



Legislative Assembly of Alberta

The 30th Legislature  
Second Session

Standing Committee  
on the  
Alberta Heritage Savings Trust Fund

Friday, May 7, 2021  
9 a.m.

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

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

Orr, Ronald, Lacombe-Ponoka (UC), Chair  
Rowswell, Garth, Vermilion-Lloydminster-Wainwright (UC), Deputy Chair

Eggen, David, Edmonton-North West (NDP)  
Gray, Christina, Edmonton-Mill Woods (NDP)  
Issik, Whitney, Calgary-Glenmore (UC)  
Jones, Matt, Calgary-South East (UC)  
Phillips, Shannon, Lethbridge-West (NDP)  
Singh, Peter, Calgary-East (UC)  
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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

Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation

Dale MacMaster, Chief Investment Officer

Mark Prefontaine, Chief Client and Stakeholder Relations Officer

Kevin Uebelein, Chief Executive Officer



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Friday, May 7, 2021

[Mr. Orr in the chair]

**The Chair:** Good morning, ladies and gentlemen. Thank you for joining us this morning. I'd like to call this meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order and make sure everybody feels welcome.

My name is Ronald Orr, MLA for Lacombe-Ponoka and chair of this committee. I'm going to ask the members, first of all those at the table here – and then we'll go on to the phones or videoconference – to introduce themselves. I guess that means we'll begin to my right, which goes all the way around to you.

**Mr. Eggen:** Well, thanks, Chair. My name is David Eggen. I'm the MLA for Edmonton-North West.

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

**Mr. Kulicki:** Good morning. Michael Kulicki, clerk of committees and research services.

**Mr. Huffman:** Good morning. Warren Huffman, committee clerk.

**The Chair:** Good. That's it for in the room here.

I'll just go through the list of the other members. Mr. Rowswell, please introduce yourself.

**Mr. Rowswell:** Garth Rowswell, Vermilion-Lloydminster-Wainwright.

**The Chair:** Okay. Member Issik, please introduce yourself.

**Ms Issik:** Good morning. Whitney Issik, MLA for Calgary-Glenmore.

**The Chair:** Mr. Jones, please.

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

**The Chair:** Thank you.  
Member Phillips, please.

**Ms Phillips:** Shannon Phillips, Lethbridge-West.

**The Chair:** Mr. Singh, please.

**Mr. Singh:** Good morning, everyone. Peter Singh, MLA, Calgary-East.

**The Chair:** And Member Yaseen, please.

**Mr. Yaseen:** Good morning. Muhammad Yaseen, MLA, Calgary-North.

**The Chair:** Okay. We also have some presenters with us this morning, so I'll go through the list there. If you could introduce yourselves for the record, please. From the Ministry of Treasury Board and Finance, Mr. Epp.

**Mr. Epp:** Lowell Epp, assistant deputy minister, treasury and risk management at the Department of Treasury Board and Finance.

**The Chair:** Thank you, sir.  
Mr. Thompson.

**Mr. Thompson:** Good morning. Steve Thompson, executive director of capital markets, Treasury Board and Finance.

**The Chair:** Great.

And from AIMCo we have three. Mr. Uebelein, please.

**Mr. Uebelein:** Kevin Uebelein, CEO for AIMCo.

**The Chair:** Mr. MacMaster.

**Mr. MacMaster:** Dale MacMaster, chief investment officer, AIMCo.

**The Chair:** Mr. Prefontaine.

**Mr. Prefontaine:** Good morning. Mark Prefontaine, chief client and stakeholder relations officer with AIMCo.

**The Chair:** And from the office of the Auditor General, Mr. Ireland.

**Mr. Ireland:** Good morning. Brad Ireland, Assistant Auditor General.

**The Chair:** And Mr. Robe-From.

**Mr. Robe-From:** Good morning. Nelson Robe-From with the office of the Auditor General.

**The Chair:** Okay. Thank you.

That takes care of the introductions. I don't think I've missed anyone at all, have I? I'm just checking with the clerk. No, I haven't, so I think we're good there.

For the record I just want to note that there are no substitutions. We don't need to worry about that.

A couple of housekeeping items before we turn to our business at hand. According to the February 22, 2021, memo from the hon. Speaker Cooper I'd just remind everyone in the room of the updated committee protocols, which encourage us to wear masks except while seated and speaking. Based on the recommendations of the chief medical officer regarding physical distancing, members are reminded to leave an appropriate distance between themselves and others.

Please note that, as usual, the microphones are operated by *Hansard* staff. Committee meetings are, of course, live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostream and transcript of meetings can be accessed on the Legislative Assembly website.

Those participating by videoconference are asked to please turn on your camera while speaking and to mute your microphone when not speaking. Members participating virtually who wish to be placed on the speakers list should e-mail or send a message in the Teams chat to the committee clerk. Members in the room, of course, are just asked to signal to the chair here, and we'll try and keep track of all of that. We will keep a list, and as usual I will try to alternate back and forth. You can have a question and one supplemental, as we've done in the past. And, of course, please set your cellphones, et cetera, et cetera, to silent during the meeting.

Let's look to the first item of business, the approval of the agenda. Are there any changes or additions to the draft agenda? If not, would someone like to make a motion? I would suggest that the wording should be that the agenda for the May 7, 2021, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as distributed. Mr. Eggen has moved that. Any concerns, discussion, questions on the motion?

Seeing and hearing none, all in favour, just say aye now. Any opposed? Hearing none, thank you. That motion is carried.

The next item on the agenda is the approval of the minutes from our last meeting, on January 27. You've all had a copy of that on the

committee website. Are there any errors or omissions to note? If not, would a member like to make a motion? I suggest that the wording would be that the minutes of the January 27, 2021, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved as distributed. Any questions or errors to note? Comments?

Hearing none, would someone like to make the motion? Don't be shy. Mr. Eggen again has made the motion. It's a little easier for those in the room, maybe. Thank you, sir. You've heard the motion. All in favour, please say aye. Any opposed? Hearing none, that motion is carried. Thank you very much.

Now we'll move to one of our two main items of business, the Alberta heritage savings trust fund third-quarter report. Hon. members, this is the key reason, in fact, we've met, and we're pleased to have the officials from AIMCo and Treasury Board and Finance and the Auditor General's office with us to answer any questions that you might have.

The third-quarter report was released on March 2, and it was posted on the committee's website. As committee members will be aware, the Alberta Heritage Savings Trust Fund Act mandates that one of the functions of the committee is to receive and review quarterly reports on the operation and results of the heritage fund.

I now want to just turn some time over to our guests from Treasury Board and Finance and AIMCo to deliver any remarks on the third-quarter report, and then we'll take questions from members.

Treasury Board and Finance, are you going first? Is that my assumption?

**Mr. Epp:** Yes, we are.

**The Chair:** Please proceed, then.

**Mr. Epp:** Thank you, Mr. Chair, and good morning to all committee members. It is again a pleasure, of course, to speak to you about the heritage fund and about the third-quarter results. Minister Toews is unable to attend today and sends his regrets.

The heritage fund had a good third quarter and has had a good first nine months. The third-quarter returns were 3.7 per cent, and so far during the year the fund has earned 11.6 per cent. Much of the return reflects the reversal in the market downturn in public equities that happened at the end of the last fiscal year. The fair value of net assets of the fund was \$17.3 billion at the end of the quarter, and the fund generated \$538 million of investment income over the quarter. So far this year the fund has earned just over a billion dollars, a billion and 90 million, \$968 million of which will be transferred to the province's general revenue fund.

The investment return of the heritage fund over the last five years is 6.3 per cent, and over 10 years it is 8.8 per cent. Both of these numbers exceed the long-standing goal for the heritage fund, which is to earn a return that is 4 and a half per cent greater than the rate of inflation over the long run.

