension funds; we've added WCB, et cetera. Just for the folks at home and for myself, who's a little bit slower here: those folks still direct you, no different than Treasury, to your right, on how they want their funds managed, and really what it comes down to is economies of scale. Since you literally have all those horses in the stable, being your personnel that are managing this big $120 billion fund, you're able to leverage that, give better cost-management savings for it while also giving those folks a larger organization to tap into. That's how I kind of understand it. Is that correct?

Mr. MacMaster: That's a pretty good summation. We get the economies of scale. For us, you know, we manage a lot of assets internally, which is about a tenth of the cost of externally managed funds. We're about 80 per cent internal. Economies of scale: bringing on new assets allows us to offer new strategies and extend the global footprint to the benefit of all of our clients. On top of that, we've got a strong platform, as we talked about, in responsible investing, in risk management, in operations. It's top drawer. So it's a really good product, I think, for these clients.

Mr. Getson: I appreciate it. Thank you.

The Chair: Okay. Thank you very much, all of you, for your responses, and thank you to all the members for a very good round of thought-provoking questions.

We do need to officially receive the report, so I'm looking for someone that would be willing to move that

> the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2019-20 second-quarter report of the Alberta heritage savings trust fund.

Mr. Getson: So moved.

The Chair: Mr. Getson so moves. All in favour, please? Any opposed? Seeing none,

> that motion is carried.

Thank you.

Now we need to move on to the review of the 2019 public meeting. Under the trust fund act this committee is required to hold a public meeting to inform Albertans about the status of the fund. This meeting was held in the Federal Building on October 24, 2019. We had 17 members of the public in attendance, and the meeting was broadcast on Alberta Assembly TV, live streamed on Twitter, Facebook, YouTube, and Assembly Online.

At this time I'd like to call on Janet Laurie from LAO communications services just to provide us some additional report on that, please.

Excuse me. Before we move ahead on that – I'm sorry – you are free to leave, gentlemen and Brittany, if you want to. I don't think we're chasing you out.

Go ahead, Janet.

Ms Laurie: Thank you, Mr. Chair. On behalf of communications services we've provided committee members with a summary of the communications activities for the annual meeting. I won't go into that document in much detail. I just wanted to reiterate that our goal was twofold for the meeting this year: to notify Albertans about the public meeting and, secondly, to encourage in-person and online participation during the meeting itself.

2:50

From a communications perspective, we felt that the meeting was successful because we achieved similar engagement to previous years with a reduced budget and in spite of the competing factors that we had during that week. There was the federal election, everyone will recall, and it was also the budget announcement on that particular day, so we had a few other variables that we haven't contended with in previous years.

What we chose to do in aiming for a lower budget was to enhance our social media and to do that with a combination of both organic and also paid social media posts. We found that to be successful.

What we've outlined for the committee members was survey results. To be fair, it's a small sample size, but those results were extremely valuable because that is input coming from our most engaged public audiences. What we're doing is drawing from those results and using them to help us with future planning for meetings for successive years.

Just a couple of things that I thought were really significant. The age demographics reported: we had 30 per cent of our survey group coming from the age group of 26 to 35, which I thought was fantastic. That kind of information helps us when we start looking ahead to how we want to target our social media and how the fact that we're using social media might be why we're reaching more people of a younger demographic. That's important for us when we look ahead in our planning.

The second result that I thought was of interest was also specifically how our survey respondents reported getting notified about the meeting, and 50 per cent of those were through social media. When we look at that balance of traditional advertising versus social media, we can infer from those results that it's sort of starting to shift a bit. Again, when we start looking at future meetings – how do we want to reach people, and what's the most effective way to share information about the meeting with Albertans? – we're looking at all of those variables.

Those were just a couple of quick highlights that I wanted to raise for the committee.

Beyond that, I just wanted to thank committee members for their support. I felt the meeting went very well. Mr. Chair, it was excellent on your part. I would be happy to take any questions if people have any.

The Chair: Okay. Actually, members, if you'll just hold your questions for one minute, we'll wrap this up. I'm going to ask our clerk to also make a few comments on the costs, and then you can question either one of them.

If you could make some comments with regard to the costs associated with that public meeting.

Mr. Kulicki: Thank you, Mr. Chair. With respect to the costs of the public meeting a document was posted on Friday that itemizes the costs and compares them going back to 2016. I think it's a pretty straightforward document, and I don't have much more to say about it, but of course I'm happy to take any questions.

The Chair: Okay. Members, any questions? It's up to you. I don't see any. We are going to finish on time.

Mr. Getson: Well, I guess, just a general comment, Mr. Chair. I'm glad to see that we underran the budget, and it's good to have some metrics that maybe we can target towards. The only thing I would say is that, you know, as some of my colleagues have shared, a price tag per head of engagement would be really nice to bring that ratio down. Again, we're going to challenge each other as members of this to make sure we have the biggest splash, engage that demographic, and then bring the value down for cost per engagement.

The Chair: Okay. Thank you.

Maybe I'll just wrap it up by saying thanks to all of our staff team. You guys have done a great job. I thought the engagement, looking at comparing it to past years, was great, so thank you for the work you've done. I appreciate it a lot.

Okay. One last item of business. The committee is required, according to the act, once again, to report to the Legislative Assembly on whether we feel the mission of the heritage fund is being fulfilled. The last report to the Assembly was made on June 24, 2019, and it covered the activities of the committee during the 2018 year, so now we need to report on the 2019 year. We've had a number of meetings and performed most of what we're expected to do, I think, and we've had another annual report, so we need to prepare that report. In the past the practice has been for the committee clerk to prepare a draft report for the committee's consideration. Once that's approved, which will be at our next meeting, the report is then tabled in the Assembly during the spring sitting of the Legislature.

Any comments or questions regarding that process or the report that we might be wanting to put forward? Seeing none, if you have any later, I suppose you can speak to me about them, and we can work them in. Thank you.

All right. Are there any other items up for discussion today that anybody feels need to be brought forward? No new business? Other business? I'm seeing none.

We will call the next meeting as in the past. I'll call the meeting in consultation with the clerk once we've got dates from all of you on when we're ready to go ahead with it.

Seeing nothing else for the committee to consider, I'll call for a motion to adjourn.

Mr. Nielsen: So moved.

The Chair: Mr. Nielsen, you're on the record. Good.
I don't think a motion to adjourn requires a vote, actually.

Mr. Kulicki: It does.

The Chair: Does it?
Okay. All right. All in favour? Any opposed? None. That is carried, and we are adjourned.
Thank you.

[The committee adjourned at 2:56 p.m.]

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