Legislative Assembly of Alberta

The 30th Legislature
Fourth Session

Standing Committee
on the
Alberta Heritage Savings Trust Fund

Wednesday, February 1, 2023
9 a.m.

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Alberta Heritage Savings Trust Fund

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Gotfried, Richard, Calgary-Fish Creek (UC)
Gray, Christina, Edmonton-Mill Woods (NDP)
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Standing Committee on the Alberta Heritage Savings Trust Fund

Participants

Ministry of Treasury Board and Finance
Brittany Jones, Senior Manager, Portfolio Analytics and Research
Stephen J. Thompson, Executive Director, Capital Markets

Alberta Investment Management Corporation
Amit Prakash, Chief Fiduciary Management Officer
Evan Siddall, Chief Executive Officer

9 a.m. **Wednesday, February 1, 2023**

[Mr. Orr in the chair]

The Chair: Okay. Good morning, folks. Welcome here on this slippery, blustery day. Glad you all made it. I'd like to call the meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund to order and welcome you all.

My name is Ron Orr, the MLA for Lacombe-Ponoka and chair of today's committee meeting. I'd like to ask members and guests at the table to introduce themselves for the record, and I'll call on those on my right to begin, and then after we've done the table here, I'll go online.

Mrs. Allard: Thank you, Mr. Chair. Good morning. Tracy Allard, MLA for Grande Prairie and the deputy chair of the committee.

Mr. Hunter: Good morning, Mr. Chair. Grant Hunter, MLA for Taber-Warner.

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

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

Ms Jones: Good morning. Brittany Jones, senior manager of portfolio analytics and research in capital markets at Treasury Board and Finance.

Mr. Prakash: Mr. Chair, if I may just for a moment. Evan Siddall, our CEO, would be here momentarily, so he'll introduce himself then.

The Chair: We'll give him an opportunity to introduce himself when he steps in.

Mr. Prakash: Thank you.

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

Ms Steenbergen: Good morning. Christina Steenbergen, supervisor, LAO communications.

Ms Sorensen: Good morning. Rhonda Sorensen, manager of communication services.

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

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

The Chair: Wonderful. Online, I'll maybe call your name, so – yeah. I see Ms Phillips right away came online. Ms Phillips, please.

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

The Chair: Josephine Pon I see. Sorry. You're muted. I can't hear you.

Ms Pon: Again, good morning, everyone. Josephine Pon, MLA for Calgary-Beddington.

The Chair: Thank you.
Ms Issik.

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

The Chair: Mr. Gotfried.

Mr. Gotfried: Good morning. Richard Gotfried, MLA for Calgary-Fish Creek.

The Chair: I think that's it online. Wonderful. Welcome, everybody, and congratulations, everybody, for attending. We don't have any substitutions today, so good for all of you.

A few housekeeping items to address before we begin our business. Please note the microphones are operated by *Hansard* staff. You don't have to touch them. Committee proceedings are live streamed on the Internet and broadcast on Alberta Assembly TV. The audio- and videostream and transcripts of meetings can be accessed via the Legislative Assembly website.

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Let's begin with the approval of the agenda. A draft agenda was circulated on the site. Anybody have any changes or additions to the agenda?

If not, would someone make a motion that the Standing Committee on the Alberta Heritage Savings Trust Fund approve the draft agenda for today's meeting as distributed?

Mr. Hunter: So moved.

The Chair: So moved. Any discussion? None.

In the room, all in favour? Any opposed? Online, all in favour? Any opposed? None, so that is carried. Thank you very much. We can move forward.

Approval of the minutes from the last meeting, September 26, 2022. Any members have errors or omissions to note?

If not, would someone move that the minutes of the September 26, '22, meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund be approved as distributed? Mr. Eggen has so moved. Comments or questions? Seeing none, in the room, all in favour? Any opposed? None. Online, all in favour? And anyone opposed? Seeing none, that is approved.

I think I will take just one moment and allow our latest participant to introduce himself just for the record. Thank you.

Mr. Siddall: Thank you, Mr. Chair. I'm Evan Siddall. I'm the CEO of AIMCo.

The Chair: Thank you, and welcome. Glad you could make it. We'll proceed.

The second-quarter report is the business at hand. The Alberta heritage savings trust fund second-quarter report for '22-23 was released on November 24 of this past year, of '22. Members were notified when the report was posted on the committee's internal website. As committee members will be aware, the Alberta Heritage Savings Trust Fund Act mandates that one of the functions of this committee is to receive and review the quarterly reports and the operational results of the heritage fund, so we're pleased to have the representatives from AIMCo and Treasury Board and Finance here – they've introduced themselves already – to provide us with an overview of the report and answer any questions that you as members may have.

I'll turn the floor over to AIMCo and TBF. Please begin when you're ready, whoever is going to start.

Mr. Thompson: Thank you, Mr. Chair. As stated, I'm Steve Thompson, the executive director of capital markets. With me in the room today is Brittany Jones, our senior manager of portfolio analytics and research. We're here on behalf of Lowell Epp, the assistant deputy minister of treasury and risk management, who is with the minister today and unable to attend. Thank you for having me here. Happy to present the second-quarter results of fiscal '22-23, ended September 30, 2022.

I'd like to begin by reminding everyone of the mission of the heritage fund as stated in the act, which is to provide prudent stewardship of Alberta's savings by providing the greatest financial returns on those savings to the benefit of all Albertans. The Alberta Heritage Savings Trust Fund Act states that the investments of the fund "must be made with the [sole] objective of maximizing long-term financial returns" and, when making investments, to avoid undue losses and "obtain a reasonable return that will enable the . . . Fund to meet its [stated] objectives." At TBF we are tasked with helping to ensure that the fund is well positioned to meet its stated goals and that it abides by the performance and risk constraints set out by legislation.

The fund experienced a challenging second fiscal quarter. High levels of inflation continued to be of concern while the potential for a global recession clouded investor optimism and performance. The war in Ukraine also continued to disrupt and negatively impact global trade and commodity prices. Over the quarter returns for the fund were negative .1 per cent – almost zero but not quite – although this was better than the negative 4.1 per cent recorded in the first quarter.

The market value of investment assets was not impacted over the quarter but has fallen from $20 billion at fiscal year-end March 31, 2022, to $19.1 billion at the end of September 2022. Returns in assets under management may have been flat, but the quarter was by no means dull. The MSCI all country world index is a measure used to monitor the performance of a broad set of global equity returns, which is often used as a rough proxy for global investment performance. Between June and mid-August of 2022 this return rose 10.6 per cent, only to fall by 10.3 per cent by the end of September. As a result, performance returns over the quarter were flat, but markets experienced considerable volatility throughout.

By quarter end the long-term asset mix of the fund was comprised of 19.7 per cent fixed-income securities, 34.1 per cent inflation-sensitive and alternative assets, and 45.8 per cent in equities. The remaining .4 per cent of the holdings was comprised of strategic opportunities of the fund. This asset mix is in line with our expectations given recent market activity.

The rapid rise in interest rates over the past year has also affected the performance of the portfolio negatively. Falling interest rates in prior years had had a positive impact on the valuation of assets, and we witnessed high returns in fixed income and a rally in equity markets. What we have been witnessing since the start of the fiscal year is interest rates reversing course and steadily increasing. This, as you would expect intuitively, has the opposite and negative effect on returns and tends to push valuations of assets lower.