Unfortunately, returns on the fund are 2.2 per cent lower than the benchmark over the first nine months. I would say that the calendar year 2020 was a particularly difficult year for active investment managers not just in Canada but globally, and many major funds saw underperformance during the year. Normally we don't discuss calendar year results because the fiscal year-end is March 31, but I chose to discuss calendar year results briefly to make comparisons with other major Canadian pension funds and investment managers whose fiscal year matches the calendar year.

**9:10**

The 2020 calendar year actual returns for the heritage fund were 8.5 per cent lower than the fund's benchmark. By comparison, the Ontario municipal employees retirement system, often referred to as

OMERS, underperformed its benchmark by 9.6 per cent during 2020. The Ontario Teachers' Pension Plan and the Quebec counterpart to AIMCo, commonly referred to as the Caisse, also underperformed their respective benchmarks during 2020. Two other major Canadian investors, the Canada Pension Plan Investment Board and the British Columbia Investment Management Corporation, have fiscal year-ends similar to the heritage fund's, March 31, and have not published their 2021-22 returns so far.

As I mentioned earlier, the losses in the public equity markets that were seen at the end of the last fiscal year have been reversed during the last nine months. For example, the MSCI world composite index posted a 32 per cent return during the first three quarters of the fiscal year. Similarly, Canadian equity markets, as measured by the S&P/TSX composite index, have seen a 33 and a half per cent return from March 31 to December 31. Accordingly, the public investments within the heritage fund have been the main driver of the fund's performance. Fiscal year to date the equity portfolio has earned 29.8 per cent. This return is 2.1 per cent higher than the benchmark return of 27.7 per cent. As of the quarter end, public equities made up 41.7 per cent of the portfolio, and private equities made up 8 per cent of the heritage fund.

Fixed-income investments showed signs of levelling out during the quarter as interest rates were stable. The portfolio has benefited in the first two quarters of the year from falling interest rates, and this quarter the return was 1.4 per cent, bringing the fiscal year-to-date returns to 9.1 per cent. At quarter-end 19.2 per cent of the fund was made up of fixed-income assets.

Illiquid investments, on the other hand, have not performed well since the pandemic. Illiquid asset valuations typically take place in December and use a conservative and prudent approach when estimating the value of these investments. These include investments held in real estate, infrastructure, renewable resources, and private equities. Due to the pandemic many of these investments have experienced losses that reflect the economic environment. This has been a global phenomenon and has had a large impact on many investors' portfolio returns. For instance, the return on real estate investments has been negative 10.8 per cent during the first nine months while infrastructure investments and renewable resource investments have had returns of negative 5.9 per cent and negative 7.5 per cent respectively.

Many illiquid assets were written down over the quarter, reflecting the strain that the pandemic has had on real assets such as shopping malls, airports, and movie theatres. I would like to note that these writedowns are an accounting procedure and not realized losses and that those losses may never be realized. In most cases, these assets have not been sold.

The rebound in public markets certainly was fast, but in private and illiquid securities it has been much, much slower and will take time to recover. Inflation-sensitive and alternative assets, including real estate, made up 30 and a half per cent of the assets at quarter-end, with 19.1 per cent of that total invested in real estate.

Finally, I would like to take a moment to quickly update the committee on the progress being made on the asset mix review that is being undertaken for the heritage fund. The process is being done so that the long-term asset mix of the fund and its expected returns will achieve the legislated requirements to maximize earnings over the long run. Work is currently being done on expected rates of return and risk levels for various asset classes that will be considered, and once these values have been determined, AIMCo will run complex mathematical simulations of investment returns under thousands of potential scenarios to determine the expected returns and risk levels, again, for a variety of scenarios. The results of these simulations will be used to evaluate the expected risk-return trade-off for different combinations of asset classes.

The asset study is expected to conclude with the recommended asset mix by the end of December 2021. While we don't expect a significant departure from the current asset mix, we, obviously, will wait for the study to be completed. Recommendations from the review will be shared with the Minister of Finance, who is responsible for determining the investment strategy. Once a new asset mix is approved by our minister, a new investment policy will be prepared and posted on the heritage fund's web page.

Thank you. That concludes my remarks.

**The Chair:** Thank you very much.

With that, I think we can move over to AIMCo if AIMCo would like to present. Thank you. I'm not sure who's going to do it. Okay. Mr. Uebelein.

**Mr. Uebelein:** Yes. Thank you, Mr. Chair. On behalf of all of us at AIMCo it's my pleasure to be here with you once again and have the opportunity to discuss the role of our organization in support of the heritage fund. The times here in Alberta: as you know, they remain tenuous, they remain dangerous. While I think that all of us see an end coming soon to the current pandemic, the adage that it's always darkest before the dawn seems to, unfortunately, be quite appropriate in this instance. But I'm happy to report that the end of the tunnel from an investment perspective seems to be even closer to us than with regard to the pandemic itself. By that, you know, I mean that after a very challenging performance calendar year in 2020 we now see very strong results since calendar year-end, and we're very hopeful that these excellent results will continue through this year.

Of course, Dale MacMaster, our chief investment officer, is going to give a more fulsome report, as has Lowell, on performance for the period on which we're reporting, but I do think that it's a noteworthy signal that we are seeing a broad snapback of performance that I believe reflects several factors. The first is the real and still, in some cases, anticipated economic recovery from the damage done from COVID. This recovery is going to be uneven both from a timing standpoint, from a geography standpoint, and an industry perspective, but we do believe it will be robust overall, and we will reap the benefits of that robust recovery.

Second, you know, it's worth saying that the strong performance that we're seeing reflects the resilience of the investments within the AIMCo portfolio. Some of our holdings did take a real beating in 2020 as the pandemic had its impact, and Lowell made reference to some of these. But good-quality assets will persevere and eventually recover, and we're beginning to experience that recovery already.

Finally, I have confidence that our actions to opportunistically take certain positions as we experienced oversold markets through 2020 will also result in very strong performance on a going-forward basis.

As I believe most of you already know, this happens to also be Mental Health Week here, when we highlight the importance of supporting and encouraging mental well-being across Canada, and if we're honest, we all would agree that sustaining the mental health of Canadians has been one of the big challenges that we're waging through this multiyear battle with COVID. It's really no different here at AIMCo. We've been working hard to find effective and efficient ways to support our employees, to keep them safe in this important area.

9:20

I thought I might just mention a few of the things that we've been doing, I think, in a highly effective way. We have weekly mental health learning material, that we disseminate through our intranet,

ranging from coping strategies to finding connection through shared experience. We have had a physician-led COVID-19 information session to help our employees and their families manage the overload of information and sometimes misinformation that can really cause overload and decision fatigue. We've had employee-led mindfulness and breathing workshops, and these are actually really helpful when you're cooped inside a room that feels like a prison cell. And I think we all understand how that feels. We have an online support group for working mothers, and perhaps most importantly, we really have regular one-on-one employee check-ins from our leadership and from our HR teams. There's more that I could talk about, but I just wanted to give you a sense of the things that we're actively doing to try and keep our workplace, you know, mentally healthy.

Finally, I think as you probably already know, this will very likely be my last time to present to this committee, as AIMCo's next CEO has been chosen and a hand-off of leadership will occur later this year. On this point I am very optimistic regarding the leadership transition. I've personally been able to spend a lot of time with the new CEO, Evan Siddall, both before he was chosen and certainly since that time. I can assure you that he brings a real wealth of applicable leadership experience, and AIMCo is going to be in very, very good hands. It's been a great honour to lead this organization and to serve all of our clients, including the heritage fund and by extension all Albertans.

That's all from me now, and I'd like to pass the microphone to Dale MacMaster.

**Mr. MacMaster:** Thanks, Kevin. Thanks for having us once again to discuss the performance. Lowell was kind enough to give a lot of the highlights and Kevin did as well, but I would say that, you know, the last quarter of the calendar year and the heritage fund's third fiscal quarter saw a continuation of the strong recovery in the global economy and the continuation of a market rally that began almost immediately after the debacle in March.

