



Legislative Assembly of Alberta

The 30th Legislature
Second Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting

Thursday, October 29, 2020
7 p.m.

Transcript No. 30-2-3

**Legislative Assembly of Alberta
The 30th Legislature
Second Session**

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

Orr, Ronald, Lacombe-Ponoka (UCP), Chair
Getson, Shane C., Lac Ste. Anne-Parkland (UCP), Deputy Chair
Jones, Matt, Calgary-South East (UCP), Acting Deputy Chair

Eggen, David, Edmonton-North West (NDP)
Glasgo, Michaela L., Brooks-Medicine Hat (UCP)
Gray, Christina, Edmonton-Mill Woods (NDP)
Phillips, Shannon, Lethbridge-West (NDP)
Singh, Peter, Calgary-East (UCP)
Smith, Mark W., Drayton Valley-Devon (UCP)*
Stephan, Jason, Red-Deer South (UCP)**
Turton, Searle, Spruce Grove-Stony Plain (UCP)

* substitution for Shane Getson

** substitution for Michaela Glasgo

Ministry of Treasury Board and Finance Participants

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

Alberta Investment Management Corporation Participants

Dale MacMaster	Chief Investment Officer
Kevin Uebelein	Chief Executive Officer

Support Staff

Shannon Dean, QC	Clerk
Stephanie LeBlanc	Clerk Assistant and Senior Parliamentary Counsel
Teri Cherkewich	Law Clerk
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Amanda LeBlanc	Deputy Editor of <i>Alberta Hansard</i>

Standing Committee on the Alberta Heritage Savings Trust Fund

Public Participants

June Acorn
Sam Balakrishman
Phillip From
Richard Iwuc
Dwayne Wladyka

7 p.m.

Thursday, October 29, 2020

[Mr. Orr in the chair]

The Chair: I would like to call the 2020 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order.

My name is Ron Orr. I am the MLA for Lacombe-Ponoka and chair of the Standing Committee on the Alberta Heritage Savings Trust Fund. The committee is pleased to be holding this meeting on the heritage fund in the Federal Building in Edmonton, for those of you who are online.

Before we begin the meeting this evening, I'd just remind you to turn your phones off if you're in the room and maybe your computers. I'd like to remind all of those in attendance that, based on the recommendations from Dr. Deena Hinshaw regarding physical distancing, attendees at today's meeting are advised to leave the appropriate distance between meeting participants and to wear face coverings if not possible to do so. We are all well spaced out here, so that is good.

I should also, by the way, welcome particularly those in the other room that are watching us on television. Welcome. You'll have an opportunity to come in to the podium as well and ask questions.

Also, pursuant to the August 24, 2020, memo from the hon. Speaker Cooper I would remind everyone that with the exception of those with an exemption, those in the room observing the proceedings of the Assembly or its committees are required to wear face coverings. Further to that, those speaking at the table, maintaining a six-foot distance, are not required to, but of course you absolutely may if you should choose to do that. It's your choice.

The Alberta Heritage Savings Trust Fund Act requires the committee to hold a public meeting on the fund every year, so that's what we're here today to do.

The nonpartisan staff of the Legislative Assembly Office arrange and help us promote these meetings, so I really want to thank all of them for all of the work that they've done to make this meeting possible, especially this year with the extra protocols and the extra procedures, and the tech staff sort of in the backroom to make all of the virtual attendance by various means possible. Truly, a thank you to all of you for that.

The Alberta heritage savings trust fund is an important part of investing in a better Alberta. The fund earned a net income of \$1.3 billion for the year ended March 31, 2020. A return of 5.1 per cent was achieved during the fiscal year. This public meeting is an opportunity primarily, actually, for Albertans to participate in a discussion about the fund and what's in store for 2021 and how the fund will continue to provide a positive future for our province in the years to come. As well, the investment professionals hired to manage and get the best possible return for the fund are here to answer your questions and explain whatever you would need.

I would now like to ask the members of the committee to introduce themselves. First, those to my right.

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

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

Mr. Smith: Good evening. My name is Mark Smith. I'm the MLA for Drayton Valley-Devon and subbing in for Shane Getson.

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

Mr. Stephan: Good evening. MLA Jason Stephan, Red Deer-South, substituting for Michaela Glasgow.

Ms Gray: Good evening. I'm Christina Gray, the MLA for Edmonton-Mill Woods.

Mr. Turton: Good evening, everyone. I'm Searle Turton, MLA for Spruce Grove-Stony Plain.

The Chair: I believe we have one other committee member, Ms Phillips, on the phone.

Ms Phillips: Yes, Mr. Chair. I am on video conference.

The Chair: Thank you.

I should officially note for the record that Mr. Stephan is substituting for Ms Glasgow and that Mr. Smith is substituting for Mr. Getson. The deputy chair for this evening is Matt Jones, substituting for the regular deputy chair, Mr. Getson, who cannot be here.

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

Joining us on the panel today from Alberta Treasury Board and Finance is Mr. Lowell Epp, assistant deputy minister, treasury and risk management, and Ms Brittany Jones, senior manager of portfolio analytics.

The Alberta Investment Management Corporation, or AIMCo, as we refer to it, is responsible for making and managing investments in stocks and bonds and other investment returns within the fund's portfolio. Joining us from AIMCo tonight are Mr. Kevin Uebelein, the chief executive officer, and Mr. Dale MacMaster, the chief investment officer.

Tonight's meeting is being broadcast live on Alberta Assembly TV and streamed in both audio and video formats on the Legislative Assembly website at assembly.ab.ca. We are also streaming live on the Legislative Assembly of Alberta YouTube, Facebook, and Twitter accounts. I'd like to encourage everyone to join the discussion during our live broadcast. You can ask questions via teleconference by calling 1.888.241.0394. That's 241.0394. You can submit your questions via e-mail at Committee.Admin@assembly.ab.ca or through the Legislative Assembly of Alberta social media on Facebook and Twitter using #abheritagefund. The contact information is displayed on the bottom of the screen as well.

We hope to respond to as many questions as time will allow during the question-and-answer segment of the meeting, which will immediately follow our panel presentations. The committee will alternate questions between those who are present here in the Federal Building and those joining us via teleconference and those asking questions via e-mail and social media. Your input is important to us, and I encourage you to participate. Participants are asked to please keep their questions and comments respectful and relevant to tonight's topic, the Alberta heritage savings trust fund.

Please note that this meeting is being recorded by *Alberta Hansard*. A transcript of this meeting will be available online on the Assembly website in due course.

With that, let's take a look at the video on the Alberta heritage savings trust fund, followed by presentations from Treasury Board and then AIMCo.

[A video was shown from 7:07 p.m. to 7:09 p.m.]

The Chair: Thank you. I would now like to invite Mr. Lowell Epp with Alberta Treasury Board and Finance to present a financial update on the heritage fund.

7:10

Mr. Epp: Thank you, Chair, and thank you for having me attend tonight. As always, it's a pleasure to be here. I will go over it briefly, hopefully briefly, to be able to allow more time for questions and just give a brief overview.

The heritage fund is governed by legislation, the Alberta Heritage Savings Trust Fund Act, and that act in its preamble gives the following mission. The mission of the heritage fund is to earn the greatest financial returns on Alberta savings for current and future generations of Alberta using prudent stewardship. Another key point from the legislation is that the legislation requires that the fund be managed in such a way as to maximize its long-term investment earnings.

In terms of implementing this mission, we have five key objectives or parameters, if you will, when we look at investing the fund. The first is prudent balance between expected returns and risk. It's always difficult to know what the right balance is, and of course expected returns don't always equal actual returns, as we saw in the last, well, about six months now. The fund isn't focused on short-term results; it isn't focused on one year. It is invested for the long term, and it has a long-term focus. It is globally diversified. We have investments in pretty much any publicly listed company in most of the world. And, finally, our investment manager strives for cost-efficient management by achieving economies of scale through the management of a variety of public pension plans, other funds, and, of course, the heritage fund.

As far as the heritage fund goes – and this is for the year ended March 31, 2020 – at the end of the year it's \$16.3 billion. That's the market value of all the assets. Last year it earned a return – well, it lost 5.1 per cent in market value terms, however, for one year. Again, we're going to have ups and downs. Over five years the fund has made 5.2 per cent and 8.4 per cent over 10 years. This past year the fund earned \$1.3 billion in net income and transferred just over a billion dollars of that to the general revenue fund. Since its inception 44 and a half billion dollars of investment earnings have been returned to the general revenue fund or invested in capital projects around Alberta.

Now, one question that some people might ask is: how can a fund have a return of negative 5.1 yet earn a billion dollars or \$1.3 billion in earnings? The difference is between market value and accounting value, if you will. Net income is calculated on an accounting basis, and therefore only realized gains and losses are recognized in the fund. The market value, of course, values things instantaneously as they change in the markets.