The inflation-sensitive asset classes held by the heritage fund recorded positive absolute returns for the fiscal year to date as at September 30, 2022. These asset classes include real estate, infrastructure, and renewable resources. These types of investments are able to add value during inflationary periods because they generate cash flows that adapt to the changing inflationary environment.

9:10

This is important to the heritage fund as its annual growth target is inflation based. This target is for the fund to earn the Canadian consumer price index plus 4 and a half per cent. As inflation continues to creep up, it does push this benchmark higher but at a relatively slow pace due to the fact that the target is measured on a five-year rolling average basis, which captures changes in the level of inflation gradually by design. Prior to the pandemic this five-year CPI-plus benchmark, as we refer to it, was 6.1 per cent. Since then the target has increased by 40 basis points, or .4 per cent, to end the second quarter at 6.5 per cent. As described, the portfolio is designed to work in many differing economic environments, including periods of inflation; however, there are times when performance will fluctuate both above and below the return target.

Over five years the heritage fund has returned 6.2 per cent annually, which is slightly below the current real return target that I've just referenced. Investment income has been slightly negative to quarter end with a loss of $2 million. The losses reported for the first quarter of $64 million have been almost fully recouped over the second quarter. This means that as at September 30, 2022, there was no income to be retained within the fund for inflation-proofing or other purposes; however, income is accumulated throughout the fiscal year with the final results calculated as at March 31, and it is possible that the fund's positive transfer of the second quarter will continue.

Thank you, Mr. Chair and members of the committee. That will conclude my prepared remarks. We're happy to take questions when appropriate.

The Chair: We'll continue with the heritage savings trust fund folks. Mr. Siddall.

Mr. Siddall: Yeah. I'll just make a couple of comments if I may. My apologies for being late and not wearing a tie, as I would want to do. I was at the dentist. I was making myself a little more comfortable. Thanks for understanding.

You know, this is kind of an odd discussion. We're pretending we're four months ago looking back three months, and here we are at the beginning of a year looking forward, and we're spending a lot of our time looking forward.

In market environments that are difficult – with inflation higher than we want it to be, a war in Europe, supply chains interrupted, and a lot of sort of clouds on the horizon – you will have questions, therefore, about our performance. We're much more oriented towards thinking about the future, of course, at AIMCo and how we position ourselves for the long term. As Stephen said, we think of ourselves over a four-, five-year period, and that's how we really look at our performance although we will of course respond to your questions.

As we think about the long term at the organization, you know from last time I was here that we have a new corporate strategy, one that's focused on clients, on an adaptive investment platform that reflects the differences among our clients, and building a leadership team and a culture that is united and in service of our clients. We've made some good progress in that respect. We have a leadership team now that's fully in place with a new chief investment officer, Marlene Puffer from CN Rail pension, and another senior executive from PSP joined us recently as well.

As we position ourselves for the future, we're sharing now with our clients a new investment strategy, one that is based on our true sources of edge, including the scale of the organization, the fact that we think we can be a preferred partner. We're also looking at diversifying for the benefit of our clients by having new international offices in Singapore and New York, which we will open this year.

That's sort of the path we're on. The organization is much, much stronger than it was two years ago, much more united. We're operating from a client perspective, looking at their portfolios, as opposed to from an AIMCo organization, looking at things as a collection of products. That actually is quite important to how we invest on our clients' behalf. You know from when I first started that making clients our first priority has been something that's strategic and important, and that includes, of course, the heritage fund.

Amit and I are happy to respond to your questions. I'll take any of those that are strategic and probably forward looking, and Amit has the detail from looking backward from September.

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

Can I assume from both of you that you have spoken on behalf of the others at the table; we can go to questions directly?

Mr. Siddall: As far as I'm concerned, yeah.

Any comments, Amit?

Mr. Prakash: Yeah. We'll address them through the Q and A.

Thank you.

The Chair: Okay. Perfect. Thank you.

Thank you, folks, for your presentation.

Members, it's time for questions. I would just remind us, as has already been alluded to a little bit, that we're looking at a quarterly report that's been in the past, yet here we are in a new year. But the focus is the quarterly report before us, and of course that includes the presentation that you've heard, so questions with regard to any of this before us I'm ready to receive.

I understand that Ms Phillips has her name on the list first, and then after that I'll go to Ms Issik.

Ms Phillips: Thank you, Mr. Chair. We had a bit of back and forth over the last quarter. The government's second-quarter fiscal update: the Minister of Finance said that the government would be depositing money into the heritage fund, and it was set to be roughly $20 billion after those deposits. Then we got a new Premier. That decision was reversed, and there was no deposit into the fund. Can the ministry, then, share some additional insight into that decision-making? What at Q1 was the forecasted incremental new revenue from the Alberta heritage fund, and can you share any of the analysis that went into reversing that decision?

Ms Jones: Hi, Shannon. Ms Phillips, sorry. This has been an interesting decision. This has been something that has been on our plate for a long time and something that we have done a lot of analysis around. The legislation has not yet been changed, so the assumptions that we're working with right now are those that are stated in the act. We have put out a new investment income forecast, that you will see in the upcoming fiscal or that has been published as well in the plan. The decision has not yet been put down on paper formally as far as the legislation goes, but it is in the works. When we talk about the market value of investments and then when we talk about the net assets as well – that's actually in the financial statements right at the beginning – there is a receivable that's in there. That talks about what we're going to do with that investment income. The plan going ahead is such that we want to focus on the strength of this plan going forward and building up these investments.

Mr. Thompson: Sure. The department, in terms of managing the fund and in terms of what is retained versus what is withdrawn from the fund, is constrained by the current legislation, so we will be guided by any changes made to the act in the coming legislative sessions.

The Chair: Okay. Thank you.

Follow-up, Ms Phillips, or no?

Ms Phillips: Yes, please. Let me try again a little bit. What analysis did TBF provide to the government at Q1 that changed at Q2 to reverse that decision? What was the underlying professional public service analysis on either the return on investment or the forgone revenue that was provided to Treasury Board in order to reverse itself in a matter of months on that multibillion-dollar decision?

Mr. Thompson: Nothing specific that I'm aware of was done in terms of an analysis. The analysis is basically whether you earn a higher return by leaving funds in the heritage fund or by withdrawing them. That analysis hasn't changed in the entirety of the fund's existence. I'm unaware of anything that specifically is guiding those decisions.

The Chair: Okay. Thank you, sir.

Ms Issik.

Ms Issik: Good morning. You spoke a little bit earlier about inflation and its effects on the fund, but more specifically you sort of spoke about different assets and how they react with respect to inflation. On the first page of the report you talk about the annual growth target being CPI plus 4 and a half per cent. With inflation being what it is now, which from my recollection is the highest it's been in probably – I don't know – at least 20-plus years, maybe 30 years, that's a pretty lofty goal, 4 and a half per cent over CPI. Could you talk a little bit about the investments – the fund's investments, let's call it – that are inflation hedged, and then can you also just speak a little bit about the performance of the sort of inflation-hedged assets you mentioned earlier like real estate and some others? How do those assets compare to the sort of nonhedged assets in this year and in the years where inflation was within the 2 per cent Bank of Canada target rate?