I think the most surprising aspect of the past year is how well, in fact, the financial markets performed while many countries, including Canada, continue to struggle with the impacts of the pandemic. While we see millions of jobs lost, with an estimated 4 and a half per cent wiped off global GDP, you know, the markets closed the calendar year with a gain of 10 per cent in bonds and over 13 per cent in stocks. Equity markets have continued to hit new all-time highs during the quarter, in fact, which has benefited heritage fund returns, which you can see in the report.

Bond yields have moved higher as optimism about the future growth has raised some concerns about the re-emergence of inflation pressures. The prospect of stronger growth, rising commodity prices, and the persistence of aggressive policy, you know, support some concerns about inflation pressures building, but we expect those to subside as sectoral impacts of inflation and disinflation continue to exert pressure.

The rise in interest rates that we've seen has created some volatility in markets, especially in pockets such as technology, where valuations have been stretched. Other sectors that have reasonable valuations, like financials and energy, which is certainly important to everyone in this room, have continued to move higher and should continue to benefit from stronger growth in 2021.

With that as a backdrop, you know, the heritage fund did return 3.7 per cent for the quarter, just shy of the benchmark return of 3.9 per cent. AIMCo's public market portfolios have continued to recover since March and perform well and have generated strong returns, which led to the 11.6 per cent return for the fiscal year to date. While equity markets have consistently added value since March and fixed income has also contributed, illiquid assets

continued to slip through the year with additional negative COVID-related valuation adjustments. Most notable were the real estate assets, including retail malls, which, of course, were closed, Alberta office, and some European real estate. On the positive side most of the private equity assets, well, still offered adjustments of valuations coming in to the December year-end, and that's continued into the first quarter. In fact, our most recent private equity pool returned over 35 per cent over the calendar year as we took some private companies into the public markets, generating substantial value for our clients, including the heritage fund.

You know, I should mention that we have seen really strong performance this far in 2021, with AIMCo's balanced fund composite up by 4.3 per cent year to date, with AIMCo generating 230 basis points, so 2.3 per cent, of value over the benchmark. This is important to us, obviously. It represents the strongest performance that we've seen at this point in the year in AIMCo's history, and this positive outcome has been driven by strong performance in our equity and fixed-income portfolios.

The illiquid assets have had some minor adjustments, but we expect more of those as we move through the year and the economies open up and the valuations, you know, rise. When we compare the valuations between certain public market assets, which, of course, are valued every day in the open marketplace, we observe a substantial gap that should gradually close, lifting the value of our private assets, in particular real estate and infrastructure. In the meantime our investment teams continue to evaluate a steady stream of attractive opportunities in real estate and infrastructure and private equity.

As I look ahead, you know, we do expect bond yields to gradually rise over the course of 2021. Both monetary and fiscal authorities are working to generate growth and employment for disadvantaged workers and target above-average inflation. They seem to be prepared to live with inflation as high as 3 per cent.

If you happened to notice today's economic results, unemployment in both the U.S. and Canada, you know, Canada remains at 8.1 per cent unemployment, and we had a disappointing report in the U.S. at 6.1 per cent unemployment. Still about 9 million jobs in the U.S. to be generated to get us back to prepandemic, so we expect the support to remain in place for some time. Along the way, though, as we move through 2021, we do expect a shift in central bank rhetoric, preparing the markets for a tapering of their support and a re-emergence to a more normal environment.

We continue to think that risk assets such as equities will gain more ground against this backdrop of a recovering global economy and continue to accommodate in policy. We do expect the path to be uneven. It's probably not going to be smooth. We'll see pockets of volatility, and I think after underperforming by a wide margin, sectors such as cyclical industries, you know, banks and energy, will continue to do better. There are some signs of excess exuberance in markets, which includes a big increase in retail client involvement and speculation in some quarters. We see a lot of interest around speculative cryptocurrencies, enthusiasm around IPOs, and SPAC enthusiasm, and certainly, valuations are stretched. Given the bullish sentiment in the market performance of the last year or so, we do expect a healthy pullback, so we're ready both with risk to deploy and cash to deploy as long-term investors to take advantage of such dislocation should it arise.

That concludes my comments. Thank you.

9:30

**The Chair:** Wonderful. Thank you.

Any more presentations from any of the presenters? I assume that's it, correct? Yup.

Okay. I will say on behalf of the committee thank you to Mr. Uebelein, especially since this is probably your last meeting, as you have indicated. Thanks for your service and your contribution over the years, and I trust that your next venture will be fun and exciting. All the best. Thank you.

All right. Committee members, time for you to ask questions of our presenters. We have a speakers list well on the way here. Mr. Eggen, you're up first.

**Mr. Eggen:** Thank you, Mr. Chair. I would like to discuss AIMCo's performance and rates of return for the heritage trust fund. You know, we've heard over these months and years from both the ministry and AIMCo and heritage trust managers that scale matters and how AIMCo's scale in particular improves returns for the heritage trust fund in terms of smaller fees and economies of scale and such things. However, it's just come to my attention that the universities academic pension plan and their annual report that just came out, that I have here – I was just checking it out. We learned from this report that the universities academic pension plan is leaving AIMCo as their manager of public equities. They've made that decision, and I would like to learn more about why. We also learned that the board will be reviewing the choice of an investment manager for all their other asset classes during this year. This seems like it's just the beginning of a departure from AIMCo. This means that AIMCo would have a smaller scale and, all things being equal, the return for the heritage trust fund could potentially decline.

My first question is for AIMCo. As I said before, I would like to know: why did the universities academic pension plan pull out, and if they have a good reason, why shouldn't the Legislature, in your mind, amend the heritage trust fund act to have the option for other public equities to pull out of AIMCo as well?

**Mr. Uebelein:** Let me perhaps answer that one if I may. MLA Eggen, thank you for that question. It is true that the universities academic pension plan is reducing the extent to which they're using AIMCo as a client. I think it's important to establish that the UAPP will continue to be an important client of ours, and we will continue to serve them as well as we possibly can. The transition of those assets out of AIMCo was something that we worked very closely with the UAPP on to make sure that it was done as efficiently, with as little drag effect as possible.

With regard to the impact that it has on the rest of AIMCo's clients, I think you potentially answered the question yourself. It doesn't help when the asset class gets smaller although asset growth over the period that we're reporting here has more than made up for the reduction in assets, in other words market movement.

I'd also point out that this is not the first time the universities academic pension plan has withdrawn assets from AIMCo, because it's within their purview to do that. The last time they did that, it did not serve them well. In other words, the performance on the assets that they took out of AIMCo performed much more poorly than if they had left them in AIMCo. While I truly wish UAPP all the best in the decisions that they're making, it is a well-founded principle that chasing performance by moving from asset manager to asset manager rarely works. This meeting is too short to go into all the reasons why, but it has to do with the fact that mean reversion is a real thing and that good long-term performers, which AIMCo has been, will continue to be good long-term performers. I can't predict what the outcome will be from UAPP moving their equity assets, but we can look factually at what happened when they moved assets seven or eight years ago, and it wasn't good for the pensioners of the UAPP.

**Mr. Eggen:** Thank you.



**The Chair:** Thank you.

A follow-up?

**Mr. Eggen:** A follow-up if you don't mind.

**The Chair:** Please proceed.

**Mr. Eggen:** Thank you very much. My follow-up question is again for AIMCo and perhaps with TBF providing some colour as well. I'm curious to know: what internal reviews have been done on public equities teams given that this major client has left, and what were the results of those findings? I was curious if TBF could perhaps – you know, I'm sure that they've observed that this client is leaving AIMCo. In fact, further in the universities' report they say that this could be very well the beginning of further choices to move out from AIMCo. I'm curious to know from TBF: has the minister ordered a review into the systems employed at AIMCo and whether they have an ongoing ability to deliver, or are they standing by this new development and just accepting the result, which I find to be quite troubling, quite frankly?