Of course, this year's returns are heavily influenced by the timing of the year-end. If you look at the first, well, 46 weeks or thereabouts of 2019-20 – and what I've got on the screen is the MSCI world index; that's an equity index representing all major developed nations and the equity markets within those countries – you can see that the index in Canadian dollar terms was up 13 per cent over the first 46 weeks or thereabouts, but in the next six weeks it lost about 18 per cent. Now, if our fiscal year went from June to June or September to September, we would have seen a much different return, but because of timing – and it's not an excuse; it's just a reality – the fund during the year lost 5.1 per cent. Since bottoming out near the end of March, around March 23, you've seen a 19 per cent increase in the equity markets across the world. While the fund's value was \$16.3 billion at year-end, our latest estimate for September 30, 2020, is that it is worth \$17.2 billion. So it has recaptured most of the gains.

How can I say that it recaptured most of the gains when it's almost \$2 billion lower? Well, the actual losses in market value terms were \$887 million. We had realized income of \$1.3 billion and unrealized losses of \$2.2 billion, leaving \$887 million as the market value loss, if you will, for the year. Because it had strong earnings – and the heritage fund act requires earnings to be transferred to the general revenue fund, except for an amount to cover inflation for the year to keep the real value of the fund the same – just over a billion dollars was transferred to the general revenue fund. So the drop of \$1.9 billion is a combination of transferring money to the general revenue fund and approximately \$900 million in losses. Most of those losses weren't realized and have since recovered, as I mentioned earlier.

As far as the value of the fund over the last 10 years, you can see that it had a nice run from 2008-09. It lost about \$3 billion in 2008-09, but since that time, until this past year we've seen good gains in market values. We've also seen gains in book values. Book value is based on cost and realized gains. Market value looks at current values. You can see the drop over the last year. But the cost basis for the fund: those increases basically reflect the amount of money that's been kept in the fund for inflation-proofing.

This graph just shows the cumulative transfers to the general revenue fund of 44 and a half billion dollars since 1976-77. You can see the annual income transfer by year. Three years ago we had a record transfer of over \$2 billion to the general revenue fund. This last year, as I said earlier, about \$1 billion was transferred to the general revenue fund.

I'm going to switch gears a little bit here. How is the fund invested? Well, we have a target allocation. The chair spoke earlier about the department setting the investment strategy or the investment allocation. That allocation has been set to have a 50 per cent allocation towards equities, including Canadian equities, global equities, and private equities. Compared to most pension plans, the heritage fund has more global equity and less Canadian equity. Fixed income makes up 20 per cent of the fund. That includes bonds, mortgages, private debt and loans, as well as cash. Cash is a very small component of the fund. Inflation-sensitive and alternative investments make up the final 30 per cent of the target allocation. Those include infrastructure like utilities, pipelines – there's an airport in London that my colleagues from AIMCo can discuss – those sorts of assets. They're renewable resources, real estate, timberland, farmland, and those sorts of investments.

In terms of the actual asset mix – and AIMCo as investment manager has the responsibility to set the actual allocations, and they have room under the investment policy to adjust away from those targets when they feel it is appropriate – at March 31, 2020, equities were 45 per cent or just under 45. That reflects the drop in value of equities, which got hit the hardest, of course. Fixed income was just under its target at 19 and a half per cent. Inflation-sensitive and alternatives were above target at just under 35 per cent. One last category is strategic opportunities, .8 per cent. Those are opportunities or investments that don't fit cleanly into any of those other three buckets.

7:20

In terms of performance, as we said earlier, the fund lost 5.1 per cent last year in market value terms. We have a long-term target, however, and this target is to earn a return of inflation plus 4 and a half per cent over five years. A real return of 4 and a half per cent would be another way of looking at it. For one year that target was 6.1 per cent. Clearly, we were under that long-term target, but we don't expect to be above it every year. Over the last five years we are 1.1 per cent under that target, so we have not met our expectation. Over 10 years we certainly have met that expectation,

with a 2.2 per cent difference between the 8.4 per cent it earned and the 6.2, which is inflation plus 4 and a half per cent, over that 10-year period.

In terms of value-added performance the province expects the investment manager to earn 1 per cent over the passive benchmark. The passive benchmark is something like the S&P, the TSX index, that represents Canadian stocks. There are a variety of indexes for all of the different funds and assets that AIMCo manages. When combined, you get a benchmark return. Last year's benchmark return was .8 per cent; actual return was negative 5.1 per cent. Again, we look at this over a longer period of time, not a single year. Over five years the value-added has been .2 per cent, and over 10 years the value-added is .4 per cent.

Finally, a look at where the earnings of the fund come from. You can see that over the last year inflation-sensitive and alternative investments were the largest contributor to earnings at \$872 million. Equities provided \$455 million and fixed income \$126 million. The investment expenses were \$153 million, which nets out to \$1.3 billion.

Over five years, which again is really our focus, you see a slightly different pattern. Fixed income, again, the lowest: interest rates have been low. You can't expect much when interest rates are as low as they have been and coming down over the last 10 years. Equities have outperformed inflation-sensitive and alternatives. We would expect that to happen over the long term, and it has. Inflation-sensitive and alternative investments have done very well for us. Remember, that's 30 per cent of the portfolio that earned that \$3 billion whereas about 50 per cent of the portfolio is invested in equities and earned \$4.3 billion. The real star over the last five years, if you want to put it that way, would be inflation-sensitive and alternative investments. The total fund has earned \$7.6 billion over the last five years, \$6.6 billion of which has been transferred to the general revenue fund.

That wraps up my presentation. Thank you, Mr. Chair.

The Chair: Thank you, Mr. Epp.

Now I'll pass the torch to Mr. Uebelein to provide AIMCo's presentation regarding the fund. Thank you.

Mr. Uebelein: Thank you, Mr. Chair. On behalf of all of us at AIMCo it's a pleasure to be here again to have an opportunity to discuss the role of our organization in support of the heritage fund. The purpose of an evening like this, of course, is to spend as much time answering questions from the public, so my comments will be relatively short.

As I was preparing to make these comments, I was trying to formulate a cohesive narrative for what's happened in the last year, and frankly I came to the conclusion that there's really nothing normal about this last year. As an Albertan, as an Edmontonian, as a leader of a large global asset manager I've seen first-hand the impact of the pandemic and what it's had on Alberta, on our employees and their families, and on all the businesses that we invest in both here and around the world.

I'm sure that all of you here and those of you who are watching or listening from a safe distance are coming to a realization that the response to the challenges that this year is handing us cannot be handled like a sprint. We're going to have to view this much more like a marathon. The problems are not going to go away soon, but if we endure, we will eventually win. Responding to the virus itself or the economic consequences that the virus is handing us, we have to think beyond just our day-to-day responses. We have to show our preparedness and commitment for the long run. I think this means a long-term plan that includes issues of safety, protection, learning, adaptation, opportunity identification, and then eventually

recovery, growth, and thriving. I think this is what our families, our province, and our country have to be thinking about. I mentioned them because that's exactly the long-term investment approach that AIMCo is taking as it manages the heritage fund assets through this very difficult period.

Like all Albertans, AIMCo has felt the impact of COVID-19 in our lives and in our business. The health and safety of our employees are paramount, and since mid-March our entire team has been working from their homes. This transition has been working extremely well. Our productivity remains high as we take advantage of all the remarkable technologies that we have at our disposal.

Safeguarding the investments that we manage on behalf of all of our clients is just as important. The global economic impact of COVID-19 plus an oil price war earlier this year caused virtually all asset values to be significantly repriced downward and investment markets to enter a period of sudden and unprecedented volatility. In extreme market cases like this, where all asset classes decline together and at the same time, the typical benefits of portfolio diversification diminish in the short term, but luckily those diversification benefits ultimately always return.

While there haven't been many places to hide from the negative economic impact of COVID, direct holdings – direct holdings – and assets as opposed to shareholdings in public companies have been hit particularly hard, and this is because the stock market exuberance has kept share prices high or has returned many share prices to higher levels. But that doesn't work for private companies, especially when the underlying economic fundamentals don't support the same level of exuberance.

The losses incurred by AIMCo from one of our investment strategies, a volatility trading strategy that we call VOLTS, have been well reported by AIMCo as well as the press. The scale of those losses experienced earlier this year during a period of remarkable market conditions was well beyond what our clients or we would have wanted or expected. Now, to be clear, it is the scale of those losses and not the fact that there were losses at all that is of note here and the reason why this bears close scrutiny by us and others. The AIMCo board and I have analyzed the situation extensively, we've reported on it to our clients and to the public at large, and we're making the necessary changes.

Over our longer history AIMCo has been very successful at taking well-understood and measured risk in earning appropriate risk-adjusted value-add returns for our clients, including the heritage fund. Our long-term track record is a testament to this success. For the heritage fund we've delivered excess returns over our benchmark on average 2 out of every 3 years, and over the last five years AIMCo has been a top-quartile value-add performer overall for our clients. There is no denying that this past year was clearly an exception to our excellent track record, and of course it's one that we don't want to ever see repeated.