9:20

Mr. Prakash: Thank you very much for the question. Inflation certainly has been front and centre for us as we think about the strategy on behalf of the heritage fund and, certainly, across the market. Let me preface it by saying that our outlook looking forward is for mild stagflation; i.e., lower growth with elevated levels of inflation.

Within that context the first line of defence – and you heard us say that before – is the design or the asset allocation of the heritage fund to the extent that it has about a third of the allocation to inflation-sensitive exposures. That's been very impactful particularly over the recent past but even as we look forward. More specifically, as we break that down, the infrastructure and renewable exposures have done really, really well, and both are up over the recent past in double digits, significantly ahead of public markets. Over the last 12 months both renewables and infrastructure are up between 19 to 30 per cent, some really attractive returns; likewise, real estate up almost 12 per cent for the 12-month period under September 30.

A few other things. Particularly, I think, as Evan mentioned, what we're focused on is the future and using, certainly, the past as a road map in terms of learning about the markets as we go along. One of the areas at the heritage fund that we've built capabilities on is our renewable resources. To just give you a bit of colour, you know, why this is attractive, under renewables on your behalf we invest in agriculture, in timberland. What it does is that these types of exposures have commoditylike aspects to them, and some of the recent ones that we've made, for example, in Australia, in Lawson Grains – the impact on the crop prices, the impact on the real estate, on the underlying land: both of those exposures have come in, have become quite attractive.

One more example within our real estate portfolio. We've been adding exposure to industrial opportunities. Across Canada we're at a multidecade low in terms of the availability of those types of facilities, and again that's quite attractive as we look forward relative to where we've been.

And the last bit I'll say: in addition to all of this positioning and how we are positioning the portfolio as we look forward is the work that we've also become quite intentional and focused on, which is providing a research framework where these decisions and these trade-offs can be made in a sensible and optimal manner.

Thank you.

The Chair: Thank you very much, Mr. Prakash.

Follow-up?

Ms Issik: Thanks, Chair. I just wanted to maybe catch that last point. Can you talk a little bit about, you know, going forward, how the fund or if the fund plans to rebalance the portfolio at all between sort of inflation-sensitive or inflation-successful, let's call it, assets and other assets that either don't react to inflation or react less well to inflation? I guess my thought pattern here is: what goes up at some point will come down. How is the fund sort of planning to react to that?

Mr. Thompson: Sure. Happy to answer that. It's part of our responsibility when we talk about the management of the fund. We are actually in the midst of conducting an asset mix review of the plan's asset allocation, which involves doing financial modelling of expected returns in various scenarios, including, you know, the current inflationary environment. It has been quite some time since an extensive allocation study of this type has been done for the fund. We have reviewed it internally. We have built some models using AIMCo's capabilities and in conjunction with AIMCo. We are in the process of potentially contracting with an external service provider to do an extensive asset allocation review of the fund to provide us with an independent opinion and advice on the appropriate asset allocation for the fund going into the future.

Please.

Ms Jones: And then just one other point that I'd like to add is that you do make – that was a wonderful question about what goes up does come down. We are able to make slight portfolio adjustments along the way, and we have done that. There are times where AIMCo does come to us with some tactical decisions that could benefit the fund in our favour for either the long run or the short run. Over the years – 2011 was the last time that an external service provider had really done the deep-dive independent analysis. Since then we've done multiple small, little adjustments to the portfolio. Just recently we updated a new statement of policies and goals on the website, and what you'll see there is that there has been an adjustment to the upper bound with private debt and loan. There's not necessarily been a change right now, but what we've done is that we've amended those ranges so that when AIMCo sees the tactical ability to take advantage of some of those opportunities, they're able to do so. Hopefully, that helps your question.

The Chair: Thank you very much.

With that, we'll move on to Member Eggen, please.

Mr. Eggen: Well, thank you, Chair. My question is to TBF, please. We already heard that one of the targets of the heritage trust fund is to deliver returns of CPI plus 4.5 per cent, right? At the Q2 update, as we already know, the Premier decided to reverse the decision to deposit quite a lot, billions of dollars, into the fund, so I guess conventional wisdom – and I'll ask the question to respect that. My question: are we better off paying down the debt with the surplus or better off saving that amount in the heritage trust fund and earning a return? Obviously, the former Premier and the current Premier had different views on this, but I'm curious to know, as the professional civil service – I'm looking for more clarity to your previous answer to the Member for Lethbridge-West. Was the decision to reverse saving a portion of the surplus really made without any analysis given by TBF officials? Was there no analysis of the ramifications of the decision sought by the Premier or the Finance minister or anyone else in the new administration?

Mr. Thompson: Fair question. To clarify my answer, our division, our group, is responsible for the oversight of the investment policy of the heritage fund. Your question is broader in scope and speaks to overall fiscal policy decisions on debt repayment versus contributions to the investment portfolio. Obviously, we do have input into what the potential returns on the investment portfolio would look like, and we would be the ones tasked with calculating the impact of reducing the debt, on debt-servicing costs, and therefore the fiscal balance going forward. Those calculations are done constantly at the department level, and that information is constantly provided to the minister and cabinet, Treasury Board, and appropriate decision-makers.

What I am not aware of is what is then done with that analysis. I am not privy to Treasury Board decisions, I am not involved in cabinet decisions, and I cannot speak to those decisions, having been absent from the room. But, yes, we do provide calculations on what the impact of reducing outstanding debt on the province will be, and we will provide forecasts on what investment income would be based on the levels of the fund and expected returns.

9:30

Ms Jones: And the returns from the heritage fund right now have been higher than the debt-servicing costs.

The Chair: Okay. Thank you, both.

A follow-up, Mr. Eggen?

Mr. Eggen: Yes. Thank you, Mr. Chair. To Mr. Siddall. I just wanted to ask you – I mean, you know, you see those bond rates out there, and you see the government of Alberta shifting positions dramatically in the last few months: a big deposit into the heritage trust fund and then no deposit at all. At the end of the day, the government makes the decision – I understand that, of course – but to put your technical analysis, perhaps, to use, what would be the return of the investment for the last quarter had we made a deposit into the fund?

Can you provide analysis? Surely, there was some provided to the government as Treasury Board and Finance just said that they did. What was presented, at least internally, when the government initially announced that they would be making a deposit into the fund? Regardless of if the government chose to act on that analysis, I mean, which would it be better to do: to pay down the debt or to make an investment into the heritage trust fund and earn interest on that same money?

Mr. Siddall: I think the question was just effectively answered in the sense that I think you indicated that recent return has been higher in the heritage fund than paying down debt. We did not do any analysis as AIMCo, and I don't want to speak for what was . . .

Mr. Eggen: Yeah. So you concur with that. I mean, it seems reasonable to me that you would make a better . . .

Mr. Siddall: It's just math. But, you know, it's more complicated than that, of course, through the chair, because the job is to forecast what the outlook is forward as opposed to looking at what has happened in the past. We're now looking at that with the benefit of perfect hindsight, which is not a fair assessment.

Mr. Eggen: Right. I understand that, and certainly I just want to confirm what seems obvious to me, which is that making an investment into the heritage trust fund with that same money actually serves the public interest better than the choice that this government made to not invest in the heritage trust fund with that same money.