**Mr. Epp:** I will try to answer. My team works closely with AIMCo, meeting with them at a minimum quarterly but informally much more often to discuss what they're doing and where changes are being made in their investment approaches. We are closely watching the performance. At this point we see no reason that we would change our approach in the equities market.

**Mr. MacMaster:** Well, I might just add as well, to give a little more colour to the answer, that within AIMCo, post March 2020, we did an extensive review of our strategic positioning and came up with over 43 action items that we implemented that included personnel, strategies we were employing, data, systems, process, governance, and I think the results that you see in your report on the fiscal year-to-date performance of equities speak very loudly to the changes that we made and the performance. I mean, these are – 30 per cent, 37 per cent, 36 per cent – very strong results. You know, markets go through these ups and downs, and should investors panic and leave at the wrong time, they risk missing out on these spectacular bouncebacks. I should add that AIMCo also outperformed with these strong returns by [inaudible] basis points across each of these asset classes, Canadian public equities, foreign equities, and it's just been quite strong. We expect good things . . .

**Mr. Eggen:** That's fine. Thank you very much. I got the answer. I appreciate that. Thank you.

**The Chair:** Okay. Thank you.

I just will remind committee members that we need to make sure our questions are relevant to the Alberta heritage savings trust fund. AIMCo manages many funds, but the only one really within the mandate of this committee is the heritage trust fund, so please be sure your questions tie back to that.

The next questioner I have on the list is Mr. Jones. Please proceed.

**Mr. Jones:** Thank you, and thank you for your presentations. For the benefit of the viewers and my constituents, can you again describe the mandate of the Alberta heritage savings trust fund?

**Mr. Epp:** The mandate of the heritage savings trust fund is over the long run to maximize earnings to benefit both current and future Albertans. We are also to take a prudent level of risk in doing so.

**The Chair:** Okay. Thank you.

Anybody else to contribute to that one? No?

Okay. Mr. Jones, do you have a follow-up?

**Mr. Jones:** I do. Unfortunately, a great deal of AIMCo's service to Albertans has been politicized and continues to be, to the detriment of trust in the fund. What is the 10-year rate of return for the Alberta heritage savings trust fund, and how does that compare to the benchmark?

Thank you.

**Mr. Epp:** The 10-year rate of return on the heritage fund is 8.8 per cent, which is .2 per cent above the benchmark.

9:40

**Mr. Jones:** Thank you.

**The Chair:** Thank you, Mr. Epp, for that answer.

Next questioner. Member Gray, please.

**Ms Gray:** Thank you very much, Mr. Chair. Certainly, I hear what you're saying about: we need to keep our questioning to the heritage savings trust fund, but we've certainly heard time and again that it's invested in pooled funds and that the more money in those pooled funds, the cheaper the fees, because we're operating off a larger capital base. Certainly, that was an argument that was central, put forward by the government when it chose to move ATRF's assets to AIMCo. So we've certainly heard at this committee that the move of ATRF assets would ultimately improve returns for the heritage fund.

My colleague was asking about the universities pension plan leaving AIMCo, so I'd like the perspective from Treasury Board and Finance officials on this, my question being: if the government's position is that we need absolutely the most possible amount of money in those pooled funds in order to achieve cheaper fees and all of these moves, with ATRF being moved in, the universities pension plan being moved out, affect the returns of the fund – currently I see that if you are teaching in K to 12 in Alberta, you need to use AIMCo to manage your pension, but if you're teaching at a university, you don't need to. There appears to be a bit of a logical inconsistency there, and I was just wondering if TBF could explain the double standard in that policy.

**Mr. Epp:** Unfortunately, I am not prepared for that. That is not my area of policy or treasury and risk management's; that falls in another one. Unfortunately, I can't provide an answer.

**Ms Gray:** Okay. I appreciate the blunt honesty there. I would suggest that certainly the government is responsible for providing answers to teachers in this province who have felt very concerned over some of the decisions that have been made. Certainly, as we care about the heritage savings trust fund and its assets and performance, so do so many of our teachers about the performance of their pensions and making sure that they can count on that pension when they do retire. Certainly, we've heard at every committee meeting where I've been a member of this committee that the heritage fund is well served with AIMCo as its manager because of scale and this despite, I would suggest, some questionable returns, but we won't delve into that at this point.

To your knowledge, Treasury Board and Finance, are there other policy or legislation changes to pensions that could impact the heritage savings trust fund in the works that you are aware of? Certainly, around that idea that some clients are able to leave AIMCo and other clients are not, we've seen legislation introduced during the term of this government already, and as a member of the Heritage Savings Trust Fund Committee I'm wondering if you know of any other further legislation that may be impacting these asset classes.

**Mr. Epp:** I am not aware of any plans to introduce further legislation.

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

Next on our list is Mr. Yaseen, please.

**Mr. Yaseen:** Well, thank you, Chair. Thank you for your presentation. My question is: what factors, in your view, explain the differences in return between the fund and the benchmark over the last quarter or maybe even year?

**Mr. MacMaster:** Sure. Maybe what I can do is speak to the fiscal year to date, a slightly longer period and more relevant than just – you're looking at the quarter, but I think the themes are very similar. You know, as we highlighted in our opening comments, the drivers of total return in the fiscal year to date have been equities and fixed income and relative returns as well, as we've outperformed substantially there. The biggest negatives were in both real estate and infrastructure. For the fiscal year, if you refer to your report on page 2, real estate was down 10.8 per cent, and the benchmark was minus 4 per cent.

You know, we underperformed there, and the reasons are well known. I mean, some of our biggest assets we've owned within real estate for over 20 years, and they have been big contributors to the heritage fund returns and the income that has been extracted from the heritage fund for the benefit of all Albertans. Now, we all know what happened in 2020, when malls were forced to shut down. We were impacted by that. It would have been very hard for us to forecast a pandemic of this nature, but that was a big factor. Within real estate the retail allocation hurt. Also, office workers were sent home. Valuations on offices everywhere have been brought down and in particular Alberta offices, where we've been investors.

We've been investors in real estate and other asset classes for many years because of Alberta's very attractive business environment, low tax rates, educated workforce, strongest growth in Canada. That's been, you know, hurt in the last couple of years because of what's happening in the energy business and then compounded with the pandemic. Those are the two main drivers of negative performance in the illiquids.

You know, the good thing is that we've seen this V-shaped recovery in global growth and North American growth, and that's being reflected in a V-shaped recovery in the listed assets. The illiquid asset valuations are lagging, but we see a disconnect between, say, things like REITs, which are in the listed world, and our private assets, and we think that will close over time as, number one, global economies open up and valuations come back. So we're optimistic about that for the valuations in these assets, and we're very confident in the assets that we own.

On the infrastructure side negative contributors were around London City Airport. The airport was closed down almost since last March, as you all know. Volume going through that airport is about 5 per cent of its prior pandemic volume, but this is a very attractive asset for us. You know, London and the U.K. have very limited ability to add another airport. It's strategically positioned, and as commercial business travel takes off, valuations will be lifted on this one as well.

Those are some of the drivers of the negative performance, really, on the illiquid side, but we're really optimistic about the next few months and years. As I said, you know, in 2021 we've had a spectacular start that you'll see next time we visit you for the full fiscal year. By then we'll have a better idea of the valuations on the illiquids, but those are the main drivers.

**Mr. Yaseen:** Thank you very much.

I have no follow-up. Back to the chair.

