Legislative Assembly of Alberta

The 30th Legislature
Third Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Annual Public Meeting

Thursday, October 27, 2022
7 p.m.

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Standing Committee on the
Alberta Heritage Savings Trust Fund

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Jones, Matt, Calgary-South East (UC), Deputy Chair
Allard, Tracy L., Grande Prairie (UC), Acting Deputy Chair

Eggen, David, Edmonton-North West (NDP)
Gray, Christina, Edmonton-Mill Woods (NDP)
Hunter, Grant R., Taber-Warner (UC)
Lovely, Jacqueline, Camrose (UC)*
Phillips, Shannon, Lethbridge-West (NDP)
Rehn, Pat, Lesser Slave Lake (UC)
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Brittany Jones	Senior Manager, Portfolio Analytics and Research

Alberta Investment Management Corporation Participants

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Amit Prakash	Chief Fiduciary Management Officer

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Standing Committee on the Alberta Heritage Savings Trust Fund

Public Participants

Bob Ascah
Richard Hannah
Greg Meeker
Tom Sher

7 p.m. Thursday, October 27, 2022

[Mr. Rowswell in the chair]

The Chair: Good evening. I would like to call the 2022 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order.

My name is Garth Rowswell. I'm the MLA for Vermilion-Lloydminster-Wainwright and chair of this committee. Tonight the committee is pleased to be meeting at the newly named Queen Elizabeth II Building in Edmonton to hear questions from members of the public who are interested in the Alberta heritage savings trust fund. I would now like to ask members of the committee and guests seated at the table to introduce themselves, and we'll start to my right.

Mrs. Allard: Good evening. My name is Tracy Allard, and I'm the MLA for Grande Prairie and the deputy chair of the committee for this evening.

Ms Lovely: Hello, everyone. Jackie Lovely from the Camrose constituency.

Mr. Rehn: Good evening. I'm Pat Rehn, MLA for Lesser Slave Lake.

Mr. Hunter: I'm Grant Hunter, the MLA for Taber-Warner.

Ms Jones: Hello, everyone. I'm Brittany Jones from Treasury Board and Finance.

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

Ms Lau: Sandra Lau, interim CIO, AIMCo.

Mr. Prakash: Good evening. Amit Prakash, chief fiduciary management officer, AIMCo.

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

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

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

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

The Chair: Thank you very much.

For the record I will note the following substitutions: Member Lovely for Hon. Minister Jones and hon. Member Allard as acting deputy chair.

Oh, I'm sorry. Could you introduce yourself online?

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

The Chair: Okay. Thank you very much. Sorry about that, Peter.

The Alberta Heritage Savings Trust Fund Act requires the committee to hold a public meeting on the fund every year. The nonpartisan staff of the Legislative Assembly Office arrange and promote these public meetings, so I would like to thank all involved for making this year's meeting possible.

The Alberta heritage savings trust fund was established in 1976 with funds from nonrenewable resources, and it is managed by the Alberta Investment Management Corporation, or AIMCo, with direction from the Ministry of Treasury Board and Finance. Tonight's meeting is an opportunity for Albertans to participate in a discussion about the status of the fund, its investments. To find out what's in store for the future, the investment professionals who manage the fund to get the best possible return are here to answer your questions.

Last year's meeting was closed to in-person participation, so this year we are very pleased to be able to welcome the public to ask questions live. Tonight's meeting is being broadcast live on Alberta Assembly TV, and the audio and video of this meeting are streamed live on the Legislative Assembly website at assembly.ab.ca. We're also streaming live on the Legislative Assembly YouTube, Facebook, and Twitter accounts. I'd like to encourage everyone to join the discussion during our live broadcast. More information about this committee and its mandate can be found on the Standing Committee on the Alberta Heritage Savings Trust Fund page on the Legislative Assembly website. If you'd like to participate, you may. You can come in person to the Queen Elizabeth II Building until 9 p.m. tonight; phone in by calling 1.888.892.3255, conference code 602280; submit your questions via the web form on the committee's website, via e-mail at committee.admin@assembly.ab.ca, or on Facebook or Twitter by using #abheritagefund. This information is all displayed on the screen.

We hope to respond to as many questions as time will allow during the question-and-answer segment of the meeting, which will immediately follow our panel presentations. The committee will alternate questions between those joining us in person, on the phone, and via social media and e-mail. Your input is important to us, and I encourage you to participate, but I would ask that participants please keep the questions and comments respectful and relevant to tonight's topic, the Alberta heritage savings trust fund.

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

[A video was shown from 7:04 p.m. to 7:06 p.m.]

The Chair: Thank you.

I would now like to invite the representatives from Treasury Board and Finance to present a financial update of your heritage fund. Your presentation is loaded up and will be displayed when you are ready.

Mr. Epp: Thank you, Mr. Chair. A pleasure to be here, as always, and answer questions and whatever else.

The next slide. Here are some of the highlights from the last year. We had a very good year in '21-22, 11.8 per cent. We've had five good years, I would say, 7.6 per cent when you compare that to interest rates of near zero, and the fund has hit a record value of $18.7 billion.

This is a little redundant, so I'll go quickly. The mission of the fund is to provide prudent stewardship of the savings from Alberta's nonrenewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans. From this we build some investment principles that we apply when considering policy changes.

The five principles. We certainly invest for the long term. The fund is set up for current and future generations. That means that the fund won't panic and sell or our investment manager won't panic and sell when the markets go down, as we've seen in the first two quarters of this fiscal year. Over the long term we think that those stocks and bonds that have lost value will regain value and return a handsome return.

The second principle is the asset mix. Some researchers say that asset mix is responsible for approximately 90 per cent of the fund's returns, so it's very important. One of the successes, I would say, of the current asset mix is the emphasis on global equities, much more than most Alberta pension plans, public plans, by design, and global equities have done very well over the last 10 to 12 years.

We focus on portfolio risk. In other words, we consider risk, how an investment or a group of investments affects the entire fund, the entire portfolio. We do not look at risks of single securities. Well, that's not quite right. We look at that risk, but we concentrate on portfolio risk. There are things you can buy that will go a different direction than some of your other investments and off-set each other. Diversification is important and can add value. We don't diversify for the sake of diversifying. We diversify when it adds value, and the value it usually adds is reducing risk; same expected return but lower risk.

7:10

Finally, active management is one of the principles. We believe that our investment manager, AIMCo, can add value by trying to read the market, taking actions, and generally managing actively. We'll get into some of this in a few minutes.

I think I'm going to skip this one.

This is the target asset mix for the fund. Equities make up 47 and a half per cent of the fund. That's the target. We have a range of 35 to 70 per cent, which is at the discretion of AIMCo. Inflation sensitive and alternatives – things like real estate, utilities, renewable resource properties – make up the second part, and that's 32 and a half per cent, with a range of 15 to 40. Finally, fixed income is around 20 per cent, with a range of 15 to 45. This allocation is purposely low because of the low returns that it provides.

Here's the year-end asset mix at March 31. Now, this will change every day as market values change. If stocks go up more than bonds, their market value is a bigger percentage, so that's one of the reasons we need ranges. On that particular day equities were a little over 50 per cent; inflation sensitive was 30.8 per cent, about 1.7 per cent below the target; fixed income was 18.4 per cent, 1.6 below the target. We have strategic opportunities. These are investments that don't fit into the traditional asset classes. We don't target anything to strategic opportunities, but up to 5 per cent of the fund can be invested in those sorts of assets.

I highlighted the one-year and five-year returns earlier: again, one-year, 11.8; five-year, 7.6 per cent. I would remind you that that five years includes the pandemic and the market crash in March 2020, which we have fully recovered from. Over 10 years it is even a little bit higher, 9.3 per cent. We tend to focus on the five-year return when we're evaluating the fund.

When we evaluate the fund, we have two basic targets. The first is a real return target. The fund should earn, in our belief or our target, 4 and a half per cent more than inflation over a five-year period. You can see on the screen that the actual return, 7.6 per cent, is 1.2 per cent better than our target.

The second measure is the active management target. We expect the manager to add 100 basis points, or 1 per cent, to the return through active management. Now, this is a stretch goal, if you will, and difficult to meet, but there it is. There's no point having easy goals, so this one's a little harder. You can see over the last five years the return: again, 7.6 per cent. The benchmark was 7.2 per cent. So we made .4 per cent. That's below the target. But, you know, with investments there come years that are good opportunities and periods of time and bad opportunities. One other thing I would add is that over the last 18 months or so the active management returns have been very good, and the trend is very encouraging, let's say.