Ms Jones: I can make a topical comment on the performance that you had just alluded to, how the performance or the fund had changed. Steve also mentioned in his opening comments that the income is calculated over the year. So, really, as far as this year goes, March 31 is really the date we're looking for for this investment income anyway. We have some time for this decision to work itself out, and it's not actually impacting the fund or the investments of the fund at this moment in time. The market value of the fund, the asset base, is still generating additional returns and that type of thing to our expectations at this moment. As this decision to contribute or not contribute is on the table, the heritage fund is not impacted negatively. Does that help?

Mr. Eggen: Yeah. Thank you.

The Chair: Thank you very much for your answers.
Mr. Hunter, you're next, please. Thank you.

Mr. Hunter: My first question is just maybe some clarity on Mr. Eggen's line of questioning. This is to Treasury Board. When decisions are made, the policy is not made by you; it's made by, obviously, the government. The question that I have for you – and I think this was already alluded to by Evan – is that it's a lot more complicated than that. The cost of the new debentures would be higher than the last, obviously, because of the cost of capital now. In your analysis, then, did you provide that to Treasury Board, that there would be a higher cost, that thus the carrying cost of debt to Albertans would be higher?

Mr. Thompson: That's a fair point, and I would say that there is a danger in oversimplifying the analysis of deciding to pay down debt versus deciding to contribute to the heritage fund, and that's twofold. As you allude to, borrowing costs are significantly higher in the current fiscal environment, in the current global environment, in terms of bond yields than they have been for over a decade. So, yes, the analysis on the cost of debt would imply that the cost of issuing new debt is expensive. The cost of refinancing Alberta's existing debt stock at higher interest rate costs is significant.

And then, likewise, it's dangerous to assume that we can simply make a contribution into the heritage fund and instantly earn the return that the heritage fund has been earning to date. Deploying large amounts of capital into a fund such as the heritage fund requires a fairly significant process and takes time, so anything significantly large is not going to immediately begin earning the returns of the overall fund. That does all complicate the analysis.

But, yes, when we are doing projections on what we expect our cost of borrowing to be going into the future, we look at the current and projected environments. You know, our economic and fiscal policy team provides forecasts of interest rates in global economic conditions that roll into our own analysis of debt-servicing costs and the costs of debt. Likewise, we would look at investment income forecasts based on our current asset mix, based on our current expectations, based on AIMCo's long-term forecasts of asset classes, based on our own forecasts of those same asset classes. So, yes, the calculations are not simplistic. We can't just say: well, the heritage fund has earned 6 per cent over five years; we would expect to earn that going forward. We would not. Likewise on the debt-servicing costs, borrowing costs for provinces have been historically low for a very long period of time, and that is no longer the case. Not only are they high; they're now very volatile. So it's not a simplistic analysis in that regard.

Mr. Hunter: A follow-up, Mr. Chair?

The Chair: Yes.

Mr. Hunter: Thank you. I just wanted to hear your opinion. I mean, obviously, hindsight is 20/20 vision – and nobody has a crystal ball for the future – but from your professional perspective would you say that the cost of borrowing will be maintained as a high benchmark in the upcoming years?

Mr. Thompson: In the relatively near term, in the current year, certainly yes. In the medium range, in terms of my expectations on global interest rates and provincial borrowing costs, I would say that, yes, it will be higher than we have seen historically.

Mr. Hunter: Thank you.

The Chair: Wonderful. Thank you for the answers.
I believe I have Member Phillips on the list next. Please proceed.

Ms Phillips: Thank you, Mr. Chair. A quick question to the TBF officials. When the Premier was campaigning, she repeatedly told Albertans that she wanted the heritage fund to change substantially, and she set, in fact, a monetary goal for that. The quote is: let's put it out there that we want to have a sovereign wealth fund that's $500 billion, generating $25 billion a year, so that we can eliminate income tax and eliminate corporate income tax. To Treasury Board, then: has any work been done on this goal, any analysis on what it would take to meet it at all, and can you provide that to the public?

Mr. Thompson: We have not specifically been tasked with meeting the aspiration. We continue to manage the fund based on our current legislative requirements and our current direction under the existing policies. We will respond to those once they are mandated to us.

The Chair: Thank you.
A follow-up?

Ms Phillips: Okay. I'll just follow up. At the second-quarter update the government projected $28 billion in nonrenewable resource revenue. That's an increase of 103 per cent on NRR from budget. We've seen big policy shifts in terms of heritage fund management from the former Premier to the current Premier. I just want, then, a clarification that there is no government strategy when it comes to the heritage fund right now or not yet and that a record $28 billion in NRR has not precipitated the government to give any policy direction in terms of windfall revenues and how that surplus should be either invested or used to pay down debt.

Mr. Thompson: I would say simply that that's a fiscal policy decision outside of my mandate. I couldn't speak to it. It's a decision of the Premier, the minister, and cabinet.

Ms Phillips: Okay. No forecasting has been done on that, then?

9:40

Mr. Thompson: Not from my division and not that I am aware of.

The Chair: Okay. Thank you very much.
I think we'll go to Mr. Gotfried next, I understand.

Mr. Gotfried: I believe MLA Hunter still has some questions.

Mr. Hunter: Well, I actually do, Mr. Chair, if that's okay.

The Chair: Yeah. Fine.

Mr. Hunter: I have a question. In 2008 the financial crisis – most Canadians remember that; I'm sure you do as well – was caused by overexposure to risky mortgage-backed securities and collateralized debt obligations that were branded as triple-A debt. Can you expand on the steps you take to reduce the credit risk associated with debt securities?

Mr. Prakash: Thank you. Let me start by saying, in terms of how we approach investments and investment strategy on your behalf, that firstly we're focused on looking forward rather than looking back but, again, as I had said earlier, looking at history to learn lessons. One of the things with respect to the credit exposures within the heritage portfolio: we have an in-house credit team that does credit research to the extent that we have any of those types of exposures within our portfolios. We do not use external, off-the-shelf ratings, and one of the things, as you accurately referred to, was a triple-A rating that many of the CDOs at that time and securitized papers had. Just as a design principle we don't do that. We apply our own internal notional ratings.

One of the benefits of using this approach, other than being quite hands on with each of the issuer names, is also the ability to be forward looking. A lot of the ratings that are provided by external providers tend to be backward looking. As we go through this process, we're focused on ensuring that the portfolios are diversified by sectors. There's deep expertise in those areas that we're investing in. Then last – and this is something we've been focused on over the last two or three years – is integrating the work that the credit portfolio management team does with our product risk teams. There's a great amount of work and a list of attributes that the risk team also tracks to ensure that the credit portfolios are suitable and remain suitable as part of the portfolio.

I'll give you, lastly, one example in one sort of area where the heritage fund gets exposure to credit, and that is the private debt and loan component of the heritage portfolio. This is an area that's developed over the last, roughly, 10 years, and the reason why it's been quite attractive for investors such as yourselves is the fact that as the bank balance sheets have shrunk over the years, the ability for investors to step in and capture those economics has been quite profound. So at the moment the private debt and loan portfolio roughly has a yield of 9 per cent, which is quite attractive notwithstanding even the current elevated rates of inflation. Secondly, we get origination fees, which could be 2 to 4 per cent on those transactions, and thirdly, more from a near-term perspective, we are looking at the lower risk spectrum even within the private credit space, so mostly the first lien type of exposures rather than the riskier exposures.