**The Chair:** Oh, okay. Thank you.

**Ms Phillips:** Good morning, everyone. Thank you for the opportunity to discuss this quarterly report. I think it's important for us to be honest with ourselves and with Albertans that the results on page 2, these 12-month rolling returns, are not encouraging. They do not inspire confidence. For 2020, just so that Albertans are aware, the passive policy benchmark was 8.2. That means that if you just put your money in a passive index fund, that gains 8.2 per cent for the money, but for 2020 the Alberta heritage fund lost .3 per cent. We are paying millions in executive bonuses for active management, and in return we're getting less, far less, than passive management. This is a chronic problem as well. It's not just 2020 and the excuses of the pandemic.

We have a new board chair in place, we have a new CEO incoming, so I think what we want to have here is a commitment from AIMCo to providing this committee with a written undertaking of what they are changing in order to get better at that active management, to posting that better performance, and to providing us right now an overview of what they are doing to increase performance. I think that on a quarterly basis we need to have that written undertaking from Treasury Board and AIMCo to make sure that Albertans are really getting the right kind of value for money here because right now we're not seeing it.

9:50

**Mr. MacMaster:** Well, if I could take a stab at that, first of all, you know, I have to disagree with your characterization. It's really quite clear. AIMCo has outperformed its benchmarks seven of the last 11 years, and prior to 2020, which I will give you was a dreadful year – it was a dreadful year for many investors – AIMCo was a top-quartile performer over all periods. You know, we came here time after time to show you those results, which were both high in absolute and relative return. Now we're looking at results annualized after a dreadful year – and fair enough – but before 2020 these were all top-quartile results. We are emerging from that, as I pointed out, and we expect to be back into the first-quartile zone again as we move into the future.

**The Chair:** A supplemental?

**Ms Phillips:** Sure, absolutely. On page 2 we do see the value added to the heritage fund by AIMCo. The goal is to beat the benchmark by 1 percentage point. That is to say that if the markets are growing at 5 per cent, the goal is that AIMCo delivers to Albertans 6 per cent, just as a hypothetical example. But over the past five years what we see is that the value-added was negative. AIMCo missed the goal by 2.1 per cent, and over the last 10 years they've missed the goal by .8 per cent. I think that it would be really important for both Treasury Board and Finance or AIMCo or both to make sure that we can tell this committee how much was lost by not meeting the goal over the past five or 10 years. Put another way: what was the delta for the fund between the actual five- and 10-year results and the goal of beating the benchmark by 1 per cent? I think that we should have those figures in the billions, and if they are not handy, it would be good if AIMCo could commit to following up in writing with the committee.

I think that there are some real questions here around beating the benchmark, and it may have something to do with the management of public equities. We've just heard some concerns about that, and if to meet those benchmarks we are changing either the approach in public equities – TBF just said no – or if we are going to potentially change our approach in fixed-income or alternative investments in order to be able to meet those benchmarks, as I said, I'd like to know what the amount is that we've been missing them by.

**Mr. MacMaster:** I think that we can easily get you that delta that you're asking for. I don't have it in front of me right now. You know, just by way of a sort of indicator of the difference just over the short term, say, between 2020 and 2021, if we look at all of AIMCo's assets in totality, the negative value-add for 2020 was minus about \$5 billion. In 2021 we're plus \$3 billion, so already five months into the year we've recouped more than half of that. And as I said before, we expect, given our long track record of delivering value, that we will recoup that and move back into the first quartile. But in terms of your delta that's a fairly straightforward calculation for us to get for you, and we will get back to you with that.

**Mr. Uebelein:** Perhaps a couple of things if I may add. Sorry for this echo effect. I also would disagree with you calling it a chronic problem; 2020 was a dreadful year, and it's one that is cold comfort to acknowledge that many if not all, most, active managers struggled with. It risks getting a little bit into the weeds, but I do think that it's important to point out that in some cases our benchmark is not a passive benchmark but it is an absolute-return benchmark. The reason that this is important to bear in mind is because in periods like 2020, where the value of some extremely strong assets went negative – so the actual value of the airport in London, as one example, went down in value – our benchmark was an absolute positive-return benchmark. There's no such thing as a passive benchmark for infrastructure. In our case it has beat an absolute return.

In periods where very strong assets – and the saying that comes to my mind is that the last will be first and the first shall be last. The strongest, best assets and asset classes, like real estate, in 2020 were the ones that took the biggest licking, and there are reasons for that. In retail, for instance, one of the strongest, most profitable malls, not just in Canada but in the world, is Yorkdale mall, yet it suffered tremendously because of COVID. Meanwhile if you have a strip centre with a Rexall in it, you overperform the benchmark. The point I want to come to, which I think explains a lot, is that when you have absolute-return benchmarks, which are not passive benchmarks, a plus sign, and for a period your assets go down in value, you will have a tremendous underperformance. Part of our prepared remarks earlier were to point out that we believe very strongly that these great assets, these tremendous assets will recover very strongly going forward.

This is a touchpoint back also to the questions that were raised around the UAPP. I believe very strongly that while it may be within their purview to chase returns by going to other managers, I fear that it will not be a winning strategy. For those of us who care about the pensions of all Albertans, including academics in the university postsecondary system, I wish the best for them, but I fear that the best will not come to bear.

**Mr. MacMaster:** Perhaps just to set the record straight, you know, on page 2 of that report, it clearly shows that AIMCo outperformed in 2016, outperformed in 2017, outperformed the benchmark in 2018, and was only shy of the benchmark in 2019 by 50 basis points. Clearly, the annualized results that you see were negatively impacted by a dreadful 2020, which we've acknowledged, but are coming out on the other side.

**The Chair:** Thank you, gentlemen, for your answers.  
Next on our list is Member Issik, please.

**Ms Issik:** Good morning. Thank you, Mr. Chair. I'm just wondering if we could start with just a quick listing of what the asset mix is for the trust fund. Also, earlier you were speaking with respect to how the asset mix is chosen. I believe you're in a process now. I'm just

wondering if you could maybe go into a little more detail so that myself and others who are online and out in TV land can understand how it is that the heritage savings trust fund determines its asset mix, and then I have one question after that as well.

**Mr. Epp:** The asset mix, broadly speaking, is invested 20 per cent in fixed-income and money market investments. This would include public fixed income, bonds traded with major investors' banks, the central banks, et cetera, and also private mortgages and private loans. That is 20 per cent of the portfolio. Thirty per cent of the portfolio is inflation-sensitive and alternative assets. This is real estate, infrastructure, renewable resources. Those are the major categories, but there's a lot of flexibility there. These are real assets that are expected to perform when inflation goes up. Finally, 50 per cent of the fund is to be invested in equities. Most of that is in public equities. The target is 40 per cent. The target for private equity is 10 per cent. We're a little bit below that on private equity right now, but those are the weights, generally speaking.

**The Chair:** Okay. Thank you.  
Do you have a supplemental?

**Ms Issik:** Well, that was part of my first question. My question was about how – I just wanted them to sort of let people know what the asset mix is, and how does the fund determine that? Earlier today you were talking about a test. So if you could just finish that first question, and then I still have a second question.  
Thanks.

10:00

**Mr. Epp:** My apologies for missing that. How we determine the asset mix is that we do what I would call an asset mix study, where we come up with expected future returns – we're working with AIMCo – expected future risk of various asset classes, certainly not for individual investments but for asset classes. We will come up with expected returns for equities, for fixed income, all of the different asset classes, and we will project their risk levels as well. Those expectations are fed into a computer program, very complex mathematics, where the interrelationships or the correlations, if you will, between asset classes are considered, and we run it through thousands of simulations, thousands of potential market paths if you will. From that, we get an expected return and an expected risk level.

Once we have those results – and we will do that for a number of different asset mixes. Once we do that, we will have expected returns and risks for many potential asset mixes. Some portfolios will be better than others. Some portfolios will show higher expected returns and/or lower rates of risk than other portfolios, so we will focus on those portfolios that have a superior risk-and-return balance. Out of those the minister will choose a portfolio that he feels will meet the mandate of the heritage fund.

