Legislative Assembly of Alberta

The 30th Legislature
Third Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Monday, September 26, 2022
10 a.m.

Transcript No. 30-3-3

Legislative Assembly of Alberta
The 30th Legislature
Third Session

Standing Committee on the
Alberta Heritage Savings Trust Fund

Rowswell, Garth, Vermilion-Lloydminster-Wainwright (UC), Chair
Jones, Matt, Calgary-South East (UC), Deputy Chair
Allard, Tracy L., Grande Prairie (UC) Acting Deputy Chair

Deol, Jasvir, Edmonton-Meadows (NDP)*
Eggen, David, Edmonton-North West (NDP)
Gray, Christina, Edmonton-Mill Woods (NDP)
Hoffman, Sarah, Edmonton-Glenora (NDP)**
Hunter, Grant R., Taber-Warner (UC)
Phillips, Shannon, Lethbridge-West (NDP)
Rehn, Pat, Lesser Slave Lake (UC)
Singh, Peter, Calgary-East (UC)
Yao, Tany, Fort McMurray-Wood Buffalo (UC)***

* substitution for David Eggen
** substitution for Shannon Phillips
*** substitution for Matt Jones

Office of the Auditor General Participants

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

Support Staff

Shannon Dean, KC	Clerk
Teri Cherkewich	Law Clerk
Trafton Koenig	Senior Parliamentary Counsel
Philip Massolin	Clerk Assistant and Director of House Services
Nancy Robert	Clerk of *Journals* and Committees
Sarah Amato	Research Officer
Christina Williamson	Research Officer
Warren Huffman	Committee Clerk
Jody Rempel	Committee Clerk
Aaron Roth	Committee Clerk
Rhonda Sorensen	Manager of Corporate Communications
Shannon Parke	Communications Consultant
Tracey Sales	Communications Consultant
Janet Schwegel	Director of Parliamentary Programs
Amanda LeBlanc	Deputy Editor of *Alberta Hansard*

Transcript produced by *Alberta Hansard*

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
Eric Pedde, Director of Financing, Treasury and Risk Management

Alberta Investment Management Corporation
Sandra Lau, Co-chief Investment Officer
Amit Prakash, Chief Fiduciary Management Officer
Evan Siddall, Chief Executive Officer

10 a.m. **Monday, September 26, 2022**

[Mr. Rowswell in the chair]

The Chair: Okay. I'd like to call the Standing Committee on the Alberta Heritage Savings Trust Fund to order and welcome everyone in attendance.

My name is Garth Rowswell. I'm the MLA for Vermilion-Lloydminster-Wainwright and chair of the committee. I'd ask that members and those joining the committee at the table introduce themselves for the record, and then I will call on those joining by videoconference. We'll begin to my right.

Mr. Yao: Tany Yao, Fort McMurray-Wood Buffalo.

Mr. Hunter: Grant Hunter, MLA for Taber-Warner. Good to be here, Mr. Chair.

Ms Lau: Sandra Lau, interim CIO, AIMCo.

Mr. Prakash: Amit Prakash, chief fiduciary management officer.

Mr. Siddall: Evan Siddall, chief executive officer, AIMCo.

Mr. Epp: Lowell Epp, assistant deputy minister, treasury and risk management.

Mr. Pedde: Eric Pedde, director of financing, treasury and risk management.

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

Mr. Ireland: Brad Ireland, Assistant Auditor General.

Ms Hoffman: Sarah Hoffman, Edmonton-Glenora.

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

Mr. Deol: Good morning. Jasvir Deol, Edmonton-Meadows.

Ms Sorensen: Good morning. Rhonda Sorensen, manager of corporate communications.

Ms Robert: Good morning. Nancy Robert, clerk of *Journals* and committees.

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

The Chair: Thank you.

Now we'll go to those joining virtually. Please introduce yourself when I call your name.

Member Singh.

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

The Chair: MLA Allard.

Mrs. Allard: Good morning. Tracy Allard, MLA for Grande Prairie and serving as the deputy chair today. Thank you.

The Chair: Pat Rehn.

Mr. Rehn: Yes. Thank you, Mr. Chair. Good morning. Pat Rehn, Lesser Slave Lake.

The Chair: Okay. Thank you very much.

For the record I will note the following substitutions: Member Yao for Hon. Minister Jones; hon. Member Hoffman for hon. Member Phillips; hon. Member Allard as deputy chair; and Member Deol for hon. Member Eggen.

We have a few housekeeping items to address before we turn to the business at hand. Please note that the microphones are operated by *Hansard* staff. Committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostreams and the transcript of the meeting can be accessed via the Legislative Assembly website.

Members participating remotely are encouraged to turn their cameras on while speaking and to mute their microphones when not speaking. Remote participants who wish to be placed on the speakers list are asked to e-mail or send a message in the Teams chat to the committee clerk, and members in the room are asked to please signal the chair or the committee clerk. Please set your cellphones and other devices to silent for the duration of the meeting.

We'll go to approval of the agenda. Are there any changes or additions to the draft agenda? Okay. If not, would someone like to make a motion to approve the agenda? Moved by Member Yao that the agenda for the September 26, 2022, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be adopted as distributed. All in favour? Any opposed? Online, all in favour? Any opposed? The motion is carried.

Approval of the minutes. Next we have the draft minutes for our June 28 meeting. Are there any errors or omissions to note? Okay. If not, would a member like to make a motion to approve the minutes? Moved by hon. Member Hunter that the minutes of the June 28, 2022, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved as distributed. All in favour? Thank you. Motion carried.

The Alberta Heritage Savings Trust Fund Act mandates that this committee receives and reviews quarterly reports on the operations and results of the heritage fund. We are here today to review the 2022-23 Alberta heritage savings trust fund first-quarter report. The report was publicly released on August 31, 2022, and a copy was made available to members on the internal committee website. We're pleased to have officials from the Ministry of Treasury Board and Finance and AIMCo joining us to provide an overview of the report and answer any questions members may have.

With that, I will turn the floor over to your presentations.

Mr. Epp: Thank you, Mr. Chair. It's, as always, a pleasure to be here. I'd like to bring you good news, but the first quarter was anything but. Inflation concerns, rising interest rates, Ukraine – I could probably come up with others – caused significant declines in value across financial markets, which hurt heritage fund returns.

The actual return for the quarter was negative 4.1 per cent, and the value of the fund fell $825 million, from $18.7 billion to $17.9 billion. In terms of individual returns during the quarter, inflation sensitive and alternatives had a return of positive 4.2 per cent. However, equities lost 9.2 per cent, and fixed income lost 4.4 per cent.

Now, while this is not good news, it is not unexpected. At some point when you have risk in your portfolio, returns are going to be below expectations. The heritage fund's mandate is to maximize returns over the long term, and to do that, we have to take risks. If we would have invested only in fixed income or treasury bills – that's the risk-free asset – we would have made about zero per cent over the last five years, a little better but not much.