So all of that is to say that there's a wide range of things we do, both from research and from organizational sorts of structure, in terms of integration with risk as well as the new opportunities that allow us to be quite careful and thoughtful in managing credit within the portfolio.

The Chair: Mr. Siddall, did you want to add to that?

Mr. Siddall: Just briefly. I might not give a very extensive answer, but I talked about expanding the capabilities in our team. We just hired the gentleman who ran this business for PSP at AIMCo. His name is David Scudellari. PSP was by far the largest private debt provider among the Canadian pension funds, and he was the number two person there. We've just been able to hire him to lead our business. This is an area where, as the heritage fund officials indicated, they're increasing their allocation, increasing their limits, I should say, to potentially take advantage of opportunities such as those that Amit mentioned that are existing in the market right now.

The Chair: Okay. Thank you.
A follow-up? No follow-up.
I believe it's Ms Phillips again, please. Thank you.

Ms Phillips: Thanks. We just heard from TBF officials that returns from the heritage fund have been higher than debt-servicing costs in the past, but I'm wondering if we can follow up, either in writing with the analysis or now if it is at your fingertips, what the forecasts for this comparison are now given that officials just said that debt-servicing has gone up and is expected to remain elevated in the medium term. The reason I'm asking, the background is, of course, that with $28 billion in natural resource revenue windfall the public should probably know what the best return on investment is in terms of prudent management of surplus.

Mr. Thompson: Well, certainly, those numbers are all available in our quarterly updates both for the province and for the heritage fund. In terms of debt-servicing costs going up, I would isolate that to say that the cost of borrowing is going up. There are a few other elements to debt-servicing costs that make it not directly correlate to simply rising interest rates. There are amortization expenses and various other costs associated with borrowing that go into debt-servicing costs that will make it fluctuate a bit. Certainly, we can pull the latest numbers from the reports and provide them to the committee.

The Chair: Okay. Thank you.

Ms Phillips: Just a follow-up, then, to be clear. The forecast for returns on the Alberta heritage fund and the forecast for debt-servicing costs: those are available in the fiscal plan? I'm not sure that they are.

Mr. Thompson: Those would be in the budget. They will be in the budget. We can point to those. We can only provide things that are publicly available at this point.

Ms Jones: I think that the debt-servicing costs component of everything is very difficult to explain based on the timing of our borrowing as well. The government was in a deficit position before, so the need to borrow was there. Therefore, we were borrowing at those current rates. It depends on if we're actually borrowing when the costs are high, which impacts debt-service ratios. Also, the debt-service costs are pursuant to what we've also financed in the past. We have some 30-year debt on the books at very low rates, so that also brings the average debt-servicing costs down. There are a lot of components that we have to look at when we look at that number. Again, these are numbers that you will find in the fiscal budget updates as far as what sort of transpired, but the forecasting of it has a lot of different components. I mean, that's a difficult one.

The Chair: Okay. Thank you very much. Interesting questions.
I believe we're going now to Mr. Gotfried on the list. Thank you.

Mr. Gotfried: Yes. Thank you, Chair, and thank you to the fund managers here for presenting and giving us some very detailed information. On page 14 the report discusses some of the foreign denominated assets in the portfolio. I'm just wondering. Obviously, there's a lot of volatility, geopolitical influences these days, a lot of focus on energy security, food security. How have the foreign assets performed compared to Canadian assets, and maybe more broadly are there any variables that you look at in expected performance of the assets, the foreign assets, that you consider before deciding to invest domestically versus internationally?

I may have a follow-up to that as well. Thank you.

Mr. Prakash: Thank you for the question. Let me start with the second question first and come back to the impact of the performance of the foreign denominated assets. When we look at investments, whether foreign or domestic but certainly those outside Canada, we're looking at what the expected returns might be, so the attractiveness of the investment itself, their risk, the cost to get into the transaction or sell out of the exposure. Beyond that, we go through the usual due diligence filters depending on the country, depending on the geography, and then, lastly, you know, the pricing, et cetera, in the market at that point in time. All of that is to say that it's a wide set of considerations when we look at investment opportunities outside of Canada.

9:50

Just to give you a bit of colour and flavour in terms of what those types of things may look like, when we look at mortgage opportunities within North America, there are certainly aspects or parts of the Canadian mortgage markets that are attractive, but it is a relatively small market given the size of the institutional investors such as yourselves within Canada. We would look at areas within the U.S. where we invest in but ensure that net of the cost of currency hedging the opportunities are still attractive. That's number one.

Number two, in terms of your question around, you know, "How have the international investments done?" just from a currency perspective the general, settled, sort of conventional wisdom on the academic research and practice is that over long periods of time currency impacts are net zero. They sort of even out. However, over shorter periods of time that impact can be material or certainly noticeable within a portfolio. Over the 12-month period ending the end of September 2022, the Canadian dollar had weakened by 9 per cent relative to the U.S. dollars, so to the extent that you had exposure, the heritage fund had exposure to U.S. dollars and foreign currencies, those exposures did well just in Canadian dollar terms.

Thank you.

The Chair: Thank you.

A follow-up?

Mr. Gotfried: A supplemental if I could, Chair. Thank you for that answer. That kind of explains, obviously, the approach.

Moving back to page 12, the report discusses some of the use of the forward contracts. Obviously, there are geopolitical influences that can arise, and we want to make sure that we're protected. I know that you have contracts, that were referenced on page 12, with regard to protecting against exchange rate fluctuations. What percentage of the foreign denominated assets – and how do you protect that? I know you said that in the long term it is a net-zero impact, but in the short term if you are investing in perhaps more volatile markets, how much do you use those contracts to protect from currency fluctuations?

Mr. Prakash: Yes. As of the end of September last year the foreign denominated assets of the heritage fund were roughly 12 and a half billion dollars, about 67 per cent, and roughly half of those were currency hedged. Said another way, of the overall portfolio about a third of the portfolio is exposed to a foreign exchange impact. As I mentioned in my previous response, near term that's been positive, but over time, you know, the impact is muted.

Just moving over to foreign exchange markets, the recent estimate from the Bank for International Settlements noted that 7 and a half trillion dollars of activity happens in the foreign exchange market every day. Every day it's 7 and a half trillion dollars. It's a deep, rich market, and the way we engage on your behalf and other clients in this market is to utilize pretty well-defined processes, use electronic platforms, which is how a lot of the activity happens now. Certainly, for smaller transactions you use 10 to 12 counterparties engaging in that.

Then the last bit where we've started – you know, we're doing research at the moment and will be engaging with clients – is also thinking deeply about the implication that the usage of forwards has on the overall liquidity of the portfolio. That's something that we're focused on, again thinking from a lens of where the markets are going and what the liquidity needs might be relative to where we've been in the past.

Mr. Siddall: I can just elaborate on that, because it's an important point Amit is making. You probably think we should be hedged all the time because we want to eliminate risk. Well, if over the long term there is no risk, if over the long term foreign currencies tend to mean revert or just behave in a way that there's no risk, then we're spending your money unnecessarily hedging that risk. Better we keep that liquidity to take advantage of market opportunities. We're doing some research, as Amit said. This is again thinking about the money from a client portfolio point of view instead of an asset class point of view. It's enabling AIMCo to go down new paths or to advise its clients on potential new paths.