On to parts of the portfolio. Equities earned 10.4 per cent against the benchmark return of 10 per cent. Equities are broken into four categories. Canadian equities earned 9 per cent against a benchmark of 10.3. Global developed countries: a 9.5 per cent return against a benchmark of 10.2. Merging markets have been hit pretty hard by the markets recently, and we earned 3.9 per cent over the last five years versus – it has the same benchmark as global developed, 10.2 per cent. The last category, private equities, has performed extremely well: a 14.8 per cent return against an 8.4 per cent target.

Inflation sensitive and alternatives. Things you can see on the bottom of the slide are real estate, infrastructure – that would include utilities, renewable and traditional or whatever you call them – and renewable resources. This portion of the portfolio over the last five years earned 6 per cent, which is equal to its benchmark. Real estate underperformed its benchmark by about 80 basis points, from 4.9 per cent to 5.7 per cent for the benchmark. Infrastructure has had a slightly better return than the passive benchmark, .2 per cent. But the big winner in this portfolio is renewable resources. For instance, we own a piece of timberland that has performed extremely well for a lot of years. Unfortunately, we don't own more of it, shall we say. Renewable resources make up about 2 and a half per cent of the portfolio. Infrastructure makes up about 9 per cent and real estate 19 per cent at year-end. Real estate: we have a range of 10 to 20 per cent. Infrastructure has a range of 5 to 15, and renewable resources has a range of 0 to 5 per cent.

Fixed-income returns are a loss, as they are expected to be. Return over the last five years has been 2.8 per cent against a benchmark return of 2 per cent. This makes up about 18 per cent; at the end of the year it was 18.4 per cent of the portfolio. So the impact of that 2.8 per cent, while not insignificant, is not as material as changes in returns on equities, for instance.

Within the portfolio we hold different types of debt. The largest is public bonds, which earned 2.2 per cent against a benchmark of 1.6. Mortgages, commercial mortgages of all kinds, earned 3.9 per cent versus 2 and a half per cent benchmark. Finally, private debt and loans earned 5.3 per cent against a benchmark of 3.1 per cent.

7:20

For strategic opportunities the five-year return is 5.4 per cent against a benchmark of 10.2 per cent. The reason why there's such a wide disparity is that it's difficult to come up with a benchmark for the unique investment – that's one part – and this is an investment that was purchased many years ago, and it can't be sold. It just has to run off and will do that over time. At .3 per cent or .4 per cent of the portfolio it's really not significant.

On to investment income. During the '21-22 year we earned an income of $2.1 billion. That was our gross return. We had expenses of $176 million for a net income of $1,952 million, or almost $2 billion. The net income, by law, by the heritage fund act, is to be transferred to government except we retain a certain part to cover inflation. With the higher inflation that we've seen recently, the amount that will be retained in the fund is $705 million. That's against what we've been doing of a couple hundred million in the recent years.

The transfer to government has not been transferred yet, and pending some planned legislation, it may stay in the fund. The government in the first-quarter update said that they were going to retain the fund and pass legislation to allow it to do so. Transfers to government over 46 years are about $47 billion. Early in the life of the fund it helped build some projects: parks, affordable housing, Kananaskis as an example. As it's aged, it's just become a cash transfer to the government, so it supports all the things the government does: health care, education, et cetera.

Finally, the fund value at March 21: total assets of almost $20 billion, a liability of $1,247 million to be transferred to the general revenue fund for a net value of $18.7 million. If the government decides to and passes legislation enabling it to retain that $1,247 million, the total assets will be the value of the fund.

Finally, just a little graph to see what's happened with the value of the fund over a few years. You can see how the last few years, since the crash in March 2020 when we hit a low, the fund has rebounded very well.

That ends my remarks, Mr. Chair.

The Chair: Okay. Well, thank you very much.

Now we will move on to representatives from AIMCo for the presentations regarding the fund.

Ms Lau: Sure. Good evening, everyone, and thanks, Mr. Chair. I guess my comments will be very brief after Lowell's comments. First off, I would like to say on behalf of AIMCo and all of my colleagues that it's really my privilege, alongside my colleague Amit, to be here tonight. We take a great pride in managing the investment on behalf of the heritage trust fund and serving all the Albertans that benefit from this fund, so we're really looking forward tonight to have a very robust discussion and Q and A to describe and share with you the investment and the management of the assets within the fund and how we are doing.

Like Lowell mentioned, the heritage trust fund is actually a very well-diversified portfolio. For the fiscal year-end, March 31, 2022, the fund has been performing very well, like Lowell alluded to: 11.8 per cent, outperforming the benchmark of 6.6 per cent by almost 5 per cent for last year. Both long term, especially, a very strong 7.6 per cent return, outperforming the benchmark by 40 basis points, and over 10 years the fund outperformed by 60 basis points, with 9.3 per cent return. This number actually compares well when we compare with all the other Maple peers out there, especially on the long run, on a 10-year measure.

All the asset classes, especially over the fiscal year-end 2022, have been performing well. If you recall, last year, in 2021, because of the temporary relief of COVID, we had seen a significant rally in the stock market. So all the asset classes have been performing well, especially in the public equities side. The active management, like Lowell alluded to, has been also a benefit in terms of the relative performance.

Now, fast-forward to where we are today. It's challenging. It's quite a lot of change from what we saw in 2021; 2022 continues to represent extreme challenge in the economy and transfer into the market. Inflation concerns, central bank policy, which continues the high interest rate, leading to concerns about recession, and also, last but not least, geopolitical concerns: all have been the dominating narrative within the market. So most of the asset classes, especially the public asset class, stock and bonds, have been underperforming. They have experienced significant double-digit negative returns so far in 2022. I would say this type of behaviour of the stock and bonds market is extremely rare when we even go back to the 50-year history or even longer for the 70-year history, where you see stocks and bonds both experience extreme negative double-digit returns.

I would say so far that even for the second quarter, or even looking into the third quarter of 2022, the spike of the challenge in the public market – the heritage trust fund, because of the diversification nature, is still enjoying a very healthier return compared with a 60-40 stock and bond portfolio. With our active performance the relative value-added is actually on a very positive path direction, adding more compared with what we saw in the fiscal year-end as of 2022.

As we are today going into the last quarter of 2022, even going into 2023 maybe, the first quarter or first half of 2023, I would say the headwind, the risks that I talked about earlier on, probably will continue to stay with us. We are expecting that the market will continue to be very volatile in the next couple of quarters. Maybe with this challenge ahead of us a cautious approach is our approach for the short-medium term when we manage the portfolio. Like Lowell alluded to, from the investment perspective our focus is continuing to manage a diversified portfolio for the investment of the heritage trust fund and ensure good liquidity and plentiful liquidity, prudent risk management, and, especially, a very cautious approach during our underwriting process. Our security selection has good patience in this market yet is nimble and flexible when opportunities present themselves. We believe, like Lowell said, as an investor for the long term it will lead to a very positive, consistent long-run good return for the fund.

With that, I would like to also take the opportunity to thank the other colleagues from the Treasury Board and Finance for the continuous collaboration and also the committee chair and the committee members for the high level of engagement and the interest for getting to know what AIMCo is doing and the investment we did for the heritage trust fund and for the Albertans we serve. That concludes my comments, Mr. Chair.

Amit?

The Chair: We're good?

Mr. Prakash: I think we're ready for questions now.

The Chair: Okay. Really good. Thank you very much.

Before I open the floor for questions, I would like to remind everyone that we encourage Albertans to join the conversation and submit your questions for the committee and for our panel of experts. Once again, you may attend in person to the Queen Elizabeth II Building until 9 o'clock tonight. Phone in by calling 1.888.892.3255, conference code 602280. Submit your questions via the web form on the committee's website, e-mail us at committee.admin@assembly.ab.ca, or on Facebook or Twitter by using #abheritagefund. This information is all displayed on the screen.

7:30

The way we're going to start this: we have a couple of callers on the phone right now, so we'll start with one of the callers on the phone. We'll get the person that is here live to make his way to the podium. We'll go to him then, and we'll come back to the phone, and then we'll do some e-mail-type questions.

Operator, if you can bring in one of the people from the phone. And make sure that you state your name before you start speaking. Thank you.

All right. We'll go to the end of the room for the phones aren't quite ready yet.

Dr. Ascah: I think we're okay, Mr. Chairman.