Of course, as I said, we focus on the long term and not the short term. Over the last five years the heritage fund has earned a return of 6.5 per cent. This is .1 per cent above the long-term target of inflation plus 4 and a half per cent. Over the last 10 years the fund's return was 8.9 per cent, 2.1 per cent above inflation plus 4 and a half per cent. In the last

10 or 12 years the fund has consistently beaten the target, the real-return target, inflation plus 4 and a half, but sooner or later we're going to have an extended period of time like the early '70s where the markets do not return very much. Hopefully, that won't happen, but it could.

While returns in the first quarter were negative, they could have been worse. The actual return on the fund was negative 4.1 per cent while the return for the passive benchmark was negative 5.4 per cent. In other words, AIMCo added 1.3 per cent of value.

Now, I want to make a point about how active management returns have improved over the last few years. If we go back to the first quarter of 2021, so two years ago, we reported that the value-added over five years was negative .4 per cent, substantially below our target of 1 per cent. Over 10 years the value-added was .2 per cent after the first quarter of 2021. These figures are much better in the quarterly report being discussed today. Over the last five years the value-added through AIMCo's active management was .8 per cent, and it was .7 per cent over the last 10 years. While these figures remain below our target, the trend is very helpful. Over the last 12 months the return for the fund was 1.6 per cent, 4.3 per cent better than the passive benchmark of negative 2.7 per cent. So if the trend continues, hopefully we will be above target for active management in one or two more quarters.

10:10

Turning now to investment income, the fund's investment income was negative $64 million for the first quarter. This is comprised of negative $34 million in investment returns or investment income and negative $30 million in investment costs. I think I got those backwards: negative $34 million of expenses, negative $30 million of investment income. One of the reasons why expenses are down this quarter: our value-added returns paid to external managers have been much lower. This is an expense item that you never want to see go down. Thankfully, it is still early in the year, and there are three quarters remaining during which we can make back this negative return.

This concludes my remarks. Thank you once again.

Mr. Siddall: Chair, I'll add some remarks and introduce my colleagues. I'm delighted to be here on behalf of AIMCo with Amit Prakash, who is our chief fiduciary management officer, and Sandra Lau, who is chief investment officer. They'll each offer some comments as well.

We have redefined AIMCo in the last year and a bit to be an organization that helps our clients secure a better financial future for the Albertans we serve. We have issued a strategy that has three parts. The first is to put our clients first and to focus on their wishes; secondly, to develop and strengthen an adaptable investment platform that can be tailored to our clients' needs; and finally, to develop a people and culture discipline that results in better results for our clients as well. That is now being translated into an investment strategy, which we will present to our board initially in a couple of weeks and then consult with our clients on after that. It may result in some more changes at AIMCo.

To date we have a new executive team that consists of a blend of folks from the past and new individuals, including a chief technology officer and a chief human resource officer, which we did not have. We've flattened the organization and gone from about 130 people leaders to 80, which improves communication and decision-making, and we've gathered them in a senior leadership team that had our first leadership conference last week. The agenda for that leadership conference was around psychological safety, which sounds touchy-feely, but in fact it's quite purposeful. We are a decision-making organization – that's what we do – and we need people to challenge each other effectively and to overcome hierarchy in order to result in better investment decisions for our clients. So a flatter organization and one where people feel safe to speak up will result in better investment returns.

We're also pursuing emerging investment opportunities in two areas that I should mention to the committee. The first is geographical expansion. We are the most domestic in terms of the portfolio that we operate for our clients, so we are examining opportunities to expand geographically in Asia and other parts of the world. We will do that carefully, but that's in order to have greater opportunities for our clients.

Secondly, as I think I may have mentioned in the past, we're looking at transition finance opportunities. There's something like $4 trillion to $5 trillion, depending on who estimates it, required to transition the world economy from a hydrocarbon-intensive economy to a lower carbon-intensive economy. While we believe there will be a future for hydrocarbons in the world, the net zero commitments of some will require discipline around decarbonization. We think there's money to be made for long-term investors in that area, and we're exploring opportunities there.

I'll conclude my comments and ask Sandra to elaborate on markets and investment opportunities more broadly.

Ms Lau: Thank you, Evan. Thanks, everyone. Always a pleasure to be here to give the report to the committee on the results of the Alberta heritage trust fund. We are here today to give you an update on the first quarter of the fiscal year 2022-2023 performance. Like Lowell mentioned, the first half of 2022 was really difficult for investors. Indeed, most of the asset class prices declined over the quarter, primarily because inflation and central bank policy have been the dominant narrative in the last quarter.

Inflation continues to be, surprisingly, on the high side around the world, especially what we witnessed in Canada and the U.S. We have seen a high point in April and June. As such, central banks, especially in Canada and the U.S., also came in with a very aggressive monetary policy. Both of them increased interest rates by 2 per cent within three months' time.

The market in general was very concerned about the aggressiveness of the central bank, maybe a little bit too late to come to fix the inflation problem, turning maybe soft-landing economic activity into a recession. As such, with this backdrop interest rates increased significantly, as a lot of you will be aware. As a reference point, the five-year Canada rate went from 2.4 per cent to 3.1 per cent over three months, giving a negative return of the fixed-income market in general, from 5 per cent up to minus 15 per cent depending on the maturity bracket we are looking at.

Stock markets followed accordingly as well. As such, we have seen a drastic sell-off in the stock market in the last quarter, which is the worst quarterly sell-off we'd ever seen since the COVID crisis. Stock markets sold off in general from a range of 10 to 16 per cent negative, depending on the region. I guess when the equity markets sell off, this usually gets headline attention. However, I will comment that the last quarter is really the fixed-income market. The dramatic sell-off is the real story of the last quarter.

The speed of the central bank increasing interest rates, the magnitude of the sell-off in the bond market: really, we haven't seen that for the last couple of decades. Also, the positive correlation between the stock and bond markets, in which stocks and bonds both sold off significantly during the quarter, is kind of an unprecedented event. As such, it's really hurtful for a typical 60 and 40 stocks and bonds portfolio.

The private market is not immune to the market backdrop. We are seeing some of the tougher environments for the private market such as slow M and A, decline in multiples, and also private activity borrowing from the public market is getting more challenging. However, on the bright side, I will comment that infrastructure assets continue to be a very strong and high-demand asset, just because of the nature of it and the market basically seeking inflation-sensitive assets. This type of asset continues to hold up very well.

Like Lowell alluded to, with the diversification aspect of the heritage trust fund and also the active management for AIMCo, the heritage trust fund on the first quarter delivered a minus 4.13 per cent, yet it outperformed the benchmark by 1.25 per cent because of the active management. This is definitely better than a 60-40 traditional stock and bond portfolio, but a negative return is never ideal for a fund, in general. But we hope that the excess return that AIMCo generated of 1.25 per cent will provide some of the downside protection during a challenging market environment.

Long-term return continues to be strong, like Lowell alluded to, 6.5 per cent, outperforming the benchmark by 79 basis points, the 10-year return close to 8.9 per cent, outperforming the benchmark by 70 basis points. This definitely moves us closer, not yet there, to the hundred-basis-point target we want to deliver to the heritage trust fund.