7:30

All of us at AIMCo take solemn pride in our role as Alberta's investment manager. Not only are we responsible for the \$18 billion of total investments on behalf of the heritage fund and the related endowments; we also manage another \$100 billion in assets for 32 unique Alberta-based clients, comprising public-sector pension plans and government funds. We take that job extremely seriously, and we're grateful for the confidence that Albertans continue to place in us. We never want to misplace that confidence, and we're working hard to maintain it and to regrow it.

While AIMCo is a global investment company with global investment reach, we are very much an Alberta story. Well over 90 per cent of our employees call Alberta home. We are active

members in our communities. We hike the same trails, we root for the same teams, and our children attend the same schools. That ethic that drives us to do right in our community permeates our business as well.

This year marks our 10th year as a signatory to the United Nations backed principles of responsible investment. We achieved our best ever results in the annual United Nations led survey that assesses AIMCo's environmental, social, and governance integration and performance and compares it with our peers. By continuing to use our voice as an influential investor and actively participating in engagement and advocacy, we continue to see success in promoting responsible investment and business practices.

Closer to home, part of our commitment to Alberta is the AIMCo Foundation for Financial Education. This is something that I introduced in the last public heritage fund session, a year ago. The AIMCo foundation is a separate entity. It is a nonprofit. It is not funded by the government or by AIMCo's clients but only from AIMCo employees and other generous donors. More than ever this pandemic has amplified the need for sound financial education and understanding for all Albertans. The AIMCo foundation has been proud to support and partner with several valuable financial coaching programs, including the United Way Empower U program and Momentum's aspire program. I want to take this moment to encourage everybody who's here or watching to learn more about the work that the AIMCo Foundation for Financial Education is doing by visiting that separate website.

In conclusion, I want to stress again the feeling of privilege and honour that we at AIMCo have in serving all Albertans. Our stated vision is to enrich the lives of Albertans by building prosperity, security, and opportunity across generations. Our aim to accomplish that lofty goal is by carefully fulfilling our investment mandate and responsibilities to all of our clients, including the heritage fund, every day and over the long run.

Thank you, and I look forward to our discussion.

The Chair: Thank you, Mr. Uebelein. Did you also have the video that you wanted to run?

Mr. Uebelein: I believe we do have a video.

The Chair: Okay. So if we could please run that now.

[A video was shown from 7:33 p.m. to 7:35 p.m.]

The Chair: Great. Thank you to both Treasury Board and Finance and AIMCo for your presentations.

As we open the floor for your questions, I just want to remind everybody that we encourage Albertans to join the conversation and submit your questions to the committee or to our panel of experts. Once again, you can ask your questions via teleconference by calling 1.888.241.0394. You can also submit your questions via e-mail at committee.admin@assembly.ab.ca or through the Legislative Assembly of Alberta social media on Facebook or Twitter using #abheritagefund. As I mentioned, your comments are important to us, and we will attempt to answer as many questions as possible during the meeting.

I now open the floor to questions. Here's how this is going to work because we're having questions from a number of different sources. We have guests in the building, so they will be brought over as they want to. We have one at the podium now, which I will get to in just a second. But I also will possibly have telephoned-in questions on my left and social media delivered questions on my right, so I will try and alternate between the three and keep everything going. If we run out of questions from Albertans, then I

will give members of the committee opportunity to ask questions as well.

With that having been said, all questioners for whatever media, please state your name for the record before you speak, and then proceed with your question.

I will recognize you at the podium. The floor is yours.

Mr. Wladyka: Okay. I'm going to keep this thing on.

The Chair: You're totally welcome to do so.

Mr. Wladyka: Okay. Now, the question I have is: why are we having such a paltry heritage fund, and given the prices of oil being so low, what are you going to do to rectify this? I heard not that long ago that Alberta lost approximately \$433 billion due to not properly managing our petrochemical wealth over the years since Peter Lougheed was no longer the Premier. What are you going to do to replenish this fund to make it so that we have something for the future in case some other thing happens and we need cushioning for economic hardship?

Thank you.

The Chair: Are you done?

Mr. Wladyka: Yeah, I'm done.

The Chair: Thank you for that question.

Who wants to respond to that from our presenters? Mr. Epp.

Mr. Epp: The government's plan at this point is to first of all deal with the province's deficit and to stop running deficits. The next step would be to pay down the province's debt and, after that, to start building savings up again.

The Chair: Our procedure usually, I should have said as well, with the committee is one supplemental following your main question. I believe I didn't get your name.

Mr. Wladyka: My name is Dwayne.

The Chair: Wayne. Thank you, Wayne.

Mr. Wladyka: Dwayne.

The Chair: Dwayne. Got it.

Mr. Wladyka: Thank you.

The Chair: And your last name, Dwayne?

Mr. Wladyka: Wladyka.

The Chair: Wladyka. Okay. Did you have a supplemental you want to follow up with, or would you like to just leave it at that?

Mr. Wladyka: I'll give somebody else an opportunity to ask a question.

The Chair: Okay. Thank you very much.

Mr. Wladyka: You're welcome.

The Chair: Okay. We have callers on the phone. Can we put the first one on, please?

Mr. Roth: Operator, can we please have the first caller? Can the caller please identify their name and where they're calling from? I have Ed McCulloch on the phone. Are you there, Ed?

7:40

Mr. McCulloch: I'm here, but I didn't ask a question.

Mr. Roth: Okay. If you could just state your full name.

Mr. McCulloch: Unless you have another Ed McCulloch.

Mr. Roth: Okay. If you could please state your full name for the record and where you're calling from, please?

The Chair: He said that he doesn't have a question.

Mr. Roth: Oh. Okay.
June Acorn.

Ms Acorn: Yes, speaking.

Mr. Roth: Do you have a question, June?

Ms Acorn: I have a suggestion, and that is: the hon. Jason Kenney would be assured of a position on the world stage if he were to engage the investors who manage the Norwegian oil fund, which has, since 1990, now over \$1.3 trillion.

The Chair: Anyone want to respond to that?

Ms Acorn: I would like a response if somebody would be willing to respond.

The Chair: Mr. Epp is going to do that.

Mr. Epp: Sure. There are significant differences between Alberta and Norway, many significant differences. Alberta is not an established country. It is a province. Through much of the history of the fund it is a developing province. It is relatively young compared to a country like Norway. Governments in the past . . . Pardon me?

Ms Acorn: Norway's fund was started in 1990 whereas Alberta's fund was started in 1976.

Mr. Epp: That is true. However, past governments, right or wrong, have made decisions to reinvest in Alberta in part by transferring some of the earnings or most of the earnings into the general revenue fund to pay for services that the government provides to its citizens. There are some other differences. Norway is a sovereign nation. Alberta is a province. We can all remember back to the national energy program, when the rest of Canada, particularly those in the east, eyed Alberta with jealousy. The national energy program was a response to the growing wealth in Alberta. If Alberta had a \$1.3 trillion fund, if that was even possible, what would the rest of Canada do? That would be the question. Norway didn't have to answer that question. I can point out a couple . . .

Ms Acorn: I don't understand that question.

Mr. Epp: Okay.

Ms Acorn: Well, the rest of Canada would be quite happy, I would think.

Mr. Epp: Well, this is only my opinion.

Ms Acorn: Well, this is only mine, too.

Mr. Epp: The evidence would show otherwise, I would argue.

The Chair: Okay. Thank you, Mr. Epp.

I think we'll move on, then. We also have a question on social media.

Mr. Jones: Yes, we do, from Anselmo Armas via Facebook, asking for the value of Norway's fund in comparison to the Alberta heritage savings trust fund.

Mr. Epp: I understand that their fund is worth about \$1.3 trillion from our last caller. Our fund is worth around \$17 billion right now.

The Chair: Okay. Maybe I can add just a little bit of clarity, hopefully, to all of that discussion. Let's remember that the heritage fund has transferred almost \$45 billion to Alberta's general revenue, which has benefited Albertans in the form of school supports, health supports, social service supports, and all the services that the government provides. If we had kept all of that money in the fund, then, of course, the earnings would have grown at multiplied numbers at times, and it would be larger.

The other point that I think Mr. Epp was trying to make is that a part of the broader discussion is that, because we're a province, as a part of a country, whereas Norway is a country that makes its own sovereign decisions, we don't make all those decisions here in Alberta.

Of course, there's been considerable discussion in our province and across the country over the transfer payments that Alberta contributes, billions of dollars a year, to the broader part of the country, \$20 billion a year, lately, it's been. That additional \$20 billion a year, if it had gone into the heritage savings trust fund, would have made a difference, but we are part of a country. We have some obligation to the rest of the country, so some of our funds go there rather than into the heritage trust fund. I'll just throw that out also for conversation.