The Chair: Yeah. Go ahead, sir. Just mention your name.

Dr. Ascah: My name is Bob Ascah, and I'm, you know, quite frankly, a little disappointed at the lack of public turnout today. It is very distressing as an Albertan to see the lack of dialogue on important policy issues such as the heritage savings trust fund.

I have a number of questions, Mr. Chairman. Some of them may be impertinent. I don't know how to pursue them given that there are people on the line and I'm the only person here. I, ideally, would like most of my questions asked, so I'm kind of in your hands on that front.

The Chair: How many do you have, roughly?

Dr. Ascah: Oh, about eight.

The Chair: Eight. Okay. I'll tell you what. We'll rotate. We'll do a couple, you can sit in the front row, and then we'll come back to you.

Dr. Ascah: Sure. Okay.

All right. The first question may seem a little trivial, but it's to AIMCo. There's a new position called chief fiduciary officer. I'd like to be informed about the job description of that. So that's my first little question.

A second question is really a technical question, and it's for the accountants in the room. It's on how investments as they're reported, investment income, go through the books each quarter. It's my understanding as a nonaccountant that there's a mark to market. If the value of a publicly traded security falls, then relative to what the value was three months before, it's a reduction from that income. I just wanted that confirmed, because in some of the research I've been doing on the old Alberta growth fund, there was a real lack of accountability to the holders of the fund – i.e. the taxpayers, Albertans – on what was going on there.

So those are my first couple of questions, Mr. Chairman.

The Chair: Thank you very much.

We'll go for answers now.

Mr. Prakash: I'll start with the response to the first question. You know, why do we have a role, why do we have a position called the chief fiduciary management officer? The thinking behind a role such as chief fiduciary management officer: we were thinking about reflecting the relationship AIMCo has with its clients. One of the things that is specific to our interaction with clients is the fact that many of our clients utilize AIMCo as their only manager. In many cases, they don't have an option to use another manager. Therefore, in a more traditional sense, a client-facing role or a traditional title didn't do justice to the fact that our standard in terms of how we interact with clients is a lot higher than a commercial manager because a commercial manager can be fired whereas our relationship with the clients and vice versa is such that we work with each other.

Therefore, as we were debating and discussing, you know, how to describe the role in a manner such that it reflects the client centricity of the organization, we liberally used the term "fiduciary manager," which is more common in Europe, less so in North America. But the intent was to be able to reflect the higher standard in terms of how we interact with clients, and that's the reason why we described the position, that role that I have, as a chief fiduciary management officer.

Mr. Epp: I'll take the second question. I'm not an accountant, and I'm quite happy about that. Yes, the fund is market valued for financial statements. You can see the difference in, I guess, the old system and the new. On the balance sheet there will be an accumulated operating surplus, and there are accumulated remeasurement gains. If the gains or losses have not been sold, then it goes into the remeasurement gains. But $18.7 billion is the market value at March 31.

The Chair: Thank you.

I think we have someone queued up on the phones. State your name, and ask your question.

Mr. Meeker: Thank you. Greg Meeker. Like Dr. Ascah, I have a few questions as well, but I'll just begin with one if I could. The business case that AIMCo wrote prior to taking over the investment management of the teachers' retirement fund stated that AIMCo's existing clients such as the heritage fund would benefit from a four-basis-point cost savings, which, you know, for this year would be roughly $7.8 million for the heritage fund. I see the investment costs were 90 basis points for 2022, 2021, and 2020, so we really haven't seen evidence of this kind of saving. I'm wondering if you're expecting that kind of cost saving and if we can really expect that from an investment fund with assets of greater than $100 billion.

Thank you.

Mr. Epp: It's difficult to do that measure for the simple reason that we are continually increasing the amount of private assets within the fund, and private assets have higher expenses. As we add private assets, which, as we saw earlier, did very well during the year, the investment expenses go up, so it's not easy to compare year over year.

The Chair: Go ahead and have a follow-up if you want or your second question.

Mr. Meeker: Well, my second question would just be, then: if we've gone through the last number of years – I mean, I remember when the heritage fund was 75 basis points of each dollar under management, and we're up to 90 now. It would just cause me concern that our active management target – I do remember when, you know, AIMCo hit the active management target back in the same period of time. Again, it just seems like the active management target is at 40 per cent of target, and the cost is greater. Just a few years ago, in 2018-2019, the cost was less, but the active management target was hit, like you say, through active management of securities. I don't know if there's a comment around that.

7:40

Mr. Epp: Well, one of the factors in investment costs – and it's a significant factor – is performance fees. In addition to the private equity increase, performance fees have been paid during '21-22 to both external managers and employees. The external managers, which make up about 20 per cent of total fund management, take about 80 per cent of the performance pay, if you will. AIMCo is continually trying to reduce the reliance on external managers to save money but will not sacrifice return in order to save money.

Ms Lau: Maybe I would just add to that. I guess that for the period that we are talking about, especially in 2021, it was an extremely positive performance and a relative performance for AIMCo. I guess that in addition to attracting and retaining strong talent, also AIMCo has been partnered with a lot of world-class, best-of-breed external partners to support our clients and invest on behalf of the heritage trust fund.

So, on the cost side, that includes both probably internal and external costs, variable costs, and performance-based costs. That's meaning that sometimes, when the manager really delivers an extremely strong return, the performance fee will go up accordingly, and we see that it sometimes is a good cost and a good fee to pay for good performance. The return you're seeing is net of fee, but given that 2021, like I said, was a very strong performance, especially for that type of return under nine months, it's not unexpected for the cost to be slightly higher than what we have seen before. That's probably, in a lot of it, driven also by the performance costs that we pay for the strong external manager that we engage.

The Chair: Okay. Thank you.

Greg, we'll come back to you, so stay on the line.

We'll go to our online questions, that MLA Allard will ask, and then we'll go back to our person at the podium.
Go ahead and ask your question.

Mrs. Allard: Thank you, Mr. Chair. This question comes from Deborah Anne Minoose. I hope I'm saying that right, Deborah Anne. Her question is, "Does the Alberta heritage group support First Nations in Alberta?"

Mr. Epp: The mandate of the fund is to maximize earnings, so if Indigenous people have good companies to invest in across the world, certainly the heritage fund would consider those investments. But the mandate is very clear: it's to maximize returns; it's not a social mandate.

The Chair: Thank you very much.
We'll go to the podium again.

Dr. Ascah: Thank you very much, Mr. Chairman. My next question has to do with the volatility of heritage fund income over time. Again, this may be totally out of order, but in a recent book that is called *A Sales Tax for Alberta: Why and How*, one of the charts shows – and the book deals with volatility in revenue. We're all quite familiar with oil and gas revenue, but we're not quite as familiar with investment income revenue. Since the heritage fund investment mandate was changed in the late 1990s – and I don't know if you can make copies of this – there's a chart that shows the stability of income. At the end of the 1990s we see drops, and then in 2008 – in this book we didn't get in 2021 – it's way down.
Again, this is really a question for the committee itself, Mr. Chairman. Is there any need to think through whether, with additional volatility in the heritage fund income, which the acting chief investment officer noted this year – and it's remarkably high, the volatility – there is any interest in reviewing the adequacy and the volatility and the investment approach we have with the so-called commercial approach to investment as opposed to a longer term approach, which was fixed income? So that's my long-winded question for both AIMCo and for the department.

Mr. Epp: Well, we presented the heritage fund's five-year returns on fixed income. If I remember correctly, it was 3 per cent or somewhere around there. Three per cent of $18 billion I can't figure in my head, but it's a lot less income than we've earned. Fixed income is a certain way to get money but not very much. In recent years interest rates have been very, very low, so there wasn't much money to be made in fixed income.

The Chair: We'll go back to our phone line if Greg has another question.

Mr. Hunter: Mr. Chair.

The Chair: Go ahead.

Mr. Hunter: He did actually ask the committee as well if we wanted to speak to that. I guess my question, if I might, is – you know, he did reference whether or not we need to move towards a tax, PST I guess, in Alberta to get rid of the volatility. I think that, at least, what we saw in the last little while, the last couple of years, is that there were lots of jurisdictions that lost a lot of income tax because people just weren't buying. So I think we saw volatility not just in markets, but we saw it in those fixed incomes as well. That would be my comment on that.

The Chair: All right. That's fine. We'll carry on with the public part, so go ahead.

Mrs. Allard: This question comes to us from Alexander, and his question asks:

> What portion of the fund is invested in other provincial debt or other provincially owned utilities, that in future may be considered investments that may not return the original principal capital invested?

