



Legislative Assembly of Alberta

The 30th Legislature  
Second Session

Standing Committee  
on the  
Alberta Heritage Savings Trust Fund

Friday, June 25, 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)  
Yaseen, Muhammad, Calgary-North (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

Athana Mentzelopoulos, Deputy Minister

Alberta Investment Management Corporation

Amit Prakash, Chief Investment Strategy Officer

Mark Prefontaine, Chief Client and Stakeholder Relations Officer



9 a.m.

Friday, June 25, 2021

[Mr. Orr in the chair]

**The Chair:** Good morning, everyone. It's 9 o'clock. I would like to call this meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order and welcome everybody in attendance.

My name is Ronald Orr, MLA for Lacombe-Ponoka and chair of this committee. I'd ask that members and those joining the committee here in the room introduce themselves for the record, and then I'll call on those joining by videoconference. I'll begin to my right, please.

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

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

**Ms Gray:** Good morning. Christina Gray, MLA for Edmonton-Mill Woods.

**Ms Govindarajan:** Vani Govindarajan, office of Parliamentary Counsel.

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

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

**The Chair:** Good.

Online we'll start with the MLAs. Maybe I'll just go through the list to make it simple here. I've got Mr. Rowswell, please.

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

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

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

**The Chair:** Ms Phillips, please.

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

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

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

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

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

**The Chair:** Then we have a couple more staff. Let's see. Janet Laurie, please.

**Ms Laurie:** Good morning. Janet Laurie with corporate communications for the Legislative Assembly Office.

**The Chair:** Any other staff? No? I think that's it for staff.

Then we have some presenters. We'll start with the Ministry of Treasury Board and Finance, please.

**Ms Mentzelopoulos:** Good morning. It's Athana Mentzelopoulos, Deputy Minister of Treasury Board and Finance. I'll hand it off to Lowell to introduce himself.

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

**The Chair:** Thank you.

AIMCo members, please.

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

**Mr. Prakash:** Good morning. Amit Prakash, chief investment strategy officer with AIMCo.

**The Chair:** The member from the office of the Auditor General.

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

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

I will note for the record that there are no substitutions at today's meeting, which is good.

A few housekeeping items to address before we turn to our business. According to the February 22, 2021, memo from the hon. Speaker I'd remind everybody of the committee room protocols, which encourage members to wear masks in the committee rooms while seated except when speaking, at which time they may choose not to wear a face covering. Based on the recommendations of the chief medical officer of health, please keep regard to physical distancing, which I see is all well done.

Please note that the microphones are operated by *Hansard*. No need to deal with them. Committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostream and transcripts 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 are asked to signal to the chair. And that's one thing I was going to ask, if the clerk would please just repeat that e-mail in case anybody doesn't happen to have it.

**Mr. Huffman:** Yeah. Sure. My e-mail would be warren.huffman@assembly.ab.ca.

Thank you.

**The Chair:** Thank you.

Please make sure your cellphones and other devices are set to silent during the meeting.

Let's move to the approval of the agenda. Are there any changes or additions to the draft agenda that any members would like to make? If not, would someone like to make a motion to approve the agenda? I suggest that the wording could be that the agenda for the June 25, 2021, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as distributed. Mr. Eggen. Thank you, sir. All those in the room in favour, please say aye. Any opposed? I guess not because you all said aye. Online members in favour, please say aye. Any opposed online? That is carried. Thank you.

The approval of the minutes from our last meeting. The last meeting was May 7. You've had them for review. Are there any errors or omissions that anyone would like to note? Hearing none, if a member would like to make a motion to approve, then I'd suggest that the wording could be that the minutes of the May 7, 2021, meeting of the Standing Committee on the Alberta Heritage

Savings Trust Fund be approved as distributed. Would somebody like to make that motion?

**Ms Issik:** So moved.

**Mr. Singh:** Thank you, Mr. Chair. I would like to move the motion.

**The Chair:** Thank you, Mr. Singh, but Member Issik was one step ahead of you.

All in favour in the room, please say aye. Any opposed? No? Okay. Online in favour, please say aye. Any opposed online? Hearing none, that motion is carried.

We will move to the 2020-21 Alberta heritage savings fund draft annual report. Before we hear from our guests, I'd just like to begin by briefly reviewing the committee's mandate with respect to the fund's annual report. As provided for in section 6(4)(b) of the Alberta Heritage Savings Trust Fund Act, one of the functions of this committee is to approve the fund's annual report. Furthermore, section 16(2) of the act requires the committee to furnish copies of the report to all Members of the Legislative Assembly and the Clerk of the Assembly on or before June 30 once it has been approved. The committee clerk has received a draft of the annual report from Treasury Board and Finance, which was made available to the committee on the internal website.

At this time we'll receive an overview of the annual report from Treasury Board and Finance, followed by remarks from AIMCo, and then I will open the floor to questions from committee members.

Let's begin with Treasury Board and Finance. You can go ahead and present your comments. Who's going to start, Mr. Epp or Ms Mentzelopoulos?

**Mr. Epp:** It will be Mr. Epp, Chair.

**The Chair:** Please proceed.

**Mr. Epp:** Thank you, Mr. Chair. As always, it is a pleasure to come before this committee and discuss the performance of the heritage fund and its results for the year. The '20-21 fiscal year was a very successful year for the heritage fund as it earned a return of 16.1 per cent during the year and produced \$1.35 billion in income. Out of these earnings \$1.2 billion was transferred to the general revenue fund. The fund's market value gained back much of what had been lost in the market downfall at the end of the 2019-20 fiscal year and finished the year at \$17.8 billion after starting at \$16.3 billion. I would note that AIMCo had a particularly strong fourth quarter, outperforming their passive benchmark by 1.6 per cent during the quarter, so that really helped the year-end results.

A year with such strong returns is the last thing that many would have expected given the environment the world was in at the beginning of this fiscal year. In February 2020, if you'll recall, equity markets in much of the world were at or near record-level highs and were frequently setting new record highs. In Canada, for instance, the S&P/TSX index reached its highest level ever on February 20, 2020, closing at 17,944. However, during the next five and a half weeks the index fell by a little more than 25 per cent.

The heritage fund finished the 2019-20 fiscal year with a return of negative 5.1 and a market value of \$16.3 billion, the fund's lowest market value since 2011-12. So as we started the 2020-21 fiscal year, there were many uncertainties and unknowns, to say the least, but as time would show, somewhat unexpectedly, the stock market bounced back quite quickly and returned to February 2020 levels in every major market by the end of November.

**9:10**

The equity markets continued to rise during the remainder of the fiscal year and posted new record highs along the way as vaccines became available and economies started to open up. By the end of the year the S&P/TSX index had earned a total of about 44 per cent while the Canadian dollar total return on the MSCI world index was around 37 per cent.

Now, of course, for better or for worse, the heritage fund is not invested solely in equity securities. As I mentioned earlier, the heritage fund earned a return of 16.1 per cent during the '20-21 fiscal year. This was .6 per cent above the passive benchmark for the year. Not surprisingly, the equities asset class had the highest return, posting a 37.9 per cent return, which is 5.3 per cent higher than the equity benchmark. Equities make up about 50 per cent of the heritage fund's total assets.

Fixed income securities, which make up about 19 per cent of the fund's total assets, earned a return of 4.8 per cent during the year, 2.5 per cent higher than its benchmark return of 2.3 per cent.

The third asset class is inflation-sensitive and alternative investments, which, quite frankly, had a difficult year. While the impact of the pandemic on the equity market was reversed during the year, this was not the case for many inflation-sensitive and alternative asset investments. This asset class ended the year with a return of negative 9.8 per cent, 8.7 per cent below its benchmark return of .9 per cent.

Now, one thing I wanted to mention is about the benchmark for the inflation-sensitive and alternative asset class. First of all, there are no good market-based benchmarks for infrastructure and renewable resource investments, so we are forced to use what is not a good benchmark. The benchmark is inflation plus 4 and a half per cent for these investments, an absolute return benchmark. As a consequence, as inflation was 1.6 per cent, the benchmark was 6.1 per cent for the year. Now, it's very unlikely that this benchmark would ever have a value below zero, yet we know that any asset can and will have negative market value returns during the year.

Consequently, comparing market values with absolute return benchmarks does not provide a good measure of performance. Evaluating actual returns against an absolute return benchmark must be done cautiously as the benchmark return may not represent what actually happened during a year. Of course, this applies in both up and down markets. An evaluation over the long term is somewhat better but remains much different than a comparison between a public equity portfolio and the public equity benchmark.

Over the past five years renewable resource investments have earned a return of 11.4 per cent, 5.1 per cent higher than the absolute return benchmark of 6.1. Infrastructure investments have earned 5.7 per cent, .4 per cent lower than the benchmark.