I would like to spend a little bit of time to talk about the attribution, how we outperformed over the last quarter. Our overall discipline and focus on the illiquid asset class – underweight in the stock and bond portfolio; overweight in cash – definitely attributed to the positive performance.

Within the equity portfolio, despite the challenging market backdrop and the equity portfolio return, our focus on being less sensitive to the market in general and focusing on the value stock versus the growth stock actually added to the performance.

On the fixed-income side our focus on shorter maturity and shorter maturity strategies such as private credit and private mortgages added to the performance. Also on the fixed-income side, given we are over in credit, the temporary market-to-market negative impact due to credit spread widening temporarily impacted the portfolio.

On the bright side private assets, including private equity, real estate, infrastructure, private credit, continue to do very well both in absolute return and relative return. Two asset classes that I would like to highlight: the private credit portfolio continues to do very well because of the floating rate in nature, just also because of the lowering in loan loss provision and default in that portfolio.

10:20

One asset class I would particularly like to highlight is infrastructure. Infrastructure returned 9 per cent positive over the quarter. This is all because of the asset class nature, that I touched on, of being inflation-sensitive. Also, some of the assets we own earned a very good mid-year evaluation increase because of the strong quality of assets that we own.

Now, going forward, nobody has a crystal ball. I guess the only crystal ball we need to look at is inflation. I think going into the shorter and medium term, we are not at all out of the woods yet. Although there is significant pullback in the stock and bonds market, I think it might still be too soon to assess a full rebound in the risk assets until there is a clear sign of where inflation is heading. Not to mention, away from inflation, there continues to be other risks coming our way, especially of a geopolitical risk. The U.S. versus China, the fragmentation of Europe, Russia and Ukraine: those components continue to be impacting inflation in the forward-looking and also the economic recovery going forward. As such, how we manage the portfolio for our clients, all of our clients, is that we continue to remain cautious and be defensive, making sure that we have liquidity in hand so that when the market presents opportunity itself, we are ready to react.

With that, Mr. Chair, that summarizes my opening remarks.

The Chair: Thank you very much.

Does that conclude – oh, okay. Go ahead. Sorry.

Mr. Prakash: Chair, I'll just take two or three minutes to cover what we are doing with clients. As we've transitioned quite firmly and intentionally into becoming a more client-centric organization, one of the first areas that we focused on was to ensure that the lines of communication that we have with the clients is fully functioning. We've operationalized a CEO council, that Evan chairs, that meets at least once a quarter with the leadership of all of our clients. The focus of that forum is on strategic topics, and that's been functioning for about a year and change now. We also have a forum which focuses on more granular topics, including products, risk, leverage, et cetera, and that's been functioning as well.

The second key aspect of building strong connectivity with clients is a whole host of consultations on products, which allows clients to have good transparency and visibility into products and ensures that our platform is fit for the purposes of their investment needs. On the back of that there are changes that are being made on the platform, which the clients would be able to avail of over the next couple of months.

Last but not the least, we have also been building quite actively a more focused capability on helping clients with their decisions on policy mix, on asset class decisions, on topics such as inflation, and therefore we will be engaging with them about some recommendations in terms of how their portfolio could be better positioned as we look forward from inflation but other long-term trends as well.

With that, I'll turn it back to you, Mr. Chair. Thank you.

The Chair: Okay. Thank you very much. Interesting times we live in here.

Now I'll look to committee members for questions. I'll start on the opposition side, and then I'll go back and forth. We'll give one question and then a follow-up, and then we'll just keep going that way. We will start with hon. Member Gray.

Ms Gray: Thank you very much, Mr. Chair, and thank you to everyone from TBF, AIMCo, and the Auditor's office for being here and your initial remarks. There's lots to talk about in this particular report, but my first question is about some of the government reporting, and I'm just hoping to get a little bit of clarity. At our last meeting, where we considered the annual report, TBF and AIMCo reported to this committee that $1.247 billion of investment income was being transferred to the general revenue fund. We accepted that, and this committee then submitted its report to the Legislature, but in the government's first-quarter fiscal update they said that plans had changed. To quote from that report, they said that the government of Alberta "will amend the Alberta Heritage Savings Trust Fund Act to provide an option to retain all net investment income in the Heritage Fund for 2021-22 . . . This will allow a total of $1.2 billion to be retained" in the fund.

Put another way, the government said in their report that they're going to change the law and retroactively change the financial reporting from the previous fiscal year. In trying to understand that and looking at the first-quarter report, I think my first question is: really, where is the $1.247 billion today? Has that money already moved? What does that look like, please?

Mr. Epp: The money never left the fund. The money was and still is invested by the fund.

Ms Gray: Okay. It's currently in the fund. I appreciate that.

My follow-up would be that we've closed the books for fiscal '21-22, and the committee has submitted its final report for that year to the Legislature. Now the Premier and current Finance minister have stated that they want to pass legislation and retroactively open back up the books for the last year and make changes to the amount to more than a billion dollars.

I'm just really curious about the mechanics being proposed here. Possibly for the office of the Auditor General, but what public-sector accounting standards come into play with something like this, with the government retroactively going back in time and reversing previous decisions? If you could walk me through that, that would be very helpful.

Mr. Epp: The investment income seldom transfers in the same year it is earned. The reason is simple. Until you do the last income statement, or the annual income statement, you don't know how much investment income has been earned. Last year, after three quarters, we would have transferred all kinds of money because we were doing very well. Then in the fourth quarter we would have had to take some money back.

I know of no plans to restate the '21-22 books. What will happen is that the investment income, which is already reflected in the '21-22 books – the investment income that is being discussed is the amount that the law currently requires to be transferred to the general revenue fund.

Under current legislation to retain the earnings, you have to take the earnings out of the fund and then have a supply vote to put them back in. As I understand the proposed legislation, the government will provide an option to either retain the funds or take them out to reduce the red tape it takes to get the money out, any of it.

The Chair: We'll go to MLA Yao.

Mr. Yao: Thank you very much, Chair. First off, Mr. Siddall, to you and your team: thank you very much for all of your hard work and diligence in investing Alberta's nest egg with your responsible investments. I greatly appreciate that, and some of your comments that you made earlier about flattening the organization, reducing the bureaucracy are music to my ears. It gives me confidence that you guys are self-managed well and continue to do things to make things better for Albertans. Thank you, all, so much for that.

I do believe it's important to highlight what you guys mentioned about the challenges that you witnessed this quarter and how they are not unique to this fund and how these things have affected investment markets all over the world. I'm also aware that the country's largest pension fund, the Canadian pension plan, was hurt by a broader sell-off in global equities, and they had the number of negative 4.2 per cent return in their first fiscal quarter.

10:30

To that effect, can you comment on: what are some of the market conditions that have been affecting our investments in the heritage fund? How can the rising interest rates and other global concerns affect the value of the assets? Are the actions of our federal government impairing us that much? I swear they're trying to drive us into recession. If you could expand on how all these various issues affect your ability to invest in companies.