I can repeat it if you need.

Ms Lau: Can you please repeat?

Mrs. Allard: Sure. I'm happy to.

> What portion of the fund is invested in other provincial debt or other provincially owned utilities, that in future may be considered investments that may not return the original principal capital invested?

Ms Lau: I don't have the exact figure with me, but most of the other provincial debt exposure is, then, coming from fixed-income exposure. As you can see, the fixed-income exposure, especially on the public fixed-income side, is about, I would say, around 10 per cent within the heritage trust fund. Within that, then, it will be a diversified mix of government lending to the federal government, to provincial government, and corporate. So within that bucket is a well-diversified mix of the provincial exposure and provincial debt that we lend to. Those are the exposure, and the exposure within the provincial is actually the major provinces in the east such as Ontario, Quebec, and the other provinces as well that we have. I apologize; I don't have the exact number or the amount to the exact figure of our provincial debt exposure.

Mr. Prakash: I'll just add, Mr. Chair, if I may, that across our different fixed-income products, different pools that the heritage fund is invested in, there are very specific investment guidelines within which these are invested. As well, the portfolio managers are focused on the due diligence, the review of each of the holdings within their portfolios, so part of what you see in the overall return is the focus on the individual securities, whether they are provincial, utility, bonds issued by utilities, or any other bonds that we hold.

The Chair: Okay. Thank you very much.
Our people on the phone are waiting to come up with another question, so we'll go back to our podium.

7:50

Dr. Ascah: I guess I'm the questioner of last resort, Mr. Chairman. I'll have to dream up some more to keep it going.
One of the issues, obviously, is accountability. I mean, this is the purpose of the committee and the purpose of public meetings, and as a follower of the heritage fund for a long period of time, I can vaguely recall that in 2015 – Mr. Epp would know – there was a complete listing of the investments of the heritage fund. We know we can get the listings of AIMCo's investments from the Securities and Exchange Commission, but, I mean, why would Alberta taxpayers not have access to that information? We have a Norwegian state pension fund – $1.3 trillion U.S., something like that – and I think they've got it all on their website. So that's one question.
Then a second sort of unrelated question, curiosity is – and I think this question was posed by somebody to our Provincial Audit Committee: how many government of Alberta bonds, or Alberta guaranteed bonds, are held by the heritage fund?

Mr. Epp: Well, I think a list of assets is something that we should consider. I'm really not prepared tonight to discuss the good and the bad, pros and cons, whatever. It's something that could be considered.

Ms Lau: Maybe I will address your second question: how many of the Alberta bonds are being held in the heritage trust fund? With the information I have today at hand, the heritage trust fund has about $67 million, 35 basis points, less than, a relatively low exposure. Probably that's more alongside with the index exposure, with the public fixed-income index. That's the composite of it, alongside with the investment leading to this investment.

The Chair: Okay. Thank you.

We've got two people queued up on the phone, so if the operator can put one through. Just state your name before you ask your question.

Mr. Sher: Hi there. I'm wondering how the inflation is calculated, whether that's from Statistics Canada or whether that's an independently calculated thing, because we all know it depends on whether you're including certain baskets of goods or whether the basket of goods changes over the years, that sort of thing.

Mr. Epp: We use the consumer price index as published by Statistics Canada, the main one, not its various subindices. We use the headline inflation index.

Ms Lau: Yeah. I would just add that probably there are different calculations of CPI index out there as reported by Statistics Canada. The most widely used is the core CPI with a probable basket of calculation, and I think those are the most broadly used by a different measure or even broadly used by a measure of the target level of the CPI or even how they measure the performance and return of any particular investment portfolio targeting for a CPI.

Ms Jones: Can I just clarify one? I just want to clarify one point in that question. Was that on the benchmark, or was that to do with inflation-proofing? I kind of didn't hear the full – if it's to do with inflation-proofing, just adding one other thing: that is based on Alberta inflation. So as Alberta inflation grows, then the amount that we actually will retain within the fund is a lot higher, so you'll see in this report that $705 million was retained, and that is because the inflation number came in substantially higher than previous years.

The Chair: Thank you very much.

We'll go to the online question next.

Mrs. Allard: Sure. Happy to, Mr. Chair. I have a question from Doug Roberts. Doug asks if we can be shown, or if he can be shown, for each year since the fund was set up, the amount of nonrenewable royalties that were contributed to the fund in that respective year, both in dollars and as the percentage of total royalties earned in the year. I guess the question would be: where can an Albertan go to find that information? I think that's what I'm hearing in the question. I hope that's okay, Doug; I'm paraphrasing for you.

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

Mrs. Allard: Absolutely. He wants to know, for each year since the fund was set up, the amount of nonrenewable royalties that were contributed to the fund in each respective year, both in dollars and as a percentage of total royalties earned in that year. I'm assuming there's probably historical data, so if we can direct him to where that could be found by any Albertan.

Mr. Epp: On pages 18 and 19 of the heritage fund annual report you will see a listing of exactly what is being asked for. There's resource revenue allocation, deposits, something that we had in the mid double zeros, the advanced education endowment, and you can see the transfers from the fund, the various different transfers, income, capital projects, and other. I'm sorry; I don't know what the other is.

Dr. Ascah: I'm really digging the bottom of the barrel here, Mr. Chairman, but in previous sessions that you've had, there's been discussion about home bias and investments of AIMCo in Alberta. Now, I'll just kind of confine this to the heritage fund, but perhaps the acting CIO could give us some indication about the percentage of the heritage fund that is invested in either Alberta-based companies, debt instruments, that kind of thing.

Ms Lau: Yeah. Sure. I definitely can do that. As of March 31, 2022, the Alberta investment within the heritage portfolio is about 6.5 per cent, and that's equally diversified across different asset classes, like Lowell said early on during his presentation. That includes a good mix between real estate, public equity, fixed income; a smaller piece of it is residual, private mortgages and other. Most of the exposure is actually from public equity and fixed income because a lot of corporations operate within Alberta, and just with the investment, even for the index space to replicate the index or even for our active investment approach, we decide and select to invest in those companies as well.

Now, it's not really a question about home bias based or not home bias based; every one of our decisions is based on an active investment decision process. Security selection and carefully thinking which investment, on an absolute or relative return basis and even risk-adjusted basis, can provide our client, in this case the heritage trust fund, the best risk-adjusted return considering every consideration.

I would say, too, investing in Alberta, that there are a lot of good considerations about this place as well. After all, Alberta is a province with a lot of benefits such as a very young, well-educated talent group; a very robust and healthy business environment with a low tax environment, no sales tax environment; and even is a very strong province from a debt-to-GDP ratio, GDP per capita ratio. So with all the considerations of the economics backdrop and the companies we invested in with the security selection process, every consideration we put in is based on the risk and return and the value it can provide to the heritage trust fund.

The Chair: Thank you.

We do have another person queued up on the phone. State your name before you ask your question.

8:00

Mr. Hannah: Thank you. This is Richard Hannah from Edson. I was wondering: what portion of the Alberta heritage trust fund has been invested in things like municipal parks and other things like rolling stock, grain cars for the railroad? Do these assets provide any financial return to the fund? If you could answer that for me, please.

Mr. Epp: The number of assets in parks or railcars or whatever is zero. The heritage fund invests in profit-making companies, interest-paying bonds, and so on. There are no parks in the portfolio. It was done early on, pre-1997, that the heritage fund sponsored some local projects, but again it hasn't been done in 25 years.

The Chair: Thank you very much.

We'll go to the online.

Mrs. Allard: Sure. Thank you, Mr. Chair. This question comes from Greg Meeker from Edmonton. I believe he was on the phone earlier. It's a specific question. He says:

> I see that in the notes to the financial statements of AIMCO's Annual Report that they could potentially have an arbitration decision go against them for $1.3 billion dollars. Given that AIMCO has no money of its own, what is the likelihood that a portion of the Heritage Fund would need to be sold off to pay an adverse decision?

Mr. Epp: There's no chance that the heritage fund will be used for anything. And, quite frankly, it's a question well off topic.

The Chair: Thank you.
Go ahead. You have the podium.

Dr. Ascah: I would like to raise some questions about the 2019-2020 annual report of the heritage fund. Now, is that in order, Mr. Chairman?

The Chair: Okay. Go ahead.