Finally, I would like to briefly review the performance of the fund against targets. Two targets for the heritage fund have been set, and they focus on the long term. What I believe is the most important target is the real return target, where we seek to earn 4 and a half per cent plus inflation over a five-year period. The second goal is an active management target. We expect to earn a return of 1 per cent above the passive benchmark over a five-year period of time. The five-year return on the fund was 7.4 per cent, which is 1.3 per cent higher than the benchmark return of 6.1 per cent. The active management target was 8 per cent for the five-year period, and actual returns were .6 per cent below that, at 7.4 per cent.

That concludes my remarks, Mr. Chair. Thank you.

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

Anything to add from Deputy Minister Mentzelopoulos?

**Ms Mentzelopoulos:** No. Thank you, Chair.

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

We'll move to AIMCo now. Whoever is going to take the lead, please do that.

**Mr. Prefontaine:** Yes, Mr. Chair. Thank you very much. Mark Prefontaine again, chief client and stakeholder relations officer with AIMCo. Hello to those watching and listening online. On behalf of AIMCo thank you again for having us here today. It's always a pleasure to come before the committee to provide our insights and answer any questions that you might have. As we've heard from Mr. Epp just a few moments ago, 2020 was full of uncertainties and unknowns, and I wish we could be in front of you today providing you certainties and knowns. That, in fact, is not the case, but we're certainly happy to talk about what's happening within AIMCo, provide some perspective on what's happening regarding the global economy, the markets, speak to performance, and speak to what's happening specifically in the portfolio of the heritage fund.

I am pleased to be joined by my colleague Mr. Amit Prakash, our new chief investment strategy officer at AIMCo. He will be talking to a number of those topics.

But just before I pass the mic to him, I'd really like to share with the committee some updates in terms of what's happening at AIMCo that's important to our clients and therefore, I think, should be the kind of thing that we share with this committee. Briefly, I'll speak to issues related to performance. I'll speak to our ongoing CEO transition. I'll speak to what AIMCo is doing regarding COVID as restrictions are lifted and how we're responding to that, and then, finally, I'll be pleased to share with you some ongoing activity within AIMCo regarding diversity, equity, and inclusion.

As you heard Mr. Epp say, in the last 12 months the heritage fund has enjoyed a fairly healthy return, including value-add over benchmark. Again, Amit will speak to performance in more detail, but I will say this. At AIMCo we continue to focus on the long term on behalf of our clients. We continue to take a prudent approach regarding risk management. We continue to take a disciplined approach in implementing our clients' investment portfolios.

That said, we certainly are ensuring that our clients' portfolios and the various asset classes have been and are well positioned to take advantage of opportunities and dislocations that have presented themselves during COVID-19. We've recently completed a strategic review of and made requisite adjustments to our public equities program, and there's a tremendous amount of ongoing hard work within our investment management team and all staff at AIMCo which really has benefited our clients over the last 15 months. I can't speak highly enough of the dedication and commitment of the AIMCo team through this very trying period that we've all experienced.

The second point I really want to dive into just briefly is the CEO transition. As you heard at the most recent committee meeting when we were in front of you, that was the last meeting in which our current CEO, Mr. Kevin Uebelein, would be in front of this committee. It's been my honour and privilege to work with Kevin in the last four and a half years of his six-and-a-half-year tenure at AIMCo, where he has worked tirelessly on behalf of the heritage fund and all of our clients. All of us at AIMCo wish him well in the next chapter of his life.

Our incoming CEO, Mr. Evan Siddall, who officially joins AIMCo on July 1, is going to have a busy summer. We are going to be sending him on a whirlwind tour, welcoming him to Alberta, meeting staff, meeting clients, and meeting with stakeholders. He is certainly very much interested in going on a listening tour, as he calls it, so that he is getting well integrated into the organization,

well acquainted with our staff, and diving deep into the issues facing AIMCo and our clients. As you may know, he is coming from a federal Crown corporation, so he's very accustomed to speaking to standing committees such as this one, and rest assured that he is very much looking forward to attending these committee meetings in the future.

**9:20**

Regarding COVID and AIMCo's response, as we're seeing, as Mr. Epp talked about, the vaccine rollouts, which are going, at least from my perspective, quite well and, as a result, allowing restrictions to be lifted in Alberta, across Canada, and around the world, how is AIMCo responding to that? Well, just recently in our Edmonton office, where 90-plus per cent of our 500-plus staff work, we've begun a re-entry program on a voluntary basis. We've asked staff, on their own volition, to raise their hands if they're interested in coming back to the office over the summer months, and we've seen a number of people take advantage of that. I myself have been in the office for three days this week.

In other jurisdictions where we have offices, including London and Luxembourg, we also have voluntary re-entry going on at the moment in compliance with local health restrictions. In Toronto, where they have a different program at the moment or are at a different stage, if you will, in terms of their restrictions, we are currently not allowing staff into the office, but we certainly anticipate being able to do so shortly.

We have communicated to staff that we are going to be welcoming them back in the Edmonton office on September 7. We very much look forward to getting back to the office, where we can reconnect with our colleagues and get to work together again on behalf of our clients.

Concurrently AIMCo is developing a robust remote work policy and trying to figure out what our new normal will look like in this environment. That will be heavily informed, as you might expect, by our learning over the last 15 months, by what we're seeing in terms of industry norms, and by client expectations. I certainly look forward to being able to get in front of this committee and answer questions in person at the next available opportunity.

Finally, some comments regarding some work that we're doing at AIMCo regarding diversity and equity and inclusion. At the last meeting, you heard Kevin speak about what kinds of supports we are providing to staff in dealing with COVID and the impacts of COVID. We've also been focused on supporting and strengthening our team in other ways. Since we've last met, AIMCo has refreshed its approach to diversity, equity, and inclusion, guided by our Diversity, Equity & Inclusion Council, which is made up of staff from across the organization at all levels. AIMCo is very proud to recognize that June is Pride Month as well as National Indigenous History Month, and certainly, most recently, we're well aware that in the U.S. they've introduced Juneteenth.

The recent tragedy in London, Ontario, and news regarding residential schools in Kamloops and now Saskatchewan and certainly anticipating others are reminders of why continued and sustained efforts to address racism and discrimination are so important. Our clients expect AIMCo to be a responsible organization, viewed through multiple lenses, not the least of which is managing their assets well. However, that also includes that our clients expect AIMCo and we expect ourselves to conduct business in the right way, which is why we're focused on diversity, equity, and inclusion. AIMCo is a very diverse organization to begin with. We have staff who come to Edmonton or our other offices from around the world, and we speak close to 50 different languages amongst our staff.

We have a number of people who have self-identified as being part of specific communities, including the LGBTQ2S-plus communities.

Recognizing that AIMCo is a collection of distinct communities, the DEI Council recently launched a program to support employee resource groups, or ERGs. ERGs provide a platform for our employees to openly express their ideas, to feel empowered, and to share their skills and perspectives and experiences. They're designed to foster openness amongst all of our colleagues at AIMCo and are meant to be a reflection of the fabric that is AIMCo. We anticipate that these ERGs will span across a number of different communities, covering a number of different dimensions of diversity: cultural; ethnic; gender; work-life balance such as parents, caregivers; ability; and, as I mentioned, LGBTQ2S-plus communities.

I offer these only as examples of what we are doing, but let me be clear. We're at the beginning of our journey. AIMCo, like many other organizations, seeks to be better and better every day. We strive to be an employer of choice and to have an inclusive culture where our people are accepted and supported and energized to come to work, wherever that may be, on behalf of our clients each day.

We'll continue to share more of this work and this important effort over future meetings, but for now I'm going to conclude my remarks and pass the proverbial mic to Amit for his comments. Thank you.

**Mr. Prakash:** Good morning. [inaudible]

**The Chair:** Excuse me, sir. You've gone back on mute. We can't hear you.

**Mr. Prakash:** Sorry.

**The Chair:** There you go. Thank you.

**Mr. Prakash:** Apologies. This never gets old. Again, good morning. My name is Amit Prakash. It's a pleasure to be here, and thank you for inviting us to present to the committee. Before I start my prepared remarks, since this is my first time in front of the committee, I will take a moment to introduce myself. As Mark mentioned, I joined AIMCo late last year, starting in October 2020, to head up the investment strategy function, which was a newly formed function at AIMCo. Later, as part of my prepared remarks, I'll describe, you know, what the thinking behind the function is and what we hope to achieve for our clients and deliver to our clients with the setting up of that function.

But maybe just a couple of words regarding my background. Prior to joining AIMCo, I spent many years with the Bank of Montreal's asset management business, the first half of which was in Hong Kong, setting up the Asian asset management footprint, and the second half was in Toronto, running and heading up the multi-asset business for the last few years at BMO. Prior to Bank of Montreal I spent many years with BlackRock and Barclays across different geographies in North America and Europe and also Southeast Asia. I'm really excited and proud to have joined AIMCo to further AIMCo's journey in delivering additional value-add services to our clients and effectively build a research-led, transparent investment strategy function that allows us to further align our offerings with our clients' investment objectives.