I think we have another guest from the building. Please take the podium. State your name and then your question.

Mr. Iwuc: Good evening. My name is Richard Iwuc. My question is regarding the investment policy for the heritage fund. I believe it hasn't been updated since 2011. Is that correct?

Mr. Epp: It hasn't had a major update since 2011. It has been adjusted many times since 2011.

Mr. Iwuc: Okay. But since it hasn't had a major change in almost 10 years, would it not be time to perhaps have a major review of the investment policy and perhaps look to the endowment model that is prevalent amongst U.S. universities as a way to invest for the future?

Mr. Epp: I can take the first part of that question. Ms Jones here has been recently promoted to her position, and we're very happy with that. She is going to lead a major review of the investment policy of the fund. As far as the endowment model, that is certainly a model that could be used. It is used for three other endowments that the government owns: the science and technology, the medical research, and the scholarship fund. The Legislature has decided, in its wisdom, to take the income out and not run via an endowment method.

Mr. Iwuc: Well, if I can, just as a supplemental, with the endowment model of investing, the spending policy takes out only a specified portion as opposed to all of the . . .

Mr. Epp: Yeah.

Mr. Iwuc: Understood there on that part. Okay.

Mr. Epp: Okay.

Mr. Iwuc: Thank you.

The Chair: Thank you very much. A question and an answer.

I think we're back now to the telephones. On the telephone, please.

Mr. Roth: Sam Balakrishman, do you have a question for the committee?

Mr. Balakrishman: I do.

Mr. Roth: Okay. Can you please state your full name for the record and where you're calling from?

Mr. Balakrishman: My full name is Sam Balakrishman, and I'm calling from Edmonton.

The Chair: Please proceed with your question.

Mr. Balakrishman: My question is actually simple. Why are we not using the entire fund from AIMCo to invest in businesses in Alberta in an attempt at improving not only the infrastructure but improving the diversification with respect to technologies, and emerging technologies? Why are we not investing in those?

The Chair: Thank you for the question. Who wants to field that one?

Mr. Epp: I would say that governments over the years have decided, particularly after about 1997, when the legislation for the heritage fund was changed, that investing in companies is best done through other programs. The Alberta Enterprise Corporation would be one example of an investment fund that invests in small Alberta companies with a venture capital focus. There are other programs that do invest in Alberta companies. The mandate of the heritage fund, again, set in legislation, is to maximize long-term earnings with a prudent level of risk.

7:50

The Chair: Yeah. Mr. Uebelein, you can add to that one. I thought you might want to.

Mr. Uebelein: Sure. I would just add, to help answer Sam's question, that AIMCo does invest on a global basis, but our investing in Alberta, where we find a lot of what we think are very good investments, is substantial, particularly if you think about Alberta as a percentage of the global economy. We typically have something between 8 and 9 per cent allocation across all asset classes to Alberta investments. If you think, broadly speaking, Alberta might be a little less than one-half of 1 per cent of the global economy. We have a very large overweight – that is the way we would look at that – and we're very comfortable with that overweight because we find a lot of both growth and value opportunities throughout the cycle here in Alberta.

The other thing that we have to be mindful of that would really, I think, preclude us from going much deeper in terms of our allocation to purely Alberta is something that we call wrong-way risk. Wrong-way risk is something that says, for instance, that if Mr. Epp here is reliant completely on the company that he works for, then his investment portfolio probably shouldn't solely be in the stocks of that company, because if he ever lost his job or if that company ever failed, then his nest egg would also fail at just exactly the same time. We think about diversified portfolios to benefit Alberta, including through tough times. We need to be mindful that

we don't invest in things that also have a tough ride exactly when the tough times occur. That's what wrong-way risk is, in essence.

The Chair: Thank you for that answer.

Mr. Roth: Is there a follow-up question, Sam?

Mr. Balakrishman: Yes. The follow-up question is actually very simple.

Hi. Can you hear me?

The Chair: Yeah. We can hear you.

Mr. Balakrishman: Oh, okay. Sorry.

We have to be rethinking the entire paradigm of how we invest. We already said about the pandemic and what we are going to think about in the future and how these things are changing. Alberta business is having to look for funding in terms of a number of places, and here we have billions of dollars being invested in everywhere else compared to Alberta. If we invest all that funding in Alberta, paying them far more annually and all that kind of stuff, there is lots of opportunity. I still can't see why it would be better to invest in somewhere else than in Alberta, where we can create more jobs.

The Chair: Okay. I appreciate that. I'll take the comment. I think we've somewhat answered the question, but fair enough for a comment.

I think we'll move on, then. We have another question on social media, please.

Mr. Jones: We have a question via e-mail from Kim Hula-Hetu.

Given AIMCo's sub-par investment returns, should we consider finding another investment group to manage the money, or split the money between two groups to ensure better overall returns?

The Chair: I think that's a question Mr. Epp has to answer.

Mr. Epp: We certainly evaluate AIMCo's performance. Again, it has never been the government's intention – and this goes much farther than the current government but back through many governments. The intention is to look at the long term. As Kevin pointed out, there have been studies done by certain pension measurement groups, and AIMCo is often listed as a top-quartile investor, with top-quartile value-added and top-quartile low costs.

Over the long run we believe AIMCo will deliver value. Yes, they had a tough year last year. Certainly, that is the case, but active management comes with risk, and sometimes those risks don't pay off. Again, I would emphasize that we're looking at long-term performance and long-term value.

The Chair: Thank you, Mr. Epp.

Yes. We have another guest from in the building. If you could please take the podium there and state your name and ask your question.

Mr. Wladyka: Yeah. I was going to say that I feel like a politician. I'm related to some, including a long-term Alberta MLA.

Anyway, on to my questions.

The Chair: Maybe state your name again for the record.

Mr. Wladyka: My name is Dwayne Wladyka. My questions are as follows. Norway copied what Peter Lougheed did. Why were the royalty rates for Alberta's oil reduced so dramatically? That's my first question. Peter Lougheed had oil royalty rates that were as high

as even 40 per cent, and oil companies didn't say: I'm going to leave Alberta.

My supplemental question is as follows: given AIMCo's poor track record, why was the heritage savings trust fund put into something like that? AIMCo is so risky. It already has lost \$4 billion of people's pension money and close to \$2 billion of the heritage savings trust fund.

Thank you.

The Chair: Mr. Epp, please.

Mr. Epp: Yes. In terms of the first question, low royalty rates, I'm afraid I am not able to answer that. That predates my time working in Alberta, so I'm sorry that I am unable to comment on royalty rates.

As far as AIMCo being overly risky, most of the portfolio's risk is set in the province's or the heritage fund's investment policy, and that's a choice, ultimately, of the Minister of Finance. We have set up an investment mix: 50 per cent equities, 30 per cent alternatives, 20 per cent fixed income. We believe that over the long run that will maximize income while allowing prudent diversification. Will it have some bad years? Absolutely. In 2008-09 there were even larger losses than this past year. But by focusing on the long term, not selling during panics, and looking to keep value over a business cycle, if you will, we believe that the heritage fund will do better than otherwise.

AIMCo, as I've said earlier, is a top-quartile global investment manager, and the government has full confidence in their abilities to deliver good, strong investment returns over the long run.

The Chair: Thank you very much. I appreciate it. Good.

Now we'll go to social media again. Oh, are we back – I lost track. To the telephones, then. Thank you.

Mr. Roth: Operator, can we please have Phillip's line open? Phillip, if you can please state your name for the record and where you're calling from if you have a question.

Mr. From: Hello. My name is Phillip From, and I'm calling from Grande Prairie, Alberta. My question is regarding Bill 22, which mandated that the ATRF, the Alberta teachers' retirement fund, was going to be managed by AIMCo. I'm wondering what you can give me to instill confidence in AIMCo to manage teachers' pensions once that begins happening. What can be told to me that will make me feel good about a teacher's pension being managed by AIMCo other than a slick propaganda commercial?

8:00

The Chair: Thank you, sir, for the question. This is the chair here. I appreciate your concern. AIMCo does have some overlapping responsibility, but this committee really does not address the teachers' fund at all. This is about the heritage savings trust fund, so I would prefer we stay to that.

Having said that, if there's someone from the floor who would like to respond, you may, but you don't have to. I see Mr. Uebelein has raised his hand, so please respond.

Mr. Uebelein: Thank you. I appreciate that this is supposed to be a conversation about the heritage trust fund, but opportunities to have conversations like this are so rare. Phillip, here's what I would say. The work through partnership with the other pension plans that we have served now for many years has resulted in those pension funds being some of the envy of the world in terms of the calibre of their funded levels, even after a truly awful year. There's no denying that the performance in the last fiscal year should have been better and

could have been better. Notwithstanding that, our ability, again, working together with those other pension plans, has resulted in pension plans that are in an extremely strong funded position. That's point one.