Dr. Ascah: It's a long story, and full disclosure: I have a FOIP request in front of Treasury Board and Finance, which I think I'm in the process of; I should be getting that in a few days, hopefully. In the '20 annual report of the heritage fund it was noted that the Alberta growth mandate, which had been introduced under the previous government, had been eliminated and that all – and I underline: all – investments met the expected rate risk-reward target. As somebody that had been following this growth mandate for a number of years, it was passing strange because Trident is one of the companies which is in receivership and pretty well all done. So a question either to representatives from AIMCo or the department – well, no, it'll be to AIMCo because they're the creditor. Are you aware that you were able to receive any money back on the $60 million that AIMCo, through pension funds of our public-sector workers and the heritage fund, loaned to Trident?

Ms Lau: I will quickly address that. Well, thanks for the question. Trident was one of the investments we invested in as a loan program with orphan well sites we did in 2016 and even earlier. I don't have the exact date. It was a situation that investment did not turn out as great, as it did. This asset rode down to zero. But alongside all the other investments we have made in any programs or any portfolios where it is sitting, there are circumstances where not necessarily all investments will work out as it is expected. That's why the key for our portfolio and to build our portfolio is to ensure a diversified portfolio, not to make too much of a concentration risk or a bet. Sixty million dollars of our portfolio, probably out of the AIMCo total asset mix of close to $150 billion – we were very mindful when making such a decision to have the right diversification and right sizing for any investment. As such, having any asset that we need to write down was never a good moment and it's unfortunate, but at the same time we were having all the effort to mitigate any risk with the diversification or the construction of a portfolio as we build.

The Chair: Do you want to follow up on that?

Dr. Ascah: So what you're saying is that – if I understand the word "all" – all did not meet the risk-reward return, because you're saying that Trident is getting zero. Unless the unstated risk-reward target is negative or losses, I don't see how that statement in that report is truthful, which is very, very serious because, to me at least, it's signed by the minister, AIMCo presumably looks at it, as does the department. I'm just, quite frankly, shocked that we have claims that are made in the heritage fund report that aren't true. Do you have a comment on that?

Mr. Epp: Quite frankly, we are not prepared for that question.

The Chair: Maybe we can get a written response later if that's possible. Okay. All right. We'll get a written response to that question.
Okay. We'll go online again.

Mrs. Allard: Sure. This question has been coming up on social media, on Facebook – there have been a number of them – asking about the funds or proceeds from the funds being given back to Albertans in the form of dividends. I'm going to read the question. This one comes from S.B. Cutforth: "Every Albertan should receive a yearly dividend from this [fund], just like they do in Alaska. Why is this not happening?"

Mr. Epp: Alberta governments have made different decisions than Alaska. Alaska has a much smaller population, so they can get a large dividend. I really can't answer beyond that. Maybe some of the committee members have something to add.

Mrs. Allard: If I may.

The Chair: Go ahead.

Mrs. Allard: It would be fair to say, though, that that is a government policy decision, right? Yeah.

Mr. Epp: Absolutely.

Mrs. Allard: I think there's some confusion amongst Albertans about why that happens. It's not a Treasury Board directive from the bureaucracy; it's actually a government decision, and it has been that way for the duration of the fund. That is my understanding.

Mr. Epp: Absolutely.

The Chair: Okay. Thank you.
All right. Anyone on the phone?
Okay. We'll go online for another one.

Mrs. Allard: Okay. I feel so popular. This question comes to us from Scott Sylvester from Bentley, Alberta: "Is the [heritage savings trust fund] earning an annual rate of return higher than the average interest rate we are paying on Alberta's debt? If not, would it make sense to liquidate it and pay down the debt?"

Mr. Epp: The average cost of our debt is somewhere in the 2 and a half to 3 per cent range, I believe. I haven't looked at it recently. We've been paying off a lot of debt, so it changes, but the average cost of the remaining debt, let's say, is 2 and a half per cent. The heritage fund over 10 years earned 9.3 per cent. We have considered that – again, it's a government decision – but our analysis in the department is that that would cost Albertans money.

The Chair: Thank you very much.
If you're out of questions, that's fine, but if you've got another one, go ahead.

8:10

Dr. Ascah: I think I'm pretty well done here, Mr. Chairman. Greg Meeker talked about the VOLTS and the litigation or the arbitration with the pension funds, and this was the volatility trading strategies that AIMCo brought in. I guess my question is whether the department has any views – and with the minister not being there, I'm sure I won't get an answer – to whether, in fact, given AIMCo's performance, which has not been as shiny as is being portrayed to this committee – and there's a lot of evidence and papers on that – the deputy minister might be put on the board of AIMCo.

I know, Lowell; you're shaking your head. That's a terrible thing.

Mr. Epp: There is no intention to put the deputy minister on the board.

Dr. Ascah: Sure. But whether – and this may be beyond the mandate of the committee – there is thinking that the actual beneficiaries of the activities of AIMCo be also allowed to have representatives on the board.

I'll just leave that and sit down.

The Chair: Okay. Thank you, sir.

Did you want to say something?

Mr. Epp: Well, all I would say is that that question was not about the heritage fund, and this is the heritage fund standing committee.

The Chair: Fair enough. Thank you.

Okay. We'll carry on with online until we get a phone call.

Mrs. Allard: Thank you, Mr. Chair. I think this question may have already been asked, but I'll ask it again anyway, just for clarity. This question comes from C.W. Alexander, and he asks: "What [percentage] of total assets are invested in Alberta businesses?"

Ms Lau: It's already been addressed: 6.5 per cent.

Mrs. Allard: Six and a half per cent?

The second question from him is: "If the heritage trust fund just" – I think it's supposed to say "is" – "invested in the SPX over the last 10 years what would have been the average annual return versus what AIMCO achieved for us using this benchmark approach with active management?"

Mr. Epp: I would say that if we invested only in equities, Canadian equities, as the gentleman is suggesting, it probably would have done better, quite frankly. We have never considered that because we don't believe that would be prudent risk management.

Mrs. Allard: I have one final question, Mr. Chair. There's a question about the – it's not really a question. It just says: wants to know about investing our future in Bitcoin. It's a broad question.

Ms Lau: All right. I will give it a try.

We don't invest in Bitcoin for numerous reasons. We don't invest in Bitcoin because Bitcoin basically has no intrinsic value. There's no cash flow being generated. Most importantly, Bitcoin is borderline unregulated. This is not an asset class nor the investment that we think is prudently fit for a client portfolio or a prudent portfolio construction.

Now, that said, Bitcoin, this type of currency, is actually getting bigger and more widely circulated, and we are mindful of the development and the risk associated with that. Simply put, Bitcoin is widely used by a lot of retail investors. The movement of Bitcoin is heavily correlated maybe with the stock market, even. As they are more broadly used when regulation comes in place and more widely used by public, how would that impact the second derivative or third derivative of the financial market? That we are paying close attention to, how Bitcoin or this type of currency will impact the rest of the market or general financial economic health in general.

Mr. Prakash: Mr. Chair, if I may just add to that.

The Chair: Go ahead, sir.

Mr. Prakash: Sandra said, you know, that we don't think this cryptocurrency or that space is a good fit for a fund such as the heritage fund. Having said that, we spend a fair bit of time as investment managers looking at a range of opportunities, many of which were reflected in the performance update earlier.

For example, the renewable resources: you know, that's been an area that's been growing over the last 10 years, and that is an attractive, sensible space where the cash flows are evident. There's an investment thesis. We can measure, it, we can invest it, and that's why you see us and other institutional investors focus in those areas: private credit, private equity, et cetera. So whilst crypto is a nice, shiny toy necessarily, we think that there are lots of other opportunities that funds such as heritage funds are better served with.

Thank you.

The Chair: Thank you very much. A good answer.

Go ahead.

Mrs. Allard: Sure. I'm getting a number of questions, and as a committee member I'll just make a comment that it seems like there's a bit of a misunderstanding of what the fund is for, so I'm going to ask this question and maybe ask each of you to comment around what the fund actually is for. The question is, "How do I apply for a grant from the Heritage Trust Fund?" I'm getting a number of questions like that. These ones are coming in from social media. I think people are perhaps misconstruing what the fund is for and thinking that it's a fund to support Albertans directly versus what it actually is as an investment tool. So I'll let you comment on that.

Mr. Epp: Earlier in my presentation I put up the mission of the heritage fund, and three key principles out of that were to maximize income, manage risk prudently, and invest for the long term. We do not give grants to anyone. That's not in the mandate of the heritage fund. The mandate of the heritage fund is to make money.