Moving on to my prepared remarks, I will cover the following as part of my remarks. I'll start with a market review, touch upon performance, mostly to add colour to what Mr. Epp has already described quite thoroughly, and wrap up the market and performance comments with our forward-looking views. Next I'll spend a few minutes describing the investment strategy function and then, lastly, will share a few remarks on how we continue to develop our responsible investment, or ESG, capabilities, again, to the benefit of our clients and investments.

On market review, let me start with some of the headline numbers if you will. Equities continue to do well. Year to date, U.S., Canadian, European markets are all up in double digits. Emerging market equities are also up but in single digits, and bond markets have been leading the story after taking the back seat over the last couple of years, with the U.S. 10-year yields moving up almost 1 per cent before sliding down a quarter of a per cent. Likewise, a very similar pattern was repeated with Canadian 10-year yields.

**9:30**

The Canadian dollar has done well over the last 12 months. It's up about 10 per cent over this period. It's weakened recently but still remains up around 3 and a half per cent relative to U.S. dollars.

Last but not the least, we spend more time talking about inflation because that's the mirror image, if you will, of what's happening with the bond market in that inflation expectations that had hovered around 2 per cent before the pandemic fell sharply during it, but over the last couple of months they've moved up to well over 2 and a half per cent. But they've softened over the last few weeks.

Stitching together all of these happenings in the market, the second quarter of 2021 has been dominated by the theme of reflation, meaning market conditions which are supportive of strong markets, not the least of which is due to the fact that the COVID-19 pandemic is easing, certainly, across the G-7 economies. Likewise, the COVID-19 vaccinations have ramped up across several countries, including in Canada. Thus, as a result, we're starting to see growth pick up quite strongly in multiple jurisdictions as the global economy continues to reopen.

Now, given this background in the markets and the fact that the interest rates remain quite low, there is fiscal stimulus which has, by historical standards, been quite massive across multiple economies. The direction of bond use, not surprisingly, has been up, but what's been interesting is that the U.S. Federal Reserve has stepped into this debate by firmly indicating that they will be a lot more cautious with their outlook and handling of inflation. Effectively, their hawkish comments have pulled forward the likelihood of the first rate hike to late in 2022 from 2023, where they were a few months ago.

Alongside what the central banks are expected to do and what they are transmitting in terms of interest rates, many of the central banks across the globe, including the Bank of Canada, have been purchasing typically fixed-income assets and therefore leading to the so-called tapering of these asset purchases, which simply means that they will start to reduce the purchases of these bonds sometime later this year, and then that would continue into next year. Again, with that announcement, that's also impacted the inflationary expectations.

Thus, we've seen particularly the equity markets that had a slight wobble, but they've stabilized right now. All of this means good things for risk assets and also has renewed the risk appetite, which seemingly had waned temporarily.

Last but not the least, in terms of some of the more recent news, there was news from the U.S. yesterday around the announcement of the Senate's infrastructure bipartisan agreement. It still has a long way to go. It needs to move through the House, but certainly it was positive news for the market.

Lastly, through all of this background about things that are positive, there are two components which still give investors pause, and the ones that we as investors, on your behalf, continue to look very carefully at. The first is the issue of inflation, whether it's temporary, transitory, or more permanent, and therefore what impact it may have on different investments.

Lastly, from Asia one of the drivers of the global growth has been the Chinese demand, and that credit impulse is also starting to diminish, in addition to some of the stockpiling of raw materials



that the Chinese economy has done. Those are some of the things that we're watching and moderating our view on the market.

That was a quick walk-through across the globe in terms of what's been happening in the market with a bit of colour around what some of the drivers are. Mr. Epp has covered performance quite thoroughly, so I will skip that. What I will simply add to that is the fact that I'm really happy to report that the strong performance for the heritage fund has continued post March 31, with the heritage fund up roughly 4 and a half per cent since then through earlier this week, again, ahead of its policy benchmark by over 1 and a half per cent. Good performances are obviously always attractive, always a plus, but the thing that we're also quite excited about is the fact that the value is being added across fixed income, across public equities, and the illiquids.

Lastly, on the illiquids, some of the exposures that we manage on your behalf, particularly in real estate, were hurt quite badly with the pandemic. We are cautiously optimistic that we will start to see the uptick in those assets as the economies come back, as they open up, and as the harshest impacts of the pandemic are reduced. You know, we expect to report that to you over the next couple of months.

Moving on from the performance remarks quickly to touch upon our outlook, I mentioned that inflation is front and centre for the industry . . .

**The Chair:** Mr. Prakash, if I might interrupt, if you could wrap up. We're kind of using up our time here, so if you could maybe just wrap up your comments, please.

**Mr. Prakash:** Absolutely. Two more minutes, please. Thank you.

Inflation has been the centre story, and within that, our belief is that we will not be seeing a sustained increase in prices over the next business cycle because the components that are driving inflation are more temporary in nature. Having said that, we obviously are keeping a close eye on that.

My final remark is on the investment strategy function, which we set up last year. The key benefit we see for our clients is that it will further help and strengthen strategic partnerships with our clients and help to build upon the investment services that we provide to our clients.

With that, Mr. Chair, I conclude my prepared remarks. Apologies that I took a little bit longer.

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

We'll move to questions now. The clerk has very carefully collected a list from your requests, so we'll move straight into questions. Please keep your questions and your answers to the point if you can, because we want to get through as many as possible and our time is limited.

I'll begin with Mr. Rowswell. Do you have a question, please? Maybe I should just add that we'll do as before: a question and then one supplemental if you need it – not required – and I'll alternate back and forth. Mr. Rowswell, please begin.

**Mr. Rowswell:** Okay. Thank you very much. Page 7 of the annual report outlines target asset allocations: 20 per cent is in fixed income, 30 per cent is in inflation-sensitive and alternative assets, and then 50 per cent is in equities. If you could explain how those targets were established. How often do you rebalance, you know, given the different performances, especially the lower performance of the alternatives? Is there more money flowing into there, and when does that happen?

9:40

**Mr. Epp:** I think that's for AIMCo.

**Mr. Prakash:** Yeah. Mark, I can start with that.

**Mr. Prefontaine:** Sure.

**The Chair:** Please proceed.

**Mr. Prakash:** Similar to other clients, we work closely with the Treasury Board and Finance team to help review the statement of investment policy and guidelines. This is an important exercise that institutions typically engage in to review investment objectives, including that policy mix that you referred to, again, a really important exercise given that the economic environment and markets continue to change. We are currently working with the Treasury Board and Finance team on this review and expect to work with them through results to be produced later this year.

**The Chair:** Thank you.

A follow-up?

**Mr. Rowswell:** Yeah. The asset allocation: has that been pretty consistent over the years, and has COVID had any impact on that asset allocation?

**Mr. Prakash:** In terms of the policy mix, there haven't been any changes in the response to that. Typically clients, investors, institutional investors such as yourselves, have a longer term view around policy allocations, and that's effectively the work that we're doing with Mr. Epp and team with a much longer horizon in mind, consistent with the investment horizon of the heritage fund.

**The Chair:** Thank you.

Next is Member Phillips, and then we'll go, just so you can prepare, to Member Issik and then Member Gray and then Member Singh.

Member Phillips, please proceed.

**Ms Phillips:** Thank you, Mr. Chair. A couple of things just to begin here. Last year we saw the Minister of Finance and AIMCo break the statutory requirements – that is to say, the law – by failing to provide the heritage fund's annual report on time. They apologized for that, and that's nice, but this year we've seen AIMCo significantly underperform its peers yet again. This has cost Albertans billions of dollars. We've seen over the past year reports omit key financial return information for Albertans. Now, due to a number of challenges with reputational management, we have a new chair, a new incoming CEO, but we appear to still be missing that piece of accountability.

This committee comes together to discuss the management of the heritage fund by AIMCo, but we have no CEO, we have no acting CEO, we have no chief investment officer, and we have no board chair here to answer our questions. I believe that that shows a pretty serious oversight and disrespect not just for the Legislature and the intention of the Heritage Savings Trust Fund Committee, which was set up by Lougheed to make sure that Albertans had a say over the heritage fund, but for all Albertans generally. I guess my first question is this: where are your bosses? Where is the acting CEO? Where's the chief investment officer? Where's the board chair? Why aren't they here today to answer questions about the annual report, that we received less than 24 hours ago?