Thank you.

Mr. Siddall: I'll invite Sandra to respond in greater detail, Mr. Chair, but I would say that comparisons between AIMCo and some of the other investment fund managers, pension fund managers are often awkward because of mixed differences. For example, CPPIB would have a much greater exposure to equities than our clients have chosen to have and as a result would be therefore more affected proportionately by those markets, and that's one of the things that's evident in those results.

Sandra, would you like to add any further comment?

Ms Lau: Yeah. Sure. Thanks for the question. No doubt, we are in an extremely challenging environment. Just looking forward from what we experienced the last weeks, inflation continues to be a topic. Indeed, the central banks went further, each of them having a further 75-basis-point increase on the rate as well. So uncertainty in inflation and uncertainty in central bank policy will be the biggest challenge of the investment portfolio in general. However, like Lowell mentioned as to how we manage the heritage fund portfolio, long term and diversification are always the silver lining for the portfolio. The heritage trust fund is well diversified in the stocks and bonds portfolio and especially on the inflation-sensitive assets. For this well-diversified portfolio there are different challenges but also a different kind of protection for the portfolio.

Allow me to touch also on the inflation-sensitive portfolio, especially on the infrastructure and the real estate portfolios. Those are the portfolios that really provide a very good hedge protection in a higher inflation environment. The infrastructure portfolio is well designed for basic utilities, ports, airports, and railways. That allowed us to have a very high transferable pricing power to the consumer or the offtaker. It's very heavily inflation protected.

The real estate portfolio as well is a very good inflation protection portfolio of the heritage trust fund, especially our exposure in residential, industrial. That allowed us to reset the lease rate on a regular basis. So, from that front, it will be very good protection for the portfolio going forward.

The thesis of the portfolio, obviously, continues to be diversified, and in terms of interest rate sensitivity, there continues to be some challenge for the stock and bonds portfolio, no doubt. However, the team continues to be disciplined. Also, with the recent challenges coming forward, it also means some opportunity.

The U-curve is inverted right now. That means that the fixed-income market is more pricing in the risk of recession coming our way. However, it's also implied that when the markets settle over time, there are maybe the first opportunities that show up in the fixed-income market where a patient liquid investor like the heritage fund would have the good opportunity to come in to invest in the portfolio.

Mr. Yao: Yeah. Another question: is that all right?

The Chair: Go ahead.

Mr. Yao: Sure. Would you be able to further elaborate on which asset classes have performed well over the quarter and which asset classes have performed poorly over the last quarter?

Ms Lau: Sure. Like I alluded to earlier, because of a challenging market environment, general asset classes that are more challenging in their performance are basically public investment portfolios, stocks and bonds. Illiquid portfolios such as real estate, infrastructure, private equity, private debt and loans: all have been performing very well on absolute return and relative return. The key rationale of those asset classes being strong, like I alluded to, because of inflation-sensitive protection for real estate and infrastructure, especially if infrastructure continues to be a high-demand asset – all the investors around the world are basically chasing this kind of inflation-sensitive protection asset.

Our private equity portfolio continues to do well because of the strong underwriting and due diligence process the team had, and a lot of investment has actually been benefiting from the good tailwind from the recovery from COVID and even the stabilizing of the cash flow and the stable businesses that we invest in. As such, even on the private equity portfolio, over the last year we have been benefiting a lot from the performance.

Last but not least, our private credit portfolio. The private credit portfolio is actually a floating rate in nature. The floating rate exactly is moving as a higher return when inflation is going higher. When inflation is going higher, as the central bank's hike policy the floating rate return will go along with it. The allocation of the private credit portfolio also helped and has been a strong performance of the portfolio.

Unfortunately, like I alluded to, because of the public investment nature, the stock and bonds portfolio underperformed, just because of the market. However, the team has also been doing a good job because of the defensive nature and being cautious in how we invest. It continues to outperform the passive style of the index.

Mr. Prakash: If I can add some more comments in addition to what Sandra mentioned. One of the things that we will be engaging with clients on over the next couple of weeks, as we look forward to a weaker economic environment and inflation that may potentially be higher for longer, is a discussion around private credit, private debt, as Sandra alluded to. We're also working quite hard at an absolute return solution, which is quite attractive, particularly in an environment where the expected market returns may be lower than they've been over the last 10 years. Those are some of the things that we are focused on working on with clients in a forward-looking manner relative to the portfolios that we've been managing in the past.

Thank you.

The Chair: Thank you.

Hon. Member Gray.

Ms Gray: Thank you very much. I'd like to come back to the current government's stated intent to retroactively change what was happening with $1.24 billion of the heritage fund for the last fiscal year. In your answers you referred to the annual income statement being finalized. My question is: are we not talking about the final results year-end reporting that was published June 2022, or is that something else? Like, I may be confused about that.

Specifically, I also am just very curious about this very large amount of money from the heritage savings trust fund. This legislation has not been passed yet. What happens if a new Premier comes in and says, "No, we aren't going to do that given that the books have been closed"? What happens with this process and with these dollars and the impact to the investment decisions that AIMCo is making?

Mr. Epp: This comes down to a question of when you report income and when you move cash. You report income as at the end of the fiscal year. That doesn't mean you've transferred the cash. The cash changes as it changes. When you move cash, it goes up and down. Income: you don't have to have movement of cash to record the income. Income is done on an accrual basis whereas cash is done on, obviously, a cash basis. There are often differences between statements and cash.

Now, one other thing I would point out is that the legislation, the heritage fund act, allows the Minister of Finance of the day to decide on the timing and method of payment of that money that is to be transferred to the general revenue fund. Nothing tricky going on here. All that's been done is that the minister has decided not to transfer any funds yet. At some point the law requires that the funds be transferred to the general revenue fund, but there's no time limit. That's the authority that the Minister of Finance is using to keep the money in the fund.

10:40

Ms Gray: Okay. Thank you for that answer.

My question is maybe more appropriately directed to AIMCo. When it comes to the managing of this large portfolio that you have, there's now uncertainty around this $1.247 billion. My understanding would be: whether it needs to be kept liquid so it can transferred over to the GRF or whether it's going to be invested with the pool of money. What decisions are happening? On top of that, we now are forecasting an additional $1.738 billion for the next fiscal year, so that's roughly $3 billion. I'm curious from AIMCo: what planning work is being undertaken around this $3 billion, and how might that impact future funds' total value if it is all kept within the heritage savings trust fund? Also, your investment decisions and the management of this pool of money: how is that impacted by the uncertainty of legislation that hasn't been passed yet?

Mr. Siddall: I'll just make some general comments. Our different clients have different cash-flow needs from time to time, and we work closely with them, including Treasury Board and Finance, to anticipate what those needs are, and we manage liquidity on their behalf in addition to investments on their behalf. There's an ongoing dialogue between ourselves and TBF, as there is with our other clients. This is just part of what we do.

Sandra.