The Chair: All right. You've got another one?

Mrs. Allard: Yeah. If I can just follow up on that. I appreciate that you're repeating yourself, but I'm getting a lot of questions in this vein, and I'm just kind of hoping to set the record straight for Albertans to understand that the way that the heritage trust fund has worked since its inception – and correct me if I'm wrong – is that the money is invested, and then the revenue, the money made on the fund, is given back to general revenue, which reduces government expenses. So it would support things like health care, education, other ministries' initiatives. Correct?

Mr. Epp: That's correct.

Mrs. Allard: I think there are some – from these questions I'm seeing a lot of confusion from Albertans. One Albertan asked: why do we never get a financial statement on the Alberta heritage savings trust fund? But I would argue that we do. It's very transparent, and perhaps you could speak to where they can find that information one more time.

Mr. Epp: The best way to find the annual report, which is what I do, is to google it. Type in "Alberta heritage savings trust fund annual report," and it will come up from an Alberta government website called open government, and it's there for the taking.

The Chair: Okay. We have a question or comment, I guess.

Ms Phillips: Just to add to what the hon. chair was saying, Alberta heritage trust fund assets are managed by AIMCo. Just to the questions coming from the public: the returns on those investments are then transferred into the province's general revenue fund. Where we find how the investments are made is in the heritage fund annual report, and how the asset manager manages its affairs is found in the AIMCo annual report. But the amount of money that we get as Albertans is, then, in the annual budget documents, and you'll see that right underneath the line that says "corporate income tax," "personal income tax," all of those things where we get all of our government funding from. Then you'll see: transfer from the heritage fund. The funds then go into the general revenue fund, which then turns around and gets spent on all kinds of things from health care to education, social services. So that's where the public can find that. That was in your annual budget.

You'll see, when, you know, the media says, "Oh, we've got this much money from corporate income tax, this much money from personal income tax, yada, yada, cigarettes, what have you," right in there, in the same place, there are the heritage fund amounts so that people know that the money just doesn't go into the air.

The Chair: Thank you very much.

It looks like you had another question there at the podium.

8:20

Dr. Ascah: I promise this will be the last question. It's, I think, to the acting CIO of AIMCo, and it's a question on, really, the assessment of nonrenewable resource investments. I wanted to get from you a sense of what sort of due diligence AIMCo goes through in examining this. There's a lot of talk about ESG investing. There's a lot of talk about what Mark Carney is doing with his financial institutions and so forth.

But, I mean, more specifically, in the case of the Alberta investments – that is to say, Alberta fossil fuel companies – what assessment is done with respect to orphan wells? What assessment is done with respect to tailings ponds and the technology around that? What sort of research and due diligence are done with respect to carbon capture, the economics of that? That's my final question.

Ms Lau: Yeah. Thanks for the question. I think that for this type of investment, it's no different than for any other type of investment. We do our due diligence process. That includes the underlying due diligence on the asset, on the quality of the asset, the technology related to that asset, and also the potential risk associated with the asset. We stress-test the asset, in a different form and shape and different assumptions, and even stress-test it for technological change or regulatory changes or even other types of potential energy price shock that we are seeing as well.

I would add, too, that on this whole exercise on any renewable or nonrenewable asset, we actually put an extra layer of due diligence and also include ESG-related due diligence, climate-related due diligence. Actually, we have a team, a responsible-investment team, working alongside the investment team to do a deeper dive on the due diligence of any ESG, especially climate-related due diligence. We also engage external consultants and subject experts to work alongside with us to engage in a further deep dive on any due diligence we are looking at as well.

The Chair: Thank you very much.

We have one on the phone, so state your name and ask your question.

Mr. Sher: Hi. Can you hear me?

The Chair: You bet.

Mr. Sher: I was wondering what the proportion of revenue from the fund is relative to the resource revenue for the province. I reckon that's kind of in the budget, but do you have that on hand? I'm just wondering how the government is planning on stabilizing the erratic revenue from that sector.

The Chair: I don't know if that's relative to what you guys could answer. No, that's more of a government question relative to AIMCo or the heritage trust fund, so we'll go to our next question, I think.

Go ahead if you've got one.

Mrs. Allard: I do have one. This one won't surprise you. It comes up, I think, every time we have this meeting, and it's a good question. This one comes from Karl Cull, and there are a number of people asking this on Facebook: "Approximately one million more people in Norway than Alberta. The Heritage fund started in 1976 and there's 18.7 billion in it. Norway didn't start their fund till 1990 and have 1.3 trillion in it. Why?"

Mr. Epp: There are a number of reasons. First, look at where they get their oil and what quality of oil. They have much higher quality oil. It's conventional oil, if you will, whereas Alberta's main source of oil is bitumen, which gets a much lower price. But the fundamental factor, among others, is that Norway's tax regime has very high taxes, and Alberta, for good or for worse – that's not for me to judge – has chosen a much lower tax regime.

So to put money in the heritage fund would cost you elsewhere. Norway takes about 5 per cent of the earnings of their fund every year, or the value of the fund, and our governments over the years have chosen not to reinvest the income in the same way. That's why there's a difference.

The Chair: Okay. Thank you very much.

We still have some online. If we run out, we'll start going to the members here, but we've got another question online.

Mrs. Allard: This question comes from David Ray Gillard, and he asks, "Are there any funds for research and development for the energy sector" within the heritage savings trust fund?

Mr. Epp: No.

Mrs. Allard: Again, I think the answer, if I can just add to that, would be that the heritage savings trust fund is intended to be an investment tool for Alberta taxpayers, so the mandate is to maximize return. It's not a capital expenditure fund or a venture capital fund.

The Chair: Okay. You have another one?

Mrs. Allard: I do not have another one.

The Chair: Okay. We'll go to members. I'll start with MLA Phillips.

Ms Phillips: Thank you, hon. chair and Deputy Chair. We have a few questions that have come in from our constituents, so I've just sketched some of those down. We understand that we get 11 chances a year to ask questions or however many it is, but let's see if we can get a little bit of clarity here, because there has been some movement around the heritage fund recently.

In the first-quarter update the former Premier and the Finance minister told Albertans that they would retain $1.2 billion in the heritage fund from fiscal year '21-22 and then $1.7 billion from this year's surplus. So this requires legislative action. The first question is: is that legislative piece moving forward? Is it $1.2 billion plus $1.7 billion, totalling $2.9 billion, of extra deposits into the fund, and if that's the case, then what are the projections around the expected value of the incremental transfer to the GRF as a result of that extra $2.9 billion?

Mr. Epp: You ask good questions. On the $1.2 billion plus $1.7 billion, that's accurate. The total from the first-quarter update was $2.9 billion. As far as "Is the legislation moving forward?" I frankly don't know because that's in the hands of the government.

The Chair: We'll go to MLA Hunter.

Mr. Hunter: Thank you, Mr. Chair. My question is about the asset mix. I know that, you know, we have, generally speaking, recession-proof assets. I asked this question a while back, but I kind of felt like we needed to maybe figure it out a bit more or talk about it a bit more. Are there ways to be able to move more into that? I know you have a mandate – this is more for AIMCo – but is there a way of being able to move more in to be able to kind of insulate that investment through these turbulent times? Nobody has a crystal ball, but we do know that inflation is going up. We know that geopolitical concerns are causing problems with supply chains, that there's quite a bit of talk about a recession. So I want to just understand. I don't like to use the word "*Titanic*" because it sank, but is it that it's hard to move a ship quickly because it's so big, or are you able to be nimble enough to move it into the different asset classes?

8:30

Ms Lau: Yes, we are. As to the environment you're describing, for a potential high-inflation, slow-growth environment, or a stagflation environment, I think we are actively watching the scenario as well. As such, we do identify there are some scenarios that – some of the asset classes will better behave and better perform in that scenario, and we have been actually actively working alongside with colleagues from Treasury Board and Finance to deploy assets given the opportunity. One good example is private credit, and another good example is infrastructure. As such, those two have been more of the focus of our investments in the last little while, especially the last three months, and going forward probably will be our focus. A private credit product, being a floating-rate product, is a natural move with inflation. If inflation is getting higher, the return on this product is actually getting higher. Also, this is a relatively – with prudent due diligence it's a very secure form of lending, so we think with this environment it's a good asset class to move in. We have been proactively increasing the weight into that and allocating more investment to that.