**Mr. Prefontaine:** I'm happy to take part of that question. I can't speak on behalf of Treasury Board and Finance in terms of timing of the report, but I will say this in terms of AIMCo's commitment to all of our clients. A commitment to this committee and a commitment to Albertans is to be accountable and transparent. Certainly, having our current CEO, Mr. Kevin Uebelein, attend this committee meeting consistently and regularly over the past number of years, having our chief investment officer consistently and

regularly attend this committee meeting over the past number of years has been a norm, but I will say that it's not like they've been at every meeting over that period of time.

We are committed to ensuring that we're held accountable. That's why we always have senior leadership within the organization, such as Amit and myself, attend these meetings. We're happy to answer any questions you have on behalf of AIMCo. It has not been, at least in my recollection, at all the case that the AIMCo board chair would attend these meetings. It's management's responsibility to speak to the performance of AIMCo, and we're happy to do so. You know, with all humility and due respect, I do take exception that it's viewed as any level of disrespect. That's not our intention. We always intend to have senior leadership in front of this committee to respond to questions.

**The Chair:** I see Ms Mentzelopoulos. You want to contribute to this?

**Ms Mentzelopoulos:** Just briefly, Chair. I think it's worth while reinforcing that for last year we did make a decision very early on in the pandemic – and this was a decision based on advice that was given to me and, in turn, the recommendation I made – to seek a legislative adjustment so that we had more time to prepare the annual report for the government of Alberta. That was taken at a time when the federal government, for example, was expecting that a very large number of Canadians were going to experience COVID between that point and September. It wasn't a situation where we could wait and ask for that flexibility later in the year. We made the decision in April. In the fullness of time, we probably didn't end up needing the extension. The oversight that we made at the time was that we did not include the heritage fund in that request, and that was an oversight on our behalf.

That being said, we were pleased to be able to get the report to members yesterday. We're happy to speak. I think Mr. Epp would be happy to speak to the specific changes between what's before the committee and the report that we provided at fourth quarter.

The other point I would just underline is that in terms of the content of the report, this annual report is very, very similar in structure to the report that came before the committee last year, the annual report last year. We made adjustments at the first-quarter report, which we reversed on the basis of input from this committee.

Thank you.

**Ms Phillips:** Thank you, Deputy.

Mr. Chair, can I go ahead with a supplemental?

**The Chair:** Yes, please. A supplemental, yes.

**Ms Phillips:** Thank you. Just to make sure that the record is entirely clear here, it has been seven years and 26 straight meetings in a row that either the chief executive officer or the chief investment officer, generally both, have shown up to this committee, and if people are not available due to a change of staff or what have you, it makes sense that at least people who are in charge of the management of this organization show up to answer questions from MLAs, especially with some of the results we see here on both the calendar-year and a fiscal-year basis relative to the performance of peer investment agencies.

Now, I would like to address some of the points that the deputy just brought up on the timing of this report. The financial statements were signed off by the Auditor General on June 8, yet Treasury Board and Finance and AIMCo got these documents to committee members after noon yesterday. It is pretty rare when UCP MLAs here and NDP members here are messaging each other trying to figure out where the report is so that it can be reviewed properly on

behalf of Albertans. But we couldn't get an answer. We had five business hours before this committee meeting to actually review an annual report for some – oh, I don't know – \$17 billion, \$18 billion in assets. Why did we have to wait that long? Why don't we have a report in a timely way? Why can't you submit that report in a timely fashion? This just undermines Albertans' trust in your ability to manage billions of dollars on our behalf.

**Mr. Epp:** Thank you for the question. One of the reasons that the report was delivered late was that the office of the Auditor General was still making comments and adjustments to the report. As of Wednesday we received their last comments. That, in part, caused the report to be late.

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

We'll move to Member Issik, please.

**Ms Issik:** Good morning. I'd like to just talk a little bit about performance. As noted in the report, the rate of return this past year was 16.1 per cent, and in the report you compare it to benchmarks and to targets. I'm just wondering if you can comment on how it performed relative to benchmarks in the different asset classes but also if you could comment on what those benchmarks are actually comprised of. Are they different for the different asset classes?

9:50

**Mr. Prefontaine:** Lowell.

**Mr. Epp:** Yeah. I'm on it.

**Mr. Prefontaine:** Okay.

**Mr. Epp:** The different asset classes, the base asset classes, fixed income: the benchmark is the universe bond index. I think S&P takes care of that. The universe bond index for Canada is the benchmark for all fixed income when combined. For inflation sensitive and alternatives, it is a combination of the real estate benchmark, which is a benchmark compiled of real estate results among large pension fund managers. The other half is the benchmark that I spoke of earlier, the inflation plus 4 and a half. So the inflation-sensitive and alternative investments are a combination of those two foreign asset classes.

Finally, on equities, we measure Canadian returns against the S&P/TSX index. We measure global returns over the world index, and again the benchmark is a combination of those two indices.

**The Chair:** Thank you.

A follow-up?

**Ms Issik:** If you could just explain, perhaps, in your view, the differences between the return of the fund and the benchmarks over the last year. I know you went into some of that previously.

**Mr. Epp:** The biggest difference in returns, if you look at the numbers, was the inflation-sensitive and alternative assets, and a good portion of the reason for that is that it has an absolute-value return instead of a market return. That's not to say that the inflation sensitive and alternatives performed well – clearly, it was a negative return – but versus the benchmark it's very difficult to compare without a good benchmark.

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

We'll move to Member Gray.

**Ms Gray:** Thank you very much, and thank you to Member Issik because my questions are about the benchmarks as well. Looking at page 7 and the return targets, essentially I'm very concerned in

this report about AIMCo's performance relative to the benchmark and relative to its peers, because on a calendar-year basis, for example, AIMCo returned 2.5 per cent compared to 12.1 per cent for CPPIB in 2019. Put another way, if CPPIB was managing Albertans' money in 2020 instead of AIMCo, we'd be better off to the tune of \$11.4 billion.

I do want to be clear because I find the language used in these meetings can be difficult to follow for those not in the financial industry. The benchmarks and what we were just hearing about the S&P and the universe bond index – the benchmarks are essentially passive investments, so not actively managing, not hiring experts but, rather, going in for those large market purchases. We expect and measure AIMCo to do better than the benchmark. Just meeting the benchmark is not a measure of success, yet in these meetings we tend to only talk about those benchmarks and not the active management target, which is the true measure.

If I continue to compare AIMCo on a fiscal-year basis, annual returns, the discrepancy is smaller but still very poor. There's a difference of about 4.3 per cent, which is an effective loss of more than \$5 billion under AIMCo's total assets under management. So it feels like a significant underperformance, and every single year, through the power of compound interest, it makes a big difference. Looking at the missing of active management targets and looking at the real difference we're seeing between CPPIB and AIMCo, can you please explain to me: what is different in what CPPIB is doing? What are they doing right? What is different in what AIMCo is doing, and what are you doing to get AIMCo's performance up to match those peers that are doing better?

**Mr. Epp:** Mark, I'll leave the second part of that question to you, but I would like to address the first part.

**Mr. Prefontaine:** Sure.

**Mr. Epp:** What is different between the CPPIB and the heritage fund? The CPPIB's investment strategy takes on a tremendous amount of additional risk. Their benchmark is 85 per cent global equities and 15 per cent fixed income whereas we have 50 per cent equities, 30 per cent inflation sensitive, and 20 per cent fixed income. So comparing CPP's returns to the heritage fund's returns is difficult because there are different benchmarks that they're trying to hit.

One of the key differences between CPPIB and the heritage fund is that the CPP borrows about one-sixth or one-fifth – more like one-fifth – of the value of their assets, so about \$100 million on \$500 million, and they invest those funds. That's a high-risk play. You know, that's up to their board of directors, and that's how they decided to invest. But the heritage fund does not borrow on its own for the purpose of investing in the portfolio, so that's a key difference.

One last point. If we used the benchmark targets and the heritage fund's returns for this last year, if you take 85 per cent of the 37.9 per cent earned by equities and 15 per cent times 4.8 per cent on fixed income, you get a return of about 32 and a half per cent. If we'd had the same investment policy as the CPPIB, which we did not, using those stats – and it's dangerous to do so; I would agree with that – we would get a much higher return than what the CPPIB earned.

By the way, the CPPIB was 10 per cent below its benchmark for 2021.

**Mr. Prefontaine:** Thank you, Lowell.

Mr. Chair, is it okay to go ahead?

**The Chair:** Yeah. Please proceed.

**Mr. Prefontaine:** Okay. Yeah. Happy to speak to what I believe was the second half of that question. As I understood, it was: what's AIMCo doing about ensuring performance on behalf of its clients moving forward? I'll offer a few comments, and then, Amit, please come in and clean up anything you feel you need to clean up after the fact.

I'll go back to my opening comments in that there are a number of things that we have been doing actively on behalf of our clients over the last 15 months that you are seeing now in the heritage fund's annual report, the benefits of that activity. This includes ensuring that the portfolios that we're managing on behalf of our clients are well positioned to take advantage of opportunities that have resulted as a result of COVID. There's been a tremendous amount of negative impact of the pandemic. Of that, there is no doubt. That said, there have been dislocations created in a number of markets, and a number of opportunities have presented themselves that our investment management team have been able to take advantage of as a result of diligence on their part. So that's the first piece.