Ms Lau: Yeah. Well, first off, on liquidity management, like Evan alluded to, how we manage for the client is always top of our focus. We always pay attention to the liquidity of the fund in any different shape and form, and we have a very good discipline of proper allocation in the public asset class, which is more liquid by design. That provides the clients much-needed liquidity and, in this case, for the heritage trust fund as well. I would add: even during a stress environment, we have a very rigorous discipline in place to make sure we have the ample liquidity to meet the client's need or even the market environment that we need to deploy.

Also, for a lot of withdrawals in the past, sometimes it was that the billion in size did not necessarily happen all at once, in one lump-sum chunk. It also happened over a couple of months of time. But, that said, with or without this billion or whatever size we need, AIMCo portfolios always focus on the client's need; a.k.a. provide the much-needed net risk-assessed total return and also the liquidity that is required for the client. I think those are the front-and-centre focuses for us. So with the stocks and bonds portfolio liquidity, we manage rigorously the liquidity management as a holistic approach, and even on different types of facility we always have a standby in case we need much more liquidity. We have different processes and governance in place to ensure all the clients have ample liquidity if they need it.

The Chair: To MLA Yao.

Mr. Yao: Thanks very much, Chair. During the last fiscal update it was announced that the government was adding a $2.9 billion, one-time investment to the heritage fund and a $1.7 billion deposit into the fund from an estimated cash surplus. Can you explain how the extra funds will reflect in the short- and long-term returns of the Alberta heritage savings trust fund, please?

Mr. Epp: The $2.9 billion is a combination of the $1.2 billion in retained earnings and a deposit of $1.7 billion. On the deposit, the mechanics of the deposit haven't been worked out yet. We are working closely with AIMCo, but it's difficult to put $1.7 billion all at one time into a fund. It just can't be done, not smoothly, so you're left with some funds in cash or public markets, I guess, until you can find a spot to reflect the asset allocation.

Mr. Yao: Just to clarify, I recognize it would be difficult to invest it all at one time, not to mention not very prudent to do that. Over what time period do you take the cash and invest that? Do you have a rule of thumb that AIMCo works off?

Mr. Epp: We've never been in this or have not been for many years, so we're working on a rule of thumb.

Mr. Yao: All right. Let's try to see and make sure you get more money over the next years so you can become more practised at that.

Mr. Prakash: Can I make a comment just from a process perspective? Normally, when clients are either putting money in or out, the public markets are easy because, you know, they can absorb a billion to multibillion contributions. But the investments into the illiquid markets – private equity, real estate, infrastructure – clearly can take longer than public markets. Typically the process we work with clients on is to invest those monies in surrogate liquid markets until such time that the real estate or private equity transactions are available, and then over time those monies move into the illiquid markets. In some cases it could be a one-year period, depending on asset class; in other instances it could be two or three years, depending on the size and the investment type.

Mr. Yao: Thank you very much.

The Chair: Okay. The hon. Member Gray.

Ms Gray: Thank you, and thank you to my colleague because the line of questioning was something that I was absolutely curious about as well. I just want to go back to what TBF was explaining around the transfer of $1.247 billion from the last fiscal year. Your language was pretty clear that the act allows the minister to decide the method and timing and that at this point the minister has chosen not to transfer those funds. I need to know if there are any legislative time limits on this, or does the minister have carte blanche to – it's in the budget. We said that we were going to transfer this; the Legislature has voted on it. Those transfers don't happen indefinitely, or what is the caveat, the corollary here?

Mr. Epp: The heritage fund act is silent on timing.

Ms Gray: Really?

Mr. Epp: Yes. I had the same reaction.

Ms Gray: Yeah. That's incredibly surprising. Okay. So the heritage fund act is silent on timing, which is allowing the government to delay the transferring of funds, that they put in their budget would happen indefinitely, until they may or may not pass legislation, because we have political uncertainty, and currently a Premier has said that they would pass legislation, but there may be a new Premier and it may or may not take place. Am I accurately summarizing the state of affairs at this point?

Mr. Epp: Yes.

Ms Gray: Yes. Okay. I appreciate the clarity in order to understand what's happening. Then in response to Member Yao's question, I heard AIMCo and TBF talking about the challenge when you have such a large investment coming in, so I'm just curious what planning, thinking, strategizing is already happening, knowing that in theory these dollars are being allocated but we are waiting for the legislation. In the meantime I'm sure you're busy working on that. If you could walk me through what that looks like.

Mr. Prakash: It looks like: the process when money is, again, coming in and going out of any client portfolios centres around a couple of things. Firstly, in this instance the money is coming in. If he was simply doing a pro rata across the current portfolios, that's ground zero, if you will. The second bit is to that view, some of the things that I mentioned earlier about private credit, about absolute return, et cetera, some of the newer things we should be looking at. That's the second part that we would engage with clients on in terms of what the incremental dollars may look like. And then the third part is more the implementation around the timing, which asset classes, which pools, which provide greater certainty around the timing. For example, if monies were coming in the second week of December, you may not want to trade around Christmas because market liquidity is really down. That really goes down into the bowels of the implementation decisions around client contributions.

Sandra, anything to add?

Ms Lau: No. I think Amit summarized it very well. Given that the asset mix of the Alberta heritage trust fund is a well-diversified portfolio of stocks, bonds, and illiquid, and at the same time, ideally, is to pro rata allocate it – however, in some of the market-challenging functions, you don't want to just place the money to the illiquid asset for the sake of just, like, deploying the asset. We still would like to find the prudent, best asset for our client. As such, it may take some time, so we would just more temporarily put the money into the more liquid asset class as we go, and that's usually typical of the process.

Thank you.

10:50

The Chair: Okay. We'll go to hon. Member Allard now.

Mrs. Allard: Thank you very much, Mr. Chair. Good morning, everyone. Thank you for your presentations. It's unfortunate that we're in this position, but I appreciate your candor with respect to how we will address it. I'm just going to reference that on page 1 of the quarterly report I see that the quarter's losses are expected to be recovered in the remaining three quarters of the year. I just wanted to ask a couple of questions around that.

First and foremost, from reading the report, it's my understanding that most, the bulk of the losses, are actually not realized yet. Is that correct?

Mr. Epp: That is correct.

Mrs. Allard: Excellent. I just wanted to ask, then, with respect to the losses as of the date of this report, when we look at investments – and I don't have to tell you guys this – it can be a little bit misleading for the public to look at a loss on any given day, but particularly over a short time frame it can make them feel that, you know, the sky is falling, when really this fund is managed on a long-term basis, as many of my colleagues have alluded to this morning.

I just wanted to know: what is the forecast, what's the thought around the bulk of these losses not actually being realized? How realistic is it, given the geopolitical realities and the other challenges with inflation that you've already mentioned, that the bulk of these losses will recover over the next three quarters? What's your prognosis on that?

Mr. Epp: First of all, I don't recall, or I can't find, where it says that we expect that income to be made. If we did say that, my apologies because I have no idea and we have no idea what the markets are going to do over the next nine months. If we had an idea, we wouldn't be sitting here.

Was there more to the question?