The other investment that we identified in this scenario is infrastructure product. Infrastructure product, again, has three very good components with this backdrop. It provides a stable income, it provides inflation-protection components, and, also, it provides a good return or growth component. We think those two asset classes are nice and good asset classes. Also, one more component of infrastructure is the fact of the tailwind of the energy required, the climate thesis. Infrastructure and renewables continue to be a well-sorted asset class. As such, we think that is a good asset class to invest in. We have been actually actively looking for more opportunities. Being equally mindful, it's true that we can allocate more to those, but we are also mindful with this backdrop. We want to be very mindful with the due diligence, the good underwriting, the quality of the asset, and also buying at the right multiples and right pricing. We have been for the last little while actively looking for those two asset classes for the scenario that you describe.

Mr. Prakash: Can I just add one more thing? One of the other parts you raised, which is really important, is the size and the ability to move the portfolio. A big part of the reason when you see the holdings within the heritage fund – you'll see holdings not only in Alberta, Canada, and North America but across the globe, and that allows us to be able to access opportunities, you know, where they exist. That makes it much easier to divert capital than if we were restricted.

The Chair: One follow-up, and then we'll go on.

Mr. Hunter: Thank you, Mr. Chair. I just wanted to know: is there a cap on each of the areas? I know that Mr. Epp stated earlier that, I think, with equities you could go – up to 90 per cent of the portfolio could be in equities or 70 per cent or something like that. So maybe, I guess, my question is: have we put a cap on it? Is it a policy issue? We want to make sure that you're nimble enough to be able to protect Alberta's inheritance, which is what we've just seen in the video earlier on. I just want to make sure that there's no policy that's in the way or red tape that would stop you from being able to be nimble.

Ms Jones: I'll try this one as well. There are two components here. Us at Treasury Board and Finance: we give AIMCo the investment policy statement, and in that is the asset mix and the different ranges. Really, if there was any stipulation that AIMCo couldn't get around, it would be because it would be in that investment policy statement. The communication between both parties is very good when it comes to these types of things, and if there is an issue that could potentially be seen down the line as something that would get in the way or compliance flags it as an issue or something like that, they reach out, they write a paper to us or something like that, and together we look through it and see whether or not that's still a good idea. Many things like that have been happening, and it has been making improvements to the fund in that regard.

Yes, we do have those ranges, and they are for a reason. A lot of that, too, is that as you're seeing a lot of really positive performance in something, you know, if you don't get out of it while it's doing well, sometimes you'll lose as well. So those ranges are important.

Like Lowell said, defining that asset mix is really how we define how we want to get to our objective and what we want to get out of the heritage fund at the end of the day. There are minor constraints, but when things are going like they are – for example, Sandra, or Ms Lau, has done a phenomenal job as far as her team and allocating towards private debt and loan – we can see that in the attribution reports. We can see that that is increasing. We saw it at about 2 and a half per cent last year. We're up at about 4 per cent somewhere around now. These things are changing. They're not huge things being put in front of everybody's eyes kinds of things, but we're dealing with this on a day-to-day basis, and it is adding value.

Does that help?

Mr. Hunter: Yes. Thank you.

The Chair: Thank you very much.

We've had another online one come into our lineup, so go ahead.

Mrs. Allard: Yeah. I think this is in line with what we were just talking about around protecting the fund for future generations. Barbara Campbell asks: how will it be protected? I think she's probably asking on two fronts. I'm going to read her mind now. I'm guessing she's asking: can it be protected from the government taking the fund and emptying it, and also how do you protect the fund, the value of the fund?

Mr. Epp: Can we prevent the government from taking it? It depends on the government or, frankly, the Legislative Assembly. If a bill is proposed that says, "We're going to use the heritage fund for something different," well, that's up to the Legislative Assembly. Yes, it could happen, but it hasn't happened.

What was the other one?

Mrs. Allard: I think the other part was just about protecting it for future generations. The vein of the question is sort of like: how are we going to ensure that the value is going to be there for future generations, I think, again, given this period of inflation, and how do you improve that value over time?

Mr. Epp: By legislation we hold back a certain amount of the investment income to ensure that inflation does not erode the purchasing power of the fund. From 2021 to 2022, that year, due to higher inflation we will be retaining at least $705 million in the fund.

The Chair: Okay. Thank you very much.

Next we'll go to hon. Member Phillips. You can ask your question and then have a follow-up as well.

Ms Phillips: Sure. Over the summer we've had a number of people talking a little bit about the heritage fund in terms of the new deposits in it. The new Premier has also articulated a goal of growing the heritage fund to $500 billion, which is more than 25 times what it is now, with the sort of concurrent promise of eliminating provincial income tax and such things. What is the feasibility of such an endeavour at the current rates of retention? How long would that take, to grow the fund by 25 times its current size?

Mr. Epp: I don't know, would be my first response. If you take the rule of 72 and you take an average of 7 per cent, it takes 10 years to double your money or thereabouts, so 10 years upon 10 years upon 10 years would be – you know, it would take a long time. To grow it to $500 billion, more would have to be done than just retaining the inflation-proofing.

Ms Phillips: Then I'm to understand that there hasn't been a feasibility study or a cost benefit or those kinds of things prepared to communicate to the public to support that goal, and then, relatedly, there hasn't been from AIMCo any – you'd have to transform your organization to manage assets of that nature. So as our Crown asset manager, those conversations have also not been had? Or you could confirm that they have been had.

8:40

Mr. Epp: We have done no analysis.

Ms Lau: Not for 20, 25 times multiple for an asset, but the growth part – well, we're always looking for how to do our business better, how we grow ourselves, and to have a better organization. I think that is always on the discussion as we work on our corporate objective, as we work on our corporate strategy and our investment strategy: how to continuously improve our organization as an organization to serve well for our clients and for the beneficiary that they serve.

Mr. Prakash: If I may just add, our assets have doubled over the last X number of years; I'm going to say seven or eight. I don't know exactly. What allows us as a manager on your behalf is constantly to be looking at newer areas of opportunity: asset classes, subasset classes, geographies. Whether it's the Norway fund, whether it's CPP, that's the way forward for any manager on a whole slew of decisions, you know, whether you go external, internal, which parts you use different expertise. That's just a natural progression.

The Chair: Thank you.

Ms Lovely: Well, it's a real opportunity to be able to be here in person with you and ask you some questions this evening, so thank you. As you know, the act specifies the objective of the Alberta heritage savings trust fund investments is to maximize long-term financial returns. I think it's important that Albertans know that short-term fluctuations may not tell the full story of the investment performance of the fund. On page 5 of the annual report it states that despite short-term turbulence during the COVID-19 pandemic the fund "earned an average annual return of 9.3 per cent" over the last 10 years. What was the real return target for the last 10 years, and what was the funds return against the real return target?

Mr. Epp: The real return target was 6.2 per cent, and we are 9.3 per cent over 10 years.

Ms Lovely: I do have a follow-up, if I may, Mr. Chair.

The Chair: Go ahead.

Ms Lovely: What was the period's fund rate of return, and is it above or below the five-year average?

Mr. Epp: The five-year return was 7.6 per cent. Whether it's below average or not: we haven't done that analysis.

The Chair: Thank you very much.

Are we ready or no?

Mrs. Allard: Yeah. I can ask one.

The Chair: Okay. We've got another online.

Mrs. Allard: I'm hoping this is a fair question. It's hard to translate from Facebook. Maureen McLeod is asking – she has a comment. She gets the sense from the comments while watching the committee tonight

> that many Albertans would like more control of what happens to the Heritage Fund profits rather than having them dumped into general revenue.

Her question is:

> Does the Committee have the power to make a case for this to the Government? If not, who does?

The Chair: I would say that's not really . . .

Mrs. Allard: Not really our purview, right?

The Chair: Yeah. That's not in our purview of what we're talking about tonight, so we'll have to pass on that question.

Mrs. Allard: But it's fair to say that that's government policy.

The Chair: That's government policy.

Another question here?

Ms Phillips: I've got another couple that have come in from various stakeholders, constituents, these sorts of folks. I was looking for earlier that – we had the $2.9 billion. Since the end of August we have known that that was coming in. Regardless of the statutory framework, that was the commitment. There is very likely at this point, going into the Q2 update which we are rapidly approaching, then, a sense of the expected value of the incremental transfer to the

GRF. I'm wondering if we can even provide some preliminary sense on what that will look like given that it's actually considerable; $2.9 billion is more than a 10 per cent increase of the fund. I'm wondering if we've got some projections around that as well.