The second piece, that I referred to earlier, that we've been talking to all our clients about is an ongoing strategic review of the public equities platform. This is both looking at the structure of the platform, and currently and more prominently it is the ongoing strategies within that platform that our investment management team is executing, a strategic review from tip to tail, if you will, that has resulted in a number of changes in terms of allocation of assets, in terms of where risk is being distributed. You're seeing the benefits of that effort in the heritage fund report when you look at the equity performance over the last 12 months.

And then, finally, I will say that one of the most important things that our clients rely on AIMCo for is discipline and a steady hand during very troubled times. So . . .

10:00

**The Chair:** Thank you.

**Mr. Prefontaine:** Okay.

**The Chair:** Please proceed. I thought you were done.

**Mr. Prefontaine:** No. I was just going to say that when you look at what's happening in the inflation-sensitive and the illiquid assets such as infrastructure and real estate – you know, I'll use two stark examples. One is that when you own an airport on behalf of clients during a pandemic, that's been completely shut down, that's going to have a material impact on the value of that asset. We're now seeing traffic begin to return in Europe and, as a result, the London City Airport, that we're proud to own on behalf of our clients in part: we fully expect its value to return over time.

Secondly, in real estate, when you own shopping centres of some magnitude – retail has been heavily impacted by the pandemic – and as markets and economies continue to open up, we certainly expect to see a return in value in those assets, especially given the fact that we own high-quality assets in that space on behalf of our clients.

Amit, I'll ask you to add anything you think that is relevant.

**Mr. Prakash:** Yes. Thanks, Mark. Just maybe 30 seconds. Mark described well what some of the things are that we're doing now and have been doing over the very recent past. I'll just give two quick examples of the things we're doing that have a much longer horizon to them. One is the strategic or longer data research program that we're building, which will research ideas, investment topics directly of interest and relevance to investors such as the heritage fund but which have a long investment horizon. Then, secondly, the fair bit of work we've done over a couple of years and

continue to build upon is on responsible investment and integration of ESG-type notions, which again allows us to be a lot better informed as we are navigating emerging risks, which inherently have a really long horizon.

Thank you.

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

We'll go to Member Singh. Again, please keep . . .

**Mr. Eggen:** She's got a supplemental.

**The Chair:** Oh, I'm sorry. We do have a supplemental. That's right. I'm trying to move this along.

**Ms Gray:** No. I understand. I appreciate that. Thank you for the responses. I want to be very clear that as I'm looking at the performance, I'm not comparing the heritage savings trust fund to CPPIB. As Mr. Epp had identified, there is a different breakdown of mix. I'm comparing AIMCo to CPPIB because so much of AIMCo's portfolio is pension related, making it such a good comparator to CPPIB.

For my supplemental question, just quickly to get it on the record, on page 11 is where we can really see how AIMCo's total fund performance has been going, both looking at the passive benchmark return and the active management return. Mr. Prefontaine, in his remarks, emphasized that focus on long term, which is incredibly important, but if we look at this, over five years AIMCo has not even matched the passive benchmark. Over the past 10 years you have not hit your targets, and that is costing Albertans billions. Now, we know that the past performance doesn't necessarily predict future behaviour, but it's the best gauge we have. As mentioned, long-term performance is incredibly important in this. On an apples-to-apples basis the 10-year rate of return at CPPIB is 10.8 per cent. At AIMCo it's 8.9 per cent. That's a 1.9 per cent difference. That might not seem like a lot, but it is huge, especially when you take into account the asset base of roughly \$120 billion and you project that out.

Certainly, these are differences that we need to be staying on top of, so my question is more towards Treasury Board and Finance. You control, on behalf of Albertans, the heritage savings trust fund and will always be looking for best returns, but under the Jason Kenney-UCP government we've certainly seen an entrenched commitment to AIMCo, including other portions of government, forcing them to use AIMCo. The returns do not justify this type of emphasis, so my question to TBF is: why are we forcing other clients to use AIMCo, and on behalf of the heritage savings trust fund, is TBF always looking at all of the investment manager options that are out there?

**The Chair:** I just want to remind us that we have before us a report. Treasury can respond to this if they want, but we need to keep focused on the Alberta heritage savings trust fund, which is the mandate of this committee and the focus of the report we're reviewing.

I don't know if Treasury wants to respond to that or not. I'll leave it to you.

**Ms Mentzelopoulos:** I guess just a couple of things. The preamble of the question, I think, suggests that maybe AIMCo does actually want to make a comment. I would say in general – and Mr. Epp already said this – that clients sort of set their own risk factors, and that is a reflection of the returns that we get. There is an investment strategy at the heart of this. Mr. Epp's math, I think, demonstrated that it's very difficult to compare the CPPIB to AIMCo, whether on a unique client basis or more broadly, but again I'll let AIMCo say that. I guess in general I would say about AIMCo, as I've said in

the past, that they're an important Alberta institution, an important Alberta employer. I'm not sure that it serves any interests to undermine their reputation, especially given the results that we have before us now.

But perhaps AIMCo would like to expand on that.

**The Chair:** AIMCo.

**Mr. Prefontaine:** Yes. Thank you very much, Deputy, and thank you, Chair. Certainly, I would like an opportunity to respond. Just for absolute clarity, when the member was referring to the fund rate-of-return performance on a 10-year basis, looking at page 11 of the annual report for the heritage fund, that is not the AIMCo 10-year total fund return; that is the 10-year return for the Alberta heritage savings trust fund as determined by the asset allocations set by our colleagues at Treasury Board and Finance. We're not going to be shy or apologetic about the fact that we have, working with them, been able to achieve returns higher than both of the benchmarks set, that Mr. Epp referred to, both the real return target as well as the passive benchmark return. Yes, we have not met their expectations in terms of total active management return, but we're working hard to get there.

Secondly, I will say – and this has been said a few different times – that to compare AIMCo, which is a multiclient platform that, yes, has a lot of large public-sector pension plans, that we're very proud to serve, but also includes a number of other entities that have very different asset allocations, that have very different risk tolerances and very different investment policies, when you begin to aggregate that, to compare a multiclient platform such as ourselves to a single platform such as CPPIB and others, it just exacerbates the challenges that already exist in trying to do performance comparisons.

Finally, we have been very accountable and very transparent to this committee and all of our clients about the challenges that we've had over the last 15 to 24 months. That said, we've also been very transparent and very accountable for the effort and the changes that we have been making within the organization, the rewards of which we're beginning to see in this annual report. We're very proud on behalf of all of AIMCo to say that – I'm very proud to say that we've been working hard on behalf of the heritage fund to get to where we have today.

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

We'll move on then to Member Singh, please.

**Mr. Singh:** Thank you, Mr. Chair, and thank you, representatives from the Ministry of Treasury Board and Finance, AIMCo, and the office of the Auditor General, for being here with us today and for their excellent presentation. My question could be answered by anyone from AIMCo or the ministry and pertains to the asset classes and investment earnings. My question is: which asset classes have performed well over the year? Which asset classes have performed poorly over the year?

**Mr. Prefontaine:** Amit, would you like to . . .

**Mr. Prakash:** Mark, yeah. Sure. Thank you for the question. Again I'll refer to some of the remarks that Mr. Epp had made earlier. The strongest part of the portfolio's returns came from equities, followed by fixed income, and then the third in that category was inflation-sensitive. Within the inflation-sensitive the one area that has been weak and particularly more significantly impacted by the pandemic has been real estate, where the fund owns some really marquee real estate properties which have been impacted by the pandemic. Therefore, in the very short term, not surprisingly, they have been

hurt, but we're starting to see, in some of the illiquids, the valuations start to pick up as the world economy and the Canadian economy are starting to open up.

Thank you.

10:10

**The Chair:** Thank you very much.  
A supplemental or no?

**Mr. Singh:** I do have a supplemental.

**The Chair:** Please proceed.

**Mr. Singh:** Thanks for answering that.

I'm happy to see that the investment earnings from the fund during the year totalled \$1,354 million. It is \$291 million higher than what was estimated in Budget 2020 and \$36 million higher than in 2019-20. How will the additional revenue earned from the fund benefit all Albertans?

**Mr. Epp:** Well, the income will benefit all Albertans because \$1.2 billion is going into the general revenue fund, increasing the resources available to the government to provide various services to citizens. I don't know what else to say.