Point two is something that I've said over and over, which is that through combining both the assets but also the capabilities of both AIMCo and Alberta teachers' retirement fund, we create a larger pool of capital that will result in enormous benefits not just of scale – scale is a meaningful driver of returns, but scale also drives opportunity sets and the ability to find transactions on a global basis that just can't be found at a \$19 billion level – but also of combining capabilities, combining skill. What I look forward to is a combined AIMCo-ATRF skill set that is stronger than either ATRF was or AIMCo was, and I think that's what we should all look forward to.

The Chair: Thank you, Mr. Uebelein. Appreciate that.

I would just encourage questioners to please try and keep your questions focused primarily on the heritage savings trust fund, which is the mandate of this committee.

We'll move to social media. Next question, please.

Mr. Jones: Thank you. A question from Mary M. on Twitter: "Is there a case to be made for liquidating the #abheritagefund to pay off temporary COVID-19 deficit to help balance the budget? If we do not use the fund now, when will we ever use it?"

Mr. Epp: The mission of the fund as set by the Legislature is to maximize the benefit not only for current Albertans but future Albertans as well. That's the mandate of the fund. It would require a change to the Alberta Heritage Savings Trust Fund Act by the Legislature to change that, and of course the Legislature, should it decide to do that, can do that. To date that has not happened. Will it happen? Well, that's for elected officials to answer, not myself.

The Chair: Thank you, Mr. Epp.

I don't think we have any other callers on the line right now and no more in the room or in the building, but we do have more on social media, so we'll stay with social media until we get through those ones.

Please proceed.

Mr. Jones: Thank you. Donna Swalm sent an e-mail earlier this week in which she indicated the importance of prudent management and transparency for the fund. She would like to know what percentage of the fund is being used and an idea of what projects are receiving funding. She's interested in how the projects diversify or strengthen the economy and contribute to fiscal stabilization and would like to see Albertans able to contribute ideas on which projects should qualify to receive funding from the heritage fund.

The Chair: Mr. Epp, are you . . .

Mr. Epp: I'm not sure how to answer that. I'm sorry.

The Chair: Okay. That's fine.

Mr. Epp: Could you repeat the question, please?

Mr. Jones: I think I can answer the question. It's fairly high level. She asked: what percentage of the fund is being used? Well, all of the fund is being used to generate returns, and those returns: a portion is kicked back to the general revenue fund to be used for the Alberta government's purposes; the rest is reinvested for inflation protection. She's interested in how the projects diversify or strengthen the economy and contribute to fiscal stabilization.

That one I would turn over to Kevin Uebelein.

Mr. Uebelein: Yes. Well, as I said, our objective is to maximize risk-adjusted investment return. As a function of doing that, we're investing on a global basis. As I also said, right now we have about an 8 and a half per cent allocation across asset classes here in Alberta. Our objective in those investments actually is not per se to stabilize the economy, but we think that when we invest in good companies and they thrive, then the economy – good things happen. It has a multiplier impact. But measuring that impact is not, frankly, something that we do.

The Chair: Thank you.

Mr. Jones: There was one more component.

The Chair: Oh, okay. A supplemental to go with that question, then, yes?

Mr. Jones: Just one more component of the question. She's curious or would like to see Albertans able to contribute ideas on which projects should continue or qualify to receive funding from the heritage fund.

Mr. Uebelein: We will consider all forms of investments. You know, frankly, we know that we don't corner the market in terms of investment creativity or deal sourcing, so we're all ears, absolutely.

The Chair: I think maybe we could add to that, and Mr. Epp can correct me if I'm wrong. The mandated legislation for the fund requires that the earnings of the funds minus the inflation factor must be contributed to general revenue, not to a series of particular causes or funds. It goes into general revenue, from which case the Alberta budget, approved in the Legislature, would determine where it gets allocated. So I think that's part of the answer.

I don't know if you want to add to that, Mr. Epp, or not.

Mr. Epp: No. I think you said it very well.

The Chair: Thank you.

Do we have another question on social media?

Mr. Jones: Many.

The Chair: Please proceed.

Mr. Jones: Linda from Twitter asks: "How much of the fund is/was invested in the Alberta energy industry directly and indirectly? What do you anticipate doing with those holdings in the short and long term?"

Mr. MacMaster: Yes. Within equities there was \$269 million invested in energy exposure and fixed income \$150 million.

Mr. Uebelein: If I'm doing my math, that's a little over \$400 million on \$16 billion or \$17 billion.

Mr. Jones: Thank you.

The Chair: Okay. Before I go on to the next question, I just would like to recognize that MLA Rod Loyola has also joined the call via Skype. I just recognize him for the record as an MLA, just so you're aware.

I believe we have a further question on social media. Please proceed.

Mr. Jones: Mike O'Reilly from Calgary asked via e-mail:

Can Kevin please comment on the impact on General Revenue in the event of a 25% decline in equity markets that lasts for [a]

minimum of five years – as during the Great Depression? How much of a percentage impact would there likely be on the approximate \$1 billion dollars that is transferred presently?

Mr. Uebelein: Well, if we enter another Great Depression period, with equity prices declining like that and for a prolonged period, we're going to have a whole series of problems not just with the heritage fund performance but writ large across Alberta, across Canada, and, of course, across the rest of the world. None of us lived through the Great Depression, but some of the volatility that we saw in the markets just for a short period of time reached Great Depression levels, and it was hair-raising, yet we recovered very, very quickly.

I think that one thing I'll say to answer – what was the name of the questioner?

An Hon. Member: Michael.

8:10

Mr. Uebelein: . . . Michael is that in a very interesting way the value of the heritage fund, of course, would drop. If 40 per cent of our assets are in equities and equities dropped by 25 per cent, then you would have about a 15 per cent reduction – that's assuming nothing else goes down – of the overall fund. But because the calculation for income that is then taken out of the heritage fund for the general revenue account has to do with realized income – so those are realized gains or losses. Then so long as we didn't crystalize those losses by selling those shares – in other words, if we kept a long-term view and held those shares even for five years – and we were able to find income from other sources, dividends, interest on bonds, if other asset classes are performing, hopefully, better than equities, then there may still indeed, even in a depression scenario, be income that could be brought over to the general revenue account.

That's exactly what happened this year, as Lowell, I think, already articulated. We had a negative 5 per cent return, but we were able to contribute about a billion dollars to the general revenue account. That's the difference between unrealized mark-to-market losses and realized gains through other sources.

Mr. MacMaster: If I could just add to that. The dynamics of the portfolio are such, too, that when we typically get big drawdowns in equities, the fixed income side of the portfolio rallies. In other words, the value goes up, and we're typically rebalancing, selling fixed income and buying equities. So that would be another source of income that could be transferred to general revenue.

The Chair: Good. Thank you.

A further question from social media, please.

Mr. Jones: Prashant Dhiman via e-mail asks Mr. Kevin Uebelein – his question is regarding the \$2.5 billion loss

due to the volatility strategy that AIMCo undertook. In retrospect, would it have been possible to minimize the losses that AIMCo incurred in March 2020, had the legacy risk system been replaced successfully with a modern system that can better calculate the risk on volatility strategies? [Two.] is the project to install the new risk system delayed? If yes, by how much time and what are the reasons for this delay?

Mr. Uebelein: It's a very well-informed question, but that's absolutely fine. AIMCo is in the process of switching to a new risk management system, and then when that is completed, we will decommission the risk system that we've had now for, I think, 10 years, certainly predating my arrival here.

I think, Prashant, your question as to, "If we had been on the new risk system, would this unfortunate event have played out

differently?” is a hard one for me to answer categorically, but I think the new risk system will give us much better tools. It will give us much better scenario-testing analysis. But, frankly, avoiding this should have been something that we could and should have done regardless of our risk system. I don’t want to blame an old risk system for the quantum of the losses that we had in VOLTS. I certainly think that the new risk system will make our ability to measure risk and to do the stress testing that’s necessary much, much easier.

Prashant, with regard to the timing this is a multiyear project. It was scheduled to be completed by the end of this year, 12/31 this year. We are pretty darn close, but like a lot of multiyear, multimillion-dollar projects, no, we are not going to finish it on 12/31. Some of the project leaders think it can be done in the first quarter. A more realistic assessment would be mid-year 2021. Thanks for the question.

The Chair: Very good.

We’re still on social media. You have another one?

Mr. Jones: I do.

The Chair: Please proceed.

Mr. Jones: Cheryl Kirk via Facebook: “I understand that the Alberta Teachers pension fund was absorbed by Aimco. Did that inclusion have a positive effect on the heritage fund?”

Mr. Epp: The transfer of assets from the Alberta teachers’ retirement fund as well as the Workers’ Compensation Board of Alberta has not been completed yet. When completed, we fully expect that our unit costs of investing will go down, and when I say “our,” I mean the heritage fund’s costs will go down through greater economies of scale.

The Chair: Thank you.

Next question on social media.