Mr. Gotfried: That's great. Thank you very much.

The Chair: Mr. Eggen, yours is the floor.

Mr. Eggen: Well, thank you. Thank you, Mr. Chair. I just want to go back to this discussion around whether to choose to invest in the heritage trust fund or to pay down the debt. I mean, I think it goes to the heart of the responsibility that we have here in this committee and indeed the heart of AIMCo and TBF in many ways. I didn't get a clear answer, but I'll just try it again. Are you suggesting that it's more prudent at this moment to not be investing in the heritage trust fund but rather to be paying down debt? Is that what I'm hearing here this morning?

Mr. Thompson: I'm not speaking to either decision. We provide advice on both the cost of debt and the expected return on the heritage fund. The broader fiscal policy decision still rests with government. We are currently mandated to manage the fund per the act and per all of the policies that are in place. Adding to the heritage fund would be a change in that policy and would require legislative changes that have not yet been made, so we are not really in a position to speak to that.

Mr. Eggen: Well, given that part of building the budget for this province involves dividends or investment returns from the heritage trust fund – I mean, that's part of how you build a budget. I know, having built several budgets together in cabinet as government, that you depend on those investments and you depend on the security of the heritage trust fund.

Considering, then, that with all of the inflationary pressures that we've talked about here this morning on investments just globally and specifically on our heritage trust fund and the importance of those interest returns into our budget, I think that we need to rely on expert advice to let us know whether we should be investing in paying down debt or we should be paying a portion of a considerable surplus that we have right now into the heritage trust fund. That's where the heritage trust fund came from in the first place, and it was generally considered to be a prudent move – right? – to put nonrenewable fossil fuel royalty money into a long-term fund. So here we are. You know, I take the responsibility of being on this committee as overseeing the heritage trust fund activities. We rely on expert advice to tell us which is the best way to go, and I think Albertans want to know that, too. Are you saying that it's a political decision and it's not a decision based on the expert advice that we get from people like you?

Mr. Thompson: No. What I'm saying is that it currently is a decision outside of this committee. This committee is tasked under the act in its current form to consider the best interests of the fund. What you're asking about are changes to future fiscal policy with respect to debt repayment or contributions into savings, which have broader ramifications across the board from a fiscal policy perspective and are beyond the advice that we provide. We will provide the best professional advice to the government on the difference between the different costs and benefits expected between paying down Alberta's debt stock versus putting money into the heritage fund, but there are broader fiscal implications with respect to surplus and deficit management that are beyond the mandate of this committee and of my division, my branch, with respect to management of the fund.

The Chair: Thank you very much.
Ms Allard, please.

Mrs. Allard: Thank you, Mr. Chair. I wanted to talk a little bit about liquidity risk since we've been talking about risk management. Given the climate that we've been in in the last few years with war in Europe and pandemic and supply chain issues, I think market corrections are potentially still coming, so I just wanted to ask. On page 15 it discusses the liquidity risk associated with the fund's financial liabilities. Does the fund engage in margin trading or other activities that amplify this risk?

10:00

Mr. Prakash: The fund utilizes leverage in certain areas similar to, again, institutional peers in other Maple 8 pension plans in a prudent manner. The leverage used within the heritage portfolio and the portfolios of other clients is utilized both to manage risk as well as to add value, add excess return in both of those categories. Thirdly, and perhaps most importantly, outside of how we utilize leverage, is the monitoring and reporting of that leverage to all of our clients. That is something that is a big focus of ourselves. The metric in particular that we report for our clients is the SLCR, or the statutory liquidity credit ratio. At the last report that number was 153 per cent; earlier this week it was 170 per cent.

Just to add a bit of context around that, that's a conservative measure of how a portfolio such as the heritage trust fund portfolio would be impacted under pretty severe market scenarios. Particularly, the ones we use take a leaf from the GFC, the great financial crisis in 2008. It assumes equity markets are down 30 per cent, the credit spreads widen, the Canadian dollar weakens.

In summary, we look at the liquidity of the portfolio and to the extent those liquidity needs are driven by leverage very, very carefully, very, very thoughtfully. To allude to a previous response, part of our research and planning engagement, the first half of the year, around foreign exchange, for example, is focused with an eye on liquidity as well.

Ms Allard: Thank you.
A follow-up, Mr. Chair. I just wanted to say that some of the questions this morning, although important questions to ask of government, I believe are outside the scope of this committee. Part of the reason I wanted to ask about risk management is that that's within the scope of what this committee is looking at in terms of managing the fund versus the policy decisions of government. I just wanted to ask, I guess, a more pointed question in response to your answer. Do you believe there's any risk that the fund may not be able to meet its obligations if there is, in fact, another extreme market correction?

Mr. Prakash: No. We don't believe that the heritage trust fund is under risk of not being able to meet its obligations.

The Chair: Wonderful. Thank you.
We're back to Member Phillips.

Ms Phillips: Yes. Thank you, Mr. Chair. Thanks for your patience there. At this meeting – it was at an annual meeting of the heritage fund – there was a review of the investment strategy of the fund announced. I believe that was in December of 2020 or perhaps 2019. We have heard, then, as we followed up on this matter that changing circumstances have caused that review to restart. Now it's been a few more months. I'm wondering if Treasury Board and Finance officials can update us on the status of that review: whether it has restarted, what are its anticipated timelines, and any other updates on the directions that have been given around that review.

Mr. Thompson: Yeah. Happy to respond to that. I believe I mentioned earlier that the review is currently under way. We have reviewed the asset mix and investment policies over the past year and a half – no; since originally mandated. We have conducted some modelling and stress testing using AIMCo's staff and AIMCo's systems. We are currently in the process of constructing an RFP to engage with an external service provider to further stress test and make recommendations around a future asset allocation for the fund, all within the current mandate of the fund and encompassing any changes that may come to that mandate. That RFP should be posted in the coming months; it will be on the public site. More details will be available when that is out, but the review is currently under way internally at treasury and risk management, assisted by AIMCo's staff and systems.

The Chair: A follow-up?

Ms Phillips: Yeah. Sure. Thank you. Is it anticipated that that review will be complete prior to the annual report being available to the public in June, or are we looking at more into the '23-24 fiscal year for completion of that review? When will the elements of it – will there be any interim elements shared with the public or with this committee?

Mr. Thompson: It will likely not be ready for the annual report. I would think it would be more into the end of calendar '24 that we would be looking at results. We would not be in a position and it would not be industry practice to share any of those results prior to their finalization.

The Chair: Okay. Thank you very much.
Mr. Hunter again. Thank you. Please.

Mr. Hunter: Thank you, Mr. Chair. This question is to AIMCo. I had asked an earlier question about some of the problems we saw back in 2008 with triple-A debt – well, supposedly what was branded as triple-A debt; it didn't turn out to be so. My question to you is found on page 13 of your report; it discusses the credit risk of debt securities in your portfolio. I see the percentage of investment-grade debt in your portfolio has decreased while the unrated debt has increased since the last quarter. I get that possibly that rebalancing could increase returns, but is that going to put us at risk in the near future?

Mr. Prakash: The decrease in the investment grade and the increase in the unrated is primarily driven by the higher investments in the private debt loan market that I alluded to earlier, and given the nature of those markets they tend to be unrated externally, but we do have an internal process, as I mentioned earlier.