**The Chair:** Okay. Thank you.  
Let's move to Member Eggen, please.

**Mr. Eggen:** Well, thank you, Chair, and thank you to TBF and AIMCo. My question is in regard to page 35 of the annual report, and this is referring to investment expenses. I see that AIMCo has billed Albertans \$81 million for performance-based fees during this year. That's \$81 million paid out in bonuses to deliver what I would say are questionable results. I really don't understand how Albertans can justify paying \$81 million in bonuses this year alone given the results. This is not just for this year. Over the past five years, the time period that captures most of the executive team's tenure at AIMCo, they've paid out quite significant sums and bonuses for an active management strategy that's lost money relative to the passive benchmark.

My questions are to AIMCo and to TBF. To AIMCo: how do you justify these bonuses in light of your investment returns, and can you explain to Albertans why the leadership of AIMCo, the CEO and CIO, who make most of the money, aren't even here to justify their bonuses to Albertans? And then to Treasury Board and Finance, I would ask: as the minister, I think, has ultimate oversight here, what is his message to Albertans on how these bonuses are justified given how poorly AIMCo has performed relative to its peers?

**The Chair:** AIMCo first, please.

**Mr. Prefontaine:** Yeah. Thank you very much for the question. As I look at – I believe it was page 35 of the report that's been referred to, specifically note 7, investment expenses. Just for some clarity, when you see the line Performance Based Fees, do not interpret that to be bonuses paid to AIMCo staff or executives. Certainly, that would be somewhat in part. But when you look at that performance-based fees, that covers both internal and external performance fees, and the vast majority of those performance-based fees would be coming from external fund managers that AIMCo uses in part to deliver on our clients' investment policies. When those external managers have a strong performance, as we've seen a number of them have over this period of time, reflected in, for instance, the equity portfolios, we are going to see performance-based fees increase. Now, we generally think about that as being a very

positive indicator for our clients because it's a direct correlation to higher performance. When you're looking at performance as it's identified in this report, that is all net of fees.

Finally, regarding any concerns regarding AIMCo compensation I would simply point out the fact that AIMCo is very proud to be as transparent as we are regarding our compensation framework, including a very detailed compensation discussion and analysis in our annual reports.

**The Chair:** Thank you.  
Treasury Board, please.

**Ms Mentzelopoulos:** I have a couple of comments, and I'll hand it over to Lowell. I don't want to repeat what Mr. Prefontaine has said, but I do want to very much underline the importance of not conflating that line with compensation for AIMCo. I think Mr. Prefontaine made that point, but I think it's worth really emphasizing because I believe that would leave a very wrong impression of the compensation of individuals at AIMCo. I think that would be unfortunate.

I would only say, before I hand it over to Mr. Epp, that you do tend to find in organizations like AIMCo a bit of a mix, and I'll look to Mark to nod or shake his head. To a certain extent you'll see in-house versus contracted services, and I think that in general for those services where you're looking outside of your organization, it's a pretty standardized practice in terms of things like performance pay. There's a pretty transparent, widely expected band there of what you're going to be paying for those services.

Mr. Epp may want to expand in terms of some of the preamble on comparisons.

**Mr. Epp:** My comments would relate to a comparison between AIMCo and other major investors. The fact of the matter is that this is a world-wide competitive environment that they compete in for talent, and at this point in time, right or wrong, that industry is paying very attractive compensation. There's no doubt about it. AIMCo, if they're going to perform, has to pay competitive wages to attract people. I would note that, as Mr. Prakash talked about in his reports, AIMCo is not just looking in the Edmonton market for talent. They are going globally and looking globally for people to come to Edmonton or other offices and work for them.

**Mr. Eggen:** Yeah. No. Thank you. I appreciate that.  
My supplemental as well?

**The Chair:** Yes, please.

**Mr. Eggen:** Thank you. Yeah. I mean, I was doing some of the comparison as well between investment costs and so forth. For example, last year the ATRF, the teachers' fund, investment costs were 76 basis points all-in while the heritage fund was 90 basis points. I think that despite AIMCo's higher fees – you know, as a comparison, as you are asserting in your answer, I think that AIMCo is much higher and delivering poorer results than, let's say, the ATRF. My supplemental is to both TBF and AIMCo. What do you say to Albertans or, for example, teachers with a teacher pension? Are you justifying these fees, 18 per cent higher than what the ATRF used to charge, and delivering results that are not as good as them, right? It just doesn't add up to me, and I think Albertans would like an explanation as to why.

**The Chair:** Who wants to take that?

**Mr. Prefontaine:** Yeah. I'm happy to take a portion of that, and then, Lowell or Amit or Athana, please feel free to supplement. Again, very similar to performance, in an attempt to compare fees

across organizations, you run into situations such as looking at the asset mix. What you're seeing by way of investment expenses here: a direct result of materially increased performance leading to materially increased performance fees; also, a reflection of the fact that the heritage savings trust fund has a strong allocation to the inflation-sensitive assets, which by nature are more costly to administer and manage, require more boots on the ground, require a more hands-on approach, and require, such as we have with our London office, people actually on the ground in the jurisdictions in which those assets are held. We're not going to be apologetic for the increased fees that directly correlate to the increased performance.

**10:20**

**Mr. Prakash:** Mark, if I may. Mr. Chair, if I may just add a quick remark. In addition to what Mark described of our investment teams, AIMCo is very focused on ensuring that when we are utilizing third-party managers, we're negotiating very strongly on the fees. Given our size, given our scale one of the benefits that translates into that is to ensure that we can get and receive better economics. The second part is that in many of our transactions, certainly all of the ones that are large enough and are in the public domain, in many instances we are partnering with CPP, with OMERS, with some of the other peers across the country, which is yet another tool in the kit, if you will, on your behalf that we utilize quite judiciously but certainly quite firmly to ensure that we are getting the best possible economics for Albertans.

Thank you.

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

We'll move to Member Jones, please.

**Mr. Jones:** Thank you. I'll start by saying that it's regrettable that elected officials continue to make inappropriate comparisons between funds' investment managers and performance, with different policies, asset allocations, and risk profiles, in an attempt to really spread fear and further political agendas while undermining a great Alberta entity. People should have confidence in AIMCo and particularly in the heritage savings trust fund long-term performance. I certainly do. For any average Albertans watching, if these elected officials worked in this field and had any credentials to make these claims and publish these claims, they would probably lose those credentials because they're making such inappropriate statements and comparisons.

Anyway, can you tell me what the private equity portfolio is comprised of beyond what is referenced in the report, which is providing capital for expansions, acquisitions, management buyouts, turnaround financing, project financing, and leverage reductions?

**Mr. Prefontaine:** Amit, would you like to speak to that?

**The Chair:** Excuse me, Amit. You're on mute.

**Mr. Prakash:** Apologies.

**The Chair:** Thank you.

**Mr. Prakash:** Our private equity program quite thoughtfully is designed with our clients in mind. With that, what I mean by that is that the risk profile and the investments we make are directly mapped from our clients, both returns and expected risk objectives. Therefore, if you look at our private equity investments, they will broadly – you can describe them in funds that we participate in. In addition, alongside the funds we make direct investments, which in private equity parlance are co-investments. We utilize this approach because

this allows us to magnify and amplify the types of opportunities that we are looking for even as a big investment manager which is centred in Canada. Thus, even some of the ones that we've referenced during this presentation, the airport in London and/or private equity investments such as the Environmental Resources Management, or ERM, headquartered in the U.K. – all of those types of investments we're able to access either through the funds and utilizing the relationship with the funds into direct investments to the betterment of our clients.

Thank you.

Mark, if you want to add anything to that.

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

Supplemental, Mr. Jones, or no?

**Mr. Jones:** Yes. Thank you. The annual report states that the private equity portfolio earned an impressive 23.7 per cent over the fiscal year, which was 15 per cent higher than the benchmark return of 8.6 per cent. This component has marginally underperformed its benchmark over the last five years, so I'm pleased to see this turnaround and recent outperformance. What do you see moving forward? Was this a result of when the investments were placed? Yeah. Can you explain the five-year historic performance and this year's outperformance?

Thank you.

**Mr. Prakash:** Absolutely. Thank you very much, and thank you for the question. You're exactly right. Given the nature of illiquid investments, in particular private equity, it takes a couple of years after you've made the investment to actually help morph, evolve, add to improve the business. After the clock starts running, so to speak, it could easily be four or five years as you start to harvest, if you will, your initial investments. AIMCo reviewed and refreshed its investment strategies roughly about five or six years ago, where we quite deliberately and specifically went into the direction, as I described, of using direct investments and funds, so we are at the stage of the private equity vehicles program at AIMCo where we are coming through what is described in the industry as a J curve as the first set of investments is maturing. They have been very attractive returns, again, for investors such as heritage fund, on whose behalf AIMCo has been investing into private equity over the last couple of years.

Thank you.

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

We'll go to Member Phillips, please.