Ms Jones: I can take this one. In the legislation – and we've also written it at the front of the annual report as well – there is a section that says, "What happens to the income earned in the . . . Fund?" There is actually a calculation from the legislation. It's last year's accumulated surplus multiplied by the change in Alberta CPI. That's how we get what the inflation-proofing number is going to be. That's just a methodology. It's written into the legislation. It's written into our reports. All of the quarterly reports for the heritage fund also state the income that's being generated, so in there we can start to get a sense of what would be retained in the fund.

Mr. Epp: I'm not sure that question was answered.

Ms Jones: Oh, sorry.

Ms Phillips: Yeah. I'm asking about: there are these incremental amounts, either the amounts that are being retained or the new deposits being made either for '21-22 or at the current fiscal. At Q1 the commitment was $1.2 billion from before and $1.7 billion in this fiscal – right? – adding up to a total of $2.9 billion of, essentially, if you will, new income or new deposits in the heritage trust fund. My question is, then: what is the expected – because you have benchmarks. You have targets. You have some quarterly performance already. What is the expected new amount of revenue coming into general revenue as a result of the performance of the asset manager and then the transfers to general revenue? How much more money are we going to make because we've saved?

Ms Jones: That's a really tough one to answer with everything moving right now. It's going to be pursuant to the timing of cash flows, too.

Mr. Epp: Two comments. This may not be what you want, but I'll try. At 7 per cent, which is about our average, times $2.9 billion, that's about $203 million a year, if I remember how to do math.
What was the other half of the question?

Ms Phillips: If you have any projections, because oftentimes – I guess, then, my question would be: because there are so many moving pieces in terms of the global economy, are the benchmarks being revised for particular asset classes or just all told? That will go to the performance and then, therefore, the amount of money that then gets transferred to GRF.

Mr. Epp: The assumptions that go into the investment model always change with expected long-term returns. You know, the model is a guess, quite frankly. It provides an average of the expectations, if you will, but it does not try to accurately predict how much income is going to come in.

Ms Phillips: So the seven is going to remain-ish?

Mr. Epp: I don't know. We haven't made those decisions. We have a Q2 update coming up, and we will be doing the analysis. Plus, we don't know the timing on the $1.7 billion. Does it come at the end of the year, when the amount of cash that's come in has been determined? No direction has been given on that. It's really hard to forecast, but we will do our best to try.

The Chair: Thank you very much.
We'll now go to MLA Rehn.

Mr. Rehn: Thank you, Mr. Chair, and thank you for coming this evening to answer all of our questions here. I see on page 4 of the annual report that the investment expenses for the fund were $176 million, or close to 1 per cent. In fact, this says around .9 per cent of every dollar invested. I've got a couple of questions. The first question is: how do we ensure that expenses are reasonable and cost-effective for the management of our fund? The follow-up question is: how does this .9 per cent of every dollar invested compare with similar investment funds of similar size?

8:50

Ms Lau: I don't have the number with me, but I can address that. Like I mentioned earlier, the investment cost is a different component, and probably the 90 basis points you're referring to: a majority part is the performance fee with the external manager or external partner we engage. That part of the asset is being managed externally, in which, if we find there is a niche market or better skill sets, we will have the external manager invest. At the same time, the manager needs to perform and outperform the benchmark we've given them significantly to earn that performance. Now, given the strong relative performance of last fiscal year and the experience of the heritage trust fund or the total fund of AIMCo in general, that probably leads to the 90 basis points. A bigger chunk of the component, then, is the variable cost of the performance fee, of the good performance of the external party.
With that, a couple of things I will address are the transparency of the cost and the cost budgeting. The CFO of AIMCo is constantly having dialogue with clients, having full transparency of our cost budgeting and the budgeting of AIMCo on how we budget our costs and how dollars are being spent internally. There is full transparency with other clients, including our colleagues of the Treasury Board and Finance. Also, at the same time, we compare our costs with external peers, that I have mentioned in the past. There is a very broad-use survey called the CEM, and they are the very advanced entity that compares the costs, especially, for various comparable peers, pension funds, global – different sizes of managers out there. So we used them as a benchmark. The survey: the result that we always compare ourselves to has reflected that AIMCo costs have been generally lower than a lot of peers out there by, on average, maybe 10 to 20 basis points.
Those are the two parts of the question, that I hope I've addressed properly.

Mr. Rehn: You did. Thank you.

Mr. Prakash: Just one more thing. This information is regularly shared with clients on an annual basis.

The Chair: Does that answer your question?

Mr. Rehn: Yes.

The Chair: Next it will be the hon. member Eggen.

Mr. Eggen: Thank you, Mr. Chair. I just want to go back to comments that the new Premier had made, which would imply quite a seismic shift and change in not just the heritage trust fund but how we would direct funds to the heritage trust fund. You know, this new Premier said directly – I'm quoting – let's put it out there; we want to have a sovereign wealth fund that's $500 billion generating $25 billion a year so we can eliminate income tax and eliminate corporate income tax; let's tighten our belts now to make that happen, unquote. I mean, this implies a lot of significant policy changes, so I would like to ask both Treasury Board and Finance and AIMCo if that view has entered in discussions to make clear what tightening our belts now to make that happen, to $500 billion – like, what does that mean, even, really? What does that mean to Albertans? What does that mean to policy? Is AIMCo in a position to make an adjustment of such a seismic and significant nature? Both TBF and AIMCo, please.

Mr. Epp: From TBF's perspective, we have not done any analysis or had any discussions today.

Ms Lau: Same for AIMCo; we are not engaged in any discussion.

Mr. Eggen: I mean, both of you are in a position to execute something like this if it does come forward. Like, you talked about cryptocurrency. How likely are we able to execute something like this?

Mr. Epp: The CPPIB, the Canada Pension Plan Investment Board, has a portfolio of approximately that size, I believe. So it's doable. Is it doable immediately? No. It would take some time, but I don't expect the $500 billion would all come in at once.

The Chair: All right. Thank you.

We're down to our last couple of questions. We've got another one online, and then we'll go to MLA Singh after that. Online first.

Mrs. Allard: Okay. This is our last question from online, from Cheryl Kirk. She asks a two-part question: "What are the management fees that the Fund pays to AIMCO [for their services? Are the fees] structured based on return?"

Mr. Epp: What the heritage fund pays to AIMCo is a portion of their costs. AIMCo is set up to be a cost-recovery entity, so if they spend a dollar, they allocate it to their clients in various ways. We don't pay, specifically, management fees in a contract with AIMCo; we pay management fees when good performance happens or, you know, whatever happens. When they have to spend money, it goes to the clients to pay.

The Chair: All right. Thank you.

MLA Singh, you have the last question of the day.

Mr. Singh: Thank you, Mr. Chair, and thank you, Treasury Board and Finance and officers of AIMCo, for presenting before the committee today about the annual report of the Alberta heritage trust fund here. I see on page 1 that Canadian dollar investments comprise 62.3 per cent of the fund. How has the inflationary period in Canada affected this? Since the U.S. is dealing with the same issue and it represents 23.1 per cent of our investment, is there a reason Albertans should be concerned about this?

Mr. Epp: I'm not sure which page you were discussing.

The Chair: MLA Singh, did you have a page number?

Mr. Singh: I see it on page 1.

The Chair: Would you like him to restate the question?

Mr. Epp: Well, yeah, because page 1 is blank. Oh, it has the fees. Pardon me. Please repeat the question.

Mr. Singh: On page 1 the Canadian dollar investment comprises 62.3 per cent of the fund. How has the inflationary period in Canada affected this? The U.S. is dealing with the same issue. It represents 23.1 per cent of our investment. Is there a reason Albertans should be concerned about this?

The Chair: Before you answer that, we're down to our last minute, so I might just get a written response to that if that's possible?

Mr. Epp: Sure.

Ms Jones: We can do that. Yeah.

The Chair: Okay. Unfortunately, we've run out of time. Before I close, I would like to sincerely thank all of you for your participation tonight. I think we can speak on behalf of the entire committee when I say that we have enjoyed spending the evening with you and engaging in conversation about your Alberta heritage savings trust fund. In turn, we hope that you have found the meeting informative and valuable. We tried to address as many of your questions and comments as possible in the time allocated for tonight's meeting. To those who came in person, TV or online viewers, those who joined us via teleconference, and everyone who provided questions online: thank you so much for your participation.

The 2022 public meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund is now adjourned. Thank you.

[The committee adjourned at 8:59 p.m.]

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