Mr. Jones: Bill Reynolds via e-mail:

Can you give us a quick summary of how the GRF (percentage wise) was allocated in this last year, among health care, education, infrastructure, research projects, etc. and within each category can you state the major recipient?

GRF being the general revenue fund, for the viewers.

Mr. Epp: I’m afraid I can’t give you specifics at the moment. Those sorts of numbers are certainly published both in the government’s budget and in the annual reports. You can see much detail on how government funds were allocated, by all means, but I do know that about 40 per cent or 45 per cent of all funding in the province’s budget goes towards health care. A substantial amount, the second-largest amount, goes to education. Children’s and social services are also a large amount. I don’t know the percentages. I am sorry. But those ministries and probably similar services take about 70 per cent of the budget if not more.

The Chair: Thank you very much.

Mr. Jones: To answer Bill’s question quickly, health care is roughly 42 per cent of the budget, this year about \$21 billion. Education is \$8.223 billion. It’s up \$100 million this year. Infrastructure, I believe, is \$10 billion this year. It’s a record infrastructure spend. Research projects, I would estimate, tens to hundreds of millions. As to stating major recipients, I can’t get into that level of detail, but hopefully that gives you a perspective of where that money is going.

I have another question.

The Chair: Yep. Next question.

Mr. Jones: Lee MacDonald via e-mail:

The rights of the indigenous people and reconciliation are very important to me. It is important that AIMCo respects indigenous rights and has transparent processes for considering these rights in investment decisions. How are indigenous rights considered in investment decisions, particularly AIMCo’s decision to invest in the Coastal Gaslink Pipeline. Does AIMCo consider TRC recommendations and UNDRIP?

Mr. MacMaster: I’ll take a stab at that one. In the case of the coastal gas pipeline there are many indigenous folks that are actually involved in the construction of the pipeline and are supportive all the way along the pipeline. It’s been, I think, a great example of participation and teamwork in coming together to build that pipeline. AIMCo is at all times, you know, thoughtful in engaging indigenous people in these projects, and I think coastal gas is the leading example of that.

The Chair: Thank you, Mr. MacMaster. Appreciate that.

Let’s just check once more if there’s anybody that’s on the phone, if they might have a question.

Mr. Roth: Operator, could you please unmute the person that is on the phone, and if that person has a question, can you please state your name for the record and where you’re calling from?

8:20

The Chair: Nope. I guess not.

We will go back to social media.

Mr. Jones: Dan Good via Facebook asks: “Why would the fund have such a high percentage of investments in alternative investments and fixed income when equities will outperform over the long term?”

The Chair: Mr. Epp.

Mr. Epp: Yes. Thanks for that question. It’s a great question, and it’s one of the questions we will be assessing when we do an asset mix study and investment policy review in the upcoming months. Why is it set that way? Well, for reasons of prudence and risk management. We believe that inflation and other alternatives provide dual protection or give us two benefits. As I said earlier during my presentation, those alternatives over the last five years have been the best performing asset class within the heritage fund, so they’ve done very well from an investment return perspective, but they also offer some inflation protection. One of the things that clearly is important is maintaining the real value of the heritage fund, and inflation protection is part of that. Inflation protection is also part of allowing us to transfer funds to the general revenue fund to benefit current generations.

The Chair: Okay. Thank you very much.

Next question on social media.

Mr. Jones: Bill Reynolds asked a quick follow-up, the answer to which is: no, AIMCo and the heritage savings trust fund do not determine how the money transferred to the general revenue fund is allocated. That was just a quick supplemental.

Errol Barrie via Facebook: “How much influence does caucus have to influence where AIMCo invests? Are they beholden at all to the 4 year elected representatives?” like the person reading this question.

The Chair: Well, maybe as the chair of the committee representing the Legislature and the members I could respond to that. The influence that we have on the decision-making that AIMCo makes is zero. It's an arm's-length organization. They are the professional investors. We are not. We are simply charged with governance oversight. The management details are entirely and totally within the decision-making of AIMCo. I suppose you could say that that's good and bad. They get the credit and the blame, but it is their decision. I don't know if anyone of you at the table would like to add to that, but that is the answer.

Mr. Uebelein: I will just testify that indeed that is the case. I've now been here through three different governments, and in each case when there's a new government, there's sort of a period of conversation and sort of expectation setting, but in no instance have I ever felt that there has been a breach of that very important and deeply set fundamental that's established, really, in the AIMCo act, which is that while AIMCo is a Crown corporation – it is owned by this government – its investment decision-making must remain completely independent from political intervention, and it has done so.

The Chair: Thank you.
Next question on social media.

Mr. Jones: Linda on Twitter:
Supplemental please on my question about direct and indirect investments in the AB energy industry, did the numbers ... which I believe were approximately \$400 million, ... include investments in indirect equities of the energy industry. For example, well service companies, well mat companies, pipelines and similar?

Mr. MacMaster: Yes.

The Chair: The answer is yes.

Mr. Uebelein: By the way, those are mark-to-market numbers. The original investments probably were at a higher number than that. This is an industry that's been pretty badly beaten down.

The Chair: Okay. Thank you for that comment.
Sure. Next question.

Mr. Jones: Nadine Johnson via e-mail: "We see the one year and even 5 year return of the heritage fund is less than that of CPP even though you have the same year end. Can you [speak] to why."

Mr. MacMaster: Sure. There are a number of reasons why it's difficult to compare fund to fund. The one that's probably most obvious is the asset mix. How much equities do you have? How much infrastructure? Those can vary quite a bit. That's just one element. Whether or not you're using leverage, how much risk you're taking within each of those products – there's just a whole host, you know – your geographic exposure, currency exposure: the list goes on and on. It makes these comparisons quite, quite difficult.

The Chair: Fair enough.
I believe we do have a question on the phone now.

Mr. Roth: Operator, can you please unmute Nadine Johnson.
Nadine, do you have a question? If so, can you please state your name for the record and where you're calling from? She just disconnected.

Mr. Jones: Yeah. I read her question.

The Chair: Okay. All right. Techie stuff always presents interesting opportunities in meetings.

Next question on social media.

Mr. Jones: Christina Andrews on Facebook questioned the committee holding a public meeting during a pandemic.

The Chair: That's a committee question. As the chair of the committee I should probably respond to that. First of all, I guess I would say that the reality here is that holding an annual public meeting for Albertans is a legislated requirement of this committee. It's not something we can arbitrarily choose to do or not to do. It is a legislated requirement. But beyond that, quite frankly, I think it's important that Albertans have the opportunity to hear and to know what's happening with the fund. I think they have a right to know. Quite frankly, the work of government is an essential service. It does need to continue for Albertans, and this is part of that work of government.

But particularly, in light of the pandemic is the very reason why we have put in place an extensive number of rules, why we have opened up three different channels of social media so that people can participate virtually. It's why we're socially distanced in the room here. It's why our guests are actually in another room in the building here so that they can be socially distanced. We've complied with all of the requests and regulations of Dr. Deena Hinshaw and the directions of the Speaker as well, the Speaker of the Assembly.

For those reasons we feel that it is important and appropriate in the way it's been done that we hold this meeting. I should say that the whole process was thoroughly discussed in the committee with Legislative Assembly of Alberta staff prior. The planning and the details that went into this to make it possible have been quite extensive. That's why we're holding it, and we'll hold it again next year. Thank you.

Okay. I believe we do not have any more questions on social media. We have no more on the phone, so I'm going to give an opportunity for some members of the committee to ask questions. I'll start to my right here: Mr. David Eggen, or MLA Eggen.

Mr. Eggen: Well, thank you, Mr. Chair, and thanks to Albertans who are participating in this annual general meeting. It's your money after all, and we want to make sure that it's working for you and your family.

I want to ask a question around volatility because I heard a couple of things hear tonight that I just need clarification on. We know that the volatility strategy, the VOLTS strategy, that AIMCo was employing in regard to the heritage fund and other investments for which they are responsible lost considerable money, and we've heard officials in other meetings and here tonight again talking about how, you know, this was a mistake that needed to be corrected.

8:30

I also heard today – and maybe you can clarify for me. Has the VOLTS strategy, that lost the \$420 million, actually been wound down, or is there any version of that failed strategy still being employed until you come up with this new plan, as you mentioned here tonight, in 2021? You know, I'm concerned about this. I know it lost quite a lot of money, and it didn't seem to get wound down fast enough as well so that we continued to lose money even after it became a proven failure. I just want to know that this is gone now and that we have something safe in place to ensure the security of this public money.

Mr. MacMaster: The strategy has been wound down. It was wound down as quickly and as efficiently as could be executed

while preserving as much capital as possible in those market conditions. The strategy has been completely closed, and as we've discussed here before, AIMCO's board did a full review, with a series of recommendations that management is in the process of implementing to ensure this never happens again.

Mr. Eggen: Okay.

And a supplemental?

The Chair: Yes. For sure. One supplemental, yeah.