**Ms Phillips:** Well, thank you. I'll just follow up on what we heard earlier, that the new CEO will be doing a tour when he comes to AIMCo, meeting the organization, the clients, discussing with Albertans, reviewing the strategy, and so on. That's great as far as it goes, but for Albertans – I think that Albertans have a number of questions and want to provide as well their input as the strategy is reviewed. First of all, I'm wondering if AIMCo can commit that the new CEO will not just show up to the next meeting of the heritage savings trust fund but also engage the members on briefing us on the strategy, on the risk management approach and how they are improving risk management practices as they transition into this new CEO and new governance.

**Mr. Prefontaine:** Yeah. Excellent question. Thank you very much. I will say this, stopping just short of absolutely committing Evan as this would be a discussion that I would have to have with him, that I will absolutely take back the request and make sure that he

understands the need for broad, inclusive engagement as he begins to ingrain himself here in Alberta.

**The Chair:** Thank you very much.  
A follow-up to that?

**Ms Phillips:** Yeah. Sure. Well, good. Again, here we have a reason why having decision-makers at the table discussing the annual report with electeds is actually quite vital and is consistent with the spirit and the intent of the Heritage Savings Trust Fund Act and Lougheed's intent for these funds, that Albertans worked very, very hard for.

I just want to drill into the strategy a little bit. We have 42 per cent of asset mix on public equities at this point. I just want to ask a little bit about preparing for market volatility – we have seen some hiccups on this in the past in terms of the VOLTS strategy and so on – and what is the kind of culture of risk management that is being briefed to the new CEO as we go into this transition period? Would you be willing to share some of that information with the committee members as a written follow-up?

**Mr. Prefontaine:** Let me answer that last question first. We're absolutely happy to provide a written follow-up that would address the question and concerns.

One of the things that certainly has been occurring is that a number of – as we're onboarding the new CEO, he's entrenching himself into the issues, not the least of which is: what is AIMCo doing in response to the VOLTS issue, that developed last year? We have been very public and transparent around this. The board did a thorough review, determined that there were 10 specific areas that management would need to lean into, and management has been leaning into each one of those issues and been providing very transparent information to our clients, including our colleagues at Treasury Board and Finance. This includes a focus on risk culture, includes improvements in governance processes internally, and it includes making sure that we have got a very integrated approach to our investment management and risk management efforts. Happy to provide a written follow-up to add some additional colour to that, and I would even ask Amit if he would like to add any comments to that.

10:30

**Mr. Prakash:** Certainly. Thanks, Mark. I am part of AIMCo's risk integration committee, which comprises four other executives within AIMCo, whose task is to ensure all the recommendations from the board are implemented within the organization and, as well, to ensure that from a very senior level we are very closely engaged in ensuring that all of these changes that we're making percolate down the organization, not simply the process and the procedures, which are clearly happening, but making sure that in terms of how we are communicating, how we are organizing ourselves, and how we're conducting reviews of our investment proposals, risk is a fully integral part of that review. We've made tremendous progress on that, and as Mark said, we're happy to follow up with a written response.

The last thing I'll leave you with is one of the headline deliverables and a list of items that we had in front of us. There were 31 goals as we were getting started. Thirteen of them are in progress, 18 of them have been completed, and again we can provide more detail as a follow-up.

Thank you.

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

Before we move to the next questioner, I just want to advise members: we do have a couple more agenda items to deal with, but I don't think they'll take us very long. In order to give as much

questioning as possible, we'll run until about a quarter to 11 with questions. We have about 12 minutes left, so please keep your questions and answers, if possible, to the point.

We'll move to Member Yaseen, please.

**Mr. Yaseen:** Thank you, Chair, and thank you, presenters. I'll be quick with my question. Out of three asset classes, equity investment has the greatest rate of return or potential for the greatest rate of return. However, it also poses the highest risk as well. What risks does the fund in the equity investment face, and how does AIMCo manage these risks?

**Mr. Prakash:** Thank you for the question. Let me lead with just the feedback that your observation is exactly accurate. Equity is the riskier asset class, but that's consistent with that the expected returns are the highest with it. Therefore, the work that we have done historically and are in the process of doing with Mr. Epp and team effectively balances the returns that we expect from the investments relative to the objectives of the heritage fund. The exercise in the review that we go through looks at returns, looks at expected returns, expected risk, not only the here and now, not only in the rearview mirror, but we also utilize a longer dated forecast, which we do for 10 years and then five years, in terms of what that policy mix looks like. That's the way we think about that and effectively think about the risk at the overall level in addition to at the component level.

Lastly, I would say, since we are on the topic of the review, that I would like to compliment the professionalism and the collaboration that we have with Mr. Epp and team, that clearly is commendable even in the short time that I've been engaged in that.

Thank you.

**The Chair:** Thank you.  
A follow-up?

**Mr. Yaseen:** Yes. Thank you. Page 13 of the annual report shows the portion of investment in each of the three credit-rating categories: investment grade, which is triple A to triple B-minus; speculative grade, which is BB-plus or lower; and unrated. What is the benchmark for each of the three credit-rating categories?

**The Chair:** Who wants to take that?

Excuse me, sir; you're on mute. We can't hear you.

**Mr. Prakash:** Sorry about that.

Each of our investment types, whether it's mortgage pools or a private debt and loans pool, has their respective benchmarks. Each of those investment vehicles has their respective benchmarks. We measure it not only using the benchmarks we have and share with clients; we also track and report the performance of those benchmarks relative to our clients' benchmarks. For example, early in the presentation Mr. Epp described that the benchmark for the heritage fund is the TMX universe bond index, so, you know, we would compare the performance of the components relative to that as well as the pools. That's how we report it, and that's how we manage the risk at the portfolio level and at the pool level.

**Mr. Yaseen:** Thank you.  
Back to you, Chair.

**The Chair:** Thank you very much.  
We'll move to Member Gray, please.

**Ms Gray:** Thank you very much. I want to be very clear that in evaluating the performance for the heritage savings trust fund, we can see that in this annual report the value-add for 2021 will only be .6 per cent, which does not meet the target of 1 per cent. The five-year

value-add is negative, and the 10-year value-add is only .3 per cent, again well short of that 1 per cent target.

As we are evaluating the performance – and, again, I emphasize the repeated use of the term “benchmarks,” which are an important part of this discussion – investment managers are measured on their active management, on the value-add. I think we need to be very, very clear, given that the Albertans who tune in to this discussion are concerned about the heritage savings trust fund, that that is what we are talking about. I think it’s entirely reasonable for AIMCo performance to be compared to peers like CPPIB. Certainly, I’ve heard some commentary and push-back on that, but I will maintain that it is entirely appropriate to evaluate that. In fact, there are professionals and organizations whose entire purpose is to compare investment managers along these points.

I would like to request from Mr. Prefontaine, who has offered to respond in written response to some of these things, something that is a bit more of a complicated issue. I don’t want to use up too much of our meeting time here. At our last annual meeting one of the members of the public who called in was asking about an IT system overhaul that, I believe, touched on risk management and was a long-going project. I’ve had that thread in my mind ever since we heard it a while ago, but I haven’t had the opportunity to really ask that question or dig into that. My background in software made me very curious about this long-running project, and I just wondered if we might be able to get more detail on that at a future meeting or in a written response.

**Mr. Prefontaine:** Yeah. Absolutely. It’s an ongoing discussion with all of our clients. We’re happy to provide an update on that.

**Ms Gray:** Much appreciated.

As a follow-up, which is perhaps a slightly different topic from this, we’ve been talking about the various asset classes and mixes. As I was listening to the presentation, I believe I heard that we had a significant loss on inflation sensitive and alternatives relative to the targets that were set, and I’m just wondering if our targets for inflation sensitive and alternatives are being evaluated as part of the reviews that are happening.

**Mr. Prefontaine:** Amit and Lowell, with your permission, I’ll respond perhaps to the first part or the preamble of that question, and then I’ll allow you to pick it up.

It’s an excellent question. I will just caution the use of the word “losses,” especially when we’re talking about those kinds of assets, where the vast majority of what you’re seeing is an unrealized writedown given the current circumstances those assets are facing. We haven’t sold assets at a loss, in large part. You know, we continue to own shopping centres and airports, et cetera, and the valuation of those assets has been diminished as a result of current circumstances.

Then, Lowell and Amit, if you’d like to speak to ongoing evaluation of asset mix, including benchmarks, in that process.

10:40

**Mr. Prakash:** The short answer is yes. That will be part of the review as well alongside Mr. Epp’s team.

Thank you.

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

Mr. Epp, were you going to comment on that one or not?

**Mr. Epp:** No. Amit did a great job.

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

Then I think we have time. If we can move to Member Issik, please.

**Ms Issik:** I’ll pass. Thanks.

**The Chair:** Okay. I don’t believe I have any more from the opposition side on my list. You know what? If we’ve run short on questions – we’re about two and a half minutes away, anyway – maybe we’ll wrap this up unless anybody has anything urgent and burning they want to ask. I’ve got two, three minutes left for a final question if anybody wants to, or we’ll wrap it up.