Secondly, from the overall portfolio perspective one of the things, you know, we discussed with clients as we saw opportunities in that space was to be also careful and thoughtful about how we would fund that trade, if you will. So if you were putting in a dollar here, where does the dollar, if you will, come from? As we were looking at that – part of the funding side of the trade for many of our client portfolios was from the equity side. So what that does in the portfolio is that we exposed the portfolio to slightly more credit risk, but it takes away, if you will, a more risky asset class to put that trade together. What that does at the overall portfolio level is that you are able to manage the overall risk in addition to all the controls one has around the specific credit transaction.

Mr. Hunter: Just one follow-up, Mr. Chair, if I might. Are you going to increase that low-grade debt percentage in the future, or is that going to stay what it is right now?

Mr. Prakash: At the moment we are looking at opportunities in that area, and as was mentioned earlier, now we have, to an extent, wider range. We do think that's an attractive place for investors such as the heritage fund to be exposed to.

10:10

Mr. Siddall: But it would be an erroneous comparison to call private debt that we underwrite the credit worthiness of the same as something represented by collateralized mortgage obligations that people didn't understand and that did not have proper credit support. We understand these credits.

Mr. Hunter: Mr. Chair, if I could just clarify that point.

The Chair: Once.

Mr. Hunter: Okay. I did want to say that, look, I wasn't making a comparison, but I was saying that a good general isn't a good general because of what he learned from the past but predicting what's going to happen in the future. So I just wanted to make sure that we're not tripping as we saw in 2008.

Mr. Siddall: Indeed. In fact, what Amit described in the shift from equity investments to private debt investments is actually a derisking move – right? – because we're moving from something that's more risky, equity, to something that's less risky, debt, even if it has a higher worth than investment grade, and these are unrated, not necessarily low-rated securities. They're just not rated.

The Chair: Clearly clarified.

Mr. Eggen, the floor is yours.

Mr. Eggen: Well, thank you. Just further to that, talking about forecasting to the future, if there's an example of an asset class that might be mispriced at this juncture. I'm just curious to know if there's, you know, an asset class that might be showing as overvalued and an asset class that might be showing as undervalued.

Mr. Siddall: You know, that's a tricky – you'll get 10 opinions from 10 smart people on that, and I'm not going to volunteer my own subjective opinion. I would encourage Amit to not do the same. I mean, we have this debate among ourselves, but it's really important for me to emphasize this, that when we have these discussions, we're thinking 10 years, like we're thinking over a 10- or 20-year period, you know, versus a government funding decision that may be over a year. The time frame that you're discussing is actually an important component in making an investment decision. It's a crucial, crucial component.

Mr. Eggen: Fair enough. I mean, we have sort of both of those things built in structurally with the heritage trust fund, that, you know, it supersedes electoral politics usually and has existed for almost 50 years, I suppose, right? You build your investment structured on a longer time frame. Is that what you're trying to say to me?

Mr. Siddall: Yeah. Yeah.

Mr. Eggen: I mean, it just seems really volatile right now, so you have to look at asset classes categorically, I suppose, but also just aim for something specific. Like, for example, I think about the London airport, right? You know, it's undergone a temporal restructuring with COVID, and then it's bouncing back. Maybe can you use that one as an example? What's happening with that investment?

Mr. Siddall: Mr. Chair, with respect to the gentleman that bait I'm not going to take. It's just like – it would be so speculative.

Mr. Eggen: Yeah, it's speculative.

Mr. Siddall: Now, we did reinvest a little bit of money in the London City Airport last year. How much was it?

Mr. Prakash: I don't know the specifics, but if I can add to what Evan was saying. It's a theme that you'll, you know, hear us coming back to again and again, sort of focused ahead of us. We've talked enough about private credit and loan. Partly that is that the economies slowed down. Typically we've seen that in 2008; we saw that in Europe and then in part of last . . .

Mr. Siddall: Amit is going to make a forecast for you.

Mr. Prakash: No. No forecasts here.

What you see is that the credit and the liquidity sort of shrinks, and then there's an opportunity. How well, you know, one does: the forecasting is very hard, very difficult, and a mug's game more often than not, but the ability to be thinking about where the economy and the broader trends are – transition finance, we think, longer term is quite attractive. It's not a trade that's here and now; that's in the next three months or next six months. These are long-term changes which give rise to risk but give rise to opportunity, and that's where we focus our energy on your behalf.

Mr. Siddall: And in an effort to be not nonresponsive, you know, I had a conversation yesterday with the head of real estate about: the U.S. market could be very distressed, and therefore for us as a long-term investor this is where we play to our edge, right? We're a long-term investor. We can stick through markets that are choppy and take advantage of distress such as in private debt and in the U.S. real estate market if we find those opportunities.

Mr. Eggen: Thank you.

The Chair: Wonderful. Thank you.
I think we'll return online here. Member Pon, I think you're next on the list.

Ms Pon: Thank you, Chair. Can you hear me well?

The Chair: Absolutely. Please proceed.

Ms Pon: Thank you so much. Interesting to listen to all this. This is my first meeting in this committee, and we talk lots about how to manage risk, talk about how it can impact the credit rating. This is a question just about that. Recently we watched in the news the collapse of the FTX, that crypto exchange, the rising associated with the investments. This is a highly volatile asset. One of the investors in FTX was Ontario teachers' pension fund, who lost about $100 million in the collapse. So these are my couple of questions here: do you have any cryptocurrency holdings or other high-risk investment, and are there any plans to expand the investment into this type of asset in the future?

Mr. Siddall: Yeah. Now, other high-risk investments: you said a mouthful there. The question of what – some people think equity is high risk; some people think private debt is high risk. But I'll just answer the narrow question: we don't have any investments in crypto or anything that has to do with crypto, and we've scoured the portfolio to be sure of that.

Ms Pon: It's good to hear that.
Can I ask one more question, Chair?

The Chair: Please, yes.

Ms Pon: Thank you. In investments you're always looking for the better ROI, for sure. My question is – sometimes we are more aggressive, active, persuasive in funding management, which offers a better result, as we're also looking for, and contentiously debate that in investment cycles. Can you expand on what percentage of your portfolio is actively managed and why this is the correct approach? Also, has this approach allowed you to beat the average market gains? We always want to have a high investment, a high rate of return but a lower risk.
Thank you.

Mr. Prakash: Thank you for the question. A two-part answer. Currently almost all of the portfolio is actively managed. I preface that with a big portion of the portfolio: think private equity; think private debt and loan, infrastructure, et cetera. None of these asset classes have industry-wide benchmarks, and therefore the notion of passive investing is a little fuzzy at best and unclear for the most part. Those types of investments are inherently active in nature given those asset classes. On the public asset side, primarily public bonds, public equities, we utilize an active approach but have introduced indexed equity vehicles on the platform over the last 12 months or so.

The last part is in terms of – the approach that our clients will take in future in being able to utilize those types of exposures is always a function of return, risk, cost, liquidity, et cetera. But for the moment the heritage fund is managed in an active manner.

The Chair: Okay. Thank you very much.

Now, I'm getting a signal that we may be coming close to the end of our questions, but for the record, Mr. Eggen, anything more from your side? No.

Mrs. Allard, anything more from your side? No.