Mr. Eggen: Thanks. I guess a lot of Albertans are concerned – right? – because we have seen changes to, you know, AIMCO and putting pension money into AIMCO, and then it's all becoming this bigger pot. Kevin mentioned that this offers some advantages through economies of scale and investment opportunities, but it also can leave our eggs all in one basket, so to speak. I know it's a diversified portfolio and all of that, but I'm just wondering if perhaps you can describe what you learned from that failed volatility strategy to ensure that it doesn't happen again.

Mr. Uebelein: Well, first off, I think you did indeed answer in part your own question, that while the diversification of the pool of capital across what will become not 32 clients but 35 clients is critically important. If we look at VOLTS, I think what I'd like to first start off with is putting it into perspective. VOLTS was one of many active equity strategies within our public equity portfolio. It's one where the lessons that we learned had a lot to do with making sure that when we are designing and then modifying strategies like this, very sophisticated strategies like this, we employ stress testing that goes well beyond the bounds of what actually has ever happened before. Once again, this has to do with understanding that when you're thinking about how bad something can get, you include things that haven't ever happened before, and that's not human nature to do. I think it's the same for government when they're thinking about what might happen in an environment like this.

I would say that many of the changes that we're putting in place are around that notion of stress testing everything that we do, particularly strategies like this, that have what's called a skewed tail. It is making sure that we are building an organization where we have multiple sets of eyes on strategies like this and also how strategies like that evolve over time.

Mr. Eggen: Thank you.

The Chair: I believe Mr. Singh had signalled he wanted a question as well. Please proceed.

Mr. Singh: Thank you, Mr. Chair. I want to thank all Albertans who have taken time to participate in tonight's annual general meeting. I also want to express my appreciation to the representatives and officers of Treasury Board and Finance and AIMCO.

My question is: what is AIMCO's definition of a responsible investment, and how does AIMCO measure their decisions with that in mind?

Mr. MacMaster: Sure. We have a team that's dedicated solely to responsible investing. It consists of seven or eight people. The VP that leads that team is charged with making sure we integrate responsible investing procedures and protocols across every investment that we make. There's a list of due diligence, for instance, that's completed whenever we make any investment. So integrating across the platform is important. There's engagement

and advocacy, proxy voting. There's a whole host of things and activities that that team does to ensure that AIMCO acts like a proper corporate citizen and invests responsibly, considering all aspects.

Every year there are a number of areas of focus for the team and for the organization. Some examples include diversity on boards, worker safety, and of course these days climate change is very important. How do we measure climate change? What kind of risks are in the portfolio? What kind of opportunities? It's a growing team. It's very important to us. We publish an annual report. If you want more information, there's information on our website. We publish an annual report in addition to our corporate AIMCO annual report if you would like to learn more about those activities.

The Chair: Thank you.

Mr. Singh: I do have a follow-up question.

The Chair: Yeah. A supplemental, please.

Mr. Singh: What percentage of the Alberta heritage savings trust fund is invested in Alberta and in this country?

Mr. MacMaster: About 8 per cent – it ranges between 8 per and 9 per cent – for both the heritage fund and AIMCO as well, so that equates to about a billion and a half, let's say, for the heritage fund and about \$8.8 billion for AIMCO as a whole. As Kevin pointed out earlier in his comments, that's, you know, a reasonably large weight considering Canada's weight in the global investment universe. But as I've said here many times, Alberta has been a source of Canadian growth for years and years. We're obviously hitting hard times here, but Alberta has been a great place to invest in terms of a young workforce, well educated; favourable corporate taxes; immigration. It's been a terrific place to invest, and we look forward to better times.

Mr. Singh: Thank you for answering. I really appreciate it.

The Chair: Thank you very much.

We will go back to social media. We have another question that has come in. Then I have a list started here. I have Member Gray after that and Member Smith after that, just so we know where we're going.

To social media, please. Oh. We've got two. We'll do the floor, too.

Mr. Jones: Kristi Krezanoski via Facebook asks: "In recent legislation up to 10% of AIMCO investment can be directed by government. Has that started yet? And how does that not contravene the arm's-length aspect of AIMCO?"

The Chair: Mr. Epp, please.

Mr. Epp: There is no legislation that allows the government to direct that 10 per cent. That 10 per cent feature that you were talking about is in Bill 22. What that feature allows is that if the Alberta teachers' retirement fund or the Workers' Compensation Board has a particular investment that cannot be transferred to AIMCO management or cannot be transferred in time under the legislative deadline for transferring assets to AIMCO or AIMCO's management, AIMCO won't own the assets. The funds absolutely own the assets. That was put into the legislation to allow for the exception, the possible exception – and we don't know if it'll be used – where a fund's ownership or control, management, whatever, was not able or is not able to be transferred from the ATRF or the WCB to AIMCO. It does not give the Minister of

Finance or the government any ability to direct AIMCo. It's actually the other way around.

The Chair: Thank you very much for clarifying that.

We'll hold the next question on social media. Do we have a follow-up on it? We'll come back.

Member Gray, please.

8:40

Ms Gray: Thank you very much, Mr. Chair. Thank you to everyone here presenting and to the Albertans who've contributed. In the Treasury Board and Finance presentation that we saw, on slide 5, showing global equity returns since April 2019, I note that at the far right side, where we are currently, it appears to be dipping. Knowing what's going on in the world right now with COVID second waves, France and Germany having just locked down, I'm very interested to know if we think that we might be heading towards another COVID equities collapse. If so, what has AIMCo done to inoculate the fund?

Mr. Uebelein: A great question. Do you want to talk about the tactical . . .

Mr. MacMaster: Sure. You know, for most of the year, since March, I would say, since the collapse in equity prices, we did tactically overweight the fund in equities. Obviously, there's been a remarkable amount of government support in every jurisdiction in the world to support families and businesses, and that has led to this remarkable rebound in equities where prices are up roughly 45 per cent. I'm looking at MSCI, and it's pretty much consistent across the world. It's been a remarkable rebound.

You're right. You know, recently, with an increase in COVID cases in many, many jurisdictions, we're starting to see, I would say, partial lockdowns. I think most countries realized the hazard of completely shutting down the economies. It's so devastating. We thought about a month, a month and a half ago that we might see these rolling spikes in cases, followed by partial lockdowns, then a flattening of the curve, and then a rebound. I think that's what we're seeing here.

Now, all that said, we did take the opportunity recently to put some hedging on in the equities portfolios for all of our clients for a couple of reasons. One of them is the one that you correctly highlighted, but another one is concerns we have around the U.S. election. It's not really so much who wins that election. You know, Biden is seen as a moderate on the Democratic side, and both parties are supportive of more fiscal support, probably larger with a Biden win than with a Trump win. Nevertheless, both would contribute to fiscal efforts. Now, what we fear perhaps is a contested election. That would probably be the worst thing for equities, and this is one of the reasons why we put that hedge on.

You know, I think that if you look a little further down the road, as all investors should be, these are all passing events. We will get a vaccine – and it's probably sooner rather than later – and the election will pass, and even if it's contested, we'll get over that as well. What are we left with? We're left with rates that are very, very low, governments that are very supportive of risk assets, and valuations that aren't that extreme, so over the long run equities look like a pretty good place to be when you look at the alternatives.

Mr. Uebelein: Your question was a great question to allow Dale to give you a bit of a snapshot on how, while we're investing for the super long run, we hold regular tactical conversations. They're typically chaired by Dale, and all of the experts from every asset class are sitting around and are actually actively talking about just these sorts of scenarios and whether, on a tactical basis, on a much

shorter term basis, hedges like that might be thought to be a smart way to go based on very short-term, event-type risks.

The Chair: Very good. Thank you, gentlemen.

Mr. Smith, and then we will go back to social media.

Mr. Smith: Thank you very much, gentlemen. I guess one of the things, having been a teacher for 30 years, you know, is that, obviously, I'm getting a lot of questions from teachers coming across my desk about: well, what does this merger mean? How do we take the ATRF board, which has made decisions and which teachers have been very happy with – and now it seems like it's being taken over by AIMCo and being merged with a bunch of other funds. How does the AIMCo board fit in with this? Where does the ATRF board fit into this? How do they interface, especially about decisions about how you invest your money? Do the teachers continue to have some say over how their money is being invested through AIMCo? Where is all of this coming together? How is that mixed in with the topic of tonight, which is the Alberta heritage savings trust fund? How does that all mix into it as well? Can you give teachers any real clarity as to what the ramifications of the decisions are with regard to AIMCo, the Alberta heritage savings trust fund, and the funds that they've traditionally been invested in?

The Chair: I'm glad you brought it back to the heritage trust fund. My job is to keep this committee on the trust fund, so please keep your questions there. Thank you.

If you choose to answer, you may, gentlemen.