**The Chair:** Okay. Thank you.  
You do have a supplemental, yes.

**Ms Issik:** Yes, please. That's great information. As you go through a year or a period of time, how does the fund keep that asset mix in balance? You know, given that certain economic circumstances are going to occur, how do you ensure that you've got the 20, 30, and 50 per cent or whatever it's going to come out being this coming year? How do you keep that portfolio balanced for your chosen mix?

**Mr. MacMaster:** Maybe I can take a stab at that. Once the asset mix has been set by our colleagues at Treasury Board and Finance,

AIMCo's role is to implement that, execute on that policy. As part of our ongoing management of the portfolio, we have ranges for each of the asset classes in which we can operate, so we have an internal committee, called the Tactical Asset Allocation Committee, which reviews the heritage fund asset mix biweekly and ensures that all of the asset classes are balanced with how we want to be positioned. Just by way of example, for the last year or so we've had the portfolio slightly overweight equities and slightly underweight fixed income to reflect our reviews of those markets. But just to be clear, it's, you know, Treasury Board and Finance which sets the main part of the risk, which is the asset mix, and AIMCo implements in a low-cost manner to generate the returns and some value-add over the benchmarks.

**Mr. Prefontaine:** With your permission maybe I'll just supplement Mr. MacMaster's response in that this is where the importance of the collaboration between our two organizations is extremely important just so that there's fulsome understanding as Dale and his team are executing on behalf of the heritage fund and our other clients what it means to actually keep clients at their respective target weights in any particular asset class.

But also, as there's been a lot of conversation around this analysis that's occurring around a possible new asset mix, once our colleagues at Treasury Board and Finance and the minister determine exactly what that new asset mix is, based on the collaborative effort between our organizations going in, there's a lot of discussion that needs to happen on what that transition is going to look like. It's not as easy as: we have a new asset mix as of January 1, we flip a switch, and we're automatically there. The importance of that collaboration is critical. Mr. Epp referenced earlier that we have formal quarterly meetings but lots of interquarter ad hoc conversations to supplement all that.

**The Chair:** Thank you very much. Anybody else adding to that? No? Okay. Thank you.

Our next questioner. We're back to you, Mr. Eggen.

**Mr. Eggen:** Thank you very much, Mr. Chair. Just taking us back to the last annual general meeting for this fund, the big public meeting, the Ministry of Treasury Board and Finance, I think, dropped some pretty dramatic news, and you did make some small mention of it here this morning. I was still quite surprised, you know, that it did not come from the Finance minister, who would be otherwise responsible for delivering such dramatic news. We learned that the heritage fund was under review and so was the investment policy of the heritage trust fund. Since then it's been, quite frankly, a deafening silence, and considering the gravity and the scope that this could entail, I think that this vacuum of silence needs to be filled with some meaningful information for this committee and for the public as well.

What sort of consultation has been taking place in regard to this? I didn't see any consultation with the general public, you know, with financial experts. Is that the route that this is taking, behind closed doors? Certainly, no consultation with this committee that is responsible for the overseeing of the heritage trust fund. I want to ask TBF, like, what's going on with the review? What have you found so far? What changes are you considering? What's the timeline? I think Albertans deserve to know.

**Mr. Epp:** I think I answered much of your question with Ms Issik's question. That's what we're doing. We are going through an asset mix study. This is the same process that every pension fund goes under when they determine their investment mix, so we are certainly not deviating from industry practice. I would say, unfortunately,

that I mischaracterized how dramatic the review is. This is normal course of business and should be normal course of business.

I will say that it's taken us a while, too long – I will admit to that – to do an asset mix study. We probably should have done one somewhere in 2015 or 2016. We did not, and that's unfortunate. We do not expect dramatic changes in the investment approach. The current asset mix has served the heritage fund and therefore Albertans very well. If you look at comparative returns, for example, between some of AIMCo's clients, other clients, and the heritage fund, you will notice that the heritage fund has more foreign equities, an allocation of something like 42 per cent to foreign equities, 8 per cent to Canadian equities. Foreign equities have outperformed Canadian equities.

Now, for lots of good reasons pension funds have put more money into Canadian equities. That's because they have liabilities in Canadian dollars. I'm not criticizing or suggesting that they've done anything wrong, far from it, but the asset mix that was selected in 2011 has served Albertans very well.

*10:10*

**Mr. Prefontaine:** And if I could just second . . .

**Mr. Eggen:** I guess I would like and I think the public deserves to know: what are you planning to do? What stage are we at with this review? What's the scope of the review, and who have you been consulting with to, you know, look at the asset mix? As you said before, the heritage fund is special, right? I mean, you can't characterize it as just another investment fund. It belongs to all Albertans. It's special enough to have this committee to oversee the fund, but we see precious little information as to what the government is up to. I would ask TBF and AIMCo, first TBF, if the ministry can commit to taking the next month, the next 30 days, to put together an interim report of your findings and share it with this committee and with the public so that we can understand where you are planning to take this fund. And to AIMCo: I mean, you've done this analysis for the ministry before as you put together a business case on moving ATRF over to AIMCo, for example. Can you tell us what you've done, any analysis for the heritage fund review, and where are we at right now?

Thank you.

**The Chair:** I see Mr. Prefontaine's hand up. I think he wants to respond to the last . . .

**Mr. Epp:** I don't think the report would . . .

**The Chair:** Pardon me. I was going to let Mr. Prefontaine go first. I see his hand up from – he even wanted to respond to the last piece. Then I'll get to you, Mr. Epp.

Thank you.

**Mr. Epp:** Okay. Sorry.

**Mr. Prefontaine:** Thank you, Mr. Chair. Perhaps I can connect a couple of dots here, including the previous question and this question. First of all, I agree with Mr. Epp's characterization that this is consistent with industry practices. A number of our clients routinely do asset mix studies to make sure that their portfolios are in line with their objectives. The heritage fund clearly has an objective of maximizing long-term performance measured against two measures. One is the policy benchmark; the other is the CPI plus 4 and a half. The conversations that we have collaboratively with Treasury Board and Finance on a regular basis centre around getting to those objectives, including, as everyone at this committee knows, the annual process of extracting the income for the benefit

of all Albertans and doing that in the most effective and efficient way to minimize the drag on the remainder of the portfolio. Those are kind of the interim, near-term conversations that we have.

Then to the point on process moving forward and some of the critical inputs to the asset study that we're collaboratively undertaking, Mr. Epp referenced that there is some analysis to look at. What are expected returns for the various asset classes and risk tolerances? Well, every year AIMCo works hard to publish a long-term forecast, and that's something that's available on our website. The most recent one was in February of this year. That's critical input to the work that we're doing collaboratively that looks at both expected returns and risk profiles for those asset classes. We're happy to provide additional information, but a lot of this is publicly available.

**The Chair:** Thank you.

Now, Mr. Epp, please.

**Mr. Epp:** Yes. First of all, I would say that the asset mix is being based on the legislation, so we are not deviating in any way from the goal and the legislated mandate to earn high returns over the long run. Secondly, the Minister of Finance and President of Treasury Board is responsible for the investment policy.

As far as a report we can prepare one, and that is not a problem, but it will not say anything that I haven't already said. There is no magic black box here that we're entering into. We are going into a study. We are going to look at various asset classes that we can invest the heritage fund in. We are setting expected rates of return and rates of risk, mathematically calculated. We are making assumptions or guesses or estimates if you will – choose your pick – of correlations between asset classes. Those affect the diversification of the fund, and preferably we'd like asset classes that are not correlated with each other. Those are very difficult to find, but real estate and infrastructure often are not very highly correlated with public equities, for instance.