Mrs. Allard: Well, I guess I'm just wondering, for the benefit of the public who may panic seeing this release of information – you know, overall, this is a broad fund. It's diversified. I realize this is not the best time or market to be investing in. It's a challenging market, but when I look back even a year ago, the reverse was happening. We had unexpected, larger-than-normal gains. So as you balance it out over a number of years, as you've said, the last five years were at, I think, 6.5 per cent. I guess maybe my question is: in the bigger picture, what would you anticipate? I realize you don't have a crystal ball, but what would you anticipate the next five years to look like in terms of: do you think it's realistic for the fund to continue to perform at or above target?

Mr. Epp: That's a great question. When we do our budget planning, we take a model and we estimate returns for the long term for all the asset classes. We estimate the risks and, basically, we run a simulation, or about 10,000 simulations, of if all those variables interact randomly, what the returns will be. That's how we come up with the investment income forecast. Our current modelling is that some of those losses that haven't been realized yet are going to be realized, which puts a negative impact on the existing portfolio or the existing year's income. I'm not sure if that covers it.

Mr. Siddall: If I may just add, Mr. Chair, as Mr. Epp said, that we manage the portfolio over a long time frame, 10 or 20 years, but if we were to report every 10 or 20 years, it sure wouldn't be the version of transparency that members would expect of us. So we report more frequently, and it's inconsistent, the timing of our reporting with the timing of our investment horizon.

In making those reports and in doing them most accurately, we reflect the market environment at the time and make estimates about what that says about current valuations for the assets in the portfolio. They do fluctuate a lot, and a long-term investor can tolerate those fluctuations. We certainly hope to regain these losses, but, like Mr. Epp, I would not predict or promise that. I don't have that crystal ball.

Mrs. Allard: Mr. Chair, one follow-up if I may.

The Chair: Okay.

Mrs. Allard: Thank you for that. Yes. I am ever the optimist, so my cup is half full when it comes to this. I hope that there will be significant recovery over the next three quarters.

I guess one of the questions I had was with respect to the strategy and the requirement to be nimble and shift your strategy as you look at the challenging market before you. One of the things I think about is the target asset composition. How is it determined, and how often do you shift that? I realize it's not necessarily the easiest thing to shift it on a moment's notice, but is there some work being done to look at how often that needs to be reviewed given the shifting market that we're in?

Mr. Epp: Ideally, we would do an asset allocation study every three to five years. That matches what pension funds do. However, to be honest, we haven't done that. We've done minor changes to the mix in the last 10 or 11 years, but we have not done a comprehensive review. We are in the middle of a comprehensive review, and quite frankly, when we started it, the world looked a lot different than now. So we've gone back, and we are currently re-evaluating and resetting our expectations of the future. That's basically how we do it.

The Chair: Thank you very much.

We'll go to hon. Member Hoffman.

Ms Hoffman: Thank you very much, Mr. Chair. I have a couple of questions as it relates to international investment. The first one – in the introduction there were comments made about the impacts of the uncertainty as it relates to conflict, Russia invading Ukraine. My question both to AIMCo and to the department would be around: what have we done to ensure that no Alberta investment dollars are funding this invasion, that we're not investing money that belongs to the people of Alberta in supporting the illegal invasion and war that Ukraine is experiencing as inflicted by Vladimir Putin?

Mr. Siddall: We announced in the immediate wake of the invasion, on behalf of our clients, that we had made a decision, an investment decision, to exit as quickly as we could all exposure to the Russian economy.

I think, Sandra, that's complete now.

Ms Lau: Yeah. That's completed. Well, basically, the Russian market is closed, and we have made all those efforts to divest from the asset. That said, going into the Russia and Ukraine situation, our exposure from AIMCo to Russia or Ukraine is, like, relatively insignificant, and I would describe it as minimal. We have no direct investment in the illiquid assets in Ukraine and Russia. We only have probably close to less than 1 per cent or even less because of a passive public equity investment in the asset. We also immediately looked at the second derivative impact of any other institution or other holdings that we may have that have indirect exposure to Ukraine and Russia, no indirect exposure as well. The action has also been taken to assess the liquidity situation and the market situation at the time that it happened. With Evan's call, we immediately divested the investment, as one of the first maple investors coming out to announce the divestment of Russia and Ukraine exposure.

Ms Hoffman: Thanks for that response. I heard "no direct investment" and that that market is closed. I guess I'm wanting to ensure that we're doing everything we can to ensure that no money that belongs to Albertans is being invested in funding this illegal invasion. I think I'm seeing a nod on that. Thank you so much.

My second question. It's not the only place right now where I'd say that there's geopolitical risk. Certainly, in the South China Sea there are a lot of tensions at this time. I'm hoping that you can walk us through what's being done to ensure that our geopolitical risk is minimal and that we are certainly not aligning ourselves with things that I think the majority of Albertans would feel are ethical concerns when it comes to investing their money. What does the team look like? What's the policy like, and how are we ensuring that we're acting ethically, responsibly when it comes to investing Albertans' money?

Ms Lau: Sure. I will address it from a couple of angles. First of all, as a diversified portfolio the AIMCo portfolio, or heritage portfolio, is always invested in diversified geographic regions. We are very mindful also of the country that we're going into.

11:00

Our exposure is basically the typical developed market and some of the emerging markets. We don't have exposure in a lot of deep, deep frontier markets, and sometimes a lot of it will be the country risk and regulatory risk and different kinds of jurisdictional risk that we consider as well.

Now, as far as policy, because of the diversification aspect of it, the portfolio is closely monitored to make sure that we have controlling limits on each country. We also have controlling limits on some of the countries that we were not invested in. Also, in going into any country or any other region, there is a thorough process. Not only is the investment team doing the underlying due diligence – and also the risk team – but it is involving the responsible investment team sometimes to look at the country, at the country risk in particular, that we are assessing.

From a different angle, from the control of the diversification that we have to the underlying due diligence for any country that we have and the limits and the discipline of us not going into some country in particular, there is the assurance that we do not invest in any country that we think is unethical or where there was a social issue alongside of it.

The Chair: Thank you very much.
MLA Singh.

Mr. Singh: Thank you, Mr. Chair, and thank you to the representatives of Treasury Board and Finance and the officers of AIMCo for presenting the first-quarter report before the committee today. My question is: can you please explain the equity component of the fund, and how would this investment impact the performance of the fund? How have they performed over the last five and 10 years?

Mr. Epp: The equity component of the fund is the accumulated operating surplus. In the statements that's what it's called. It's all the money that has been retained and not paid into the general revenue fund or other projects early on. If you look at the financial statements on page 4, you'll see an accumulated operating surplus of just over $17 billion. That's assets less liabilities, very simply.
I forgot the second part of your question.

Mr. Singh: The second part is: how have they performed over the last five and 10 years?

Mr. Epp: They are intermingled. There is no separate pool of retained earnings set aside and invested differently. All of that money is commingled, and it earns the same returns as the rest of the heritage fund.