Well, thank you. That's even questions. Gentlemen, ladies, thank you, all of you, for your attendance, for being here. You're free to leave at this stage, or you may stay if you would prefer to listen to the rest of the committee meeting. It is public, so you're welcome to stay if you choose.

Mr. Siddall: We have money to invest. Chair, we have money to invest. We're going to get back to work.

The Chair: I'm sure, yes.

Mr. Prakash: Thank you very much.

The Chair: Unusual response, but thank you, all, for being here. I appreciate it.

This is good because we do have a couple more agenda items that may go quickly or may have some questions. Yeah. So I will look for a member to move a motion that

> the Standing Committee on the Alberta Heritage Savings Trust Fund receive the 2022-23 second-quarter report on the Alberta heritage savings trust fund.

Anybody like to move that?

10:20

Mrs. Allard: So moved.

The Chair: Member Allard has moved that motion. Where are we at? Questions or comments. None?

In the room, all those in favour? Any opposed? None. And online, all those in favour? I don't believe there would be any opposed since you all said "aye."

> That motion is carried.

Thank you.

Now we need to talk briefly about the review of the past public meeting from 2022. The Alberta Heritage Savings Trust Fund Act requires that the committee hold an annual meeting – I'm sure you're all aware of that – with the public to inform Albertans about the status of the fund and respond to questions. That meeting was held here in the building on October 27, 2022. The 2022 public meeting was the first since 2019, actually, that was able to be held without any heightened health restrictions. The public was invited to attend in person, and the meeting was broadcast on Alberta Assembly TV, live streamed on the Assembly website, on Twitter, Facebook, and YouTube. A document from LAO communications was posted on the Internet website which provides a breakdown of the public interaction with the committee that occurred during the public meeting as well as the advertising summary. I trust you've all had a good look at it.

At this time I'd like to call on Rhonda Sorensen with the LAO to provide an overview of that report and some additional information regarding the broadcast and public response to the meeting.

Ms Sorensen: Thank you very much, Mr. Chair, for that overview of the 2022 annual meeting. I would just like to add a few comments a bit more specific to the communications summary document that was sent to you. The committee members will note that we were ever so slightly over the estimated costs for the entire campaign largely due to an adjustment made to the advertising plan, that included a significant province-wide print campaign. We did make some revisions within that campaign to mitigate some of the cost increases we were seeing, but we still weren't able to quite make that target.

I won't go into detail on each of the various components within the plan because you do have the report in front of you, but I do want to highlight some of our successes, including a thank you to the former chair, the chair at the time of the public meeting, who had done some media French-translation interviews. In addition to some of the media that we were able to garner before the meeting, he did a post interview that was translated into French that spoke about the public meeting, this committee, and all of its hard work.

In addition to the media coverage, we were also able to attribute nearly half of the 2,680 visits to the committee website directly from the social media and digital advertising. We continue to see solid engagement through those efforts, so because of that, we will be recommending to the next committee that we increase that and put most of our focus towards heavy digital engagement for next year's public meeting.

Beyond that, I'm happy to take any questions from the committee and, hopefully, can provide some more in-depth insights if you require them.

The Chair: Wonderful. Thank you very much, and thank you for the analysis. I did notice your recommendation in there. It makes sense to me.

But, members of the committee, any questions or comments on what you've just heard?

Wow. You must do a good job. As noted, there is a recommendation in there, but I think it can wait until the appropriate next meeting planning, which will happen not too far distant in the future. No comments? No questions?

I think that we can proceed, then, to talk about the committee's annual report to the Legislative Assembly. Members, section 6(4)(c) of the Heritage Savings Trust Fund Act requires that the committee report to the Legislative Assembly on whether the mission of the fund is being fulfilled. The last report to the Assembly was made on June 8, 2022, which covers the activities of the committee in the 2021 calendar year. Please note that I said "calendar year," okay?

But the act states that the fund's performance is to be reported following each fiscal year, not each calendar year. That was the practice until the end of the 20th Legislature and then the transition to 2015, an election year at that time as well. At that time two reports instead of one were produced, one covering the period before the election and another covering the committee's 2015 activities after the election. Since then, the committee's reports to the Assembly have covered the calendar year. I know that some have looked back to try and figure out if there was any discussion about why that switch was made. Nothing has been uncovered. Thank you, I think, to our legal team, that noted that the act actually states "fiscal year," but we've been acting on the calendar year for the last few years.

To right the ship on this, this year's report will cover the committee's activities for the 2023 fiscal year and will also include the quarter between January and March 2022, so actually five quarters will be covered so that there are no gaps in our reporting. The committee clerk will prepare a draft report which will be distributed for the committee's consideration at the next meeting.

First of all, I don't know, either the clerk or Ms Robert, if you have any further comments you want to add to that whole little bit of chaos there or not.

Ms Robert: No.

Mr. Huffman: Yeah. You covered it.

The Chair: Okay.

Questions about that discussion? Any concerns, any issues, any questions to our officials here? The intent is to go back to what the act states as a fiscal annual reporting rather than the calendar annual reporting. Okay. Well, that makes this fairly simple, so . . .

Ms Issik: Mr. Chair.

The Chair: Yes. Please proceed.

Ms Issik: Just a question: when the act states "fiscal year," are they talking about the government fiscal year? Does the fund have a fiscal year that is actually January 1 to December 31, by any chance?

The Chair: No. My understanding is that they are both the same fiscal year, March.

Ms Issik: Thank you.

The Chair: Any further questions or concerns raised? If not, we will proceed as I have outlined.

Hearing none, I think, then, that is in the record, and that's the way we will proceed. Thank you. To the clerk: the report will be prepared accordingly for our next meeting. That was fairly simple. I didn't know if there would be questions or not.

Other business. I'd like to note that the committee received follow-up responses from Treasury Board and Finance and AIMCo to questions that were asked in September 2022. They were made available to members on the committee's internal website. Are there any other issues for discussion before we wrap up today's meeting? Anyone?

Mr. Hunter: Was that done in 2015 by committee motion?

The Chair: No, it was not. There is nothing in the record that indicates why that happened. That is my understanding.

Mr. Hunter: Okay. So it doesn't have to be changed by committee motion?

The Chair: Correct.

Mr. Hunter: Thank you.

Ms Robert: Sorry, Mr. Chair. I think the reason they did it was that because there was an election, they wanted the current committee to tie up their work and finish it, and then the new committee did their reporting on their work. It wasn't really explained well in the transcript when I looked back. But, yeah, like the chair said, it always was done on the fiscal year prior to that, so I think this is the best way to get us back.

The Chair: Well, the act does say "fiscal."

Ms Robert: It does, yeah.

Mr. Hunter: I just wanted to make sure it didn't have to be changed by a motion.

The Chair: Correct. I don't think there is a requirement for an official motion to comply with the act.

Okay. That should wrap up the business for today's meeting. The date for the next meeting will be at the call of the chair after the heritage fund's third-quarter report is released. I expect that that will be sometime toward the end of March, after the estimate review process is complete but before we find ourselves in another election. Expect a meeting somewhere toward the end of March.

If there's nothing else for the committee's consideration, I would call for a motion to adjourn the meeting. Mr. Hunter. All in favour in the room? Online? Any opposed? Everybody has approved, so there's no opposed.

Thank you, folks. The meeting is adjourned.

[The committee adjourned at 10:30 a.m.]

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