As I said earlier, from that, we will make an analysis out of simulation results. I don't know how many simulations will be run and how many portfolios will be tested, but there will be many portfolios tested, and there will be many more simulations run of possible investment paths. Once we have done that, we will analyze the results. The analysis of the results will be taken to the minister responsible, Minister Toews, and a decision will be made by the minister on how the fund is to be invested. That is the study in its entirety.

**Mr. Eggen:** Thank you.

**The Chair:** Okay. Thank you, both, for your answers.

Okay. Listen, folks. It's now 17 after. We do have to reserve time to deal with our annual report to the Legislature, a key piece of our meeting today. I have five more questioners on a current list. That gives you about three minutes apiece for a question and answer, if possible, so that we can then get to our last piece of business and have about 25 minutes to wrap this meeting up. We should be able to make it, but just an encouragement to keep the questions focused.

Mr. Singh, you are up now, please.

**Mr. Singh:** Thank you, Mr. Chair. I would like to express my appreciation to the representatives of AIMCo and Treasury Board and Finance who are here with us today. My question is: since AIMCo has mentioned in the Q3 report and in previous quarterly reports that the Alberta heritage savings trust fund is managed with the long term in mind, what sort of adjustments did AIMCo have to make this quarter to the fund to counterbalance the effects of COVID-19?

**Mr. MacMaster:** A good question, and thank you for that. You know, active management of our portfolios is a dynamic process. We're always, on a daily basis, making adjustments to generate attractive, risk-adjusted returns and, at the same time, providing liquidity for our clients, creating liquidity to make illiquid investments, raising money for those.

In terms of the pandemic specifically, much of what we were doing, say, in March, when this thing really hit the markets, was rebalancing the portfolios. Equities were down quite a bit, obviously, and fixed income was up, so selling fixed income and moving those assets into equities to rebalance the portfolio and, quite frankly, take advantage of our view that in all these cases historically, when equities are down 30 per cent, well, they tend to recover, right? As you get global growth, as you get revenues growing, valuations go up, right? This is our bread and butter, you know, reacting to markets like this with long-term focus. So that was the primary activity in the listed side.

On the illiquid side, of course, I think we were quite busy triaging our assets – right? – making adjustments to, you know, London City, and the real estate team was very active working with its asset managers. To take advantage of government programs to help out and to manage the properties and rents coming in, as you can imagine, was challenging, so quite busy in that period. Once the extensive government programs, both fiscal and monetary, came into place, you saw that things got quite a bit better as cheques were sent out to individuals, businesses were given help, and things recovered quite well.

**10:20**

In terms of our tactical view on the portfolio we have been slightly overweight in equities and taking advantage of what we thought was good support for the equity markets and, you know, a little bit concerned that rates might rise and therefore underweight fixed income, which also worked. And then on the illiquid side, so the private side – in infrastructure, real estate, and private equity – looking to take advantage of dislocation was a big part of our playbook as well.

I think we were most successful in real estate there. In particular, for those players who had balance sheet issues and couldn't fulfill transactions they had stepped into, it allowed AIMCo in certain cases to take advantage and get better pricing on transactions than we would have. This has been in particular areas of interest to us in real estate like logistics and industrial and multifamily, perhaps less so in retail and office. So, you know, we were very active in the portfolio in the last year. I think that we have transacted on some very attractive assets and continue to look at and deploy funds. I would say in general that our clients are interested in the illiquid assets, in particular infrastructure and foreign real estate, so we have what we call dry powder ready to go there for those opportunities that come up.

**Mr. Singh:** Thank you for answering my question. It's good to know these adjustments properly addressed the effects of COVID-19.

As I have no follow-up, back to you, Mr. Chair.

**The Chair:** Thank you very much.

We'll move to Member Gray, please.

**Ms Gray:** Thank you very much. This question comes from the fact that as a committee member having Google alerts set up for all news related to AIMCo, I see that AIMCo has been in some of the business press. It had to do with a proxy issue with Calfrac and AIMCo. Just in the context of the heritage savings trust fund I saw that \$1 million of bonds ended up being cancelled out of that situation. I'm curious if that impacted the heritage savings trust fund, but I also just hoped:

could you, in plain language, explain to me and, through the committee, to Albertans what that situation was and how the proxy error occurred? In just reading the stories, it wasn't super clear.

**The Chair:** Thank you.

If it's relevant to the heritage fund, please address it. Otherwise, maybe you can reply directly to the member later. We are running short of time.

**Mr. MacMaster:** Yeah. Perhaps we could do that. Maybe just a quick summary. This had really – it was no fault of AIMCo but, in fact, a mistake on the part of Kingsdale, Calfrac's proxy adviser, which incorrectly placed AIMCo into the disinterested shareholder category, you know, which resulted, ultimately, in us receiving this \$1 million. In consultation with the Alberta Securities Commission, the TMX, and the Alberta Court of Queen's Bench, we agreed to essentially rescind that. We'll get back with a more fulsome explanation, because it does have some complications, but just to be sure: this was no fault of AIMCo. Unfortunately, it fell on the side of Calfrac.

**The Chair:** A follow-up?

**Ms Gray:** Thank you very much. I appreciate that.

Understanding that we're under time pressures, if AIMCo is okay with it, I'd love to just ask a question and perhaps get your response in writing afterwards. My question would be just along the lines of using your power as a shareholder to ensure better board diversity for the firms you're invested in, just because when we see board composition everywhere, it's lamentably gender imbalanced. I'm curious if AIMCo is using its power, its voice to help resolve that. If you're able to respond in writing to that, that would be great. I will just accept your nod, and we can move on to the next questioner.

**Mr. Uebelein:** Yes, we can respond in writing. It's something that we're quite active and passionate about.

**The Chair:** Wonderful. Thank you.

Mr. Rowswell, please.

**Mr. Rowswell:** Yeah. Thank you very much. I was going to ask about the different asset classes, but you've answered that question a few times already. What I will ask is: how do you pick your benchmarks, and how accurate are they in reflecting what you should be competing against, I guess?

**Mr. Epp:** Well, I will start and certainly let Dale or someone else step in. When we choose benchmarks, we try to find something that is representative of the returns that that industry or that asset class will earn over a long-term period. The best benchmarks are for public equities. There's no question about that. Every day you can hear what the S&P/TSX does on the news and so on, and those are good benchmarks. They can be replicated. In other words, if chosen, AIMCo could make our portfolio look exactly the same as the index.

With respect, once you get past public equities, the accuracy of the benchmarks goes down. There's a fixed-income index in Canada that we use – the DEX universe bond index is what it's called – and it tracks the market pretty well. Basically, every large public bond in Canada is included in that. For illiquid assets, to make a long story short, it's very difficult to find a benchmark because everybody's illiquid portfolio is made up of, on a relative basis, a small number of rather large investments in individual businesses. There is no industry benchmark to be published, so nobody else will have a similar portfolio, and it's not possible to be replicated.

**Mr. Rowswell:** Okay. Thank you.

The follow-up, then, to go into the illiquid part, is that it must be difficult to assess the value. How is that done?

**Mr. MacMaster:** Maybe I'll try this one. We have a very experienced team of valuers in-house, completely independent from the investor side of the equation, which does a very thorough analysis of putting a valuation on our illiquid assets – obviously, the public ones are easy; you just go to the market and get your price – and they use a number of different approaches to this. It is extensive governance. You have tentacles around it, you know, through our AIMCo board. It has a lot of visibility in terms of the process with our clients. So we're quite proud of the job we do in setting the values for illiquids.

**Mr. Rowswell:** Okay. Thank you.

**The Chair:** Okay. Thank you very much.

Now, Member Phillips was on the list but has had to leave the meeting. If I understand correctly, Member Gray, you're going to read the question into the record. Is that the intent?