Mr. Singh: Thank you for answering.
I see that the heritage fund benefited from gains in inflation-sensitive investments such as infrastructure and real estate. Can you please state: how much did this group of investments earn in the last quarter, and what factors made it possible for these investments to grow compared to other asset groups?

Ms Lau: Sure. I will address that. The heritage trust fund actually has good exposure to inflation-sensitive assets, like you alluded to. Those assets are, first of all, generating a very positive cash flow. Sometimes the cash flow of it is adjusted to inflation, such as the offtaker contract and the costing contract we have on the infrastructure asset. On the real estate side, especially like I alluded to on the industrial and residential, sometimes the lease can be adjusted because of inflation. So those components of it and, I would argue, the two pools are a perfect inflation-sensitive protection asset.
The beauty of that asset is also that in the infrastructure asset class there is a good tailwind coming our way. The asset class continues to be looking at alternative asset classes such as telecommunications and also green energy. Those are two things that create a lot of tailwind, that create a very strong return, including inflation protection.
One of the good examples and one of the investments that we have is through sPower. They have invested a lot in solar energy, which is giving us a very good valuation lift. On the real estate side, it's the residential and the industrial part that provides very good inflation protection.
Now, how do we grow those two assets? I think the team continues to be working hard to grow those illiquid asset classes on behalf of the client, where we find that in addition to absolute return on private credit, those are the asset classes that are a very good strategy to grow for an inflation environment going forward.
The team is working hard, but also we are mindful of the backdrop. I think we love to grow the asset. However, we want to grow the asset in a very disciplined approach, identifying the assets that represent value and with the good risk-adjusted return we are looking for to ensure that it will provide the much-needed diversification for our client but also being mindful of the entry point of how we identify the asset and the valuation of what we have coming in from the asset.

Mr. Prakash: If I could quickly add some colour on performance. In the last quarter real estate was up 1.9 per cent. The five-year return is 5.1 per cent annualized. Infrastructure is 9.6 per cent for the quarter and 8.1 per cent annualized for the five years. Lastly, as context across these two asset classes, it's about 30 per cent of the overall portfolio.

The Chair: Okay. Thank you very much.
We will now go to hon. Member Gray.

Ms Gray: Thank you very much. I appreciate that. Just as a follow-up to the line of questioning that we were just talking about, I'm curious. On the real estate side, industrial and residential are inflation protected, and we're seeing good returns in that class. Is that because people's rent is going up? I'm just trying to better understand that. Is part of it because those assets are passing on those inflation costs? Do you understand what I mean?

Ms Lau: Well, part of the component of real estate is the income generation in general. Usually real estate would have a good income generation, which is around 2, 3 per cent in general. The other part of it is also value creation. The two components of real estate return are that. The inflation protection side also comes from the rent component and the lease rate component, that is more frequently adjustable in case it needs to be adjusted up or be adjusted for the economic environment.

Mr. Siddall: I should just elaborate, if I may, that this real estate portfolio includes commercial, industrial, and residential real estate. I'm actually not sure what the concentration of residential real estate is.
Do you know offhand?

Ms Lau: I think it's about 20 per cent in both, 20 per cent in industrial and 20 per cent in residential. Like Evan alluded to, that's including also office, retail, and it's also diversified across different geographic regions of Canada and the U.S. and the U.K. as well.

Mr. Prakash: Where some of that resiliency comes from is investments in areas such as data centres, logistics, industrials, all of this build, with, you know, the proliferation of Amazon fulfillment centres and the like. There are big chunks of commercial real estate which continue to do well.

Ms Gray: Okay. Thank you. That helps very much. I appreciate the higher level of detail there.
For my follow-up, I would like to just ask a little bit more about what's going on with inflation and the impacts that we are seeing. I know Ms Lau referenced this in her initial comments. We're certainly seeing – last week the U.S. Federal Reserve chairman announced that rates were increasing by 75 basis points, which was expected, but then – surprise – said that rates could rise another 150 basis points.
Two months ago the Fed forecast two rate increases of 75 and 50 basis points. That's a swing in the forecast of 100 points in the forward guidance in just 60 days. I appreciated the opening comments that touched on some of this and suggested we're not quite out of the woods. I was hoping to dive into this just a bit deeper: if you can interpret what this means, if AIMCo is expecting a hard landing, and what these rate increases ultimately mean for both Alberta's economy and the heritage fund.

11:10

Mr. Siddall: I'll invite you to elaborate in a sec. Having spent a little time with the Bank of Canada, I will just offer that the monetary authorities' objective is price stability. Runaway inflation is something that we saw in the early '70s that is very socially harmful, and my sense, although I have no inside information, is that monetary authorities would risk a minor recession in order to ensure price stability. I think that's what their agreement with the federal government is to do, in particular our Bank of Canada. As to predicting where that ends up, you know, the bank rate is actually a very blunt instrument. They're trying to control price stability with one trigger. As a result, it does result in some fine-tuning over time.

Now, where that goes, Sandra, I'll let you predict because I can't do it.

Ms Lau: All right. I'm not going to predict, but I echo Evan's comment. Like Evan alluded to, monetary policy is really a blunt instrument, and it's always lagging. Unfortunately, we have seen that inflation continues to be stubbornly high. Although with energy in general the prices have come down a little bit, we are also facing a very tight labour market. As such, there is still concern that if there will continue to be other inflation components coming from wages, goods and services, in which it's really a make-up of 50 per cent of the inflation component, if those inflation components are not under control, it can easily turn this into structural inflation, more high inflation going long term. As such, that's why the central bank has been coming in very aggressively trying to control inflation.

As for the next quarter that we have left, like Evan mentioned, the central bank is basically very up front. Price stability will be their front-and-centre focus. We won't be surprised to see a more aggressive central bank action for the next two meetings, which are coming up in the next quarter before year-end, which easily brings the front-end rate from 3 and a quarter per cent to maybe we'll be touching 4 per cent. Now, the challenge is that when the interest rate is going into a very high situation, like if we are approaching 4 per cent, then the probability of a recession will be getting very high just because of how it impacts the economy and how it impacts consumer spending. So 4 per cent will be, really, a stretch number if inflation gets there.

At the same time, I think that, with that, we are seeing the signs of certain components of inflation already coming down. With the monetary policy in front of it, I think the market is generally maybe pricing in. If there is a recession coming our way, hopefully it will be a relatively shallow inflation, short-lived, and for a period of time. Inflation and interest rate policy will be data dependent. With the more front end of the adjustments coming to it right now, with the adjustments and the monetary policy kicking in, the expectations generally will be that maybe it will be in 2023, later on, we will see a flattening out or a stabilizing of the hiking of our interest rate and inflation in general. Maybe the impact, in fact, will die down eventually.

So I don't have a crystal ball, and that's why I was more alluding to that for the next three or six months I expect the market to continue to be bumpy. For the recession, it's really a wild card. However, the direction of the market is really more and more pointing to a recession scenario. After all, the U-curve is inverted. Every time a bond market U-curve is inverted, it's a good sign, and it's a strong sign that we are seeing a recession coming our way.

The Chair: Thank you.