Mr. Uebelein: I think I can also keep a plot line. I think I can maintain maybe a threadbare plot line but a plot line back to the heritage fund as well. The Alberta teachers' retirement fund will not go away. Its board, that governs how that pension fund is allocated and accessed, is not going to change. Right now that rather small fund, about a \$19 billion fund, is managed on its own with a very fine professional staff, but the range of options and capabilities, including the ability to manage internally versus externally, is just fundamentally different because of its scale.

We have other pension plans that we've served here in Alberta for many years, really predating the official existence of AIMCo, decades as opposed to just the 12 years since AIMCo has been officially AIMCo, as opposed to AIM, part of the government. In each one of those cases there are governing bodies for those pension plans. There are professional staff in most cases for those pension plans, certainly for the larger ones, and they work with us, but they establish what their pension's objectives are, what their risk appetite is, and then working with us, they decide, not us, the asset allocation mix for the pension plan.

We're constantly working together on, you know, listening to what the objectives are. An objective for a pension plan can be multifaceted. It's not just: make sure the pensions are there. Of course, that is, at the end of the day, the primary objective, but it may also be: we don't want to see any contribution increases; we want to see funding levels increase by a certain amount over a certain degree of time. These are certain objectives, if you will, and in other words, constraints. We do not want to have contributions ever rise. That's a constraint. We take that input, and then we're making sure that we have the right, how would I say, platform of investment opportunities or options, building blocks, if you will.

With ATRF the shift is going to be from being, frankly, autonomous and having those building blocks in-house to merging those assets as well as some of those building blocks onto the AIMCo platform, but the governance model of teachers and their

pension funds still being able to determine their asset mix and their asset strategy and to determine what their objectives are and what their constraints are and to expect that AIMCo will provide them with the investment services to meet those objectives and honour those constraints will be absolutely the same.

Mr. Smith: Just as a quick supplemental, you're not taking the ATRF fund and dumping it into the Alberta heritage savings trust fund and using the same strategy that you're using for the Alberta heritage savings trust fund to govern the ATRF? Trust me; there are lots of teachers out there that thought that's exactly what was happening.

Mr. Uebelein: We're not doing that. Now, I want to be very clear. We use pooled funds. If we have a strategy that's a great strategy, then we want to be able to offer that strategy, that building block, if you will, to all of our clients who may want to be able to use it as part of their fundamental building blocks for building that asset mix that they want.

8:50

With all due respect, while each one of the pension funds that we serve is passionate about their people, the pension funds themselves share much more in common and, as a result, will share much more in common in terms of their objectives and their asset mix than they have different between them. There will be more opportunities to share common investment building blocks. That's not the same thing as just pouring the Alberta teachers' fund money into a plop, a one-size-fits-all, that you're getting exactly a carbon copy of what Lowell has determined ought to be the asset mix for the heritage savings fund. It will be completely unique, but it will, I suspect, share many of the common building blocks.

Mr. Smith: I thought that was important, to get something like that on the record so that I can point members of my ATA locals and other locals in my constituency back to something like this and say: okay . . .

Mr. Uebelein: I appreciate that. It's important that we are able to have these conversations and to lower the anxiety level that I know is present across Alberta by many of the teachers. I believe, absolutely, with every fibre that if we do this right, if we partner with the professionals at ATRF, we will end up with stronger pensions across the board, including teachers, and we'll have a very strong investment platform for all of Alberta.

The Chair: Okay. Thank you both.

We do have some more questions on social media. We've got 10 minutes left, and I want to get in as many as we possibly can, so please proceed.

Mr. Jones: Thank you. Bill Reynolds asks via e-mail:

We used to know how the funding from the HSTF was spent on very specific projects – why do we not want to let citizens know where this trust fund money is being used, and perhaps have a say in where these funds go, rather than just going into the black hole of GRF?

The Chair: Mr. Epp, I think that's your question.

Mr. Epp: That's mine. I would say that that was a choice of the Legislature back in about 1997. The heritage fund act was revamped after a survey that the government of the day did of Albertans to find out what Albertans thought of the heritage fund and how it should be invested. Using the results of those surveys – and this predates my time with the government, so I'm going a little

bit by hearsay or historical record, if you will, but that survey informed the government's plans. At that time it was transitioned away from having an Alberta focus or an Alberta projects division to a broader, more globally diversified fund that would provide revenues that could be used to meet all of government's priorities.

The Chair: Thank you very much. A follow-up to that or the next question?

Mr. Jones: Next question comes from Alexandria Fisher from Twitter.

AIMCo's carbon footprint (absolute & intensity) for equities: how does AIMCo's carbon footprint compare to the benchmarks? What were investments that drove the increase? Was the ROI from investments greater than the assumed climate risk?

Mr. Uebelein: There's a lot in that. Could you read that one more time?

Mr. Jones: First part of the question is: can you discuss AIMCo's carbon footprint?

Mr. Uebelein: Yes. We're poised to publish our second annual carbon footprint following the TCFD guidelines, and I'm going to draw a blank on – I hate being nerdy and using acronyms, especially if I can't recall exactly what they mean. This is the closest thing to a global standard for measuring carbon footprint. The methodology that the TCFD has recommended is something called the weighted average carbon intensity, and we've measured that once for AIMCo. As I said, I was just looking at, frankly, the galley proofs for our second publication of that weighted average carbon intensity measure of our carbon footprint.

So you might ask: why are we doing this? This is part of our responsible investing program, and it's really wrapped up in the case that we know that climate risk is going to drive investor flows. It's going to drive performance across every industry, and as a result, we need to be mindful of how we're investing and the impact it has on that carbon footprint.

It isn't necessarily for us to lower our carbon footprint; this is a cost that society is going to increasingly be trying to attach a price to, and we need to be mindful of how much of it we've got in our portfolio. This is something that we publish in the public. I think we're due to have the next responsible investing report, which will be entirely online – no paper versions this year – available in the coming weeks and months.

Mr. MacMaster: That's the Task Force on Climate-related Financial Disclosures.

Mr. Uebelein: Yeah. The Task Force on Climate-related Financial Disclosures, TCFD.

Mr. Jones: Supplemental from Alexandria:

AIMCo's 2019 TCFD report stated that climate targets have not been set except for real estate, and work is under way with stakeholders to set realistic time-bound targets. What progress has been made in setting targets for other assets? When can Albertans expect targets?

Mr. MacMaster: I can't give you an exact date, but we are working on those, so over the coming year. I think that when it comes to, you know, measuring carbon footprint, climate risk, the metrics, it's continuing to improve and get better. That's part of this process as well. We want to make sure we're getting accurate data, that it's audited, and that it's benchmarked appropriately. We're all moving,

I think, in the right direction on this, and the numbers will continue to get better.

The Chair: Thank you very much.

Next question. Oh, no more. What are we, four minutes from nine? No more social media questions. No more on the phone. Do you want to call it good? I see Mr. Stephan has a question.

Mr. Stephan: I'm going to try and be really quick.

The Chair: You've only got three minutes.

Mr. Stephan: I know. Page 12 of the annual report talks about how the equities portfolio has underperformed the benchmark, and we pay \$153 million in management fees. I guess what I'm wondering is: is there consideration of looking at a passive investing strategy instead of an active management strategy, given that returns seem to be higher with the passive strategy and have lower costs from investment fees for Albertans?

Mr. Uebelein: Yeah. Let me answer that in a couple of different ways. One is to answer the second half of your question quite directly. Offering our clients a passive alternative is something that we're looking at quite closely: that's the short answer. We'll be working with our clients and making that decision very shortly. The slightly longer answer, being mindful that I now have about 60 seconds, is that active management is a tough, tough business. You won't win at active management every year. Also, as an aside, if your active management includes something like VOLTS, that really throws up on you, then you're really not going to be a winner in active management that year.

If for a moment we can set aside that, because we are going to fix it and we're not going to do it, then measuring whether or not you're good at active management is something that needs to be done over a very long time horizon. We've shown that we have been able to add value through active management. Once again, the answer to your question is that we're being very mindful of the fact that perhaps our clients should have an option for both active and passive.

The Chair: Okay. Thank you very much.

Unfortunately, we are out of time. Before I close, though, I would like to sincerely thank all of you for your participation tonight. I think I can speak on behalf of the entire committee that we really have enjoyed the opportunity to spend the evening with Albertans, both online and in person, and engaging you in conversation about your Alberta heritage savings trust fund. In turn, we hope that you found the meeting informative and valuable, each one. We've tried to address your questions and comments as possible with the time allocated for tonight's meeting.

For those of you who would like to offer feedback on our meeting, please go to assembly.ab.ca and answer our short survey.

To our TV and online viewers: thank you so much for tuning in tonight. To those who joined us here in person or via teleconference: thank you.

More information about this committee and its mandate can be found on the Standing Committee on the Alberta Heritage Savings Trust Fund page on the Alberta Legislative Assembly website.

With that, I will now declare the meeting adjourned. Thank you.

[The committee adjourned at 9 p.m.]