**Ms Gray:** Yes.

**The Chair:** Thank you. Please do that. Yes.

**Ms Gray:** Absolutely. This is going back to the line of questioning Member Phillips was talking about earlier, just concerns around performance. What I'd like to do is just read Member Phillips' question, and if you'd like to respond in writing given the short time, that would be so appreciated.

Looking at other funds, for example, you have brought up other comparable fund managers. We heard you talk about CPPIB, Ontario teachers, Quebec's Caisse de dépôt. Granted, these are larger funds, but on an absolute basis for the first three quarters of 2021 CPP returned 16.4 per cent while AIMCo only returned 11.6 per cent for the heritage savings trust fund. Your value-added over five years was negative 1.1 per cent. At Ontario teachers, for example, they've met the benchmark exactly over five years. Quebec's Caisse de dépôt has met their policy benchmark over five years, exceeded it, even, by .2 per cent.

For me, it's been very frustrating as a member of this committee because oftentimes when we're talking about what our goals are, the importance of the value-add that is part of the S&P agreement that we are part of – clearly, we've fallen short of these goals by 1.1 per cent. If you can, come back to the committee just to explain that difference. Of course, the pandemic has impacted all organizations, and the markets in the past five years have really been on an absolute tear.

With that, I will cede my time. Thank you, Mr. Chair.

10:30

**The Chair:** Thank you very much. The question is noted.

The last question of the day will go to Mr. Jones. Thank you. Mr. Jones, please.

**Mr. Jones:** Thank you. As reported in their respective 2020 annual reports, like the heritage savings trust fund, the ATRF also lagged its benchmark. Can you discuss the importance of focusing on long-term returns for funds with long-term mandates?

**Mr. Uebelein:** Sure. I will take that question. You know, I think that, as we've discussed earlier in this call and in previous calls, being a successful active manager is really a very difficult job. The best active managers who consistently beat the benchmark do not beat the benchmark in every time series or time period, and that's,

for instance, one reason why chasing returns is so often a bad strategy. It's also why you will find amongst peers a real hesitancy to judge others based on underperformance over short periods of time. So when we look at our peers and when we look at ATRF and others, you have to look deeply into the skill set, the consistency of their investment thesis, at their asset mix, and at all sorts of extraneous variables. But we believe that we have been a very consistent long-term value-add provider, and we're extremely hopeful that, again, that mean reversion on the positive side will come to benefit both the heritage fund and all of our other clients over the long run.

**Mr. Jones:** Thank you. A brief supplemental. Based on my review of the 2020 ATRF annual report, the five-year return for that fund was 7.4 per cent. Can you tell me what the five-year return of AIMCo has been over that same period?

**Mr. MacMaster:** You know, I'm going to just say that I'm not sure that we can because it could have different end dates.

Just a general comment on measuring performance from one fund to another, and this in part answers the question we heard that went into the record: I mean, look, it's very, very difficult because everybody has a different asset mix. You could imagine one manager who has nothing but fixed income . . .

**Mr. Jones:** Yes. I understand the complexities. Let me rephrase: what was the five-year return in AIMCo's annual report in 2020?

**Mr. MacMaster:** I don't know. We can get back to you on that.

**Mr. Uebelein:** We'll have to respond to you later. Apologies for that.

**The Chair:** Okay. I think that that wraps up this piece of it.

Mr. Uebelein, your hand is up. Did you have anything else you wanted to say at this point?

**Mr. Uebelein:** Yes. Very briefly, if I may. Again, just in line with the fact that this will be my last opportunity to speak before this committee – it's been a great honour, privilege to do so – something else has been on my mind these last few days. A real giant in our industry died on Wednesday of this week. Many of you may not have read his obituary or know who he is, but David Swensen led the Yale endowment for years, and he's not only an extremely successful investor; he's going to be better remembered, I think, for showing a whole generation of professionals that there's a way to compete hard and well in these financial markets but to still have our lives be about something that mattered more.

I mention this because this is exactly what we are building here at AIMCo. We are completely performance driven, and we compete successfully in the global investment markets, but we also have a purpose that is greater than just our own personal success. We're driven – we are really driven – to enrich the lives of Albertans. With all due respect to everyone in the room we will continue to be fully accountable for our performance. We take our performance as seriously as anyone else in the room, but when on occasion we get pulled into politicized arguments that feel like attacks not just on our performance but actually on our motives and on our purpose, I just have to say that it is very challenging to continue to maintain the passion and purpose that our people have and they show every day. Again, with all due respect to this committee, which I've greatly enjoyed meeting with, answering questions, I just wanted to share those thoughts before my swan song.

Thank you.

**The Chair:** Thank you very much, sir. Sorry to hear of the loss of, I think, your friend, not just your colleague, in another fund. Thank you.

Okay. We've received the third-quarter report. We've received the presentation on it. We've asked questions. It's now time to consider a motion to formally accept the report. I would suggest the wording should be that

the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2020-21 third-quarter report on the Alberta heritage savings trust fund.

Do I have anyone who would like to make that motion? Please say so now.

**Mr. Singh:** I will move the motion.

**The Chair:** I should take one person online. I think that was Mr. Singh's voice. Is that correct?

**Mr. Singh:** Yeah. Thank you.

**The Chair:** Okay. Thank you, Mr. Singh, for making the motion.

Any conversation or discussion on that motion? Clarity for everybody?

Okay. All in favour, please signify by saying yes. Any opposed to that motion? Silence is golden. Thank you.

The motion is carried.

With that, I would like to truly thank our presenters for your effort, not forgetting the Auditor General's representatives as well even though you haven't been put in the hot seat, maybe. Thank you all for being here. You're welcome to stay for the rest of the meeting if you want – it is a public meeting – but if you need to go and would prefer to, we'll allow you to do that at this time. Thank you for your contributions today.

The next item of business on our agenda, of course, is the important report to the Legislature from this committee. As a reminder, the trust fund act does require the committee to report to the Legislative Assembly every year as to whether the mission of the heritage fund is being fulfilled and on our activities. The draft of this report was posted to the committee's internal website a while back for all of you to review. I trust and hope that you have done that. It basically covers the activities during the 2020 calendar year. You've got to watch these different time periods. This is the calendar year we're talking about now – okay? – 2020. Do members have any questions, comments, or concerns regarding proceeding on that report and the draft as it was presented? Anyone?

Wow. Not even one question. I thought we might have one or two questions. All right. If nobody has any questions, that makes this extremely simple. The draft motion, I would suggest, would read that

the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft annual report of its activities during the 2020 year.

One last call for any comments or questions. None? Then all in favour, please signify by saying yes now. Oh, am I missing something from the clerks here?

**Mr. Huffman:** We just need somebody to move the motion.

**The Chair:** Oh, that's right. I'm sorry. I moved too quickly. Thank you for catching that.

I need somebody to actually move that motion before we can vote on it.

**Mr. Rowswell:** So moved, Chair.

**The Chair:** Mr. Rowswell, thank you for moving the motion.

Now we can actually vote on it. I guess procedurally I should allow for any questions or comments. I kind of forgot that key piece. My apologies.

All right. No comments or question forthcoming. All those in favour, please say yes at this point in time. Okay. Wonderful. Thank you. Any opposed? Hearing none, I will declare that that motion is carried.

Are there any other business items for the day? I don't have anything, and I'm assuming you would have presented it to us before if you did.

*10:40*

The last item of business, then, is the date of the next meeting, and it will be called by the chair, of course, after consultation with each of you through the clerk. It'll likely be in June, after we have the annual report for the 2021 year available for you to read, and members will be polled to find out.

If there's nothing else for the committee's consideration, I would like to call for a motion to adjourn. Mr. Eggen has moved that. All in favour, please say aye. Any opposed? The motion is carried.

Thank you, everyone. For the health of LAO staff please remember to take your drinks and loose items with you when you leave the room. The meeting is adjourned. Have a good day, everyone.

[The committee adjourned at 10:41 a.m.]