Well, our sequence will be hon. Member Hunter, then hon. Member Hoffman, and if there's time, we'll go to MLA Rehn. We'll try to wrap up this part of it by about 25 after.

The hon. Member Hunter.

Mr. Hunter: Thank you, Mr. Chair. I just wanted to do an observation first and then my question. My observation is that earlier an hon. colleague committee member, hon. Christina Gray, was questioning, really, you know, why Treasury Board would be moving basically $2.9 billion over. It kind of sounded like she felt it was a negative thing. I personally as a committee member can tell you that I consider it a very positive thing, that we're actually giving back to Albertans and future Albertans $2.9 billion. It's something that I applaud the government for doing and that we were in a position to be able to do that. I don't know the last time that we've been able to provide that kind of support to the Alberta heritage trust fund in my lifetime. Maybe the last time was in Ralph Klein's time. I'm grateful for that move, and I hope that you guys find good places to put that money for future Albertans.

My question, Mr. Chair, through you, is about the equities. Equities, as you show in your first quarter, were negative performing. Now, we talked about this, and there was no question in anybody's mind that we were going to see some negative numbers here. I can remember sitting in committee meetings where we talked about this. So I just want to point out that in the 2021 draft committee annual report it showed that equities were sitting at 50.3 per cent; today it shows that they're sitting at 47.2 per cent. We've basically moved a little less than 3 per cent out into more of an inflation-sensitive vehicle. My question to you is: is that all we can move out away from that risky vehicle to a nonrisky vehicle, or is it just because of the magnitude of what you guys deal with? How come we couldn't have protected more of that money?

Mr. Siddall: Well, we didn't have the benefit of hindsight at the time, of course. Had we known these sell-offs would occur, we would have moved more. Most of that adjustment, Mr. Chair, is just the result of public markets underperforming private markets and, therefore, that amount declining by more. Happily, the heritage fund has about a 10 per cent allocation to private equity, which is significantly more than most of our clients, and that particular group actually made money, made 2 and a half per cent in the quarter versus Canadian public equity markets having lost 11.6 per cent and foreign equity markets in our portfolio having lost 11.9 per cent.

Mr. Hunter: I get that nobody has a crystal ball. I wasn't trying to say that you guys did something wrong there. I'm just saying that I remember being in committee meetings in the past and talking quite openly with members of AIMCo and Treasury Board and Finance and recognizing that when you put that much money into an economy, you're going to see inflation. You didn't need to have a crystal ball for that. So, again, is there an ability to move more out than, say, 3 per cent, or is that kind of the maximum horizon that you guys can actually move out?

Mr. Siddall: There is an ability. I'll let Sandra elaborate on how that . . .

Ms Lau: There is the ability to do that, but it's more on a certain capacity or the guideline we got from the Treasury Board and Finance colleague. But I would say that having or not having a crystal ball is one thing. You can argue that you can equally move a major chunk of equity at the same time to the other asset class; however, there is a probability of that being wrong. At the same time, the $2 billion can easily turn bad on this mix.

As such, the AIMCo approach, and even working along with a client, is always diversification. I will add, too, that if you look at our 10-year performance result and even longer data results, the portfolio of the heritage fund went through different cycles. It went through long-term capital, dot-com, Asian crisis, credit crisis, every episode of the equity markets sell-off, with a consistent, strong, positive return, and that is the essence of running a long-term portfolio.

11:20

It's true that you can adjust $20 billion of equity in and out, but what is a more prudent approach for the risk appetite of the client, the prudent approach of managing a long-term portfolio? I think the discipline of diversification over the long run is still our core focus when we're managing the money for our clients.

Mr. Hunter: Good answer.

The Chair: Okay. Thank you very much.
We'll go to hon. Member Hoffman.

Ms Hoffman: Thank you very much. I just want to begin by clarifying that what I heard through the exchange by my colleague the hon. Christina Gray was that the committee gave direction. The government has said that the government will change the law but has not changed the law, so the government is giving direction that is incongruent with the direction of the committee and with the current law. I just want to be clear about that. The outcome I think is fair for us to discuss, but I think the question was about accountability and transparency and actually following the law.

In terms of my two questions, they both have to do – one stems from the last exchange. I appreciate the response around there being a number of countries that we no longer invest in because we have concerns about some of the ethical implications of investing in those markets. I think it would be, again, around a line of transparency appropriate for us to have that list of countries presented to the committee in writing, and I'm hoping that we can have concurrence on that, please, through you, Mr. Chair.

Ms Lau: Sure. We'll do a follow-up.

Ms Hoffman: In writing? Thank you very much.

The second one is based on a prior meeting, that I wasn't a member of but that I've had an opportunity to review. A Treasury Board and Finance committee told this committee that the investment strategy was under review, and I imagine maybe some of that has to do with some of these questions around long-term returns and risk management and geopolitical situations as well. I'm hoping that we can get something, again in writing, in response to this committee about where we're at with reviewing the investment strategy and giving direction on that. Is that possible, Mr. Epp?

Mr. Epp: I can answer right now. The answer is that we are in the process of reviewing the investment policy and how much we put in various asset classes, equities, real estate, fixed income, and subclasses, fixed income, public markets versus private debt. We are looking at that. We were close to getting a decision, and changes in the market necessitated a relook.

Ms Hoffman: Through you, Mr. Chair, would it be possible to get some sort of timeline or some sort of clarity on what that will look like and when we can have, you know, as stewards of the fund, some clarity on what that mix will look like and when we can expect to have that formula set?

The Chair: I guess we're good on that? Yeah. Okay.

Ms Hoffman: Thank you.

The Chair: All right. Okay. I think we'll have to call it done for the questions.

The committee should now consider a motion to receive the first quarterly report. Who would make that motion? MLA Yao moves that

> the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2022-2023 first quarterly report on the Alberta heritage savings trust fund.

Any discussion? If not, we'll go to the vote. All in favour, please say aye. Any opposed, say nay. Okay.

> That motion is carried.

That will conclude today's business with respect to the fund's first quarterly report. I'd like to thank our guests from AIMCo and Treasury Board and Finance and the office of the Auditor General. You are welcome to leave, but if you want to remain and hear the rest of our business, feel free to do so. Thank you very much.

Other business. I will note for the record that both Treasury Board and Finance and AIMCo have provided the committee with written follow-up responses to questions asked at our last two meetings, on May 30 and June 28. They were made available to the committee members on an internal site prior to today's meeting.

Are there any other issues for discussion before we wrap up today's meeting? Okay.

The committee's next meeting will be the annual public meeting on Thursday, October 27, 2022, from 7 to 9 p.m.

If there's nothing else for the committee's consideration, I'll call for a motion to adjourn.

Mr. Yao: Right here.

The Chair: Okay. Moved by MLA Yao that the meeting be adjourned. All in favour, say aye. Any opposed, say nay.
Thank you. The meeting is now adjourned.

[The committee adjourned at 11:26 a.m.]

Published under the Authority of the Speaker
of the Legislative Assembly of Alberta