Hearing none, I’m going to thank all of you presenters for your time and contributions.

Mr. Prefontaine, did you want to make a final, closing comment? You’re on mute, sir.

**Mr. Prefontaine:** With your permission, Mr. Chair, just very quickly.

**The Chair:** Please do.

**Mr. Prefontaine:** This issue of not having our CEO nor our CIO attend this meeting has come up a couple of different times. I’d just like to reiterate: we mean no disrespect to the committee in its entirety or any of the specific members. It is our intent that you will continue to see senior leadership from AIMCo come to this committee to be held accountable, and my colleague and friend Amit is one of the most senior investors in the organization. We both sit at the executive committee, we both are responsible to the CEO, and we are undergoing a transition. Certainly, I hope that by hearing his comments and responses today, you can appreciate the level of experience and expertise he’s bringing to AIMCo and, by extension, to our clients. I acknowledge that I just had my own little faux pas with the mute button, but I’ll get him better trained on that for the future.

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

**Mr. Prefontaine:** I appreciate your time. Thank you very much for your indulgence, Mr. Chair.

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

Thank you to our presenters. You may stay in the meeting if you want to. If you’ve got other duties you need to move on to, you can move on at this stage.

We will continue with our committee duties. We now need to move members to an approval of the draft report according to the legislation, so I would suggest that a motion might be that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the 2020-21 annual report on the Alberta heritage savings trust fund.

Are there any members who would like to make that motion?

**Ms Issik:** So moved.

**The Chair:** So moved by Member Issik. I’m going to ask: in the room, all in favour, please signify. Any opposed? No, there won’t be. Online, if you’re in favour of the motion, please say aye. Any opposed?

I believe that motion is carried.

Thank you, members, and I can assure you that it will be presented to the Legislature. Well, the Legislature is not sitting, but you know the process. It will be presented before the June 30 deadline, which we are required to do, so thank you on that.

I’d like to now move to the next item of our agenda, which is the date and the location and the format for the annual public meeting that we are required to hold. The next item on the agenda is this, of course. As was done last year, I would suggest or wonder whether the committee might wish to defer making the final decision on that date and the format until our next meeting as there are still some



ongoing uncertainties with regard to the conditions we might be facing in the fall.

I do believe we could today approve the location, which I would suggest would be here in the Federal Building, where we've held it for a number of years. Before the committee makes any decision on the matter, I just would like to note that with respect to the format, last year, due to the health restrictions in place, the committee took a hybrid approach on how the public attended and interacted with the committee. That included both the opportunity for in-person but also telephone call-in as well as the other online options that we maintain. Depending on the conditions, the committee may wish to consider taking a similar approach this year by using a moderated teleconference for public participation along with accepting questions from the public through e-mails and the Assembly social media channels. If the committee would like to defer making a decision on the date and format, we would consider this issue at our next meeting.

I throw it open to the members. Are you okay with the location but deferring the questions of the date and the format until our September meeting? Any comments or questions? Member Eggen, please.

**Mr. Eggen:** Yeah. Sorry. I wasn't clear on why we would not set a date now.

**The Chair:** Well, last year we did it because there were some uncertainties about COVID and what might be allowed or not. There's still potentially some uncertainty about that. Quite frankly, that would be the only reason, but it's a fair question. It's kind of up to the committee. I'm just open to hear what your thoughts are.

Anyone else want to comment on it?

Okay. Hearing none, I'm open to a possible motion. I would suggest that we could proceed with a motion that

the Standing Committee on the Alberta Heritage Savings Trust Fund hold the 2021 public meeting at the Edmonton Federal Building and decide on the date and format at the committee's next meeting.

That's the suggestion. Is there anybody comfortable with making that motion?

**Mr. Rowswell:** So moved.

**The Chair:** Okay. Moved by Member Rowswell. In the room, all in favour of that motion? Okay. Any opposed in the room? Hearing none, online, all in favour? Okay. And any opposed? I don't think there are.

That motion is carried.

Thank you very much.

Now we need to talk a little bit about authorizing some initial steps with regard to a communications plan for that meeting. Last year the committee directed LAO communications services to prepare a communications plan in support of that public meeting and authorized the chair to approve the plan after it had been made available, distributed to members for review and their comments.

If members would like to take a similar approach this year, the committee could direct LAO communications services to put together a draft plan, including cost information about a moderated teleconference option. Once the plan is approved, this would permit communications services to lay the groundwork for some of the elements of the plan over the summer. Then, after the committee has decided on the date and format for the meeting, communications would be able to finalize the messaging that would go out to promote the public meeting.

I would remind you that Ms Laurie from LAO communications has joined us today, so if you have any questions or comments, Ms

Laurie is able to respond to them. Any comments or questions? What are your wishes, members?

**Mr. Singh:** Thank you, Mr. Chair. As we set our communications plan for this year's annual public meeting, I just want to know: what were the most efficient and effective mediums in reaching out to the public and that had a major impact on getting the public to attend?

Thank you, Mr. Chair.

**The Chair:** I wonder if Ms Laurie can answer that.

**Ms Laurie:** Yes, I certainly can. Thank you for the question. We provided a report at the meeting in January which provided details around all of our efforts for publicizing the meeting last year. I would say in terms of an answer to date: social media has consistently proven to be the most effective means of reaching people. When we look at our budget, we employ traditional advertising as well. We advertise in appropriate daily or weekly newspapers throughout the province, and we will continue to do that, I would imagine, or we would put that forward in our plan. What we have seen is much more uptake in terms of advertising via social media and the campaign that we put together through communications services. Also, you will probably recall that we disseminate that information in sort of a member's communication kit. We do rely on and appreciate the efforts of Members of the Legislative Assembly to also disseminate that information within their followers, constituents. That's also very supportive of publicizing the meeting.

**10:50**

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

Any follow-up, Mr. Singh, or is that good?

**Mr. Singh:** Thank you for answering there. Based on the turnout last year, which medium should we spend less on this year or may not be used to pursue and focus on the other forms of communicating about the public meeting?

**The Chair:** Ms Laurie.

**Ms Laurie:** I'm sorry. I didn't understand the initial part of your question. Would you mind repeating yourself, please?

**Mr. Singh:** Thank you. Based on the turnout last year, which medium should we spend less on this year or may not use this year to pursue and focus on other forms of communicating about the public meeting?

**Ms Laurie:** Okay. Thank you so much. Because it's a very broad range, our audience for the meeting, we are reaching out to Albertans, so I think it's really valuable that we use a variety of mediums. Last year, given that we were in the midst of the pandemic and we were certainly – the meeting was still available for people to attend in person, which I think was really valuable, and we implemented all the appropriate protocols to comply with public health and safety measures at the time.

We also employed, as the chair referred to, a telephone component, which I think was also really valuable. We didn't see a huge number of participants taking advantage of that, but I think what it does when you have traditional advertising, social media advertising, sending out e-mails to our distribution lists, also having the phone-in option is that it gives you a more complete picture because we are reaching such a broad audience. What we want to do is increase engagement among Albertans, so my perspective is that it's very useful to continue to employ the tactics that we're using.

When we get down to our estimates and our budgetary estimates, when we're putting together the draft communications plan for your review, we would certainly take that into consideration, and we may mix things up a little bit in terms of where we'd like to be able to put a bit more resources, but I would suggest at this point in time that we would maintain using a broad range of tools in our tool kit, if you will, because it allows us to reach more people in different demographics.

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

Any other comments or questions? Hearing none, I would suggest, then, a draft motion. If someone would like to move that the Standing Committee on the Alberta Heritage Savings Trust Fund direct LAO communications services to prepare a draft communications plan in support of the 2021 public meeting, including providing cost information for using a moderated teleconference, and that the chair be authorized to approve the communications plan after it has been made available to the committee for review.

Is there anybody who would like to make that motion?

**Ms Issik:** So moved.

**The Chair:** Member Issik has moved that. In the room, all in favour, please say aye. Any opposed? None. Online, all in favour, please signify with aye. Any opposed? Hearing none, that motion is passed.

Are there any other issues for discussion at today's meeting?

Hearing none, I would move to say that the date of the next meeting will be at the call of the chair, likely in September, after the 2021-22 first-quarter report of the heritage fund has been made available. Members will be polled at a later date on possible meeting dates.

If there's nothing else for the committee's consideration, I will call for a motion to adjourn. Member Eggen, please and thank you. All in favour in the room, please say aye. Any opposed? None. Online, please say aye if you're in support of the motion to adjourn. Any opposed? Thank you. That motion is carried.

Thank you, everybody, for attending. Please remember to clean up any drinks or other items as you leave. This meeting is now adjourned.

Thank you.

[The committee adjourned at 10:55 a.m.]



